DEUTSCHE WOHNEN

People. Approach. Values.

Annual Report 2018

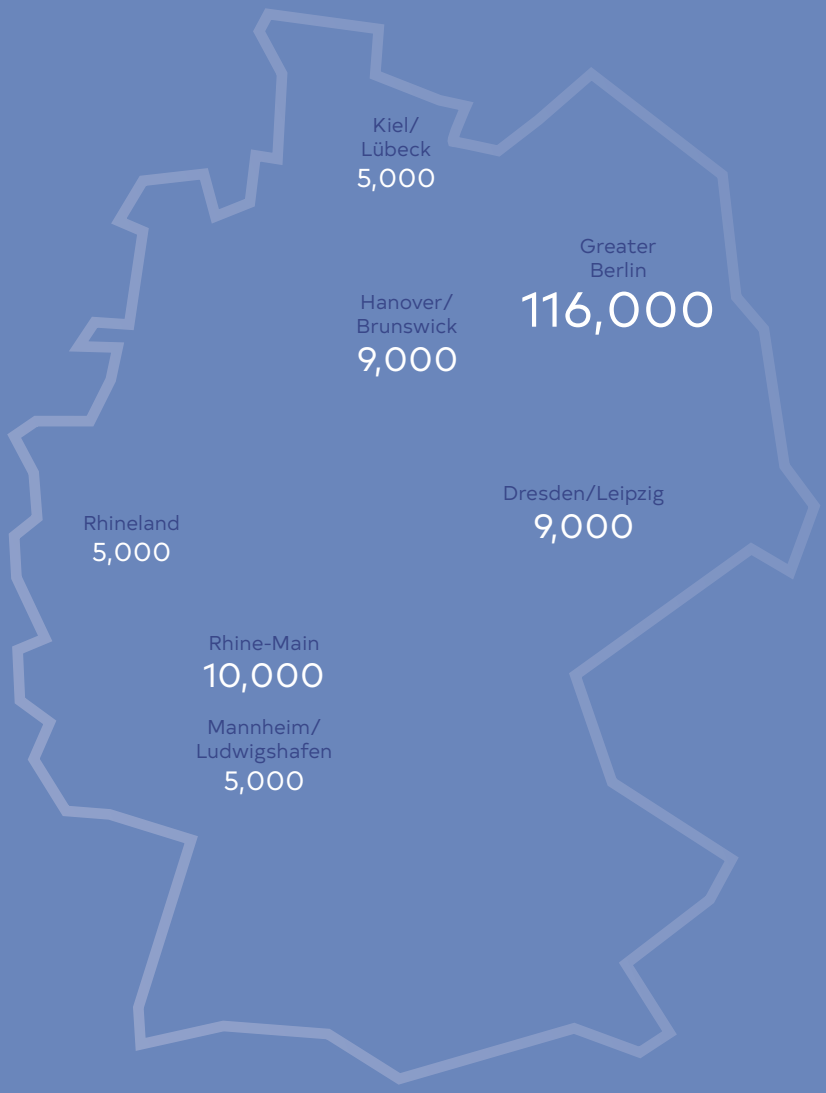
Deutsche Wohnen is one of the leading publicly listed property companies in Germany and Europe. Its operating focus is on managing and developing its portfolio, concentrating on metropolitan areas. Our portfolio comprises around 167,000 residential and commercial units with a total fair value of approximately EUR 22.2 billion and nursing properties with 12,100 beds and apartments for assisted living with a fair value of around EUR 1.3 billion.

Group key figures
Deutsche Wohnen SE

Profit and loss statement		**2018**	**2017**	**Change**
Rental income	EUR m	785.5	744.2	5.5%
Earnings from Residential Porperty Management	EUR m	656.2	612.8	7.1%
Earnings from Disposals	EUR m	43.1	50.3	-14.3%
Earnings from Nursing and Assisted Living	EUR m	55.3	48.0	15.2%
Corporate expenses	EUR m	-93.7	–81.3	15.3%
EBITDA	EUR m	659.1	600.8	9.7%
EBT (adjusted)	EUR m	539.5	501.7	7.5%
EBT (as reported)	EUR m	2,626.8	2,598.2	1.1%
Earnings after taxes	EUR m	1,862.6	1,763.3	5.6%
Earnings after taxes[1]	EUR per share	5.15	4.88	5.6%
FFO I	EUR m	479.4	432.3	10.9%
FFO I (undiluted)[1]	EUR per share	1.35	1.23	9.8%
FFO I (diluted)[2]	EUR per share	1.35	1.23	9.8%
FFO II	EUR m	522.5	482.6	8.3%
FFO II (undiluted)[1]	EUR per share	1.47	1.37	7.3%
FFO II (diluted)[2]	EUR per share	1.47	1.37	7.3%
EPRA Earnings	EUR m	466.0	394.5	18.1%
		31/12/2018	31/12/2017	Change
Balance Sheet				
Investment properties	EUR m	23,781.7	19,628.4	4,153.3
Current assets	EUR m	984.0	772.9	211.1
Equity	EUR m	11,908.1	10,211.0	1,697.1
Net financial liabilities	EUR m	8,749.4	6,883.6	1,865.8
Loan-to-Value ratio (LTV)	in %	36.0	34.5	1.5
Total assets	EUR m	25,057.9	20,539.4	4,518.5
Share				
Share price (closing price)	EUR per share	40.00	36.46	9.7%
Number of shares	m	357.01	354.67	2.35
Market capitalisation	EUR bn	14.3	12.9	10.9%
Net Asset Value (NAV)				
EPRA NAV (undiluted)	EUR m	15,087.8	12,676.8	2,411.0
EPRA NAV (undiluted)	EUR per share	42.26	35.74	18.2%
EPRA NAV (diluted)	EUR per share	42.26	35.74	18.2%
Fair values				
Fair value real estate properties[3]	EUR m	22,190	18,864	3,326
Fair value per sqm living and usable space[3]	EUR per sqm	2,157	1,886	14.4%

1 Based on an average of approximately 355.70 million issued shares in 2018 and approximately 352.12 m in 2017.
2 Based on an average of approximately 355.70 million issued shares in 2018 and approximately 352.12 m in 2017, assuming in each case a conversion of the "in-the-money" convertible bonds.
3 Only includes residential and commercial buildings without Nursing and Assisted Living.

Core regions
Number of units
(rounded)



Financial Report Contents

LETTER TO OUR SHAREHOLDERS

Dear shareholders,

How, in this day and age, can a publicly listed company add value for all its stakeholders? When does society consider that it is a force for good? The demands made of Deutsche Wohnen – as one of Germany's leading residential property companies – are as varied as they are numerous. Challenges particularly include climate protection, demographic change, urbanisation and digitalisation. We are working on all these topics and last year again reached some important milestones.

Answers to the requirements of tomorrow

Like many other areas of life, housing will be very different in the future. Today's consumers are more demanding than ever and want to know exactly what a product contains, where it comes from and how it affects health, the environment and society. We are convinced that this trend will also impact housing: in future people will look even more closely at the materials their home is built of and whether its surroundings are agreeable to live in.

Deutsche Wohnen already takes these aspects into account in its work, whether this involves the refurbishment of existing properties or new building. When we maintain and invest in our residential units we give top priority to quality and sustainable solutions. Because we know that we have to take the right decisions today for the generations that will come after us. One current example is the new building work that was completed in the reporting year in Elstal, near Berlin. All the load-bearing walls and ceilings in these four apartment blocks are made of solid timber elements. We were awarded with the DGNB platinum certificate for this sustainable construction.

In addition to quality, we pay particular attention to the location of the new residential units that we build, planning them where they are needed most urgently: in conurbations with tight housing markets. We are convinced that only new building can relieve the pressure on these residential property markets. Our objective is to develop properties that meet the needs of their residents and are fit for the future. However, the possibilities of private-sector companies like Deutsche Wohnen are limited when the necessary framework is inadequate. Policymakers and public administrators are not creating the necessary conditions for the new construction that is needed. There is a lack of energy and of the will to take the necessary decisions. We are ready to play our part.

We do so when it comes to climate protection too, because the property industry can and has to play a central role in achieving the climate goals. Carbon emissions can be cut significantly by means of careful portfolio refurbishment. In terms of energy supplies we rely on more efficient heating systems and convert existing systems to use more environmentally friendly fuels. Our G+D joint venture puts in a very strong position, and we now supply around 76% of the centrally supplied Deutsche Wohnen portfolio with energy.

In all its refurbishment work, Deutsche Wohnen gives high priority to ensuring that its activities are socially aware. We therefore apply our hardship clause if overall rent reaches 30% of household net income, to ensure that incomings and outgoings remain in balance. Furthermore, we have signed various agreements with the boroughs of Berlin that comprise wide ranging concepts for carrying out maintenance and refurbishment work responsibly.

Demographic developments also represent a major challenge for property markets: demand for places in nursing homes will continue to increase in future. We are focussing on addressing this by expanding our capacities in the Nursing and Assisted Living segment. In 2018 this also entailed the start of operations at a new facility with almost 90 beds operated by the KATHARINENHOF Group. In addition to the 37 homes operated by our investee companies KATHARINENHOF and PFLEGEN & WOHNEN HAMBURG, Deutsche Wohnen owns a further 52 facilities. We significantly expanded our capacities in this growing sector with the acquisition of 37 facilities. Deutsche Wohnen was thus able to consolidate its position as one of the biggest owners of nursing properties in Germany and now offers a total of 12,200 beds.

Michael Zahn
Chief Executive Officer
(CEO)

Philip Grosse
Chief Financial Officer
(CFO)

Lars Wittan
Chief Operating Officer
(COO)

Digitalisation is also playing an ever greater role in the real estate industry. Deutsche Wohnen intends to seize the opportunities this offers and acquired the GETEC media Group in October 2018 to this end. The company specialises in cutting-edge telecommunication services and also designs product and solutions for smart building networks. It gives us the opportunity to play a central role in shaping the transformation of infrastructure and technologies. In addition, we are investing specifically in digital innovation whenever it adds value for our customers. Ultimately this also enables a more sustainable business.

Successful financial year 2018

The performance figures for last year demonstrate that our efforts are paying off: Deutsche Wohnen again had a very successful financial year and improved all its key performance indicators. Group profit rose year on year by nearly 6% to EUR 1.9 billion. The valuation uplift in our property portfolio contributed significantly: the key performance indicator for us, FFO I – Funds from Operations excluding Disposals – went up by 11% to EUR 479.4 million, thanks to acquisitions and operating improvements. EPRA NAV (Net Asset Value) also increased by 18% to EUR 42.26 per share. Rental growth came to 3.4% in the reporting year. In-place rents went up moderately by 1.4%. As of year-end 2018 average in-place was EUR 6.62 per sqm, and EUR 6.71 per sqm in Berlin.

Our financing continues to be very solid. The Loan-to-Value ratio, which measures the Group's leverage, was 36%, which is within our target range of 35% to 40%. Deutsche Wohnen is still rated A- and A3 respectively by the two international rating agencies Standard & Poor's and Moody's, both with a stable outlook.

Our success also brings tangible rewards on the stock market for our shareholders: the price of the Deutsche Wohnen share went up yet again in 2018, although all the main indices declined. In a generally weak market, the share price rose by 12% to EUR 40.00. In addition, our shareholders could choose between a cash and a script dividend for the first time last year. In total, for around 31% of all shares entitled to dividends, a script dividend was issued. At the Annual General Meeting the Management Board and Supervisory Board will propose to distribute a dividend of EUR 0.87 per share for the financial year 2018.

Employees and portfolio are the major pillars of success

All the successes mentioned above are only achievable with highly qualified staff, who all work together for the good of the company. We would therefore like to express our sincere thanks to our employees, who serve our company every day with extraordinary motivation and great dedication. To ensure we remain an attractive employer, we intend to take the findings of the staff survey carried out in 2018 into account for our future activities.

Another success factor is our portfolio, which we have developed over many years and in which we continue to invest heavily. At an early stage we focussed on fast-growing metropolitan areas and conurbations in Germany, where the bulk of our portfolio is situated today. Berlin accounts for about 70% of the portfolio and 77% of total fair value with some 115,600 residential units and 1,900 commercial units.

In total we now manage around 167,000 residential and commercial units, with an annualized rental income of EUR 815 million, making us one of Germany's largest property management companies. Our market capitalisation rose by 10% to EUR 14.3 billion on the back of the positive share performance in 2018, and we are now the third largest listed property company in Europe.

Focus on customer satisfaction

Our vision is of sustainable properties that meet the demands of future generations too. We therefore respect the sustainability and quality of our neighbourhoods, act dependably and in line with the interests of our customers. In future we will focus on managing our residential and commercial properties and nursing facilities with the appropriate, customer-centric services.

We will continue to invest widely in our properties, in order to maintain and keep improving the quality and future viability of our portfolio. Furthermore, we are planning an extensive programme of new building work in the years ahead, in order to relieve pressure on tight housing markets. We also intend to expand our property-related services to meet our customers' demand for up-to-date housing standards and all-round service. By means of strategic equity investments we are opening up additional property-related business units, like KIWI, our digital key system, or VRnow for the digitalisation of floor plans.

The outlook for the German residential property market remains bright, particularly in metropolitan areas, and we therefore expect the value of our property portfolio to increase further. For 2019 we are forecasting FFO I of approximately EUR 535 million and adjusted EBITDA (excluding Disposals) of approximately EUR 685 million.

Overall, Deutsche Wohnen is therefore very well positioned to continue its successful growth and to carry on a sustainable business in the spirit of future generations. We would be pleased if you would continue to show us your trust and to support our company.

Berlin, March 2019

Yours sincerely,

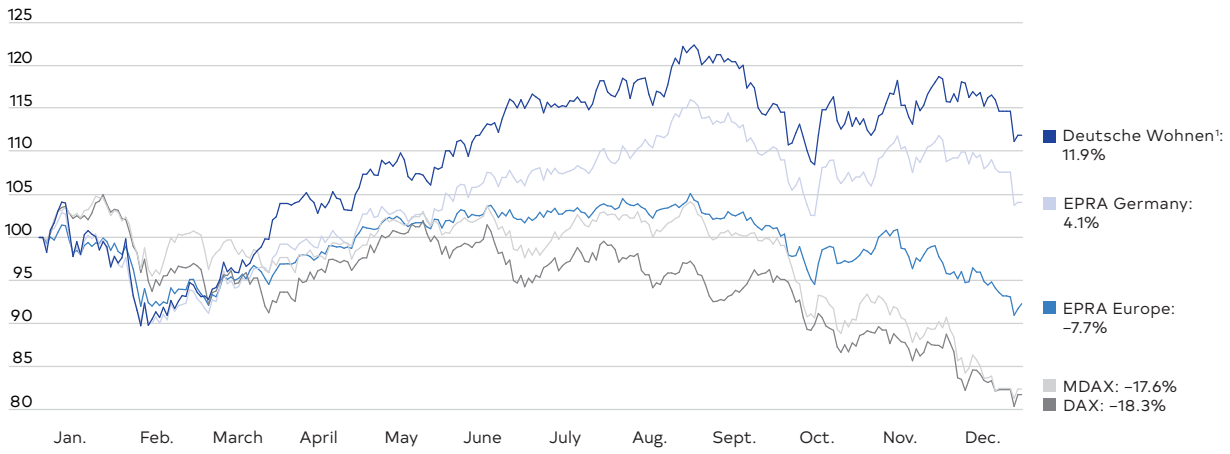
Michael Zahn
Chairman of the
Management Board

Lars Wittan
Deputy Chairman of the
Management Board

Philip Grosse
Management Board

DEUTSCHE WOHNEN ON THE CAPITAL MARKET

Share price performance, 2018 (indexed)



1 Share performance including dividend payment

Global uncertainties significantly depressed stock markets in 2018

A variety of factors made 2018 a weak year for equities. They included ongoing political concerns about a trade war, especially between the USA and China, interest rate increases by the US central bank, political uncertainty surrounding Brexit, a steady decline in the Ifo Business Climate Index and the Purchasing Manager's Index for the euro area, and the ECB's decision to bring its programme of bond purchases to an end.[1]

The main global share indices fell sharply, particularly in the fourth quarter. DAX and MDAX also ended the year 2018 with losses: the DAX closed at 10,559 points, a fall of 18.3% on the previous year, while the MDAX, which also includes the Deutsche Wohnen share, saw similar losses and was down by 17.6%. It closed at 21,588 points.

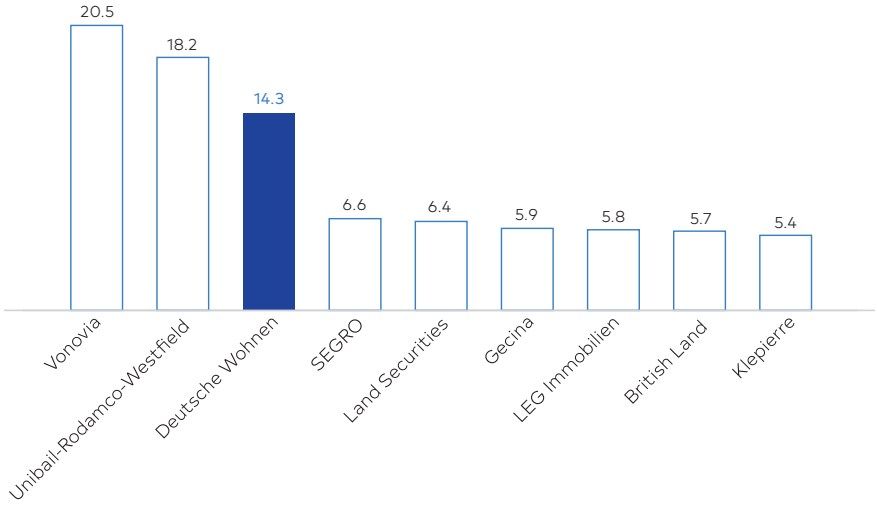
Deutsche Wohnen share up in weak stock market environment

The Deutsche Wohnen share finished the year 2018 at a closing price of EUR 40.00. Taking the dividend payment into account, this meant the Deutsche Wohnen share price was up by 11.9%[2], outperforming both the DAX and MDAX indices of German shares. The property index EPRA Europe fell by 7.7% in 2018, whereas EPRA Germany was up by around 4.1%.

1 Cf. Commerzbank Jahresrückblick 2018
2 Performance including dividend payment

The market capitalisation of Deutsche Wohnen SE rose by around 10% in the reporting year to EUR 14.3 billion. This makes us the second-largest listed property company in Germany and the number three in Europe[3].

Market capitalisation of Deutsche Wohnen SE at year-end 2018 compared with European peer group
EUR billion[4]



The liquidity of the Deutsche Wohnen share also improved further: average daily turnover via Xetra increased from EUR 26.3 million in 2017 to EUR 33.9 million in the reporting year. The average Xetra trading volume for the Deutsche Wohnen share in 2018 was 867,000 shares per day. An average of 757,000 shares per day were also traded on alternative platforms.

As a result of its higher liquidity and market capitalisation the Deutsche Wohnen share consolidated its position within the MDAX: it was ranked 2nd by market capitalisation of free float and 5th by trading volume out of a total of 60 companies in the MDAX.

Key figures for the share	2018	2017
Number of shares in million	approx. 357.01	approx. 354.66
Closing price at year-end[1] in EUR	40.00	36.46
Market capitalisation in EUR bn	approx. 14.3	approx. 12.9
Highest share price over the year[1] in EUR	43.75	37.77
Lowest share price over the year[1] in EUR	32.72	28.71
Average daily Xetra trading volume[2]	867,316	780,988

1 Closing price via Xetra
2 Shares traded
Source: Bloomberg as of 08/01/2019

3 By market capitalisation of free float
4 Market capitalisation of free float, EPRA Europe as of December 2018

Shareholder structure remains stable

BlackRock, MFS, Norges and State Street currently[5] hold around 30% of the Deutsche Wohnen shares. The remaining nearly 70% are held by domestic and foreign institutional investors and private shareholders who have not exceeded the statutory notification threshold of 3%.

Shareholders[1]	
BlackRock, Inc.[2]	10.20%
Massachusetts Financial Services Company (MFS)	9.94%
Norges Bank (Central Bank of Norway)[2]	6.93%
State Street Corporation	3.10%
Total	**30.17%**
Others	69.83%

1 Percentages based on the last notification from the shareholders mentioned of their voting rights in accordance with sections 33 et seq. Stock Trading Act [Wertpapierhandelsgesetz – WpHG]. The notifications of voting rights are published on the Investor Relations website. The share of voting rights relates to the number of voting rights at the time the notification was made. It is possible that the precise share of voting rights has since changed, but there is no obligation to notify the company as long as it remains between the statutory thresholds.
2 Voting rights attributed in accordance with section 34 Stock Trading Act [Wertpapierhandelsgesetz – WpHG]

Notifications of voting rights

Majority of analysts have positive opinion of Deutsche Wohnen

A total of 29 analysts are currently[5] tracking the performance of Deutsche Wohnen SE. Current price targets range from EUR 37.00 to EUR 59.40 per share. 23 analysts have set a target price equal to or above EUR 42.00 per share. The median of all analyst estimates is EUR 44.60[5] per share, which is some 12% above the closing price of EUR 40.00 as of year-end 2018.

Rating	Number
Buy/Outperform/Overweight	14
Equal Weight/Hold/Neutral	13
Sell	0
No rating	2

Annual General Meeting 2018 votes dividend of EUR 0.80

The Annual General Meeting 2018 of Deutsche Wohnen SE was held in Frankfurt/Main on 15 June 2018, where 79.5% of the company's registered capital was represented. The shareholders approved all of the proposed resolutions on the agenda with the necessary majorities. Amongst other things, the Annual General Meeting resolved to distribute a EUR 0.80 dividend per bearer share for the 2017 financial year. This corresponds to a total of approximately EUR 283.7 million and a proportion of roughly 66% of FFO I for the 2017 financial year. Considered alongside the volume-weighted average share price of EUR 33.89 for 2017, this is a dividend yield of 2.4%.

5 As of 11/03/2019

In the previous year Deutsche Wohnen shareholders could choose between a cash dividend and a stock dividend for the first time. During the subscription period, shareholders accounting for around 31% of the dividend-bearing shares opted for the stock dividend. Consequently, 2,241,061 new shares with an equivalent value of some EUR 88.9 million were issued for approximately 111.2 million dividend entitlements.

In addition, the members of the Supervisory Board elected Matthias Hünlein as the new Supervisory Board Chairman of Deutsche Wohnen SE. Matthias Hünlein succeeds Uwe Flach, whose mandate ended at the close of the Annual General Meeting 2018. Furthermore, the shareholders represented elected Tina Kleingarn to the Supervisory Board at the Annual General Meeting.

Transparent capital market communications continued

We concentrate our extensive investor relations activities on prompt, transparent reporting, active and regular dialogue with our shareholders, analysts and potential investors, as well as expanding our existing network of national and international contacts.

Deutsche Wohnen again maintained an intensive dialogue in financial year 2018. For this purpose the Management Board and the Investor Relations team primarily made use of property tours, conferences and roadshows in Germany and abroad. Deutsche Wohnen presented its business model and strategy at various roadshows in Europe, the USA and Asia. The company also attended numerous conferences, among others in New York, Miami, London, Paris, Cape Town and Amsterdam. Altogether the Investor Relations team met around 400 investors in 2018.

An overview of important dates in financial year 2019 can be found in our financial calendar of the annual report. This is also regularly updated on our Investor Relations website.

Financial calendar on page 203

Financial calendar

Deutsche Wohnen holds a conference call to accompany the publication of the annual report and the interim reports. This gives investors and analysts an opportunity to address their questions directly to the Management Board. The conference calls are streamed as live webcasts and are then available to download from the Investor Relations section of our website. Current financial reports and company presentations are also published here.

CORPORATE GOVERNANCE REPORT

Corporate governance stands for the responsible leadership and supervision of companies in the service of long-term value creation. The management and corporate culture of the Deutsche Wohnen Group are in line with statutory standards and – with one exception – with the additional recommendations of the German Corporate Governance Code. The Management Board and Supervisory Board of Deutsche Wohnen SE are bound by the principles of good corporate governance and all its segments are guided by them.

Declaration of compliance

Declaration of compliance

The Management Board and Supervisory Board again dealt in detail with the company's compliance with the standards of the German Corporate Governance Code in financial year 2018. They considered the Code as amended on 7 February 2017 and published in the German Federal Gazette (Bundesanzeiger) on 24 April 2017, issuing their statement for the financial year 2018 in compliance with the Code's recommendations and commenting on one instance of non-compliance in December 2018, in accordance with section 161 German Stock Corporation Act [Aktiengesetz – AktG]. The statement is available to shareholders and all interested parties on our website.

General management structure comprising three executive bodies

Deutsche Wohnen has a two-tier management and supervisory structure.

Deutsche Wohnen SE, as a publicly listed European company (Societas Europaea, SE), has its registered office in Berlin and is subject to not only German corporate and capital market law but also to the European SE Implementation Act, the German SE Implementation Act and the provisions of its own Articles of Association. With its two executive bodies, the Management Board and Supervisory Board, the company has a two-tier management and supervisory structure. Above them is the Annual General Meeting, at which the company shareholders are involved in fundamental decisions affecting the company. Together these three executive bodies are bound to act in the best interests of shareholders and for the benefit of the company.

Management Board acts in the interests of the company

The Management Board leads the company and manages company business on its own responsibility. It is obliged to act in the company's best interest and create sustainable value. The members of the Management Board are appointed by the Supervisory Board. In accordance with section 8 para. 2 of the Articles of Association, in conjunction with article 46 SE Regulation, the members of the Management Board are appointed for a maximum of five years and may be reappointed for periods of five years. The Supervisory Board has set the statutory retirement age as the age limit for Management Board members. In July 2017 the target for the proportion of women in the Management Board was set at zero for the target period ending on 30 June 2022, given that the Management Board had no female members at the time, the contracts for the current

members ran until after the target date, and there was no desire to expand the Management Board simply because the law had been amended. Management Board members are chosen particularly on the basis of the knowledge, skills and professional experience necessary for performing the Management Board's duties.

In financial year 2018 the Management Board had three members, of whom one was chairman. The work of the Management Board is governed by Rules of Procedure, which provide among other things for duties to be divided along functional lines.

The Management Board develops the strategic direction of the company, agrees upon this with the Supervisory Board and ensures its implementation. It is also responsible for appropriate risk management and risk controlling in the company and for reporting regularly, promptly and fully to the Supervisory Board. The approval of the Supervisory Board is required for certain transactions and decisions made by the Management Board.

The members of the Management Board must disclose any conflicts of interest to the Supervisory Board and to their Management Board colleagues without delay. Material transactions between Management Board members, other related parties and the company must be approved by the Supervisory Board, as must any secondary employment outside the company.

D&O group insurance has been taken out for the members of the Management Board and Supervisory Board, with an excess in line with the requirements of section 93 para. 2 of the German Stock Corporation Act [Aktiengesetz – AktG] in conjunction with article 51 SE Regulation.

Supervisory Board advises and monitors the Management Board

Supervisory and Management Board work hand in hand for the benefit of the society.

The Supervisory Board consists of six members. All members are elected as shareholder representatives at the Annual General Meeting. Their period of office is five years, in accordance with the statutory provisions and the Articles of Association. Supervisory Board members are particularly elected on the basis of their knowledge, skills and professional experience required for the performance of their duties. At the same time, in accordance with the defined competence profile, consideration is given to their independence, diversity in terms of different professional backgrounds and sufficient gender diversity. The target for the proportion of female members has been set at 16.67% for the target period ending on 30 June 2022. The current membership of the Supervisory Board meets this target. Only individuals who have not reached the age of 73 years at the time of their appointment may be put forward for election to the company's Supervisory Board. Every Supervisory Board member ensures that they can commit the time necessary to perform their Supervisory Board duties properly. The Supervisory Board believes all its members to be independent and that its members meet the targets for its composition described above.

The Supervisory Board advises and monitors the Management Board regularly on the leadership and management of the company within the framework defined 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 for the company.

The Supervisory Board has Rules of Procedure; its work is carried out in plenary session and in committees. Committee work is intended to increase the efficiency of the Supervisory Board. The committee chairpersons report regularly to the Supervisory Board on the work of their committee. Three committees are currently in place:

- The **Executive and Nomination Committee** is responsible for continuous consultation with the Management Board and advising the Management Board on an ongoing basis. It also prepares the Supervisory Board meeting to the extent that this is expedient given the scope and importance of the agenda items. In accordance with relevant resolutions by the plenary session, this committee is responsible for drafting and signing the contracts with the Management Board members. To the extent permitted, it is also responsible for advising on and passing resolutions on urgent matters. This committee suggests suitable people to the Supervisory Board for its election proposals to the Annual General Meeting.

Members:
Matthias Hünlein (Chairman)
Jürgen Fenk
Dr Andreas Kretschmer

- The **Audit Committee** is responsible for the preliminary review of documentation for the annual financial statements and consolidated financial statements and for preparing the adoption or approval of these and the Management Board's proposal for the use of profits. It discusses the quarterly interim statements and half-year interim reports before they are published. In addition, the Audit Committee discusses with the Management Board the principles of financial reporting, compliance, risk identification, risk management and the suitability and effectiveness of the internal control system. Furthermore the Audit Committee's other duties are to prepare the appointment of auditors by the Annual General Meeting, which includes a review of their independence, the subsequent signing of the engagement letter and determining the main areas of the audit. The members of the Audit Committee are competent in matters of financial reporting and auditing and its composition meets all the requirements for independence defined in the recommendations of the German Corporate Governance Code.

Members:
Dr Florian Stetter (Chairman)
Jürgen Fenk
Matthias Hünlein

- The **Capital Market and Acquisition Committee** discusses with the Management Board potential targets and terms for acquisitions or disposals of land or shareholdings and prepares the corresponding Supervisory Board resolutions. It is authorised by the Supervisory Board to approve certain transactions. Furthermore, the committee discusses important capital market matters, the performance of the share price and the company's shareholder structure.

Members:
Dr Andreas Kretschmer (Chairman)
Matthias Hünlein
Claus Wisser

Important decisions are made at the Annual General Meeting

As provided for in the Articles of Association, shareholders exercise their rights at the Annual General Meeting, more particularly their voting rights. Each share is entitled to one vote.

The ordinary Annual General Meeting takes place annually within the first six months of the financial year in accordance with section 13 para. 2 of the Articles of Association and article 54 para. 1, sentence 1 SE Regulation. The agenda for the Annual General Meeting and the reports and documents required for the Annual General Meeting are published on the website of Deutsche Wohnen SE.

Fundamental resolutions are passed by Annual General Meetings; these include resolutions on the use of profits, discharging members of the Management Board and Supervisory Board of liability, electing Supervisory Board members

and auditors, amending the Articles of Association and altering the amount of capital. The Annual General Meeting offers the Management Board and the Supervisory Board a good opportunity for direct contact with shareholders and to consult with them on the further development of the company.

In order to make it easier for its shareholders to exercise their rights personally, Deutsche Wohnen SE provides its shareholders with a proxy to act on their instructions, who can also be reached during the Annual General Meeting. Explanations on issuing instructions beforehand are provided in the invitation to the Annual General Meeting. In addition, shareholders are entitled to appoint their own proxy to represent them at the Annual General Meeting.

Remuneration of the Management Board

The remuneration system for the Management Board is discussed, reviewed and revised at regular intervals in the plenary session of the Supervisory Board.

The contracts with the Management Board members of Deutsche Wohnen SE have fixed and variable components. Variable remuneration for all Management Board members is aligned with the provisions of section 87 para. 1, sentence 3 German Stock Corporation [Aktiengesetz – AktG]. It is dependent on achieving the company's financial targets and is largely based on performance over several years. Management Board members are only entitled to the variable remuneration if the company performs correspondingly well. This aligns the remuneration structure with the company's sustainable development and optimises the incentive and risk character of the variable remuneration.

The full remuneration report of Deutsche Wohnen SE for the financial year 2018 is shown in the management report and on the company's homepage.

Remuneration report

Remuneration of the Supervisory Board

Supervisory Board remuneration was defined by the Annual General Meeting in section 10 para. 7 of the Articles of Association. It states that Supervisory Board members receive a fixed annual remuneration of EUR 75,000. The Chairman of the Supervisory Board receives three times this amount and the Deputy Chairman one-and-a-half times this amount. In addition, every Supervisory Board member receives a lump-sum payment of EUR 15,000 per financial year for membership of the Audit Committee; the Chairman of the Audit Committee receives twice this amount. A lump-sum payment of EUR 5,000 per member and committee is paid for each financial year for membership of other Supervisory Board committees; the committee Chairman receives twice this amount. The total of all lump-sum payments, plus remuneration for membership of Supervisory Boards and similar Boards of Group companies may not exceed EUR 300,000 (excluding VAT) per Supervisory Board member and calendar year. Out-of-pocket expenses are reimbursed. In addition, the company may at its expense include the members of the Supervisory Board in the D&O group insurance for executive bodies and managers and has done so. An excess has been agreed for the Supervisory Board members in accordance with the requirements of section 93 para. 2 German Stock Corporation Act [Aktiengesetz – AktG] in conjunction with article 51 SE Regulation.

Supervisory Board members are not paid a performance-related fee. The remuneration paid to individual Supervisory Board members is shown in the remuneration report.

Remuneration report from page 83

Directors' Dealings and shareholdings subject to mandatory disclosure

The members of the Management Board and Supervisory Board of Deutsche Wohnen SE and closely related parties are obliged by article 19 Market Abuse Regulation (MAR) to disclose without delay transactions involving shares or securities of Deutsche Wohnen SE or derivatives and financial instruments based on them, as soon as a total volume of EUR 5,000 has been reached within one calendar year. The company publishes these transactions immediately after they have been reported to it. In financial year 2018 the following transactions of this type were reported to Deutsche Wohnen SE: sale of 42,721 shares and receipt of 66,332 shares by Chief Executive Officer Michael Zahn in the course of exercising share options under the company's stock option programme; sale of 14,099 shares and receipt of 22,995 shares by Management Board member Lars Wittan, also as part of this programme; receipt of 221 shares from the share dividend and purchase of 4,500 shares by Management Board member Philip Grosse. These notifications were published on the website.

Directors' Dealings

As of 31 December 2018 Ms Kretschmer held 3,153 shares in Deutsche Wohnen SE. The other Supervisory Board members held no shares in Deutsche Wohnen SE as of 31 December 2018. The Chief Executive Officer Michael Zahn held 50,000 shares as of 31 December 2018 and two related parties held a total of 4,000 shares. The Management Board member Lars Wittan held 20,000 shares and the Management Board member Philip Grosse held 15,721 shares as of 31 December 2018.

This means that as of 31 December 2018 the individuals mentioned above held roughly 0.026% of the 357.0 million shares issued by the company.

Comprehensive compliance

Compliance with legal provisions and the standards of the German Corporate Governance Code is an important principle for Deutsche Wohnen SE, as is the fair treatment of business partners and competitors. The Group Compliance Officer is responsible for ensuring that this is the case. He keeps the company's insider register and informs managers, employees and business partners about the relevant legal framework and the consequences of breaching insider dealing rules. In addition, the Compliance Officer acts as the central contact for questions and reports of suspicious circumstances. The company has also set up a whistleblowing system that enables staff and business partners of the Deutsche Wohnen Group to report indications of potentially serious breaches of rules and regulations to an external lawyer. This can take place anonymously if desired; the whistleblowers are protected by the lawyer's obligation to maintain professional secrecy.

Corporate compliance is an important part of our responsible management.

All the business segments and processes at Deutsche Wohnen are subject to regular reviews with regard to compliance risks.

Our code of conduct, which defines and requires lawful conduct, is applicable and binding for all employees of the company. Every new employee is given this code on joining the company and undertakes to respect it. Managers also make their employees aware of key compliance risks. Employees are trained in the principles of compliance by means of online courses. The course includes a final test, for which a certificate is issued if passed, and is mandatory for all employees.

In particular, our employees are not entitled to accept gratuities in exchange for the promise of a possible business transaction. Unlawful attempts to influence business partners by offering preferential treatment, gifts or other benefits are also prohibited by the code of conduct.

Appropriate management of risks and opportunities

The responsible handling of risks and opportunities is fundamental for Deutsche Wohnen SE. It is ensured by means of a wide-ranging opportunities and risk management system that identifies and monitors the key opportunities and risks. This system is refined continuously and adapted to changing circumstances.

Detailed information is available in the Management Report: the risk management and the strategic opportunities for Deutsche Wohnen SE are described in the report on risks and opportunities, and information about consolidated financial reporting can be found in the notes to the consolidated financial statements.

Risk and opportunity report from page 67

Notes to the consolidated financial statements from page 116

Committed to transparency

As part of Investor Relations activities, all events which are important for shareholders, investors and analysts are published at the beginning of the year in a financial calendar for the upcoming financial year. The financial calendar is updated continuously and can also be viewed on the company's website.

Financial calendar

The company informs shareholders, analysts and journalists according to uniform criteria. The information is transparent and consistent for all capital market participants. Ad hoc announcements and press releases, presentations of press conferences, analyst meetings and roadshows as well as financial reports are immediately published on our websites.

Insider information (ad hoc publicity), notification about voting rights and securities transactions by members of the Management Board and Supervisory Board and related parties (directors' dealings) are announced without delay by Deutsche Wohnen SE in accordance with legal provisions.

Accounting

The accounting for the Deutsche Wohnen Group is carried out on the basis of International Financial Reporting Standards (IFRS) as applicable in the European Union. The annual financial statements of Deutsche Wohnen SE are prepared in accordance with German law, particularly the German Commercial Code [Handelsgesetzbuch – HGB].

KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) was appointed to audit the annual financial statement and the consolidated financial statements at the Annual General Meeting 2018. Beforehand, KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) had confirmed that there were no commercial, financial, personal or other relations between the auditor, its executive bodies and senior auditors on the one hand and the company and the members of its executive bodies on the other that could justify any doubts about its independence. The financial statement and the consolidated financial statements for the financial year 2018 were audited by KPMG in Berlin, with Mr René Drotleff as the auditor responsible, and received an unqualified audit certificate. Mr René Drotleff has audited the company since financial year 2016 as the responsible auditor at KPMG.

Deutsche Wohnen SE complied with the publication deadlines recommended in the German Corporate Governance Code of 90 days after the close of the financial year for the consolidated financial statements and 45 days after the close of the reporting period for interim reports in 2018.

Additional information

Additional information about the activities of the Supervisory Board and its committees regarding its working relationship with the Management Board can be found in the Supervisory Board report.

Supervisory Board report from page 17

Berlin, March 2019

Supervisory Board Management Board

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

Deutsche Wohnen SE again performed well in financial year 2018: it once again improved its key figures and profited from a high demand of estates, especially located in the Core+ and Core regions. The company invested specifically in the maintenance and refurbishment of its portfolio, targeting a sustainable and long-term value increase.

Matthias Hünlein
Chairman of the Supervisory Board

Consolidated group profit came to EUR 1.9 billion, especially due to the value uplift of the portfolio, which is focused on metropolitan areas and conurbations. The Group's debt ratio remained low at 36%, which is an indication of its conservative funding policy.

The positive performance of the share price and good ratings from Standard & Poor's and Moody's confirm the company's successful strategy.

Trustful working relationship with the Management Board

In financial year 2018, as in prior years, the Supervisory Board carried out the duties entrusted to it by law, the company's Articles of Association, the German Corporate Governance Code and the rules of procedure with great care. It advised the Management Board regularly on the management of the company and monitored its work. In addition, it was directly involved at an early stage in all decisions of fundamental importance for the company.

Deutsche Wohnen has improved its key figures in financial year 2018.

The Management Board informed the Supervisory Board regularly, promptly and fully, in writing and orally, about all relevant matters of commercial policy, company planning and strategy, the company's position, including opportunities and risks, the course of business, risk management and compliance. Any variance between actual and planned performance was explained in detail. Important transactions were agreed between the Management Board and the Supervisory Board.

The Chair of the Supervisory Board and other members of the Supervisory Board were in regular contact with the Management Board to discuss important matters, also outside the meetings of the Supervisory Board and its committees. Topics included the company's strategy, performance and risk management.

Supervisory Board meetings

In financial year 2018 the Supervisory Board discussed the company's current performance, important individual matters and transactions requiring approval at seven meetings, one of which was in the form of a conference call. To the extent necessary, the Supervisory Board gave its approval as requested at the individual meetings, after an in-depth review and detailed discussion. The resolution to amend the Articles of Association was adopted on 24 January 2018 by circulation of documents in view of the issue of company shares to external shareholders of GSW Immobilien AG in 2017. The resolution concerning a company acquisition was also taken by circulation of documents on 18 July 2018.

Average attendance at Supervisory Board meetings was 98.0%. Mr Hünlein was unable to attend one meeting in the reporting year; otherwise all Supervisory Board members attended all of them. In one case a member voted on a proposed resolution in writing.

Individualized participation of meetings in financial year 2018

Member of Supervisory Board	Supervisory Board	Executive and Nomination Committee	Audit Committee	Capital Market and Acquisition Committee
Matthias Hünlein	6/7	4/4	2/2	3/3
	85.7%	100%	100%	100%
Dr Andreas Kretschmer	7/7	4/4	3/3	3/3
	100%	100%	100%	100%
Jürgen Fenk	7/7	2/2	2/2	–
	100%	100%	100%	–
Tina Kleingarn (since 15/06/2018)	4/4	–	–	–
	100%	–	–	–
Dr Florian Stetter	7/7	–	4/5	–
	100%	–	80%	–
Claus Wisser	7/7	–	–	3/3
	100%	–	–	100%
Uwe E. Flach (until 15/06/2018)	3/3	2/2	3/3	–
	100%	100%	100%	–

In the reporting year the focus of Supervisory Board work was on the business planning and performance of Deutsche Wohnen SE, (re)financing activities, corporate strategy, acquisition targets and the integration of purchases.

The Supervisory Board had regular and detailed discussions about the performance of the segments Residential Property Management, Disposals, Nursing and Assisted Living, and the Group's financial and liquidity position. Reviewing and advising on the internal control and risk management systems of the Deutsche Wohnen Group were other key areas of the Supervisory Board's work.

At its **meeting on 8 March 2018** the Supervisory Board dealt particularly with the reports of committee meetings, the separate and consolidated financial statements for 2017 and the remuneration of the Management Board. Representatives of the auditors were present for the discussions on the 2017 financial statements; they explained positions and amounts in the financial statements for the company and the group. Other important topics were the proposal for electing the auditors, the adoption of the Supervisory Board report and the Corporate Governance report, as well as current projects.

The **meeting on 26 April 2018** (conference call) centred on adopting the agenda and proposals for resolution at the ordinary Annual General Meeting.

The **Supervisory Board meeting on 7 May 2018** dealt with the report from the Audit Committee, the report on performance in the first quarter of 2018, current acquisition targets and matters of HR strategy.

A new Supervisory Board chair was elected at the **meeting on 15 June 2018,** which took place after the Annual General Meeting and so after the departure of Mr Flach and the election of Ms Kleingarn. The Supervisory Board committees were also restructured and new members elected. In addition, a capital increase and the related publication of a rights issue was approved to implement the option of receiving shares in lieu of dividends, and the matter was delegated to the Capital Market and Acquisition Committee for further implementation. Acquisition targets were also discussed.

The core elements of the **meeting on 11 September 2018** were reports from committees and a discussion of current business performance in the first half of 2018, an analysis of competitors, compliance and risk management.

At the **meeting on 6 November 2018** the focus was on reports from the committees, the company's performance on the basis of the report for the third quarter 2018, Supervisory Board matters (including amendments to the rules of procedure) and ongoing acquisition projects.

At its **meeting on 14 December 2018** the Supervisory Board dealt particularly with the report from the Executive and Nomination Committee, adopting the budget for 2019 and the German Corporate Governance Code, as well as adopting the statement of compliance issued jointly with the Management Board. Other topics included Management Board matters, particularly renewing the appointment of Michael Zahn and Philip Grosse.

Efficient work in four Supervisory Board committees

To carry out its duties efficiently the Supervisory Board has formed committees, each of which has three members. Their work and the need for the committees were assessed on an ongoing basis in the reporting year.

The committees were restructured in the reporting year.

The committees were restructured in the reporting year, so there are now three:

- Executive and Nomination Committee,
- Audit Committee and
- Capital Market and Acquisition Committee.

Their duties are described in more detail in the Corporate Governance report.

Generally speaking, the committees prepare the Supervisory Board resolutions and topics to be discussed by the full Supervisory Board. To the extent permitted by law, decision-making authority has been passed to individual committees by the rules of procedure or Supervisory Board resolutions. The committee chairs report regularly and fully on the contents and results of the committee meetings at the Supervisory Board meetings.

The **Executive and Nomination Committee** met four times in the reporting year. On the agenda of the two meetings held by conference call in January and February 2018 were Management Board remuneration, i.e. the STI 2017 and 2018, the SOP 2014 and the LTI 2018. In October and November 2018 the committee particularly discussed Management Board matters.

The **Audit Committee** met five times in the reporting year and dealt with the relevant aspects of the Supervisory Board's work. They particularly included the preliminary review of the financial statements, the consolidated financial statements and the interim reports of Deutsche Wohnen SE, as well as a discussion of the risk management system. It gave a recommendation to the Supervisory Board for the election of the auditors for 2018, obtained a statement of independence from the auditors, supervised their work and defined the main areas of the audit. The members of the Audit Committee have expert knowledge and experience in the application of accounting standards and internal control procedures. The respective committee chair meets all the requirements of section 100 para. 5 German Stock Corporation Act [Aktiengesetz – AktG].

The **Capital Market and Acquisition Committee** met three times in the reporting year. At the meetings in July 2018, which were held by telephone conference, the main items were details of the share dividend (capital increase, rights issue, document obviating the need for a prospectus, and changes to the Articles of Association). In October the committee discussed the focus of its further programme of work.

Corporate Governance

The Supervisory Board permanently monitored and discussed the ongoing development of the company's own corporate governance standards. The Corporate Governance report included in this Management Report provides comprehensive information about the company's corporate governance, including the structure and amount of Management Board and Supervisory Board remuneration.

The Management Board and Supervisory Board discussed the requirements of the German Corporate Governance Code as amended for the reporting year and compliance with these requirements. They updated their joint declaration of compliance in accordance with section 161 German Stock Corporation Act [Aktiengesetz – AktG] in December 2018 and made it permanently available.

Declaration of compliance

Separate and consolidated financial statements discussed in depth

The financial statements of Deutsche Wohnen SE prepared by the Management Board as of 31 December 2018, the consolidated financial statements and the company's combined management report were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, the auditors elected at the Annual General Meeting on 15 June 2018 and appointed by the Supervisory Board, who provided an unmodified opinion.

KPMG provided an unmodified opinion.

The financial statements of Deutsche Wohnen SE and the consolidated financial statements, the combined management report for Deutsche Wohnen SE and the group and the auditors' reports were sent to all Supervisory Board members without delay as they were prepared. The auditors took part in the meetings of the Audit Committee in preparation for the Supervisory Board meeting to discuss the financial statements on 21 February 2019 and 18 March 2019. They reported on the main findings of their audit and provided additional information. After in-depth discussion the Audit Committee approved the results of the audit of the company's financial statements, the consolidated financial statements and the combined management report.

The Chair of the Audit Committee gave a full report on the financial statements and the audit to the Supervisory Board at its meeting on 18 March 2019. The auditors also explained the main results of the audit and made themselves available to the Supervisory Board members for additional questions and information. The Supervisory Board carried out a careful review of the financial statements, the consolidated financial statements, the combined management report, the non-financial report, the proposal for the appropriation of distributable profit and the auditors' reports. It had no objections to make. In accordance with the recommendation of the Audit Committee, the Supervisory Board then approved the separate and consolidated financial statements as prepared by the Management Board as of 31 December 2018. The financial statements are thereby adopted.

The adopted financial statements show a distributable profit. The Supervisory Board concurs with the Management Board's proposal for the use of distributable profit. The agenda for the Annual General Meeting 2019 will therefore include a resolution to distribute a dividend of EUR 0.87 per share with dividend rights. The Management Board and Supervisory Board are also considering whether again to offer shareholders the option of receiving the dividend in cash or partly in shares.

Changes in the Management Board and Supervisory Board

Tina Kleingarn was elected to the Supervisory Board.

Since the period of office of the Supervisory Board Chair Mr Uwe E. Flach ended at the close of the Annual General Meeting on 15 June 2018, Ms Tina Kleingarn was elected to the Supervisory Board at the Annual General Meeting on 15 June 2018. The Supervisory Board elected Mr Matthias Hünlein as its new chair.

There were no changes in the members of the Management Board in 2018.

On behalf of the Supervisory Board I thank the members of the Management Board and the employees of Deutsche Wohnen SE and all the group companies for their great commitment and all their work in 2018.

Berlin, March 2019

On behalf of the Supervisory Board

Matthias Hünlein

COMPOSITION OF THE MANAGEMENT BOARD

Michael Zahn
Chief Executive Officer (CEO), appointed until 31 December 2023

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

Lars Wittan
Deputy Chief Executive Officer (COO), appointed until 30 September 2019

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

Philip Grosse
Member of the Management Board (CFO), appointed until 31 August 2024

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

COMPOSITION OF THE SUPERVISORY BOARD

as at 31 December 2018

	Matthias Hünlein Chairman (Chairman since 15/06/2018)	**Dr Andreas Kretschmer** Deputy Chairman	**Jürgen Fenk**
	Managing Director Tishman Speyer Properties Deutschland GmbH, Frankfurt/Main	Management consultant, Dusseldorf	Managing Director and member of the Group Executive Board of Signa Holding GmbH, Vienna, Austria
Appointed until	annual general meeting 2020	annual general meeting 2020	annual general meeting 2022
Memberships of supervisory boards and other supervisory bodies within the meaning of section 125 para. 1, sentence 5, German Stock Corporation Act [Aktiengesetz – AktG]	• Tishman Speyer Investment Management GmbH, Frankfurt/Main (Deputy Chairman of the Supervisory Board since 08/08/2018)	• BIOCEUTICALS Arzneimittel AG, Bad Vilbel (Chairman of the Supervisory Board until 21/06/2018) • Amprion GmbH, Dortmund (Deputy Chairman of the Supervisory Board until 31/05/2018)	• SIGNA Development Selection AG, Innsbruck, Austria (Member of the Supervisory Board since 15/02/2018)

	Tina Kleingarn (since 15/06/2018)	**Dr Florian Stetter**	**Claus Wisser**
	Partner of Westend Corporate Finance, Frankfurt/Main	Chief Executive Officer, Rockhedge Asset Management AG, Krefeld	Managing Director of Claus Wisser Vermögensverwaltungs GmbH, Frankfurt/Main
Appointed until	annual general meeting 2023	annual general meeting 2021	annual general meeting 2019
Memberships of supervisory boards and other supervisory bodies within the meaning of section 125 para. 1, sentence 5, German Stock Corporation Act [Aktiengesetz – AktG]	• None	• C&P Immobilien AG, Graz, Austria (Member of the Supervisory Board) • CalCon Deutschland AG, Munich (Member of the Supervisory Board) • Noratis AG, Eschborn (Member of the Supervisory Board since 05/11/2018) • Historie & Wert Aktiengesellschaft, Wuppertal (Chairman of the Supervisory Board since 17/08/2018)	• AVECO Holding AG, Frankfurt/Main (Member of the Supervisory Board)

Combined management report

FUNDAMENTAL ASPECTS OF THE GROUP

Business model of the Group

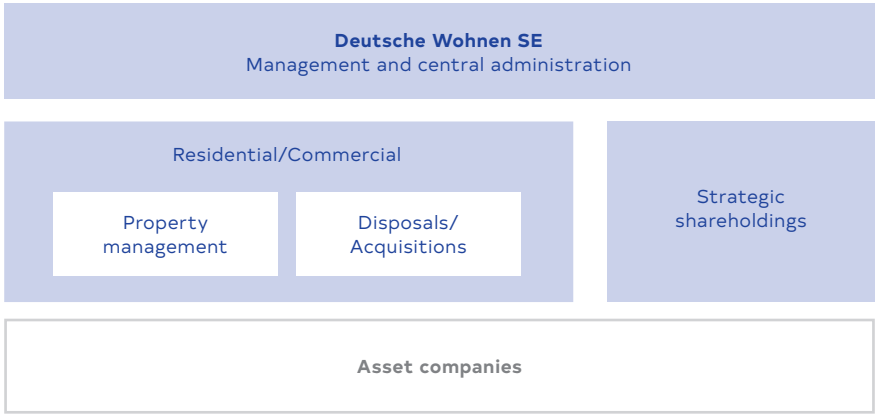
Deutsche Wohnen SE, including its subsidiaries (known hereafter as "Deutsche Wohnen" or "Group"), is currently the third-largest publicly listed real estate company in Europe by market capitalisation. The company is listed on the MDAX stock index of Deutsche Börse.

Its property portfolio comprises approximately 167,000 residential and commercial units and has a fair value of some EUR 22.2 billion.[1] Our property portfolio also includes nursing properties with a fair value of around EUR 1.3 billion with approximately 12,100 beds and apartments for assisted living. The focus of our investment is on residential properties in metropolitan areas and conurbations in Germany. Economic growth, positive net immigration and insufficient new construction activity in these regions form the basis for the further development of our portfolio value. We see the addition of nursing properties as another growth area, particularly in view of the demographic trends.

EUR 22.2 bn
Fair value has increased again in 2018.

Organisation and Group structure

In organisational terms we separate management and asset companies. The management companies are assigned to the respective business segments. Deutsche Wohnen SE has the typical function of a holding company and comprises the areas of Project & Process Management, Corporate Development and Strategy, Asset Management, Corporate Finance, Finance, IT, Human Resources, Investor Relations, Corporate Communication and Legal/Compliance.



Property management

The majority of our holdings are managed by our wholly owned subsidiaries, whose activities include the management of rental contracts, the provision of customer support services and the technical maintenance of our holdings as well as the development of our portfolio, including new construction. Infrastructural facility management services comprise on-site quality management by in-house personnel and above all the traditional caretaker services such as safety checks, ensuring that the neighbourhood is clean and tidy, assistance with administrative tasks and inspections of vacant units. New customer and quality services are added continuously to our existing service portfolio.

Our core business is the management of our own properties.

1 Excluding deposits received, properties under construction and undeveloped land

Disposals/Acquisitions

We release capital in order to strengthen our ability to finance acquisitions internally, especially in the course of privatisation activities in strategic core and growth regions. Given the currently positive market environment, opportunistic block sales to institutional investors from our Core+ and Core regions are also possible.

At the same time we are always reviewing suitable acquisition opportunities in our core regions.

Strategic shareholdings and property-related services

In addition to our core business segments we operate by means of strategic shareholdings and offer property-related services via subsidiaries. This strengthens our contacts to our customers and ensures the quality of our services.

We open up business segments throughout strategic shareholdings.

Nursing and Assisted Living

Retirement and nursing facilities are managed by means of equity investments under the brand names KATHARINENHOF and PFLEGEN UND WOHNEN HAMBURG[2]. These facilities offer full in-patient nursing care, with the aim of maintaining the residents' active lifestyle and independence to the greatest possible extent. Additional extensive services tailored to the needs of senior citizens are also offered in our assisted living facilities.

Energy supply

G+D Gesellschaft für Energiemanagement mbH, Magdeburg (G+D), is a strategic partnership between Deutsche Wohnen and GETEC. Together we are restructuring the energy management of our holdings, in order to increase the energy efficiency of our power-generating facilities of our properties and to make lasting reductions to CO_2 emissions and energy costs. At the same time, G+D is responsible for sourcing the energy for our holdings. As of 31 December 2018 G+D supplied around 76% of Deutsche Wohnen's centrally supplied portfolio with energy. G+D is also a successful player in the market for the supply of third-party customers.

Technical facility management

Deutsche Wohnen coordinates its purchasing of materials, products and services through B&O Deutsche Service GmbH – a joint venture with B&O Service und Messtechnik AG – as part of its technical facility management. This enables both partners to profit from nationwide economies of scale. Furthermore, the company provides services in the operational area of technical facility management. This alliance gives us greater control over quality assurance, ensures market capacities and maximum cost transparency, with additional savings that have a direct and positive effect on our core operating business.

Multimedia

In order to equip our property portfolio for the future and expand the Group's value chain at the same time, Deutsche Wohnen is investing in expanding its cable network and glass fibre infrastructure.

2 Since 1 October 2018 Deutsche Wohnen holds a 45% interest in PFLEGEN UND WOHNEN HAMBURG and the investment is valued at-equity as associate. Since January 2019 PFLEGE UND WOHNEN HAMBURG has been a wholly owned subsidiary of Deutsche Wohnen and is fully consolidated.

Group strategy

The German property market is experiencing an ongoing upswing. Metropolitan areas and conurbations are highly attractive as prosperous economic regions and are becoming areas with a high population density. Immigration, growth rates and incomes are rising here as well as the innovative ability and competitive strength. Demand for housing is correspondingly high. Since new residential properties are not being built to the same extent, many cities are confronted by an increasing housing shortage.

The property industry is faced with a major task in terms of saving energy.

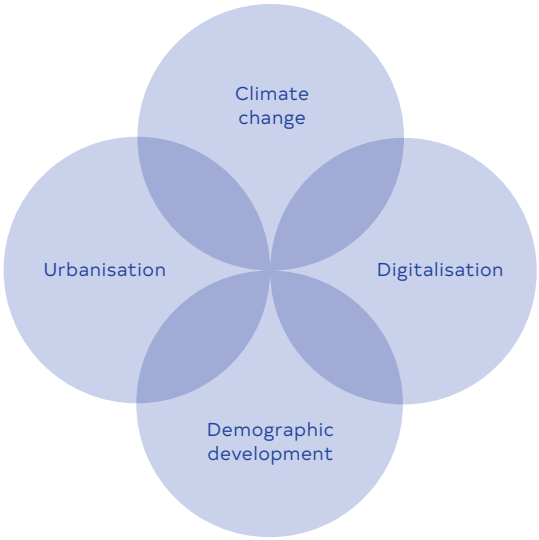
The expectations of accommodation are going up at the same time. Technologies and services linked to properties are becoming more and more important.

The immediate residential environment is also decisive for many people. Transport links, facilities for day-to-day needs, leisure opportunities, schools, childcare, cultural activities, medical facilities, etc. make a key contribution to the quality of life.

The demographic development and the associated ageing society are another challenge for the property markets. Our aim is therefore to expand our residential offering in line with growing needs and to combine comfort and nursing care as well as possible.

Finally, the property industry is faced with a major task in terms of saving energy. This is a key lever for achieving climate goals.

Challenges for the property market



Our aim:
To provide sustainable, liveable housing and neighbourhood strategies for people in metropolitan areas.

By focusing on metropolitan areas and conurbations in Germany, Deutsche Wohnen has for years been concentrating its portfolio in fast-growing markets, in which it provides housing where it is needed. Around 88% of our properties by total number are situated in our Core^{+} regions. Some 12% of our properties are in Core regions.

To further improve the quality of our portfolio we invest comprehensively in our properties. Particularly in view of climate protection targets, we consider that we have a responsibility to increase the energy efficiency of our properties and so make our own contribution to achieving these climate goals. We act with a sense of proportion, however, and choose the appropriate modernisation measures for our properties with care.

Our investments do not stop at the front door either. We know how important a pleasant residential environment is for our customers and so design our estates from a holistic perspective – from the grounds and infrastructure through to energy supplies. We develop residential concepts for specific target groups and endeavour to improve our service quality continuously.

We design our estates from a holistic perspective.

We are convinced that only new construction can relieve the pressure on residential property markets. For this reason we are planning extensive new construction in the years ahead, in order to create additional housing in our core regions. Our objective is to develop sustainable and high-quality properties that meet the needs of the residents and are fit for the future.

In addition to organic growth, we rely on value-adding acquisitions to the extent that they fit with our portfolio strategy. Deutsche Wohnen has demonstrated its ability to acquire and integrate portfolios many times in the past. By successfully integrating the acquired property portfolios we have generated significant economies of scale and strengthened the position of Deutsche Wohnen as one of Germany's leading residential property companies. We plan to expand our holdings by selectively acquiring new high-quality portfolios. This also applies to the Nursing and Assisted Living segment.

In view of the long investment cycles and comparatively short innovation cycles in the property sector, it is vital to identify and address future challenges and opportunities as early as possible. We intend to drive innovations and participate in future trends by means of focused equity investments.

In order to satisfy our customers' requirements for modern living standards and comprehensive service we intend to continue expanding our property-related services. This entails opening up new property-related business areas by means of strategic equity investments. Focusing on selected professional partners and pooling services enables us to generate economies of scale. In addition this gives us transparency and insight into the corresponding markets. This in turn helps us to ensure quality for the respective segments and optimise knowledge transfer. We are then able to act opportunistically and flexibly, but without losing the focus on our core business. Here, too, it is important to align all our activities with the needs of our customers, in order to add real value for them.

In view of demographic developments and the increasing need for nursing places and assisted living, we are also continuously increasing our investments in this segment. In this context we always ensure that we secure prime properties and high-quality nursing and care. One way in which we can deliver this is via our shareholdings in KATHARINENHOF and PFLEGEN UND WOHNEN HAMBURG. To meet projected requirements we are also focusing our nursing care business on cities and regions with positive development forecasts.

Our successful growth over recent years has enabled us to keep improving our position on capital markets. Today Deutsche Wohnen is one of the top three real estate companies in Europe as measured by the market capitalisation of the free float, and has received a greater weighting in all important indices.

Our dividend policy is moderate and sustainable and leaves the company with the funds it needs to maintain and increase the value of our portfolio.

Our solid and flexible capital structure and conservative debt ratio gives us a strong competitive position. The rating agencies acknowledge our capital structure with ratings of A3 (Moody's) and A- (Standard & Poor's). We intend to keep strengthening our market position going forward by means of a sustainable investment and dividend policy.

Our approach and our values

Last year Deutsche Wohnen redesigned its brand and in this content redefined its value system. It provides a framework for our employees and is an expression of our corporate culture.

Our approach

We use our competences to make people's lifes better, more comfortable and more attractive. Our residents should feel at home with us.

Our residents should feel home with us.

Trust is paramount for us. Only people who trust us will rent or buy our residential units, purchase new services, buy our shares or work for us. We strive for success and act with an eye on the future. We respond flexibly to market events and have the courage to change. Our commitment gives us credibility. We stand by our decisions, prove ourselves as dependable partners and keep our feet on the ground.

We assume responsibility on various levels:

1. Our quality commitment: We uphold an architectural culture that develops existing buildings with care and respect for their design. We are not looking for growth at any price, but for value creation that respects our cultural heritage.
2. Our sustainability promise: We use resources intelligently in the spirit of long-term energy efficiency and with regard for the future.
3. Our social commitment: We feel not only responsible for partners, customers and employees, but also for our social environment.

Transparency forms the basis for our thoughts and actions. We are open to new approaches and seek out dialogue.

Our values

Our approach is supported by values that act as guidelines for all the staff in our company.

Focus on people

We treat our customers at eye level. The same applies to our partners. Dealing with one another as individuals and relations based on empathy form the heart of our promise and the core of our activities.

Linking generations

Shelter and warmth are key concepts for us. And the best thing is that this not only applies to buildings, but above all to generational diversity. We want to enable a culture of togetherness that puts people's satisfaction at its centre.

Opportunity thinker

When we are flexible in our approach. When we remain open for new developments. And above all, when we want to see change as an opportunity: then we are opportunity thinker. Acting on this philosophy enables us to stay successful.

Aesthetically pleasing

It is often the little things that make life a bit more beautiful. The architect Bruno Taut's commitment to quality and determination to make functionality and aesthetics accessible for all are firmly embedded in our DNA.

Our vision

In our core markets we are shaping the communities of tomorrow. In doing so we respect the sustainability and quality of our neighbourhoods, act dependably and in line with the interests of our customers. We see ourselves in the future as a multi-asset provider, operating our residential and commercial properties and our nursing facilities with the associated customer-focused services.

We want to meet the demands of future generations.

Our vision is of sustainable properties that meet the demands of future generations too.

Group management

The company is managed on several levels:

At **Group level** all revenues and cash flows are aggregated and measured quarterly for the primary key performance indicators FFO I (Funds from Operations before disposals), EPRA NAV (Net Asset Value, adjusted for goodwill) and LTV (Loan-to-Value). Segments are managed by reference to the primary key performance indicator of segment earnings. All the primary key performance indicators are benchmarked quarterly and are incorporated into a SWOT analysis that serves to evaluate the competitive position of Deutsche Wohnen.

All primary key performance indicators are measured quarterly.

Furthermore, operational segment management relies on other segment-specific performance indicators:

In the **Residential Property Management segment** the indicators used by management are the rent per square metre and the vacancy rate, differentiated by defined portfolios and/or regions. They also track the volume and earnings from new letting and changes in rent-related costs such as maintenance costs, marketing and operating costs of letting, and rental losses. All the parameters are analysed monthly and compared with detailed budget figures.

The **Disposals segment** is managed by monitoring the sales prices per square metre and the margin as the difference between the IFRS carrying amount and the sales price. The values measured are compared with the budget and the market and adjusted as necessary.

In the **Nursing and Assisted Living segment** the equity investments in KATHARINENHOF and PFLEGEN UND WOHNEN HAMBURG[3] generate internal growth largely by increasing nursing care and occupancy rates at the nursing facilities with in-patient care. To measure the operating profitability of nursing properties the segment is also managed by reference to EBITDA before rental income. The profitability of nursing properties with external operating companies is primarily measured using EBITDA. These key figures are also analysed monthly by management.

Other operating expenses such as staff, general and administration expenses, as well as non-operating variables such as finance expenses and taxes, also form part of the central planning and management system and the monthly report to the Management Board. Here, too, current performance is tracked at Group level and compared with the budget figures.

Finance expenses are very important, since they have a significant effect on profit/loss for the period and cash flow. Our active ongoing management of the loan portfolio is aimed at optimising the long-term capital structure and financial result.

To measure the cash flow from operating activities and compare it with budget we use FFO I. EBITDA excluding earnings from Disposals is the starting point for measuring FFO I, and is essentially adjusted up or down to reflect one-off items, cash finance expenses and/or income and tax expenses and/or income.

Regular reports measure the Group's financial performance promptly.

The regular reports enable the Management Board and specialist departments to measure the Group's financial performance promptly and compare it with the figures for the previous month, the previous year and the budget. Updating the budget accordingly also makes it possible to forecast future performance. Opportunities and any adverse developments can then be identified at short notice and steps taken to exploit or forestall them.

3 Since 1 October 2018 Deutsche Wohnen holds a 45% interest in PFLEGEN UND WOHNEN HAMBURG and the investment is valued at-equity as associate. Since January 2019 PFLEGE UND WOHNEN HAMBURG has been a wholly owned subsidiary of Deutsche Wohnen and is fully consolidated.

Property portfolio

Overview of portfolio and portfolio strategy: residential properties

Deutsche Wohnen manages one of the largest property portfolios in Germany, comprising some 164,300 residential and approximately 2,700 commercial units (approximately 3.9% of its overall floor space) and generating annualized rental income of EUR 815 million. With around 90% of the portfolio we focus on fast-growing metropolitan areas and conurbations, the so called Core+ regions.

We focus on German metropolitan areas and conurbations.

At the end of 2018, the average in-place rent of the properties in the portfolio of Deutsche Wohnen amounted to EUR 6.62 per sqm, with a consistently low vacancy rate of 2.1%. Our portfolio was further strengthened in 2018 by acquisitions of approximately EUR 1 billion.

In line with our focused portfolio strategy, our properties are largely concentrated within prosperous metropolitan areas and conurbations with upwards of 500,000 inhabitants. Our core market is Greater Berlin, where approximately 115,600 residential units and approximately 1,900 commercial units are located. This represents around 70% of all our residential units and some 77% of total fair value. In-place rents for almost 70% of our residential units are below EUR 7.00 per sqm. This makes us a provider in the medium market segment. One- and two-room apartments account for about 55% of the portfolio. The proportion of one- and two-person households is correspondingly high.

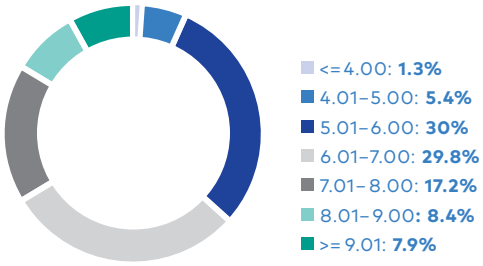
The starting point for our portfolio management activities is the segmentation of our properties: they are clustered in Core+, Core and Non-Core regions on the basis of a macro-analysis, using a scoring model which evaluates the attractiveness and prospects for future development of the locations having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

31/12/2018					Residential		Commercial
	Residential units	Area	Share of total portfolio	In-place rent[1]	Vacancy rate	Commercial units	Area
	number	sqm k	in %	EUR/sqm	in %	number	sqm k
Strategic core and growth regions	**164,121**	**9,890**	**99.9**	**6.62**	**2.1**	**2,714**	**400**
Core+	**145,032**	**8,710**	**88.3**	**6.72**	**2.1**	**2,518**	**369**
Greater Berlin	115,612	6,884	70.4	6.70	2.0	1,875	253
Rhine-Main	9,750	586	5.9	7.96	2.0	124	26
Dresden/Leipzig	8,606	554	5.2	5.93	4.4	424	62
Rhineland	5,381	338	3.3	6.37	1.2	34	14
Mannheim/Ludwigshafen	4,740	295	2.9	6.09	3.3	44	12
Other Core+	943	54	0.6	10.51	0.4	17	1
Core	**19,089**	**1,180**	**11.6**	**5.86**	**2.4**	**196**	**31**
Hanover/Brunswick	9,124	589	5.6	5.95	2.4	86	14
Kiel/Lübeck	4,946	293	3.0	5.94	2.4	13	2
Other Core	5,019	298	3.1	5.62	2.6	97	15
Non-Core	**144**	**9**	**0.1**	**5.10**	**1.5**	**1**	**0**
Total	**164,265**	**9,899**	**100.0**	**6.62**	**2.1**	**2,715**	**400**

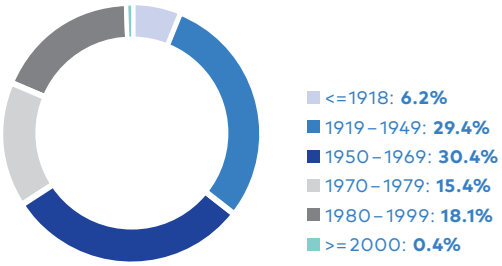
1 Contractually owed rent for rented residential units divided by rental area

The following chart provides an overview of the structure of material portfolio characteristics:

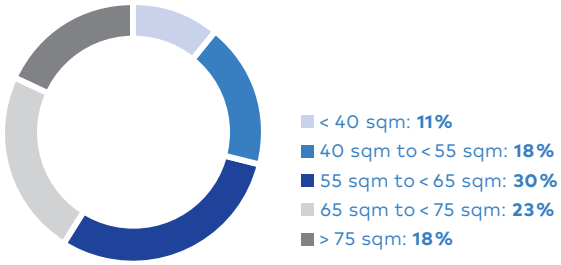
In-place rent EUR/sqm



Year built



Size of unit



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

The share of the "growth" cluster improved from around 44% in 2017 to around 47% in 2018, particularly due to the acquisitions.

Property portfolio by location/micro-clusters

31/12/2018

Cluster	Micro location	Residential units	Share of fair value	In-place rent	Fair value	Vacancy rate
		number	in %	EUR/sqm	EUR/sqm	in %
Core+		**145,032**	**93.3**	**6.72**	**2,284**	**2.1**
	Hotspot	38,648	30.8	7.22	2,826	3.1
	Growth	70,140	43.3	6.81	2,244	1.8
	Stable	36,244	19.2	6.09	1,803	1.5
Core		**19,089**	**6.6**	**5.86**	**1,217**	**2.4**
	Hotspot	414	0.3	7.14	1,545	2.9
	Growth	9,629	3.4	5.95	1,368	2.6
	Stable	9,046	2.9	5.73	1,058	2.3
Non-Core		**144**	**0.0**	**5.10**	**580**	**1.5**
Total		**164,265**	**100.0**	**6.62**	**2,157**	**2.1**

We develop targeted strategies based on the portfolio analysis. Therefore we score the major performance indicators, technical condition and location of the individual properties and classify each of the properties according to one of the following action areas: "operate", "develop" and "dispose".

The "operate" properties constitute the bulk (some 85%) of our portfolio. Properties whose fixtures, fittings and condition are of below-average standard but that are located in particularly prosperous locations are assigned to the "develop" cluster (12% of total portfolio). In the years ahead we will invest in the fabric of these buildings, particularly to improve energy efficiency and bring the units up to modern standards.

The properties classified as "dispose" are offered for sale in the residential privatisation and block sales contexts. Properties that are not classified as for disposal can, of course, also be sold at any time to exploit market opportunities or optimise the overall portfolio.

Property portfolio by action areas

31/12/2018

Cluster	Strategy	Residential units	Share of fair value	In-place rent	Vacancy rate
		number	in %	EUR/sqm	in %
Core+		**145,032**	**93.3**	**6.72**	**2.1**
	Operate	122,009	79.1	6.74	1.6
	Develop	20,278	12.1	6.70	4.5
	Dispose	2,745	2.2	6.42	8.4
Core		19,089	**6.6**	**5.86**	**2.4**
	Operate	17,851	6.2	5.87	2.4
	Develop	513	0.2	5.82	2.1
	Dispose	725	0.2	5.87	2.6
Non-Core	Dispose	**144**	**0.0**	**5.10**	**1.5**
Total		**164,265**	**100.0**	**6.62**	**2.1**

Portfolio development

Acquisitions

In 2018 we signed contracts for some 5,750[1] residential and commercial units for a total purchase price of some EUR 1 billion, almost exclusively in Core+ markets. Approximately 1,950 of these units are in Greater Berlin[1], while some 3,500 units are located in Dresden and Leipzig. The acquisitions are mainly high-quality late 19th century "Gründerzeit" houses and "Altbau" buildings in attractive areas of town.

1 Excluding acquisitions in Karl-Marx-Allee, Berlin

Disposals

In the disposals context, we were able to exploit the ongoing high demand for properties with sales of approximately 1,971 residential units (374 as part of our privatisation activities, and 1,597 by way of disposals to institutional investors) with a transfer of risks and rewards in the past financial year. Our portfolio streamlining activities involved the disposal of portfolios, particularly in Wittenberg and Frankfurt (Oder), comprising a total of approximately 1,100 units. This reduced the Non-Core properties significantly from 1,337 units to just 144 units.

Further details of our segment earnings from Disposals can be found in the combined management report.

Segment earnings from page 46

Operating performance

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

Like-for-like		31/12/2018	31/12/2017		31/12/2018	31/12/2017
	Residential units	In-place rent[1]	In-place rent[1]	Change	Vacancy rate	Vacancy rate
	number	EUR/sqm	EUR/sqm	in %	in %	in %
Total	**158,668**	**6.63**	**6.41**	**3.4**	**2.0**	**1.9**
Letting portfolio[2]	**155,654**	**6.64**	**6.42**	**3.4**	**1.9**	**1.8**
Core+	**137,414**	**6.74**	**6.52**	**3.4**	**1.8**	**1.8**
Greater Berlin	112,765	6.70	6.47	3.6	1.8	1.9
Rhine-Main	9,174	7.91	7.67	3.1	1.6	1.3
Dresden/Leipzig	5,174	5.84	5.67	3.0	3.4	2.8
Rhineland	4,821	6.35	6.22	2.0	1.0	0.8
Mannheim/ Ludwigshafen	4,537	6.10	6.00	1.6	2.5	1.4
Other Core+	943	10.51	10.42	0.8	0.4	0.2
Core	**18,240**	**5.86**	**5.68**	**3.2**	**2.4**	**1.9**
Hanover/Brunswick	8,647	5.94	5.79	2.7	2.4	1.8
Kiel/Lübeck	4,946	5.94	5.62	5.6	2.4	2.0
Other Core	4,647	5.62	5.53	1.7	2.5	2.0

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

Like-for-like rental growth was 3.4% in the reporting year. Rent increases for existing tenants were moderate at 1.4%.

The vacancy rate for our like-for-like letting portfolio remained very low at 1.9% (previous year: 1.8%). The slight increase resulted from vacancies due to refurbishment work in the course of our investment programme.

Portfolio investments

In financial year 2018 we spent some EUR 416 million or EUR 41 per sqm on maintenance and refurbishment, a year-on-year increase of around 25%. EUR 103 million, or around one quarter, was for maintenance and around three-quarter for refurbishment, which particularly includes energy-saving improvements to the fabric of the building and the technical installations. Of the refurbishment costs of EUR 313.5 million, around EUR 117.4 million are attributable to measures regarding to tenant change and EUR 196.1 million to complex refurbishment measures. These include approximately 70% capitalised maintenance and approximately 30% modernisation costs which are applicable for modernisation charge.

We invested around EUR 41 per sqm for maintenance and refurbishment measures in 2018.

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

EUR m	2018	2017
Maintenance	**102.9**	**104.7**
in EUR per sqm	10.14[1]	10.52[1]
Refurbishment	**313.5**	**227.4**
in EUR per sqm	30.91[1]	22.85[1]
Maintenance and refurbishment	**416.4**	**332.1**
in EUR per sqm	41.05[1]	33.37[1]

1 Based on average area on a quarterly basis in each period

For complex investments we believe it is important to proceed in a socially minded way and to engage in direct dialogue with our tenants. We have successfully signed several agreements with Berlin boroughs that include wide-ranging concepts to enable maintenance and refurbishment work to be carried out responsibly.

In case of complex investments we proceed in a socially minded way.

As part of our portfolio investments we spent over EUR 1 billion on the refurbishment and maintenance of our portfolio in the past three years. In the years ahead we are planning further investments, particularly to keep improving the quality of our residential holdings. The focus of refurbishment work is currently on properties in Berlin, and will be extended to other portfolios in Western German conurbations.

Our investment properties are predominantly located in Core^{+} markets in attractive "hotspot" and "growth" locations with above-average development potential.

Portfolio valuation

Demand from domestic and foreign real estate investors for packages of residential portfolios remained high in 2018, in the face of a still limited supply of such properties. This surplus demand and the persistently positive trend in rents and vacancy rates are reflected in an increase of some EUR 2.2 billion in the value of our property portfolio as of 31 December 2018. The valuation result was confirmed by way of an external appraisal from Jones Lang LaSalle.

The overview below shows key valuation figures for our property portfolio as of 31 December 2018.

Macro cluster	Region	Residential units	Fair value	Fair value	Multiple in-place	Multiple market rent
		number	EUR m	EUR/sqm		
Core+		**145,032**	**20,711**	**2,284**	**28.4**	**21.2**
	Greater Berlin	115,612	17,130	2,404	29.9	22.0
	Rhine-Main	9,750	1,376	2,254	23.6	18.6
	Dresden/Leipzig	8,606	1,207	1,958	27.9	22.1
	Rhineland	5,381	466	1,328	17.1	14.8
	Mannheim/ Ludwigshafen	4,740	357	1,162	16.1	13.3
	Other Core+	943	175	3,159	24.7	20.8
Core		**19,089**	**1,474**	**1,217**	**17.4**	**14.6**
	Hanover/ Brunswick	9,124	746	1,236	17.4	14.2
	Kiel/Lübeck	4,946	345	1,171	16.4	13.8
	Other Core	5,019	383	1,223	18.3	16.2
Non-Core		**144**	**5**	**580**	**9.7**	**7.8**
Total		**164,265**	**22,190**	**2,157**	**27.2**	**20.6**

The most significant appreciation amounts to EUR 2.1 billion and relates to the Core+ segment, first and foremost the Greater Berlin region (approximately EUR 1.9 billion).

Fair value	31/12/2018		31/12/2017	
	Fair value EUR m	Multiple in-place rent	Fair value EUR m	Multiple in-place rent
Strategic core and growth regions	**22,185**	**27.2**	**18,799**	**24.7**
Core+	20,711	28.4	17,425	25.6
Core	1,474	17.4	1,375	16.9
Non-Core	5	9.7	65	13.1
Total	**22,190**	**27.2**	**18,864**	**24.6**

Energy efficiency of properties

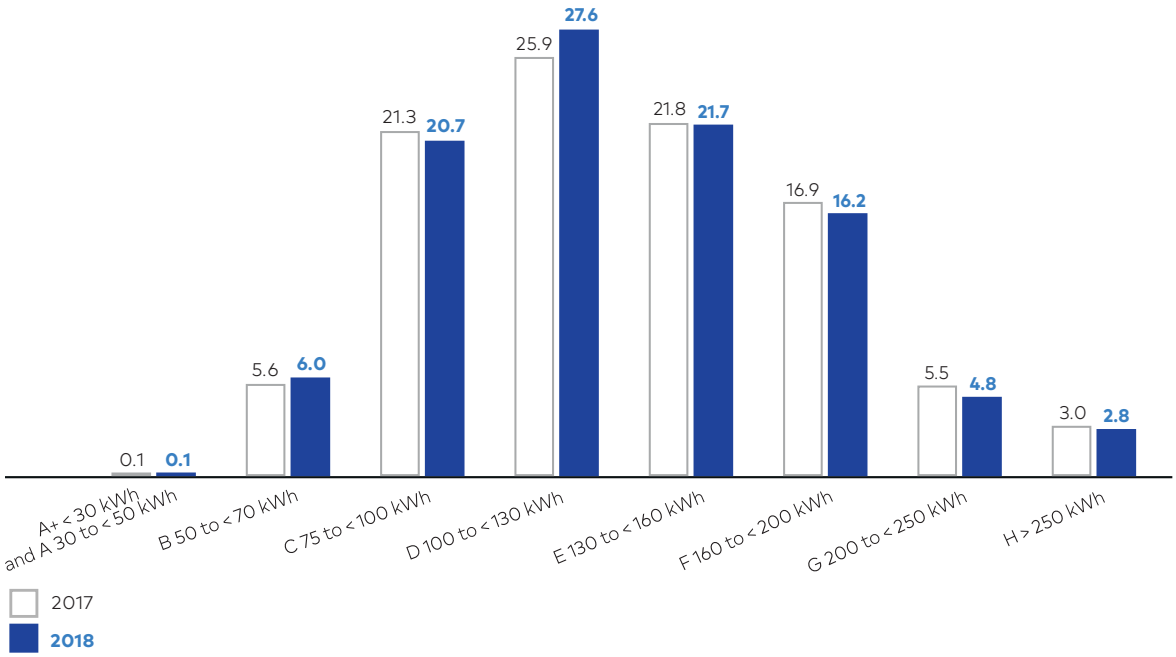
Most of Europe's consumption of energy relates to existing buildings. Through our comprehensive refurbishment measures we are gradually increasing the energy efficiency of our properties. The current consumption level of just under 60% of our residential units is lower than the average for residential buildings in Germany (135.5 kWh/sqm per year[2]). Approximately 27% of our residential units are at a reasonable level, below 100 kWh/sqm per year (A+ to C). The average consumption of our holdings amounts to 132.3 kWh/sqm per year, a further improvement year on year (2017: 133.4 kWh/sqm).

The current energy consumption of just under 60% of our residential units is lower than the average in Germany.

2 Own calculation based on "Techem Energiekennwerte 2018"

Energy intensity of residential units

Classification into energy efficiency classes[1] by final energy requirements in kWh/sqm in %



1 Weighted average of final energy consumption based on latest available Energy Performance Certificate for Residential Buildings. Variations of around 20 kWh in final energy consumption may arise if the type of heating is not determined. Attribution to energy efficiency classes is therefore only an approximation of the EnEV classification. 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.

Nursing properties

The Nursing and Assisted Living segment comprises 89 nursing properties with a total of approximately 12,200 beds. 88 of these nursing properties are owned by Deutsche Wohnen. This makes us one of the largest owners of nursing properties in Germany.

Deutsche Wohnen is one of the largest owners of nursing properties in Germany.

We have two different business models for our nursing properties: 37 nursing facilities (approximately 5,300 beds) are operated by KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH, in which we hold a 49% stake together with subsidiaries, and PFLEGEN & WOHNEN HAMBURG GmbH, of which we held 45% as of the reporting date and took control in early 2019. The other 52 facilities (approximately 6,900 beds) are managed by various external operators on long-term contracts.

As in the residential segment, we focus our nursing care activities on towns and regions with positive development forecasts, since the need for nursing care and assisted living is particularly high here. In this context we always ensure that we secure prime properties and high-quality nursing and residential care.

Wide-ranging acquisitions of 37 properties for some EUR 650 million last year enabled us to expand our nursing portfolio significantly, and keep improving its quality. Most of the properties, which were acquired in three portfolios, are in Core+ and Core locations.

Demographic developments mean that the market for nursing care in Germany will continue to grow. We intend to expand the Group's nursing segment up to 15% of Group EBITDA by means of selected acquisitions. As of year-end 2018 it contributed some 12% of EBITDA, including the new acquisitions.

Nursing business: properties and operations

Nursing properties operated by KATHARINENHOF and PFLEGEN & WOHNEN HAMBURG 2018

		Beds				
Region	Facilities	Nursing	Assisted living	Total	Occupancy 31/12/2018	Fair value 31/12/2018
	number	number	number	number	in %	EUR m
Hamburg region	17	3,140	157	3,297	93.7	
Berlin region	12	1,071	371	1,442	100.0	
Saxony region	8	523	56	579	96.5	
Total in-house	**37**	**4,734**	**584**	**5,318**	**96.2**	**548.5**[1]

1 Relates to 36 facilities

Nursing properties managed by other external operators 2018

		Beds				
Federal state	Facilities	Nursing	Assisted living	Total	WALT	Fair value 31/12/2018
	number	number	number	number		EUR m
Bavaria	14	1,704	46	1,750	10.6	
North Rhine-Westphalia	10	1,185	242	1,427	13.5	
Rhineland-Palatinate	6	669	208	877	12.5	
Lower Saxony	5	771	0	771	9.5	
Baden-Württemberg	6	662	16	678	11.0	
Hesse	4	528	0	528	10.7	
Other	7	788	48	836	9.4	
Total external operators	**52**	**6,307**	**560**	**6,867**	**11.3**	**783.0**
Total nursing	**89**	**11,041**	**1,144**	**12,185**		**1,331.4**[1]

1 Excluding advance payments, buildings under construction and undeveloped land

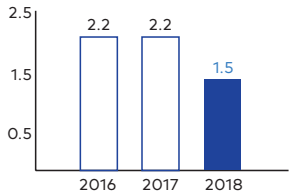
ECONOMIC REPORT

General economic conditions

Slightly slower growth for German economy

German GDP up by 1.5%: After years of above-average expansion the German economy grew more moderately in 2018. The automotive industry acted as a brake, whereas robust international demand, a booming construction industry and consumer spending all provided significant support.[1]

Changes in economic growth (GDP)
over a 3-year period in %[1]



Unemployment rate continues to decrease: The labour market performed very well again in 2018, even though the economic upswing lost some of its momentum in the second half of the year. The unemployment rate in Germany was 4.9% in December 2018, a year-on-year decrease of 0.4 percentage points, and the number of people in work rose again.[2]

Sharp rise in gross wages and salaries: After deducting social security contributions, wages and salaries paid to employees went up by 4.8% in 2018 on both a gross and net basis. This is due to the larger number of employees and to higher wages and salaries per employee.[3]

Interest rates remain low: The European Central Bank left the base interest rate at 0%, the record low in place since March 2016, and continued its expansionary monetary policy. This creates a favourable environment for investment and financing, especially and also in the property sector.

Population in Germany rises to 83.0 million inhabitants: According to its initial estimates, the Federal Statistical Office calculates that the upward population trend continued in Germany in 2018 (previous year: 82.8 million inhabitants). Net migration again more than offset the difference between birth and mortality rates.[4]

Housing driving the construction boom: In the year under review, actual investments in the construction of new housing increased by approximately 3.4% compared with the previous year. Full order books, strong demand for new housing and low interest rates have led to an ongoing upswing, so the construction industry has been operating at the limits of capacity for some time now.[5]

Economic upturn in Berlin continues: Real gross domestic product in the capital rose by some 2.7% in 2018. This means Berlin's economy again grew faster than the country as a whole.[6] The building industry is an important driver, so is the technology sector which makes Berlin to one of the most important locations for start-ups. Unemployment in the capital also continued to fall in the reporting year, finishing below 8% for the first time. This is the lowest rate since reunification. Since 2012 Berlin has consistently held first place among all the German states for employment growth.[7] Wage growth in Berlin of 5.3% also outpaced the federal average.[8]

1 DIW, Weekly report 50, 2018
2 Federal Statistical Office, monthly report on the labour and training market, December 2018
3 Federal Statistical Office, press conference on "Gross Domestic Product of Germany in 2018" held on 15/09/2018, statement by Albert Braakmann
4 Federal Statistical Office, press release 029 of 25/01/2019
5 DIW, Summer Fundamentals 2018, Weekly report 24, 2018
6 Investitionsbank Berlin, Berlin Konjunktur, October 2018
7 Senate Department for Economics, Energy and Public Enterprises, Market Report on the Economic Situation in Berlin, 3rd Quarter 2018
8 Berlin-Brandenburg Statistics Office, press release 10 of 17/01/2019

German housing market still experiencing an upward trend

Residential property remains in demand in Germany: The German housing market closed the year 2018 on a very successful note. The transaction volume for residential property and portfolios rose to around EUR 18.7 billion, with over 130,000 units changing hands, a year-on-year increase of almost 20%.[9]

70%
of the country's households are one- or two-person households.

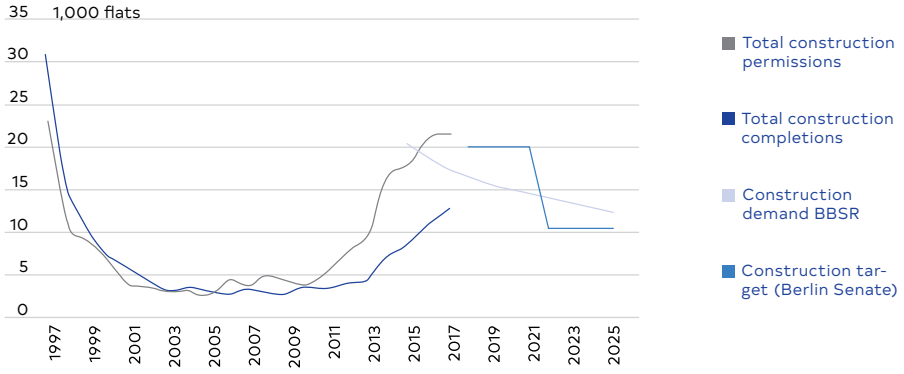
Berlin remains a key investment destination: Berlin was again a focus of investment in 2018 – alongside Frankfurt – accounting for more than 23% of transactions and therefore the most liquid market in Germany.[9]

Shortage of available housing persists: The German Federal Office for Building and Regional Planning (Bundesinstitut für Bau-, Stadt- und Raumforschung – BBSR) expects the number of households to increase by some 500,000 by 2030. This trend will result in additional demand on the German residential property market. Given that the number of persons per household is expected to fall further, the number of households in Germany is increasing at a faster rate than the population. 70% of the country's 37.4 million households are one- or two-person households, with this figure rising to as high as 80% in major cities.[10]

Rate of construction of new housing unable to keep pace with demand: Strong population growth in the top locations[11] means that new building is lagging behind housing demand, despite a rising number of completions.[12] Nearly 285,000 new residential units were built in Germany in 2017. This is an increase of 2.6% on the previous year, but around 380,000 apartments would have to be built annually to reconcile the supply and demand for housing.[13] Berlin estimates a new construction demand of around 194,000 residential units by 2030. The target set by the Berlin Senate of 20,000 new apartments per year until 2021 was probably missed again in 2018. After an 19% increase in new housing completions in 2017 to 12,800, the number of planning approvals declined again in the first half of 2018 to 14,700 (–5.6%).[14]

New construction work lags behind housing needs.

Construction completion versus demand in Berlin



Source: JLL, Residential City Profile Berlin, 1st half-year 2018

9 JLL, Investment Market Overview for Germany, 4th Quarter 2018
10 BBSR, Residential Property Market Forecasts 2030
11 Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich, Stuttgart
12 DZ HYP, Immobilienmarkt 2018/19
13 Institut der deutschen Wirtschaft, Residential Property Market "There is still not enough building", 24/05/2018
14 JLL, Residential City Profile Berlin, H1 2018 in conjunction with Berlin-Brandenburg Statistics Office, press release 117 of 17/05/2018, in conjunction with Berlin-Brandenburg Statistics Office, press release 262 of 07/11/2018

Ongoing momentum in metropolitan areas

Rental increases the result of excess demand: Ongoing population growth in German conurbations is resulting in housing shortages and tight residential property markets. In the past ten years the rate of population growth in the seven top locations has ranged from 7% in Dusseldorf to 15% in Frankfurt. This means 1 million more people are living there than in 2007. However, only 286,000 residential units have been completed in the same period. On this basis a cumulative shortfall of more than 300,000 units has arisen since 2007.

In German metropolitan cities there has been a shortfall of over 300,000 residential units.

This trend is also reflected in higher rents. Between 2007 and 2017 the average rent for new occupancies in top locations went up by 55% to EUR 12.50 per square metre. Rental growth in Berlin came to around 65%.[15]

Rents in Berlin continuing their upward trajectory: Across all segments and construction years, quoted rents in Berlin went up year on year by 9% to EUR 12.10 per square metre in 2018. Growth in quoted rents in the other six metropolitan areas[16] was also significantly positive at 6%.[17]

Purchase prices also still on the rise: A lack of supply meant that prices for residential units rose again in Germany in 2018. Prices for houses and apartments went up by an average of some 8%. As in previous years, this development was most pronounced in metropolitan areas and major cities.[18]

Purchase prices again rose rapidly in 2018: The prices for existing residential units went up by more than 15% and for new builds by more than 10% on the year. This price dynamic results primarily from the large shortage of apartments. This in turn stems from a lack of building land and also of qualified labour in the building sector.[19]

Statement of the Management Board to the economic situation

Deutsche Wohnen continued its successful long-term performance in 2018, again meeting its targets.

We have achieved our targets we had set for 2018.

Earnings from Residential Property Management came to some EUR 656 million. This is an increase of EUR 43 million or 7% on the previous year. We exceeded our forecast of EUR 640 million by 2.5%, mainly due to acquisitions. Maintenance expenses of EUR 10.14 per sqm were slightly above our planning range (EUR 9 per sqm to EUR 10 per sqm). The vacancy rate for all our residential units came to 2.1% as of year-end, which is 0.1 percentage points higher than in the previous year.

15 DZ HYP, Real Estate Market Report 2018/19
16 Dusseldorf, Frankfurt, Hamburg, Cologne, Munich, Stuttgart
17 JLL, German Residential Top Cities
18 Deutsche Bank Research, Outlook 2019
19 Deutsche Bank Research, Commentary, Berlin "Arm, aber sexy" ade

In the Disposals segment we generated a higher average gross margin of 38% (previous year: 23%), despite the valuation uplifts due to higher market prices. The transaction volume decreased from around EUR 309 million to EUR 180 million as a result of the lower number of units sold overall. However, this effect was almost entirely counterbalanced by significantly higher selling prices. Our sales proceeds therefore only fell, in absolute terms, by EUR 7 million to around EUR 43 million.

We believe that Deutsche Wohnen is still in a very strong position.

The earnings contribution from Nursing and Assisted Living went up by some EUR 7 million or 15% year on year to EUR 55 million. The increase of EUR 48 million compared with our forecast is due to acquisitions of leased properties.

In terms of financing we can point to very solid figures for the maturity profile, average interest rates and sources of financing. The LTV of 36% is 1 percentage point higher than in the previous year and so within our target range of 35% to 40%. Current interest expenses rose year on year by EUR 6 million to EUR 106 million, which is higher than the forecast figure of EUR 100 million for 2018. This increase in current interest expenses results from new financing for acquisitions.

FFO I rose year on year by EUR 47 million or 11% to EUR 479 million. FFO I per share went up accordingly from EUR 1.23 in 2017 to EUR 1.35 in 2018. This is 2% higher than our target of EUR 470 million forecast at the beginning of the year.

Adjusted EBITDA (without Disposals) rose from EUR 574 million by EUR 54 million or 8% to EUR 619 million, which is higher than the figure of EUR 615 million planned for 2018.

EPRA NAV (undiluted) came to EUR 42 per share as of year-end 2018, an increase of around 18%. The main driver was the revaluation of the property portfolio, which contributed some EUR 2.2 billion in 2018. The ongoing discrepancy between supply and demand in conurbations within Germany once more resulted in a rise in prices.

Overall, operations in the financial year 2018 went according to plan. We believe that Deutsche Wohnen is still in a very strong position. Developments with regard to rents, vacancy rates and average sales prices confirmed our strategic focus on urban conurbations.

Notes on the financial performance and financial position

Financial performance

Deutsche Wohnen closed its financial year 2018 with a profit for the period of almost EUR 1.9 billion (+EUR 0.1 billion or 5.6% up on 2017).

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 2018 compared to 2017:

EUR m	2018	2017
Earnings from Residential Property Management	656.2	612.8
Earnings from Disposals	43.1	50.3
Earnings from Nursing and Assisted Living	55.3	48.0
Corporate expenses	–93.7	–81.3
Other expenses/income	–1.8	–29.0
Operating result (EBITDA)	**659.1**	**600.8**
Depreciation and amortization	–10.3	–7.4
Adjustment to the fair value of investment properties	2,179.3	2,397.0
Gains/losses from companies valued at equity	2.6	3.0
Financial result	–203.9	–395.2
Earnings before taxes (EBT)	**2,626.8**	**2,598.2**
Current taxes	–27.6	–32.6
Deferred taxes	–736.6	–802.3
Profit/loss for the period	**1,862.6**	**1,763.3**

Adjusted earnings before taxes rose year on year by EUR 37.8 million or 7.5% to EUR 539.5 million.

EUR m	2018	2017
Earnings before taxes	**2,626.8**	**2,598.2**
Gains/losses from the valuation of properties	–2,177.9	–2,396.7
Amortization of goodwill	0.7	0.0
Gains/losses from fair value adjustments to derivative financial instruments and convertible bonds	80.3	226.0
One-off expenses and earnings	9.6	74.2
Adjusted earnings before taxes	**539.5**	**501.7**

The result of the adjustment of the fair value of derivative financial instruments and convertible bonds primarily comprised the valuation of the convertible bonds. The strong performance of the share price resulted in non-cash expenses of EUR 70.7 million in the financial year 2018 (previous year: EUR 229.0 million).

One-off expenses and earnings principally comprised one-off financing costs (EUR 9.3 million; previous year: EUR 51.7 million) and non-recurring income (EUR 6.2 million; previous year: EUR 2.2 million).

Earnings from Residential Property Management

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

	31/12/2018	31/12/2017
Residential and commercial units	166,980	163,134
Residential and commercial space in sqm k	10,299	10,013
Fair value per sqm residential and commercial areas in EUR	2,157	1,886
Current gross rental income for living space per sqm in EUR	6.62	6.40
Like-for-like rental growth in letting portfolio in %	3.4	4.5
Residential vacancy rate in %	2.1	2.0
Maintenance costs per sqm/year in EUR[1]	10.14	10.52
Capital expenditure per sqm/year in EUR[1]	30.91	22.85

1 Based on average surface area on a quarterly basis in each period

An overview of the portfolio as at 31 December 2018 can be found in the section "Property portfolio".

EUR m	2018	2017
Contracted rental income	785.5	744.2
Income from operating costs	337.4	326.5[2]
Rental income	**1,122.9**	**1,070.7**
Operating costs	–347.2	–335.8[2]
Rental loss	–7.7	–6.4
Maintenance	–102.9	–104.7
Other	–8.9	–11.0
Earnings from Residential Property Management	**656.2**	**612.8**
Staff, general and administration expenses	–52.2	–45.3
Operating result (NOI)	**604.0**	**567.5**
NOI margin in %	76.9	76.3
NOI in EUR per sqm/month[1]	4.96	4.75
Change in %	4.4	

1 Based on the average area on a quarterly basis in the relevant period
2 Previous year's figure altered due to first-time application of IFRS 15. The application of IFRS 15 as of 1 January 2018 means that income from reinvoicing operating costs and expenses for operating costs, which in prior years were presented on a net basis as non-refundable operating costs, are now shown on a gross basis.

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

Portfolio
from page 32

The losses arising from non-allocable operating costs and rental loss amounted to 2.2% of gross rental income (previous year: 2.1%).

The staff costs and general and administration expenses amounted to approximately 6.6% (previous year: 6.1%) of gross rental income.

Net Operating Income (NOI) increased, in absolute terms, by EUR 36.5 million, or 6.4%, as compared to the previous year. The NOI margin in relation to gross rental income went up from 76.3% to 76.9%.

Earnings from Disposals

In the Disposals business segment, we sold a total of 1,971 residential units (previous year: 2,849), with the transfer of risks and rewards taking place in the financial year 2018.

EUR m	2018	2017
Sales proceeds	180.3	308.6
Cost of sales	–7.0	–7.2
Net sales proceeds	**173.3**	**301.4**
Carrying amount of assets sold	–130.2	–251.1
Earnings from Disposals	**43.1**	**50.3**

Disposal proceeds of EUR 180.3 million were lower than in the previous year. Because sales margins of approximately 38%, based on the carrying amounts, were higher (previous year: 23%) the earnings from Disposals were roughly the same as in the previous year, although fewer residential units were sold.

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

Privatisations

EUR m	2018	2017
Sales proceeds	**68.7**	**106.0**
Average sales price in EUR per sqm	2,444	2,086
Volume in residential units	374	707
Cost of sales	–5.4	–5.7
Net sales proceeds	**63.3**	**100.3**
Carrying amount of assets sold	–48.8	–81.5
Gross margin in %	40.8	30.1
Earnings	**14.5**	**18.8**
Carrying amounts	48.8	81.5
Loan repayment	–2.9	–5.8
Liquidity contribution	**60.4**	**94.5**

Sales prices per square metre went up by 17% for privatisations and the gross margin by 10.7 percentage points.

Institutional sales

EUR m	2018	2017
Sales proceeds	**111.6**	**202.6**
Average sales price in EUR per sqm	1,025	1,313
Volume in residential units	1,597	2,142
Cost of sales	–1.6	–1.5
Net sales proceeds	**110.0**	**201.1**
Carrying amount of assets sold	–81.4	–169.6
Gross margin in %	37.1	19.5
Earnings	**28.6**	**31.5**
Carrying amounts	81.4	169.6
Loan repayment	–25.6	–2.3
Liquidity contribution	**84.4**	**198.8**

In 2017 and 2018 the focus of institutional sales was on withdrawing from Non-Core regions. We particularly disposed of portfolios in Wittenberg and Frankfurt (Oder) at attractive gross margins, comprising a total of approximately 1,100 units.

Earnings from Nursing and Assisted Living

The Nursing and Assisted Living business segment is operated via a shareholding in the KATHARINENHOF Group, which managed a total of 24 facilities in the financial year 2018 (previous year: 23). A newly built home with 90 beds in Chemnitz (Saxony) opened on 1 May 2018.

Of the 24 properties, 23 are owned by Deutsche Wohnen.

Earnings in the Nursing and Assisted Living segment from the properties managed by the KATHARINENHOF Group came to EUR 22.2 million before rental expenses (EBITDAR[1]) for 2018 (previous year: EUR 22.7 million). This represents an EBITDAR margin of 22.5% (previous year: 24.3%). The decline in the EBITDAR margin is mainly due to the delayed opening of the new home in Chemnitz. Operating EBITDA after lease expenses came to EUR 6.5 million (previous year: EUR 7.2 million).

A further 65 nursing facilities are owned by Deutsche Wohnen. Of the total, 13 are let to PFLEGEN & WOHNEN HAMBURG GmbH, in which Deutsche Wohnen holds a 45% stake, and 52 to other well-known operating companies. Of the 65 facilities we acquired seven as of 1 May 2018 and a further 30 as of 1 October 2018, so their lease income is included in the result on a pro rata basis. EBITDA from properties totalled EUR 48.8 million (previous year: EUR 40.8 million).

1 The EBITDAR is the EBITDA from the operating business of the nursing facilities before lease expenses.

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

EUR m	2018	2017
Income		
Nursing care	54.5	51.5[1]
Rental income	30.7	29.6[1]
Lease income	36.5	27.3
Internal lease income	15.2	15.1
Other	13.6	12.3
	150.5	**135.8**
Costs		
Nursing and corporate expenses	–24.5	–22.2
Staff expenses	–54.2	–49.9
Leased assets	–1.3	–0.6
Internal lease expenses	–15.2	–15.1
	–95.2	**–87.8**
Earnings from Nursing and Assisted Living	**55.3**	**48.0**

1 Previous year's figure altered due to first-time application of IFRS 15. Nursing services and rental income are presented separately, regardless of whether they arise in full in-patient care facilities (shown under "Nursing" last year) or in assisted living (shown under "Residential" last year).

The Nursing and Assisted Living segment contributed to Deutsche Wohnen's earnings with EBITDA of approximately EUR 55.3 million in 2018 (previous year: EUR 48.0 million).

The increase is primarily due to additional lease income from the acquisitions mentioned above.

Corporate expenses

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

11.9%
was the cost ratio.

EUR m	2018	2017
Staff expenses	–62.5	–52.4
Long-term remuneration component (share-based)	–0.3	–1.4
General and administration expenses	–30.9	–27.5
Total corporate expenses	**–93.7**	**–81.3**

The cost ratio increased slightly, in line with expectations, from 10.9% in the previous year to 11.9% of gross rental income as a result of recruitment, salary increases and the introduction of staff retention programmes.

Other operating expenses/revenue

Other operating expenses/revenues comprised expenses of EUR 24.4 million (previous year: EUR 37.8 million) and revenues of EUR 22.6 million (previous year: EUR 8.8 million).

Other operating expenses in 2018 of EUR 7.1 million related to one-off IT and marketing projects. In 2017 the item mainly consisted of transaction-related land tax payments of EUR 23.4 million.

Other operating income particularly included EUR 4.4 million from renting broadband cables (previous year: EUR 1.7 million), to the extent that these rental agreements are classified as operating leases, EUR 4.0 million for internally generated assets from engineering and project management services provided within the Group (previous year: EUR 3.1 million) and income from the reversal of provisions of EUR 5.0 million (previous year: EUR 0.6 million).

Financial result

The financial result is made up as follows:

EUR m	2018	2017
Current interest expenses	–106.3	–100.2
Accrued interest on liabilities and pensions	–15.8	–18.7
Transaction-related interest expenses	–9.3	–51.7
Fair value adjustment of derivative financial instruments	–9.6	3.0
Fair value adjustment of convertible bonds	–70.7	–229.0
	–211.7	**–396.6**
Interest income	7.8	1.4
Financial result	**–203.9**	**–395.2**

The year-on-year increase in current interest stems from the financing of acquisitions completed in the reporting year. The average interest rate for all financing arrangements of 1.3% was the same as the previous year.

6.0
was the interest cover ratio.

Non-cash accrued interest related primarily to low interest-bearing loans and provisions for retirement benefits.

Transaction-related interest expenses of EUR 8.7 million (previous year: EUR 36.8 million) mainly consist of early repayment penalties and payments for unwinding interest rate hedges in the context of refinancing loans ahead of schedule. One-off financing costs of EUR 14.1 million were incurred the previous year in connection with the issue of two convertible bonds for a total nominal amount of EUR 1,600.0 million.

The price of the convertible bonds tracks the share price of Deutsche Wohnen SE. The convertible bonds are carried at their market value on the consolidated balance sheet. As a consequence, a fair value loss was recognised due to the positive share price performance.

Interest income includes current interest income of EUR 2.4 million (previous year: EUR 1.4 million) and interest income of EUR 5.4 million in connection with finance leases.

The interest cover ratio (ICR) went up year on year:

	2018	2017
EBITDA (adjusted) before Disposals in EUR m	618.9	574.0
Current interest expenses and interest income in EUR m	103.9	98.8
Interest cover ratio (ICR)	**6.0**	**5.8**

Current taxes and deferred taxes

Current taxes amounted to EUR 27.6 million in the financial year 2018 (previous year: EUR 32.6 million). They include current income taxes of EUR 34.5 million (previous year: EUR 40.6 million), non-recurring effects of EUR 7.1 million (previous year: EUR 9.4 million), each positive on a net basis, and non-cash tax expenses of EUR 0.2 million from the costs of capital increases (previous year: EUR 1.4 million).

Deferred taxes amounted to EUR 736.6 million (previous year: EUR 802.3 million). Deferred tax expenses primarily relate to the value uplift of our properties.

Financial position

Selected figures from the consolidated balance sheet:

	31/12/2018		31/12/2017	
	EUR m	in %	EUR m	in %
Investment properties	23,781.7	95	19,628.4	96
Other non-current assets	292.2	1	138.1	0
Total non-current assets	**24,073.9**	**96**	**19,766.5**	**96**
Current assets	651.2	3	409.2	2
Cash and cash equivalents	332.8	1	363.7	2
Total current assets	**984.0**	**4**	**772.9**	**4**
Total assets	**25,057.9**	**100**	**20,539.4**	**100**
Equity	**11,908.1**	**48**	**10,211.0**	**50**
Financial liabilities	6,184.6	25	4,751.1	23
Convertible bonds	1,697.2	7	1,669.6	8
Corporate bonds	1,200.4	5	826.6	4
Tax liabilities	36.0	0	27.2	0
Employee benefit liabilities	63.4	0	65.7	0
Deferred tax liabilities	3,244.7	12	2,496.7	12
Other liabilities	723.5	3	491.5	3
Total liabilities	**13,149.8**	**52**	**10,328.4**	**50**
Total assets	**25,057.9**	**100**	**20,539.4**	**100**

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

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

Long-term contracts for leasing property, plant and equipment by Deutsche Wohnen, which were classified as finance leases under IFRS, resulted in an increase in other non-current assets. The Group also became the economic owner of property, plant and equipment as a result of new heat contracting agreements (with Deutsche Wohnen as lessee).

The value of our current assets rose year on year due to the acquisition of properties held for sale.

Equity increased, largely due to the Group profit of EUR 1,889.4 million. Furthermore, new shares were issued in the context of the offer of compensation made pursuant to the control agreement with GSW Immobilien AG and the exercise of share options by the Management Board. Changes relating to non-controlling interests and the dividend for 2017 reduced equity by EUR 283.7 million. Deutsche Wohnen offered shareholders the option of a script dividend for the first time. This was issued in July 2018 and amounted to some 2,241 thousand shares with an equivalent value of EUR 88.9 million. The equity ratio was 48% as at the reporting date (previous year: 50%).

48 %
was the equity ratio as at the reporting date.

Financing

In the financial year 2018, various portfolio financing arrangements were refinanced ahead of schedule, extended and adjusted in the light of current market values. New portfolio financing arrangements were put in place to finance acquisitions.

Even with the new funding, the average interest rate remained stable year on year at around 1.3%. The average capital repayment rate of 0.5% is the same as in the previous year. The average term to maturity of the Group's loans, convertible bonds and bonds is 7.8 years. The hedging ratio[2] came to approximately 87% as at 31 December 2018 (previous year: 88%).

As in the previous year, Deutsche Wohnen SE received a long-term issuer rating from the two international rating agencies Standard & Poor's and Moody's. Standard & Poor's again gave a rating of A- and Moody's of A3, both with a stable outlook.

2 The ratio between financial liabilities with fixed or hedged interest rates, convertible bonds and corporate bonds to the total nominal value of financial liabilities, convertible bonds and corporate bonds.

The Group's gearing (LTV) developed as follows:

EUR m	31/12/2018	31/12/2017
Financial liabilities	6,184.6	4,751.1
Convertible bonds	1,697.2	1,669.6
Corporate bonds	1,200.4	826.6
	9,082.2	**7,247.3**
Cash and cash equivalents	–332.8	–363.7
Net financial liabilities	**8,749.4**	**6,883.6**
Investment properties	23,781.7	19,628.4
Non-current assets held for sale	33.0	28.7
Land and buildings held for sale	477.1	295.8
	24,291.8	**19,952.9**
Loan-to-value ratio in %	**36.0**	**34.5**

The other liabilities presented in the balance sheet are made up as follows:

EUR m	31/12/2018	31/12/2017
Derivative financial instruments	15.6	5.3
Trade payables	302.4	177.7
Other	405.5	308.5
Total other liabilities	**723.5**	**491.5**

The increase in trade payables is largely due to accruals for outstanding invoices.

Consolidated statement of cash flows

The most important cash flows are shown in the following:

EUR m	2018	2017
Cash flow from operating activities	469.4	518.2
Cash flow from investing activities	–1,911.6	–964.1
Cash flow from financing activities	1,411.3	617.4
Net change in cash and cash equivalents	**–30.9**	**171.5**
Opening balance cash and cash equivalents	363.7	192.2
Closing balance cash and cash equivalents	**332.8**	**363.7**

Deutsche Wohnen was able to meet its financial obligations in full at all times in 2018.

Cash flow from operating activities is subject to fluctuations because of the cash inflows and outflows from the purchase and sale of investment properties held for sale. Net cash from operating activities came to EUR –104.1 million in 2018 (previous year: EUR 119.8 million).

The net cash flows from investing activities reflect, in particular, incoming payments from disposals of investment properties (EUR 150.6 million; previous year: EUR 115.4 million) and outgoing payments in connection with acquisitions (EUR 1,577.6 million; previous year: EUR 846.2 million), newly constructed buildings (EUR 23.6 million; previous year: EUR 8.2 million) and refurbishment work (EUR 313.2 million; previous year: EUR 227.4 million).

The net cash flows from financing activities primarily reflect all outgoing payments in connection with refinancing measures (capital repayments and new borrowing, convertible bonds, corporate bonds and the related non-recurring payments), the proceeds of capital increases and dividend payments.

Funds from Operations (FFO)

The key figure funds from operations without Disposals (FFO I), which is vital for us, rose by approximately 10% year on year in absolute terms and by 11% per share (undiluted), due to acquisitions and operating improvements in our portfolio:

11%
was the increase of FFO I.

EUR m	2018	2017
EBITDA before result of adjustments to the fair value of investment properties	**659.1**	**600.8**
Valuation of current assets (properties)	1.4	0.3
Other one-off expenses and income	0.6	22.3
Restructuring and reorganisation costs	0.9	0.9
EBITDA (adjusted)	**662.0**	**624.3**
Earnings from Disposals	–43.1	–50.3
EBITDA (adjusted) before Disposals	**618.9**	**574.0**
Long-term remuneration component (share-based)	0.3	1.4
Finance leasing broadband cable networks	2.0	0.0
At-equity valuation	2.6	3.0
Interest expense/income	–103.6	–99.5
Income taxes	–34.5	–40.6
Non-controlling interests	–6.3	–6.0
FFO I	**479.4**	**432.3**
Earnings from Disposals	43.1	50.3
FFO II	**522.5**	**482.6**
FFO I per share in EUR (undiluted)[1]	1.35	1.23
FFO I per share in EUR (diluted)[2]	1.35	1.23
FFO II per share in EUR (undiluted)[1]	1.47	1.37
FFO II per share in EUR (diluted)[2]	1.47	1.37

1 Based on a weighted average of approximately 355.70 million shares in circulation in 2018 and approximately 352.12 million in 2017
2 Based on the weighted average of approximately 355.70 million outstanding shares in 2018 and approximately 352.12 million in 2017; each assuming conversion of the convertible bonds that are in the money.

All rental income from broadband cable networks is included in the calculation of FFO, regardless of whether the corresponding contracts are classified in the IFRS consolidated financial statements as finance leases or operating leases with Deutsche Wohnen as lessor. To this extent, the rental payments agreed under civil law and which impact cash flow are shown as rental income, although they are classified as interest and debt repayments in the consolidated financial statements.

EPRA key performance indicators

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

Overview of EPRA key performance indicators

	2018	2017
EPRA NAV (undiluted) in EUR m	15,087.8	12,676.8
EPRA NAV (undiluted) in EUR per share	42.26	35.74
EPRA NAV (diluted) in EUR m	15,087.8	12,676.8
EPRA NAV (diluted) in EUR per share	42.26	35.74
EPRA NNNAV (diluted) in EUR m	11,419.9	9,739.8
EPRA NNNAV (diluted) in EUR per share	31.99	27.46
EPRA Earnings in EUR m	466.0	394.5
EPRA Earnings (diluted) in EUR per share	1.31	1.11
EPRA Net Initial Yield in %	2.8	3.1
EPRA Vacancies in %	2.3	2.1
EPRA Cost Ratio (incl. direct vacancy costs) in %	28.1	29.0
EPRA Cost Ratio (excl. direct vacancy costs) in %	25.4	26.6

EPRA NAV

Deutsche Wohnen has reported its NAV in accordance with EPRA standards since 2010. The Net Asset Value is calculated on the basis of the current market value of the property portfolio, with the property valuation being verified by Jones Lang LaSalle (previous year: CB Richard Ellis).

18 %
was the increase of EPRA NAV per share (undiluted).

The EPRA NAV (undiluted) per share increased by 18% from EUR 35.74 per share to EUR 42.26 per share in the year under review. Given that the outstanding convertible bonds were not in the money as at the balance sheet date, the diluted EPRA NAV also amounted to EUR 42.26 per share.

EUR m	31/12/2018	31/12/2017
Equity (before non-controlling interests)	11,559.1	9,888.2
Market value of derivative financial instruments	14.6	2.0
Deferred taxes	3,514.1	2,786.6
EPRA NAV (undiluted)	**15,087.8**	**12,676.8**
Number of shares (undiluted) in million	357.0	354.7
EPRA NAV (undiluted) in EUR per share	**42.26**	**35.74**
Effects from the conversion of convertible bonds	0.0	0.0
EPRA NAV (diluted)	**15,087.8**	**12,676.8**
Number of shares (diluted) in million	357.0	354.7
EPRA NAV (diluted) in EUR per share	**42.26**	**35.74**

We have not reported EPRA NAV adjusted for goodwill (adjusted NAV) given that there was only an immaterial amount of goodwill of EUR 22.2 million as at the reporting date (previous year: EUR 11.4 million).

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

EUR m	31/12/2018	31/12/2017
EPRA NAV (diluted)	**15,087.8**	**12,676.8**
Fair value of derivative financial instruments	–14.6	–2.0
Fair value of financial liabilities[1]	–175.2	–141.7
Fair value of corporate bonds[1]	36.0	–6.7
Deferred taxes	–3,514.1	–2,786.6
EPRA NNNAV (diluted)	**11,419.9**	**9,739.8**
Number of shares (diluted) in m	357.0	354.7
EPRA NNNAV (diluted) in EUR per share	**31.99**	**27.46**

1 Difference between the carrying amounts and fair values

EPRA Earnings

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

EUR m	2018	2017
Group profit/loss in accordance with IFRS	**1,862.6**	**1,763.3**
Adjustments for the purposes of the calculation of EPRA Earnings:		
Results of property valuation	–2,177.9	–2,396.7
Earnings from Disposals	–43.1	–50.3
Taxes on sales revenues[1]	4.3	5.0
Amortization of goodwill	0.7	0.0
Valuation of financial instruments and prepayment penalties	89.1	276.9
Deferred taxes	736.6	802.3
Minority shareholdings	–6.3	–6.0
EPRA Earnings	**466.0**	**394.5**
Number of shares (undiluted) in m on the reporting date	357.0	354.7
EPRA Earnings (undiluted) in EUR per share	**1.31**	**1.11**
Number of shares (diluted) in m on the reporting date	357.0	354.7
EPRA Earnings (diluted) in EUR per share	**1.31**	**1.11**

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

EPRA Net Initial Yield

The EPRA Net Initial Yield reflects the ratio of the fair value of the portfolio to the annualized 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	2018	2017
Investment properties and non-current assets held for sale[1]	22,154.5	18,832.4
Land and buildings held for sale[1]	459.2	278.0
Less facilities under construction and advance payments[1]	–334.3	–245.4
Sub-total: completed property portfolio	**22,279.4**	**18,865.0**
Plus incidental acquisition costs of an investor, estimated at 8.0%	1,782.4	1,509.2
Total: completed property portfolio	**24,061.8**	**20,374.2**
Annualized cash-effective rental income	815.8	767.0
Less direct management costs[2]	–134.3	–135.4
Annualized net rental income	681.5	631.6
EPRA Net Initial Yield (EPRA NIY) in %	**2.8**	**3.1**

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 annualized market rents for the vacant properties to the market rents for the portfolio as a whole. The slight rise in the vacancy rate as compared to the previous year was attributable to vacancies resulting from modernisation measures implemented as part of our investment programme.

in %	2018	2017
EPRA Vacancies	**2.3**	**2.1**

EPRA Cost Ratio

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

EUR m	2018	2017
Payment of contractually stipulated rents (potential gross rents and subsidies)	808.5	763.7
Less EBITDA adjusted	–662.0	–624.3
Less EBITDA adjusted: Segment earnings: Disposals	43.1	50.3
Less EBITDA adjusted: Segment earnings Nursing and Assisted Living	55.3	48.0
Less EBITDA adjusted: Corporate expenses for the Disposals segment	–3.1	–2.7
Plus expenses for leased nursing facilities	1.3	0.6
Less maintenance expenses	–102.9	–104.7
Management costs	**140.2**	**130.9**
Plus maintenance expenses	102.9	104.7
Less payments of ground rent to third parties	**–2.4**	**–2.3**
EPRA costs (incl. direct vacancy costs)	**240.7**	**233.3**
Less vacancy losses	–23.0	–19.5
EPRA costs (excl. direct vacancy costs)	**217.7**	**213.8**
Payment of contractually stipulated rents (potential gross rents and subsidies)	808.5	763.7
Less payments of ground rent to third parties	–2.4	–2.3
Plus leasing income from third-party-operated nursing facilities	36.5	27.3
Plus leasing income from Group-operated nursing facilities	15.2	15.1
	857.8	**803.8**
EPRA Cost Ratio (incl. direct vacancy costs)	**28.1%**	**29.0%**
EPRA Cost Ratio (excl. direct vacancy costs)	**25.4%**	**26.6%**
EPRA Cost Ratio adjusted for maintenance expenses (incl. direct vacancy costs)	**16.1%**	**16.0%**
EPRA Cost Ratio adjusted for maintenance expenses (excl. direct vacancy costs)	**13.4%**	**13.6%**

Employees

1,280
employees as at 31 December 2018

Deutsche Wohnen has grown significantly in recent years, and has changed a lot as a result. During this time we have been able to establish the company as an attractive employer in the property industry. It is above all our focus on strategic employee development which enables us to attract and retain skilled personnel capable of meeting our high standards with regard to corporate profitability, the quality of our holdings and customer service. We see digitalisation as an opportunity and use it to organise and implement results-focused workflows for all human resources processes. They include the digitalisation of personnel files, for instance, or of employees' travel expense accounts. Our employees can also make use of numerous learning formats in digital form for the purpose of disseminating knowledge (webinars).

As at 31 December 2018, our company had a total of 1,280 employees (31 December 2017: 1,111). The larger workforce is mainly due to general company growth, as well as to the acquisition of Helvetica Services GmbH.

As at 31 December 2018, KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH, in which Deutsche Wohnen SE has a 49% shareholding, employed a further 2,044 employees (31 December 2017: 1,998 employees).

The majority (approximately 76%) of the total workforce of the Deutsche Wohnen Group is responsible for the management and administration of its properties, the management of rental contracts and the provision of tenant support services. Overall, almost 53% of our employees were women at the end of the financial year, and the proportion of women in management positions amounted to 46%. The average length of service of 7.1 years has remained at almost the same level as in previous years.

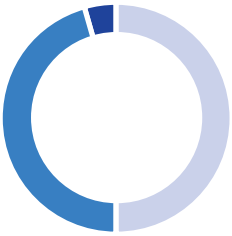
2,640
days of training attended by our employees

The strategic management of talent, the promotion of work-life balance and family-friendly working conditions, as well as diversity and equality of opportunity, form the cornerstones of our personnel policy. Our superior staff training, trainee and talent management programme and dual course of study options mean that we are able to supply a sizeable proportion of our own future requirements for highly accomplished staff from among our own ranks. In addition, employees and managers attended our training courses for a total of 2,640 days in the year under review. The courses focus on the specific requirements of the target group and individual employee needs and increasingly include digital learning methods. This supports our managers, especially in terms of the changing leadership role brought about by the digitalisation of the working environment and due to the challenges of working across generations, with increasingly flexible forms of collaboration.

Structured performance reviews and a performance-related, market-standard remuneration system ensure a high level of transparency for our employees. The systematic employee survey that we have conducted every two years since 2014 again delivered important findings about the needs and satisfaction of our employees in 2018. It forms the basis for our needs-based human resources activities. Last year we also carried out a new employee generation analysis. It provides the basis for us to accommodate the specific needs of our employees in different phases of their life.

Deutsche Wohnen promotes diversity and does not tolerate any discrimination, for example on the basis of gender, age, origin, disability or sexual orientation. We offer flexible working arrangements, for example working from home and part-time employment options, to parents employed at our company with a view to helping them achieve a better work-life balance. In the year under review, nearly 10% of our employees availed themselves of this option, with 2% of our workforce taking parental leave.

Employees	31/12/2018	31/12/2017
Deutsche Wohnen total	**1,280**	**1,111**
Number of women (in %)	672 (52.5)	602 (54.2)
Number of men (in %)	608 (47.5)	509 (45.8)
Number of trainees (in %)	57 (4.5)	46 (4.1)
Average age in years	41.4	41.1



Flexible working hour arrangements and women in management positions	31/12/2018	31/12/2017
in %		
Proportion of women in management positions	45.8	43.4
Proportion of employees opting for part-time employment	9.7	9.2
Proportion of employees opting to take parental leave	2.2	2.3

REPORT ON THE INDIVIDUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN SE

Foundations of Deutsche Wohnen SE

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

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

Employees

On 31 December 2018, Deutsche Wohnen SE had 197 employees[1] (previous year: 179) and 57 trainees and students (previous year: 46).

Management Board analysis of business operations

Deutsche Wohnen SE offered its shareholders a share dividend for the first time in 2018 and issued bearer bonds as another long-term financing instrument.

Operating earnings from the holding activities improved year on year thanks to higher revenue from charging administrative costs to cost centres and lower expenses for transactions, financing and capital increases.

Profit transfers and distributions from subsidiaries of EUR 68.5 million in 2018 were higher than the previous year's figure of EUR 15.9 million, as expected. This was partly due to the distribution of EUR 74.5 million from GSW Immobilien AG and partly to transaction costs at companies in the tax group, which reduced the profit transfer by EUR 26.9 million on a one-off basis.

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

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

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

Earnings

	2018	2017	Changes	Changes
	EUR m	EUR m	EUR m	relative in %
Revenues	52.6	43.0	9.6	22
Other operating income	1.8	0.8	1.0	125
Staff expenses	–22.9	–18.8	–4.1	22
Other operating expenses	–44.2	–56.6	12.4	–22
Depreciation and amortization	-3.8	–3.3	–0.5	15
Operating results	**–16.5**	**–34.9**	**18.4**	**–53**
Net interest income	0.9	1.0	–0.1	–10
Earnings from shareholdings	68.5	15.9	52.6	331
Non-operating earnings	0.0	–553.0	553.0	–100
Annual earnings	**52.9**	**–571.0**	**623.9**	**–109**

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

The increase in staff expenses by EUR 4.1 million as compared to the previous year was largely due to the hiring of employees, salary increases and the launch of employee retention programmes. Deutsche Wohnen SE had an annual average of 186 employees in 2018 (previous year: 168 employees).

In addition to services received from affiliates, ongoing legal and consultancy fees and IT costs, other operating expenses comprised, in particular, costs relating to capital increases and transaction costs. Expenses of EUR 0.5 million were incurred in July 2018 for the capital increase (share dividend). Transaction costs were spread over a larger number of projects in 2018, particularly for supervising acquisitions of nursing facilities by subsidiaries. In the previous year, consulting costs and fees of EUR 14.1 million were incurred for the issue of two convertible bonds and of EUR 4.4 million for the capital increase in February 2017.

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

Net interest income comprised interest expenses of EUR 24.8 million (previous year: EUR 22.5 million) and interest income of EUR 17.8 million (previous year: EUR 23.5 million).

In this and in the previous financial year, Deutsche Wohnen SE primarily relied upon equity and low-interest-bearing convertible bonds and corporate bonds to finance its activities. Deutsche Wohnen SE also received further funding from managing the Group's cash pool. It passed on these funds to subsidiaries in the form of equity or internal Group financing. In light of the above, net income comprised net income generated with third parties of EUR –24.4 million (previous year: EUR –20.5 million) and net income generated with affiliated companies in the amount of EUR 25.3 million (previous year: EUR 21.5 million). Interest expenses with third parties increased due to higher nominal amounts of outstanding corporate bonds and convertible bonds. Non-recurring interest expenses incurred in 2017 in connection with the repurchase of convertible bonds were included in the non-operating earnings for better comparability.

Value created at the subsidiary level accrued, via the earnings from shareholdings, to Deutsche Wohnen SE in its capacity as holding company. Earnings from shareholdings take account of transfers of earnings from subsidiaries pursuant to profit transfer and/or control agreements and from partnerships in the total amount of EUR –6.0 million (previous year: EUR 15.9 million), as well as dividend payments from subsidiaries – in 2018 exclusively from GSW Immobilien AG – of EUR 74.5 million (previous year: less than EUR 0.1 million). Losses assumed in 2018 under profit and loss transfer agreements were largely transaction-related, since one company in the tax group incurred one-off land tax expenses of EUR 26.9 million in connection with the acquisition of subsidiaries owning land and buildings.

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

Deutsche Wohnen SE generated net profit of EUR 52.9 million in 2018 (previous year: loss of EUR 571.0 million).

	31/12/2018		31/12/2017		Changes
	EUR m	%	EUR m	%	EUR m
Fixed assets	4,973.5	63.7	3,444.5	42.8	1,529.0
Receivables and other assets	2,557.5	32.8	4,271.1	53.0	–1,713.6
Cash and bank balances	276.2	3.5	337.0	4.2	–60.8
	7,807.2	**100.0**	**8,052.6**	**100.0**	**–245.4**
Equity	3,671.5	47.0	3,812.3	47.3	–140.8
Provisions	13.8	0.2	11.1	0.2	2.7
Liabilities	4,121.9	52.8	4,229.2	52.5	–107.3
	7,807.2	**100.0**	**8,052.6**	**100.0**	**–245.4**

The fixed assets of Deutsche Wohnen SE, amounting to EUR 4,973.5 million (previous year: EUR 3,444.5 million), primarily consist of shares in affiliated companies amounting to EUR 4,369.0 million (previous year: EUR 3,110.4 million) and loans to affiliates of EUR 589.9 million (previous year: EUR 324.9 million). The increase stemmed from the internal Group financing of acquisitions by subsidiaries, which entailed Deutsche Wohnen SE passing on liquidity by means of contributions to the capital reserves of subsidiaries or long-term shareholder loans. Deutsche Wohnen SE's current receivables from the cash pool declined accordingly.

Receivables and other assets primarily comprise receivables from affiliated companies (EUR 2,525.0 million; previous year: EUR 4,261.6 million), which fell as a result of the cash pooling system with Deutsche Wohnen SE as the central cash pool leader.

The equity of Deutsche Wohnen SE increased in the financial year 2018 by EUR 88.9 million as a result of the capital increase in kind from the share dividend in July 2018 and by EUR 0.7 million as a result of the ongoing capital increase in kind pursuant to the control agreement concluded with GSW Immobilien AG, which grants the external shareholders the right to exchange shares of GSW Immobilien AG for shares of Deutsche Wohnen SE. Net profit of EUR 52.9 million for 2018 also resulted in an increase. Equity also went up by EUR 0.3 million as a result of a capital contribution in connection with share-based remuneration for members of the Management Board and by a further EUR 0.1 million from the exercise of share options by the Management Board. The dividend of EUR 283.7 million paid in 2017 reduced equity. Deutsche Wohnen SE offered shareholders the option of a script dividend for the first time. This was issued in July 2018 and amounted to some 2,241 thousand shares with an equivalent value of EUR 88.9 million. Of the dividend adopted by the Annual General Meeting only the portion of EUR 194.8 million not resulting from the in-kind contribution was paid out.

The issued capital amounted to EUR 357.0 million as at the reporting date (previous year: EUR 354.7 million). The equity ratio came to 47.0% (previous year: 47.3%).

The liabilities comprised the following items:

EUR m	31/12/2018	31/12/2017	Changes
Liabilities to affiliated companies	1,301.5	1,792.6	–491.1
Convertible bonds	1,605.9	1,602.3	3.6
Unsecured financial liabilities	1,210.1	832.3	377.8
Other liabilities	4.2	2.0	2.2
	4,121.9	**4,229.2**	**–107.3**

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

As of the reporting date the two convertible bonds issued in 2017, which are carried at their total nominal amount plus accrued interest, were still outstanding:

- WSV 2017 with a total nominal value of EUR 800.0 million, maturing in 2024 and with a fixed interest rate of 0.325% p.a. The conversion price per share as of 31 December 2018 was EUR 47.9555.
- WSV 2017 II with a total nominal value of EUR 800.0 million, maturing in 2026 and with a fixed interest rate of 0.60% p.a. The conversion price per share as of 31 December 2018 was EUR 50.5052.

The unsecured financial liabilities comprised the following items:

EUR m	31/12/2018	31/12/2017	Changes
Corporate bond	503.0	503.0	0.0
Registered bonds	329.3	329.3	0.0
Bearer bonds	317.8	0.0	317.8
Commercial paper	60.0	0.0	60.0
	1,210.1	**832.3**	**377.8**

The corporate bond was issued in 2015. It is not secured and pays fixed interest of 1.375% p.a. The bond matures in 2020.

In the financial year 2017, unsecured registered bonds with a nominal value of EUR 325.0 million were issued at fixed interest rates of between 1.60% p.a. and 2.00% p.a. They mature in the years 2027 to 2032.

Unsecured bearer bonds with a total nominal value of EUR 315.0 million were issued in 2018. They pay interest at fixed rates of between 1.700% p.a. and 2.50% p.a. and mature between 2028 and 2034.

Corporate bonds with a nominal value of EUR 60.0 million also include several tranches of the multi-currency commercial paper programme issued in the fourth quarter of 2018. These mature in February 2019. They are not secured by Deutsche Wohnen SE and were issued with a negative yield.

As of the reporting date the gearing ratio for Deutsche Wohnen SE (ratio of debt to total assets) was 53.0% (previous year: 52.7%).

A decision has been taken in accordance with section 264 para. 1, sentence 2 of the German Commercial Code [Handelsgesetzbuch – HGB] not to present a consolidated statement of cash flows.

As in the previous year, Deutsche Wohnen SE received a long-term issuer rating from the two international rating agencies Standard & Poor's and Moody's. Standard & Poor's gave a rating of A- and Moody's of A3, as in the previous year, both with a stable outlook.

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

Forecast

Deutsche Wohnen SE acts as a holding company within the Group and as such is dependent on the performance of its operating subsidiaries. In our plan for the financial year 2019 we have assumed that the legal and tax environment will not change. Furthermore, we expect the company to continue to operate successfully, and we do not currently see any risks that could pose a threat to the company's existence. Overall, we again expect a favourable environment for the 2019 forecast period.

Our forecast is based on the company planning derived from the planning instruments. It adequately reflects the potential risks and opportunities of future development. Nevertheless, some risks and opportunities associated with future development remain, as are described in the risk and opportunity report.

The financial position and financial performance of Deutsche Wohnen SE is linked to the financial development of its subsidiaries. Earnings are also dependent on profit and loss transfers and distributions by subsidiaries.

We are expecting higher earnings from shareholdings in 2019 because the one-off transaction expenses incurred at tax group companies in 2018 will no longer apply. We therefore anticipate a pre-tax net profit at the same level as in the previous year, before one-off items such as expenses for capital increases or transactions.

RISK AND OPPORTUNITY REPORT

Risk management system at Deutsche Wohnen

Deutsche Wohnen SE continuously reviews opportunities as they arise to safeguard the ongoing development and growth of the Group. To exploit such opportunities it may be necessary to incur exposure to risks. It is therefore highly important to identify, assess and control all key aspects of risk. To this end, Deutsche Wohnen has implemented a central risk management system (RMS), which is intended to ensure that all the key risks affecting the Group are identified, measured, managed and monitored. The RMS is intended to ensure that risks are recognised early, prioritised and communicated to the decision-makers responsible in order to take the corresponding countermeasures. This is intended to prevent or minimise damage to the company.

A central risk management system ensures that risks are being recognised early, prioritised and communicated.

Within the structures of the Group's risk management system (RMS), Deutsche Wohnen has implemented a risk early-warning system (REWS), which thus extends to all of its fully-consolidated companies. The REWS is component of the audit of the annual financial statements and is assessed with regard to its compliance with the legal requirements. The latest audit determined that the REWS of Deutsche Wohnen is able to identify developments that could jeopardise the company's continued existence, and that the Management Board has taken the steps required under section 91 para. 2 German Stock Corporation Act (Aktiengesetz – AktG) to set up an REWS in adequate form.

Principles underlying our risk management policy

Our risk management strategy is intended to safeguard the company's continued existence and to achieve sustainable increases in its enterprise value. The success of our business requires the exploitation of opportunities and the identification and assessment of any associated risks. Opportunities should be exploited optimally and entrepreneurial risks accepted deliberately and responsibly, while being proactively managed, to the extent that they enable appropriate value to be added. Risks that jeopardise the company's continued existence are to be avoided.

All employees are trained in risk awareness.

All employees are trained in risk awareness and instructed to report potential risks. Furthermore, all employees are instructed to behave in a risk-conscious way, i.e. to inform themselves about the risk situation within their area of responsibility on the one hand, and to deal responsibly with the identified risks on the other. In this way the company ensures that suitable measures are taken to avoid, reduce or transfer risks, or that calculated risks are accepted deliberately. Full information about the key risks is provided to all decision-makers in good time.

Responsibility

The Management Board has overall responsibility for risk management. It decides on the organisation of structures and processes and the provision of resources. It adopts the documented results of risk management and takes these into account in its management of the business.

Selected managers at Deutsche Wohnen are designated as "risk owners" and in this role are responsible for identifying, assessing, documenting and communicating all the key risks in their area of responsibility. The risk managers coordinate the identification, assessment, documentation and communication of risks as part of the risk management process. They initiate the periodic risk management process, consolidate risk reports from risk owners and prepare the report for the Management Board and the Supervisory Board. The internal audit function monitors the risk management function as part of its auditing responsibilities.

From a current perspective we see no risks that the company cannot address adequately and which could jeopardise the continued existence of the Deutsche Wohnen Group by endangering its earnings or financial position.

Instruments of the risk management system

The RMS as applicable across the Group should contribute to enabling corporate objectives to be reached, deviations to be identified at an early stage, negative effects on Deutsche Wohnen to be averted and appropriate action to be taken in good time.

The existing Group-wide RMS is continuously adapted to current developments and its functionality reviewed on an ongoing basis.

The core elements of the risk management system (RMS) at Deutsche Wohnen are:

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

1. Internal control system (ICS)

The internal control system (ICS) governing the accounting process aims to ensure that accounting and financial reporting are orderly and effective.

The ICS established for Deutsche Wohnen SE primarily covers the principles of transparency, dual control policy ("four eyes principle"), separation of functions and compliance with standards regarding the minimum amount of information to be disclosed to employees.

The key features of our existing internal control and risk management system as it relates to the (consolidated) accounting process can be summarised as follows:

- Deutsche Wohnen stands out for its clear organisational, corporate, control and monitoring structure.
- Agreed planning, reporting, controlling and early-warning systems and processes apply throughout the Group for the holistic analysis and management of earnings-relevant risk factors and risks to the Group's continued existence.
- Functions are clearly assigned in all areas of the financial reporting process (e.g. financial accounting and controlling).

- The IT systems used in financial reporting are protected against unauthorised access.
- The software used in the financial systems applications is mostly a standard software.
- The departments involved in the (consolidated) financial reporting process meet the quantitative and qualitative requirements.
- The completeness and accuracy of the data in the (consolidated) financial reporting process are checked regularly by means of random sampling and plausibility tests, both by manual controls and the software applications.
- Key (consolidated) financial reporting processes are subject to regular audits. Dual control ("four eyes principle") is required for all processes relevant to (consolidated) financial reporting.
- Among other things, the Supervisory Board deals with key matters of (consolidated) financial reporting, risk management and the annual audit and its focus areas.

Internal control and risk management systems as they relate to the financial reporting process, the key features of which are described above, ensure that business-related events are recognised correctly in the accounts, prepared, analysed and included in external financial reporting.

The clear defined organisational, corporate, control and monitoring structures and the adequate staff and operating resources available to the financial reporting function form the basis for the areas involved in financial reporting to work efficiently. Clear statutory and internal standards and policies ensure that the financial reporting process is uniform and orderly.

The internal control and risk management system ensures that financial reporting at Deutsche Wohnen SE and all the companies included in the consolidated financial statements is uniform and complies with statutory and other legal standards and internal policies.

2. Reporting

High-quality corporate planning and the corresponding reporting of key operating and financial figures from the controlling function form the basis of the early-warning system used in the company.

Management and Supervisory Board receive key information in the monthly report.

The central component of the RMS is a detailed monthly company report, which compares actual figures with the budget figures approved by the Supervisory Board. It is monitored and refined continuously. In addition, it links relevant operating and financial figures to the identified risks. Deutsche Wohnen focuses particularly on key figures for the development of rentals and privatisations, on cash flows, liquidity and balance sheet ratios.

This reporting enables deviations to be identified at an early stage and corresponding steps to be taken.

The Management Board and Supervisory Board receive key information from the detailed monthly reports.

3. Risk management

The risk management function of Deutsche Wohnen has identified the following ten risk categories.

Ten risk categories
1. General company risks
2. Legal risks
3. IT risks
4. Letting risks
5. Performance risks - personnel
6. Acquisition and disposal risks
7. Risks in the nursing segment
8. Performance risks - property
9. Financial risks
10. Investment risks

The risk categories in turn comprise a total of 50 individual risks. Early-warning indicators are assigned to sector- and company-specific risks that enable the risks to be identified. The range of early-warning indicators is broad and includes, for instance, monitoring the technical condition of our properties, analysing demographic developments and the labour market, monitoring supply, rents and new building forecasts in the sub-sections of the market for residential property, analysing developments in the field of rent regulations, monitoring our competitors and their activities, tracking trends and developments, as well as analysing and forecasting developments on financial markets and interest rates.

Risks are documented quarterly in a risk inventory. The risk manager updates the risk inventory in line with the estimates of the risk owners from the operating departments.

Risks are managed at the department level and from a potential loss of EUR 500,000 upwards are verified in the risk inventory and assigned to the risk categories shown. Newly identified risks must be communicated by means of an ad hoc announcement.

Risks are assessed in terms of the loss amount and probability of occurrence by means of defined thresholds.

Thresholds

Amount of damage	EUR m	Probability of occurrence	%
Low	0.5 – 2	Low	0 – 20
Medium	> 2 – 15	Possible	> 20 – 50
High	> 15 – 50	Probable	> 50 – 70
Very high	> 50 – 100	Very probable	> 70 – 100

Each risk is analysed to determine whether factors exist that could indicate that the risk has materialised (= current relevance). Countermeasures being taken are included in the assessment. In the final assessment the potential loss from the risks is classified using these categories: negligible, significant, major, critical.

Risk evaluation scheme

Amount of damage				
Very high	■	■	■	■
High	■	■	■	■
Medium	■	■	■	■
Low	■	■	■	■
	Low	Possible	Probable	Very probable

■ Negligible
■ Significant
Material risks:
■ Major
■ Critical

Probability of occurrence

Key risks for Deutsche Wohnen are risks in the final assessment categories "major" and "critical". Critical risks may endanger the company's continued existence.

The risk inventory is discussed at regular face-to-face meetings with all risk owners, the risk manager and the Management Board. This is intended to ensure transparency regarding the risk situation and the handling of risks throughout the Group.

Risk management is documented quarterly in a risk report that is presented to the Management Board. The Audit Committee of the Supervisory Board is notified about the risk situation in the course of its regular meetings.

This takes place on the basis of a risk management manual that is updated as needed.

4. Compliance

Compliance is an essential element of corporate governance at Deutsche Wohnen.

Our code of conduct is binding for all employees.

Compliance with legal provisions, the standards of the German Corporate Governance Code and binding internal guidelines are important principles for Deutsche Wohnen, as is the fair treatment of business partners and competitors. This is intended to avoid negative consequences for the company.

Risks arising from corporate governance are monitored in the legal department and are included in a risk inventory as part of the overall risk management system.

In all areas of the company, employees are also bound to the code of conduct, which defines and stipulates behaviour in accordance with the law. Managers also make their employees aware of key compliance risks.

The Group Compliance Officer keeps a record of the insider register of the company and informs managers, employees and business partners about the consequences of breaching insider-dealing regulations and other relevant legal standards.

The Compliance Officer acts as the central contact for questions and for reports of suspicious circumstances.

5. Internal audit

Risk management is subject to regular, process-independent monitoring by the internal audit function. This is carried out regularly, at least every three years, by an independent individual appointed by the Management Board.

Risk management is being monitored by an independent individual.

The focus of the audit is determined with the Management Board and the Supervisory Board. The results of the audit are provided to the Management Board, the Supervisory Board and the risk manager.

At Deutsche Wohnen the process-independent monitoring function is exercised by a firm of external auditors.

Risk report

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

In financial year 2018 there were no significant changes in the overall risk situation compared with the previous year, although individual risks varied. There were no risks requiring ad hoc announcement.

In our estimation there were and are currently no concrete risks to the company's continued existence.

The following table provides an overview of the assessment scheme used by Deutsche Wohnen. It shows the risk categories and the measurement of key risks in terms of amount of damage, probability of occurrence and the final assessment.

Risk category	Risk	Amount of damage	Probability of occurrence	Result (after assessment of relevance and countermeasures)
1. General company risks		No material risk identified		
2. Legal risks		No material risk identified		
3. IT risks		No material risk identified		
4. Letting risks		No material risk identified		
5. Performance risks – personnel		No material risk identified		
6. Acquisition and disposal risks		No material risk identified		
7. Risks in the nursing segment		No material risk identified		
8. Performance risks – property		No material risk identified		
9. Financial risks	Risk of new legislation	Very high	Probable	Major
10. Investment risks	Risk of delays – planning consent takes longer	High	Very probable	Major
	Risks of property, land, soil-pollution	High	Very probable	Major
	Cost risk – higher costs of building services	High	Probable	Major
	Cost risk	High	Very probable	Major

The overview includes five risks that are classified in the final assessment as major risks and so are described below as material.

1. General company risks

This category comprises general risks that are not classified in the other categories. They are deemed to be immaterial risks under the Deutsche Wohnen assessment scheme.

Failure to identify market developments and trends

Market risks may arise if the economic situation in Germany slows, causing market rates for rentals or properties to remain flat or decline. In a flat or contracting economy the unemployment rate may also go up, which restricts the tenants' financial resources. In addition, a decline in available income – whether due to unemployment, higher social security and tax payments or higher utility costs – may have an adverse impact on the performance of Deutsche Wohnen via less new letting, lower rents obtained for new letting and higher vacancy rates. A sharp increase in the volume of new building can also have an adverse impact on pricing.

If such market developments or trends are not anticipated early, serious risks may result. To reduce these risks, all business segments are regularly reminded to track developments in their sectors closely and to report changes promptly to the risk management function.

Risks from changes in data privacy and data protection legislation
The EU General Data Protection Regulation (GDPR) that came into effect in May 2018 makes increased demands of companies in terms of how they handle personal data. Breaches of the regulation can also be punished by high fines, linked to company revenue.

Deutsche Wohnen has initiated a multi-year project to comply with the new GDPR requirements. Processes are also adjusted and redesigned continuously in order to ensure lasting compliance.

Data processing by all business segments (processing) is documented by Deutsche Wohnen in a register and updated continuously. No processing has currently been identified that could represent a high risk for data subjects. An impact assessment is therefore not necessary.

Reputational and image risks
Both negative reporting in the media and legal proceedings against executive bodies or employees of Deutsche Wohnen may have negative consequences.

The balance of supply and demand in German conurbations is delicate, which means that private homeowners are in the focus of policymakers and the media. This results in both political demands and corresponding media reports. Deutsche Wohnen therefore endeavours to engage in constructive dialogue with all stakeholders. We ensure that refurbishment work is socially acceptable by taking social hardship into account when calculating rents, for instance. In addition, we have supported social and cultural organisations and activities for many years.

Risks from catastrophic events and cases of damage
An increase in cases of damage or natural disasters (including storms, floods) or changes/dependencies in the insurance market could cause financial losses. There are currently no indications of this.

2. Legal risks
According to the assessment scheme of Deutsche Wohnen these risks are deemed to be non-material.

With a large number of shareholdings and a complex investment structure, greater transparency and management activity are necessary to avoid negative effects on the Group's performance.

Risks that may result in losses for the company could arise from non-compliance with legal standards, non-implementation of new or revised legislation, the lack of adequate provisions in contracts or inadequate management of insurance policies.

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

On 30 April 2014 a control agreement was signed between Deutsche Wohnen SE as the controlling company and GSW Immobilien AG as the controlled company, which took effect when it was entered in the commercial register on 4 September 2014. It obliges Deutsche Wohnen to assume any losses incurred by GSW. As part of the control agreement Deutsche Wohnen SE also undertakes to exchange the GSW shares held by non-controlling shareholders for Deutsche Wohnen shares at a ratio currently set at 3:7.079 (settlement offer). For the duration of the control agreement Deutsche Wohnen also guarantees the non-controlling shareholders of GSW an equalisation payment in the form of a guaranteed gross annual dividend of EUR 1.66 per share.

An Appraisal Proceeding as defined in section 1 no. 1 German Law for Appraisal Act (Gesetz über das gesellschaftsrechtliche Spruchverfahren – SpruchG) is currently taking place to determine whether the settlement amount and equalisation payment are reasonable. If a higher settlement amount or equalisation payment are set by a court ruling or an out-of-court agreement, the non-controlling shareholders of GSW may demand that Deutsche Wohnen increases the amount of payments made to them.

3. IT risks

According to the assessment scheme of Deutsche Wohnen these risks are currently deemed to be non-material.

Risks from the availability of IT systems

Deutsche Wohnen SE uses SAP across the Group as its primary IT application.

Generally, there is a risk that this application fails completely, which could lead to considerable disruption of business processes. For this reason we have a contract with our IT service provider to ensure functional operating, maintenance and administration processes and effective monitoring mechanisms, in order to prevent such a failure and any ensuing loss of data.

Risks from vulnerabilities and unauthorised access to IT systems

Generally there are unavoidable risks that the IT is attacked by means of malware or that data is accessed by unauthorised persons.

Security procedures are optimised regularly, security leaks are patched and steps to prevent malware are updated on a continuous basis. All employees are obliged by internal policies to comply with the security measures for the IT environment and are made aware of the risks in training courses.

4. Letting risks

According to the assessment scheme of Deutsche Wohnen these risks are currently deemed to be non-material.

Regulatory interference in rental law could affect the financial performance of a housing company. For example, the revision of federal law to combat increases in rents in Berlin in 2015 did restrict the opportunities for increasing rents when housing is relet; in the reporting period the rental cap ("Mietpreisbremse") was tightened and the amount of modernisation expenses that can be passed on to tenants was reduced.

Other legislative amendments are discussed regularly, such as changes in the way the rent index (Mietspiegel) is calculated. Further regulatory changes can therefore not be ruled out.

At the level of the German federal states, further regulation is particularly expected in Berlin; such as the expansion of neighbourhood protection areas (Milieuschutzgebiete) or amendments to the ban on misappropriation of housing.

We therefore monitor legislation closely, are involved in residential property management associations and use the legal opportunities available to make our voice heard.

Further risks for letting may result from defaults by tenants, lack of tenant satisfaction, risks in tenancy agreements or risks involving our business partners. We do not consider these to be material at present.

5. Performance risks – personnel

According to the assessment scheme of Deutsche Wohnen these risks are currently deemed to be non-material.

Decisive factors of our commercial success are the knowledge and the special skills of our employees.

Risks may arise from changes in the legal framework (such as minimum wage regulations), employees' lack of identification with the company, the inadequate integration of new staff, higher staff turnover, a lack of specialists or higher staff expenses due to general rises in market rates or higher social security expenses.

The Human Resources department develops programmes for supporting and retaining employees and benchmarks the system of remuneration against the market. Requirements of different generations are also reflected in intelligent design of working areas. Health days, a summer party for the whole company and other benefits are also intended to increase the attractiveness as an employer.

The Deutsche Wohnen Group has pension obligations from company pension plans. As of 31 December 2018 provisions of EUR 63 million were recognised for this purpose. However, the actual amount of the obligations cannot be fully determined in advance and is subject to considerable uncertainty, so that the actual employee benefit liabilities may exceed the recognised pension provisions.

In addition, some subsidiaries/Group companies are covered by the Pension Institution of the Federal Republic and the Federal States (Versorgungsanstalt des Bundes und der Länder – VBL). Structural changes may cause VBL to cancel the coverage, which would result in significant demands for offsetting assets. Legal advice and consultation is therefore required before any Human Resources activities are implemented.

Risks for Deutsche Wohnen may also arise if employees do not follow legal or company regulations. In all areas of the company, employees are also bound to the code of conduct, which defines and stipulates behaviour in accordance with the law. Managers also make their employees aware of key compliance risks. Corruption is also explicitly forbidden in the anti-corruption policy. Data protection agreements on privacy and policies on data protection and IT security are also binding for employees.

6. Acquisition and disposal risks

According to the assessment scheme of Deutsche Wohnen these risks are currently deemed to be non-material.

New legislation

Legal and political intervention may delay disposals or have a negative effect on the prices that can be realised.

Market risks for disposals

An overall economic downturn, a general increase in interest rates or an increase in housing construction volume may reduce interest in purchasing existing properties. Both for the privatisation of individual apartments or block sales there is then a danger that potential buyers postpone their investment, so causing Deutsche Wohnen's disposal plans to be delayed or making it impossible to implement them at the prices planned.

Risks from acquisitions

Acquisitions in existing and new regions, both in residential and nursing care facilities, are exposed to the risk that business plans cannot be implemented fully, or only partially, or only at a later date. The performance of acquired portfolios also depends on various factors: expected rents, opportunities to reduce vacancy rates, expenses for maintenance and refurbishment work, planned privatisations, prices obtained for the disposal of non-strategic units and the costs of the integration process. The integration of larger new holdings may require a reorganisation of administration, management, internal structures and processes. These factors may differ from our expectations and mean that the forecast earnings are not achieved or that risks increase. To minimise these risks we use external and internal specialists and ongoing project controlling.

Risks also increase due to a large number of purchase contracts and their complexity, or due to unjustified claims by third parties.

In order to minimise risks, extensive due diligence is carried out to identify and analyse all possible legal, financial, operational and tax risks in advance. Claims are secured by means of guarantees, indemnities, retained amounts and insurance. Contract controlling is responsible for structuring, following-up and monitoring obligations as necessary.

Any deviations from the business plan or assumptions made for business combinations are identified and followed up in the corresponding reports.

7. Risks in the nursing segment

This risk category covers special risks resulting from the nursing segment. According to the assessment scheme of Deutsche Wohnen these risks are currently deemed to be non-material.

Risks may arise from changes to the legislative environment for nursing care (in some states there is a legal quota for single-room occupancy, for instance), the default of operators or a decline in the quality of nursing properties. With acquisitions there is a risk of unplanned investment requirements. A lack of employees in nursing facilities may affect the profitability of the nursing facilities. Activities to recruit new employees are currently being expanded. With our investments in the nursing home operators KATHARINENHOF and PFLEGEN UND WOHNEN HAMBURG we believe we are well positioned to offset any defaults by external operators of our nursing properties.

8. Performance risks – property

According to the assessment scheme of Deutsche Wohnen these risks are currently deemed to be non-material.

We see property risks in the legal requirements and environmental concerns relating to properties, as well as in the structure and quality of portfolios and their surrounding areas.

Risks may arise from maintenance backlogs, structural damage or inadequate fire safety measures. Legacy risks include unexploded ordinance, soil quality and toxins in building material, as well as any breaches of construction law.

At the portfolio level the risks include a concentration in the structure of holdings, which may comprise higher maintenance and renovation costs and greater difficulty in letting properties.

A technical analysis provides us with an overview of the condition of our properties. On this basis we have established a corresponding investment programme. Ad hoc activities are carried out in addition to our long-term investment plans. As a result of our acquisition of numerous properties in recent years, the quality of some of our holdings has to be improved.

Generally, they are all suitable for letting; the vacancy rate in the Deutsche Wohnen portfolio was 2.1% as of 31 December 2018. The technical condition of the properties is one of the assumptions used for valuing.

9. Financial risks

This risk category includes the following risk that we currently consider to be material:

Risk from fundamental corporate tax reform

There are plans to expand the scope of the German Real Estate Transfer Tax Act [Grunderwerbsteuergesetz – GrEStG] as well as to carry out a fundamental reform of land taxes. The legislative changes under discussion would affect the entire property industry. No draft legislation has been put forward as yet, but the risk is currently considered to be material.

We currently consider the following risks in this category as non-material:

Risk of fluctuating valuations

Deutsche Wohnen measures its investment properties (i.e. properties held in order to generate rental income or for value enhancement purposes) at fair value. The fair value depends particularly on the performance of the overall property market and that of regional markets, as well as on economic growth and interest rates. If the performance of the property market or the wider economy is negative or if interest rate levels increase there is a risk that the values recognised for property assets by Deutsche Wohnen in its consolidated balance sheet have to be written off.

The values of shareholdings and/or investment income or of other investments may also fluctuate as a result.

Liquidity risks

Deutsche Wohnen also considers delays in cash flows from revenues and the granting of loans as well as unexpected expenses that lead to a liquidity shortfall to be financial risks.

Financial market risks and risks of financial instruments

Following the successful refinancing and restructuring of the loan portfolio, there is no significant volume of refinancing planned in financial year 2019. Deutsche Wohnen has a credit rating of A– from Standard & Poor's and A3 from Moody's. These ratings make Deutsche Wohnen one of Europe's best-rated publicly listed real estate companies.

However, banks generally may no longer be able or willing to renew loans as they fall due. It cannot be ruled out that refinancings could be more expensive and future negotiations take longer to complete.

Furthermore, loan contracts contain financial covenants that entitle the banks to call in the loans early if they are not met. For Deutsche Wohnen these are financial indicators that relate primarily to the debt service cover ratio (DSCR) and interest service cover ratio (ISCR) and to the debt ratio in relation to rental income (multiple).

Risk exposure for the Group arising out of financial instruments comprises interest rate related cash flow, liquidity and default risks. Company 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 payment obligations, are addressed by means of credit lines and monitoring procedures. There is no significant concentration of default risk at Deutsche Wohnen, either for a single counterparty or for a group of counterparties with similar characteristics. The **risk of a liquidity shortfall** is monitored by means of a liquidity planning tool on a daily basis. Deutsche Wohnen always strives to hold sufficient liquidity to meet its future obligations. The **interest rate risk** to which the Group is exposed stems mainly from long-term financial debt at floating rates of interest and is largely hedged by means of interest rate derivatives. In this regard we refer to our disclosures in the notes to the consolidated financial statements.

Notes to the consolidated financial statements from page 116

Tax risks

Fundamental changes in the tax environment may result in financial risks. Deutsche Wohnen has recognised deferred tax assets in the amount of EUR 267 million on tax loss carryforwards, for example. If the use of tax loss carryforwards is limited in time or even prohibited altogether, the write-off of these deferred tax assets would result in a corresponding expense.

External audits for past years have not yet been completed for some companies in the Group. Therefore it is possible that additional taxes have to be paid.

Deutsche Wohnen is subject to the rules on the interest rate cap, which limits the extent to which interest expenses can be deducted when calculating its corporation tax liability. It cannot be ruled out that these rules will lead to tax payments in future.

Any changes in our shareholder and organisational structure could trigger a land transfer tax liability or cause tax loss carryforwards to be forfeit.

10. Investment risks

The following risks in this category are classified as material:

Applications for planning consent may be delayed because the building authorities are understaffed. The elimination of contaminants or pollutants occurring through investments can be more complex than originally calculated. Due to the high demand, building materials can become more expensive. Services in the construction, crafting and planning sectors are currently finding it difficult to find qualified workers and suppliers. Building costs may increase or construction be delayed as a result, which in turn could cause return targets to be missed or investments to be postponed. Investment decisions are therefore reassessed on an ongoing basis.

The following risks are currently considered not to be material:

Legislation is an important variable for investments and is always subject to change. There is a risk when new building standards or restrictions take effect; changes could have a negative impact on return targets.

If construction sites are closed or planning consent is withheld this may have an adverse effect because of unplanned costs and delays. Compliance with new legislation may incur additional expenses.

The selection and planning of major maintenance work may result in an incorrect allocation of capital.

Complex investments are generally subject to a cost risk and a time risk. These are addressed by means of project-specific monitoring activities.

Opportunities from future developments

In the financial year 2018, Deutsche Wohnen was able to lay the foundation for its continued positive performance.

Overall, concentrating and focussing the portfolio on growth markets in recent years, while maintaining our conservative capital structure, offers great potential for capital appreciation in the future.

Opportunities from market developments or trends

The positive performance of the property portfolio is supported by the ongoing dynamic development of the market. This positive trend is enhanced by increasing demand for housing, especially in metropolitan areas, due to net population increases and a general reduction in the size of average households.

According to the Federal Statistical Office (Statistisches Bundesamt – Destatis), the current age structure of the population will have a greater impact on the population growth over the next three decades than the net balance of immigration and emigration in Germany.

Rising market demand for nursing care is a reason for us to expand our activities in the Nursing and Assisted Living segment and represents another opportunity for Deutsche Wohnen.

The residential property portfolio owned by Deutsche Wohnen also has significant growth potential, especially in the Core^{+} regions. Berlin, Dresden, Leipzig and the Rhine-Main region lead the ranking of German metropolitan areas.

Financial opportunities

The financial structure of Deutsche Wohnen is very stable and efficient: The Group's financing is long-term and its debt ratio (LTV) is below-average. Our business model is well established with our banking partners and our credit rating has improved steadily over the years.

With its ratings of A- from Standard & Poor's and A3 from Moody's, both currently with a stable outlook, Deutsche Wohnen remains one of Europe's best-rated real estate companies. Our issuer ratings give us greater financial flexibility.

Favourable access to equity and debt markets, also in connection with the current very low interest rates, offer good chances for financing future growth.

As of the reporting date the company had a market capitalisation of some EUR 14.3 billion. This represents an increase of around 8% compared with the previous year. Deutsche Wohnen is therefore much more visible for international investors, which may result in interest rate advantages on capital markets.

Opportunities from investments

To further increase the quality of our portfolio we invest consistently in our properties. We have also adopted a programme of new building and densification in order to make efficient use of existing reserves and build around 2,500 new residential units by 2022. The opportunities here are not in fulfilling short-term return expectations, but rather in sustainable investments and value creation.

To assume its own corporate responsibility, and in the context of its sustainability strategy, Deutsche Wohnen is addressing the challenges for society that are posed by digitalisation and the transition to a low-carbon economy. On the one hand this entails investments in heating plants, in order to make more efficient use of energy and avoid CO_2 emissions. At the same time we are already investing in the multimedia infrastructure required to meet customers' digital needs in the future.

FORECAST

General economic conditions

End of the economic upswing in Germany: The German Institute for Economic Research (DIW Berlin) is forecasting growth of 1.6% for the German economy in 2019. This means the growth rate of the German economy is gradually returning to normal. In 2020 the growth rate should still be 1.8%, but a good 0.4 percentage points of the total is due to the larger number of working days.[1]

German residential property market

Residential investment market remains strong: Demand for property should stay robust in 2019, despite the current geopolitical uncertainties. JLL assumes that the transaction volume on the institutional residential property market will remain high at around EUR 15 billion. Investors will definitely continue to focus on the top 7 cities.[2]

Substantial new building required in metropolitan areas: According to the Cologne Institute for the German Economy, 88,000 new residential units will have to be built in Germany's top 7 cities by 2020 in order to meet increasing demand. Construction is still lagging behind this requirement, however. In order to counteract this trend, both cities and investors should continue to focus on redensification measures in existing properties.[3]

Berlin has a severe housing shortage: According to a forecast by bulwiengesa, at least 19,000 residential units would have to be built in Berlin every year until 2030 to cover existing demand. In view of the growing population, the new housing planned by the city council department for urban development will not be sufficient to meet future demand. If construction activity does not pick up substantially in the short term there will be dramatic housing shortages and the market will be distorted.[4]

Residential rents expected to rise further: The situation on the housing markets in top cities will not ease significantly in the foreseeable future. So residential rents are projected to continue their upward trend, despite the steep increases in recent years.[5]

Interest rates could go up slightly: The European Central Bank (ECB) has said that it intends to increase its base rate again slightly in the coming year. Despite this, interest rates are initially expected to remain low. Cheap financing and low yields on alternative investments are therefore expected to continue favouring demand for housing.

1 DIW, Weekly report 50 2018
2 JLL, Investment Market Overview, 4th Quarter 2018
3 Cologne Institute for the German Economy, Migration to the major cities and the resulting demand for housing, 07/02/2017
4 bulwiengesa, Wohnungsmarktreport Berlin, 19/08/2018
5 DZ HYP, Real Estate Market Report 2018/19

Forecasts for the financial year 2019

Our forecast is based on the company planning as derived from the planning instruments. It adequately reflects the possible risks and opportunities of future development. Nevertheless, some risks and opportunities associated with our future development remain, as described in the risk and opportunity report. In addition, our projections reflect assumptions as regards developments both in the economy as a whole and in the residential property market. The forecast also represents a base case, i.e. it does not include any further acquisitions or opportunistic disposals.

Risk and opportunity report from page 67

For the financial year 2019 we are expecting FFO I of around EUR 535 million and adjusted EBITDA (without Disposals) of some EUR 685 million. The forecast for FFO I includes an additional EUR 20 million from changes in the accounting treatment of leases, including the first-time application of the new IFRS 16 standard for financial year 2019.

Our plans for the financial year 2019 with regard to the individual segments are as follows:

In **Residential Property Management** we are expecting segment earnings of around EUR 700 million. Current maintenance costs in 2019 will come to between EUR 9 per sqm and EUR 10 per sqm, or around EUR 100 million in total. We do not expect any material change in the vacancy rate as compared with year-end 2018. The planned like-for-like rental increase in the letting portfolio is expected to be around 3%, strongly affected by the adjustments required in response to this year's Berlin rent index.

In the **Disposals** business segment, the focus in 2019 will be on privatisation. Institutional portfolio sales from within the strategic Core and Growth regions will be decided depending on the situation and the opportunities.

For the **Nursing and Assisted Living** segment we are expecting segment earnings of nearly EUR 80 million. In addition, we intend to further expand this segment through targeted acquisitions.

Interest expenses will come to around EUR 130 million following the acquisitions completed in 2018, which were largely financed by borrowing. The debt ratio (Loan-to-Value ratio) is expected to be within our target range of 35% to 40% by the end of 2019.

Given unchanged general conditions and the positive outlook for the German residential property market, particularly in metropolitan areas, we expect our property portfolio to develop positively in 2019 and a resulting increase in EPRA NAV compared with 2018.

REMUNERATION REPORT

The remuneration report describes the principles of the remuneration system for the members of the Management Board and Supervisory Board of Deutsche Wohnen SE and explains the structure and amount of individual remuneration for the Board members.

Remuneration system for the Management Board

The system of remuneration for the Management Board and total remuneration for individual Management Board members is defined by the Supervisory Board and reviewed at regular intervals. Remuneration is governed by the German Stock Corporation Act (Aktiengesetz – AktG) and the provisions of the German Corporate Governance Code (Deutscher Corporate Governance Kodex – DCGK).

The Management Board receives a fixed and a variable remuneration.

The criteria for appropriate Management Board remuneration include the responsibilities of the individual Management Board members, their personal performance, the economic situation, and the company's performance and outlook. Remuneration is also measured against standards for the peer group and the company's internal remuneration structures. Overall, the remuneration system is aligned with the company's sustainable development.

All contracts of the Management Board provide for a compensation payment in the event that the board activity ends early for reasons other than termination for good cause. It is capped at a maximum of two annual salaries (settlement cap), but covers no more than the remaining term of the employment contract. Contracts also provide for a compensation payment in the event of a change of control, capped at a maximum of three annual salaries in accordance with section 4.2.3 of the DCGK.

In addition to their fixed remuneration, Management Board members also receive a variable short-term and a variable long-term remuneration. The variable short-term remuneration component is based on short-term corporate goals. The variable long-term remuneration component is intended to associate the Management Board members, who shape and implement the company strategy and so are largely responsible for its financial performance, with the economic risks and opportunities of the company. Variable remuneration can expire if targets are not met and is otherwise subject to a cap.

The variable remuneration is composed of a short- and a long-term component.

Furthermore, Management Board members receive in-kind benefits in the form of insurance premiums, the private use of communication devices and company cars. In the event of extraordinary developments the contracts also allow the Supervisory Board to approve a special bonus, which is capped at the amount of that year's fixed salary. No retirement benefits have been agreed.

Variable remuneration system

The remuneration system is based on parameters reflecting personal and company performance and the relative performance of the company share. Variable remuneration is largely calculated on a long-term assessment base. Share ownership guidelines (SOG) further strengthen the focus on the capital market and the alignment of shareholders' interests with those of the Management Board of Deutsche Wohnen. The variable remuneration system for the Management Board as described below corresponds to the provisions of the German Stock Corporation Act (Aktiengesetz – AktG) and follows the recommendations and suggestions of the DCGK.

Variable short-term remuneration component – short-term incentive (STI)

The STI is based on both financial and non-financial performance targets. These are aligned with the current company strategy and short-term company goals, and are agreed between the Management Board and the Supervisory Board at the beginning of every financial year. At least two financial and two non-financial performance targets are set for each financial year, whereby the financial performance targets always account for 80% of the total target performance. The Supervisory Board defines the financial performance targets in consideration of the budget for the respective year. Payments are capped at a maximum of 125% of the target, aggregated across the financial targets. No payment is made if the aggregate performance is below 75% of the target. As with the financial targets, performance against strategic, non-financial targets can be between 0% and 125%, whereby 100% performance is the goal.

80%
of the total target performance is determined by financial targets.

Performance against the financial and non-financial targets is measured after the close of each financial year. The amount of the final annual bonus payment is capped at 125% of the target.

For the financial year 2018 the financial performance targets were (i) adjusted EBITDA without disposals (50% weighting), (ii) cost ratio (staff, general and administration expenses divided by contracted rental income; 10% weighting) and (iii) sales proceeds (20% weighting). Strategic, non-financial targets with a total weighting of 20% were defined, relating to the percentage of completion of the investment programme, particularly including CO_2 reductions, growth in the segment Nursing and Assisted Living, expanding the value chain and the percentage of completion of the "DW 4.0" project. "DW 4.0" focuses on the developments necessary at Deutsche Wohnen to exploit new and existing, but as yet unused, potential. They include a stronger focus on clients, a portfolio strategy directed towards target groups, and activities to support and network employees from different generations.

20%
of the total performance is determined by non-financial targets.

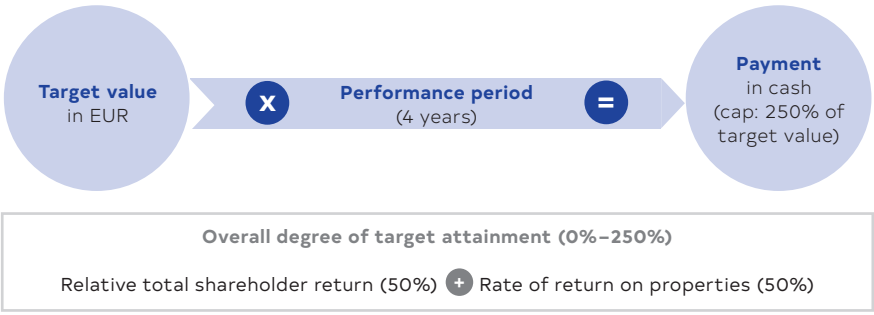
At its meeting on 18 March 2019, the Supervisory Board resolved on a target for the Management Board of 121.7% for the achievement of financial performance targets and 100% for the achievement of non-financial performance targets for the financial year 2018.

For the financial year 2019 the financial performance targets were (i) adjusted EBITDA without disposals (40% weighting), (ii) cost ratio (staff, general and administration expenses divided by contracted rental income; 10% weighting) and (iii) sales proceeds (30% weighting). Strategic, non-financial targets with a total weighting of 20% were defined, relating to integration of the acquired facilities and derivation of a platform and portfolio strategy for the segment Nursing and Assisted Living, the implementation of the strategic sustainability programme as well as the strengthening of the dialogue with tenants and politics.

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

Management Board members receive a cash payment as part of a performance cash plan. The remuneration system is based on parameters that are transparent, performance-related and based on the company's sustainable development. The performance cash plan provides for LTI payments to be capped at 250% of the target value.

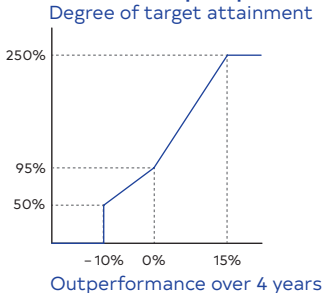
Performance cash plan
Mode of operation



Management Board members receive a target amount in euros for each tranche of the performance cash plan. This target amount is multiplied by the total target performance after a four-year performance period. Total target performance is made up of two equally weighted performance targets, which are added together. Using the relative share performance and the property yield (EPRA NAV growth plus dividend yield) means the amount of the variable long-term incentive payment depends on both an external comparison with competitors and on the performance of Deutsche Wohnen.

The relative share performance target reflects both the general capital market performance and the performance of competitors. During the four-year performance period the total shareholder return (TSR) of the Deutsche Wohnen share is compared with the FTSE EPRA/NAREIT Germany Index. Outperformance is defined as the difference between the TSR of the Deutsche Wohnen share and that of the peer group. The starting price for the Deutsche Wohnen share and the FTSE EPRA/NAREIT Germany Index is the arithmetic mean of the closing prices on the 30 trading days immediately preceding the start of the performance period. The final price is calculated in the same way, as the arithmetic mean of the closing prices on the 30 trading days immediately preceding the end of the performance period. When calculating the relative share performance, dividends paid during the respective years are assumed to have been reinvested.

Relative share price performance
Degree of target attainment



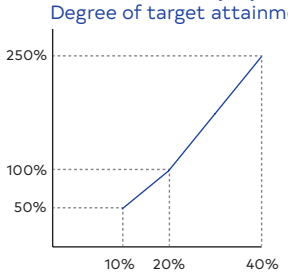
The relative share performance over the four-year performance period is measured on the following scale:

- For an outperformance of –10% compared with the FTSE EPRA/NAREIT Germany Index the performance is 50%; below –10% the performance is 0%.
- If the TSR of Deutsche Wohnen and the peer group are the same, the performance is 95%. The target figure of 100% is therefore only achieved for a positive outperformance compared with the peer group.
- The maximum performance of 250% is achieved for an outperformance of +15% and above.
- Performance between these two figures is interpolated on a linear basis.

The performance target "return on property" serves as an incentive for the Management Board members to increase the NAV of Deutsche Wohnen as well as the amount of dividends paid to the shareholders. This entails a percentage comparison of EPRA NAV per share (adjusted for goodwill) at the beginning of the performance period with the corresponding figure at the end of the performance period. Total annual dividend yields, which express the ratio of the respective annual dividend to EPRA NAV per share for the previous year, are added to this figure. The performance of the "return on property" over the four-year performance period is measured on the following scale:

- For a return on property of 10% the performance is 50%; below 10% the performance is 0%.
- The target value of 100% is only achieved for a return on property of 20% and above.
- The cap of 250% is reached for a return on property of 40%.
- Performance between these two figures is interpolated on a linear basis.

Rate of return on property
Degree of target attainment



Rate of return on property over 4 years

Performance against the two targets is measured at the end of the four-year performance period and is published in the remuneration report. The payment of any tranche is capped at 250% of the target originally agreed.

Before financial year 2018 the LTI was structured as a share option programme ("SOP 2014"). To reflect the interests of shareholders in a sustainable increase in enterprise value, the share options can only be exercised if the defined performance targets are achieved at the end of the four-year vesting period, specifically: increase in (i) adjusted NAV per share (40% weighting), (ii) FFO I (without disposals) per share (40% weighting) and (iii) share performance (20% weighting). Within each of the targets mentioned there is a minimum target that must be achieved before half the share options attributable to this target can be exercised. There is also a maximum target at which all the share options attributable to this target can be exercised. The minimum is set at a performance of 75% and the maximum at 150% across all individual targets.

The performance targets include both the absolute change in the sector-specific indicators EPRA NAV per share (adjusted for goodwill) and FFO I per share on the basis of the company's four-year planning before share options are issued, as well as the relative performance of the Deutsche Wohnen share compared with a peer group of publicly listed competitors in Germany. The vesting period for a tranche of share options starts on the issue date and ends at the close of the fourth anniversary of the issue date. The options may be exercised over a period of three years. Share options that are not exercised by the end of the total seven-year period are forfeited or expire without substitute or compensation.

Share ownership guidelines

In 2018 share ownership guidelines (SOG) were introduced at Deutsche Wohnen in order to strengthen the focus on capital markets and a shareholding culture. The Management Board members of Deutsche Wohnen undertake to invest 300% of their basic salary (Chief Executive Officer) or 150% of basic salary (ordinary Management Board members) in Deutsche Wohnen shares over a period of four years and to hold them until they cease to be a member of the Management Board. During an accumulation period up to 31 December 2021 the Management Board members undertake to build up interim holdings of company shares. This means that at the end of each financial year the total shareholding (including shares already held) should be at least 25% of the total STI payments (net) made after 1 January 2018.

Share ownership guidelines strengthen the focus on capital markets.

Total remuneration paid to the members of the Management Board

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

	Michael Zahn Chief Executive Officer Since 01/09/2007				Lars Wittan Member of the Management Board Since 01/10/2011				Philip Grosse Member of the Management Board Since 01/09/2016			
EUR k	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
Fixed remuneration	975	1,025	1,025	1,025	432	450	450	450	323	398	398	398
Supplementary payments	34	34	34	34	24	24	24	24	18	22	22	22
Total fixed remuneration	**1,009**	**1,059**	**1,059**	**1,059**	**456**	**474**	**474**	**474**	**341**	**420**	**420**	**420**
Short-term variable incentive	500	500	0	625	300	300	0	375	175	225	0	281
Long-term variable incentive	750	750	0	1,875	400	400	0	1,000	225	300	0	750
Total variable remuneration	**1,250**	**1,250**	**0**	**2,500**	**700**	**700**	**0**	**1,375**	**400**	**525**	**0**	**1,031**
Total	**2,259**	**2,309**	**1,059**	**3,559**	**1,156**	**1,174**	**474**	**1,849**	**741**	**945**	**420**	**1,451**

The members of the Management Board received the following remuneration for their work on the Management Board and supervisory boards of Group companies:

	Michael Zahn Chief Executive Officer Since 01/09/2007		Lars Wittan Member of the Management Board Since 01/10/2011		Philip Grosse Member of the Management Board Since 01/09/2016	
EUR k	2017	2018	2017	2018	2017	2018
Fixed remuneration	975	1,025	432	450	323	398
Supplementary payments	34	34	24	24	18	22
Total fixed remuneration	**1,009**	**1,059**	**456**	**474**	**341**	**420**
Short-term incentive	744	625	360	375	73	219
Short-term character	625	625	300	375	73	219
Long-term character	119	0	60	0	0	0
Long-term incentive	450	2,701[1]	300	925[1]	0	0
Total variable remuneration	**1,194**	**3,326**	**660**	**1,300**	**73**	**219**
Total	**2,203**	**4,385**	**1,116**	**1,774**	**414**	**639**

1 Benefit in kind from exercised options

No loans or advance payments were granted to members of the Management Board of Deutsche Wohnen SE in financial year 2018.

The following share options have been granted on the basis of the previous share option programme 2014:

	Michael Zahn					Lars Wittan					Philip Grosse				
	2014	2015	2016	2017	Total	2014	2015	2016	2017	Total	2014	2015	2016	2017	Total
Basis: 150% of LTI in EUR k	1,125	1,125	1,125	1,125		390	390	390	600		n/a	n/a	112.5	337	
Reference price in EUR	16.96	24.16	24.37	31.80		16.96	24.16	24.37	31.80		n/a	n/a	28.57	31.80	
Options granted	66,332	46,565	46,163	35,377	194,437	22,995	16,142	16,003	18,867	74,007	n/a	n/a	3,937	10,613	14,550
Thereof exercised options	66,332	–	–	–	66,332	22,995	–	–	–	22,995	n/a	n/a	–	–	0
Remaining options	0	46,565	46,163	35,377	128,105	0	16,142	16,003	18,867	51,012	n/a	n/a	3,937	10,613	14,550

The final number of share options that can be exercised per tranche is determined at the end of the four-year vesting period, depending on performance against the criteria mentioned above. The exercise period is three years and the exercise price is EUR 1.00.

After determining the achievement of the targets by the Supervisory Board, the first tranche of the SOP 2014 was exercisable in November 2018. Mr Michael Zahn and Mr Lars Wittan each exercised all stock options for this tranche in financial year 2018 and received shares from Conditional Capital 2014/III.

Total expenses recognised for share-based remuneration in the reporting period were EUR 189 thousand for Mr Michael Zahn, EUR 82 thousand for Mr Lars Wittan and EUR 45 thousand for Mr Philip Grosse.

In addition to the outstanding share options, Mr Michael Zahn holds 50,000 shares, Mr Lars Wittan holds 20,000 shares and Mr Philip Grosse holds 15,721 shares in the company.

System of remuneration for the members of the Supervisory Board

Each Supervisory Board member receives a fixed annual remuneration of EUR 75,000, the Chairman of the Supervisory Board receives three times this amount and the Deputy Chairman of the Supervisory Board one-and-a-half times this amount. For membership of the Audit Committee a Supervisory Board member receives an additional EUR 15,000 per financial year and the Chairman of the Audit Committee receives twice this amount. Membership of other Supervisory Board committees is remunerated at an annual rate of EUR 5,000 per member and committee, whereby the Chairman of the committee receives twice this amount. Total remuneration, including remuneration for membership of Supervisory Board committees and comparable supervisory boards of Group companies, may not exceed EUR 300,000 per Supervisory Board member (not including any VAT payable) per calendar year, regardless of the number of committee memberships and functions.

For financial year 2018 Supervisory Board remuneration amounts to EUR 772,083 (previous year: EUR 738,750) net of VAT. Matthias Hünlein receives a net amount of EUR 182,083 (previous year: EUR 80,000), Uwe E. Flach receives a net amount of EUR 135,000 (previous year: EUR 270,000; left the Supervisory Board as of 15 June 2018), Dr Andreas Kretschmer receives a net amount of EUR 140,833 (previous year: EUR 152,500), Tina Kleingarn receives EUR 43,750 (Supervisory Board member since 15 June 2018), Jürgen Fenk receives a net amount of EUR 86,667 (previous year: EUR 18,750; joined the Supervisory Board as of 1 October 2017), Dr Florian Stetter receives a net amount of EUR 101,250 (previous year: EUR 95,000) and Claus Wisser receives a net amount of EUR 82,500 (previous year: EUR 82,500).

The company reimburses the Supervisory Board members for their out-of-pocket expenses. The VAT payable on the remuneration is reimbursed by the company to the extent that the Supervisory Board members are entitled to invoice the company for separate VAT and they exercise this right.

In addition, the company has taken out D&O insurance for the Supervisory Board members, with an excess of 10% of the loss in each case. The excess is capped at one-and-a-half times the fixed annual remuneration for the respective Supervisory Board member for all losses occurring in a given insurance year.

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

TAKEOVER-RELATED INFORMATION

pursuant to section 289a and section 315a of the German Commercial Code [Handelsgesetzbuch – HGB]

Issued capital and shares

The registered share capital of Deutsche Wohnen SE as at 31 December 2018 amounted to EUR 357,014,286.00 (previous year: EUR 354,666,078.00). It is divided into 357,014,286 no-par value bearer shares, each representing a notional share of the registered capital of EUR 1.00 per share. Deutsche Wohnen SE issues bearer shares only.

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

Capital increase

On 13 July 2018 the company's Management Board decided, with the approval of the Supervisory Board, to use authorised capital to increase capital against contributions in kind. The in-kind contributions consisted of dividend rights from 111,156,625.60 shares, amounting to EUR 88,925,300.48 in total, which were created by the resolution taken at the Annual General Meeting on 15 June 2018 on the use of distributable profits. On 17 July 2018, 2,241,061 new no-par value bearer shares with dividend rights from 1 January 2018 onwards were issued.

Equity interests representing more than 10% of voting rights

Pursuant to section 33 para. 1 of the German Securities Trading Act [Wertpapierhandelsgesetz – WpHG], any shareholder whose shareholding reaches, exceeds or falls below the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the voting rights of a publicly listed company must inform that company and the German Federal Financial Supervisory Authority [Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin] accordingly without delay. Any such notifications are published by Deutsche Wohnen SE pursuant to section 40 of the German Securities Trading Act [Wertpapierhandelsgesetz – WpHG]. BlackRock, Inc. reported a direct or indirect stake in the share capital of Deutsche Wohnen SE in 2018 that exceeded the threshold of 10% of voting rights, most recently on 4 October 2018 with a share of 10.20%.

Power of the Management Board to issue or buy back shares

Authorised Capital

By resolution of the Annual General Meeting held on 15 June 2018, which was entered into the commercial register on 16 August 2018, the Management Board has been authorised to increase the company's issued capital, with the consent of the Supervisory Board, by up to EUR 110 million once or several times during the period until 14 June 2023 by means of the issuance of up to 110 million new ordinary bearer shares against cash contributions and/or contributions in kind **(Authorised Capital 2018/I)**. The shareholders must always be granted subscription rights within the scope of the authorised capital. However, in certain cases, the Management Board will be entitled to exclude the subscription rights of shareholders with the consent of the Supervisory Board and subject to the detailed provisions of the Articles of Association.

Contingent Capital

Contingent capital for compensation of GSW shareholders

The issued capital of the company was originally contingently increased by up to a further EUR 15 million by means of the issuance of up to 15 million new no-par value bearer shares with dividend rights pursuant to a resolution adopted by the Annual General Meeting held on 11 June 2014 **(Contingent Capital 2014/II)**. This contingent capital increase serves to grant compensation in the form of shares in the company to the external shareholders of GSW Immobilien AG ("GSW") in accordance with the provisions of the control agreement between the company and GSW dated 30 April 2014, currently at the exchange ratio of 7.0790 no-par value shares of Deutsche Wohnen SE in exchange for three no-par value shares of GSW Immobilien AG, as adjusted on 4 June 2015 in accordance with section 5 para. 4 of the control agreement. To the extent that this is necessary pursuant to section 5 para. 2 of the control agreement, the company will pay compensation for fractional shares in cash. EUR 9,126,525.00 of this Contingent Capital 2014/II had been used – by means of the issuance of 9,126,525 new no-par value bearer shares with a corresponding increase in the issued capital – by 31 December 2018, with EUR 5,873,475.00 remaining as at 31 December 2018. An Appraisal Proceeding pursuant to section 1 para. 1 of the German Act on Appraisal Proceedings [Gesetz über das gesellschaftsrechtliche Spruchverfahren – SpruchG], for a review of the appropriateness of the settlement offer and the compensation is pending with the district court of Berlin due to corresponding motions brought forward by individual shareholders of GSW. Therefore, GSW shareholders may, pursuant to section 305 para. 4, sentence 3 of the German Stock Corporation Act [Aktiengesetz – AktG], exchange their GSW shares for Deutsche Wohnen shares in accordance with the terms of the offer, the ruling in the shareholder action or an amicable settlement reached in this context, within two months of the publication in the German Federal Gazette [Bundesanzeiger] of the final ruling in the shareholder action. Should a court order or the terms of an amicable settlement determine a larger amount of compensation or a larger settlement, external shareholders of GSW may, to the extent permitted by the relevant statutory provisions, be able to demand additional settlement or compensation payments. In light of this, an issuance of shares remains a possibility.

Contingent capital to serve the share option programme 2014

Furthermore, the contingent increase of the registered capital, originally 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 to issue share options to the members of the Management Board of the company and to selected executives of the company and affiliated companies in accordance with the more specific provisions of the authorising resolution adopted by the Annual General Meeting held on 11 June 2014. The contingent capital increase will only be implemented insofar as holders of share options exercise their subscription rights with regard to shares of the company and the company does not grant its own shares for the purpose of upholding these subscription rights. Any new shares issued as a result of the exercise of share options will – to the extent legally and effectively permissible – be entitled to dividends for the first financial year with regard to which, at the time of their issuance, no resolution had yet been adopted by the Annual General Meeting as to the use of the net profit. Alternatively, the new shares will be entitled to dividends as of the financial year in which they accrue. EUR 89,327.00 of this Contingent Capital 2014/III had been used – by means of the issuance of 89,327 new no-par value bearer shares with a corresponding increase in the issued capital – by 31 December 2018, with EUR 12,790,425.00 remaining as at 31 December 2018.

Contingent capital to serve the convertible bonds 2017 – 2024

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

Contingent capital to serve the convertible bonds 2017 – 2026

A resolution adopted by the Annual General Meeting held on 2 June 2017 originally authorised the contingent increase of the issued capital by up to a further EUR 67 million by issuing up to 67 million new no-par value bearer shares. After this authorisation was partially revoked by the Annual General Meeting on 15 June 2018 the contingent capital now amounts to EUR 30 million **(Contingent Capital 2017/I)**. The contingent capital increase serves to issue shares to the holders or creditors of convertible bonds or bonds with warrants, profit participation rights and/or profit-sharing bonds (or a combination of these instruments), which are issued before 1 June 2022 by the Company, or companies which are controlled or majority owned by the Company, on the basis of the authorising resolution adopted by the Annual General Meeting held on 2 June 2017. The resolution adopted at the Annual General Meeting held on 2 June 2017 authorised the Management Board to issue no-par value convertible and/or warrant bearer bonds and/or profit participation rights with option or conversion rights (or a combination of these instruments) in the nominal value of up to EUR 3.0 billion, and to grant the creditors thereof conversion or option rights for the Company's shares representing a share of the issued capital of up to EUR 67 million. The Company made partial use of this option by issuing a convertible bond with a total nominal amount of EUR 800 million on 4 October 2017. To the extent that it had not been used, the authorisation of 2 June 2017 was revoked by resolution of the Annual General Meeting on 15 June 2018. The share issue will only take place insofar as conversion rights arising out of the convertible bonds are exercised, or insofar as conversion obligations arising out of the bonds are fulfilled, and own shares, shares issued out of authorised capital or other benefits are not used to service the obligations.

Contingent capital to serve future conversion or option obligations

A resolution adopted by the Annual General Meeting held on 15 June 2018 authorised the contingent increase of the issued capital by up to a further EUR 35 million by issuing up to 35 million new no-par value bearer shares **(Contingent Capital 2018/I)**. If conversion rights or warrants are exercised or conversion or warrant obligations are met, the contingent capital increase serves to issue shares to the holders or creditors of convertible bonds or bonds with warrants, profit participation rights and/or profit-sharing bonds (or a combination of these instruments), which are issued before 14 June 2023 by the Company, or companies which are controlled or majority owned by the Company, on the basis of the authorising resolution adopted by the Annual General Meeting held on 15 June 2018. The resolution adopted at the Annual General Meeting held on 15 June 2018 authorised the Management Board with approval 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) with a nominal value of up to EUR 3.0 billion, and to grant the creditors thereof conversion or option rights for the Company's shares representing a share of the issued capital of up to EUR 35 million. The share issue will only take place insofar as conversion rights arising out of the convertible bonds are exercised, or insofar as conversion obligations arising out of the bonds are fulfilled, and own shares, shares issued out of authorised capital or other benefits are not used to service the obligations.

Acquisition of treasury shares

The acquisition of treasury shares is authorised pursuant to article 9 para. 1 c) (ii) SE Regulation in conjunction with section 71 et seq. German Stock Corporation Act [Aktiengesetz – AktG] and also, as at the balance sheet date, by the Annual General Meeting held on 15 June 2018 (agenda item 9). The Management Board is authorised, with the consent of the Supervisory Board and subject to compliance with the principle of equal treatment of shareholders pursuant to article 9 para. 1 c) (ii) SE Regulation in conjunction with section 53a German Stock Corporation Act [Aktiengesetz – AktG] to purchase and use the company's own shares until 14 June 2023 up to a total amount of 10% of the company's outstanding share capital at the time the resolution is passed, or at the time the authorisation is used if this figure is lower. Shares acquired using this authorisation together with other treasury shares the company has previously acquired and still holds or are attributable to it under section 71a et seq. of the German Stock Corporation Act [Aktiengesetz – AktG] may not at any time exceed 10% of the company's share capital.

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

As at the balance sheet date, the company did not hold any treasury shares.

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

Members of the Management Board are appointed and dismissed by the Supervisory Board pursuant to articles 9 para. 1 and 39 para. 2 SE Regulation and sections 84 and 85 of the German Stock Corporation Act [Aktiengesetz – AktG]. The Supervisory Board of Deutsche Wohnen SE appoints members of the Management Board for a maximum of five years. A reappointment or an extension of the term of office are both permitted for a maximum of five years. The Articles of Association of Deutsche Wohnen SE additionally stipulate in article 8 para. 1 and para. 2 that the Management Board has to consist of at least two members and otherwise the Supervisory Board determines the number of Management Board members. It may appoint deputy members of the Management Board and nominate a member of the Management Board as Chief Executive Officer or Spokesperson of the Board.

According to article 59 SE Regulation, the Annual General Meeting decides on changes to the Articles of Association. Pursuant to section 14 para. 3 sentence 2 of the Articles of Association, amendments to the Articles of Association require a majority of two-thirds of the votes cast, unless mandatory statutory provisions require a different majority, or, if at least half of the share capital is represented, a simple majority of the votes cast. Pursuant to section 179 para. 1 sentence 2 of the German Stock Corporation Act [Aktiengesetz – AktG] in conjunction with section 14 para. 5 of the Articles of Association, the Supervisory Board is authorised to make changes to the Articles of Association which merely affect the wording thereof.

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

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

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

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

CORPORATE MANAGEMENT

We have published the information according to section 289f and section 315d of the German Commercial Code [Handelsgesetzbuch – HGB] on our website.

Corporate governance report

Berlin, 18 March 2019

Michael Zahn
Chairman of the Management Board

Lars Wittan
Deputy Chairman of the Management Board

Philip Grosse
Management Board

NON-FINANCIAL GROUP STATEMENT

Deutsche Wohnen SE is publishing this non-financial Group statement for the financial year 2018 in accordance with section 315b et seq. of the German Commercial Code [Handelsgesetzbuch – HGB], pursuant to the German CSR Directive Implementation Act [CSR-Richtlinie-Umsetzungsgesetz – CSR-RUG]. This statement addresses the most important non-financial matters, which were identified based on their significant impact on the environment or the company's employees, or due to their relevance to social issues, corruption, bribery, human rights or the business activities of Deutsche Wohnen in 2018. In preparing the statement, we have followed the standards of the Global Reporting Initiative (GRI Standards). The reported key figures are self-defined indicators of performance.

In order to identify the main topics of the non-financial Group statement according to the CSR Directive Implementation Act, we established an internal process last year with the relevant specialist departments and the Management Board. Based on the GRI Standards, the impact and risks of activities carried out by Deutsche Wohnen were assessed with regard to the sustainability issues specified in legislation in addition to their relevance for understanding the company's performance and results. There follows a report on the identified key topics. In contrast to the previous year, we have structured the non-financial Group statement in line with our five fields of activity, following the structure of our sustainability report.

The non-financial Group statement is based on the standards of the Global Reporting Initiative.

Furthermore, the combined management report presents additional measures and activities carried out by Deutsche Wohnen SE as part of its sustainability management programme. References can be found in the relevant sections of the non-financial Group statement. With regard to risks and our risk management, we refer to the risk and opportunity report of the combined management report in addition to those presented in this statement.

Risk and opportunity report from page 67

The non-financial statement has been subjected to a voluntarily audit with limited assurance by accounting firm KPMG AG. More detailed information about the activities of Deutsche Wohnen SE in the area of sustainability can be found in the comprehensive sustainability report, scheduled for publication online in June 2019. This report is prepared in accordance with the GRI Standards (Core option).

Sustainability report

Business model

Deutsche Wohnen is one of the leading publicly listed real estate companies in Germany and Europe. Its property portfolio comprises around 167,000 residential and commercial units, and has a fair value of some EUR 22.2 billion.[1] The portfolio also includes nursing properties with a fair value of around EUR 1.3 billion, offering approximately 12,100 beds and apartments for assisted living. Further information about the business model can be found in the combined management report.

Fundamental aspects of the Group from page 25

Responsible business management

Through its core business of providing housing, the real estate sector has an influence on how people live together as well as the design of cities. As one of the three largest real estate companies in Europe, we recognise our duty to

1 Excluding deposits received, units under construction and undeveloped land

assume responsibility in these areas as well. We see the challenges of tomorrow as an opportunity to define an even more strategic approach to responsible business management and to act on our goals even more consistently in our day-to-day activities.

The sustainability strategy of Deutsche Wohnen

For Deutsche Wohnen, taking responsibility for the environment, society and its employees is paramount. We firmly believe that a sustainable approach to business secures the future viability of our company and benefits our stakeholders.

Sustainability is reflected in our daily work processes.

Our sustainability strategy aims to combine cost-effectiveness, energy efficiency and quality of living as three prerequisites for sustainable growth. To this end, we foster a corporate culture whose main pillars are appreciation, diversity, openness and a high demand for quality. The fact that sustainability forms part of the Group strategy is reflected in our daily work processes.

Since 2013, we have produced reports on our activities in connection with sustainable development and on economic, environmental and social indicators in accordance with the globally recognised GRI guidelines. Furthermore, we are committed to the German Sustainability Code [Deutscher Nachhaltigkeitskodex – DNK], and we meet the supplementary requirements that specifically apply to the housing sector.

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

Sustainability programme

Our sustainability programme consists of strategic and operational goals as well as the related measures. It also documents our progress in the relevant areas. The programme forms the basis for managing our sustainability goals, which also contribute to the achievement of our business objectives. The CEO is the person with responsibility for sustainability on the Management Board. Operational responsibility lies with the sustainability and CSR management team in the strategy department. In 2018, we also established an interdepartmental sustainability committee that will meet twice a year in the future. Its purposes encompass the strategic management and development of sustainability in the company as well as management of the sustainability programme. The CEO chairs this committee, which is made up of the entire Management Board, the sustainability and CSR management team, and each head of department.

The CEO is responsible for the Group's sustainability management.

Avoiding human rights violations

Deutsche Wohnen operates solely in Germany, as do our direct suppliers. It goes without saying that we adhere to the applicable laws in Germany, which comprehensively target the prevention of human rights abuses. These laws include a ban on child labour and forced labour, a ban on discrimination and the right to freedom of association and collective bargaining.

Guaranteeing human rights is a matter of course for us and an integral element of our corporate culture. We promote diversity and do not tolerate discrimination of staff based on factors such as gender, age, origin, disability or sexual orientation. The Management Board of Deutsche Wohnen is involved in the planning and implementation of all measures.

Issues related to human rights and social law such as preventing illegal employment or guaranteeing the minimum wage are anchored in our framework agreements in a risk-oriented manner. An important tool for the detection of human rights abuses is the whistle-blower system that can be used by employees, customers and suppliers. No cases of human rights abuses were reported through the system within the reporting period. Our employees are also required to follow our code of conduct, which defines and stipulates behaviour in accordance with the law. Deutsche Wohnen is also committed to letting properties without discrimination, an undertaking that includes participating in expert talks and cooperating with a specialist unit set up by the Senate of Berlin whose name translates as "Fair Rent – Fair Living". Additionally, our house rules include a paragraph on non-discriminatory interaction between people.

With contracts in line with the German Construction Tendering and Contract Regulations [Vergabe- und Vertragsordnung für Bauleistungen – VOB] we want to guarantee safety at the workplace for suppliers or subcontractors on construction sites. The aim of these is to ensure that contractors take action to secure good order on construction sites and assume responsibility for the fulfilment of all obligations towards their employees. For construction sites of a certain size, we provide notice of construction measures to the Berlin State Office for Occupational Safety, Health and Technical Safety [Landesamt für Arbeitsschutz, Gesundheitsschutz und technische Sicherheit – LAGetSi] and create an occupational health and safety plan. Compliance on this front should be assured with the assistance of a health and safety coordinator.

We expect integrity from our business partners. Therefore, the respective companies must either be listed in the Directory of Companies and Suppliers for Public Contracts [Unternehmer- und Lieferantenverzeichnis für öffentliche Aufträge – ULV] in Berlin or be prequalified nationwide (Germany). Alternatively, companies must complete a self-declaration for suitability in accordance with section 6a of VOB/A. In addition, we plan to create a code of conduct for business partners and suppliers in line with the objectives of our strategic sustainability programme.

Combating corruption and bribery

We have implemented clear rules on corruption prevention.

The holdings of Deutsche Wohnen are located in attractive metropolitan areas and conurbations with high demand. For that reason, employees who are able to influence the allocation of housing may find themselves the targets of bribery attempts. The same applies to the award of tenders for maintenance, refurbishment work or new construction projects. In the event of corruption or bribery, Deutsche Wohnen would be exposed to high reputational risk. The company has therefore implemented clear rules on preventing corruption that form a central element of compliance management.

Compliance with statutory provisions, the standards of the German Corporate Governance Code and binding internal guidelines is an important principle for Deutsche Wohnen, as is the fair treatment of business partners and competitors. Responsibility in this area mainly lies with the senior management, the internal audit department and the Compliance Officer. The Compliance Officer informs management, employees and business partners about the relevant capital market regulations as well as the consequences of any violations, acting as a point of contact for questions. Suspected cases of infringement can be reported through a whistle-blower system – also anonymously, if preferred. This system can be used by employees of Deutsche Wohnen as well as external parties, such as service providers and business partners.

In all areas of the company, employees are also bound to the code of conduct, which defines and stipulates behaviour in accordance with the law. An anti-corruption policy details the ban on corruption. Unlawful attempts to influence business partners by offering preferential treatment, gifts or other benefits is prohibited. All employees are required to confirm that they have received and understood this policy when they start work. It is the role of managers to raise awareness of compliance issues among employees. An e-learning platform is available for continuing professional development and staff training purposes. Furthermore, in line with the "four eyes" principle, a signature policy applies throughout the company based on value limits. This may require a second signature and a plausibility check when an order is placed, for example.

Managers sensitize their employees to compliance with the internal code of conduct.

Risks arising from corporate governance are monitored in the legal and compliance department and are included in a risk inventory as part of the overall risk management system.

In financial year 2018, there were no confirmed cases of corruption or incidents in which employees were dismissed or warned due to corruption.

Compliance with statutory data protection regulations

Deutsche Wohnen processes personal data, in particular about its customers, employees, applicants and business partners, for reasons such as fulfilling its contractual obligations or for statutory purposes. Responsible information handling and compliance with data protection regulations are high priorities for us.

An internal data protection coordinator liaises between internal contacts who deal with specific data protection issues in each department and the external data protection officer. This happens in close discussion with an in-house counsel in the legal and compliance department who primarily deals with data protection issues.

The General Data Protection Regulation [Datenschutz-Grundverordnung – GDPR] and the Federal Data Protection Act [Bundesdatenschutzgesetz – BDSG] are the most important pieces of legislation that define generally applicable data protection rules. There were no reportable violations of these laws in the year under review. The necessary technical and organisational measures have been implemented to protect data, and we are constantly working to optimise these in line with requirements.

Responsibility for our customers and properties

Contemporary living standards and a sound infrastructure are not only important for the well-being of each individual; they also contribute to a positive social climate.

Through ongoing investment through maintenance and refurbishment measures, Deutsche Wohnen ensures that the buildings in its portfolio are high in quality and attractive. We focus on strong tenant communities, which allow the stable development of urban neighbourhoods. With the help of a committed administration team and an easily accessible service centre, we are able to keep vacancy rates low at all times. In this way, we are able to mitigate both cost risk and reputational risk. Additionally, Deutsche Wohnen is developing some 2,500 new apartments with integrated energy concepts that will be realised by 2022. When planning new urban neighbourhoods, we follow established sustainability criteria and pay close attention to aspects of sustainability when selecting our construction materials.

Dialogue with tenants

Deutsche Wohnen informs its tenants at an early stage of any planned maintenance and refurbishment measures, for example in the form of tenant meetings, tenant talks and personal visits. First and foremost, our customers can reach us through local Service Points or our central Service Centre. We have also set up a customer portal that is constantly being developed and improved. In doing so, we aim to intensify contact with our tenants while simplifying processes and making them faster. Tenants can find answers to many questions about their tenancy and other useful services. In addition to increasing the exchange of information, we place importance on greater participation by our residents.

Customer satisfaction

Given the rising demand for housing, especially in metropolitan areas, affordable housing has become an important subject of public debate. Deutsche Wohnen carefully weighs the interests of tenants, investors and local authorities against each other, striving to achieve a fair balance. Deutsche Wohnen considers cases of financial and social hardship and adjusts allocations for modernisation work. Our focus is on long-term tenancies and a high level of customer satisfaction. We were able to measure satisfaction in 2017 by carrying out a comprehensive tenant survey, and we intend to repeat this process every two years in order to identify specific improvements with the potential to increase satisfaction. At the same time, we can see to what extent measures taken have had an effect and where further optimisation is required.

We focus on long-term tenancies and a high level of customer satisfaction.

Performance indicator	
Tenant survey: satisfaction with housing situation	**81%**

Health and safety of customers

The health and safety of our customers are the focus of our attention. Additionally, the building materials used have an impact on the environment throughout the life cycle, from the extraction of raw materials to manufacturing processes and disposal. For this reason, Deutsche Wohnen pays attention to ecological and health-related aspects in procurement. Given that environmentally friendly materials are usually more expensive, this decision has a direct impact on the bottom-line result.

For Deutsche Wohnen, the use of materials affects three categories: major projects (such as the complex refurbishment of buildings), smaller projects (carried out as part of ongoing maintenance work) and new construction projects. These projects are carried out by subcontractors, which means that Deutsche Wohnen is only able to influence the choice of materials by imposing specifications. As a rule, all materials used must comply with German laws and regulations. Any specifications that are more stringent represent an additional contribution to environmental protection.

Dealing with contaminated sites

The majority of the residential units in the portfolio of Deutsche Wohnen were not built by the company itself. In certain cases, these buildings still contain materials that were deemed to be modern from a technical perspective at the time of construction, but would now be considered harmful if they were released into the environment. These materials should be replaced in good time before contact with the environment can occur.

We examine new construction areas carefully for contaminated sites.

The handling of hazardous building materials is subject to strict regulations in the form of guidelines and laws. When replacing and disposing of asbestos and other hazardous waste, Deutsche Wohnen adheres to the Technical Rules for Hazardous Substances [Technische Regeln für Gefahrenstoffe – TRGS], which are part of the Technical Building Rules [Technische Baubestimmungen]. Any materials in existing buildings containing asbestos or other harmful substances are replaced with suitable materials. The contaminated materials are disposed of correctly in order to avoid any risk to people or the environment.

In case of refurbishment, maintenance work or new construction projects, we treat ground soil on the site with due care. New building plots are carefully examined for contamination and are treated in accordance with the statutory requirements of the Federal Soil Protection Act [Bundes-Bodenschutzgesetz – BbodSchG].

Specifications for system providers

The services provided by our system providers are governed by a standard price list that covers 80% to 90% of the standardised services related to tenant turnover. This defines the standard-quality products that system suppliers can select and install, including washbasins, tiles and fittings. For frequently recurring routine maintenance work where the individual contract value exceeds EUR 1,000, an additional standard price list was developed in 2017 with corresponding quality criteria. A pilot project was also launched for testing purposes with the intention of simplifying and standardising processes. The pilot phase began in 2018, and in 2019 it will be possible to draw some initial conclusions about the effects in terms of time and cost savings. As part of its technical facility management activities, Deutsche Wohnen coordinates the purchase of materials, products and services through system service provider B&O Deutsche Services GmbH. The applicable quality standards on this front are the building rules lists issued by the German Institute of Construction Technology [Deutsches Institut für Bautechnik – DIBt]. As part of the quality assurance system, approval of services rendered ensures that the relevant specifications are met.

Implementation of refurbishment measures

Deutsche Wohnen is continually refurbishing its portfolio. We follow an approach that is as sustainable as possible, making individual plans for each building. For example, we use mineral wool to insulate facades, avoiding polystyrene. When working on windows, we aim to restore old installations with wooden frames where possible and fit new windows made from plastic or wood as appropriate. We also make sustainable plans when redesigning outdoor facilities. This applies to the longevity of shrubs and trees, for example, and the handling of rainwater on-site.

We refurbish our portfolio in a sustainable way.

Our portfolio also includes many buildings and facilities that are several decades old. Here we aim to remain as close as possible to the original design when carrying out refurbishment work. This applies to factors such as the colour of facades, plasterwork and the restoration of balconies. For our listed properties, we work closely with experts in conservation and monument protection authorities, acting in full compliance with all the applicable regulations.

Criteria for new construction projects

Deutsche Wohnen ensures that its new construction activities are in line with recognised sustainability criteria such as the standards of the German Sustainable Building Council [Deutsche Gesellschaft für Nachhaltiges Bauen – DGNB] or the Sustainable Housing evaluation system (Nachhaltiger Wohnungsbau). Qualified agencies for sustainable building certification monitor new construction projects and provide advice, concepts and measurements that are necessary for the respective sustainability certification. They also coordinate documentation for planning and construction, incorporating specifications for sustainable materials in supplier contracts. For all construction work, materials should only be used if there is established proof that they do not present health or environmental risks with regard to their extraction, transport, processing, use and disposal. Checks and quality assurance are carried out by the commissioned architect.

Responsibility for our employees

We pay close attention to the qualified development of our staff.

Only with highly qualified, motivated employees is Deutsche Wohnen able to continue its successful business activities. For that reason, recruitment and staff retention are very important. We want to be an attractive employer for employees and junior staff, offering interesting career development and professional opportunities while guaranteeing fair remuneration and making it possible to achieve a healthy balance between work and family life. In particular, we pay close attention to the qualified training and development of our staff. Our measures in personnel work[2] are based on the above points as well as any issues arising from annual appraisals. This allows us to avoid the costs associated with staff turnover and to successfully implement our corporate strategy.

We have established a binding code of conduct for all employees and managers and implemented general employer values that promote trust and mutual respect among all staff and in dealings with third parties.

Furthermore, we carry out a systematic employee survey every two years, which provides us with important insights into the satisfaction level and needs of our staff. In 2018, 71% of all employees took part in the survey. The results show that people are very satisfied with Deutsche Wohnen as an employer. On the whole, especially notable outcomes were very high employer satisfaction and a very high recommendation rate. The welcome received by new recruits was also rated very positively.

2 The measures described in the following relate to all companies with personnel managing activities, with the exception of FACILITA and Helvetica.

Staff development

The Human Resources department relies on structured staff development and individual support, helping employees to develop their personal strengths. Regular employee surveys, annual employee appraisals and our "protected space" format for internal job changes and a generation analysis provide important insights into the skills and needs of our staff. These measures help us to appoint own specialists to fill key roles and to retain employees who demonstrate strong performance for the long term.

We foster the development of suitable junior staff through our various apprenticeship, trainee and talent management programmes as well as dual courses of study. Additionally, an internal professional development programme ensures that training is suited to the specific needs of the target group.

Performance indicator	
Training days	2,640

Fair remuneration

The performance-based and market-aligned system of remuneration introduced in 2014 sets out consistent and gender-independent standards and should increase overall employee satisfaction. Transparent rules form the basis for the same remuneration for comparable positions. Based on a comprehensive market comparison (sectoral collective agreements, salary surveys for the real estate industry), five to seven salary levels were defined for all activities in the individual companies of Deutsche Wohnen. The system of remuneration does not include the top management level below the Management Board.

Work-life balance and additional benefits

To promote a positive work-life balance, Deutsche Wohnen offers a range of part-time and flexitime models. Employees also have the option of working from home. The occupational health management programme offers benefits such as health awareness days, free massages, organic fruit baskets and participation in sporting events, and contributes to a healthy working environment. Following an employee survey on occupational health management, the company also introduced the "machtfit" health platform with a wide range of subsidised health and fitness courses for staff. The performance of Deutsche Wohnen as an employer has been recognised several times. It has received the "Fair Company" award as part of an initiative of the same name by karriere.de as well as the "Training Excellence" award from the Chamber of Commerce and Industry [Industrie- und Handelskammer – IHK]. Further information can be found in the section "Employees" of the combined management report.

Part-time and flexitime models improve work-life balance.

Employees from page 59

Responsibility for the environment and climate

With regard to the environment and climate, the property sector is able to make the greatest impact in the area of energy. There is considerable potential to save energy in existing buildings most of all, and we have a major part to play here. The energy management is assigned to the area of responsibility of the CEO of Deutsche Wohnen. He is involved in the strategic planning of energy management. He also attends monthly meetings and is involved in developing measures as Chairman of the Advisory Board of our joint venture G+D Gesellschaft für Energiemanagement mbH. Additionally, important decisions are discussed and made in the regular board meetings of Deutsche Wohnen.

Energy

In the Paris Agreement, the countries agreed on common goals for reducing energy consumption and CO_2 emissions. Also the building sector as a whole, and consequently companies like Deutsche Wohnen, must contribute to achieving these goals. We focus on using renewable energy and increasing the energy efficiency of buildings in our portfolio. The investment for energy efficiency measures is sometimes high, and this can put a strain on business results, at least in the short term. For that reason, it is important to consider the relationship between economic and environmental aspects for all measures.

Energy concept: holdings

As part of our portfolio investments, we have spent approximately EUR 1 billion over the past three years. In the coming years, we intend to invest further in order to continuously improve the quality or our properties. The relevant measures include adding insulation to facades, basement ceilings and roofs, as well as improving the standard of equipment in residential units, replacing or renovating windows to improve energy efficiency, renewing heating systems, and installing green or efficient energy production systems. One of the goals in this area is to cut annual CO_2 emissions by 20,000 tonnes from 2022 onwards. In future, Deutsche Wohnen will continue to ensure compliance with the requirements of the Federal Immission Control Act [Bundes-Immissionsschutzgesetz – BimSchG] and the German Energy Saving Ordinance [Energiesparverordnung – EnEV]. Further information about this topic can be found in the section "Property portfolio" under the point "Energy efficiency of buildings" in the combined management report.

Property portfolio from page 37

Performance indicator	
Average energy intensity[3]	132.3 kWh/sqm per year

Energy requirement: tenants

In the housing sector, it is customary for tenants to enter independently into contracts with utility companies for the supply of gas and electricity. Deutsche Wohnen has no direct influence on the choice of suppliers or the energy consumption of tenants. However, we try to raise our tenants' awareness of environmental issues. For example, a billing system based on the consumption of resources (heating, hot water and cold water) can influence a change in consumer behaviour. In the context of complex refurbishment measures, this is achieved by fitting heat cost allocators or meters for cold and hot water, which allow consumption-based billing. The electricity used for entrance and corridor lighting as well as technical systems (communal electricity) in the buildings in our letting portfolio comes for at least 90% of our letting portfolio from hydropower.

Energy concept: new construction

By 2022, Deutsche Wohnen plans to build around 2,500 new residential units in new detached buildings. When planning new urban neighbourhoods, we follow established sustainability criteria and pay close attention to aspects such as improved energy efficiency. Accordingly, we examine ways to reduce energy consumption and to use renewable energy at an early stage, incorporating these into our urban development plans. Our focus here is on the energy standard of planned buildings and the supply of heating. Deutsche Wohnen therefore designs and constructs new buildings in accordance with integrated energy concepts. Further information can be found in the section Criteria for new construction projects.

3 Weighted average of final energy consumption based on current energy performance certificates of properties (the approximately 30,000 listed units are usually not taken into consideration because no energy certificate is required for them).

In-house energy consumption

As part of the energy audit conducted in accordance with DIN EN 16247-1, Deutsche Wohnen collected comprehensive information about energy consumption at its own office locations and had verified this data through on-site inspections. Analysis of this data revealed potential energy savings a well as possible measures to optimise energy flows in the company.

Since 2012, hydropower has been used to meet most of the total in-house electricity demand at our administrative locations.

Social responsibility

We are committed to the common good in our neighbourhoods.

Our core business of providing high-quality housing has a wide range of effects on society in the surrounding districts. It not only secures satisfied tenants and investors but also benefits local neighbourhoods by ensuring well-maintained buildings, attractive outdoor facilities and the support of a variety of social projects. Our strategic objectives in this area include promoting a vibrant neighbourhood in terms of structure while continuing, expanding and further organising our commitment to the common good. In our community activities, we focus on projects that allow us to draw on our core areas of expertise.

The Management Board is closely involved in strategic planning on this front.

Urban design

The design of Deutsche Wohnen housing estates has a positive impact on the surrounding districts. Most buildings are surrounded by open, green spaces that are cared for by Deutsche Wohnen in the interest of providing areas for relaxation and improving air quality. Other features that promote a pleasant living environment include planted facades and new playgrounds. We also aim to achieve a diverse social mix in each neighbourhood with greater integration of different population groups.

In the segment of Nursing and Assisted Living, for some years our facilities have been transforming into social and community centres offering a broad range of cultural activities and in-house restaurants. These are open to residents as well as external guests.

Social engagement

Deutsche Wohnen wants to make cities a pleasant place to live and to strengthen social structures through ongoing dialogue and cooperation with residents, politicians and social agencies. Our social commitment relates specifically to our core competences relating to the topic of living. We rent out commercial space in our neighbourhoods to social institutions on favourable terms, promote the employment of social workers and provide housing to people experiencing social difficulties. We have also been working with local authorities and social initiatives since 2015 to facilitate the integration of refugees. We donate money to support initiatives that have a positive influence on relationships between neighbours in our estates and that help to build a successful community.

Performance indicator	
Newly let apartments for people in difficult social situations	4.5%

Preservation of historic monuments

Deutsche Wohnen is one of the largest owners of listed residential properties in Germany, with around 30,000 residential units in this category. These include the four UNESCO World Heritage communities in Berlin: the Siemensstadt housing estate, Weisse Stadt, Carl Legien housing estate and Hufeisensiedlung Britz (Britz Horseshoe Estate). We have many years of experience in caring for historic buildings and monuments, for instance in the area of energy-related renovation work. By protecting historic buildings and listed architecture, we make a contribution to the preservation of our cultural identity. This also benefits our estates and our tenants.

Our property portfolio includes four UNESCO World Heritage communities in Berlin.

Deutsche Wohnen is currently refurbishing five listed properties. All measures are reported to the lower monument authority [Untere Denkmalbehörde – UD] in accordance with the Law for the Protection of Monuments in Berlin, and we do not start any measurement until the respective approval has been received. If possible, buildings are restored to the condition they would have been in at the time of construction.

In early 2017, we became a member of the Federal Foundation for building culture (Förderverein der Bundesstiftung Baukultur) so that we could share our expertise and foster dialogue. As part of this development, we have already funded four workshops dedicated to building culture, one of which took place in 2018.

Berlin, 18 March 2019

Michael Zahn
Chairman of the
Management Board

Lars Wittan
Deputy Chairman of
the Management Board

Philip Grosse
Management Board

LIMITED ASSURANCE REPORT OF THE INDEPENDENT AUDITOR REGARDING THE SEPARATE NON-FINANCIAL GROUP STATEMENT[1]

To the Supervisory Board of Deutsche Wohnen SE, Berlin

We have performed an independent limited assurance engagement on the Non-Financial Group Statement (hereinafter "Statement") of Deutsche Wohnen SE and the Group (hereinafter "Deutsche Wohnen") according to Sections 315b and 315c in conjunction with 289c to 289e HGB (German Commercial Code) for the business year from January 1 to December 31, 2018.

Management's Responsibility

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

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

Independence and Quality Assurance on the Part of the Auditing Firm

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

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

Practitioner's Responsibility

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

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

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

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

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

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Statement of Deutsche Wohnen, for the period from January 1 to December 31, 2018, is not prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with 289c to 289e HGB.

Restriction of Use/Clause on General Engagement Terms

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

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

Berlin, March 18, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Hell ppa. Zimen

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

as of 31 December 2018

EUR m	Notes	31/12/2018	31/12/2017
Assets			
Investment properties	D.1	23,781.7	19,628.4
Property, plant and equipment	D.3	146.5	92.3
Intangible assets	D.4	31.4	19.0
Derivative financial instruments	D.7	0.9	3.3
Other non-current financial assets		113.3	23.1
Deferred tax assets	D.16	0.1	0.4
Non-current assets		**24,073.9**	**19,766.5**
Land and buildings held for sale	D.5	477.1	295.8
Other inventories		4.2	4.4
Trade receivables	D.6	22.4	15.5
Income tax receivables		83.1	47.5
Derivative financial instruments	D.7	0.1	0.0
Other financial assets		22.3	9.3
Other non-financial assets		9.0	8.0
Cash and cash equivalents	D.8	332.8	363.7
Sub-total current assets		**951.0**	**744.2**
Non-current assets held for sale	C.10	33.0	28.7
Current assets		**984.0**	**772.9**
Total assets		**25,057.9**	**20,539.4**

EUR m	Notes	31/12/2018	31/12/2017
Equity and liabilities			
Equity attributable to shareholders of the parent company			
Issued share capital	D.9	357.0	354.7
Capital reserve	D.9	2,918.1	3,078.6
Other reserves		7.1	–19.7
Retained earnings	D.9	8,276.9	6,474.6
Total equity attributable to shareholders of the parent company		**11,559.1**	**9,888.2**
Non-controlling interests	D.9	349.0	322.8
Total equity		**11,908.1**	**10,211.0**
Non-current financial liabilities	D.10	6,112.3	4,697.4
Convertible bonds	D.11	1,691.3	1,667.3
Corporate bonds	D.11	1,130.3	819.3
Employee benefit liabilities	D.12	63.4	65.7
Derivative financial instruments	D.7	7.3	1.2
Other provisions	D.14	15.2	13.6
Other financial liabilities	D.13	296.7	217.8
Deferred tax liabilities	D.16	3,244.7	2,496.7
Total non-current liabilities		**12,561.2**	**9,979.0**
Current financial liabilities	D.10	72.3	53.7
Convertible bonds	D.11	5.9	2.3
Corporate bonds	D.11	70.1	7.3
Trade payables		302.4	177.7
Other provisions	D.14	9.4	6.6
Derivative financial instruments	D.7	8.3	4.1
Tax liabilities	D.15	36.0	27.2
Other financial liabilities	D.13	54.9	44.1
Other non-financial liabilities		29.3	26.4
Total current liabilities		**588.6**	**349.4**
Total equity and liabilities		**25,057.9**	**20,539.4**

CONSOLIDATED PROFIT AND LOSS STATEMENT

for the period from 1 January to 31 December 2018

EUR m	Notes	2018	2017
Contracted rental income	E.1	785.5	744.2[1]
Income from operating costs	E.1	337.4	326.5[1]
Expenses from Residential Property Management	E.2	–466.7	–457.9[1]
Earnings from Residential Property Management		**656.2**	**612.8**
Sales proceeds		180.3	308.6
Of which for revenues from real estate inventories		27.3	188.1
Cost of sales		–7.0	–7.2
Carrying amount of assets sold		–130.2	–251.1
Of which for revenues from real estate inventories		–19.5	–153.7
Earnings from Disposals	E.3	**43.1**	**50.3**
Income from nursing		68.1	63.8[1]
Rental and lease income		67.2	56.9[1]
Expenses for Nursing and Assisted Living		–80.0	–72.7
Earnings from Nursing and Assisted Living	E.4	**55.3**	**48.0**
Corporate expenses	E.5	–93.7	–81.3
Other expenses	E.7	–24.4	–37.8
Other income	E.6	22.6	8.8
Sub-total (EBITDA before the result from the fair value adjustments of investment properties)		**659.1**	**600.8**
Profits/losses from the fair value adjustment of investment properties	D.1	2,179.3	2,397.0
Depreciation and amortization	D.3/4	–10.3	–7.4
Earnings before interest and taxes (EBIT)		**2,828.1**	**2,990.4**
Financial income		7.8	1.4
Profits/losses from fair value adjustments to derivative financial instruments and convertible bonds	D.7/E.9	–80.3	–226.0
Profits/losses from companies valued at equity	B.3	2.6	3.0
Financial expenses	E.10	–131.4	–170.6
Earnings before taxes (EBT)		**2,626.8**	**2,598.2**
Income taxes	E.11	–764.2	–834.9
Profit/loss for the period		**1,862.6**	**1,763.3**
Of which attributable to:			
Shareholders of the parent company		1,833.0	1,717.9
Non-controlling interests		29.6	45.4
		1,862.6	**1,763.3**
Earnings per share			
Undiluted in EUR	H	5.15	4.88
Diluted in EUR	H	4.86	4.74

1 Previous year's figure altered due to first-time application of IFRS 15.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2018

EUR m	Notes	2018	2017
Profit/loss for the period		**1,862.6**	**1,763.3**
Other comprehensive income			
Items subsequently reclassified to profit or loss			
Net profit/loss from derivative financial instruments	D.7	–1.8	24.6
Income tax effects	D.16	0.4	–7.4
		–1.4	**17.2**
Items not subsequently reclassified to profit or loss			
Actuarial profits/losses on pensions and impact of caps for assets in pension plans	D.12	0.4	0.3
Net profits/losses from convertible bonds	C.11	39.8	0.0
Income tax effects	D.16	–12.0	–0.3
		28.2	**0.0**
Other comprehensive income after taxes		**26.8**	**17.2**
Total comprehensive income after taxes		**1,889.4**	**1,780.5**
Of which attributable to:			
Shareholders of the parent company		1,859.8	1,735.1
Non-controlling interests		29.6	45.4

CONSOLIDATED STATEMENT OF CASH FLOWS

for the period from 1 January to 31 December 2018

EUR m	Notes	2018	2017
Operating activities			
Profit/loss for the period		1,862.6	1,763.3
Financial income		–7.8	–1.4
Adjustment to derivative financial instruments and convertible bonds	D.7/11, E.9	80.3	226.0
Financial expenses		131.4	170.6
Profits/losses from companies valued at equity		–2.6	–3.0
Income taxes		764.2	834.9
Profit/loss for the period before interest and taxes		**2,828.1**	**2,990.4**
Non-cash expenses/income			
Adjustment to the fair value of investment properties	D.1	–2,179.3	–2,397.0
Depreciation and amortization	D.3/4	10.3	7.4
Other non-cash expenses/income	G	–28.0	–52.1
Changes in net current assets			
Changes in receivables, inventories and other current assets		–28.2	–9.4
Changes in operating liabilities		141.0	18.9
Net operating cash flow		**743.9**	**558.2**
Proceeds from the disposal of properties held for sale	G	27.3	188.1
Investment in properties held for sale		–131.4	–68.3
Interest paid		–111.3	–100.9
Interest received		3.9	1.4
Taxes paid		–73.7	–65.0
Taxes received		10.7	4.7
Net cash flow from operating activities		**469.4**	**518.2**
Investing activities			
Sales proceeds	G	150.6	115.4
Payments for investments		–2,046.5	–1,092.3
Receipt of investment subsidies		0.8	0.8
Proceeds from dividends from shareholdings and joint ventures		0.1	0.1
Payments for business combinations less cash and cash equivalents acquired		–18.7	0.0
Other proceeds of investing activities		2.8	15.3
Payments to limited partners in funds		–0.7	–3.4
Net cash flow from investing activities		**–1,911.6**	**–964.1**
Financing activities			
Proceeds of new borrowing	D.10	1,354.4	422.6
Loan repayments	D.10	–106.5	–497.6
Proceeds from the issue of convertible bonds	D.11	0.0	1,600.0
Repayment of convertible bonds	D.11	0.0	–1,205.0
Proceeds from the issue of corporate bonds		525.0	520.0
Repayment of corporate bonds		–150.0	–428.0
One-off financing payments	E. 10	–9.7	–71.3
Proceeds from the sale of non-controlling interests		0.0	99.5
Payments for the purchase of non-controlling interests		0.0	–94.8
Proceeds of the capital increase	D.9	0.1	545.3
Other payments from financing activities		–1.4	–0.8
Costs of the capital increase	D.9	–0.5	–4.4
Dividend paid to shareholders of Deutsche Wohnen SE	H	–194.8	–262.4
Dividends paid to shareholders of non-controlling interests		–5.3	–5.7
Net cash flow from financing activities		**1,411.3**	**617.4**
Net change in cash and cash equivalents		**–30.9**	**171.5**
Opening balance of cash and cash equivalents		363.7	192.2
Closing balance of cash and cash equivalents		**332.8**	**363.7**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as of 31 December 2018

EUR m	Issued capital	Capital reserves	Pensions and convertible bonds	Cash flow hedge reserve	Total other comprehensive income	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interests	Total equity
Equity as of 1 January 2017	**337.5**	**3,445.3**	**–17.7**	**–19.2**	**–36.9**	**4,219.7**	**7,965.6**	**268.4**	**8,234.0**
Profit/loss for the period						1,763.3	1,763.3		1,763.3
of which non-controlling interests						–45.4	–45.4	45.4	0.0
Other comprehensive income			0.0	17.2	17.2		17.2		17.2
of which non-controlling interests			0.0	0.0	0.0		0.0	0.0	0.0
Total comprehensive income			**0.0**	**17.2**	**17.2**	**1,717.9**	**1,735.1**	**45.4**	**1,780.5**
Capital increase	17.2	528.5					545.7		545.7
Cost of capital increase, less tax effect		–3.0					–3.0		–3.0
Transfer from capital reserve		–893.6				893.6	0.0		0.0
Contribution in connection with Management Board remuneration		1.4					1.4		1.4
Change in non-controlling interests						4.6	4.6	9.0	13.6
Dividend						–262.4	–262.4		–262.4
Other						–98.8	–98.8		–98.8
Equity as of 31 December 2017	**354.7**	**3,078.6**	**–17.7**	**–2.0**	**–19.7**	**6,474.6**	**9,888.2**	**322.8**	**10,211.0**
Equity as of 1 January 2018	**354.7**	**3,078.6**	**–17.7**	**–2.0**	**–19.7**	**6,474.6**	**9,888.2**	**322.8**	**10,211.0**
Profit/loss for the period						1,862.6	1,862.6		1,862.6
of which non-controlling interests						–29.6	–29.6	29.6	0.0
Other comprehensive income			28.2	–1.4	26.8		26.8		26.8
of which non-controlling interests			0.0	0.0	0.0		0.0	0.0	0.0
Total comprehensive income			**28.2**	**–1.4**	**26.8**	**1,833.0**	**1,859.8**	**29.6**	**1,889.4**
Capital increase	2.3	87.4					89.7		89.7
Cost of capital increase, less tax effect		–0.4					–0.4		–0.4
Transfer from capital reserve		–247.8				247.8	0.0		0.0
Contribution in connection with Management Board remuneration		0.3					0.3		0.3
Change in non-controlling interests						–0.2	–0.2	–3.4	–3.6
Dividend						–283.7	–283.7		–283.7
Other						5.4	5.4		5.4
Equity as of 31 December 2018	**357.0**	**2,918.1**	**10.5**	**–3.4**	**7.1**	**8,276.9**	**11,559.1**	**349.0**	**11,908.1**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

A General remarks on the consolidated financial statements of Deutsche Wohnen SE

1 The Deutsche Wohnen Group

The consolidated financial statements of Deutsche Wohnen SE ("Deutsche Wohnen") as at 31 December 2018 were prepared by the Management Board on 18 March 2019. The Supervisory Board is scheduled to approve the consolidated financial statements at its meeting on 18 March 2019. Deutsche Wohnen SE is a publicly listed property company which is based in Germany and operates nationally. Its headquarters are located at Mecklenburgische Straße 57, Berlin, and it is entered in the Commercial Register held at Berlin-Charlottenburg Local Court, HRB 190322 B.

Deutsche Wohnen SE operates solely as a holding company for the entities which make up the group. Its activities as a holding company comprise, in particular, Project & Process Management, Corporate Development and Strategy, Asset Management, Corporate Finance, IT, Human Resources, Investor Relations, Corporate Communication, and Legal/Compliance. The operating subsidiaries focus on Property Management and Disposals/Acquisitions, as well as on property related services.

The consolidated financial statements are presented in euros. Unless stated otherwise, figures are rounded to the nearest thousand (EUR k) or the nearest million (EUR m) EUR. For arithmetical reasons, there may be rounding differences between the tables and references and the exact mathematical figures.

2 Consolidated financial statements

The consolidated financial statements of Deutsche Wohnen and its subsidiaries were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU) and the commercial law provisions applicable in a supplementary capacity pursuant to section 315e para. 1 of the German Commercial Code [Handelsgesetzbuch – HGB].

The consolidated financial statements have been prepared on an amortized cost basis. This excludes, in particular, the investment properties, the convertible bonds and the derivative financial instruments, which are measured at 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 subsidiaries' financial statements are prepared using uniform accounting policies and valuation methods with the same reporting date as the parent company's financial statements.

3 Application of IFRS in the financial year

With the exception of new and revised standards and interpretations, the same accounting policies and valuation methods were applied to the consolidated financial statements for the past financial year as were used for the consolidated financial statements as at 31 December 2017.

First-time application of new standards in the financial year 2018:

As of 1 January 2018, IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers, including Amendments to IFRS 15", were applied for the first time. Amendments to IFRS 4 "Insurance Contracts" were not relevant for the Group. Listed below are the effects resulting from the first-time application of IFRS 9 and IFRS 15.

The first-time application of the new standard IFRS 9, without adjustment of the prior-year figures, had no material impact, apart from one reclassification within equity concerning the convertible bonds. The new regulations relate above all to the classification of financial instruments irrespective of the business model, the way in which anticipated losses on financial assets are carried in the balance sheet, and a new approach to accounting for hedging relationships.

Based on the business model and the characteristics of the contractual cash flows, IFRS 9 divides financial assets into three measurement categories – 'amortized cost', 'fair value through profit or loss' and 'fair value through other comprehensive income' – instead of the four previously used under IAS 39. The measurement category 'amortized cost' may only be utilised for financial assets which are held in connection with a business model that focuses exclusively on collecting the contractual cash flows. To the extent that these financial assets are held in the context of a business model based on disposals, they are measured at fair value through other comprehensive income. All other financial assets must be included in the 'fair value through profit or loss' measurement category, whose fluctuations in value are recorded through profit and loss in the consolidated income statement. Deutsche Wohnen has exercised the option of measuring the equity instruments currently held at fair value through other comprehensive income.

There were no material changes in the categorisation of financial liabilities under IFRS 9. However, a new regulation requires fluctuations in the fair value of financial liabilities for which the option of fair value measurement is chosen to be reported in other comprehensive income, provided they were caused by changes in the counterparty risk. As of 1 January this amendment resulted in a reclassification within equity of EUR 6 million between other comprehensive income and retained earnings relating to the cumulative counterparty risk of the convertible bonds issued. On an ongoing basis the changes in counterparty risk are shown separately in other comprehensive income within the statement of total comprehensive income.

The amended categorisation resulted in the following changes to the reporting as of 1 January 2018:

EUR m	Valuation category in accordance with IAS 39	Total balance sheet items as at 31/12/2017	Valuation category in accordance with IFRS 9	Total balance sheet items as at 01/01/2018
		Carrying amount		Carrying amount
Trade receivables	LaR	15.5	AC	15.5
Other assets				
Financial assets	AfS	0.4	FVOCI	0.4
Financial assets	n/a	14.6	n/a	14.6
Loans receivable	LaR	4.2	AC	4.2
Other financial assets	LaR	13.2	AC	13.2
Derivative financial instruments	FAHfT	3.3	FVtPL	3.3
Cash and cash equivalents	LaR	363.7	AC	363.7
Total financial assets		414.8		414.8
Financial liabilities	FLaC	4,751.1	AC	4,751.1
Convertible bonds	FLHfT	1,669.6	FVtPL	1,669.6
Corporate bond	FLaC	826.6	AC	826.6
Trade payables	FLaC	177.7	AC	177.7
Other liabilities				
Liabilities from finance leases	n/a	65.6	n/a	65.6
Other financial liabilities	FLaC	196.3	AC	196.3
Derivative financial instruments				
Interest rate hedges (no hedge accounting)	FLHfT	4.7	FVtPL	4.7
Cash flow hedges (interest rate swap)	n/a	0.6	n/a	0.6
Total financial liabilities		7,692.2		7,692.2

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 forward at amortized cost (Financial Liabilities at Cost)
FLHfT – Liabilities assessed at fair value and recognised in profit/loss (Financial Liabilities Held for Trade)
AC – Financial assets and financial liabilities valued at amortized costs (Amortized Cost)
FVtPL – Measured at fair value through profit and loss (Fair Value through Profit and Loss)
FVOCI – Measured at fair value through equity (Fair Value through Other Comprehensive Income)

The switch to the IFRS 9 impairment model based on expected losses did not have a material impact as outstanding receivables were already recognised as impaired pursuant to IAS 39 at the end of the month due to the property-specific debit entry of rent receivables at the beginning of the month. Likewise, application of the revised accounting method for hedging relationships in accordance with IFRS 9 did not have any material consequences for Deutsche Wohnen because the company only hedges cash flows arising from future interest payments.

In line with IFRS 15 'Revenue from Contracts with Customers', revenues are recognised when control of the agreed goods and services passes to the client. Revenue continues to be recognised at the amount of consideration which the entity expects to receive. IFRS 15 supersedes a number of standards, including IAS 18 and IAS 11, and also contains new disclosure requirements. Deutsche Wohnen applied IFRS 15 retrospectively for the first time as of 1 January 2018.

The first-time application only resulted in presentation changes in the Residential segment and in the Nursing and Assisted Living segment. These changes in presentation do not affect Deutsche Wohnen's financial performance indicators and the previous year's figures have been restated accordingly.

In the Residential Property Management segment, rental agreements are concluded which largely relate to net cold rents and operating costs. As the net rent exclusive of heating expenses constitutes a leasing relationship, this contractual component is not covered by IFRS 15. Income from operating costs falls within the scope of IFRS 15 and is offset by corresponding expenses in the year the service is performed. The bulk of these services are performed by the Group as the primary contractor. In view of the inventory risk, Deutsche Wohnen also acts as the principal for all services it does not perform itself. The expenses for operating costs are therefore no longer offset against the corresponding revenues from the 2018 financial year onwards. The effects of first-time application of IFRS 15 on the reporting period and comparative period are shown below:

EUR m	01/01/–31/12/2018 (IAS 18 cont.)	01/01/– 31/12/2017 (IAS 18 cont.)
Proceeds from Residential Property Management	785.5	744.2
Expenses from Residential Property Management	–129.3	–131.4
Earnings from Residential Property Management	**656.2**	**612.8**

EUR m	01/01/–31/12/2018 as reported (IFRS 15)	01/01/– 31/12/2017 as reported (IFRS 15)
Contracted rental income	785.5	744.2
Income from operating costs	337.4	326.5
Expenses from Residential Property Management	–466.7	–457.9
Earnings from Residential Property Management	**656.2**	**612.8**

In the Nursing and Assisted Living segment, Deutsche Wohnen concludes tenancy agreements with external operators of nursing properties. These are not covered by IFRS 15 because they are leasing relationships. The Group also concludes nursing home agreements with residents of its owner-operated nursing properties by virtue of its shareholding in the KATHARINENHOF Group. These nursing home contracts fundamentally comprise accommodation and care – two service components which are provided in return for contractually agreed consideration. As the accommodation component of the contract constitutes a leasing relationship but the provision of care is a revenue component as per IFRS 15, Deutsche Wohnen uses two income categories – 'rental and lease income' and 'income from nursing' – to recognise the Nursing segment's revenues in the consolidated income statement as of 1 January 2018. Rental and lease income comprises revenues from tenancy agreements with external operators, the accommodation component of nursing home contracts and tenancy agreements for assisted living.

The amendments to IFRS 2 'Share-based Payment' that deal with accounting for cash-settled share-based payments, in particular the fair value measurement of the corresponding obligations, had no effect on Deutsche Wohnen.

In December 2016 the IASB published amendments to IAS 40 'Investment Properties'. The amendments clarify that the standard mentions possible examples of certain changes in use and the resulting transfer to or from the IAS 40 category, and emphasises that these examples are not exhaustive. The amendments do not have any effect on Deutsche Wohnen's reporting methodology.

The application of the annual improvements to IFRS 1 'First-time Adoption of IFRS' and IAS 28 'Interests in Associates and Joint Ventures' also had no effect on Deutsche Wohnen.

Apart from this, there were no changes as a result of the first-time application of IFRS or IFRIC having a material effect on the reporting in the consolidated financial statements in the financial year 2018.

Standards which are not yet mandatorily applicable:

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

In January 2016 the IASB published the new standard IFRS 16 'Leases'. In future all leases will have to be recognised by the lessee in the form of rights of use and lease liabilities, to the extent that the lease term exceeds twelve months and the assets are not of minor value. Lessors continue to distinguish for accounting purposes between finance leases and operating leases. The new standard will apply to Deutsche Wohnen as an entity which is both lessor and lessee.

As lessee, Deutsche Wohnen has identified the following categories of lease that are significant for the Group and result in the recognition of rights of use and lease liabilities as of 1 January 2019 following the first-time application of the standard: heat contracting, measurement technology, commercial leases and vehicle leasing. Overall the Group expects to recognise rights of use and corresponding lease liabilities of around EUR 48 million for these categories. Some EUR 4 million of the rights of use will be accounted for as investment properties and around EUR 44 million as property, plant and equipment. Any effects on net assets or deferred tax assets and liabilities are currently expected to be immaterial. The Group expects that the interim result in the consolidated income statement, which is also used as a segment earnings indicator, will increase by EUR 6.5 million to EUR 7.5 million due to the first-time application of IFRS 16. An opposite effect is expected in depreciation and amortization, revaluation and interest expenses, so that in total the first-time application of the new lease standard is only expected to have a slight negative impact on net profit for the financial year 2019. In the consolidated statement of cash flows, the cash flow from operating activities is expected to increase by EUR 6.0 million to EUR 7.0 million. Cash outflows from financing activities are expected to go up by the same amount. For leases in which Deutsche Wohnen is lessor, the Group expects significant effects on accounting. In the future, the revenues from the operating costs land tax and building insurance fall due to lack of transfer of benefits to the lessee under the other components of the continuing obligation (neither lease nor service component) and are therefore accounted for in accordance with the relevant provisions for other components.

The Group will apply the standard as mandatory from 1 January; the transition project was not complete at the time the consolidated financial statements were prepared. The Group intends to apply the simplified transitional approach, taking advantages of various exemptions, and will not adjust financial information retroactively for 2018.

In June 2017 the IASB issued IFRIC 23, 'Uncertainty over Income Tax Treatments'. The interpretation makes clear that entities should, in reporting uncertain amounts of income taxes on the balance sheet, proceed on the basis that the tax authorities will verify the reported amounts in full knowledge of all of the relevant information. The interpretation will be mandatorily applicable from 1 January 2019 onwards. Deutsche Wohnen is currently analysing whether it is likely to have any effect on its reporting methodology.

In October 2017 the IASB published minor amendments to IFRS 9, 'Financial Instruments', which enables financial assets with symmetric prepayment options to be measured at amortized cost or at fair value through other comprehensive income. It also clarified the modification of financial liabilities that does not result in derecognition. The amendments will be mandatorily applicable from 1 January 2019 onwards. On current assessments, Deutsche Wohnen is not expecting any material effects.

The following IFRS standards have not yet been incorporated into EU law and as such do not yet apply.

In October 2017, the IASB published amendments to IAS 28 'Investments in Associates and Joint Ventures' relating to long-term shareholdings in such entities. These amendments make clear that an entity will be required to apply IFRS 9 'Financial instruments', including the provisions governing impairments contained therein, to long-term investments in associates and joint ventures which represent a portion of the net amount invested in the associate or joint venture in question and are not reported in accordance with the equity method. The amendments will be mandatorily applicable from 1 January 2019 onwards. Deutsche Wohnen does not expect them to have any material effect on its reporting methodology.

The IASB published 'Annual Improvements to IFRS Standards 2015–2017 Cycle' in December 2017. The improvements relate to clarifications for IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements', IAS 12 'Income Taxes' and IAS 23 'Borrowing Costs'. The amendments will take effect for reporting periods from 1 January 2019. Deutsche Wohnen is currently analysing whether it is likely to have any effect on its reporting methodology.

The IASB published an amendment to IAS 19 in February 2018. The amendment stipulates that in the event of the amendment, curtailment or settlement of a defined-benefit pension plan, the current service expense and net interest for the remaining financial year must be remeasured using the current actuarial assumptions that were used for the remeasurement of the net liability (asset).

The IASB also included amendments to IAS 19 clarifying how a plan amendment, curtailment or settlement affects the requirements regarding the asset ceiling. The amendments will be mandatorily applicable from 1 January 2019 onwards. Deutsche Wohnen is currently analysing whether it is likely to have any effect on its reporting methodology.

In March 2018 the IASB published a revised version of the Conceptual Framework. The revision of the Conceptual Framework particularly included a new chapter on the measurement of assets and liabilities, guidelines for the presentation of financial performance, a revised definition of the terms asset and liability and clarifications on the importance of accountability and the principle of prudence in the context of the objective of IFRS financial reporting. The updated references to the revised Conceptual Framework in the standards and interpretations are applicable from 1 January 2020. Deutsche Wohnen is currently analysing whether it is likely to have any effect on its reporting methodology.

In October 2018 the IASB published an amendment to IFRS 3 concerning the definition of a business. In it the IASB clarifies the three elements of a business. The background was an increasing number of questions in the past about whether a business was being acquired or not in a particular case. Deutsche Wohnen is currently analysing whether it is likely to have any effect on its reporting methodology.

In addition, the IASB published amendments to the definition of materiality in financial reporting in October 2018. The amendments, in combination with additional comments on use in IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', are intended to make it easier for IFRS reporting entities to determine materiality. The amendments also ensure that the definition of materiality is harmonised across all IFRS. Deutsche Wohnen is currently analysing whether it is likely to have any effect on its reporting methodology.

The IASB and the IFRS IC did not issue any further statements and amendments to standards having a significant effect on the consolidated financial statements during the reporting year or up to the date the consolidated financial statements were approved.

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 the KATHARINENHOF Group

Deutsche Wohnen SE assumes that it may be deemed to exercise control over the KATHARINENHOF Group although it does not hold the majority of the voting rights. This position of control is due, in particular, to contractual arrangements entered into with the majority shareholder. Please see Note B. "Disclosure of shares in other companies" for further information.

Operating lease commitments – Group as lessor

The Group has entered into leases to rent on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Classification of nursing properties as investment properties

In its Nursing and Assisted Living segment, Deutsche Wohnen implements the business model of holding nursing properties to generate rental income and/or for capital appreciation. The decision to classify the nursing properties which are managed by its subsidiary KATHARINENHOF as investment properties was largely based on the analysis of two criteria: on the one hand, fluctuations in operating cash flows purely from the nursing care business (excluding the rents for the related residential units) are examined and, on the other hand, the earnings from the provision of nursing care services are juxtaposed against the rental income from the residential units in the nursing properties as a means of assessing the significance of the nursing care services for the material financial management parameter FFO I. Due to the relatively minor fluctuations in the operating cash flows from the aforementioned provision of nursing care services and the negligible size of the contribution of these services towards the amount of the FFO I in comparison with the rental income, these properties are reported on the balance sheet as investment properties.

Estimates and assumptions

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

The fair value of investment properties and properties held for sale

The fair value of the residential and commercial properties held for investment purposes was determined on an internal basis by means of portfolio valuations as at 30 June 2018 and 31 December 2018. The properties are clustered on the basis of their location and property quality. Assumptions regarding changes in rents, vacancies and maintenance costs, as well as discount and capitalisation rates, are largely made on the basis of these clusters. The nursing properties were valued by an external appraiser as of 31 December 2018. The valuation is largely based on assumptions about market rents, discount rates and capital expenditure. All assumptions adopted in the context of valuations are subject to uncertainty due to their long-term reach, which could result in positive or negative value adjustments in the future. The carrying amount of the investment properties and properties held for sale amounted to EUR 23.8 billion (previous year: EUR 19.6 billion). Please see Note D.1 "Investment properties" for further information.

Pensions and other post-employment benefits

Expenses relating to post-employment defined benefit plans and the value of the related employee benefit liabilities reported on the balance sheet are determined on the basis of actuarial calculations. The actuarial calculations are made on the basis of assumptions regarding discount rates, future wage and salary increases, mortality and future pension increases. Such estimates are subject to significant uncertainty due to the long-term nature of these plans. The employee benefit liabilities amounted to EUR 63.4 million as at 31 December 2018 (previous year: EUR 65.7 million). Please see Note D.12 "Employee benefit liabilities" for further information.

Deferred taxes

The reporting on the balance sheet of deferred taxes calls for, in particular, estimations with regard to tax rates, the reversal of temporary differences and the use of tax assets resulting from loss carry-forwards. The underlying assumptions are subject to some uncertainty. The deferred tax assets amounted to EUR 0.1 million as at 31 December 2018 (previous year: EUR 0.4 million) and the deferred tax liabilities to EUR 3,244.7 million (previous year: EUR 2,496.7 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 those of Deutsche Wohnen SE and the subsidiaries it controls from the time of their acquisition, i.e. from the date on which the Group obtains control over the entities in question. They will continue to be consolidated until the date on which the parent company relinquishes such control. The composition of the Deutsche Wohnen Group can be seen in the list of shareholdings attached as Appendix 1.

A total of 149 companies (previous year: 129) were included in the consolidated financial statements by way of full consolidation in financial year 2018 (Appendix 1).

Two residential property companies in the form of a German limited liability company (GmbH) were acquired in the Residential Property Management segment. One entity in the form of a partnership was deconsolidated following a disposal and merger with another residential property structured as a German GmbH. The deconsolidation of the disposal entity had no material impact on the assets, earnings and financial position of Deutsche Wohnen.

Two newly acquired companies structured as limited partnerships were fully consolidated in the Nursing and Assisted Living segment. Furthermore, twelve nursing home companies and two investment companies structured as German GmbH were acquired.

In addition, Deutsche Wohnen acquired a 100% interest in Helvetica Services GmbH in Berlin on 1 January 2018. This transaction is a business acquisition as defined in IFRS 3. The company's activities primarily involve the administration and management of rented apartments and commercial space in Greater Berlin.

On the date of first-time consolidation, the fair value of the acquired assets and liabilities of Helvetica Services GmbH was as follows:

EUR m	
Assets	
Receivables and other assets	0.9
	0.9
Liabilities	
Trade payables and other liabilities	–0.3
	–0.3
Net assets	**0.6**

The fair value of the assets and obligations acquired largely corresponds to their carrying amount.

The purchase price for the interest in Helvetica Service GmbH was EUR 3.3 million. Deducting the provisional net assets of EUR 0.6 million from the purchase price for the shares results in goodwill of EUR 2.7 million. The purchase price allocation is preliminary as of the reporting date.

Since the entity reported no material amount of cash and cash equivalents as of the first consolidation date, a cash outflow of EUR 3.3 million for investing activities was recognised in the cash flow statement.

Since initial consolidation Deutsche Wohnen has included revenue for the company of EUR 5.4 million and earnings before taxes (EBT) of some EUR 0.4 million in its consolidated financial statements. Since the entity largely provides intra-Group services for the Residential Property Management segment, they are consolidated.

No material transaction costs were incurred in connection with this business combination.

In addition, Deutsche Wohnen acquired all of the shares of GETEC Media GmbH in Magdeburg on 1 October 2018. This transaction is a business acquisition as defined in IFRS 3. The company and its three subsidiaries provide a broad range of telecommunications services for commercial and private customers.

When the GETEC Media Group was first consolidated, the provisional fair value of the assets acquired and liabilities assumed was made up as follows:

EUR m	
Assets	
Property, plant and equipment	4.5
Trade receivables	3.2
Income tax receivables	1.0
Other assets	2.3
Cash and cash equivalents	1.6
	12.6
Liabilities	
Financial liabilities	–17.0
Trade payables	–1.5
Other liabilities	–2.2
	–20.7
Net assets	**–8.1**

The fair value of the assets and obligations acquired largely corresponds to their carrying amount.

The purchase price for the interest in the entity was EUR 1. Deducting the provisional negative net assets of EUR 8.1 million from the purchase price for the shares results in goodwill of EUR 8.1 million. Including the acquired cash and cash equivalents of EUR 1.6 million resulted in a cash inflow of EUR 1.6 million. The purchase price allocation is preliminary as of the reporting date.

Since initial consolidation Deutsche Wohnen has included revenue for the company of some EUR 2.1 million and earnings before taxes (EBT) of around EUR 0.5 million in its consolidated financial statements. Had the acquisition taken place as of 1 January 2018, revenue of EUR 13.6 million and earnings before taxes (EBT) of around EUR 1.6 million would have been recognised for financial year 2018.

No material transaction costs were incurred in connection with this business combination.

As part of a share deal the Group acquired seven companies, consisting of FB Real Estate Holding 1 to 7 GmbH, Berlin, and merged them with GSW Immobilien AG with effect from 1 September 2018. The transaction was not a business acquisition within the meaning of IFRS 3. The entire acquisition package consisted essentially of investment properties.

There were no other changes to the group of consolidated companies as of the reporting date.

Successive acquisition of PUW OpCo GmbH after the reporting date:
In the course of a successive acquisition the Group acquired the remaining 55% interest in PUW OpCo GmbH ("Pflege und Wohnen Group") based in Hamburg. The acquisition date on which Deutsche Wohnen SE gained control over the Pflege und Wohnen Group is 2 January 2019. As of this date Deutsche Wohnen SE holds 100% of the shares in the group. The Pflege und Wohnen Group is a Hamburg-based operator of nursing homes and offers a broad range of regional nursing care solutions to elderly people and others requiring nursing care.

The preliminary consideration paid for the purchase of the Pflege und Wohnen Group is made up as follows:

EUR m	
Fair value of equity instruments already held (45%)	54.0
Net cash price component for the remaining shares (55%)	66.9
Total compensation	**120.9**

The valuation of the equity instruments already held had no material effect on earnings. The preliminary purchase price allocation (PPA) to the acquired assets and liabilities of the Pflege und Wohnen Group as of the first consolidation date is based on a provisional external valuation obtained for the purpose of measuring the fair values of these assets and liabilities.

The assets and liabilities acquired in the course of the business acquisition have the following provisional fair values as of the initial consolidation date:

EUR m	
Property, plant and equipment	13.2
Intangible assets	38.7
Trade receivables	2.9
Cash and cash equivalents	7.7
Other assets at fair value	0.3
Total assets	**62.8**
Employee benefit liabilities	–27.2
Financial liabilities	–24.0
Trade payables	–2.2
Deferred tax liabilities	–9.7
Other liabilities at fair value	–13.4
Total liabilities	**–76.5**
Net assets at fair value	**–13.7**
Total compensation	120.9
Goodwill	**134.6**

The goodwill largely represents the expected earnings potential of the business with its wide range of regional nursing homes, an improved general market position and other advantages and assets that cannot be recognised separately (e.g. workforce). The gross amount of the purchased trade receivables corresponds to their fair value.

2 Consolidation methods

The subsidiaries' financial statements are prepared using uniform accounting policies and valuation methods with the same reporting date as the parent company's financial statements. Subsidiaries are fully consolidated from the time of their acquisition, this being the date on which the Group obtains control over them. They continue to be consolidated until the date on which the parent company ceases to exercise such control over them.

Capital is consolidated in accordance with the purchase method. The acquisition costs arising in the context of the acquisition of companies and businesses are offset against the fair value of the acquired assets and liabilities at the time of the acquisition. Any difference in a positive amount resulting from this offsetting is recognised under assets as goodwill. Any differences in negative amounts are verified and then recognised in the consolidated profit and loss statement. The time of the acquisition is the point in time at which the Group acquires the ability to exercise control over the relevant activities of the subsidiary in question, becomes exposed to fluctuations in the return on its investment and has powers of disposal with which it may influence such fluctuating returns. Differential amounts arising out of disposals or acquisitions of shares of non-controlling shareholders are offset within equity.

All intra-Group balances, transactions, revenues, expenses, and gains and losses from intra-Group transactions which are included in the carrying amount of the assets are eliminated in full.

Joint ventures and associates are consolidated using the equity method in accordance with IAS 28. The investment is recognised for the first time at cost. For subsequent consolidation the carrying amount is modified to reflect pro rata changes in the equity of the associate or joint venture.

Non-controlling interests represent the share of the profits and net assets which is not attributable to the shareholders of the parent company of the Group. Non-controlling interests are valued on the basis of the share of the identified value of the net assets of the acquired company attributable to them at the time of their acquisition. Non-controlling interests are reported separately in the consolidated profit and loss statement, in the consolidated statement of comprehensive income and on the consolidated balance sheet. The disclosure on the consolidated balance sheet is made within equity, separate from the equity attributable to the shareholders of the parent company.

3 Disclosure of shares in other companies

Shares in fully-consolidated subsidiaries

Deutsche Wohnen SE had 148 subsidiaries on the reporting date (previous year: 128). Its access to the assets and liabilities of these subsidiaries is not subject to any restrictions.

In some subsidiaries it holds non-controlling interests which are only entitled to a share of their earnings. Non-controlling interests are recognised in equity for these companies in the consolidated financial statements. The interests of non-controlling shareholders in GSW Immobilien AG amounted to 6.1% of the overall shareholdings as at 31 December 2018 (previous year: 6.1%). GSW Immobilien AG paid out dividends in the amount of EUR 4.8 million to non-controlling shareholders in the financial year 2018.

The following consolidated financial information relates to GSW as a major subsidiary in which Deutsche Wohnen SE holds a non-controlling interest:

EUR m	GSW Group
Non-current assets	7,826.1
Current assets	493.6
Cash and cash equivalents	6.6
Non-current liabilities	–3,528.2
Current liabilities	–184.5
Net assets	**4,613.7**
Earnings from Residential Property Management	204.2
Annual earnings	**621.8**
Other comprehensive income	1.1
Change in cash and cash equivalents	1.0
Dividend	79.3

Since 1 January 2015, Deutsche Wohnen's shareholding and thus its related share of the voting rights in the KATHARINENHOF Group has amounted to 49%; the remaining shares were acquired from Deutsche Wohnen by a group of investors on that date. Even though this disposal means that it no longer holds the majority of the voting rights in the KATHARINENHOF Group, Deutsche Wohnen continues to include this subsidiary in its consolidated financial statements by way of full consolidation in accordance with IFRS 10 due to the fact that it is able, pursuant to contractual arrangements entered into with the other shareholders and the provisions of the shareholders' agreement, to dictate the relevant activities of the KATHARINENHOF Group and is exposed to variable returns on its investment. The provisions of these agreements with regard to the tendering of the shares of the majority shareholder are to be classified as conferring substantive rights within the meaning of IFRS 10.

Deutsche Wohnen SE has assumed guarantees, sureties and other collateral vis-à-vis third parties on behalf of Group companies for EUR 2,062.0 million (previous year: EUR 1,349.8 million).

Shares in joint arrangements and associates

As of the reporting date Deutsche Wohnen holds shares in eight joint ventures and four associates (previous year: seven joint ventures and two associates). The shareholdings are reported on the balance sheet in accordance with the equity method; no quoted market prices are available.

Deutsche Wohnen has an interest of 45% in PUW OpCo GmbH, Hamburg. Condensed financial information for PUW OpCo GmbH as of 31 December 2018 or for the period since acquisition on 1 October 2018 is presented below:

EUR m	
Non-current assets	26.9
Current assets	3.3
Cash and cash equivalents	7.2
Non-current financial liabilities	–24.0
Other non-current liabilities	–27.6
Current financial liabilities	–46.7
Other current liabilities	–34.3
Net assets	**–95.2**
Profit/loss for the period	**–0.2**
Revenue	29.2
Depreciation and amortization	0.4
Interest income	0.3
Interest expense	1.4
Income tax expense	0.1

The carrying amount of the equity interest in PUW AcquiCo GmbH, including goodwill and non-current claims by Deutsche Wohnen against the investee company is EUR 53.3 million as of 31 December 2018. The valuation of the investee company using the equity method resulted in expenses of EUR 0.1 million.

The remaining joint ventures and associates are currently of minor significance. The table below aggregates the carrying amounts and the share of profit and other comprehensive income for these entities:

EUR m	2018	2017
Carrying amount of minor investments in companies valued at equity	**19.5**	**14.6**
Group's share of minor investments in companies valued at equity		
Share of profit of continuing operations	2.7	3.0
Other comprehensive income	0.0	0.0
Share of comprehensive income	**2.7**	**3.0**

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

Equity interests in non-consolidated companies

Deutsche Wohnen hold shares in five (previous year: six) non-consolidated companies which are deemed to be of minor significance within the Group. These generally relate to shareholdings in other property companies. No material obligations exist vis-à-vis these companies.

Deutsche Wohnen's total risk exposure in relation to these shareholdings is equivalent to their carrying amounts. The carrying amounts of the non-consolidated companies amounted to approximately EUR 1.8 million as at 31 December 2018 (previous year: EUR 0.4 million).

C Accounting policies and valuation methods

1 Fair value measurement

The fair value is the price which would be received in return for the disposal of an asset or paid in return for the transfer of a liability in the context of a duly executed business transaction between market participants on the assessment date. The measurement of fair value is based on the presumption that the business transaction in the context of which the asset is sold or the liability is transferred occurs in either:

- the primary market for the asset or liability in question, or
- where no primary market exists; the most advantageous market for the asset or liability in question.

The Group must have access to the primary or most advantageous market. The fair value of an asset or a liability is determined by reference to the assumptions on which market participants would base their pricing of the asset or liability. This, in turn, is based on the assumption that the market participants would thereby be acting in their own best economic interests.

The Group uses valuation methods which are appropriate for the circumstances and for which sufficient data for fair value measurement are available. The use of observable inputs should be maximised and the use of unobservable inputs should be kept to a minimum.

All assets and liabilities, the fair value of which is determined or reported in the financial statements, are classified in accordance with the following fair value hierarchy, based on the input parameter at the lowest level which is of overall significance for the measurement of fair value:

- Level 1 – (Unadjusted) 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 fair value measurement 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 fair value measurement 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 fair value measurement) at the end of each reporting period.

2 Investment properties

Investment properties are properties that are held to generate rental income or for the purpose of generating value and that are not used by the company itself or held for sale in the course of normal business activities. Investment properties include land with residential and commercial buildings, undeveloped land and land subject to third-party leasehold rights.

Investment properties are valued initially at cost, including transaction costs. Subsequent to the initial recognition, investment properties are valued at their fair value. Gains or losses arising from changes in the fair value of investment properties are reported in the profit and loss statement.

An internal valuation of the residential and commercial buildings was carried out as at 31 December 2018, 30 June 2018 and 31 December 2017. The portfolio was concurrently valued by Jones Lang LaSalle SE, Frankfurt am Main, as at 31 December 2018 and 30 June 2018 and as at 31 December 2017 by CB Richard Ellis GmbH, Frankfurt am Main, in accordance with internationally accepted valuation methodologies, and the total value was confirmed. The amount of remuneration paid to the external property appraisers is calculated on a fixed-rate basis and is thus independent of the results of the property valuation. Where an absolute materiality threshold of +/– EUR 250,000 is exceeded, value deviations between an internal determination and an external approval for individual properties will generally be no greater than +/– 10%. Overall, the result of the valuation carried out by Jones Lang LaSalle and CB Richard Ellis varied by approximately –0.2% (previous year: +0.2%) from that of the internal valuation. In 2018 the nursing properties were only valued by W&P Immobilienberatung GmbH, Frankfurt am Main. In 2017 they were valued solely by CB Richard Ellis GmbH.

Investment properties are derecognised when either they have been disposed or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses from the permanent withdrawal from use or disposal of investment properties are recognised in the year of their withdrawal from use or disposal.

Properties are transferred from the investment properties portfolio if there is a change of use caused by the company either starting to use the property itself or by the commencement of development with an intention to dispose.

3 Property, plant and equipment

Property, plant and equipment are stated at cost net of cumulative depreciation and amortization and cumulative impairment losses. Subsequent acquisition costs are recognised insofar as it is likely that a future economic benefit from the property, plant and equipment will accrue for Deutsche Wohnen.

Straight-line depreciation and amortization is based on the estimated useful life of the asset. The useful life of buildings is 50 years. The useful life of fixed assets is four to ten years. Any depreciation and amortization of these assets is recognised as such under expenses in the consolidated profit and loss statement.

Impairment tests regarding the carrying amounts of property, plant and equipment are performed as soon as there are indications that the carrying amount of an asset exceeds its recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the consolidated profit and loss statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted if appropriate.

4 Intangible assets

Deutsche Wohnen only recognises acquired intangible assets on the balance sheet. These are valued at cost. No economic or legal restrictions are currently in place with respect to the use of the intangible assets.

Intangible assets with a certain useful life are amortized on a straight-line basis over their respective useful lives. Their useful lives are between three and five years. Any amortization of these assets is recognised as such under expenses in the consolidated profit and loss statement.

Intangible assets with an indefinite useful life, particularly goodwill, are not amortized. Goodwill is tested annually for impairment and other intangible assets if there is an indication that they are impaired.

5 Borrowing costs

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

6 Impairment of non-financial assets

The non-financial assets primarily comprise property, plant and equipment, intangible assets and inventories. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. The recoverable amount of an asset is the higher of the fair value of an asset or a cash generating unit, less costs of disposal, and its value in use. The recoverable amount is measured for each individual asset, unless the asset does not generate cash flows that are largely independent of those of other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount.

Goodwill acquired in the context of the acquisition of companies and businesses is subjected to an impairment test at least once a year. For impairment testing purposes, these assets are attributed to those cash-generating units which are expected to benefit from the synergies resulting from the acquisitions of the companies and businesses in question. These cash-generating units represent the lowest level at which these assets are monitored for corporate management purposes.

The goodwill impairment testing involves the calculation of the value in use of the cash-generating units based on estimated future cash flows which have been derived from actual values and projected for a five-year period on the basis of a growth rate which is typical for the industry. The carrying amounts of the cash-generating units are, however, essentially determined by the end value, which will be dependent on the projected cash flow in the fifth year of the medium-term planning as well as the growth rate of the cash flows thereafter and the discount rate.

Non-financial assets are assessed on each reporting date in order to ascertain whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. In this case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of scheduled depreciation and amortization, had no impairment loss been recognised for the asset in previous years. Such reversal is recognised in the profit and loss statement. Goodwill for which an impairment loss has been recognised is not written up.

7 Financial assets

As from 1 January 2018 Deutsche Wohnen classifies its financial assets in the following measurement categories:

- at fair value (either through profit or loss or through other comprehensive income), and
- at amortized cost.

Classification depends on the company's business model for the financial assets and on the contractual cash flows. If the financial asset is held to collect contractual cash flows consisting solely of interest and principal payments, the asset is held at amortized cost. All other financial assets are measured at fair value. Gains and losses are recognised through profit or loss, whereby the Group has elected to measure the current equity instruments not held for trading at fair value through other comprehensive income.

Arm's-length purchases or disposals of financial assets are recognised as at the trading date, i.e. the date on which the Group undertakes to buy or sell the asset. Financial assets are derecognised when the right to receive cash flows from the financial assets expires or has been transferred and the Group has transferred essentially all of the risks and opportunities of ownership.

For first-time recognition the Group measures a financial asset at fair value, plus – in the case of a financial asset at fair value through other comprehensive income – the transaction costs directly attributable to this asset. Transaction costs of financial assets at fair value through profit or loss are recognised as expenses in the Group's income statement.

Financial assets with embedded derivatives are considered in their entirety to determine whether their cash flows consist solely of interest and principal payments.

Loss allowances for debt instruments are based on expected credit losses. The Group uses the simplified approach for trade receivables, which entails recognising the credit losses expected over the full lifetime at the first-time recognition of the receivable. Loss allowances on receivables from rental activities are recognised depending on the extent to which those receivables are past due. Reasonable individual loss allowances are made for other receivables and assets.

Until 31 December 2017 financial assets as defined in IAS 39 were classified by Deutsche Wohnen as either:
- financial assets at fair value through profit or loss,
- loans and receivables,
- available-for-sale financial assets or as
- derivative financial instruments in an effective hedging relationship.

Financial assets were initially recognised at fair value. In the case of financial investments other than those classified at fair value through profit and loss, transaction costs directly attributable to the acquisition of the asset in question were also included. Financial assets were assigned to the measurement categories upon initial recognition. If permitted and necessary, reclassifications were made at the end of the financial year.

Financial assets and securities were allocated to the "Available for Sale (AfS)" category and generally reported at their fair value on the balance sheet. However, they were reported at cost on the balance sheet where the fair value of equity instruments could not reliably be determined.

Other than derivative financial instruments within or outside a hedging relationship, 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 were allocated to the category "Loans and Receivables". Loans and receivables are non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. After initial recognition, loans and receivables were subsequently valued at amortized cost using the effective interest method less impairment. Gains and losses were recognised in profit/loss for the period when the loans and receivables were derecognised or impaired or when amortized.

Loss allowances on receivables from rental activities were recognised depending on the extent to which those receivables are past due. Reasonable individual impairments were made for other receivables and assets.

Interest rate swaps were reported at their fair value on the basis of market-based valuation models.

A financial asset (or, where applicable, a portion of a financial asset or a portion of a grouping of similar financial assets) was derecognised upon the expiration of the contractual entitlements to cash flows from the financial asset in question.

8 Inventories

Inventories comprise land and buildings held for sale and other inventories. Land and buildings intended for disposal are sold in the normal course of business, to the effect that it may exceed a period of twelve months.

The initial valuation is made at cost. At the reporting date, the inventories are valued at the lower of cost and net realisable value. The net realisable value is the estimated selling price realisable in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

9 Cash and cash equivalents

Cash and cash equivalents on the consolidated balance sheet comprise cash on hand and cash at bank.

10 Non-current assets held for sale

The Deutsche Wohnen Group recognises investment properties and financial liabilities associated therewith as assets held for sale where notarised sales contracts exist as at the balance sheet date but the conveyance of title takes place at a later date. Properties held for sale are valued at their fair value.

11 Financial liabilities

Financial liabilities within the definition of IFRS 9 are classified by Deutsche Wohnen from 1 January 2018 as:

- other financial liabilities which are measured at amortized cost,
- financial liabilities at fair value or
- derivative financial liabilities.

Financial liabilities and corporate bonds

Loans and corporate bonds are initially recognised at their fair value less the transaction costs directly associated with the borrowing. After initial recognition, the interest-bearing loans are subsequently valued at amortized 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 amortization process.

Convertible bonds

Convertible bonds, which, as financial instruments comprising bonds and share options, can be redeemed by the company either in cash or in the form of shares upon their conversion by creditors, and for which securities listings can be identified on the markets, will be valued, when reported for the first time, at the fair value commensurate with their nominal value. The transaction costs arising in connection with the issuance are reported as finance expense. As a result of the application of the fair value reporting option to compound financial instruments, the convertible bonds are subsequently valued at their market price on the relevant balance sheet date. Profits and losses are recognised through other comprehensive income to the extent that they stem from changes in the default risk of the convertible bond. The remaining portion of profit and losses is recognised through profit or loss.

Trade payables and other liabilities

Liabilities are initially recognised at their fair value. After initial recognition, they are valued at amortized 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 amortization process.

Liabilities to limited partners in funds

Pursuant to IAS 32, the existence of termination rights on the part of a limited partner are a material criterion for the demarcation of equity and debt capital. Financial instruments granting the owner (here: limited partner) the right to return the instrument to the issuer in return for money payments constitute a financial liability. Due to the existence of termination rights on the part of the limited partners, the limited partnership interests and the "Net assets of shareholders" are recognised as debt capital. In accordance with IAS 32.35, the profit share of the limited partners is consequently recognised as a finance expense.

The net assets of the limited partners are recognised at the fair value of any possible repayment amount at the end of the financial year. Value increases are recognised as finance expense and impairments as finance income in the consolidated profit and loss statement. The amount of the repayment obligation is governed by the limited partnership agreement.

Within Deutsche Wohnen, there are liabilities to limited partners in funds of EUR 2.4 million (previous year: EUR 3.4 million).

Liabilities incurred in connection with put options

Shares of non-controlling shareholders who hold contractually vested put options with regard to their shares, which Deutsche Wohnen would be required to purchase were the shareholders to exercise those options, are treated in a corresponding manner. Deutsche Wohnen has liabilities with regard to these put options in the amount of their fair value of EUR 24.0 million (previous year: EUR 22.2 million).

A financial liability is derecognised when the obligation underlying the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability for time value. The difference between the respective carrying amounts is recognised in the profit and loss statement.

In contrast to the accounting methods described above for financial liabilities as defined in IFRS 9, the Group recognised all profit and losses from the measurement of convertible bonds through profit or loss until 31 December 2017. All the other accounting methods pursuant to IFRS 9 and IAS 39 for transactions by Deutsche Wohnen in connection with financial liabilities are essentially identical.

12 Pensions and other post-employment benefits

Employee benefit liabilities are recognised with regard to obligations (pension, invalidity, surviving spouse pension and surviving dependant benefits) arising in connection with pensions and ongoing benefits owed to eligible current and former employees and their surviving dependants. In total, there are pension commitments for 783 employees (of which 271 are active employees and 512 are retired employees and pensioners), which provide for pension payments on the basis of length of service and the salary level at retirement age (previous year: 808 employees, of which 291 were active employees and 517 pensioners).

Expenses for benefits granted as part of defined benefit plans are determined using the projected unit credit method. Actuarial gains and losses are recognised, without any effect on earnings, in the consolidated statement of comprehensive income.

On the basis of statutory provisions, Deutsche Wohnen pays contributions to state pension insurance funds from defined contribution plans. These current contributions are shown as social security contributions within staff expenses. Once the contributions have been paid there are no further obligations for the Group.

There is also a pension plan drawn up in accordance with the regulations governing public sector supplementary pensions. It is based on membership of a Group company in the Bayerische Versorgungskammer (hereinafter "BVK") – the supplementary pension fund for municipalities in Bavaria – as well as the Pension Institution of the Federal Republic and the Federal States (Versorgungsanstalt des Bundes und der Länder, hereinafter "VBL"). The supplementary pension comprises a partial or full reduced-earnings-capacity pension plus an age-related pension as a full pension or surviving dependant's pension. The charge levied by the BVK and the VBL is determined on the basis of the employees' compensation used to calculate the supplementary pension contribution. Changes in the structure of the VBL or a withdrawal from the institution could give rise to significant claims for payment of equivalent amounts.

The BVK and the VBL each therefore constitute a multi-employer defined benefit plan that, in accordance with IAS 19.30 (a), is accounted for as a defined contribution plan because the BVK has not provided sufficient information to account for the plan as a defined benefit plan.

No specific information is known regarding any overfunding or underfunding of the plan or the related future effects on the Deutsche Wohnen Group. Plan surpluses/deficits could in the future result in an increase/a reduction in the amount of the premiums to be paid by Deutsche Wohnen to the BVK and the VBL.

13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects that some or all of a provision liability will be reimbursed, for example pursuant to an insurance contract, the reimbursement will be recognised as a separate asset only where the receipt thereof is a virtual certainty. The expense involved in establishing the provision will be reported in the profit and loss statement net of the reimbursed amount. If the impact of the interest rate is significant, provisions are discounted at an interest rate before tax that reflects the specific risks of the liability. In the case of discounting, the increase in provisions due over time is recognised as a finance expense.

14 Leases

In the case of leases, a distinction is drawn between finance leases and operating leases.

Deutsche Wohnen acts both in the capacity of lessee and lessor in the context of finance leases. If essentially all of the risks and rewards associated with ownership of an asset are transferred to Deutsche Wohnen as a lessee, these leases are accounted for as finance leases. The leased item and the corresponding liability are capitalised or recognised as a liability with Deutsche Wohnen as lessee. If an entity enters into a contract with Deutsche Wohnen as lessor which transfers essentially all of the risks and rewards to the lessee, instead of the leased item, the lease payments payable in future by the customer are recognised as the net investment amount of lease receivables from the lease.

The tenancy agreements which Deutsche Wohnen has concluded with its tenants are classified as operating leases in accordance with IFRS. Accordingly, the Group acts as lessor in a diverse range of operating lease agreements (tenancies) for investment properties from which it obtains the largest part of its income and revenues.

Furthermore, Deutsche Wohnen acts in the capacity of lessee in the context of leases which are classified as operating leases.

Payments made pursuant to operating leases are generally recorded as revenues (from the point of view of the lessor) or expense (from the point of view of the lessee) on a linear basis over the term of the lease in question.

15 Recognition of revenue and expenses

Revenue from contracts with customers
Revenues from goods or services are recognised for the amount the Group expects to receive when control passes from Deutsche Wohnen to the customer either over time or at a point in time, after the performance obligation has been satisfied. The Group particularly generates revenue from contracts with customers for nursing services, the disposal of properties and the billing of operating costs. In terms of income from operating costs regarding promised services, the Group acts as principal with regard to tenants for service commitments and bears the inventory risk.

Rental income
Rental income is recognised monthly over the period of the leases in accordance with the tenancy agreement.

Expenses
Expenses are reported when they are incurred in economic terms.

Interest expense and interest income
Amounts of interest are recognised as expenses or income in the period in which they accrue.

As part of the long-term performance-based remuneration there are share-based remuneration components. The remuneration components to be expensed over the vesting period correspond to the fair value of the equity-based remuneration on the reporting date. The determination of fair values is based on generally accepted valuation methodologies. Liabilities are accounted for in a corresponding amount.

16 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. In the case of a grant related to an expense item, it is recognised as planned income over the period necessary to match the grant on a systematic basis to the expenses that it is intended to compensate.

Deutsche Wohnen has received government grants in the form of subsidies, loans and subsidised-interest loans.

Subsidies, in the form of rent subsidies, are recognised in the profit and loss statement for the period in which the rent in question is collected. They are recognised as income from residential property management.

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 measured at fair value and are subsequently carried at amortized cost. However, they are to be viewed in the context of restrictions with regard to changes in the rent for the properties, which are taken into account when determining the fair value of those properties.

17 Internally generated assets

Directly attributable itemised costs and production-related fixed costs accruing in the context of the implementation of construction measures are reported in the profit and loss statement as additions to the carrying amount for the property in question where it appears likely that the construction measures concerned will give rise to a future economic benefit for Deutsche Wohnen. The revenues resulting from the first-time reporting of such items are reported in the consolidated profit and loss statement under other operating income and the subsequent valuation of the addition in question is carried out on the basis of the valuation method used for the balance sheet item relating to the property concerned.

18 Taxes

Current income tax assets and liabilities

Current income tax assets and liabilities for the current period and for previous periods are valued at the amount expected to be reimbursed by or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those enacted as at the reporting date.

Deferred taxes

Income taxes are recognised and measured in accordance with IAS 12. Deferred income tax assets and liabilities are formed on temporary differences. The taxable and deductible temporary differences are calculated by comparing the IFRS carrying amounts and the local tax values of assets and liabilities (adjusted for permanent differences). The tax value is calculated according to the tax regulations of the respective tax jurisdiction where the item is taxed.

Deferred tax liabilities are recognised for all temporary differences that are subject to tax, with the following exception: In respect of taxable temporary differences associated with shareholdings in subsidiaries, associates and shares in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future, deferred tax liabilities are not recognised.

Deferred tax assets are recognised for all deductible temporary differences, as yet unused tax loss carry-forwards and unused tax credits to the extent that it is probable that taxable income will be available to which the deductible temporary differences, as yet unused tax loss carry-forwards and tax credits may be applied: The following exceptions apply:

- Deferred tax assets from deductible temporary differences which arise from the initial recognition of an asset or a liability in a transaction that is not a business combination and that, at the time of the business transaction, affects neither the profit/loss for the period nor taxable earnings may not be recognised.
- Deferred tax assets from deductible temporary differences associated with shareholdings in subsidiaries, associates and shares in joint ventures are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable earnings will be available against which the temporary differences can be utilised.

The carrying amount for deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the deferred tax asset to be utilised. Unreported deferred tax assets are reviewed on every balance sheet date and reported to the extent that it appears likely that future taxable earnings will allow for the realisation of the deferred tax asset in question.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that had been enacted or substantively enacted as at the reporting date.

Deferred taxes relating to items that are recognised in other comprehensive income or directly in equity are recognised in other comprehensive income or directly in equity and not in the consolidated profit and loss statement. Changes in deferred tax assets are recognised in or off the profit and loss statement on the basis of a reasonable pro rata allocation (IAS 12.63(c)).

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

19 Derivative financial instruments and hedging transactions

The Group uses derivative financial instruments to hedge against interest rate risks. These derivative financial instruments are recognised at their fair value at the time of the conclusion of the corresponding agreement. Derivative financial instruments are recognised as financial assets where their fair value is in a positive amount and as financial liabilities where their fair value is in a negative amount. They are subsequently valued at their fair value.

This is calculated using the discounted cash flow method, with the calculation of the present value taking account of individual credit ratings and other market factors in the form of credit rating and liquidity spreads such as are customary in the market. The valuation also takes account of the risk of non-performance (counterparty risk) and the company's own default risk in accordance with IFRS 13.42 et seq.

Until 31 December 2017 Deutsche Wohnen reported completed interest rate swaps on the balance sheet in accordance with the provisions of IAS 39 – from 1 January 2018 of IFRS 9 – governing hedge accounting, where the conditions for the application of the standard have been met. In addition to documentation of the hedging correlation between the hedge and the underlying item, one requirement for hedge accounting under both standards is proof of the effectiveness of the hedging relationship between the hedge and the underlying item. Both standards also stipulate that if an effective hedging relationship exists, the effective portion of the change in the value of the hedged transaction is to be recognised through other comprehensive income and the non-effective portion through profit or loss. Deutsche Wohnen has tested the effectiveness of the concluded interest hedges from a prospective (hypothetical) derivative method standpoint. In the case of derivative financial instruments

which do not meet the criteria for hedge accounting, gains or losses from changes in fair value are immediately recognised in the profit or loss statement. The interest rate swaps recognised at their fair value are classified as current or non-current assets/liabilities depending on the term of the underlying contracts.

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

20 Share-based remuneration

In the period 2014 to 2017 the Management Board of Deutsche Wohnen received share-based remuneration in the form of subscription rights (share options). The share option programme was an option plan settled with equity instruments.

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

The diluting effect of the outstanding share options will be taken into account as an additional dilution in the calculation of the earnings per share to the extent that the issuance of the options and the underlying terms and conditions result in a dilution for accounting purposes of the shares of the existing shareholders.

D Disclosures on the consolidated balance sheet

1 Investment properties

Investment properties are carried at fair value. Fair value developed as follows during the financial year:

EUR m	Residential and commercial buildings		Nursing facilities		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Opening balance	**18,906.9**	**15,312.7**	**721.5**	**692.4**	**19,628.4**	**16,005.1**
Acquisitions	1,072.2	1,090.5	618.5	0.7	1,690.7	1,091.2
Additions from company acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Other additions	395.8	230.0	5.3	4.1	401.1	234.1
Disposals	–82.1	–68.2	0.0	0.0	–82.1	–68.2
Fair value adjustments	2,184.0	2,372.7	–4.7	24.3	2,179.3	2,397.0
Reclassification	–35.8	–30.8	0.0	0.0	–35.8	–30.8
Closing balance	**22,441.0**	**18,906.9**	**1,340.6**	**721.5**	**23,781.6**	**19,628.4**

The reclassification primarily relates to the properties reclassified as non-current assets and held for sale in the current financial year. The additions comprise, among other things, advance payments for acquisitions of investment properties. Other additions particularly comprise capitalised construction work.

The residential and commercial buildings and the nursing facilities were valued on the basis of valuation models in accordance with Level 3 of the valuation hierarchy provided for in IFRS 13 'Fair Value Measurement'. The full amount of the valuation of EUR 2,179.3 million was recognised in the consolidated profit and loss statement. This will remain unrealised until the valued properties are disposed of under market conditions.

Residential and commercial buildings

The valuation of the residential and commercial buildings as at 31 December 2018, 30 June 2018 and 31 December 2017 was conducted on the basis of the following principles developed in the context of the internal periodic valuation:

Valuation on the basis of defined clusters:
- Calculation of annual rent increases and target vacancies based on the location and physical characteristics of the properties,
- calculation of discount rates for the detailed budgeting phase
- calculation of capitalisation rates in perpetuity.

Formulation of the valuation based on individual properties:
- Determination of the market rent as at the reporting date,
- development of rent per sqm of lettable area based on market rent and current gross rent,
- development of costs (maintenance, administration, rental loss and non-recoverable operating costs, ground rent (if applicable)),
- determination of cash flows from annual proceeds and payments and the terminal value at the end of year ten, based on the recurring cash flow expected in year eleven,
- calculation of a fair value based on the administrative unit as at the reporting date.

The discount and capitalisation rates were calculated on the basis of property-specific risk assessments.

The maintenance expenses are calculated using type- and property-specific approaches used with regard to individual valuation objects in the property valuation context, having regard to the condition of the property in question and any experience gathered in connection with maintenance work regularly carried out in the past.

A further review of the valuation by an independent third party takes place as at every balance sheet date. The valuation methods used for the internal valuation and for the valuation by third parties are therefore the same.

The following overview summarises the valuation parameters applied with respect to the individual clusters, and indicates all of the sub-clusters within the main Core^{+}, Core and Non-Core clusters having an overall share of the total property value of at least 10%. Sub-clusters which do not reach this threshold are reported on an aggregate basis. The stated figures are based on the ranges present within each cluster and the weighted average:

31/12/2018			Core+	Core	Non-Core	Total
	Berlin	Other	Total	Total	Total	Total
Carrying amount (EUR m)	16,399	3,822	20,221	1,464	5	**21,690**
Carrying amount (EUR/sqm)	2,416	1,809	2,271	1,216	580	**2,145**
Share of carrying amount in %	75.6	17.6	93.2	6.7	0.0	**100.0**
In-place rent (EUR/sqm)	6.71	6.69	6.70	5.87	5.10	**6.60**
Market rent increases p.a. in %	3.38	2.65	3.20	1.61	0.36	**3.1**
Vacancy rate in %	2.1	3.2	2.4	2.9	4.3	**2.4**
Multiple	30.1	22.4	28.3	17.4	9.7	**27.1**
Discount rate in %	4.4	5.5	4.6	5.7	7.8	**4.7**
Capitalisation rate in %	4.0	4.7	4.2	5.3	7.5	**4.2**
Maintenance costs (EUR/sqm/p.a.)	11.30	11.70	11.40	12.0	12.80	**11.40**

31/12/2017			Core+	Core	Non-Core	Total
	Berlin	Other	Total	Total	Total	Total
Carrying amount (EUR m)	14,202	2,957	17,159	1,373	63	**18,595**
Carrying amount (EUR/sqm)	2,102	1,580	1,989	1,149	700	**1,876**
Share of carrying amount in %	76.4	15.9	92.3	7.4	0.3	**100.0**
In-place rent (EUR/sqm)	6.47	6.56	6.49	5.68	4.84	**6.38**
Market rent increases p.a. in %	3.41	1.93	3.16	1.26	0.46	**3.0**
Vacancy rate in %	2.3	2.4	2.3	2.6	5.7	**2.4**
Multiple	27.2	19.9	25.5	16.9	13.1	**24.5**
Discount rate in %	4.5	5.8	4.7	6.1	7.3	**4.8**
Capitalisation rate in %	4.2	5.0	4.4	5.5	6.1	**4.5**
Maintenance costs (EUR/sqm/p.a.)	10.05	10.02	10.05	10.39	10.72	**10.07**

There may be some interplay between non-observable input factors. For example a rise in the vacancy rate due to greater risk exposure may have an effect on the discount factor; a fall in the vacancy rate may potentially result in higher rent increases and higher realisable rents may also trigger an increase in maintenance expenses.

An adjustment to the key valuation parameters (market rental growth during the detailed planning phase 20% lower than anticipated; 0.1% rise in the discount rate; 0.1% increase in the capitalisation rate) would result in the following non-cumulative value adjustments to the carrying amount of the residential and commercial buildings:

31/12/2018			Core+	Core	Total
in %	Berlin	Other	Total	Total	
Market rental growth	–6.20	–4.06	–5.79	–3.21	**–5.62**
Discount rate	–0.82	–0.68	–0.80	–0.75	**–0.79**
Capitalisation rate	–1.77	–1.23	–1.67	–1.23	**–1.64**

31/12/2017			Core+	Core	Total
in %	Berlin	Other	Total	Total	
Market rental growth	–6.33	–3.27	–5.80	–2.58	**–5.87**
Discount rate	–0.83	–0.74	–0.81	–0.76	**–0.81**
Capitalisation rate	–1.68	–1.26	–1.61	–1.12	**–1.57**

Nursing facilities

The nursing facilities were valued as of 31 December 2018 by W&P Immobilienberatung GmbH (as of 31 December 2017 by CB Richard Ellis GmbH). The key inputs for the valuation were average market rents, discount rates and capitalisation rates and maintenance expenses:

	31/12/2018[1]	31/12/2017
Market rent (EUR/sqm)	9.33	10.71
Discount rate in %	4.60	5.74
Capitalisation rate in %	–	5.33
Maintenance costs (EUR/sqm/p.a.)	10.02	–

1 In contrast to the previous year the maintenance costs were included separately and not as part of the interest rate. This, along with the new detailed planning period of 100 years, meant there was no need for a separate capitalisation rate.

Any adjustment of these material input factors (lowering of market rents by 5%; increase in the discount and capitalisation rate of 0.1%; increase in maintenance expenses of 10%) will result in the following non-cumulated fair value adjustments on the basis of the carrying amount of the nursing properties:

in %	31/12/2018[1]	31/12/2017
Market rent	–5.0	–3.1
Discount rate	–2.0	–0.8
Capitalisation rate	–	–1.1
Maintenance costs	–1.0	–

1 In contrast to the previous year the maintenance costs were included separately and not as part of the interest rate. This, along with the new detailed planning period of 100 years, meant there was no need for a separate capitalisation rate.

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

2 Leases

The rental agreements concluded by Deutsche Wohnen with its tenants generated rental income in the amount of EUR 785.5 million (previous year: EUR 744.2 million). The expenses directly associated with the investment properties amounted to EUR 466.7 million (previous year: EUR 457.9 million).

In financial year 2019, Deutsche Wohnen will receive minimum lease payments totalling approximately EUR 212 million pursuant to existing operating lease agreements concluded with third parties (termination thereof presumably subject to the statutory notice period of three months) and in connection with its current property portfolio for the Residential Property segment.

In the context of its Assisted Living and Nursing segment operations, Deutsche Wohnen will receive additional minimum lease payments in the amount of approximately EUR 5.9 million in 2019 (average contractually stipulated period of notice for termination: one month). Deutsche Wohnen is set to realise leasing income from the nursing properties under external management in the amount of approximately EUR 39 million in the financial year 2019.

In addition to the limitations imposed by law, Deutsche Wohnen is also to some extent subject to restrictions with regard to rent increases in the case of tenants with certain prior claims and in connection with grants in the form of subsidised-interest loans or investment subsidies. Additionally, we are required to comply with legal stipulations in the context of the privatisation of residential units.

3 Property, plant and equipment

Land and buildings, technical facilities and plant and equipment classified under IAS 16 are reported under this item. They developed as follows during the financial year:

31/12/2018

EUR m	Owner-occupied properties	Technical facilities and machinery	Office furniture and equipment	Total
Cost				
Opening balance	18.8	84.4	24.1	127.3
Additions	8.8	46.1	17.7	72.6
Additions by way of company acquisitions	0.0	3.7	0.8	4.5
Disposals	0.0	–17.0	–1.0	–18.0
Reclassifications	2.8	0.0	0.0	2.8
Closing balance	**30.4**	**117.2**	**41.6**	**189.2**
Cumulative depreciation and amortization				
Opening balance	4.4	18.5	12.1	35.0
Additions	0.7	10.7	4.2	15.6
Disposals	0.0	–7.0	–0.9	–7.9
Closing balance	**5.1**	**22.2**	**15.4**	**42.7**
Net carrying amounts	**25.3**	**95.0**	**26.2**	**146.5**

31/12/2017

EUR m	Owner-occupied properties	Technical facilities and machinery	Office furniture and equipment	Total
Cost				
Opening balance	15.0	41.6	23.2	79.8
Additions	1.5	42.8	4.2	48.5
Disposals	0.0	0.0	–3.1	–3.1
Reclassifications	2.3	0.0	–0.2	2.1
Closing balance	**18.8**	**84.4**	**24.1**	**127.3**
Cumulative depreciation and amortization				
Opening balance	3.7	8.4	11.8	23.9
Additions	0.7	10.1	3.0	13.8
Disposals	0.0	0.0	–2.7	–2.7
Closing balance	**4.4**	**18.5**	**12.1**	**35.0**
Net carrying amounts	**14.4**	**65.9**	**12.0**	**92.3**

The land and buildings included in property, plant and equipment (EUR 25.3 million, previous year: EUR 14.4 million) are pledged as collateral.

Technical facilities and machinery included leased assets in the amount of EUR 80.3 million (previous year: EUR 62.5 million), which are attributable to the Group as the beneficial owner of the assets to which the finance leases in question relate.

4 Intangible assets

The changes in intangible assets were as follows:

31/12/2018

EUR m	Goodwill	Other	Total
Cost			
Opening balance	11.4	20.1	31.5
Additions	0.0	5.4	5.4
Additions by way of company acquisitions	10.8	0.3	11.1
Disposals	0.0	0.0	0.0
Closing balance	**22.2**	**25.8**	**48.0**
Cumulative depreciation and amortization			
Opening balance	0.0	12.5	12.5
Additions	0.7	3.4	4.1
Disposals	0.0	0.0	0.0
Closing balance	**0.7**	**15.9**	**16.6**
Net carrying amounts	**21.5**	**9.9**	**31.4**

31/12/2017

EUR m	Goodwill	Other	Total
Cost			
Opening balance	11.4	19.5	30.9
Additions	0.0	1.7	1.7
Disposals	0.0	–1.1	–1.1
Closing balance	**11.4**	**20.1**	**31.5**
Cumulative depreciation and amortization			
Opening balance	0.0	10.4	10.4
Additions	0.0	3.1	3.1
Disposals	0.0	–1.0	–1.0
Closing balance	**0.0**	**12.5**	**12.5**
Net carrying amounts	**11.4**	**7.6**	**19.0**

Additional goodwill of EUR 8.1 million stems from the provisional purchase price allocation for the acquisition of GETEC Media Group (see chapter B.1 "Basis of consolidation" for further information). The goodwill represents the earnings potential of the acquired business and has been allocated in full to the group of acquired companies. Impairment testing was conducted on the basis of the following budget assumptions and market-based parameters:

The projected inflows of funds were calculated on the basis of past experience and take account of expected market growth in the specific business areas. Should the inflow of funds be reduced by 27%, the value in use will be commensurate with the book value.

The cash flows after the five-year detailed budgeting phase are extrapolated on the basis of a growth rate of 1.2% which does not exceed the average rate of growth in the market or the industry. Should the growth rate fall to –2.87%, the value in use will be commensurate with the book value.

The discount rate is calculated on the basis of average weighted capital costs for the nursing and healthcare sector. The present value is calculated using a discount rate based on the Group's weighted capital cost rate of 8.35% before taxes. Should the discount rate be raised to 10.88%, the value in use will be commensurate with the book value.

The purchase price allocation for the Helvetica Services transaction was concluded in the financial year 2018 and the provisional fair values were confirmed upon its first-time consolidation. Annual impairment testing of the goodwill from this transaction resulted in an impairment loss of EUR 0.7 million. Goodwill after impairment of EUR 2.0 million reflects the synergy effects of integrating the acquired companies into the Residential segment and is allocated in full to the cash-generating unit Helvetica Services GmbH. Impairment testing of the goodwill for Helvetica Services was performed on the basis of the following planning premises and market-based parameters:

The projected inflows of funds were calculated on the basis of past experience and take account of expected market growth in the specific business areas.

The cash flows after the five-year detailed budgeting phase are extrapolated on the basis of a growth rate of 1.1% which does not exceed the average rate of growth in the market or the industry.

The discount rate is calculated on the basis of weighted average capital costs. The present value is calculated using a discount rate based on the Group's weighted capital cost rate of 9.94% before taxes.

The value in use of the cash-generating unit is approximately EUR 2.0 million.

The annual impairment test applied to the goodwill arising out of the HSD transaction did not result in any impairment. The goodwill of EUR 11.4 million (previous year: EUR 11.4 million) reflects the synergy effects arising as a result of the integration of the acquired companies into the Nursing and Assisted Living segment of the Deutsche Wohnen Group and has therefore been allocated in its entirety to the acquired HSD Group as the cash-generating unit. Impairment testing was conducted on the basis of the following budget assumptions and market-based parameters:

The projected inflows of funds were calculated on the basis of past experience and take account of expected market growth in the specific business areas. Should the inflow of funds be reduced by 65% (previous year: 12%), the value in use will be commensurate with the book value.

The cash flows after the five-year detailed budgeting phase are extrapolated on the basis of a growth rate of 1.3% (previous year: 1.0%) which does not exceed the average rate of growth in the market or the industry. Should the growth rate fall to –7.81% (previous year: –0.45%), the value in use will be commensurate with the book value.

The discount rate is calculated on the basis of average weighted capital costs for the nursing and healthcare sector. The present value is calculated using a discount rate based on the Group's weighted capital cost rate of 8.92% (previous year: 9.24%) before taxes. Should the discount rate be raised to 13.58% (previous year: 10.17%), the value in use will be commensurate with the book value.

5 Land and buildings held for sale

The increase in the land and buildings held for disposal is largely due to the structuring of the property portfolio and the allocation of properties to the Disposals segment. In the financial year 2018, proceeds of EUR 27.3 million (previous year: EUR 188.1 million), were achieved. The proceeds were partly offset by carrying amounts of assets sold of EUR 19.5 million (previous year: EUR 153.7 million).

6 Trade receivables

Receivables are made up as follows:

EUR m	31/12/2018	31/12/2017
Receivables from rental activities	12.3	12.3
Receivables from the disposal of land	5.9	1.2
Other trade receivables	4.2	2.0
	22.4	**15.5**

Receivables from rental activities are interest-free and are always overdue. Impairments are carried out on an age distribution basis and depending on whether the tenants in question are current or former tenants. Loss allowances have been recognised for almost all overdue receivables.

In the financial year 2018, rent receivables of EUR 0.9 million (previous year: EUR 1.9 million) were written down as impaired. The loss allowance on receivables as at 31 December 2018 amounted to EUR 21.6 million (previous year: EUR 20.9 million) and results largely from further loss allowances in the reporting year.

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

Receivables from the sale of land are not impaired and only overdue to a very minor extent.

Other receivables are interest-free and are generally due within a period of between 1 and 90 days.

7 Derivative financial instruments

Deutsche Wohnen concluded several interest hedging transactions for a nominal amount of EUR 1.3 billion (previous year: EUR 1.0 billion). The cash flows from the underlying transactions, which are secured in the scope of the cash flow hedge accounting, will be realised in the years from 2019 to 2028. The strike rates are between –0.20% and 1.49% (previous year: between –0.80% and 1.63%). The total fair value of these transactions (aggregate of both positive and negative amounts) amounted to EUR –14.6 million as at 31 December 2018 (previous year: EUR –1.9 million).

There are no significant default risks, given that the interest rate swaps were concluded solely with banks with good credit ratings. If the interest rate level changes, the fair value changes accordingly. Income and expenses are recognised in equity for the effective part of a hedge, while the non-effective part is recognised within current earnings.

The fair values and nominal values of all the interest rate hedges are shown below by remaining term to maturity:

EUR m	Fair values		Nominal values	
Maturity	2018	2017	2018	2017
Up to 1 year	–0.3	0.0	122.0	87.9
From 1 to 5 years	–1.7	–0.5	220.2	415.3
From 5 to 10 years	–12.6	–1.5	966.8	482.0
	–14.6	**–2.0**	**1,309.0**	**985.2**

The negative carrying amount of interest rate hedges presented in hedge accounting is EUR 6.0 million (previous year: EUR 0.5 million) and is shown under liabilities in the balance sheet item "Derivative instruments by maturity". The cash flow hedge reserve developed as follows:

EUR m	2018	2017
Opening balance as of 01/01	–2.0	–19.2
Plus: amount of change in fair value of hedging instruments recognised in other comprehensive income	–3.5	0.4
Less: amount reclassified from other comprehensive income to interest expenses	1.7	24.2
Less: deferred taxes	0.4	–7.4
Final balance as at 31/12	**–3.4**	**–2.0**

An amount of EUR 0.1 million was reclassified to interest expenses as ineffective in the reporting year. The following table shows the nominal amounts and the weighted average hedged rate from the hedging relationship:

EUR m	2018	2017
Nominal amount	298.2	133.3
Weighted average hedged rate in the financial year in %	0.44	0.73

8 Cash and cash equivalents

The cash and cash equivalents of EUR 332.8 million (previous year: EUR 363.7 million) mainly consist of cash at bank and cash on hand. Bank balances earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rate.

9 Equity

Please refer to the consolidated statement of changes in equity with regard to the development of the Group's equity.

a) Issued share capital

The issued capital of Deutsche Wohnen SE amounted to approximately EUR 357.0 million as at 31 December 2018 (previous year: EUR 354.7 million), comprising approximately 357.0 million no-par value bearer shares, each representing a notional share of the issued capital of EUR 1.00. Only bearer shares have been issued by Deutsche Wohnen. The shares are fully paid-in.

Share capital increased by EUR 2.2 million following the contribution in kind from the first share dividend in July 2018.

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

The Management Board of Deutsche Wohnen SE is not aware of any restrictions affecting voting rights or any transfer of shares.

In the event of a capital increase, the new shares are issued as bearer shares.

Changes in authorised capital

EUR k	
Authorised capital 2017/I	
As at 1 January 2018	110,000
In-kind capital increase of 17 July 2018 ("script dividend")	2,241
Cancelled by resolution of the Annual General Meeting on 15 June 2018	107,759
As at 31 December 2018	**0**
Authorised capital 2018/I	
Resolution of AGM of 15 June 2018	110,000
Utilisation	0
As at 31 December 2018	**110,000**

By resolution of the Annual General Meeting held on 15 June 2018, which was entered into the commercial register on 16 August 2018, the Management Board has been authorised to increase the company's issued capital, with the consent of the Supervisory Board, by up to EUR 110 million once or several times during the period until 14 June 2023 by means of the issuance of up to 110 million new ordinary bearer shares against cash contributions and/or contributions in kind (authorised capital 2018/I). The shareholders must always be granted subscription rights within the scope of the authorised capital. However, in certain cases, the Management Board will be entitled to exclude the subscription rights of shareholders with the consent of the Supervisory Board and subject to the detailed provisions of the Articles of Association. The authorised capital 2017/I was cancelled upon the registration of the authorised capital 2018/I.

Changes in contingent capital

EUR k	2014/II	2014/III	2015/I	2017/I	2018/I	Total
As at 1 January 2018	**5,891**	**12,880**	**50,000**	**67,000**	**0**	**135,771**
Resolution reducing share capital adopted by the Annual General Meeting held on 15 June 2018	–	–	–	–37,000	–	–37,000
Resolution adopted by the Annual General Meeting held on 15 June 2018	–	–	–	–	35,000	35,000
Capital increase by issue of shares to settle the SOP 2014[1]	–	–89	–	–	–	–89
Capital increase by issue of put options (GSW control agreement)[1]	–18	–	–	–	–	–18
As at 31 December 2018	**5,873**	**12,791**	**50,000**	**30,000**	**35,000**	**133,664**

1 The changes in the capital amounts were entered into the commercial register on 1 March 2019.

The issued capital has contingently been increased by a total of up to EUR 133.66 million by means of the issuance of up to approximately 133.66 million new no-par value bearer shares with dividend rights generally from the start of the financial year of their issuance (contingent capital 2014/II, contingent capital 2014/III, contingent capital 2015/I, contingent capital 2017/I and contingent capital 2018/I).

Issuance of option rights, bonds with warrants or conversion rights, profit participation rights or profit-sharing bonds

By resolution of the Annual General Meeting held on 15 June 2018, the Management Board has been authorised, with the consent of the Supervisory Board, to issue no-par value convertible bonds, option bonds, participation rights and/or participating bonds (or combinations of these instruments) in the nominal value of up to EUR 3.0 billion once or several times, and to grant the creditors thereof conversion or option rights for the company shares representing a share of the issued capital of up to EUR 35 million. Shares will only be issued to the extent that conversion rights from convertible bonds are exercised or conversion obligations from the bonds are fulfilled and unless treasury shares, shares from authorized capital or other services are used for servicing.

Acquisition of treasury shares

The acquisition of treasury shares is authorised pursuant to article 5 SE Regulation in conjunction with section 71 et seq. German Stock Corporation Act [Aktiengesetz – AktG] and also, as at the balance sheet date, by the Annual General Meeting held on 15 June 2018 (agenda item 9). By resolution of the AGM dated 15 June 2018 the Management Board is authorised, with the consent of the Supervisory Board and subject to compliance with the principle of equal treatment of shareholders (article 9 para. 1 c)(ii) SE Regulation in conjunction with section 53a German Stock Corporation Act [Aktiengesetz – AktG]) to purchase and use the company's own shares to 14 June 2023 up to a total amount of 10% of the company's outstanding share capital at the time the resolution is passed, or at the time the authorisation is used if this figure is lower. The amount of any shares acquired on the basis of this authorisation together with other shares of the company already acquired and still held by the company or other shares attributable to the company pursuant to article 5 SE Regulation in conjunction with section 71a et seq. German Stock Corporation Act [Aktiengesetz – AktG] may not at any time exceed 10% of the issued capital of the company.

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

As at the balance sheet date, the company did not hold any treasury shares.

b) Capital reserve

The capital reserve increased by EUR 86.7 million due to the in-kind contribution from the script dividend in July 2018, from which EUR 0.5 million incurred for the capital increases and EUR 0.1 million in income tax effects related to these costs were deducted. Furthermore, the capital reserve was increased by EUR 0.7 million, as a result of the contribution in kind of GSW Immobilien AG shares in place since September 2014 within the scope of the share exchange resulting from the control agreement. Furthermore, the capital reserve increased by EUR 0.3 million due to the stock option programme.

c) Retained earnings

Retained earnings comprise the revenue reserve of Deutsche Wohnen and the accumulated profit/loss carried forward.

The maintenance of the statutory reserve is mandatory for German public limited companies [Aktiengesellschaften]. An amount equivalent to 5% of the profit for the financial year is to be retained pursuant to section 150 para. 2 of the German Stock Corporation Act [Aktiengesetz – AktG]. The amount of the statutory reserve is subject to a cap of 10% of the issued capital. In accordance with section 272(2)(1)–(3) of the German Commercial Code [Handelsgesetzbuch – HGB], any existing capital reserves are to be taken into account and the provisions required for the statutory reserve reduced accordingly. This is measured on the basis of the issued share capital which exists and is legally effective at the reporting date and which is to be reported in this amount on the respective annual balance sheet. The statutory reserve remains unchanged at EUR 1.0 million.

d) Non-controlling interests

The share of non-controlling interests largely relates to the shares of third parties in the earnings of the fully-consolidated holding companies not wholly owned by Deutsche Wohnen.

10 Financial liabilities

The company has taken on bank loans particularly to finance property and company transactions and property acquisitions.

Overall, the amount of the financial liabilities increased in 2018, largely as a result of the raising of the amounts of existing loans in the context of property acquisitions.

The financial liabilities are hedged at approximately 84.7% (previous year: approximately 82%) at a fixed rate and/or through interest rate swaps. The average rate of interest was approximately 1.5% (previous year: approximately 1.5%).

The loan renewal structure based on current outstanding liability is as follows:

EUR m	Carrying amount	Nominal amount	2018	2019	2020	2021	2022	≥2023
Loan renewal structure 2018	6,184.6	6,247.8	–	13.0	106.4	121.4	450.5	5,556.5
Loan renewal structure 2017	4,751.1	4,828.3	8.8	6.6	220.4	176.3	593.6	3,822.6

The liabilities are almost entirely secured by property as collateral.

11 Corporate bonds and convertible bonds

Deutsche Wohnen issued various long-term bearer bonds with a total nominal volume of EUR 315 million, primarily in the second half of 2018.

Commercial papers were also issued for a nominal volume of EUR 60 million, which will be redeemed in financial year 2019.

The following Deutsche Wohnen bonds and convertible bonds were outstanding as at 31 December 2018:

Type	Issuance	Maturity max.	Nominal (EUR m)	Coupon % p.a.	Carrying amount (EUR m)	Conversion price (EUR/share)
Convertible bonds	2017	2024	800.0	0.325	854.0	47.9555
Convertible bonds	2017	2026	800.0	0.600	843.2	50.5052
Total convertible bonds			**1,600.0**		**1,697.2**	
Corporate bond	2015	2020	500.0	1.375	501.4	–
Registered bonds	2017	2027–2032	325.0	1.600–2.00	326.5	–
Bearer bonds	2018	2028–2034	315.0	1.675–2.50	312.3	–
Commercial paper	2018	2019	60.0	–	60.2	

12 Employee benefit liabilities

The company's pension scheme consists of defined benefit and defined contribution plans. The average term of the obligations is approx. 14.1 years (previous year: 14.5 years), payments from pension benefit plans for 2019 are expected in the amount of EUR 3.6 million (less payments on plan assets) (previous year: EUR 3.5 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 %	31/12/2018	31/12/2017
Discount rate	1.60	1.50
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 18G	R 05G

The trend in salaries includes expected future salary increases that depend, among other things, on the inflation rate and the length of service in the company.

The employee benefit liabilities taken over in the scope of the BauBeCon acquisition are financed through the ufba – Unterstützungskasse zur Förderung der betrieblichen Altersversorgung e.V. (Assistance Fund for the Promotion of Company Pension Plans inc. soc.) – and recognised on the balance sheet as plan assets. The valuation applied an interest charge in the amount of 1.60%.

The following summary shows the financing status of the Group's pension plans, which is at the same time equivalent to the balance sheet amount:

EUR m	31/12/2018	31/12/2017
Present value of employee benefit liabilities	71.3	73.8
Less fair value of the plan assets	–7.9	–8.1
	63.4	**65.7**

The following table shows the development of the present value of the defined benefit liabilities and the fair value of the plan assets:

EUR m	31/12/2018	31/12/2017
Opening balance employee benefit liability	73.8	74.8
Pension payments	–3.5	–3.1
Interest expense	1.1	1.1
Service cost	0.6	0.6
Actuarial gains/losses	–0.7	0.4
Closing balance employee benefit liability	**71.3**	**73.8**
Of which pension plans funded by plan assets	10.7	11.1
Of which pension plans not funded by plan assets	60.6	62.7
Opening balance plan assets	8.1	7.2
Interest revenues from plan assets	0.1	0.1
Pension payments from plan assets	–0.4	–0.4
Actuarial gains/losses	0.1	1.2
Closing balance plan assets	**7.9**	**8.1**

The pension expenses comprise the following:

EUR m	2018	2017
Interest expense	–1.1	–1.0
Service cost	–0.6	–0.6
	–1.7	**–1.6**

Pension commitments include old-age, disability, surviving spouse and surviving dependant pensions. They are based on the last fixed annual gross salary. Different benefit plans apply depending on the employee's position in the company.

The pro rata interest expenses are recognised as "Interest expenses" in the consolidated profit and loss statement, while current pension payments, service expenses and adjustments to current pensions are recognised as "Staff expenses".

Total expenses of EUR 8.8 million (previous year: EUR 7.2 million) were incurred for defined contribution pensions. Therefore, total expenses for retirement provisions (defined benefit and defined contribution) amounted to EUR 10.5 million (previous year: EUR 8.8 million). For 2019, based on the current number of employees, the cost will total EUR 10.3 million.

A drop in the interest rate of 0.25% would result in an increase in pension obligations of 3.47%; an interest rate increase of 0.25% would result in a reduction of pension obligations of 3.28%. A drop in the pension progression of 0.25% would result in an increase in pension obligations of 2.65%; a pension progression increase of 0.25% would result in a reduction of pension obligations of 2.76%.

The sensitivity calculations are based on the average term of the pension liabilities determined as at 31 December 2018. 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 2018 on a separate basis. Given that the sensitivity analyses are based on the average term of the expected pension liabilities and consequently do not take account of the expected payment dates, they provide only approximate information or indications of future trends.

We do not currently consider that any further changes to the relevant actuarial parameters are likely to occur which could result in material adjustments to the carrying amounts of the employee benefit liabilities over the next few years.

Provisions in the amount of EUR 12,000 (previous year: EUR 9,000) have been established for commitments made for the benefit of any members of the Management Board becoming unable to work. These are also recorded under employee benefit liabilities.

13 Liabilities arising out of finance leases

Deutsche Wohnen recognises liabilities for heat contracting for its property portfolio and for land leases under which it holds building rights as finance leases. The carrying amount of the liabilities arising out of finance leases was EUR 146.3 million as at the end of the year (previous year: EUR 65.6 million) and are reported in other financial liabilities by maturity

The finance leases give rise to the following financial liabilities:

31/12/2018

EUR m	Due within one year	Due in 1 to 5 years	Due after 5 years
Payments	15.4	54.6	152.9
Interest component	–2.3	–8.0	–66.3
Redemption component	**13.1**	**46.6**	**86.6**

31/12/2017

EUR m	Due within one year	Due in 1 to 5 years	Due after 5 years
Payments	9.7	34.2	27.4
Interest component	–0.7	–2.6	–2.4
Redemption component	**9.0**	**31.6**	**25.0**

14 Other provisions

The other provisions comprise the following:

EUR m	Restructuring	Legal risks	Other	Total
Opening balance	**1.0**	**1.6**	**17.6**	**20.2**
Utilisation	–0.2	–0.1	–2.1	–2.4
Reversal	0.0	–1.0	–5.1	–6.1
Additions	1.1	6.2	5.6	12.9
Closing balance	**1.9**	**6.7**	**16.0**	**24.6**
Of which: non-current	1.3	5.3	8.6	15.2
Of which: current	0.6	1.4	7.4	9.4

The provisions for restructuring measures primarily comprise obligations arising in connection with the integration of the business operations of GSW Immobilien AG.

Other provisions (EUR 16.0 million; previous year: EUR 17.6 million) relate to a large number of third-party liabilities.

The additions include accrued interest on non-current provisions in the amount of EUR 0.1 million.

15 Tax liabilities

The amount of tax liabilities (EUR 36.0 million; previous year: EUR 27.2 million) primarily comprises provisions for current taxes and for possible tax-related risks arising in connection with external audits.

16 Deferred taxes

The deferred taxes comprise the following:

EUR m	31/12/2018	Change	31/12/2017
Deferred tax assets			
Properties	1.9	–0.6	2.5
Pensions	8.9	–0.8	9.7
Loss carry-forwards	267.2	0.9	266.3
Interest rate hedges	4.0	1.9	2.1
Loans	0.5	0.4	0.1
Convertible bonds	14.3	–6.0	20.3
Other	42.0	15.6	26.4
	338.8	**11.4**	**327.4**
Netting	–338.7	–11.7	–327.0
Carrying amount	0.1	–0.3	0.4
Deferred tax liabilities			
Loans	19.0	–3.0	22.0
Properties	3,525.5	747.1	2,778.4
Other	38.9	15.6	23.3
	3,583.4	**759.7**	**2,823.7**
Netting	–338.7	–11.7	–327.0
Carrying amount	3,244.7	748.0	2,496.7
Deferred taxes (net)	**–3,244.6**	**–748.3**	**–2,496.3**

The changes in deferred taxes in financial year 2018 and 2017 are as follows:

EUR m	2018	2017
Reported directly in other comprehensive income	–11.6	–7.6
Recognised in profit/loss	–736.7	–802.4
	–748.3	**–810.0**

The actuarial gains and losses from pensions, changes in the fair value of the effective hedges and the counterparty risk of convertible bonds are recognised directly in other comprehensive income. The resulting deferred taxes are also recognised in other comprehensive income and consist of EUR 0.1 million (previous year: EUR 6.9 million) for actuarial profit and losses, EUR 0.4 million (previous year: EUR 0.9 million) for fair value changes of effective hedges, and EUR –12.1 million (previous year: EUR 0.0 million) for the counterparty risk of convertible bonds.

The increase in the amount of the deferred tax liabilities with regard to properties in the financial year 2018 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 1,542.9 million (previous year: EUR 1,640.8 million) and trade tax loss carry-forwards in the amount of EUR 1,277.9 million (previous year: EUR 1,358.1 million). The amounts of corporation and trade tax loss carry-forwards for which no deferred tax assets are recognised amount to EUR 596.5 million (previous year: EUR 718.6 million) and EUR 447.0 million (previous year: EUR 519.3 million). In general, loss carry-forwards do not expire.

In the 2018 fiscal year, no deferred tax assets were recognised for temporary differences of EUR 37.7 million (previous year: EUR 14.8 million) because it is unlikely that sufficient taxable income will be generated for these amounts in the near future.

No deferred tax liabilities were recognised for profits of EUR 7,490.9 million accrued at subsidiaries (previous year: EUR 5,614.0 million), because these profits are intended to stay invested for an indefinite period or are not subject to tax. If the subsidiaries make a distribution or are sold, 5% of the distribution or disposal gain is subject to tax, which would generally give rise to an additional tax payment.

E Disclosures on the consolidated income statement

The consolidated profit and loss statement is prepared using the total cost method.

1 Contracted rental income and operating costs

The income from contracted rental income and operating costs is made up as follows:

EUR m	2018	2017
Contractual rent	807.7	762.7
Subsidies	0.8	1.0
	808.5	**763.7**
Vacancy losses	–23.0	–19.5
	785.5	**744.2**
Operating costs	337.4	326.5[1]
	1,122.9	**1,070.7**

1 Previous year's figure altered due to first-time application of IFRS 15. The application of IFRS 15 as of 1 January 2018 means that income from reinvoicing operating costs, which in previous years were offset and recognised as non-recoverable operating costs under expenses from Residential Property Management, are now shown on a gross basis.

Disclosures on revenue recognition pursuant to IFRS 15

In the Group, tenancy agreements are concluded which essentially comprise the net rent exclusive of heating expenses plus operating costs. The contract component "net rent exclusive of heating expenses" is a lease and so falls within the scope of IAS 17 'Leases', whereas income from operating costs falls within the scope of IFRS 15 'Revenue from contracts with customers'. Income from operating costs consists of the expenses that are charged to tenants and do not include any margin. In addition, sales revenue is mainly generated from the disposal of property and the provision of nursing services.

The following table shows the main income streams by type and timing of revenue recognition; allocated to the segments in which it is presented.

Segments	Residential Property Management	Disposals	Nursing and Assisted Living	Total
Goods/services				
Operating costs	337.4	–	–	337.4
Privatisation	–	68.7	–	68.7
Institutional sale	–	111.6	–	111.6
Nursing care	–	–	68.1	68.1
	337.4	**180.3**	**68.1**	**585.8**
Time of revenue recognition				
Goods or services transferred at a point in time	–	180.3	–	180.3
Goods or services transferred over time	337.4	–	54.5	391.9
	337.4	**180.3**	**54.5**	**572.2**

2 Expenses from Residential Property Management

The expenses from Residential Property Management are made up as follows:

EUR m	2018	2017
Maintenance costs	102.9	104.7
Operating costs	347.2	335.8[1]
Rental loss	7.7	6.4
Other costs	8.9	11.0
	466.7	**457.9**

1 Previous year's figure altered due to first-time application of IFRS 15. The application of IFRS 15 as of 1 January 2018 means that the expenses for operating costs, which in prior years were offset and recognised as non-refundable operating costs, are now shown on a gross basis.

3 Earnings from Disposals

The earnings from Disposals include income from sales proceeds, disposal costs and carrying amounts of assets sold of investment properties and land and buildings held for sale.

4 Earnings from Nursing and Assisted Living

The earnings from Nursing and Assisted Living comprise the following:

EUR m	2018	2017
Income from nursing	68.1	63.8[1]
Rental and lease income	67.2	56.9[1]
Nursing and corporate expenses	–24.5	–22.2
Staff expenses	–54.2	–49.9
Expenses for leased properties	–1.3	–0.6
	55.3	**48.0**

1 Previous year's figure altered due to first-time application of IFRS 15. Nursing and rental income are reported separately.

5 Corporate expenses

The corporate expenses comprise the following:

EUR m	2018	2017
Staff expenses	**62.8**	**53.8**
General and administration expenses		
IT costs	8.8	7.8
Building costs	3.1	3.3
Legal, consultancy and audit costs	5.9	5.8
Communication costs	3.8	2.8
Printing and telecommunication costs	1.9	1.8
Travel expenses	1.2	1.1
Insurance policies	1.0	1.0
Other	5.2	3.9
	30.9	**27.5**
	93.7	**81.3**

The number of employees of the Deutsche Wohnen Group allocated to the Residential Property segment in the financial year averaged 1,165 (previous year: 986 employees). KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH, in which Deutsche Wohnen SE holds a 49% stake, also employed an average of 1,987 employees (previous year: 1,726 employees).

6 Other income

Other operating revenues primarily comprised revenues from internally generated assets and licences.

7 Other expenses

Other expenses in 2018 of EUR 7.1 million related primarily to one-off IT and marketing projects. In 2017 the item mainly consisted of transaction-related land tax payments of EUR 23.4 million.

8 Share-based remuneration

The share option plan launched in 2014 provides for the possibility of issuing a maximum of 12,879,752 subscription rights to the members of the Management Board of Deutsche Wohnen SE and to selected executives of the Deutsche Wohnen Group under the following conditions:

The subscription rights are issued to beneficiaries in annual tranches until the expiration of four years from the date of the entering of the contingent capital in the commercial register, or at least until the expiration of 16 weeks following the conclusion of the ordinary Annual General Meeting in 2018. The amount of the annual tranches is determined by dividing the target amount of the variable remuneration for the beneficiary in question by a reference value, which is commensurate with the arithmetical mean of the closing price for the Deutsche Wohnen share 30 days prior to the issuance of the share options concerned.

The subscription rights may be exercised for the first time after the expiration of four years (waiting period) and thereafter within three years (exercise period) and expire at the end of the relevant period.

The subscription rights may only be exercised where the following conditions are met:

- The service contract concluded with the beneficiary is not terminated during the waiting period on grounds for which the latter is responsible (section 626 para. 1 of the German Civil Code [BGB]) and
- the performance targets "adjusted NAV per share" (40% weighting), "FFO (without disposals) per share" (40% weighting) and "share price" (20% weighting) have been attained.

The performance targets for each individual tranche of the share options relate to the development of the (i) "adjusted NAV per share", (ii) "FFO (without disposals) per share" and (iii) "share price", as compared to the "adjusted EPRA/NAREIT Germany Index", calculated in accordance with the following provisions.

Each of the aforementioned performance targets in turn comprises a minimum target, which must be attained in order for half of the share options allotted to this performance target to be generally exercisable, as well as a maximum target, upon the attainment of which all of the share options allotted to this performance target become exercisable in accordance with the weighting of the performance target in question. The minimum target in each case is set at a degree of target attainment of 75% and the maximum target is set at a degree of

target attainment of 150%. The individual minimum and maximum targets are set by the company on the basis of its quarterly projections prior to the issuance of the annual tranche of share options. Subject to any special arrangements which apply upon the termination of the service or employment relationship of the beneficiary prior to the expiration of the waiting period, the number of exercisable share options per tranche is commensurate with the total number of share options in the tranche in question multiplied by the percentage rate produced by the total of the percentage rates resulting from the attainment of one or more performance targets in accordance with the foregoing provisions, and having regard to the aforementioned weighting of the performance targets, so as to compensate for any divergences in the attainment of the performance targets in favour of the beneficiary.

At the end of the waiting period, the number of the subscription rights eligible for allocation to each beneficiary is calculated on the basis of the degree of attainment of the performance targets. Each beneficiary pays EUR 1 per share upon exercising the allocated subscription rights. The shares acquired following the exercise of the options confer full voting rights and an entitlement to the payment of dividends.

In the past financial year no subscription rights were issued under the SOP 2014 (previous year: 64,857), with the result that 193,667 subscription rights were outstanding at the end of the year (previous year: 282,994). The expenses relating to the share option programme as reported in the consolidated financial statements amounted to EUR 1.4 million.

9 Gains/losses from fair value adjustments to derivative financial instruments and convertible bonds

Gains/losses from fair value adjustments comprise negative fair value adjustments of the convertible bonds in the amount of EUR 70.7 million (previous year: EUR 229.0 million) and negative value adjustments for derivative financial instruments in the amount of EUR 9.6 million (previous year: positive adjustment of EUR 3.0 million).

10 Financial expenses

Finance expenses are made up as follows:

EUR m	2018	2017
Current interest	106.3	100.2
Accrued interest on liabilities and pensions	15.8	18.7
Non-recurring expenses in connection with refinancing	9.3	51.7
	131.4	**170.6**

11 Income taxes

Companies which are domiciled in Germany and structured as a limited liability company are subject to German corporation tax at a rate of 15% and a solidarity surcharge 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 limited partners for corporation tax purposes. Limited use of corporation and trade tax loss carryforwards 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 2018 for Deutsche Wohnen SE as the parent company of the Group is 30.18% (previous year: 30.18%).

The income tax expense/benefit comprises the following:

EUR m	2018	2017
Current tax expense	**–27.4**	**–31.2**
Tax expense resulting from capital increase-related costs	**–0.1**	**–1.4**
Deferred tax expense		
Properties	–747.7	–768.5
Loss carry-forwards	0.9	0.9
Loans	3.4	–0.2
Convertible bonds	–6.0	–32.4
Interest rate hedges	2.5	–6.2
Pensions	–1.0	0.3
Other	11.2	3.7
	–736.7	**–802.4**
	–764.2	**–835.0**

The reconciliation of tax expense/benefit is provided in the following overview:

EUR m	2018	2017
Group profit before taxes	2,626.8	2,598.2
Applicable tax rate	30.18%	30.18%
Resulting tax expense	–792.8	–784.0
Permanent effects resulting from non-deductible expenses and trade tax corrections. as well as tax-exempt income	12.5	–14.1
Changes in unrecognised deferred taxes on loss carry-forwards and accrued temporary differences	0.3	–55.9
Income tax expenses from other periods	2.3	12.3
Other effects	13.5	6.7
	–764.2	**–835.0**

The amount of current income taxes for the financial year 2018 includes income from other periods of EUR 2.3 million (previous year: EUR 12.3 million). EUR 0.3 million (previous year: EUR 0.9 million) of the change in unrecognised deferred taxes on loss carry-forwards and accrued temporary differences in the amount of EUR 0.3 million had the effect of reducing the amount of the ongoing tax expenditure.

F Segment reporting

Deutsche Wohnen reports by business segments on the basis of the information provided to the decision-makers of the Deutsche Wohnen Group.

Deutsche Wohnen focuses on the following three main segments in the context of its business activities:

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.

Disposals

The Disposals business segment is another pillar of the Deutsche Wohnen Group's operating activities. Privatisation can take the form of either an individual privatisation transaction, i.e. the sale of an individual residential unit (for example, to a tenant), or block sales.

The Disposals business segment includes all aspects of the preparation and execution of the sale of residential units from our property portfolio as part of the ongoing portfolio optimisation and streamlining process.

In addition, the privatisation of residential property can take place in connection with the future acquisition of portfolios for the purpose of portfolio streamlining as well as for financing purposes.

Certain residential units, particularly in Rhineland-Palatinate, and individual holdings of the GEHAG Group as well as the BauBeCon Group are subject to privatisation restrictions due to the acquisition agreements. In light of the obligations, the Group is partly bound by certain specifications (for example, sale to tenants, general social conditions, etc.) when making privatisation decisions. These restrictions to some extent also prohibit the disposal of the properties in question for a specified period of time.

Nursing and Assisted Living

The Nursing and Assisted Living segment comprises the business operations of the company's subsidiary KATHARINENHOF and the contributions towards the overall results attributable to the income from the lease agreements for the nursing properties managed by a number of external operators. The range of services provided by KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH (KATHARINENHOF) and its subsidiaries comprises the marketing and management of nursing and residential care homes for the elderly, as well as services relating to the care of the senior citizens residing in those properties.

Inter-company transactions primarily concern agency agreements which are carried out in accordance with the usual market conditions.

The segment reporting is attached to the notes to the consolidated financial statements as Appendix 2.

Segment earnings correspond to the respective sub-totals in the consolidated income statement. The following table shows how segment earnings were reconciled with the consolidated income statement:

EUR m	2018	2017
Total segment earnings	754.6	711.1
Corporate expenses	–93.7	–81.3
Other expenses	–24.4	–37.8
Other income	22.6	8.8
EBITDA before the result from fair value adjustment of investment properties	**659.1**	**600.8**
Gains/losses from fair value adjustments of investment properties	2,179.3	2,397.0
Depreciation and amortization	–10.3	–7.4
Earnings before interest and taxes (EBIT)	**2,828.1**	**2,990.4**
Financial income	7.8	1.4
Gains/losses from fair value adjustments to derivative financial instruments and convertible bonds	–80.3	–226.0
Gains/losses from companies valued at equity	2.6	3.0
Financial expenses	–131.4	–170.6
Earnings before taxes	**2,626.8**	**2,598.2**
Income taxes	–764.2	–834.9
Profit/loss for the period	**1,862.6**	**1,763.3**

G Notes on the cash flow statement

The consolidated statement of cash flows shows how the Group's cash position has changed during the financial year due to the inflow and outflow of funds. In accordance with IAS 7 ('Cash flow statements'), a distinction is made between cash flows from operating and from investing and financing activities.

Other non-cash operating income and expenses mainly include carrying profits from disposals (2018: EUR 28.1 million; previous year: EUR 52.1 million). In total, Deutsche Wohnen received EUR 177.9 million (previous year: EUR 303.5 million) from property disposals. Purchase of property, plant and equipment includes payments for modernisation and acquisition of investment properties and land and buildings held for sale.

The Group has funds amounting to EUR 449.6 million (previous year: EUR 447.2 million) at its disposal from existing financing commitments that have not been utilised as at the reporting date.

Cash flows from investing and financing activities are determined when payments are made. The cash flow from operating activities in contrast is indirectly derived from the Group's profit/loss.

The changes in liabilities arising out of finance leases during the financial year 2018 were as follows:

EUR m			Non-cash changes			
	Opening balance Balance sheet	Cash changes	Change in consolidation basis	Change in fair value	Accruals and deferrals	Closing balance Balance sheet
Financial liabilities	4,751.1	1,247.9	180.2	0.0	5.4	6,184.6
Convertible bonds	1,669.6	0.0	0.0	24.0	3.6	1,697.2
Corporate bonds	826.6	375.0	0.0	0.0	–1.2	1,200.4
Total	**7,247.3**	**1,622.9**	**180.2**	**24.0**	**7.8**	**9,082.2**

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	2018	2017
Group profit/loss to calculate undiluted earnings	1,833.0	1,717.9
Correction: Interest from convertible bonds (after taxes)	5.2	1.5
Correction: Valuation effect resulting from convertible bond (after taxes)	49.3	32.7
Adjusted Group profit/loss to calculate diluted earnings	**1,887.5**	**1,752.1**

The average number of issued shares (diluted and undiluted) amounts to:

thousand	2018	2017
Shares issued at start of period	354,666	337,480
Addition of issued shares in the relevant financial year	2,348	17,186
Shares issued at end of period	357,014	354,666
Average number of issued shares, undiluted	**355,704**	**352,121**
Number of diluting shares due to exercise of conversion rights and share option programme	32,581	17,770
Average number of issued shares, diluted	**388,285**	**369,890**

The earnings per share amount to:

EUR	2018	2017
Earnings per share		
Undiluted	5.15	4.88
Diluted	4.86	4.74

In 2018 a dividend was paid out for the financial year 2017 of EUR 283.7 million or EUR 0.80 per share. In addition, 2,241,061 new shares from the share dividend with an equivalent value of some EUR 88.9 million were issued for approximately 111.2 million dividend entitlements. A cash dividend of EUR 0.87 per share is planned for the financial year 2019. Based on the number of shares outstanding as at 31 December 2018 and assuming that no shareholders vote for a share dividend, this corresponds to a total dividend distribution of EUR 310.6 million.

I Other disclosures

1 Information on financial instruments

Financial risk management

The management of financial risks is an integral part of the risk management system and as such a tool for achieving the company's primary objective of ensuring the profitability of Deutsche Wohnen – which is mainly focussed on the management and development of its own residential holdings – on a sustained basis. Please see the risk and opportunity report in the Group Management Report for a detailed description of the overall risk management system.

The measures relating to financial risk management are described below:

The main financial instruments used by the Group – apart from derivative financial instruments – are bank loans, convertible bonds, a corporate bond, registered bonds, bearer bonds and cash and cash equivalents. The primary purpose of these financial instruments is to finance the Group's business activities. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which result directly from its business activities.

The Group also carries out derivative transactions in the form of interest rate swaps. The purpose of these derivative financial instruments is to manage interest rate risks that result from the Group's business activities and its sources of finance. There has been no trading of interest rate swaps, nor will there be any future trading in this area.

The table below shows the categorisation of financial instruments into the corresponding classes as per IFRS 7.6 and the allocation to measurement categories as defined in IFRS 9:

31/12/2018

EUR m	Valuation category in accordance with IFRS 9	Measured at amortized costs		Measured at fair value	Valuation in accordance with IAS 17/IAS 28	Total balance sheet items
		Carrying amount	Fair value	Carrying amount	Carrying amount	Carrying amount
Trade receivables	AC	22.4	22.4	0.0	0.0	22.4
Other assets						
Financial assets	FVOCI	1.8	n/a	0.0	0.0	1.8
Financial assets	n/a	–	n/a	–	72.8	72.8
Loans receivable	AC	4.2	4.2	0.0	0.0	4.2
Leasing receivables	n/a	0.0	0.0	0.0	32.9	32.9
Other financial assets	AC	26.2	0.0	0.0	0.0	26.2
Derivative financial instruments						
Interest rate hedges (no hedge accounting)	FVtPL	0.0	0.0	1.0	0.0	1.0
Cash flow hedges (interest rate swaps)	n/a	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	AC	332.8	332.8	0.0	0.0	332.8
Total financial assets		**387.5**	**359.4**	**1.0**	**105.7**	**494.2**
Financial liabilities	AC	6,184.6	6,359.8	0.0	0.0	6,184.6
Convertible bonds	FVtPL	0.0	0.0	1,697.2	0.0	1,697.2
Corporate bond	AC	1,200.4	1,164.4	0.0	0.0	1,200.4
Trade payables	AC	302.4	302.4	0.0	0.0	302.4
Other liabilities						
Liabilities from finance leases	n/a	0.0	0.0	0.0	146.3	146.3
Other financial liabilities	AC	205.3	205.3	0.0	0.0	205.3
Derivative financial instruments						
Interest rate hedges (no hedge accounting)	FVtPL	0.0	0.0	9.6	0.0	9.6
Cash flow hedges (interest rate swaps)	n/a	0.0	0.0	6.0	0.0	6.0
Total financial liabilities		**7,892.6**	**8,031.8**	**1,712.8**	**146.3**	**9,751.8**

AC – Financial assets and financial liabilities valued at amortized costs (Amortized Cost)
FVtPL – Measured at fair value through profit and loss (Fair Value through Profit and Loss)
FVOCI – Measured at fair value through equity (Fair Value through Other Comprehensive Income)

The table below shows the categorisation of financial instruments into the corresponding classes and the allocation to measurement categories as defined in IAS 39 as at 31 December 2017:

31/12/2017

EUR m	Valuation category in accordance with IAS 39	Measured at amortized costs		Measured at fair value	Valuation in accordance with IAS 17/IAS 28	Total balance sheet items
		Carrying amount	Fair value	Carrying amount	Carrying amount	Carrying amount
Trade receivables	LaR	15.5	15.5	0.0	0.0	15.5
Other assets						
Financial assets	AfS	0.4	n/a	0.0	14.6	14.9
Loans receivable	LaR	4.2	n/a	0.0	0.0	4.2
Other financial assets	LaR	13.2	13.2	0.0	0.0	13.2
Derivative financial instruments	FAHfT	0.0	0.0	3.3	0.0	3.3
Cash and cash equivalents	LaR	363.7	363.7	0.0	0.0	363.7
Total financial assets		**396.9**	**392.3**	**3.3**	**14.6**	**414.8**
Financial liabilities	FLaC	4,751.1	4,892.8	0.0	0.0	4,751.1
Convertible bonds	FLHfT	0.0	0.0	1,669.6	0.0	1,669.6
Corporate bond	FLaC	826.7	833.3	0.0	0.0	826.7
Trade payables	FLaC	177.7	177.7	0.0	0.0	177.7
Other liabilities						
Liabilities from finance leases	n/a	0.0	0.0	0.0	65.6	65.6
Other financial liabilities	FLaC	196.2	196.2	0.0	0.0	196.2
Derivative financial instruments						
Interest rate hedges (no hedge accounting)	FLHfT	0.0	0.0	4.7	0.0	4.7
Cash flow hedges (interest rate swaps)	n/a	0.0	0.0	0.5	0.0	0.5
Total financial liabilities		**5,951.7**	**6,100.0**	**1,674.8**	**65.6**	**7,692.1**

AfS – Financial assets available for disposal (Available for Sale)
LaR – Loans and Receivables
FAHfT – Financial assets assessed at fair value and recognised in profit/loss (Financial Assets Held for Trade)
FLaC – Financial liabilities carried forward at amortized cost (Financial Liabilities at Cost)
FLHfT – Liabilities assessed at fair value and recognised in profit/loss (Financial Liabilities Held for Trade)

For the reconciliation of financial instruments from IAS 39 to IFRS 9 we refer to the comments in chapter 3: Application of IFRS in the financial year.

The determination of the fair value of the financial assets and liabilities for valuation purposes or for the purposes of disclosure in the explanatory Notes was undertaken in all cases – except that of liabilities arising in connection with put options of co-partners (Level 3) – on the basis of Level 2 of the fair value hierarchy.

The DCF valuation methodology was applied in the case of derivatives, using observable market parameters, in particular market interest rates. The fair value of the convertible and other bonds was calculated on the basis of the market listings for the securities. The amounts of the liabilities arising in connection with put options are commensurate with the discounted contractually stipulated purchase prices, which can be calculated on the basis of projectable cash flows.

The following table shows the contractual, non-discounted payments:

31/12/2018

EUR m	Carrying amount	Maturities			
		2019	2020	2021	> 2022
Original financial liabilities					
Financial liabilities	6,184.6	140.5	232.0	237.8	6,343.4
Convertible bonds	1,697.2	7.4	7.4	7.4	1,631.8
Corporate bond	1,200.4	79.2	519.3	12.5	768.4
Trade payables	302.4	302.4	0.0	0.0	0.0
Other liabilities					
Liabilities from finance lease	146.3	15.5	15.3	14.4	177.8
Other financial liabilities	205.3	41.8	0.0	24.0	139.4
Derivative financial liabilities	**15.6**	**8.6**	**7.7**	**5.4**	**–6.0**
Total	**9,751.8**	**595.3**	**781.8**	**301.5**	**9,054.9**

31/12/2017

EUR m	Carrying amount	Maturities			
		2018	2019	2020	> 2021
Original financial liabilities					
Financial liabilities	4,751.1	111.3	115.3	320.4	4,934.7
Convertible bonds	1,669.6	3.8	7.4	7.4	1,639.2
Corporate bond	826.7	12.6	12.6	512.6	380.5
Trade payables	177.7	177.7	0.0	0.0	0.0
Other liabilities					
Liabilities from finance lease	65.6	9.8	9.6	9.4	42.6
Other financial liabilities	196.2	35.0	0.0	0.0	161.2
Derivative financial liabilities	**5.2**	**4.1**	**2.0**	**0.1**	**–7.6**
Total	**7,692.1**	**354.2**	**146.9**	**849.9**	**7,150.5**

The profits and losses from financial assets and liabilities are as follows:

31/12/2018									
EUR m	Valuation category in accordance with IFRS 9	From interests	From dividends	From subsequent valuations			From disposals	From other comprehensive income components	Net earnings
				At fair value	Impairment	Appreciation in value			
Financial assets and financial liabilities valued at amortized costs	AC	–111.0	0.0	0.0	–1.4	1.3	–1.4	–0.7	–113.3
Measured at fair value through profit and loss	FVtPL	–11.5	0.0	–78.0	0.0	0.0	0.0	0.0	–89.5
Measured at fair value through equity	FVOCI	0.0	0.0	39.8	0.0	0.0	0.4	0.0	40.1
Total		**–122.5**	**0.0**	**–38.2**	**–1.4**	**1.3**	**–1.0**	**–0.7**	**–162.6**

31/12/2017									
EUR m	Valuation category in accordance with IAS 39	From interests	From dividends	From subsequent valuations			From disposals	From other comprehensive income components	Net earnings
				At fair value	Impairment	Appreciation in value			
Financial assets available for disposal	AfS	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Loans and receivables	LaR	0.4	0.0	0.0	–1.3	2.1	–2.7	0.1	–1.4
Financial liabilities valued at amortized costs	FLaC	–117.0	0.0	0.0	0.0	0.0	0.4	–1.3	–117.9
Financial receivables and liabilities valued at fair value through profit and loss (held for trading)	FAHfT/ FLHfT	–12.5	0.0	–226.1	0.0	0.0	0.0	0.0	–238.6
Total		**–129.2**	**0.1**	**–226.1**	**–1.3**	**2.1**	**–2.3**	**–1.2**	**–357.8**

AC – Financial assets and financial liabilities valued at amortized costs (Amortized Cost)
AfS – Financial assets available for disposal (Available for Sale)
FVtPL – Measured at fair value through profit and loss (Fair Value through Profit and Loss)
FVOCI – Measured at fair value through equity (Fair Value through Other Comprehensive Income)
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 forward at amortized cost (Financial Liabilities at Cost)
FLHfT – Liabilities assessed at fair value and recognised in profit/loss (Financial Liabilities Held for Trade)

Changes in the fair value of convertible bonds resulting from counterparty risk are recognised in other comprehensive income.

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 obtains collateral. There is no significant concentration of default risk at Deutsche Wohnen, either for a single counterparty or for a group of counterparties with similar characteristics. The maximum default risk is the carrying amount of the financial assets as reported in the balance sheet.

Liquidity risk

The Group reviews the risk of liquidity shortfalls daily by using a liquidity planning tool. This tool takes into account the inflows and outflows of cash from the operating activities and payments relating to financial liabilities.

Deutsche Wohnen seeks to ensure that sufficient liquidity is available to meet future obligations at all times. Deutsche Wohnen currently has a debt capital ratio of approx. 52% (previous year: 50%) and a Loan-to-Value ratio of 36.0% (previous year: 34.5%).

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. In order to make this combination cost-efficient, the Group concludes interest rate swaps at specified intervals in which it exchanges the difference between the fixed-interest and floating-rate amounts as determined on the basis of an agreed nominal value with the contractual partner. These interest rate swaps hedge the underlying debt. Accordingly, interest rate risk only exists for floating-rate financial liabilities that are not hedged by interest rate swaps. Applied to these financial liabilities, an increase/reduction of 0.5% in the interest rate on the balance sheet date would have resulted in an increase/a reduction in the interest expenses of EUR 5.1 million/EUR –3.4 million (previous year: EUR 4.0 million/EUR –3.0 million). Applied to the derivative financial instruments, an increase/reduction of 0.5% in the interest rate on the balance sheet date would have resulted in an increase/a reduction in the interest expenses of EUR 19.7 million/EUR –17.7 million (previous year: EUR 20.5 million/EUR –21.6 million). Applied to the other income, an interest adjustment in the same amount would have resulted in an increase/a reduction of EUR 10.4 million/EUR –13.8 million (previous year: EUR 1.0 million/EUR –0.8 million).

Market risks

The financial instruments of Deutsche Wohnen that are not reported at fair value are primarily cash and cash equivalents, trade receivables, other current assets, financial liabilities, trade payables and other liabilities.

The carrying amount of cash and cash equivalents is very close to their fair value due to the short-term nature of these financial instruments. For receivables and liabilities which are based on usual trade credit conditions, the carrying amount based on the historical cost is also very close to the fair value.

Fair value risks can arise in connection with fixed-interest and interest-hedged loans where the market interest rate falls below the interest rate for the loans entered into by the Group. In such cases, Deutsche Wohnen will usually initiate negotiations with the banks in question and make adjustments and enter into refinancing arrangements in the interests of avoiding the implications of unfavourable interest rates.

Netting of financial assets and financial liabilities

Financial assets and liabilities will only be netted pursuant to global netting agreements where an enforceable legal offset right 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 offset right. In this case, the financial assets and liabilities will be reported on the balance sheet in their gross amounts on the balance sheet date.

Deutsche Wohnen enters into financial futures transactions as a means of hedging against cash flow risks. These derivatives are based on standard netting agreements concluded with banks, pursuant to which a conditional offset right may arise which could result in the futures transactions being reported at 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 334.1 million (previous year: EUR 319.8 million) were offset against instalments on advance payments of operating costs in the amount of EUR 357.0 million (previous year: EUR 346.3 million) on the balance sheet for the financial year 2018. There were no conditional rights to offset derivatives against liabilities from 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 ratio and the leverage ratio
  The Group aims to achieve an equity ratio of 40%. Future investments will therefore be made partly on the basis of balanced financing. The equity ratio amounted to 48% as at the reporting date (previous year: 50%).

- Loan-to-Value ratio
  The ratio of financial liabilities to the value of the investment properties is defined as the Loan-to-Value ratio.

EUR m	31/12/2018	31/12/2017
Financial liabilities	6,184.6	4,751.1
Convertible bonds	1,697.2	1,669.6
Corporate bonds	1,200.4	826.6
	9,082.2	**7,247.3**
Cash and cash equivalents	–332.8	–363.7
Net financial liabilities	**8,749.4**	**6,883.6**
Investment properties	23,781.7	19,628.4
Non-current assets held for sale	33.0	28.7
Land and buildings held for sale	477.1	295.8
	24,291.8	**19,952.9**
Loan-to-Value ratio in %	**36.0**	**34.5**

3 Hedging

As at 31 December 2018 and 31 December 2017, there were various interest hedges in place in relation to hedging transactions undertaken in accordance with IFRS 9 or IAS 39 in the previous year, through which variable interest rates can be exchanged for fixed interest rates. The non-effective part thereof – any change in the value of which is reported in the consolidated profit and loss statement – is negligible (previous year: negligible).

The reversal of the hedging reserve recognised directly in equity resulted in expenses of EUR 1.7 million (previous year: EUR 24.2 million) which were reported in the consolidated profit and loss statement.

4 Events after the balance sheet date

In the course of a successive acquisition the Group acquired the remaining 55% interest in PUW OpCo GmbH, Hamburg, on 2 January 2019. We refer to the comments in B.1 Basis of consolidation.

In March 2019, the Deutsche Wohnen Group acquired a real estate portfolio consisting of around 2,850 residential and 100 commercial units for a purchase price of EUR 685 million. The transfer of benefits and burdens is expected to be completed until the third quarter of 2019. The average rent is around EUR 10.50 per sqm. The portfolio is located in the metropolitan regions of Dusseldorf, Cologne and Rhine-Main, in particular Frankfurt am Main.

We are not aware of any other material events after the reporting date.

5 Commitments and contingencies

Land leases result in annual financial commitments of EUR 2.2 million (previous year: EUR 2.5 million).

Other financial commitments relating to agency agreements for IT services total EUR 12.2 million (previous year: EUR 8.2 million).

Other financial commitments totalling EUR 10.5 million (previous year: EUR 8.6 million) relate to other service contracts.

In addition, there are current obligations of EUR 522.40 million (previous year: EUR 144.4 million) resulting from the acquisition of a number of property portfolios, and current obligations of EUR 66.9 million for company acquisitions. The purchase commitment and the investment obligations result in financial commitments of EUR 196.7 million (previous year: 120.5 million) and EUR 394.7 million (previous year: EUR 408.1 million), respectively.

One Group company (Rhein-Pfalz Wohnen GmbH) has been certified as a refurbishment and development agency (sections 158 and 167 of the German Federal Building Code [Baugesetzbuch – BauGB]. Rhein-Pfalz Wohnen GmbH performs the duties incumbent upon it as the trustee of the local authorities.

In the GSW subgroup there are charges in the land register for building obligations totalling EUR 10.6 million (previous year: EUR 10.6 million).

6 Obligations under leases

Operating lease agreements give rise to payments of EUR 5.3 million (previous year: EUR 2.0 million) for a period of up to one year, of EUR 16.2 million (previous year: EUR 4.2 million) for a period of one to five years and of EUR 11.3 million (previous year: EUR 1.8 million) for a period of more than five years. The increase in obligations is primarily due to new leases, especially for commercial properties, heat contracting and measurement services, as well as to revised estimates concerning the renewal and termination options in existing leases.

7 Auditor's services

The auditor of Deutsche Wohnen SE and the Group is KPMG AG Wirtschaftsprüfungsgesellschaft. The following expenses (net) were incurred in the year under review:

EUR m	31/12/2018	31/12/2017
Audit services	1,111	1,011
Other certification services	72	74
Other services	10	0
	1,193	**1,085**

8 Related party disclosures

Companies and persons who have the possibility of controlling or exercising a significant influence on the financial and business policies of the Deutsche Wohnen Group are considered to be related parties. Existing control relationships were taken into account in determining the extent of the significant influence that the Deutsche Wohnen Group's related parties (individuals and companies) have on its financial and business policies.

Related companies

The affiliated companies, jointly controlled entities and affiliated companies included in the consolidated financial statements are to be considered related companies.

Transactions with related companies

Service and cash management agreements exist within the Group. Services between the companies are eliminated on consolidation.

Related parties

The following persons are to be considered related parties:

Name	Occupation	Memberships of supervisory boards and other supervisory bodies within the meaning of section 125 para. 1, sentence 5, German Stock Corporation Act (Aktiengesellschaft – AktG)
Michael Zahn Chairman of the Management Board (Chief Executive Officer, CEO)	Economist	GSW Immobilien AG, Berlin (Chairman of the Supervisory Board until 26/06/2018) TLG IMMOBILIEN AG, Berlin (Chairman of the Supervisory Board) WCM Beteiligungs- und Grundbesitz-AG, Frankfurt/Main (Chairman of the Supervisory Board until 08/02/2018) Scout24 AG, Munich (Member 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) GETEC Wärme & Effizienz GmbH, Magdeburg (Member of the Real Estate Advisory Board)
Lars Wittan Deputy Chairman of the Management Board (Chief Operating Officer, COO)	Degree in business administration (Dipl.-Betriebswirt)	Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin (Chairman of the Supervisory Board)
Philip Grosse Member of the Management Board (Chief Financial Officer, CFO)	Degree in business management (Dipl.-Kaufmann)	GSW Immobilien AG, Berlin (Chairman of the Supervisory Board since 26/06/2018) GEHAG GmbH, Berlin (Deputy Chairman of the Supervisory Board)

Members of the Supervisory Board of Deutsche Wohnen SE

The Supervisory Board is composed of the following members:

Name	Occupation	Memberships of supervisory boards and other supervisory bodies within the meaning of section 125 para. 1, sentence 5, German Stock Corporation Act (Aktiengesellschaft – AktG)
Matthias Hünlein Chairman (Chairman since 15/06/2018)	Managing Director Tishman Speyer Properties Deutschland GmbH, Frankfurt/Main	• Tishman Speyer Investment Management GmbH, Frankfurt/Main (Deputy Chairman of the Supervisory Board since 08/08/2018)
Dr Andreas Kretschmer Deputy Chairman	Management consultant, Dusseldorf	• BIOCEUTICALS Arzneimittel AG, Bad Vilbel (Chairman of the Supervisory Board until 21/06/2018) • Amprion GmbH, Dortmund (Deputy Chairman of the Supervisory Board until 31/05/2018)
Jürgen Fenk	Managing Director and member of the Group Executive Board of Signa Holding GmbH, Vienna, Austria	• SIGNA Development Selection AG, Innsbruck, Austria (Member of the Supervisory Board since 15/02/2018)
Tina Kleingarn (Since 15/06/2018)	Partner of Westend Corporate Finance, Frankfurt/Main	• None
Dr Florian Stetter	CEO Rockhedge Asset Management AG, Krefeld	• C&P Immobilien AG, Graz, Austria (Member of the Supervisory Board) • CalCon Deutschland AG, Munich (Member of the Supervisory Board) • Noratis AG, Eschborn (Member of the Supervisory Board since 05/11/2018) • Historie & Wert Aktiengesellschaft, Wuppertal (Chairman of the Supervisory Board since 17/08/2018)
Claus Wisser	Managing Director of Claus Wisser Vermögens-verwaltungs GmbH, Frankfurt/Main	• AVECO Holding AG, Frankfurt/Main (Member of the Supervisory Board)
Uwe E. Flach (Chairman until 15/06/2018)	Management consultant, Frankfurt/Main	• None

Transactions with related parties

No transactions were entered into with related parties in financial year 2018.

9 Remuneration of the Management Board and Supervisory Board

The remuneration paid to the members of the Management Board and the Supervisory Board in accordance with their service contracts was as follows:

EUR m	2018	2017
Payments made to members of the Management Board		
Non-performance-based remuneration	2.0	1.8
Performance-based remuneration	2.4	2.4
Total	**4.4**	**4.2**
Payments made to members of the Supervisory Board		
Fixed remuneration components	0.8	0.7
Total	**0.8**	**0.7**

The non-performance-based components of the remuneration paid to members of the Management Board comprise a fixed amount of remuneration and supplementary payments for company cars. The non-performance-based components comprise both short-term incentives, on a short-term due and long-term due basis, and long-term incentives comprising, since 2014, remuneration payments made out of the share option programme.

The members of the Supervisory Board receive a fixed amount of remuneration only.

There are no pension provisions for current or retired members of the Management Board or Supervisory Board.

With regard to all other matters, we refer to the remuneration report contained in the combined management report.

10 Corporate Governance

The Management Boards and the Supervisory Boards of Deutsche Wohnen SE and GSW Immobilien AG have issued a declaration of conformity with the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (Aktiengesetz – AktG) and made it permanently available to the shareholders online at www.deutsche-wohnen.com and www.gsw.de.

Berlin, 18 March 2019

Michael Zahn
Chairman of the
Management Board

Lars Wittan
Deputy Chairman of the
Management Board

Philip Grosse
Management Board

Appendix 1 to the Notes to the consolidated financial statements

SHAREHOLDINGS[3]

as at 31 December 2018

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[1]	25.0	0.0	2018
Algarobo Holding B.V., Baarn, Netherlands	100.00	14,614.7	–158.3	2018
Alpha Asset Invest GmbH & Co. KG, Berlin	70.00[2]	278.3	–591.8	2018
Amber Dritte VV GmbH, Berlin	94.90[1]	–7,316.8	–150.7	2018
Amber Erste VV GmbH, Berlin	94.90[1]	–11,050.4	–629.6	2018
Amber Zweite VV GmbH, Berlin	94.90[1]	–12,113.5	–492.2	2018
Aragon 13. VV GmbH, Berlin	94.90[1]	–6,840.7	–837.7	2018
Aragon 14. VV GmbH, Berlin	94.90[1]	–11,323.7	–1,512.4	2018
Aragon 15. VV GmbH, Berlin	94.90[1]	–6,628.6	–677.8	2018
Aragon 16. VV GmbH, Berlin	94.90[1]	–9,637.6	–1,263.7	2018
Aufbau-Gesellschaft der GEHAG mit beschränkter Haftung, Berlin	100.00	7,962.6	541.4	2018
BauBeCon Assets GmbH, Berlin	100.00[1]	46,233.4	0.0	2018
BauBeCon BIO GmbH, Berlin	100.00[1]	8,626.5	0.0	2018
BauBeCon Immobilien GmbH, Berlin	100.00[1]	453,088.5	21,864.5	2018
BauBeCon Wohnwert GmbH, Berlin	100.00[1]	26,710.2	0.0	2018
Beragon VV GmbH, Berlin	94.90[1]	–10,955.1	–1,025.1	2018
C. A. & Co. Catering KG, Wolkenstein	100.00	33.1	43.5	2018
Ceragon VV GmbH, Berlin	94.90[1]	–8,088.3	–415.4	2018
Communication Concept Gesellschaft für Kommunikationstechnik mbH, Leipzig	100.00	3,671.5	2,449.7	2017
DELTA VIVUM Berlin I GmbH, Berlin (formerly: BOW 2 GmbH, Pfarrkirchen)	94.90[1]	9,302.8	–598.3	2018
DELTA VIVUM Berlin II GmbH, Berlin (formerly: BOW 3 GmbH, Pfarrkirchen)	94.90[1]	–2,122.2	–1,663.3	2018
Deutsche Wohnen Asset Immobilien GmbH, Frankfurt/Main	100.00[1]	25.0	0.0	2018
Deutsche Wohnen Berlin 5 GmbH, Berlin	94.90[1]	3,415.6	0.0	2018
Deutsche Wohnen Berlin 6 GmbH, Berlin	94.90[1]	506.9	0.0	2018
Deutsche Wohnen Berlin 7 GmbH, Berlin	94.90[1]	2,738.0	1,694.7	2018
Deutsche Wohnen Berlin I GmbH, Berlin	94.00[1]	1,488.1	0.0	2018
Deutsche Wohnen Berlin II GmbH, Berlin	94.90[1]	4,809.5	0.0	2018
Deutsche Wohnen Berlin III GmbH, Berlin	94.90[1]	24,705.1	0.0	2018
Deutsche Wohnen Berlin X GmbH, Berlin	94.80[1]	7,691.7	0.0	2018
Deutsche Wohnen Berlin XI GmbH, Berlin	94.80[1]	7,504.6	0.0	2018
Deutsche Wohnen Berlin XII GmbH, Berlin	94.80[1]	1,761.1	0.0	2018
Deutsche Wohnen Berlin XIII GmbH, Berlin	94.80[1]	6,858.4	0.0	2018
Deutsche Wohnen Berlin XIV GmbH, Berlin	94.80[1]	10,666.3	0.0	2018
Deutsche Wohnen Berlin XV GmbH, Berlin	94.80[1]	12,102.0	0.0	2018
Deutsche Wohnen Berlin XVI GmbH, Berlin	94.80[1]	6,596.9	0.0	2018

1 Waiver according to section 264 para. 3 of the German Commercial Code [Handelsgesetzbuch – HGB] due to inclusion in these consolidated financial statements
2 Waiver according to section 264b of the German Commercial Code [Handelsgesetzbuch – HGB] due to inclusion in these consolidated financial statements
3 In addition, there is an indirect participation in a joint venture.

Company and registered office	Share of capital	Equity EUR k	Profit/loss EUR k	Reporting date
Deutsche Wohnen Berlin XVII GmbH, Berlin	94.80[1]	5,914.2	0.0	2018
Deutsche Wohnen Berlin XVIII GmbH, Berlin	94.80[1]	3,256.7	0.0	2018
Deutsche Wohnen Beschaffung und Beteiligung GmbH, Berlin	100.00[1]	25.0	0.0	2018
Deutsche Wohnen Beteiligungen Immobilien GmbH, Frankfurt/Main	100.00[1]	1,025.0	0.0	2018
Deutsche Wohnen Beteiligungsverwaltungs GmbH & Co. KG, Berlin	100.00[2]	–16.3	–35.7	2018
Deutsche Wohnen Construction and Facilities GmbH, Berlin	100.00[1]	275.0	0.0	2018
Deutsche Wohnen Corporate Real Estate GmbH, Berlin	100.00[1]	25.0	0.0	2018
Deutsche Wohnen Direkt Immobilien GmbH, Frankfurt/Main	100.00	1,956,676.4	–685.9	2018
Deutsche Wohnen Dresden I GmbH, Berlin	100.00[1]	5,087.3	0.0	2018
Deutsche Wohnen Dresden II GmbH, Berlin	100.00[1]	3,762.4	0.0	2018
Deutsche Wohnen Fondsbeteiligungs GmbH, Berlin	100.00[1]	17,825.0	0.0	2018
Deutsche Wohnen Immobilien Management GmbH, Berlin	100.00[1]	1,610.0	0.0	2018
Deutsche Wohnen Kiel GmbH, Berlin	94.90[1]	28,682.0	0.0	2018
Deutsche Wohnen Kundenservice GmbH, Berlin	100.00[1]	25.7	0.0	2018
Deutsche Wohnen Management GmbH, Berlin	100.00[1]	325.0	0.0	2018
Deutsche Wohnen Management- und Servicegesellschaft mbH, Frankfurt/Main	100.00[1]	325.6	0.0	2018
Deutsche Wohnen Multimedia Netz GmbH, Berlin	100.00[1]	638.0	0.0	2018
Deutsche Wohnen Reisholz GmbH, Berlin	100.00[1]	3,563.5	0.0	2018
Deutsche Wohnen Service Center GmbH, Berlin	100.00[1]	500.3	96.4	2018
Deutsche Wohnen Service Merseburg GmbH, Merseburg	100.00	328.5	–181.9	2018
Deutsche Wohnen Zweite Fondsbeteiligungs GmbH, Berlin	100.00[1]	64,025.2	0.0	2018
DW Pflegeheim Dresden Grundstücks GmbH, Munich (formerly: SHI Pflegeheim Dresden Grundstücks GmbH, Munich)	100.00	3,065.4	109.9	2018
DW Pflegeheim Eschweiler Grundstücks GmbH, Munich (formerly: SHI Pflegeheim Eschweiler Grundstücks GmbH, Munich)	100.00	4,338.5	78.6	2018
DW Pflegeheim Frankfurt am Main Grundstücks GmbH, Munich (formerly: SHI Pflegeheim Frankfurt/Main Grundstücks GmbH, Munich)	100.00	5,807.5	257.9	2018
DW Pflegeheim Friesenheim Grundstücks GmbH, Munich (formerly: SHI Pflegeheim Friesenheim Grundstücks GmbH, Munich)	100.00	2,559.7	82.2	2018
DW Pflegeheim Glienicke Grundstücks GmbH, Munich (formerly: SHI Pflegeheim Glienicke Grundstücks GmbH, Munich)	100.00	4,491.5	56.9	2018
DW Pflegeheim Konz Grundstücks GmbH, Munich (formerly: SHI Pflegeheime Konz Grundstücks GmbH, Munich)	100.00	9,965.5	379.6	2018
DW Pflegeheim Meckenheim Grundstücks GmbH, Munich (formerly: SHI Pflegeheim Meckenheim Grundstücks GmbH, Munich)	100.00	3,432.4	81.8	2018

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2 Waiver according to section 264b of the German Commercial Code [Handelsgesetzbuch – 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
DW Pflegeheim Potsdam Grundstücks GmbH, Munich (formerly: SHI Pflegeheim Potsdam Grundstücks GmbH, Munich)	100.00	2,574.7	–78.8	2018
DW Pflegeheim Siegen Grundstücks GmbH, Munich (formerly: SHI Pflegeheim Siegen Grundstücks GmbH, Munich)	100.00	2,787.9	79.3	2018
DW Pflegeheim Weiden Grundstücks GmbH, Munich (formerly: SHI Pflegeheim Weiden Grundstücks GmbH, Munich)	100.00	4,349.1	161.3	2018
DW Pflegeheim Würselen Grundstücks GmbH, Munich (formerly: SHI Pflegeheim Würselen Grundstücks GmbH, Munich)	100.00	3,715.7	135.2	2018
DW Pflegeresidenzen Grundstücks GmbH, Munich (formerly: SHI Pflegeresidenzen Grundstücks GmbH, Munich)	100.00	27,882.6	–43.2	2018
DWRE Alpha GmbH, Berlin	100.00[1]	343.8	0.0	2018
DWRE Braunschweig GmbH, Berlin	100.00[1]	16,325.2	0.0	2018
DWRE Dresden GmbH, Berlin	100.00[1]	25.0	0.0	2018
DWRE Erfurt GmbH, Berlin	100.00[1]	880.2	0.0	2018
DWRE Halle GmbH, Berlin	100.00[1]	25.0	0.0	2018
DWRE Hennigsdorf GmbH, Berlin	100.00[1]	1,085.3	0.0	2018
DWRE Leipzig GmbH, Berlin	100.00[1]	25.0	0.0	2018
Eisenbahn-Siedlungs-Gesellschaft Berlin mit beschränkter Haftung, Berlin	94.90	11,889.8	0.0	2018
EMD Energie Management Deutschland GmbH, Berlin	100.00[1]	30,022.8	0.0	2018
Eragon VV GmbH, Berlin	94.90[1]	–9,170.2	–328.5	2018
FACILITA Berlin GmbH, Berlin	100.00	4,979.1	649.4	2018
Faragon V V GmbH, Berlin	94.90[1]	–7,620.7	–719.6	2018
Fortimo GmbH, Berlin	100.00[1]	6,127.2	0.0	2018
Gehag Acquisition Co. GmbH, Berlin	100.00	1,543,116.7	2,372.6	2018
GEHAG Beteiligungs GmbH & Co. KG, Berlin	100.00[2]	21,912.1	2,319.9	2018
GEHAG Dritte Beteiligungs GmbH, Berlin	100.00[1]	378.8	0.0	2018
GEHAG Erste Beteiligungs GmbH, Berlin	100.00[1]	45.0	0.0	2018
GEHAG Erwerbs GmbH & Co. KG, Berlin	99.99[2]	45,904.8	1,130.2	2018
GEHAG GmbH, Berlin	100.00	2,131,025.0	154,587.7	2018
GEHAG Grundbesitz I GmbH, Berlin	100.00[1]	26.0	0.0	2018
GEHAG Grundbesitz II GmbH, Berlin	100.00[1]	25.0	0.0	2018
GEHAG Grundbesitz III GmbH, Berlin	100.00[1]	25.0	0.0	2018
GEHAG Vierte Beteiligung SE, Berlin	100.00[1]	20,220.5	0.0	2018
GEHAG Zweite Beteiligungs GmbH, Berlin	100.00[1]	16,625.0	–347.1	2018
Geragon VV GmbH, Berlin	94.90[1]	–8,494.6	–799.7	2018
GETEC media GmbH, Magdeburg	100.00	2,904.3	1,211.8	2017
GETEC media Harz GmbH, Magdeburg	100.00	25.0	0.0	2017
GGR Wohnparks Alte Hellersdorfer Straße GmbH, Berlin	100.00[1]	7,721.1	775.1	2018
GGR Wohnparks Kastanienallee GmbH, Berlin	100.00[1]	33,879.1	652.6	2018
GGR Wohnparks Nord Leipziger Tor GmbH, Berlin	100.00[1]	6,680.3	0.0	2018
GGR Wohnparks Süd Leipziger Tor GmbH, Berlin	100.00[1]	3,390.2	0.0	2018
Grundstücksgesellschaft Karower Damm mbH, Berlin	100.00[1]	1,099.3	0.0	2018

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2 Waiver according to section 264b of the German Commercial Code [Handelsgesetzbuch – 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 Acquisition 3 GmbH, Berlin	100.00[1]	78,368.1	0.0	2018
GSW Corona GmbH, Berlin	100.00[1]	3,777.3	0.0	2018
GSW-Fonds Weinmeisterhornweg 170-178 GbR, Berlin	54.86	–5,572.4	148.2	2018
GSW Gesellschaft für Stadterneuerung mbH, Berlin	100.00	1,322.4	323.5	2018
GSW Grundvermögens- und Vertriebsgesellschaft mbH, Berlin	100.00[1]	90,255.7	0.0	2018
GSW Immobilien AG, Berlin	93.90	1,167,383.4	–29,634.8	2018
GSW Immobilien GmbH & Co. Leonberger Ring KG, Berlin	94.00[2]	433.0	24.3	2018
GSW Pegasus GmbH, Berlin	100.00[1]	24,009.6	8,043.3	2018
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Zweite Beteiligungs KG, Berlin	93.44[2]	–9,672.8	119.7	2018
Hamburger Ambulante Pflege- und Physiotherapie "HAPP" GmbH, Hamburg	100.00	–342.7	–280.2	2018
Hamburger Senioren Domizile GmbH, Hamburg	100.00	2,008.2	1,006.2	2018
Hamnes Investments GmbH, Berlin	100.00[1]	11,602.5	960.3	2018
Haragon VV GmbH, Berlin	94.90[1]	–6,006.7	–521.8	2018
Haus und Heim Wohnungsbau-GmbH, Berlin	100.00[1]	2,798.7	0.0	2018
Helvetica Services GmbH, Berlin	100.00[1]	669.8	0.0	2018
HESIONE Vermögensverwaltungsgesellschaft mbH, Frankfurt am Main	100.00	143.2	43.5	2018
Holzmindener Straße/Tempelhofer Weg Grundstücks GmbH, Berlin	100.00[1]	25.0	0.0	2018
HSI Hamburger Senioren Immobilien GmbH & Co. KG, Hamburg	100.00[2]	7,076.0	1,364.6	2018
HSI Hamburger Senioren Immobilien Management GmbH, Hamburg (formerly: HSI Hamburger Senioren Immobilien Management GmbH, Berlin; formerly: Gartenstadt Potsdam GmbH, Potsdam)	100.00	2,331.0	–25.4	2018
Iragon VV GmbH, Berlin	94.90[1]	–6,765.3	–599.5	2018
Karagon VV GmbH, Berlin	94.90[1]	–5,766.2	–526.2	2018
KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH, Berlin	49.00	6,532.9	4,582.9	2018
KATHARINENHOF Service GmbH, Berlin	100.00	25.0	0.0	2018
Laragon VV GmbH, Berlin	94.90[1]	–10,089.9	–526.0	2018
Larry I Targetco (Berlin) GmbH, Berlin	100.00[1]	193,057.2	0.0	2018
Larry II Targetco (Berlin) GmbH, Berlin	100.00[1]	520,878.6	0.0	2018
LebensWerk GmbH, Berlin	100.00	457.1	0.0	2018
Long Islands Investments S.A., Luxembourg	100.00	996.9	–567.2	2018
Main-Taunus Wohnen GmbH & Co. KG, Eschborn	99.99[2]	9,274.8	4,928.7	2018
Maragon VV GmbH, Berlin	94.90[1]	–2,528.3	–825.7	2018
Omega Asset Invest GmbH, Berlin	50.00	12.9	–22.1	2018
PUW AcquiCo GmbH, Hamburg	100.00	52,702.0	–2,607.0	2018
PUW PFLEGENUNDWOHNEN Beteiligungs GmbH, Hamburg	100.00	59,500.8	1,307.3	2018
Rhein-Main Wohnen GmbH, Frankfurt/Main	100.00[1]	1,777,545.0	27,428.4	2018
Rhein-Mosel Wohnen GmbH, Mainz	100.00[1]	929,287.3	4,795.5	2018
Rhein-Pfalz Wohnen GmbH, Mainz	100.00[1]	1,380,732.6	585.2	2018
RMW Projekt GmbH, Frankfurt/Main	100.00[1]	16,238.3	0.0	2018

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Company and registered office	Share of capital	Equity EUR k	Profit/loss EUR k	Reporting date
RPW Immobilien GmbH & Co. KG, Berlin (formerly: DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG, Eschborn)	93.96	31,671.2	701.2	2018
Seniorenresidenz "Am Lunapark" GmbH, Leipzig	100.00	102.3	0.0	2018
SGG Scharnweberstraße Grundstücks GmbH, Berlin	100.00[1]	25.0	0.0	2018
Sophienstraße Aachen Vermögensverwaltungsgesellschaft mbH, Berlin	100.00[1]	2,193.0	0.0	2018
Stadtentwicklungsgesellschaft Buch mbH, Berlin	100.00	2,690.0	–75.5	2018
TELE AG, Leipzig	100.00	1,212.5	992.5	2017
WIK Wohnen in Krampnitz GmbH, Berlin	100.00[1]	2,263.5	0.0	2018
Wohn- und Pflegewelt Lahnblick GmbH, Bad Ems	100.00	367.2	93.3	2018
Wohnanlage Leonberger Ring GmbH, Berlin	100.00[1]	850.9	0.0	2018
Zisa Grundstücksbeteiligungs GmbH & Co. KG, Berlin	94.90[2]	–31.0	27.6	2018
Zisa Verwaltungs GmbH, Berlin	100.00	114.6	–20.9	2018
Zweite GSW Verwaltungs- und Betriebsgesellschaft mbH, Berlin	100.00	115.9	–20.4	2018
Joint ventures, consolidated at equity				
B&O Service Berlin GmbH, Berlin	24.94	3,483.2	0.0	30/06/2018
Deutsche KIWI.KI GmbH, Berlin	49.00	518.0	–7.0	2017
Dr. Clauß & Sohn GmbH, Halle	49.00	263.1	153.8	2017
Funk Schadensmanagement GmbH, Berlin	49.00	102.3	2.3	2017
G+D Gesellschaft für Energiemanagement mbH, Magdeburg	49.00	12,301.0	2,794.0	2017
GSZ Gebäudeservice und Sicherheitszentrale GmbH, Berlin	33.33	358.3	113.5	2017
Siwoge 1992 Siedlungsplanung und Wohnbauten Gesellschaft mbH, Berlin	50.00	7,812.8	2,847.3	2017
Telekabel Riesa GmbH, Riesa	26.00	–170.8	63.7	2016
Associated companies, consolidated at equity				
Comgy GmbH, Berlin	17.79	n/a	n/a	n/a
KIWI.KI GmbH, Berlin	10.93	1,843.6	–2,512.1	2017
PUW OpCo GmbH, Hamburg	45.00	188.8	184.0	2017
Zisa Beteiligungs GmbH, Berlin	49.00	–52.6	–12.1	2017
Shareholdings, not consolidated				
AVUS Immobilien-Treuhand GmbH & Co. KG, Berlin	100.00	350.6	–9.0	2017
GbR Fernheizung Gropiusstadt, Berlin	45.59	543.7	–114.2	2018
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Grundstücksgesellschaft Köpenicker Landstraße KG i.L., Berlin	0.26	1,415.7	3,383.2	2017
STRABAG Residential Property Services GmbH, Berlin	0.49	246.7	0.0	2017
VRnow GmbH, Berlin	10.00	78.0	–186.1	2017

1 Waiver according to section 264 para. 3 of the German Commercial Code [Handelsgesetzbuch – HGB] due to inclusion in these consolidated financial statements.
2 Waiver according to section 264b of the German Commercial Code [Handelsgesetzbuch – HGB] due to inclusion in these consolidated financial statements.

Appendix 2 to the Notes to the consolidated financial statements

GROUP SEGMENT REPORTING

for the financial year 2018

EUR m	External revenue		Internal revenue		Total revenue		Segment earnings	
	2018	2017	2018	2017	2018	2017	2018	2017
Segments								
Residential Property Management	1,122.9	1,070.7	28.2	19.2	1,151.1	1,089.9	656.2	612.8
Disposals	180.3	308.6	12.5	9.9	192.8	318.5	43.1	50.3
Nursing and Assisted Living	135.3	120.7	0.0	0.0	135.3	120.7	55.3	48.0
Reconciliation with the consolidated financial statements								
Central function and other operating activities	0.3	0.3	124.8	108.1	125.1	108.4	–95.5	–110.3
Consolidations and other reconciliation	–0.3	–0.3	–165.5	–137.2	–165.8	–137.5	0.0	0.0
	1,438.5	**1,500.0**	**0.0**	**0.0**	**1,438.5**	**1,500.0**	**659.1**	**600.8**

INDEPENDENT AUDITOR'S REPORT

To Deutsche Wohnen SE, Berlin

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Deutsche Wohnen SE, Berlin, and its subsidiaries (the Group), which comprise the consolidated balance sheet as of December 31, 2018, the consolidated profit and loss statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2018, to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report (hereinafter: 'group management report') of Deutsche Wohnen SE for the financial year from January 1, 2018, to December 31, 2018. In accordance with the German legal requirements we have not audited the content of the Group's non-financial statement, which is included in Section 9 of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2018, and of its financial performance for the financial year from January 1, 2018, to December 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the Group's non-financial statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German

professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2018, to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of residential and commercial investment property as well as care facilities held for investment

For the valuation (measurement) of property held for investment, please refer to the details provided in the notes to the consolidated financial statements in Sections A.4, C.1, C.2 and D.1.

FINANCIAL STATEMENT RISK

Investment property (largely consisting of residential and commercial property as well as care facilities) is reported in the consolidated financial statements of Deutsche Wohnen as of December 31, 2018, at a value of EUR 23.8 billion. Deutsche Wohnen measures investment property at fair value. In the year under review, positive changes in fair value of EUR 2.2 billion were recognized in the consolidated profit and loss statement.

Deutsche Wohnen determines the fair value of residential and commercial investment property in-house using a discounted cash flow model. In addition, Jones Lang LaSalle SE (hereinafter referred to as JLL) provides an appraisal which is used by Deutsche Wohnen to verify the in-house valuation (measurement) of residential and commercial property. Care facilities are valued (measured) exclusively by W&P Immobilienberatung GmbH (hereinafter referred to as W&P) using a discounted cash flow model.

In-house valuation and valuations (measurements) of JLL and W&P are carried out as of the measurement date (December 31, 2018).

Numerous assumptions relevant to measurement are made when assessing the value of investment property, which are complex and subject to considerable estimation uncertainties and judgments. Even minor changes in the assumptions relevant to measurement can have a material effect on the resulting fair value. The key assumptions for measuring the value of residential and commercial property as of the measurement date were annual rental growth as well as the discount and capitalization rates. The key assumptions for measuring the value of care facilities as of the measurement date were market rents, discount rates and maintenance expenses.

Due to existing estimation uncertainties and judgments, there is the risk for the financial statements that the measurement of investment property is inappropriate.

Moreover, there is the risk for the financial statements that the disclosures on property held for investment required in the notes pursuant to IAS 40 and IFRS 13 are incomplete and inadequate.

OUR AUDIT APPROACH

Our audit procedures in particular included an assessment of the internal valuation method used with a view to compliance with IAS 40 in conjunction with IFRS 13, the accuracy and completeness of data used for real estate portfolios, as well as appropriateness of assumptions for measurement, such as annual rental growth and discount/capitalization rates used. We conducted our audit with the involvement of our valuation experts.

We assessed the internal valuation methods in terms of the valuation model's suitability as well as (financial) mathematical accuracy, and verified that the data and assumptions relevant for measurement were appropriate as of the measurement date.

We compared the target rents processed in the in-house valuation model with the target rents stored in the ERP system. Prior to that, we confirmed the appropriateness and functionality of the controls implemented in the rental process to ensure that the target rents stored in the ERP system are in agreement with the contractual rents.

Subsequently, we assessed the appropriateness of the assumptions made for measurement using a partially representative and partially risk-oriented conscious selection of real estate. For this purpose, we assessed the appropriateness of the assumptions made for determining property-specific annual rental growth and discount/capitalization rates by comparing these to market and industry-specific benchmarks, taking into account the type and location of properties selected. We carried out on-site inspections for selected properties to verify the respective property's condition.

We were satisfied with the qualification and objectivity of JLL, engaged by Deutsche Wohnen to value its residential and commercial property, evaluated the valuation method used for their appraisal with regard to compliance with IAS 40 in conjunction with IFRS 13 and compared the external appraisal with the internal measurements (valuation).

Furthermore, we compared the fair values of the residential and commercial property determined by Deutsche Wohnen with observable multipliers provided by recognized external providers.

We were satisfied with W&P qualification and objectivity with respect to the care facilities and assessed the valuation method used as well as the completeness and accuracy of figures and amounts. We evaluated the appraisal with regard to key assumptions for measurement for a risk-oriented conscious selection of real estate. We carried out on-site inspections for selected properties to verify the respective property's condition. We included our valuation specialists in the audit process.

We also assessed the completeness and adequacy of disclosures on investment property required in the notes to the consolidated financial statements pursuant to IAS 40 and IFRS 13.

OUR OBSERVATIONS

The assumptions and parameters for measurement of the residential and commercial investment property as well as care facilities held for investment are appropriate.

The disclosures on investment property in the notes to the consolidated financial statements pursuant to IAS 40 and IFRS 13 are complete and appropriate.

Recognition and measurement of deferred tax assets and liabilities

Please refer to Sections A.4, C.18 and D.16 of the notes to the consolidated financial statements.

FINANCIAL STATEMENT RISK

Deferred tax assets in the amount of EUR 0.1 million and deferred tax liabilities in the amount of EUR 3,244.7 million are reported in the consolidated financial statements of Deutsche Wohnen as of December 31, 2018. Before netting, deferred tax assets for unused tax loss carryforwards were recognized in the amount of EUR 338.7 million. Deferred tax expenses in the amount of EUR 736.7 million are reported in the consolidated profit and loss statement.

The recognition and measurement of deferred tax assets and liabilities at Deutsche Wohnen SE are complex. The main reasons are calculation and extrapolation of the assessment basis used in connection with non-recognition of deferred tax liabilities for acquisition transactions with no effect on profit or loss (initial recognition exemption within the meaning of IAS 12.15(b)) as well as assumptions with regard to the use of tax relief, such as the extended trade tax exemption, which affect the applicable tax rates. In addition, the recognition and measurement of deferred tax assets require judgments and numerous forward-looking estimates of future tax earnings, the timing of reversal of temporary differences and the usability of loss and interest carryforwards.

There is a risk for the financial statements that the recognition and/or measurement of deferred tax assets and liabilities are inaccurate.

There is also the risk of incomplete disclosure of deferred tax assets and liabilities in the notes.

OUR AUDIT APPROACH

During our audit, we investigated in particular whether the assumptions for recognition and measurement were properly derived and determined in accordance with IAS 12.

First, we conducted a risk assessment in order to gain an understanding of the Group and its environment with regard to tax laws and regulations. We assessed the structure of the process for the recognition and measurement of deferred tax assets and liabilities. In applying a risk-based approach, we also performed the following substantive audit procedures with the assistance of our tax experts. We assessed the appropriateness of assumptions used by significant entities, particularly with regard to continuation of the initial recognition exemption and applicable tax rates as well as taking into account

forward-looking estimates of future tax earnings, the timing of reversal of temporary differences and the usability of loss and interest carryforwards in relation to tax planning. We also assessed the complex calculation relating to the initial recognition exemption.

Finally, we assessed whether the disclosures on deferred tax assets and liabilities in the notes to the consolidated financial statements were complete.

OUR OBSERVATIONS

The approach taken as well as assumptions made for measurement of deferred tax assets and liabilities are appropriate. The disclosures on deferred tax assets and liabilities in the notes to the consolidated financial statements are complete.

Other Information

Management is responsible for the other information. The other information comprises:

- the Group's non-financial statement, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

In accordance with our engagement letter, we conducted a separate assurance engagement of the Group's non-financial statement. Please refer to our assurance report dated March 18, 2019, for information on the nature, scope and findings of this assurance engagement.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on June 15, 2018. We were engaged by the supervisory board on November 6, 2018. We have been the group auditor of Deutsche Wohnen SE without interruption since the financial year 2016.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided the following services to group entities that are not disclosed in the consolidated financial statements or in the group management report:

Assurance engagement of the Group's non-financial statement and other contractually agreed assurance services.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is René Drotleff.

Berlin, March 18, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

gez. Schmidt
[German Public Auditor]

gez. Drotleff
[German Public Auditor]

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable accounting standards, the consolidated financial statements give a true and fair view of the net assets, financial and earnings position of the Group and the management report of the company and the Group gives a true and fair view of the development of the business including the business result and the position of the Group and describes the main opportunities and risks associated with the Group's expected future development."

Berlin, 18 March 2019
Deutsche Wohnen SE

Michael Zahn
Chairman of the
Management Board

Lars Wittan
Deputy Chairman of
the Management Board

Philip Grosse
Management Board

GLOSSARY

Core+, Core, Non-Core
Clustering of property markets in order to assess appeal and future prospects from Deutsche Wohnen's perspective. Core+ locations are seen as particularly dynamic and fast-growing. Core locations show stable growth. Non-Core locations are seen as slow-growing and therefore earmarked for disposal.

Cost ratio
Staff, general and administration expenses in relation to contracted rental income

EBIT
Earnings before Interest and Taxes

EBITDA
Earnings before Interest, Taxes, Depreciation and Amortization. The EBITDA is calculated by subtracting corporate expenses, other expenses and revenues from the total segment results from Residential Property Management, Disposals and Nursing and Assisted Living.

EBITDA (adjusted)
EBITDA plus one-off expenses and minus one-off revenues arising in conjunction with one-off projects (e.g. restructuring or acquisitions)

EBITDAR
EBITDAR is used for the description of the result of the segment Nursing and Assisted Living. The EBITDAR is the EBITDA from the operating business of the nursing facilities before lease expenses.

EBT
Earnings before Taxes. The Group also calculates this key figure as adjusted Earnings before Taxes (adjusted EBT): the EBT (as reported) is adjusted for the gains/losses from fair value adjustments of investment properties, gains/losses from fair value adjustments of derivative financial instruments and convertible bonds and other one-off effects.

EPRA
The EPRA, or European Public Real Estate Association, is a public industry association representing the interests of listed European property companies. Its work includes developing guidelines and standards for transparency in the listed property sector.

EPRA Cost Ratio
The EPRA Cost Ratio is a key figure measuring cost efficiency. Operating expenses are considered in relation to rental income.

EPRA Earnings
When calculating EPRA Earnings, which represent the recurring earnings from operating core business, valuation effects, deferred taxes and the earnings from disposals from the group result are adjusted in particular.

EPRA NAV
The EPRA Net Asset Value indicates the asset value or intrinsic value of a property company. The value is calculated based on consolidated equity (before minority interests) adjusted for the effects of the exercise of options, convertible bonds and other rights to equity and adjusted for the fair values of derivative financial instruments and deferred taxes, i.e. adjusted for items which do not impact the long-term development of the Group.

EPRA Net Initial Yield (NIY)
The EPRA Net Initial Yield is the annualized contracted rental income in relation to the fair value of the complete property portfolio plus an investor's estimated additional purchase costs.

EPRA Triple Net Asset Value (NNNAV)
The EPRA NNNAV is calculated based on the EPRA NAV, taking into account the fair value of financial liabilities, derivative financial instruments and corporate bonds as well as deferred taxes.

EPRA Vacancy Rate
The EPRA Vacancy Rate is calculated based on the estimated annualized market rent for vacant areas in relation to the market rent of the entire portfolio.

Fair value
The fair value is the amount at which an asset could be exchanged between knowledgeable, willing and independent business partners.

FFO
Funds from Operations. The FFO is, from the company's perspective, a benchmark liquidity-oriented indicator for property companies which is derived from the consolidated profit and loss statement and is the basis for the dividend payout. Based on the EBITDA (adjusted), adjustments are made for any one-off items, non-cash finance expenses/revenues and non-cash tax expenses/revenues. FFO I (without disposals) is adjusted for the earnings from Disposals, while FFO II (including disposals) includes the earnings from Disposals.

Financial covenants
Financial covenants are agreements included in some financing contracts in which the borrower undertakes to comply with certain financial indicators set out in side agreements for the duration of the credit agreement.

Hedging ratio
The ratio between financial liabilities with fixed or hedged interest rates, convertible bonds and corporate bonds to the total nominal value of financial liabilities, convertible bonds and corporate bonds.

In-place rent
The in-place rent (contracted rent) is the sum of the contractually agreed net cold rent payments for the area rented in the relevant properties in question for the relevant period or at the relevant reporting date.

In-place rent per square metre
The in-place rent per square metre is the contractually owed net cold rent for the residential units let divided by the rentable area.

Institutional disposal
Disposal of buildings (block sales)

Like-for-like rental growth
Like-for-like rental growth describes the operating rental growth of the residential holdings which was managed continuously throughout the comparison period. Unless otherwise indicated, in the calculation, the in-place rent per square metre at the beginning of the comparison period is compared with the corresponding value at the end of said period. Changes to rent which occur as a result of acquisitions and disposals in the comparison period are adjusted accordingly.

LTV ratio
The Loan-to-Value ratio describes the relationship between the total net financial liabilities and the value of investment properties plus non-current assets held for sale and land and buildings held for sale.

Maintenance
Maintenance expenditures are measures for maintaining the functional condition of the property. These include, for instance, repairs and replacement of building components. Larger and complex maintenance expenditures are reported under the item refurbishment activities.

Multiple in-place rent
The multiple in-place rent is calculated from the fair value divided by the annualized rental income at the relevant reporting date for calculation.

Multiple market rent
The multiple market rent is calculated from the fair value divided by the annualized market rent at the relevant reporting date for calculation. The market rent will be the new letting rents achieved in the current year.

New letting rent
Deutsche Wohnen determines the new letting rent based on the average agreed monthly net cold rent payments per square metre on the basis of the newly agreed rental contracts in the non-rent restricted units for the relevant properties in question during the financial year. The new letting rent is used as the market rent for the valuation of the management portfolio.

NOI
The Net Operating Income is the operating earnings from Residential Property Management minus the staff, general and administration expenses arising in this context. It is comparable to the net rental income or the EBITDA from letting.

Potential gross rental income
The potential gross rental income is the sum of the contracted rental income and vacancy loss.

Privatisation
Disposal of residential units

Refurbishment activities
Refurbishment activities include all measures for sustainable improvement of the technical condition of the property and to bring the units up to modern standards. In addition to complex modernisation and maintenance measures, this also includes renovations of apartments when tenants change. Typical refurbishment measures are the implementation of energy-saving measures, such as the installation of insulating windows or heat protection measures, as well as the replacement of the pipes and windows and the renovation of bathrooms. Only part of the refurbishment costs are modernisation measures within the meaning of section 555b BGB, which entitle to a rent increase according to section 559 BGB.

Rent potential
Difference between the market rent and in-place rent

Vacancy loss
Vacancy loss is the sum of the latest contractually agreed net cold rent payments for areas which are not rented but which are rentable for the relevant properties in question for the relevant period or at the relevant reporting date.

Vacancy rate
The vacancy rate describes the relationship between the vacancy loss and the potential rent on the relevant reporting date.

QUARTERLY OVERVIEW

for the financial year 2018[1]

Profit and loss statement		Q1	Q2	Q3	Q4	2018
Earnings from Residential Property Management	EUR m	163.7	167.6	168.9	156.0	656.2
Earnings from Disposals	EUR m	4.8	4.2	4.5	29.6	43.1
Earnings from Nursing and Assisted Living	EUR m	11.6	12.2	13.8	17.7	55.3
Corporate expenses	EUR m	–20.0	–21.1	–22.7	–29.9	–93.7
EBITDA	EUR m	160.6	161.9	161.9	174.7	659.1
EBT (adjusted)	EUR m	134.6	136.3	130.3	138.3	539.5
EBT (as reported)	EUR m	128.2	752.2	138.0	1,608.4	2,626.8
Earnings after taxes	EUR m	103.4	549.3	104.0	1,105.9	1,862.6
Earnings after taxes	EUR per share	0.29	1.49	0.28	3.09	5.15
FFO I	EUR m	123.1	125.4	118.6	112.3	479.4
FFO I	EUR per share	0.35	0.35	0.33	0.32	1.35
FFO II	EUR m	127.9	129.6	123.1	141.9	522.5
FFO II	EUR per share	0.36	0.37	0.34	0.40	1.47

Balance sheet		31/03/2018	30/06/2018	30/09/2018	31/12/2018	31/12/2018
Investment properties	EUR m	19,769.2	20,719.8	21,220.2	23,781.7	23,781.7
Current assets	EUR m	777.2	931.1	1,337.1	984.0	984.0
Equity	EUR m	10,316.4	10,582.3	10,776.4	11,908.1	11,908.1
Net financial liabilities	EUR m	6,938.9	7,104.4	7,917.3	8,749.4	8,749.4
Loan-to-Value ratio (LTV)	in %	34.6	33.8	36.5	36.0	36.0
Total assets	EUR m	20,728.0	21,834.1	22,750.9	25,057.9	25,057.9

Net Asset Value (NAV)		31/03/2018	30/06/2018	30/09/2018	31/12/2018	31/12/2018
EPRA NAV (undiluted)	EUR m	12,786.5	13,270.6	13,477.7	15,087.8	15,087.8
EPRA NAV (undiluted)	EUR per share	36.05	37.42	37.76	42.26	42.26
EPRA NAV (diluted)	EUR per share					

Fair values		31/03/2018	30/06/2018	30/09/2018	31/12/2018	31/12/2018
Fair value real estate properties[2]	EUR m	18,913	19,716	20,098	22,190	22,190
Fair value per sqm living and usable space[2]	EUR per sqm	1,892	1,961	1,975	2,157	2,157

1 As reported
2 Only includes residential and commercial buildings without Nursing and Assisted Living

MULTI-YEAR OVERVIEW

for the financial years 2016–2018

Profit and loss statement		2016	2017	2018
Earnings from Residential Property Management	EUR m	586.4	612.8	656.2
Earnings from Disposals	EUR m	54.3	50.3	43.1
Earnings from Nursing and Assisted Living	EUR m	16.8	48.0	55.3
Corporate expenses	EUR m	–73.7	–81.3	–93.7
EBITDA	EUR m	575.1	600.8	659.1
EBT (adjusted)	EUR m	453.7	501.7	539.5
EBT (as reported)	EUR m	2,489.2	2,598.2	2,626.8
Earnings after taxes	EUR m	1,623.2	1,763.3	1,862.6
Earnings after taxes	EUR per share	4.69	4.88	5.15
FFO I	EUR m	383.9	432.3	479.4
FFO I[1]	EUR per share	1.14	1.23	1.35
FFO II	EUR m	438.2	482.6	522.5
FFO II[1]	EUR per share	1.30	1.37	1.47

Balance sheet		31/12/2016	31/12/2017	31/12/2018
Investment properties	EUR m	16,005.1	19,628.4	23,781.7
Current assets	EUR m	669.2	772.9	984.0
Equity	EUR m	8,234.0	10,211.0	11,908.1
Net financial liabilities	EUR m	6,185.2	6,883.6	8,749.4
Loan-to-Value ratio (LTV)	in %	37.7	34.5	36.0
Total assets	EUR m	16,783.6	20,539.4	25,057.9

Net Asset Value (NAV)		31/12/2016	31/12/2017	31/12/2018
EPRA NAV (undiluted)	EUR m	10,017.0	12,676.8	15,087.8
EPRA NAV (undiluted)	EUR per share	29.68	35.74	42.26
EPRA NAV (diluted)	EUR per share	29.69	35.74	42.26

Fair values		31/12/2016	31/12/2017	31/12/2018
Fair value real estate properties[2]	EUR m	15,465	18,864	22,190
Fair value per sqm living and usable space[2]	EUR per sqm	1,580	1,886	2,157

1 Based on an average of approximately 355.70 million issued shares in 2018, approximately 352.12 million in 2017 and approximately 337.45 million in 2016
2 Only includes residential and commercial buildings without Nursing and Assisted Living

CONTACT

Sebastian Jacob
Head of Investor Relations

Phone 030 897 86 5412
Fax 030 897 86 5419

Deutsche Wohnen SE
Mecklenburgische Strasse 57
14197 Berlin

Phone 030 897 86 0
Fax 030 897 86 1000

info@deutsche-wohnen.com
www.deutsche-wohnen.com

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FINANCIAL CALENDAR 2019

26/03/2019	Publication of Consolidated/Annual Financial Statements 2018 – Annual Report 2018
28/03/2019	Commerzbank German Real Estate Conference, London
02–03/04/2019	Roadshow, London
14/05/2019	Publication of Interim Statement as at 31 March 2019 / 1st Quarter
15–16/05/2019	Roadshow, Paris and Brussels
22–23/05/2019	Kempen & Co. European Property Seminar, Amsterdam
06–07/06/2019	Deutsche Bank dbAccess German, Swiss & Austrian Conference, Berlin
18/06/2019	Annual General Meeting 2019, Frankfurt/Main
20/06/2019	Morgan Stanley Europe & EEMEA Property Conference, London
13/08/2019	Publication of Interim Report as at 30 June 2019 / Half-year results
14–15/08/2019	Roadshow, London
10–11/09/2019	Bank of America Merrill Lynch Global Real Estate Conference, New York
07–09/10/2019	Expo Real, Munich
13/11/2019	Publication of Interim Statement as at 30 September 2019 / 1st–3rd Quarter
14–15/11/2019	Roadshow, Edinburgh and London
03–04/12/2019	UBS Global Real Estate Conference, London