

**Management Board report on the partial utilisation of the Authorised Capital 2013 and the partial utilisation of the Authorised Capital 2014, both subject to the exclusion of shareholders' subscription rights, in December 2014 and March 2015 in relation to the company's takeover offer presented to the shareholders of GAGFAH S.A.**

On December 19, 2014, the company made the shareholders of GAGFAH S.A., 2–4, Rue Beck, 1222 Luxembourg, Grand Duchy of Luxembourg, registered in Luxembourg's commercial and company register under registration number B109526 (“**GAGFAH**”), a takeover offer pursuant to Section 29 ff. of Germany's Securities Acquisition and Takeover Act (WpÜG) in the form of a combined cash and exchange offer (“**takeover offer**”) to purchase all of the shares in GAGFAH S.A. held by them (each issued with a par value of €1.25; “**GAGFAH shares**”). Pursuant to the takeover offer, every GAGFAH shareholder to accept the offer was entitled to a combined consideration of (i) a cash sum of €122.52 (cash component) and (ii) five new no-par-value registered shares in the company, each with a notional interest in the company's share capital of €1.00 (share component), in exchange for each surrendering 14 GAGFAH shares.

For the purposes of implementing the exchange offer, pursuant to its resolutions dated December 1, 2014, December 15, 2014, and February 24, 2015, the Management Board resolved to increase the company's share capital from €271,622,425.00 on the basis of the 2013 and Authorised Capital 2014, subject to the exclusion of subscription rights, as follows:

- As part of a capital increase against mixed contributions in kind (“**offer capital increase Ia**”) by €78,060,390.00 from €271,622,425.00 to €349,682,815.00 by issuing 77,074,531 new no-par-value registered shares in the company from the Authorised Capital 2013 and 985,859 new no-par-value registered shares in the company from the Authorised Capital 2014, accounting for a notional share of the share capital of €1.00 per share, at an issue price of €1.00 per share and with dividend entitlement as of January 1, 2014 (collectively the “**new shares**”).
- As part of a capital increase against cash contributions (“**offer capital increase Ib**”) by €4,423,413.00 from €349,682,815.00 to €354,106,228.00 by issuing 4,423,413 new no-par-value registered shares in the company from the Authorised Capital 2014 (the “**new cash shares**”; together with the new shares “**all new shares**”), accounting for a notional share of the share capital of €1.00 per share, at an issue price for the new cash shares likewise of €1.00 and with dividend entitlement as of January 1, 2014; the issue price for the new cash shares was set at approximately €25.90, or specifically €25.895, per share by resolution of the company's Management Board dated December 1, 2014, with the approval of the Supervisory Board dated November 30, 2014.

The company's Supervisory Board approved offer capital increases Ia and Ib by resolutions dated November 30, 2014, December 30, 2014, and February 24, 2015.

The implementation of offer capital increases Ia and Ib was included in the commercial register on March 6, 2015, and the share capital of the company was increased by a total of €82,483,803.00 from €271,622,425.00 to the current share capital sum of €354,106,228.00.

The 78,060,390 new shares and the 4,423,413 new cash shares were subscribed to against mixed contributions in kind as part of offer capital increase Ia and against cash contributions as part of offer capital increase Ib as follows:

- In its capacity as an exchange trustee for the GAGFAH shareholders accepting the takeover offer, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Platz der Republik, 60265 Frankfurt am Main, Germany, registered in the commercial register at Frankfurt am Main District Court under HRB 45651 ("**DZ Bank**") subscribed to 39,030,195 new shares at a total issue price of €39,030,195.00 (€1.00 per share) against mixed contributions in kind; represented by the notary Dr Lars. F. Freytag, DZ Bank additionally subscribed to 2,211,706 new cash shares at a total issue price of €2,211,706.00 (€1.00 per shares) against a cash contribution; and
- In its capacity as an exchange trustee for the GAGFAH shareholders accepting the takeover offer, Commerzbank Aktiengesellschaft, Kaiserplatz, 60311 Frankfurt am Main, Germany, registered in the commercial register at Frankfurt am Main District Court under HRB 32000 ("**Commerzbank**" together with DZ Bank, the "**exchange trustees**") subscribed to 39,030,195 new shares at a total issue price of €39,030,195.00 (€1.00 per share) against mixed contributions in kind; represented by the notary Dr Lars. F. Freytag, Commerzbank additionally subscribed to 2,211,707 new cash shares at a total issue price of €2,211,707.00 (€1.00 per shares) against a cash contribution.

The contributions in kind for the new shares were provided in relation to offer capital increase Ia as follows:

- Incorporation of 109,284,546 GAGFAH shares transferred to DZ Bank as an exchange trustee for the GAGFAH shareholders; and by
- Incorporation of 109,284,546 GAGFAH shares transferred to Commerzbank as an exchange trustee for the GAGFAH shareholders.

In accordance with a contribution agreement concluded on February 24, 2015, DZ Bank and Commerzbank transferred the shares being contributed to the company as a contribution in kind upon the transaction being entered into the commercial register.

As an additional consideration for the transfer of the GAGFAH shares, the company paid a cash sum totalling €1,912,791,796.56 to the subscribers in their capacity as the exchange trustees, to be passed on to the GAGFAH shareholders, of which €956,395,898.28 to DZ BANK and €956,395,898.28 to Commerzbank.

The cash contributions for the new cash shares in relation to offer capital increase Ia were provided by means of the payment of the issue amount totalling €4,423,413.00 for 4,423,413 new shares. DZ Bank and Commerzbank additionally provided the difference between the issue amount and the issue price. DZ Bank paid a total of €55,060,420.87, while Commerzbank paid in €55,060,445.77.

The combined consideration of €122.52 in cash and five new shares in the company as offered by the company in exchange for 14 GAGFAH shares equates to an offer consideration per GAGFAH share of approximately €8.75 for the cash component and of 0.357 (equal to 5/14 when rounded) new shares for the share component.

If the consideration partially comprises shares, as is the case here, Section 31 para. 1, 2 and 7 WpÜG in conjunction with Section 7, Section 5 para. 1 and 3 of the WpÜG Offer Ordinance (WpÜGAngebV) stipulates that, for the purposes of calculating the minimum consideration, the value of the shares offered must likewise be determined on the basis of their three-month average. At the effective date of November 30, 2014, the three-month average price for the company's share was €24.53, according to notification given to the company by BaFin on December 9, 2014.

When multiplied by the fraction of 0.357 (equal to 5/14 when rounded) of the new shares offered as a share component, the three-month average price for the company's share of €24.53 came to approximately €8.76. As such, the value of the share component of 0.357 (equal to 5/14 when rounded) new shares to be calculated pursuant to Section 31 para. 1, 2 and 7 WpÜG in conjunction with Section 7, Section 5 para. 1 and 3 of the WpÜGAngebV came to approximately €8.76. The number of new shares to be granted to each GAGFAH shareholder in accordance with the share component is the sum of the GAGFAH shares submitted by each GAGFAH shareholder multiplied by approximately 0.357 (equal to 5/14 when rounded).

The consideration offered per GAGFAH share comprised the cash component in the amount of approximately €8.75 and the share component of 0.357 (equal to 5/14 when rounded) new shares. Based on the three-month average price of €24.53, the value of the share component of

0.357 (equal to 5/14 when rounded) new shares to be calculated pursuant to Section 31 para. 1, 2 and 7 WpÜG in conjunction with Section 7, Section 5 para. 1 and 3 WpÜGAngeBV came to approximately €8.76. On this basis, the total value of the consideration offered for one GAGFAH share comprising a cash component and a share component came to approximately €17.51. The consideration of approximately €17.51 offered for a GAGFAH share included a premium of around €2.69 or 18.2% added to the three-month average price of GAGFAH shares of €14.82.

Based on the company shares' stock market price (Xetra closing price) of approximately €25.90 on November 28, 2014, the final trading day prior to the publication of the decision to make the takeover offer and prior to the decisive point in time of the resolution of the Management Board and Supervisory Board regarding the issue amount of the company's shares, the value of the share component is approximately €9.25 and the total value of the consideration offered comprising the cash component and the share component is approximately €18.00. The offer consideration per GAGFAH share of approximately €18.00 thus contains a premium of approximately €2.49 or around 16.1% based on the GAGFAH share's Xetra closing price of around €15.51 on November 28, 2014.

In calculating the offer consideration, the company considered in particular the historic development of the stock market price of the GAGFAH share. The stock market price is a widely accepted basis for calculating the appropriateness of the consideration for listed shares. The GAGFAH shares are admitted for trading in the regulated market of the Frankfurt Stock Exchange (*Prime Standard*). The GAGFAH shares issued were included in the MDAX index where they were freely traded, had a considerable free float and demonstrated appropriate trading activity and volumes.

Ahead of the decisive resolution regarding utilisation of the authorised capital, the Management Board and Supervisory Board examined in detail the appropriateness of the countervalue for the issue of the new shares and the additional cash consideration.

In the opinion of the Management Board and the Supervisory Board, the premium added to the statutory minimum price was appropriate in order to guarantee sufficient transaction security and will be sufficiently offset by the considerable competitive advantages and synergies anticipated by the company as a result of the transaction:

- The Group's position in the German market will be further expanded on the basis of the acquisition of the GAGFAH Group. Combined, the companies had approximately 350,000 residential units throughout Germany at the time at which the Annual General Meeting was

convened. The company gains even greater access to these households and their consumer behaviour, thereby offering it additional sales potential.

- The merger of the two companies should enable uniform structures and processes to be established. The company expects this to result in cost savings with a positive effect on the FFO 1 of the combined Group in the amount of approximately €84 million per annum before taxes, of which around €47 million relate to operating synergies and approximately €37 million due to lower financing costs.
- The merger of the two companies should lead to operating synergies, in particular thanks to the continued development of the craftspersons' organisation, the establishment of a joint management organisation, a shared services centre and a purchasing cooperation between the company and GAGFAH, the expansion of the company's multimedia business to incorporate GAGFAH, synergies thanks to optimised, shared local property management, and IT synergies.
- In the opinion of Deutsche Annington, the merger of the two companies reduces interest expense thanks to refinancing, and Deutsche Annington expects its Standard & Poor's rating to be upgraded to BBB+.
- After all, the acquisition strengthens the capital market profile of the combined company. Based on joint market capitalisation following execution of the merger (on the basis of the Xetra closing price of March 6, 2015) in the amount of approximately €11.5 billion, the combined company is comfortably the largest German property company. Measured in terms of this market capitalisation in the free float (on the basis of the Xetra closing price of March 6, 2015), the merger creates the second-largest player in the Continental European property sector. As the significance and liquidity of the Deutsche Annington shares have increased, the company anticipates a sizeable increase in its appeal to investors. Also, the partial share exchange offer means new investor circles can be tapped for the company.
- The anticipated economic effects and benefits as listed above may lead to added appreciation potential for the company shareholders and for the former GAGFAH shareholders which is difficult to quantify.

The fact that the stock market price of the company's shares increased between the last authoritative administrative decisions on November 30, 2014/December 1, 2014, and the issue of the new shares, thereby leading to an increase in the consideration for the GAGFAH shareholders, is a result of the legally stipulated deadlines for a public offer and the consideration rules, and does not affect the original appropriateness of the consideration and the justification for excluding shareholders' subscription rights.