

Management Board report on the partial utilisation of the Authorised Capital 2013 against contributions in kind subject to the exclusion of subscription rights in February/October 2014 in relation the acquisition of a property portfolio from the Vitus Group

In accordance with Management Board resolutions dated February 28, 2014, and September 12, 2014, and with the approval of the Supervisory Board dated February 28, 2014, and September 15, 2014, the company made partial use of the Authorised Capital 2013 totalling €€240,242,425.00, utilising €11,780,000.00 to take it to €252,022,425.00 against contributions in kind in relation to the purchase of a portfolio of approximately 30,000 residential properties from the Vitus Group. The capital increase against contribution in kind was effected excluding shareholders' subscription rights and was included in the commercial register on October 9, 2014.

Article 5.2 d) of the company's Articles of Association stipulates that the Management Board may, with the approval of the Supervisory Board, exclude statutory shareholders' subscription rights in particular in the case of capital increases against contributions in kind in order to grant shares for the purposes of the (direct or indirect) acquisition of companies, parts of companies, shareholdings in companies and other assets (including receivables), properties and property portfolios relating to an intended acquisition.

In accordance with the contribution in kind and contribution agreement (the "**contribution agreement**") concluded on February 27/28, 2014, between the company and Lion Residential Holdings S.à r.l. domiciled at 2, Boulevard Konrad Adenauer, 1115 Luxembourg, and registered in Luxembourg's commercial and company register (*Registre de Commerce et des Sociétés*) under registration number B 125 266 (hereinafter "**LRH**"), in the amended version dated April 16/17, 2014, the new no-par-value registered shares bearing dividend rights as of January 1, 2014, were subscribed to by (i) LRH (11,452,436 new shares) and (ii) Lion Call Option und Beteiligungs GmbH & Co. KG domiciled in Mönchengladbach and registered in the commercial register at Mönchengladbach District Court under registration number HRA 6402 (hereinafter "**Lion KG**") (327,564 new shares).

To effect the contribution, Lion KG and LRH contributed the Vitus Group business ("**Vitus portfolio**") comprising the following assets and liabilities:

LRH transferred the following shares to the company as a contribution in kind:

- a) shares in Gladbau Baubetreuungs- und Verwaltungs-Gesellschaft mbH with a par value of €898,000.00 (*serial number 4*);

- b) shares in Beamten-Baugesellschaft Bremen Gesellschaft mit beschränkter Haftung with a par value of €449,000.00 (*serial number 4*);
- c) shares in Kieler Wohnungsbaugesellschaft mit beschränkter Haftung with a par value of €898,000.00 (*serial number 4*);
- d) shares in Bremische Gesellschaft für Stadterneuerung, Stadtentwicklung und Wohnungsbau mit beschränkter Haftung with a par value of €898,000.00 (*serial number 4*);
- e) shares in BRE/GEWG GmbH with a par value of €23,700.00 (*serial number 3*);
- f) shares in Vitus GmbH with a par value of €23,700.00 (*serial number 3*); and
- g) shares in RSTE Objektgesellschaft Wohnanlagen für Chemnitz mbH with a par value of €22,900.00 (*serial number 4*).

Lion KG transferred the following shares to the company as a contribution in kind:

- a) shares in Gladbau Baubetreuungs- und Verwaltungs-Gesellschaft mbH with a par value of €24,950.00 (*serial number 1*) and with a par value of €26,050.00 (*serial number 2*);
- b) shares in Beamten-Baugesellschaft Bremen Gesellschaft mit beschränkter Haftung with a par value of €12,450.00 (*serial number 2*) and with a par value of €13,050.00 (*serial number 3*);
- c) shares in Kieler Wohnungsbaugesellschaft mit beschränkter Haftung with a par value of €24,950.00 (*serial number 1*) and with a par value of €26,050.00 (*serial number 2*);
- d) shares in Bremische Gesellschaft für Stadterneuerung, Stadtentwicklung und Wohnungsbau mit beschränkter Haftung with a par value of €24,950.00 (*serial number 1*) and with a par value of €26,050.00 (*serial number 2*);
- e) shares in BRE/GEWG GmbH with a par value of €650.00 (*serial number 1*) and with a par value of €650.00 (*serial number 2*);
- f) shares in Vitus GmbH with a par value of €650.00 (*serial number 1*) and with a par value of €650.00 (*serial number 2*);
- g) shares in RSTE Objektgesellschaft Wohnanlagen für Chemnitz mbH with a par value of €650.00 (*serial number 1*) and with a par value of €700.00 (*serial number 2*);
- h) shares in GAB Grundstücksgesellschaft mbH with a par value of €25,000.00 (*serial number 1*);
- i) shares in BBG Grundstücksgesellschaft mbH with a par value of €25,000.00;
- j) shares in KWG Grundstücksgesellschaft mbH with a par value of €25,000.00; and

- k) shares in Bremische Wohnungsgesellschaft mbH with a par value of €25,000.00.

LRH additionally transferred the following assets and liabilities to the company as a contribution in kind:

- a) the claims and rights pursuant to the shareholder loans listed below (the so-called *novated loans*) in the amount of €130,520,149.78 (as at December 31, 2013):
 - (i) LRH against Kieler Wohnungsbaugesellschaft mit beschränkter Haftung at a nominal amount of €55,025,025.47, including all interest accrued and outstanding as at September 30, 2014;
 - (ii) LRH against Bremische Gesellschaft für Stadterneuerung, Stadtentwicklung und Wohnungsbau mit beschränkter Haftung at a nominal amount of €43.019.218.89, including all interest accrued and outstanding as at September 30, 2014;
 - (iii) LRH against Gladbau Baubetreuungs- und Verwaltungs-Gesellschaft mbH at a nominal amount of €32,475,905.42, including all interest accrued and outstanding as at September 30, 2014;

- b) the claims pursuant to the shareholder loans listed below (the so-called *Vitus AI junior loans*) in the amount of €125,627,873.11 (as at December 31, 2013):
 - (i) LRH against GAB Grundbesitz GmbH & Co. KG at a nominal amount of €44,849,218.72, including all interest accrued and outstanding as at September 30, 2014;
 - (ii) LRH against BBG Grundbesitz GmbH & Co. KG at a nominal amount of €20,197,054.03, including all interest accrued and outstanding as at September 30, 2014;
 - (iii) LRH against Bremische Wohnungsgesellschaft mbH & Co. KG at a nominal amount of €20,021,775.95, including all interest accrued and outstanding as at September 30, 2014;
 - (iv) LRH against KWG Grundbesitz GmbH & Co. KG at a nominal amount of €9,350,719.23, including all interest accrued and outstanding as at September 30, 2014;
 - (v) LRH against BRE/GEWG GmbH at a nominal amount of €31,209,105.18, including all interest accrued and outstanding as at September 30, 2014;

- c) all claims against LRH-affiliated companies in the amount of €63,343,896.42 (as at December 31, 2013), in particular the following shareholder loans:

- (i) LRH against Gemeinnützige Eisenbahn-Wohnungsbau-Gesellschaft mit beschränkter Haftung Wuppertal at a nominal amount of €28,154,949.24, including all interest accrued and outstanding as at September 30, 2014;
 - (ii) LRH against Gladbau Baubetreuungs- und Verwaltungs-Gesellschaft mbH at a nominal amount of €1,549,258.28, including all interest accrued and outstanding as at September 30, 2014;
 - (iii) LRH against Kieler Wohnungsbaugesellschaft mit beschränkter Haftung at a nominal amount of €4,955,639.48, including all interest accrued and outstanding as at September 30, 2014;
 - (iv) LRH against Beamten-Baugesellschaft Bremen Gesellschaft mit beschränkter Haftung at a nominal amount of €23,668,020.62, including all interest accrued and outstanding as at September 30, 2014;
 - (v) LRH against Vitus Service GmbH at a nominal amount of €50,738.30, including all interest accrued and outstanding as at September 30, 2014;
 - (vi) LRH against Vitus Service GmbH at a nominal amount of €53,042.21, including all interest accrued and outstanding as at September 30, 2014;
 - (vii) LRH against Bremische Gesellschaft für Stadterneuerung, Stadtentwicklung und Wohnungsbau mit beschränkter Haftung at a nominal amount of €4,912,248.29, including all interest accrued and outstanding as at September 30, 2014;
- d) the shareholder loan granted to LRH by Kieler Wohnungsbaugesellschaft mit beschränkter Haftung in the amount of €83,717,759.63 (as at December 31, 2013), including all interest accrued and outstanding as at September 30, 2014;
 - e) all of LRH's claims and receivables against Vitus Group companies in relation to the so-called A1 Cash Management Agreement;
 - f) all of LRH's claims and receivables against Vitus Group companies in settlement accounts between LRH and Vitus Group companies; and
 - g) LRH's claims against a Vitus Group company relating to the sale of other assets, liabilities and contractual relationships belonging to the Vitus Group's business activities, including contractual relationships with specific employees.

As an additional consideration for the transfer of the shares and the aforementioned assets,

- a) the company paid a cash sum of €252,594,723.71 on September 30, 2014; in accordance with the contribution agreement, the company was obliged to pay a total sum of €268,900,000.00 ("**total cash sum**"), which was increased or reduced as follows:

(i) by the amount by which the break costs (as defined in the following sentence) for the interest hedging agreement between Vitus Immo, Florentia Limited and Deutsche Bank AG (the “**hedging agreement**”) were lower or higher than €6.231 million. The “**break costs**” were the total costs and charges which were payable on the execution date for terminating the hedging agreement.

As the break costs totalled €19,726,000.00 on September 30, 2014, the total cash sum was to be reduced by €13,495,000.00;

(ii) increased by a markup to be calculated by multiplying the unamended total cash sum by a percentage equivalent to 300 (three hundred) basis points above the basic rate of interest pursuant to Section 247 of the German Civil Code (BGB) *per annum*, for the period from January 1, 2014, to September 30, 2014, calculated on the basis of the actual days passed and a calendar year of 360 days. No additional interest was applied to the total cash sum as the closing was effected by October 1, 2014.

As the contribution agreement was executed on September 30, 2014, the total cash sum was to be increased by €4,747,130.72.

(iii) reduced by the amount equivalent to the cash sums that would have been paid on the nominal amounts, interest payments or other payments (with the exception of consideration in kind, e.g. accrued interest) after January 1, 2014, by (i) Vitus Immo to Prudential Assurance Company Limited, M&G Real Estate Finance 1 Co S.à r.l. and M&G Real Estate Finance 2 Co S.à r.l. in accordance with a loan agreement concluded between these companies on September 26, 2012, (so-called A2 loan agreement) and by (ii) Gladbau Baubetreuungs- und Verwaltungs-Gesellschaft mbH, Kieler Wohnbaugesellschaft mit beschränkter Haftung, Gemeinnützige Eisenbahn-Wohnungsbau-Gesellschaft mit beschränkter Haftung Wuppertal or Bremische Gesellschaft für Stadterneuerung, Stadtentwicklung und Wohnungsbau mbH to Brooklyn Capital S.à r.l. in accordance with mezzanine loan agreements dated July 27, 2005/August 24, 2005 (both as amended on September 15, 2005, November 11, 2005, and September 28, 2012).

As no such cash sums were paid, the total cash sum did not need to be amended accordingly on the basis of this provision.

(iv) Additionally, a sum was to be subtracted from the total cash sum equivalent to approximately 5.1% of the value of the total consideration (as defined in the following sentence) paid by the company for the acquisition of shares. The total consideration is the sum of the value of the new shares, the adjusted cash sum as described above in the amount of €260,152,130.72 and the dividend sum of €8,246,000.00 additionally paid for all the registered new shares.

5.1% of the total consideration equates to €15,155,933.30. Pursuant to the contribution agreement, this sum was likewise to be subtracted from the total cash sum.

b) The company is also obliged in certain cases subject to the conditions of the contribution agreement to pay LRH and Lion KG remuneration in arrears in the form of an *earnout* of a maximum of €58,000,000.00.

While negotiating the transaction and prior to a resolution being passed regarding utilisation of the authorised capital, the Management Board and Supervisory Board examined in detail the appropriateness of the countervalue for the issue of shares, the additional cash consideration and the acquisition of liabilities. To this end, the Management Board and Supervisory Board balanced the total value of the investments in property companies acquired by the company less external liabilities against the total value of the cash consideration and the shares to be issued.

Following a standard market examination of the economic, financial, fiscal and legal circumstances and viewings of the properties by the company's departments and external consultants, the Management Board evaluated the portfolios/investments to be acquired on the basis of its extensive market knowledge and the company's experience in evaluating residential properties. The main metrics for evaluating the portfolios were the properties' state of repair, the average actual basic net rent per square metre and the average vacancy rate.

Taking into account all the portfolio-specific metrics, the Management Board then applied standard market evaluation models for residential property portfolios and examined the comparative figures based on its own market analysis and rental multipliers, the net cash flow, the prices per square metre and the anticipated *funds from operations* (FFO) and evaluated the market conditions for residential properties at the time of the conclusion of the agreement, the strategic consideration and the potential further diversification of the property portfolio. The

company also saw the potential for optimisation in incorporating the inventories into the company's management.

The definitive ascertainment of the cash consideration and the values of the individual contribution items was still subject to the details outlined above at the time of the determining resolution on February 28, 2014, regarding the number of additional new shares to be issued. The Management Board and Supervisory Board therefore took various potential scenarios into account in their examination. To determine the value of the shares to be issued in relation to the Vitus portfolio to be incorporated, the Management Board and Supervisory Board in particular compared the net asset value of the Vitus portfolio to be incorporated with that of the company, each as at December 31, 2013, as calculated on the basis of valuation reports, and considered the Xetra closing rate of the Deutsche Annington share on the last trading day prior to conclusion of the agreement and the resolution regarding the capital increase, i.e. February 27, 2014, (€20.00), and the volume-weighted average Xetra price on the last five days (€19.96) and the last 30 days (€19.94) prior to conclusion of the agreement and the resolution regarding the capital increase. This resulted in the relevant market price for the company's shares at the time at which the Management Board and Supervisory Board made their final decision on February 28, 2014 (prior to the market opening). Consideration was given to the fact that the existing shares were entitled to dividends as of January 1, 2013, and that the new shares were not entitled to dividends before January 1, 2014, and that the subsequent fungibility of these shares only came into effect once they were issued.

The assessment of the Management Board and the Supervisory Board passed on February 28, 2014, regarding the appropriateness of the countervalue received for the newly issued shares was also supported by the contribution in kind audit conducted by the court appointed auditor firm KPMG AG Wirtschaftsprüfungsgesellschaft, Essen and by the expert opinion additionally sought from Ebner Stolz GmbH & Co. KG, Stuttgart. When the share transfer agreement was concluded on October 1, 2014, the Xetra closing rate was €22.85 and €269.2 million was accordingly transferred as a share-based consideration.

Unilateral hedging by the company in terms of offsetting possible stock market price fluctuations between the date of the conclusion of the agreement and the actual date on which the new shares were issued at the time at which the implementation of the capital increase was included – a point in time which was as yet unknown at the time of the resolution – would not have been enforceable in the negotiation process on the basis of the conditions otherwise agreed.

The implemented exclusion of subscription rights was in the interests of the company and was also necessary to facilitate the acquisition of an attractive property portfolio for the company's portfolio.

By combining the cash and share components, it was possible (i) to achieve a generally more attractive purchase price in the negotiations than with a purely cash contribution for the purchase price as the sellers of the Vitus portfolio assumed at the time at which the contract was concluded that the company's shares would appreciate and (ii) by using its shares as an acquisition currency, for the company to position itself to the seller as a reliable and preferable buyer, as it was able to raise a substantial sum of the equity needed for the transaction quickly and legally. This also made it possible to achieve an adequate financing structure.