Vonovia SE
ANNUAL REPORT 2016

Making Things Straightforward

VONOVIA

Key Figures

Financial Key Figures in € million	2016	2015	2014	2013
Rental income	1,538.1	1,414.6	789.3	728.0
Adjusted EBITDA Operations	1,094.0	957.6	503.4	442.4
Adjusted EBITDA Rental	1,046.2	924.4	482.6	433.0
Adjusted EBITDA Extension	57.0	37.6	23.6	10.5
Adjusted EBITDA Other	-9.2	-4.4	-2.8	-1.1
Income from disposal of properties	1,227.9	726.0	287.3	353.5
Adjusted EBITDA Sales	92.5	71.1	50.1	27.7
Adjusted EBITDA	1,186.5	1,028.7	553.5	470.1
EBITDA IFRS	1,083.7	838.4	500.3	431.0
FFO 1	760.8	608.0	286.6	223.5
thereof attributable to Vonovia shareholders	713.4	555.5	275.1	218.4
thereof attributable to Vonovia hybrid capital investors	40.0	33.0	–	–
thereof attributable to non-controlling interests	7.4	19.5	11.5	5.1
FFO 2	823.8	662.1	336.7	251.2
AFFO	689.2	520.5	258.3	203.5
FFO 1 per share in €	1.63	1.30	1.00	0.95
Income from fair value adjustments of investment properties	3,236.1	1,323.5	371.1	553.7
EBT	3,859.8	1,734.5	589.1	689.6
Profit for the period	2,512.9	994.7	409.7	484.2
Cash flow from operating activities	828.9	689.8	453.2	259.6
Cash flow from investing activities	416.4	-3,239.8	-1,177.9	171.3
Cash flow from financing activities	-2,812.4	4,093.1	1,741.7	-353.2
Maintenance and modernization	792.4	686.3	345.5	228.4
thereof for maintenance expenses and capitalized maintenance	320.1	330.7	173.8	157.6
thereof for modernization	472.3	355.6	171.7	70.8

Key Balance Sheet Figures in € million	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Fair value of the real estate portfolio	27,115.6	24,157.7	12,759.1	10,326.7
Adjusted NAV	14,328.2	11,273.5	6,472.0	5,123.4
Adjusted NAV per share in €	30.75	24.19	22.67	21.74
LTV (%)	41.6	46.9	49.3	48.1

Non-Financial Key Figures	2016	2015	2014	2013
Number of units managed	392,350	397,799	232,246	201,737
thereof own apartments	333,381	357,117	203,028	175,258
thereof apartments owned by others	58,969	40,682	29,218	26,479
Number of units bought	2,815	168,632	31,858	0
Number of units sold	26,631	15,174	4,081	6,720
thereof Privatize	2,701	2,979	2,238	2,576
thereof Non-Core	23,930	12,195	1,843	4,144
Vacancy rate (in %)	2.4	2.7	3.4	3.5
Monthly in-place rent in €/m²	6.02	5.75	5.58	5.40
Monthly in-place rent in €/m² like-for-like	6.01	5.82	–	–
Number of employees (as at Dec. 31)	7,437	6,368	3,850	2,935

EPRA Key Figures in € million	2016	2015	2014	2013
EPRA NAV	17,047.1	13,988.2	6,578.0	5,123.4
EPRA NAV per share in €	36.58	30.02	23.04	21.74
EPRA NNNAV	12,034.4	9,739.8	–	–
EPRA Earnings	448.5	329.2	–	–
EPRA net initial yield in %	4.1	4.5	–	–
EPRA topped-up net initial yield in %	4.1	4.5	–	–
EPRA vacancy rate in %	2.2	2.5	3.0	3.1
EPRA cost ratio (incl. direct vacancy costs) in %	28.4	31.9	–	–
EPRA cost ratio (excl. direct vacancy costs) in %	27.0	30.2	–	–

The key figures from prior years have been adjusted to match the definitions of the 2016 fiscal year. The key figures per share are based on the shares carrying dividend rights on the corresponding reporting date: values for 2014, 2013 TERP adjusted.

Making Things *Straightforward*

We want our customers to be happy and to enjoy living with us. This is why, just as in the previous year, we have further improved our processes and expanded our range of services with new ideas.

We do this with the utmost efficiency. This ensures that our shareholders will also be happy with us in the future – both in the short and long term.

A
Moving House

B
Kitchen

C
Repairs

D
Windows

E
Densification

F
Products

VONOVIA
A
B
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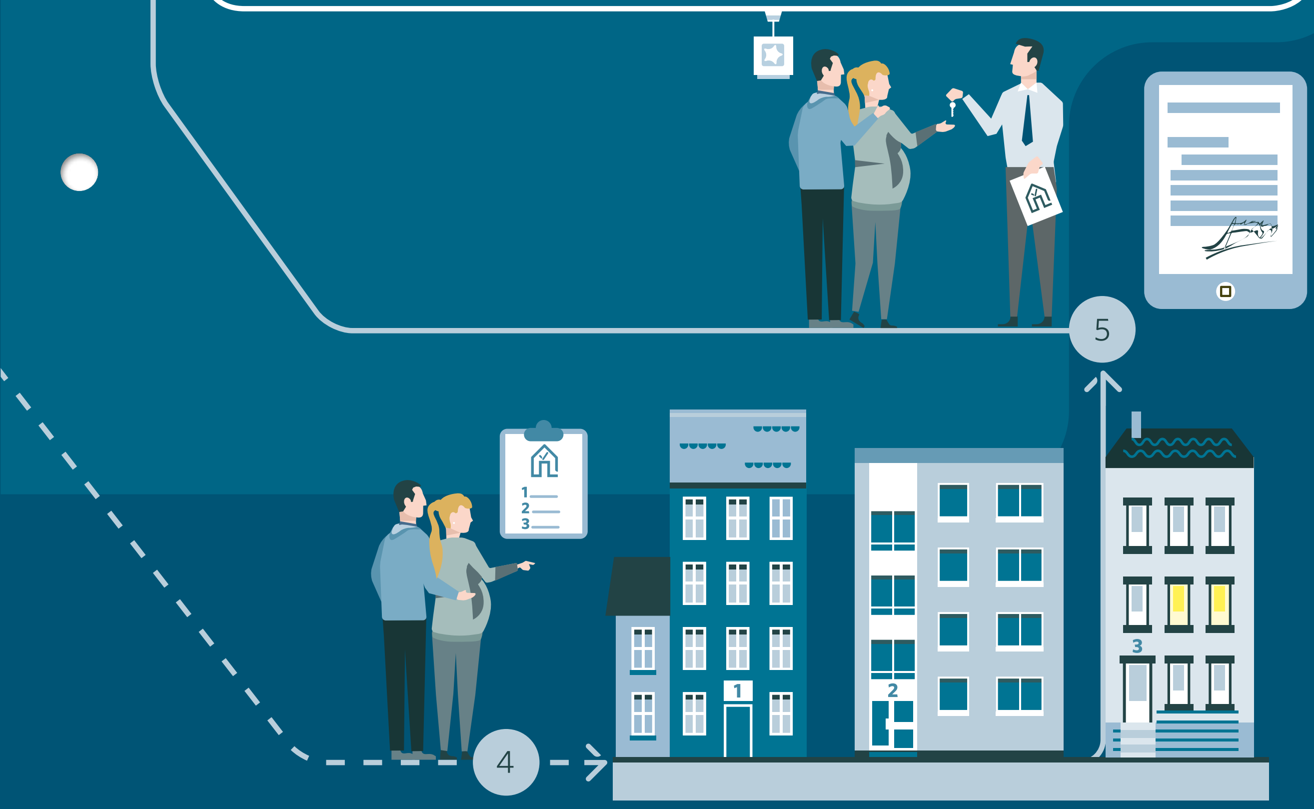
VONOVIA
VONOVIA
VONOVIA

Moving House



Box after box. Eugen Obermann carries his belongings into his new home.

Relocating

Why make it complicated when it can be straightforward?

- ☐ Study the advertisements
- ☐ Get a real estate agent involved
- ☒ Call/click on Vonovia

Looking for a new home is an emotional and laborious matter – and one that raises a key question: How do you go about finding the home of your dreams? Vonovia now lets and manages so many apartments that it is always worth clicking on the website or giving the customer service team a call. Vonovia was able to improve the vacancy rate to 2.4 % last year – not least thanks to efficient processes – and thereby welcomed many people to their new home with Vonovia.

People are relocating frequently
When Vasilisa Obermann and her husband Eugen found out that they were expecting, it soon became clear that their current apartment was too small. Having to find a new home in Berlin's tight real estate market while pregnant seems like a bit of an ordeal. Not in this case: it only took one call to their landlord, Vonovia, for the couple to find out about apartments that were set to become available in the direct vicinity.

But a new addition to the family isn't the only reason why people end up looking for a new home: Reasons also include people who are moving out of their parents' house for the first time, people who are changing job or people whose needs have changed as a result of old age. And sometimes, people just want a home that offers greater comfort and convenience for the same money. On average, Germans move between three and four times in their lifetime.

The most recent figures actually suggest that this figure is even higher, pointing to the fact that our society is becoming increasingly mobile. This holds true, in particular, for the younger generation, who see moving from Munich to Kiel for a new job as a normal part of life. German employees change jobs up to five times on average during their lifetime, with younger people likely to change jobs more often than the older generation (source: statista).

This means that every year, between nine and ten million people – that is three times the population of Berlin – are looking for a new home in Germany. While a new environment certainly holds a certain charm, moving is, first and foremost, a stressful time: packing boxes, renovating and making trips to the authorities to deregister old addresses and register new ones are all things that cost energy and money. The Bochum-based company, however, is making relocation easy for its customers. The size of Vonovia's portfolio isn't the only advantage that the company has (the portfolio it manages comprises 333,381 units, all of which have been digitally recorded). Perfectly coordinated, standardized processes also make a key contribution. The

»It is often possible to find a new tenant for an apartment within a matter of a few days.«

Wina Labudda, Head of Business Process Management, Vonovia

Obermann family certainly reaped the benefits when they decided to look for a new home.

A new home at a few clicks of the mouse

The efficient rental process starts when tenants submit written notice of termination. As soon as the customer service team has received the letter, an employee checks the data and confirms the termination at the click of a mouse in the central database. This means that the apartment can be offered on the Vonovia website and real estate portals to be relet within a very short space of time.

After all, an apartment that might not be quite the right fit for one tenant's situation anymore could well turn out to be perfect for another. Potential tenants who find an apartment they like can arrange a viewing online, around the clock, on Vonovia's customer portal. They promptly receive confirmation of their viewing appointment by text message.

At the same time, the system informs the responsible Vonovia employee of the viewing request. The employee can see all of the key information on the apartment and the customer directly on his or her tablet. This allows apartment viewings to be organized in an efficient manner using intelligent, streamlined processes. Allowing prospective tenants to view the property during the termination period enables Vonovia to find new tenants very quickly, reducing vacancy periods. The new lease agreement can be drawn up quickly, too: once the tenant and the landlord have reached an agreement, the Vonovia employee records certain pieces of information, such as the contract start data and relevant data relating to the new tenant on his or her tablet during the viewing appointment, and can ask the new tenant to sign the reservation declaration form on the mobile device. The data is passed on to the customer service team, where an administrator checks the information and performs a credit check. The lease agreement is then sent out directly to the customer. The high degree of process standardization allows an apartment that has become available to be relet within a matter of only a few days.

From Vonovia to Vonovia

Vonovia's service concept allows customer to enjoy service advantages that other real estate companies could not offer their tenants either at all, or at similar conditions. These range from TV connections to DHL parcel boxes in the hallway, to bathroom modernization in response to tenant requests. This means that, for existing tenants, making Vonovia the first port of all in their search for a new home is an attractive option. Another advantage lies in the minimal administrative work involved, because tenants already have a digital tenant file that can "follow them" around Germany. This meant that the Obermann family's relocation was more like a walk in the park. The process could hardly have been more straightforward.

Germany on the move

44 %
MOVE UP TO 3 TIMES IN A LIFETIME

For these reasons

33 %
MOVING IN WITH A PARTNER

24 %
FIRST OWN APARTMENT

20 %
STARTING A FAMILY

Source: Eon

A new home for a new stage of life. Eugen and Vasilisa Obermann furnish the baby's room.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Kitchen
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A made-to-measure kitchen

Your dream kitchen in a few easy steps

- ☐ Made-to-measure & expensive
- ☐ Standard & reasonably priced
- ☒ Made-to-measure & reasonably priced

Some ideas are so good that it is worth copying them. This is exactly what Vonovia is doing with its "modernization in response to tenant requests" service. The service was launched for bathrooms a few years ago and involves updating the bathroom facilities in return for an affordable cost allocation while improving the level of comfort and quality at the same time. The service is now being expanded to cover kitchens, too. Although it is still in its infancy, there is already good reason to believe that the "kitchen in response to tenant requests" project will be just as successful as the "bathroom modernization" service that inspired it.

The idea is simple, but unusual: Vonovia's customers were to be given the opportunity to improve the standard of living that their apartment offers in return for a small surcharge on top of their monthly rent – without having to adhere to the landlord's modernization cycle and at a much lower price than would be available on the free market. They even had three different options to choose from in terms of the fittings to be used, including a more accessible design option. The initiative was made possible by Vonovia's own craftsmen's organization, the technical service team. Vonovia was able to buy the materials in bulk and have well-rehearsed teams fit the bathrooms more or less in conveyor belt-like fashion. The service is now proving very popular, with as many as 700 bathrooms installed in response to tenant requests in 2016. Vonovia expects to execute more than 1,000 more new bathrooms this year, too.

The idea of applying the very same principle to kitchens as well was a brave step on Vonovia's part. Kitchens are more complex than bathrooms and customer requirements tend to be more individual. Despite all of the apparent obstacles, the product development team sat down with a kitchen manufacturer and assuaged any concerns one by one. The pilot phase has now been completed for the "kitchen at the customer's request" service, too, meaning that it can be rolled out across the board.

»On-site advice is included and provides a sense of security.«

Sören Woida, Sales MAMW North/East
Vonovia

It couldn’t be any more convenient. The show kitchens come directly to customers in their own neighborhoods.

Soren Woida, a sales employee at Vonovia, provides on-site advice as to what the new kitchen could look like.

The “kitchen at the customer’s request” is produced in Germany and delivered to the apartment straight from the factory. This saves storage costs.

A good team is half the battle: Ralf Kominatzki, joiner, and Marek Pierogowicz, electrician, out and about in their work for Vonovia's technical service.

An approach that pays off

The "kitchen at the customer's request" service is an idea that pays off for both sides: customers benefit from a modern, high-quality kitchen that is made in Germany, together with a full-service package. Because if a device breaks down, Vonovia repairs it right away. The service benefits Vonovia, too: If a tenant moves on, the new tenant can already benefit from a high-quality, made-to-measure kitchen. This improves the quality and, as a result, the value of the apartment.

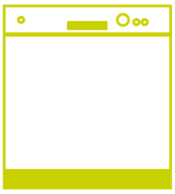
In order to appeal to tenants, the service has to be affordable and attractive. Vonovia has managed to meet both of these criteria. The cost calculation is easy: We start off with a basic price, while the other services depend on the size of the kitchen and the standard selected. A surcharge is applied to reflect the width of the kitchen and any special features. By way of example, customers can choose from a range of fittings, including a better dishwasher or a ceramic stove top; they can even opt for a head-room hood for their extractor fan.

Kitchen arrives "prepared to perfection"

Once again, ensuring that processes are perfectly coordinated down to the very last detail is crucial in ensuring good value for money. In this case, the process involves not only the customer service team and Vonovia's own craftsmen's organization, the technical service team, but also a kitchen manufacturer. The processes follow a tried-and-tested pattern: The website, information flyers and the customer newspaper provide customers with a standard source of information. Vonovia is also in the process of conducting roadshow events with three containers, two of which show-case both bathroom and kitchen fittings. Notices on the latest roadshow venue are published in due time in the relevant locations. Vonovia also writes to tenants directly so that they can register for a consultation with a sales employee.

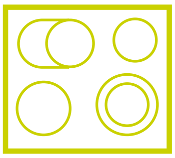
Customers who are interested can submit the key data on their dream kitchen to the customer service team either on site, by post or by tele-phone. The customer service team records the initial data and arranges an appointment with the customer so that the kitchen can be meas-

Free choice of added extras



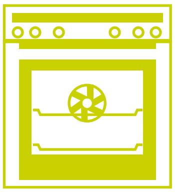
Dishwasher with handy functions

- 5 wash programs
- Special function: Vario Speed
- Aquastop



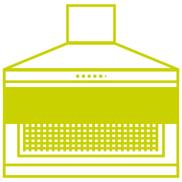
Ceramic stove top with the option of activating additional ring areas

- 4 HighSpeed rings
- Roasting pan ring
- Double ring



Top-class built-in oven

- 8 operating modes
- Fully retractable controls
- Cooling fan



Headroom hood for greater freedom of movement

- Metal grease filters, dishwasher-safe
- LED lighting

The trades have also gone digital. Tablets are just as much part of day-to-day working life as toolboxes are.

»Getting a new kitchen virtually overnight is a bit like magic.«

Annemarie Poloczek, tenant of Vonovia/its predecessor companies since 1991

ured and the detailed planning phase can begin. Customers can also request further renovation work in the kitchen in addition to the installation of the kitchen itself. Once the customer service team has received the final data for the kitchen request, it puts an order summary together for the customer again. As soon as the customer has confirmed the order, it is sent directly to the kitchen manufacturer electronically.

The production and logistical planning of the kitchen by the manufacturer is a highly automated process, meaning that the kitchen can be delivered just in time on an agreed date six to seven weeks later, ready to be installed by the technical service team. The kitchen is installed within a day. All in all, it is a convenient, fast and clean process for the tenant involved.

An idea that offers potential

Vonovia benefits from the program as well: Being able to let an apartment featuring a fitted kitchen allows the company to target a segment of tenants that has been largely neglected by professional commercial landlords in the past. The demand is certainly there and, in view of the megatrends in the real estate industry (urbanization, mobility, flexibility), looks set to increase even further. With its technical service team, Vonovia has the potential to respond to a further increase in demand as well.

The all-inclusive kitchen package

- Customized quality at an attractive price
- A one-stop service from measurement to installation
- Includes servicing and maintenance
- No work associated with your own kitchen when you move

Ralf Kominatzki explains how the newly installed kitchen works.

Annemarie Poloczek and her husband Alfred are delighted with their new kitchen.

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VONOVIA
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VONOVIA
VONOVIA
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Repairs

C

D

E

F

Efficient processes

Working hand-in-hand to ensure customer satisfaction

- ☒ In-house craftsmen
- ☒ In-house caretakers
- ☒ In-house specialists

It's great when everything in your apartment is in working order. But what happens when your heating stops working or the shower in your bathroom suddenly goes on strike? That's when two aspects determine whether the fault turns into a crisis for the customer: whether or not they can contact their landlord and how quickly the problem can be resolved. Thanks to effective coordination between the central customer service team and the nationwide craftsmen's organization, Vonovia can achieve both: speed and availability

The solution that Vonovia has chosen for the management of its 333,381 apartments in more than 660 cities is a logical one: a central customer service organization is the best way to ensure that customers can contact the company quickly and enjoy consistent levels of service at the same time. Vonovia's central customer service team is based in Duisburg and Dresden and can be reached from Monday through Friday from 7 a.m. until 8 p.m. and on Saturdays between 8 a.m. and 4 p.m. Emergencies can even be reported to the repairs logging team 24/7.

So far, none of this sounds particularly extraordinary for a service company. What makes Vonovia's service so special is that customer inquiries can be answered in a number of languages, including German, English, Turkish or Arabic. Vonovia's customers come from more than 170 different nations. When you move to a new country, one of the first things you have to do is to look for an apartment. New arrivals in Germany often lack the language skills required to master this process. This is something the company has adapted to.

The same goes for its service promise of being readily available to its customers: even a large customer service organization like Vonovia's can experience times when all of the lines are busy. In the spring of 2016, the company set up an additional service to cover this scenario. Customers who cannot be connected to a service employee within 30 seconds can use a button on their telephone to request a callback. The customer service team then calls them back within the next 20 minutes.

Centrally managed, but simultaneously on site

The customer service employees form the hub responsible for all customer inquiries. They also log damage reports like the faulty heating system

Bjorn Knester, a member of Vonovia's customer service team, always has an ear for customers' requests.

Ulrich Hagemeier, a heating and air conditioning engineer for Vonovia's technical service, enjoys passing his knowledge on to his younger colleagues. On the left: Trainee Vyaceslav Goncharov.

Practice makes perfect: Ulrich Hagemeier, a heating and air conditioning engineer for Vonovia's technical service, and trainee Vyaceslav Goncharov at work.

»For us as craftsmen, tablets are a database, a control tool and a means of communication rolled into one.«

Ulrich Hagemeier, a heating and air conditioning engineer for Vonovia's technical service

Vonovia's customer service team has enjoyed the support of a second location in Dresden since September 2015.

mentioned earlier on, and usually trigger the resolution process in the ticket system before the customer has even hung up.

This process is initiated using an electronic ticket system that the customer service team uses to collaborate with Vonovia's technical service and that processes all sorts of orders, including repairs. The individual craftsmen working for the technical service are permanently connected to the company's headquarters via their tablet. Tablets are the most important communications and information medium for Vonovia's on-site employees, allowing them to access relevant customer data and to see the next orders to attend to during their shift. The intelligent process sequence means that any faults can be resolved especially quickly and smoothly.

The speed of the solution also depends on how urgent the matter is. If, for example, the temperature in an apartment falls to below 18 degrees because the heating system is down, this triggers an emergency. In cases like these, a member of the technical service team will be with the customer within a 24-hour period. If the fault cannot be resolved directly, because a spare part or similar component is missing, then the technical service team comes up with an interim solution, for example by making an electric fan heater available. In order to keep missing material problems to a minimum, Vonovia has incorporated another special feature into its processes: It restocks its craftsmen's vans during the night so that they have the material they need for the next day's orders.

Not just faster, but better, too

The "self-contained system" of customer support not only brings advantages in terms of speed, but also ensures better-quality results. After all, Vonovia can set – and monitor adherence to – binding service standards that apply to all of its craftsmen. This is something that simply cannot be achieved if jobs are outsourced to a large number of individual external companies. A glance at the development in customer satisfaction in recent years paints a clear picture: Vonovia's decision to reposition itself as a service provider is paying off. And the customer feedback shows that they appreciate the change in our approach.

Two-thirds of our 7,437 employees work on-site with customers

333,381
OWN RESIDENTIAL UNITS

C D E F

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Windows

The windows are delivered straight to the construction site from the production facilities.

Supply chain

The app for new windows

- ☐ Low quality
- ☐ Medium quality
- ☒ High quality

An apartment's windows connect it to the outside world: They protect the home from moisture, cold and noise, while letting warm sunlight into the apartment. Windows have an impact on the room ambience and living comfort – but can also be hard on the wallet. After all, windows that are poorly insulated or haven't been sealed properly can sometimes end up costing the people who live in the apartment a great deal of money. In order to make sure that Vonovia's customers don't have to think about their ancillary expenses as they enjoy the view out of their windows, the company from Bochum is pursuing a new approach here, too.

"Throwing money out of the window" – particularly in older buildings, this saying can hold true in a literal sense as well. Poorly insulated old windows can soon push heating costs up considerably. But new windows are a costly affair as well, especially if you opt for the conventional method of replacing them: The window manufacturer makes an on-site visit to measure up. He prepares a quote. An agreement is reached. The windows are manufactured and then installed. At smaller real estate companies, this process is repeated time and time again – in different locations, with different craftsmen's companies, with varying results and with a different price tag each time around.

Other companies, particularly those that have slightly bigger portfolios, negotiate overall packages with window manufacturers right away: the windows are measured, produced and installed by one and the same partner. This ensures uniform standards and a good price.

A well thought-out approach to the division of labor

Vonovia takes things one step further again: The company splits the overall package into sub-processes: Its own craftsmen's organization, the technical service team, assumes responsibility for the measurement and installation of the windows. Vonovia purchases the window elements directly from German manufacturers and has them assembled elsewhere in Europe. This cuts out the need for a middleman. This approach offers huge advantages: The fact that the processes are managed internally allows Vonovia to maintain a considerable degree of control over quality and the results, allowing it to react to short-term demand in a fast, flexible manner. This means that Vonovia can keep the costs even lower than other companies can.

This coordinated interplay between in-house and third-party services is possible because Vonovia's portfolio allows it to think big in terms of the volumes involved – and because it has a technical support team whose employees know

The window manufacturer assembles the individual parts, which are produced in Germany, adhering to the very highest quality standards.

the individual locations like the back of their hand from their day-to-day work. This allows us to combine individual needs with industrial production.

The ideal combination of Made in Germany, Engineered in Germany and Manufactured in Europe

The process is one that is now running very smoothly in practice. Take an example: A large-scale project to install new windows is underway at a Vonovia apartment building in the Hamburg district of Jenfeld. An employee from Vonovia's technical service team does the measuring work. And this is where the first special feature comes into play: In order to prevent mistakes and ensure that the measurements are as accurate as possible, Vonovia uses a digital solution. Instead of using a pencil and paper, the construction manager is equipped with a tablet. It communicates with a laser measuring device via Bluetooth. An app is used to perform a plausibility check on the data when the measurements are entered. The measurements can be sent to a Vonovia SQL server via a web interface on the spot from the construction site. From the SQL server, an individual employee can edit the information directly before uploading it to the in-house craftsmen's portal to generate a corresponding quote. The employee can also send the data directly to the manufacturer.

The digitalization of these steps has once again allowed the technical service team to speed up and improve its own processes considerably. There is no longer any need to stop off at the branch office to upload the data. The construction site becomes the office. And the window technician can move from one construction site straight on to the next one. This saves time and unnecessary trips.

Better safe than sorry

Once it receives the order, the window manufacturer executes it using state-of-the-art machinery. All of the individual components are produced in Germany and meet the highest possible quality standards.

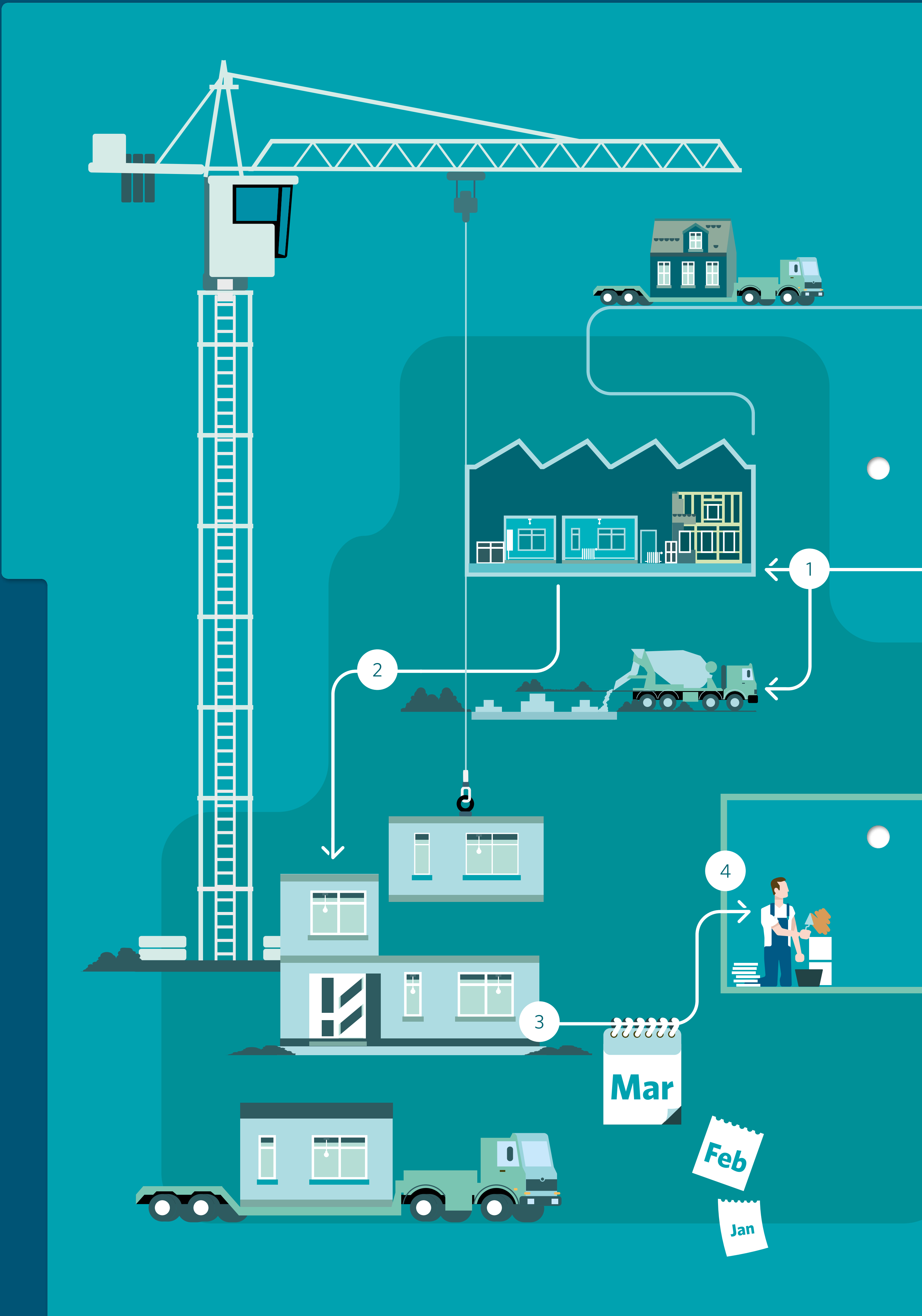
The production steps are standardized and employ high-tech methods: First of all, the window profiles are cut, milled and welded together using a special procedure. Next, the brackets are mounted, the components are pieced together and the window panes are added. Before the finished windows are finally packaged for transportation and loaded into the truck, they undergo extensive quality controls. In order to make absolutely sure that the windows meet the company's high standards, Vonovia also has German quality managers in place to inspect the goods on site on arrival. The company specializes in cooperation with window manufacturers and performs quality checks to ensure that the windows meet international standards. Spot checks are conducted to check for reliability, ability to withstand wind loads and resistance to air and driving rain. Particular attention is also paid to the stability of the weld seams. Once the windows have passed the test, they are sent directly to Hamburg to be installed in the multi-family residence in Hamburg-Jenfeld.

It is crucial that they arrive just in time, because intermediate storage would push up the price of the product. But before the windows are actually installed, checks are performed to make sure they did not sustain any damage during transportation. Vonovia's technical service team then takes over to install the windows. The new windows will not only ensure a positive room ambience for more than a generation; they will also cut heating costs in the long run.

Vonovia believes that one of its responsibilities lies in ensuring that its customers can afford their rent. It is important for the energy transition to remain affordable for them. This is something that the company is helping to achieve with a combination of efficiency and effectiveness.

Vonovia is using real team spirit, innovation, ongoing effectiveness and efficiency to achieve this goal.

The perfect fit, just in time – the installers fit the new windows as soon as they are delivered.



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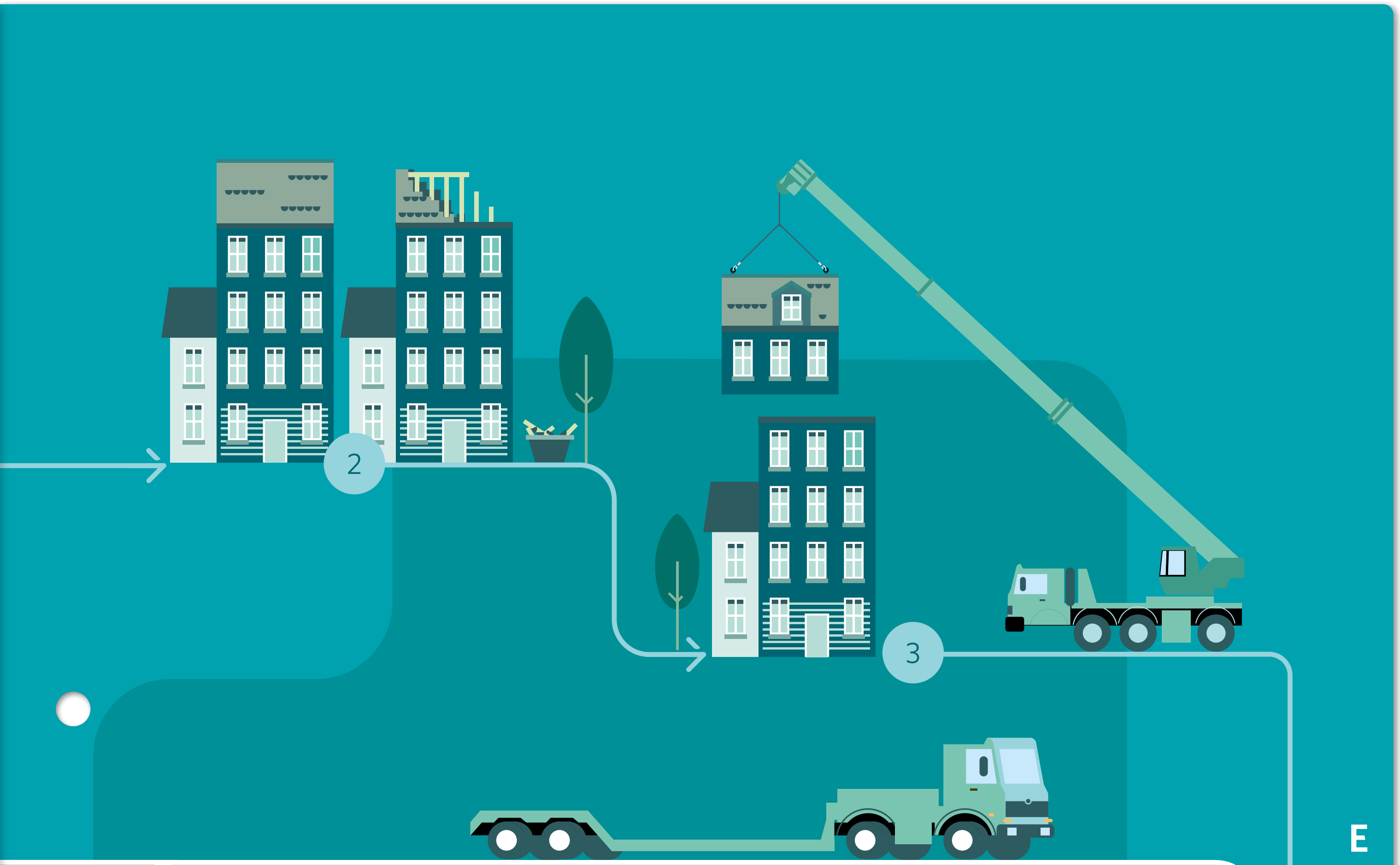

Densification

The modules are assembled using the “Lego” principle. A crane puts the individual element into the right position.

Modular construction

Just like Lego. Only for real life.

☒ Good quality at a reasonable price
☒ Fast and quiet
☒ Safe

Turning ideas into plans and plans into reality. Creating affordable living space in central locations is the most pressing challenge facing the real estate industry in Germany. Vonovia aims to find solutions to tackle this challenge. There is only limited land available for construction, and conventional construction measures designed to meet individual requirements are a costly affair in Germany. But Vonovia has delivered nonetheless: Thanks to the use of the "Lego principle", the prototype for the reality of the future was completed in December in Bochum ...

... in the city's Hofstede district, to be more precise. It is here that Vonovia completed its first series-built residential unit with a modular construction in a record-breaking period of three months. The three-story property comprises 14 senior- and family-friendly apartments with two to four rooms and ranging from 44 to 88 square meters. All of the apartments boast either a balcony or a terrace. The investment volume: € 1.6 million or € 1,800 per square meter of living area.

This is exceptionally reasonable – which is all down to the modular construction principle. The term "modular" means that the building is erected using standardized elements: 45 individual modules in this case. The production of these modules started right back when the bulldozers moved on to the site to start the excavation work. This meant that, once the building's foundation had been completed, the finished components could be transported to the building site using a lowboy trailer. The construction process included many coordination steps like these, allowing the building to be completed very quickly: The keys were handed over after a construction period of only three months.

The modules are connected using the "Lego principle": During the pilot project in Bochum-Hofstede, the individual components were permanently connected to each other within the space of a week, creating a seamless building facade. Once all of the modules have been put together, 70 % of the building is already complete.

The high level of standardization not only keeps costs down; it also helps to prevent errors. This is because the system is so well thought-out that any surprises can be more or less ruled out

Vonovia's technical service team assumes responsibility for the fitting-out of the building and the building service installations.

»Creating affordable living space in central locations is the most pressing challenge facing the real estate industry in Germany.«

Rolf Buch, CEO Vonovia

entirely. And just like a box of Lego, the system offers a whole range of different design options and can be individually incorporated into the existing construction system. The basic modules are designed to allow different ways of combining them depending on the overall requirements and the site conditions.

In between or on the top

The prototype in Bochum-Hofstede is located within an existing Vonovia development and is a densification project. The infrastructure was already in place and the construction site was already owned by Vonovia, too, which reduces the construction costs even further. The modular construction system reduces noise and dirt levels, helping to minimize any inconvenience for nearby residents.

Another way of achieving densification with the help of the modular construction system is to add one or several extra stories to existing buildings. This is something that Vonovia has been doing since as long ago as 2014. The company analyzed its portfolio in detail to identify those properties that were candidates for having extra stories added. Ideal locations include, in particular, places where there is a high demand for living space and where it is not possible to build structures in spaces between existing buildings.

Figuratively speaking, the addition of extra stories involves extension work that is performed while the rest of the building continues to operate as normal, because the homes remain inhabited during the construction phase. Once the old attic floor has been removed and the ceiling of the last story has been prepared accordingly, a heavy goods transporter arrives on site and uses a crane to manipulate the prefabricated elements into exactly the right place. After this stage has been completed, work can begin on the fitting-out of the building and on the building service installations right away. The advantage for Vonovia: tenants can remain in the apartments on the lower stories during the construction phase.

A matter for the boss

Modular construction is ideal for large-scale production, which is why Vonovia also refers to it as “serial construction”. The concept is a perfect fit for the company’s business model. After the successful completion of the first few pilot projects, Vonovia made the decision in November of last year to step up its construction plans considerably. The Management Board launched an investment program worth € 1 billion to facilitate the measures – the same amount invested in the last three years combined.

For Vonovia’s CEO Rolf Buch, the investment program is also the company’s way of keeping a promise: “Creating affordable living space in central locations is the most pressing challenge facing the real estate industry in Germany. We said that we wanted to make a visible contribution to solving the problem. Our investment program shows that we mean what we said.”


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VONOVIA
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Products

The postman always rings once – DHL courier Kirk Green filling a parcel box.

Extension

A postal service station in the building

☒ Added value for customers
☒ Suitable for roll-out across the board
☐ Expensive

In recent years, Vonovia has been working systematically on developing new services to supplement its conventional "living space" product. These supplementary services are validated on an ongoing basis – at the same time, Vonovia keeps a constant eye on the market to identify any new services that it could add to its portfolio. The product management team has set itself the goal of identifying affordable innovations and new services that offer added value for customers. And the regular market roll-outs only go to show just how successful the team is proving to be.

Anyone who wants to come up with new ideas has to be prepared to veer off the well-trodden path. This is something that the 31-strong team led by Konstantina Kanellopoulos specializes in. Kanellopoulos' team allows Vonovia to offer its customers more than just a place to live, but also ensures that the company can achieve strong growth in its new "Extension" segment.

Turning the quest for pastures new into a profession is certainly fun. Especially when there is as much leeway and as many topics that are directly relevant to day-to-day life as there are at Vonovia. The process always starts with questions: What do customers need? What might they be interested in? What do they want?

Would customers buy green electricity if someone made them the right offer? Would it be more convenient for them if they didn't need to be at home in order for their meter to be read? What would they think of the idea of a digital noticeboard in the hallway? Would they be interested in having access to car-sharing services, including electric charging points, right outside their front door?

The list of questions that Vonovia's innovation team has asked itself in the three years since its very first meeting would be too long to include here. And every one of these ideas has had, and still has, the chance to be turned into a product at the end of a structured process.

Clear criteria and field testing

There are, however, three criteria that every idea has to fulfill. First, it has to provide a benefit for customers. Second, it has to be cost-effective and affordable for customers. And third, it has to be a candidate for standardization and implementation on a larger scale. Only then is it an attractive candidate for Vonovia's income statement.

The steps in the process are clearly defined: Ideas are generated as a result of brainstorming sessions, market screening or external impetus. This process helps the company to sift out the best approaches and develop the concept in greater detail, and with the help of external experts. Once the concept has been finalized, a field test is performed in the form of a pilot project. This process can sometimes give rise to findings that require adjustment. If the pilot has proved to be successful, the concept is rolled out, i. e. implemented across the board.

Postal service at your front door

One example of a product that has just completed the development phase is the "parcel box", a concept that Vonovia has developed in collaboration with DHL. The new service offers real added value for customers, saving them time and unnecessary trips.

After all, the situation is a familiar part of day-to-day life for many people: They return home from work only to find a parcel delivery attempt notice in their mailbox. As nobody was home when the parcel courier arrived, he took the parcel away with him again. The recipient is now faced with a trip to the post office. But this doesn't have to be the only option. Vonovia and DHL worked out that a solution in the building itself makes sense for everyone involved in places where this sort of situation arises on a regular basis.

The two partners launched the obligatory pilot project in the summer of 2016 in a property in Berlin. The project involved 50 parcel box facilities featuring state-of-the-art design and technology. Depending on the specific features of the building, the box was installed either in the hallway or in front of the building. Konstantina Kanellopoulos, Head of Vonovia's Product Management division, has announced that many more customers will soon be able to make use of the service offered by Vonovia and DHL: "The facilities make life a whole lot easier for all the residents who are not at home during the day.

»The facilities make life a whole lot easier for all the residents who are not at home during the day.«

Konstantina Kanellopoulos, Head of Vonovia's Product Management division

When they get home, their parcel is waiting for them in a theft-proof storage compartment. The tenants no longer need to make an extra trip to the post office or visit their neighbor to collect the parcel. This service makes life easier for our customers – and, by saving both the courier and the tenant additional trips, also helps to reduce CO_2.

Another feature that makes the service even more convenient: Returns or other prepaid parcels and packages can be sent conveniently from home. The courier collects them directly from the parcel box. The fact that the facilities are operated online thanks to a mobile telephony connection means that tenants no longer even have to register for the new service. The courier puts a notification card with a bar code on it in the tenant's mailbox. This card serves as an electronic key to the parcel box facility in the building. This ensures that only the recipient can open the box.

A pioneering role again

Being able to receive and send parcels from home – a solution that is as straightforward as it is logical if you consider that more and more people in today's world are doing their shopping online, and that the majority of residents are not at home to accept deliveries during the day. Vonovia is the first real estate company in Germany to offer its tenants this innovative solution for receiving and sending parcels in collaboration with DHL.

Ivonne Camin, a Vonovia tenant, is a huge fan of the new “parcel box” product.

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The Company and its Shares

Combined Management Report

Consolidated Financial Statements

Information

REFERENCES

to page(s) in the Report → **p. 167**
to website **www.vonovia.de**
to page(s) in the Sustainability Report **SR 2015, p. 18**

The Company and its Shares

Dear Shareholders,
Ladies and Gentlemen,

Together with my colleagues on the Management Board and our 7,437 employees, I can once again look back on **a very successful year.** Our strategy of focusing on our customers and their needs is being put into practice at all levels of the company and is paying off. Customer satisfaction levels are high and the key operating figures show very positive values for the 2016 fiscal year.

Our portfolio decisions, primarily the acquisitions of GAGFAH and SÜDEWO, have proved to be the right move. In the first few days of the new fiscal year, we were also able to acquire another portfolio that is a very good strategic fit for us: The acquisition of **conwert** Immobilien Invest SE will see our portfolio grow in attractive locations such as Berlin, Potsdam, Leipzig and Dresden.

I am delighted that our offer has enjoyed full support on conwert's side as well: Following in the footsteps of the company's Administrative Board, a large majority of conwert's shareholders also accepted our offer. This means that the customers living in the approximately 25,000 apartments that have been acquired will soon be able to benefit from our highly efficient property management platform and have access to our innovative services.

As with our previous acquisitions, we are confident that we will be able to complete the integration process quickly and exploit the synergy potential very soon.

Our housing stock has become more valuable: On the reporting date, the **EPRA NAV** came to € 36.58 per share. This equates to a year-on-year increase of 22 % based on a portfolio that features around 24,000 fewer units than it did in 2015. This increase in value is no coincidence, but the result of constant work in three areas of activity:

First, value-enhancing investments in our existing properties are starting to pay off: Since our IPO, we have invested more than one billion euros in our apartments, buildings and the residential environment, significantly boosting the quality of our portfolio. We will once again be stepping up these efforts considerably this year with an investment program worth one billion euros.

Second, our active portfolio management strategy is bearing fruit: Targeted acquisitions in fast-growing regions such as Baden-Württemberg and Bavaria now give us a greater

From left to right:
Dr. A. Stefan Kirsten,
Rolf Buch, Klaus Freiberg,
Gerald Klinck

presence in attractive locations than we had only a few years back. At the same time, we disposed of properties in other regions that we expected to show below-average development in the medium and long term. A recently published study conducted by the German Association of German Housing and Real Estate Companies in collaboration with empirica on high-influx cities ("Schwarmstädte") also confirms that we have apartments in those areas of Germany that are in high demand. The study predicts positive demographic development in the long run for the vast majority of our portfolio locations.

Third, we made further improvements to our operating performance. Our property management platform allows us to manage our portfolio in an efficient, service-oriented manner. As a result, we were once again able to improve our operating performance data in 2016. The vacancy rate dropped by another 30 basis points to a very low 2.4 %. This vacancy rate is largely the result of fluctuation and apartments that are vacant due to investments, meaning that Vonovia has virtually full occupancy. The monthly in-place rent rose to € 6.01 per square meter between 2015 and 2016, with 1.5 % of this increase attributable to higher market rents. We achieved the remaining 1.8 % as a result of property improvements. The FFO 1 per share increased by 25 % to € 1.63.

The good overall operating performance is also reflected in all three of our defined business areas: In the Rental segment, adjusted EBITDA climbed by 13.2 %. In the Sales segment, our sales strategy once again proved to be very successful: We sold a total of 26,631 apartments, 2,701 of which were privatized individually. The proceeds from the sale of properties in the "Privatize" subportfolio were 36.2 % higher than the carrying amounts on average.

In the Extension segment, we successfully expanded our range of housing-related services and products, allowing us to achieve a clear increase in our adjusted EBITDA Extension of 51.6 %. This increased the contribution that this business area made to the adjusted EBITDA Operations to 4.8 %. We believe that there is still a long way to go until all of the potential in this area has been exploited. With the help of our own craftsmen's organization, we will continue to pursue a creative approach to expanding areas such as digital services, energy supplies, senior-friendly living and improving basic apartment features in the course of the year.

Our financing situation is stable – and remained stable throughout 2016. The capital market was characterized by very low interest rates in 2016. Not least thanks to our solid rating, we are able to cover our liquidity needs on the capital market at all times. This is also owed to our LTV of 41.6 % as of December 31, 2016 (before the takeover of conwert). This fundamentally stable financing situation will not change even if interest rates rise. In order to ensure this, we take a forward-looking approach to capital procurement and are extremely flexible. With an average maturity of around seven years and current financing costs of 2.1 %, our financing stands on a solid long-term footing.

Our **shares** fared relatively well in a political and economic environment that was marred by turbulence across the globe. Over the course of the year, our share price rose by 8.2 %, outperforming the DAX by 1.3 percentage points. This shows that our company, with its stable business model, is seen as a reliable player by stock market investors, even if cyclical stocks have been experiencing a revival in demand on the stock markets in recent months.

The **housing policy environment is still being** defined by the debate on how to resolve the shortage of housing. As a result, we continued to work intensively on **densification and new construction** measures last year, launching ambitious projects to create new, and most importantly affordable, apartments. We have already completed the first lot of new buildings and measures to add extra stories to existing buildings using modular construction methods. In the Hofstede district of Bochum, for example, we completed the first series-built residential unit with a modular construction. Fourteen new turnkey apartments were completed in the space of only three months with construction costs of around 1,800 euros per square meter. The term 'modular' means that the three-story building was erected at the construction site using standardized elements that were transported to the site in a lowboy trailer to be assembled there.

Last October, we published our very first Sustainability Report to reflect our conscious awareness of the special social role we play. The first progress report is set to be published as early as this summer. Our new headquarters will also be sustainable, as they meet state-of-the-art energy standards and are to receive a Gold standard certificate awarded by the German Sustainable Building Council (DGNB Gold). We will be moving into the six-story building for 1,000 employees, which is located right next to our current administrative building, in as early as 2018.

So what does 2017 have in store for Vonovia? My colleagues and I expect the year to be free of any surprises in a positive sense, which is what you, our shareholders, are accustomed to. We had already announced our main objectives for the year early on: We will be investing a record amount of up to one billion euros in our portfolio. These measures will focus on new construction, moves to add extra stories to existing buildings and improvements to existing building stock. As far as the EPRA NAV per share is concerned, we expect to see a value of between € 37 and € 38. This does not yet include possible increases in value due to further dynamic developments in our locations or the effects of the conwert takeover.

As a result of sales, mainly to implement our portfolio strategy, our portfolio was more than 24,000 units smaller on December 31, 2016 than it had been a year previously. We nevertheless expect rental income to remain stable at a level of around € 1.5 billion this year, despite the planned sales. We predict that FFO 1 will increase to between € 830 million and € 850 million in 2017. The amount that will be generated by the conwert porfolio is not yet included in this amount. Our outlook underscores the very reliable positive trend in our operating development, which is designed to be sustainable and to focus on the long term.

We want to allow you to share in our success. At our Annual General Meeting on May 16, 2017 we will be proposing a dividend distribution of € 1.12 per share. This is consistent with our policy of distributing around 70 % of FFO 1 to you.

We would like to thank you, our shareholders, for the trust you have placed in us with your investment in our shares. We want to continue to systematically pursue our strategy this year, too, in order to boost customer satisfaction further and build on the company's success.

Bochum, Germany, March 2017

Yours

Rolf Buch
Chairman of the Management Board

Rolf Buch (CEO)

Management Board

The Management Board of Vonovia SE consisted of four members as of December 31, 2016.

Rolf Buch

Chairman of the Management Board (CEO)

As Chief Executive Officer, Rolf Buch is responsible for acquisition, general counsel, HR management, auditing, corporate communications and sales. Before joining the company in 2013, Rolf Buch was a Member of the Management Board at Bertelsmann SE and Chairman of the Management Board at Arvato AG. During his time at Arvato, the company grew into a global BPO service provider with over 60,000 employees in more than 40 countries and became the fastest-growing division of Bertelsmann SE. Buch began his career at Bertelsmann in 1991 after studying mechanical engineering and business management at RWTH Aachen University.

Klaus Freiberg

Member of the Management Board (COO)

As Chief Operating Officer, Klaus Freiberg is responsible for product management, IT and processes, customer service, residential environment, the craftsmen's organization and the local rental business in the various regions (north, south, southeast, east, central, west). He held various leadership positions within the Arvato Group (Bertelsmann) in the period between 1995 and 2010, where he assumed responsibility for, and worked on the optimization of, the Service Centers of Deutsche Post and Deutsche Telekom, among other things. Klaus Freiberg is a recognized expert in making companies customer-focused. Klaus Freiberg completed his degree in history, social sciences and economics at the Westfälische Wilhelms University of Münster in 1990.

Dr. A. Stefan Kirsten
Member of the Management Board (CFO)

As Chief Financial Officer, Dr. A. Stefan Kirsten is responsible for finance, accounting, tax, insurance and investor relations. In his last position, Dr. Kirsten was CEO of the trading and real estate group Majid Al Futtaim Group LLC in the United Arab Emirates. Before that, he was, among other things, CFO of Metro AG and ThyssenKrupp AG. Dr. Kirsten studied business management and IT at the Hagen Fern-Universität, a distance-learning university, and Göttingen University, obtaining his PhD (earning him the title of Dr. rer. pol.) at the University of Lüneburg. Since 1995, he has been lecturing at various German and foreign universities, including his appointment at the Westphalian University of Applied Science in Gelsenkirchen, where he has been lecturing since 2001 after being awarded an honorary professorship.

Gerald Klinck
Member of the Management Board (CCO)

As Chief Controlling Officer, Gerald Klinck is responsible for controlling, portfolio controlling, valuation, procurement and condominium administration services. Gerald Klinck joined the GAGFAH Group in 2011 and was appointed as CFO a year later. By this point in time, he had already clocked up 15 years of experience in the real estate sector. Gerald Klinck started his career at HSH Nordbank AG, where he was appointed to join the management team of HSH N REAL ESTATE CONSULTING GmbH as CFO in 2003 after heading up the organizational unit responsible for equity investments. The business management graduate moved to GEHAG GmbH, which was incorporated into Deutsche Wohnen AG, in 2006, where he was responsible for corporate control and planning. He became a member of the extended management team of Deutsche Wohnen AG in 2009. Gerald Klinck studied business management in Lüneburg, majoring in financing.

Between April 1, 2015, and January 31, 2016, another member of the Management Board was Mr. Thomas Zinnöcker, who held the post of Deputy Chairman of the Management Board.

Supervisory Board

The current Supervisory Board consists of twelve members. At the Annual General Meeting, a new member of the Supervisory Board, Dr. Ariane Reinhart, was appointed on May 12, 2016, following the resignation of Gerhard Zeiler.

Dr. Wulf H. Bernotat

Chairman
Former CEO of E.ON AG

Prof. Dr. Edgar Ernst

Deputy Chairman
President of the German Financial Reporting Enforcement Panel

Burkhard Ulrich Drescher
Managing Director of InnovationCity Management GmbH
Managing Director of BDC Consulting GmbH & Co. KG

Dr. Florian Funck
Member of the Management Board of Franz Haniel & Cie. GmbH

Dr. Ute Geipel-Faber
Self-employed management consultant

Hendrik Jellema
Chairman of Stiftung Berliner Leben

Daniel Just
Chairman of Bayerische Versorgungskammer

Hildegard Müller
Member of the Management Board of innogy SE

Prof. Dr. Klaus Rauscher
Self-employed management consultant

Clara-Christina Streit
Self-employed management consultant

Christian Ulbrich
Global CEO & President Jones Lang LaSalle Incorporated
Member of the Board of Directors of Jones Lang LaSalle Incorporated

Dr. Ariane Reinhart (as of May 13, 2016)
Member of the Management Board of Continental AG

Members Who Left the Supervisory Board

Gerhard Zeiler (until May 12, 2016)
President of Turner Broadcasting System International Inc.

Supervisory Board Committees

Executive and Nomination Committee
Dr. Wulf H. Bernotat, Chairman
Hildegard Müller
Prof. Dr. Klaus Rauscher
Clara-Christina Streit
Gerhard Zeiler (until May 12, 2016)
Dr. Ariane Reinhart (as of May 13, 2016)

Audit Committee
Prof. Dr. Edgar Ernst, Chairman
Dr. Wulf H. Bernotat
Burkhard Ulrich Drescher
Dr. Florian Funck
Hendrik Jellema

Finance Committee
Clara-Christina Streit, Chairwoman
Dr. Wulf H. Bernotat
Dr. Ute Geipel-Faber
Daniel Just
Christian Ulbrich

Report of the Supervisory Board

Ladies and Gentlemen,

In our role as the Supervisory Board, we were able to support the Management Board of Vonovia SE through another very positive fiscal year: The Management Board stuck uncompromisingly to its strategic course and continued to develop the company's operating business as planned. In addition to the improvement in our performance data, considerable progress was also made in the services business, meaning that, all in all, Vonovia can look back on a very financially positive fiscal year. At the end of the year, the Management Board managed to make an attractive addition to the portfolio with the acquisition of conwert, a move that will further improve the quality of the company's portfolio.

In the 2016 fiscal year, the Supervisory Board continuously monitored the Management Board's management activities and provided the Management Board with regular advice concerning the running of the company. We were able at all times to establish that their actions were lawful, expedient and regular. The Management Board fulfilled its information obligations to an appropriate extent at all times, notifying us regularly, promptly and comprehensively, both in writing and verbally, of all circumstances and measures that were relevant to the company. This also included notifying us of any discrepancies between the planning and the actual course of business events.

In both committees and plenary meetings, we always had ample opportunity to critically appraise the reports and proposals submitted by the Management Board and to contribute their own suggestions. We discussed and tested the plausibility of all business occurrences of significance to the company, as communicated to us by the Management Board in written and verbal reports, in detail. Where required by law or the Articles of Association, we granted our consent to individual business transactions.

Cooperation between the Management Board and the Supervisory Board

The Supervisory Board of Vonovia comprises twelve members. Our body provides the Management Board with advisory support in relation to key decisions. The Management Board regularly informs us about key events and the company's strategic direction as part of a collaboration based on trust.

In my role as Supervisory Board Chairman, I remained in close contact with the Management Board even between Supervisory Board meetings, regularly exchanging information and ideas. Other members of the body were promptly notified of any important findings or judgments, and at the latest by the next board meeting.

Focal Points of our Work

In line with the duties assigned to the Supervisory Board by law, the Articles of Association and the rules of procedure, we once again closely scrutinized the Group's operational, economic and strategic progress last year within the context of our supervisory and advisory activities. Last year, our advisory sessions and resolutions focused, in particular, on Vonovia's strategic and operational further development and on opportunities to further expand the portfolio. These opportunities included the planned acquisition of Deutsche Wohnen, which was not realized, and the successful takeover of conwert Immobilien Invest SE, Vienna/Austria.

Meetings

In the 2016 fiscal year, the Supervisory Board met a total of thirteen times to pass resolutions: five times at meetings, five times using conference calls and three times via written circular. In preparation for the meetings, the Management Board submitted written reports and resolution proposals to us. Two members were excused from face-to-face meetings held on March 2, 2016 and November 2, 2016 and one member was excused from the meetings held on May 11, 2016 and August 1, 2016 in each case. All members attended the Supervisory Board meeting held on September 21, 2016.

During a conference call held on **January 24, 2016,** the Supervisory Board passed a resolution on the modification of the company's takeover offer made to the shareholders of Deutsche Wohnen AG by reducing the minimum acceptance threshold to 50 % plus one share.

On **January 27, 2016,** the Supervisory Board passed a resolution, via written circular, on the rescission of the Management Board employment contract with Mr. Thomas Zinnöcker with effect from January 31, 2016 and the new allocation of duties for the Management Board with effect from February 1, 2016.

During the conference call held on **February 10, 2016,** we looked at the counting results of the takeover offer made to the shareholders of Deutsche Wohnen. After the minimum acceptance threshold was not reached, the opportunity to further consolidate the market, which the Management Board and the Supervisory Board believed would add value, failed to materialize.

On **February 29, 2016,** the Supervisory Board reached an agreement, via written circular, on the length of membership on the Supervisory Board and set the standard limit at a period of no more than 15 years. The Supervisory Board also approved the submission of the 'Declaration of Conformity by the Management Board and the Supervisory Board of Vonovia SE to the Recommendations of the German Corporate Governance Code Pursuant to Section 161 of the German Stock Corporation Act (AktG)' which had been presented to it.

On **March 2, 2016,** the Supervisory Board met to adopt the balance sheet: We approved the company's annual and consolidated financial statements as of December 31, 2015 and prepared the agenda and the resolution proposals for the Annual General Meeting. We also addressed the report by the Finance Committee. With regard to the obligation to publish financial reports during the year, the Supervisory Board passed a resolution stating that the company would not, in respect of quarterly reporting, dispense with the audit of the condensed consolidated interim financial statements, an option that is now possible following a change in legislation, until the first quarter of 2017 (inclusive). Regarding the Deutsche Wohnen AG takeover project, the reasons as to why the project did not materialize were once again analyzed in detail. The Supervisory Board also approved the construction of the new Group headquarters in Bochum. The agenda items also included the company's financial performance and the report on operating business developments. Within this context, plans to use densification and new construction to create additional homes were also discussed. Under the "HR-related matters" agenda item, the Supervisory Board discussed various remuneration issues, as well as the proposal to be made to the Annual General Meeting to elect Dr. Ariane Reinhart to replace Mr. Gerhard Zeiler on the Supervisory Board. Vonovia's status on the capital market was also discussed: In addition to the company's share price performance and the bonds issued as part of the EMTN program, the Supervisory Board discussed the investor reactions to the failure of the Deutsche Wohnen takeover and also looked at the guidance for 2016.

At a meeting held on **May 11, 2016,** the Supervisory Board elected Dr. Ariane Reinhart to the Executive and Nomination Committee, subject to her election as member of the Supervisory Board by the Annual General Meeting the next day. As part of the report on operating business developments, the Supervisory Board discussed the implementation of the modernization program. It also focused on the development of the company's own craftsmen's organization. Other issues included financial performance and capital market developments, including the feedback received from investors and analysts. The Management Board reported on an immediate and long-term concept for fire protection measures in several high-rise buildings in Dresden. The Supervisory Board also issued its consent to financing measures, such as the early repayment of an asset-backed GAGFAH loan (GRF-1) in August 2016 and the creation of the funds required in this regard using equity and debt capital measures. A media response report looked at Vonovia's reputation in the media.

At its ordinary meeting held on **August 1, 2016,** the Supervisory Board looked at various reports submitted by the committees: These included a report by the Audit Committee on the figures for the first half of the year and a report by the Finance Committee on the issue of two bonds. A report on operating business developments looked at the establishment of a state-of-the-art customer service platform, the ongoing and planned investment programs, the craftsmen's organization TGS and multimedia and metering services. The agenda item relating to HR matters involved a discussion on the report by the Executive and Nomination Committee, as well as on HR and remuneration issues and the introduction of new HR development tools. The strategy to promote women in leadership positions was also discussed.

During a conference call held on **September 2, 2016,** the Supervisory Board held a detailed discussion on the planned acquisition of the Austrian company conwert Immobilien Invest SE and discussed the strategy and risks associated with such a transaction. The Supervisory Board then approved the finalization of preparatory measures for the takeover offer.

On **September 4, 2016,** the Supervisory Board held another conference call to continue its discussion on a possible public takeover offer to be made to the shareholders of conwert and passed a resolution stating that a final decision on the further measures to be taken in this regard would be made by the Finance Committee.

The Supervisory Board meeting held on **September 21, 2016** was dedicated to the corporate strategy. This meeting was also used to discuss the company's current reputation and customer satisfaction. The Supervisory Board drew preliminary conclusions on portfolio adjustments, energy-efficient modernization and external growth. It also passed a resolution, to take effect as of 2017, stating that it would hold two meetings per calendar half-year.

On **October 26, 2016,** the Supervisory Board passed a resolution, via written circular, on the maximum number of Vonovia shares to be granted, in the event of the successful implementation of the public takeover offer made to the shareholders of conwert Immobilien Invest SE, as consideration for the offer using the 2015 Authorized Capital.

The ordinary meeting held on **November 2, 2016** also looked at the status of the acquisition of conwert, in addition to reports from the committees. In addition, the Management Board used a report on operating business developments to present the latest innovations within the technical service and to report on residential construction pilot projects. The Supervisory Board also discussed the company's financial performance, the development of Vonovia's share price, the 4.99 % interest in Deutsche Wohnen, the analyst assessments and the guidance for 2017. The Supervisory Board looked at interest rate developments and discussed a report on the integration of GAGFAH, which was nearing completion.

On **November 29, 2016,** the Supervisory Board used a conference call to discuss, and pass resolutions on, the 2017 budget, the company's five-year plan and the early repayment of the GAGFAH "Taurus" loan, and also discussed the status quo of the conwert acquisition.

Work of the Committees

In order to perform our duties effectively, we formed the following committees: the Audit Committee, the Finance Committee and the Executive and Nomination Committee. The committees prepare subjects which are to be discussed and/or resolved by the Supervisory Board. In addition, they pass resolutions on behalf of the entire Supervisory Board.

Audit Committee

The Audit Committee once again comprised the five members in the reporting year: Prof. Dr. Edgar Ernst (Chairman), Dr. Wulf H. Bernotat, Burkhard Ulrich Drescher, Dr. Florian Funck and Hendrik Jellema.

At a total of four meetings, the Committee assessed the annual and consolidated financial statements for 2015, as well as the condensed consolidated interim financial statements as of March 31, June 30 and September 30, 2016.

At the meeting held on March 2, 2016, the Committee reviewed the annual and consolidated financial statements as of December 31, 2015, and drew up a proposal for the appropriation of profit. The Committee developed a proposal for the selection of an auditor for the 2016 fiscal year and for this auditor's appointment as the auditor responsible for the audit of the condensed consolidated interim financial statements and interim Group management reports. Other topics included a report on the audit of the annual and consolidated financial statements as of December 31, 2014 by the German Financial Reporting Enforcement Panel (DPR), a report prepared by the Internal Audit department on the status of the audits and a compliance status report.

At its meeting held on May 11, 2016, the Committee addressed the condensed consolidated interim financial statements for the first quarter, the company's report on the impact of the acquisitions and divestments on the annual and consolidated financial statements and on the consolidated interim financial statements for the first quarter of 2016. It also discussed future changes to the Auditor's Report on the consolidated financial statements in accordance with the International Standards of Auditing (ISA). Further topics included risk management, the status of the audits conducted by the Internal Audit department, the company's fiscal situation and corporate compliance.

At the meeting held on August 1, 2016, the Committee approved the condensed consolidated interim financial statements as of June 30, 2016, looked a report prepared by the company on the reporting period and passed a resolution on the commissioning of KPMG AG Wirtschaftsprüfungsgesellschaft to audit the annual and consolidated financial statements as of December 31, 2016. The Committee also discussed the assignment issued to the auditor to assess the new tax compliance management system to be implemented. In addition, the Committee addressed the internal control system (ICS), protection against cyber attacks, a status report prepared by the Internal Audit department, a compliance report and a fire protection concept for the Dresden properties.

At the meeting held on November 2, 2016, the Committee discussed the nine-monthly financial statements, the future nature of quarterly reporting, risk management, the annual audit plan of the Internal Audit department for 2017 and the first preliminary results of the property valuation process.

Finance Committee

The members of the Finance Committee remained unchanged in the reporting year. It comprised five members: Clara-Christina Streit (Chair), Dr. Wulf H. Bernotat, Dr. Ute Geipel-Faber, Daniel Just and Christian Ulbrich.

The Finance Committee met three times in the reporting year (March, May, November) and held four conference calls (January, June and twice in September). It passed two further resolutions in writing. During a conference call held on January 25, 2016, the Committee discussed and passed a resolution on the modification of the company's takeover offer made to the shareholders of Deutsche Wohnen AG by reducing the minimum acceptance threshold to 50 % plus one share. At the meeting held on March 2, 2016, the Committee discussed the unsuccessful takeover of Deutsche Wohnen with regard to the financial implications. It looked, in particular, at the use of the proceeds from the issue of the EMTN bonds in December 2015, which were now primarily to be used to repay the GAGFAH financing. On April 27, 2016, the Committee issued its written consent to the sale of 981 units in and around Hagen. The meeting held on May 11, 2016 focused on an overview of the main company insurance policies taken out by the Vonovia Group and a discussion on the financial strategy. This also included discussing the steps to be taken to extend the loan agreement with Landesbank Berlin/Berlin Hyp AG. On June 3, 2016, the Committee discussed and passed a resolution on the issue of bonds as part of the EMTN program to refinance a CMBS loan.

In the fourth quarter, the Committee looked primarily at the preparation of financial measures relating to the potential acquisition of conwert Immobilien Invest SE. Within this context, the Committee discussed the financing of the transaction during a conference call held on September 4, 2016 and proposed corresponding measures to the Management Board. The Committee continued to discuss the status and the main results of the negotiations on the acquisition of conwert and decided, having been delegated the authority to do so by the Supervisory Board on the latter's behalf on September 5, 2016, to make a voluntary public takeover offer to the shareholders of conwert.

At a meeting held on November 2, 2016, the Committee discussed the current status of the takeover, in particular the share price performance. Another agenda item related to the company's financial strategy, including the current key financial indicators and the planned financing measures. The Committee passed further resolutions on the repayment of loans and the fulfillment of the takeover offer made to conwert. The meeting also involved an extensive discussion on possible developments in the interest rate environment and their effect on the Vonovia Group, as well as a discussion on the improvements in the key performance indicators that the company would be aiming for in the 2017 fiscal year. The Committee used a written circular to grant its approval, on November 17, 2016, to the adjustment of its own resolution passed on November 2, 2016 on the issue of EMTN bonds.

Executive and Nomination Committee

Up until May 12, 2016, the Committee had consisted of Dr. Wulf H. Bernotat (Chairman), Hildegard Müller, Clara-Christina Streit, Prof. Dr. Klaus Rauscher and Gerhard Zeiler. Mr. Zeiler left the Committee on this date and was replaced by a new member, Dr. Ariane Reinhart, on May 13, 2016.

The Executive and Nomination Committee met three times in 2016 and passed one resolution in writing: On January 20, 2016, the Committee used the written procedure to pass the rescission of the Management Board employment contract with Mr. Thomas Zinnöcker with effect from January 31, 2016 and the new allocation of duties for the Management Board with effect from February 1, 2016. At the ordinary meeting held on March 4, 2016, the Committee discussed the review of the Management Board remuneration and developed recommendations regarding contracts with Management Board members. It also focused on the short-term incentive plan and the long-term incentive plan. With regard to the former, it reviewed the target achievement levels for 2015 and the target agreement for 2016. In respect of the latter, it assessed the parameters set, such as NAV, FFO and customer satisfaction. The Committee also discussed the newly negotiated D&O insurance policy for the Vonovia Group. At the meeting held on May 11, 2016, the Committee passed resolutions on the share-based remuneration component for Management Board members agreed in 2013 and set the target achievement level for the third payout period. At the meeting on August 1, 2016, the Committee looked at the succession plan for the Management Board and the first level of management, and submitted a resolution proposal to the Supervisory Board on the 2013 long-term incentive plan relating to the confirmation of the 2015 target achievement levels for parts of the Management Board.

Corporate Governance

The Management Board and Supervisory Board of Vonovia SE are committed to the principles of good corporate governance. As a result, the members of the Supervisory Board once again looked at the German Corporate Governance Code in the resporting year. On February 21, 2017, the Management Board and the Supervisory Board issued an updated declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG). The Management Board also reports, including on behalf of the Supervisory Board, on corporate governance at Vonovia in the declaration on corporate governance. Both declarations will be permanently published by the company on its website for perusal.

Audit

After being appointed at the Annual General Meeting on May 12, 2016, to audit financial statements for the 2016 fiscal year, KPMG AG Wirtschaftsprüfungsgesellschaft, Essen, has duly audited the annual financial statements and consolidated financial statements of Vonovia SE for the 2016 fiscal year as well as the corresponding management report and the accounting on which they were based and has expressed an unqualified opinion thereon. In accordance with Section 317 (4) of the German Commercial Code, KPMG also assessed the risk early warning system of Vonovia SE.

The auditor has affirmed its independence to the Chairman of the Audit Committee and duly declared that no circumstances exist that could give grounds for assuming a lack of impartiality on its part. The audit assignment was awarded to KPMG AG Wirtschaftsprüfungsgesellschaft by the Chairman of the Audit Committee in line with the Committee's resolution and the choice of auditor made by the shareholders at the Annual General Meeting.

The annual financial statements were prepared by the Management Board in accordance with the German commercial law and stock corporation law provisions, including the generally accepted accounting practice. The consolidated financial statements were prepared by the Management Board in accordance with International Financial Reporting Standards (IFRS), as applied in the European Union, as well as the supplementary provisions applicable pursuant to Section 315a (1) HGB.

For the annual financial statements and the consolidated financial statements, Vonovia SE prepared a combined management report based on the requirements set out in Sections 315, 298 (2) HGB.

Every member of the Supervisory Board received copies of the annual financial statements, the consolidated financial statements and the combined management report and the auditor's report in good time. On the basis of the preliminary examination and assessment by the Audit Committee, about which the Audit Committee Chairman reported to the Supervisory Board, the Supervisory Board has scrutinized in detail the annual financial statements, consolidated financial statements and combined management report of Vonovia SE for the 2016 fiscal year and also considered the Management Board's proposal for the appropriation of profit.

At the joint meeting on March 6, 2017, with the Audit Committee, and at the subsequent Supervisory Board meeting held on the same day, the auditors reported both on their overall audit findings and on the audit's individual focal points. Particularly important audit issues in the 2016 fiscal year were the valuation of the investment properties, the presentation and valuation of non-derivative and derivative financial instruments and the impairment testing of goodwill.

The provisions on the new Auditor's Report, which provides specific information on particularly important audit issues, applied for the first time. The auditor had already presented the fundamental form of the new Auditor's Report in the spring of 2016. The auditors gave detailed answers to our questions. After an in-depth review of all documentation, we found no grounds for objection. As a result, we concurred with the auditors' findings. On March 6, 2017, we followed the Audit Committee's recommendation and approved the annual financial statements and consolidated financial statements of Vonovia SE, as well as the combined management report. The annual financial statements are thus duly adopted.

The Supervisory Board considered the Management Board's proposal for the appropriation of profit. It gave particular consideration to the liquidity of the company/the Group, tax-related aspects, financial and investment planning. Following this audit, the Supervisory Board agrees with the proposal set out by the Management Board to be made to the Annual General Meeting of shareholders, namely the proposal that, from the profit of Vonovia SE for the 2016 fiscal year, a dividend of € 1.12 per share or € 521,920,698.88 in total on the shares of the share capital as of December 31, 2016, be paid to the shareholders and the remaining amount be carried forward to the new account or be used for other dividends on shares carrying dividend rights at the time of the Annual General Meeting that go beyond those as of December 31, 2016.

The dividend is paid either in cash or in the form of shares in the company. The shareholders' right to opt for a dividend paid out in shares is communicated separately in a timely manner together with other information, particularly on the number and type of shares.

Personnel

There was one staff-related change on the Management Board during the reporting period: Following the successful integration of GAGFAH, for which he had overall responsibility, Thomas Zinnöcker resigned from the Management Board with effect from January 31, 2016.

Dr. Ariane Reinhart was appointed as a new member of the Supervisory Board with effect from May 13, 2016. She succeeded Mr. Gerhard Zeiler, who left the Supervisory Board at the end of May 12, 2016.

Concluding Remarks

We would like to thank the Management Board, all employees and Vonovia's employee representatives for what was, once again, excellent performance last year.

Düsseldorf, March 6, 2017

On behalf of the Supervisory Board

Dr. Wulf H. Bernotat, Chairman

Corporate Governance Report

In the corporate governance declaration, we report, in accordance with No. 3.10 of the German Corporate Governance Code (DCGK) and Section 289a of the German Commercial Code (HGB) on the principles of management and corporate governance. The declaration contains the declaration of conformity, information on corporate governance practices, a description of how the Management Board and Supervisory Board work and key corporate governance structures. The declaration is also available to the public on our website at www.vonovia.de. http://investors.vonovia.de

Fundamental Information

Corporate governance is the responsible management and supervision of a company. The Management Board and the Supervisory Board are committed to the principles of corporate governance. The principles are the basis for the sustainable success of the company and therefore serve as guidelines for conduct in the company's daily management and business.

Good corporate governance strengthens the trust of our shareholders, business associates, customers, employees and the general public in Vonovia SE. It increases the company's transparency and strengthens our Group's credibility. With balanced corporate governance, the Management Board and the Supervisory Board wish to safeguard Vonovia SE's competitiveness, strengthen the trust of the capital market and the general public in the company and sustainably increase the company's value.

As a major housing company, we are aware of the particular significance of our entrepreneurial actions for society at large. As a result, we are also committed to the main aims and principles of the corporate governance initiative of the German housing industry, which we have been a member of since November 14, 2003. The initiative supplements the corporate governance principles to include housing-specific aspects and is committed to even greater transparency, an improved image and a more competitive real estate sector.

Declaration of Conformity with the German Corporate Governance Code by the Management Board and Supervisory Board in Accordance with Section 161 of the German Stock Corporation Act (AktG)

In February 2017, the Management Board and the Supervisory Board declared compliance with the recommendations of the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG) and made the declaration publicly and permanently available on the company's website. www.vonovia.de

Standards of Corporate Governance

Corporate governance, acting in accordance with the principles of responsible management aimed at increasing the value of the business on a sustainable basis, is an essential requirement for the Vonovia Group, embracing all areas of the business. Our corporate culture is founded on transparent reporting and corporate communications, on corporate governance aimed at the interests of all stakeholders, fair and open dealings between the Management Board, the Supervisory Board and employees as well as on compliance with the law.

The Code of Conduct provides the ethical and legal framework within which we act and want to maintain a successful course for the company. The focus is on dealing fairly with each other but also in particular on dealing fairly with our tenants, suppliers, customers and investors. The Code of Conduct specifies how we assume our ethical and legal responsibility as a company and is the expression of our company values.

Information on the Company's Governing Constitution

The designation Vonovia comprises Vonovia SE and its Group companies. Vonovia is a European company (SE) in accordance with the German Stock Corporation Act (AktG), the SE Act and the SE Regulation. Its registered headquarters is in Düsseldorf. It has three governing bodies: the Annual General Meeting, the Supervisory Board and the Management Board. The duties and authorities of those bodies derive from the SE Regulation (SE-VO), the German Stock Corporation Act and the Articles of Association. Shareholders, as the owners of the company, exercise their rights at the Annual General Meeting.

According to the two-tier governance system, Vonovia SE has a Management Board and a Supervisory Board. In the two-tier governance system, the management of business and the monitoring of business are strictly separated from each other. The duties and responsibilities of these two bodies are clearly specified by law in the German Stock Corporation Act.

In accordance with the governing laws, in particular the SE Regulation and the German SE Employee Participation Act (SEBG), the Supervisory Board is only made up of representatives of the shareholders. The highest representative body of the employees is the Group works council. A works council was also set up at the level of Vonovia SE.

The Management Board and Supervisory Board of a company listed in Germany are obliged by law (Section 161 of the German Stock Corporation Act) to report once a year on whether the officially published and relevant recommendations issued by the government commission German Corporate Governance Code, as valid at the date of the declaration, have been, and are being, complied with. Companies affected are also required to state which of the recommendations of the Code have not been, or will not be, applied and, if not, why.

The Management Board reports in its declaration, also on behalf of the Supervisory Board, on important aspects of corporate governance pursuant to Section 289a of the German Commercial Code (HGB) and No. 3.10 of the German Corporate Governance Code (DCGK).

Annual General Meeting

The Annual General Meeting decides in particular on the appropriation of profit, the ratification of the acts of the members of the Management Board and of the Supervisory Board, the appointment of the external auditor, amendments to the Articles of Association as well as specific capital measures and elects the shareholders' representatives to the Supervisory Board.

Supervisory Board

The Supervisory Board appoints, supervises and advises the Management Board and is directly involved in decisions of fundamental importance to the company. The Supervisory Board performs its work in accordance with the legal provisions, the Articles of Association, its rules of procedure and its resolutions. It consists of twelve members, who are each elected for terms of four fiscal years. The Supervisory Board continuously oversees the management and advises the Management Board.

The Supervisory Board shall include what it considers an adequate number of independent members. A Supervisory Board member is, in particular, not to be considered independent if he or she has personal or business relations with the company, its bodies, a controlling shareholder or a company associated with such a shareholder that may cause a substantial and not merely temporary conflict of interest.

The aforementioned rules are to be taken into account when making proposals to the shareholders at the Annual General Meeting for the elections of Supervisory Board members. Diversity should also be taken into account. Proposed candidates for the Supervisory Board chair shall be announced to the shareholders.

The Supervisory Board examines and adopts the annual financial statements and the management report. It assesses and confirms the proposal for the appropriation of profit, as well as the consolidated financial statements and the combined management report, on the basis of the report prepared by the Audit Committee. The Supervisory Board reports in writing to the shareholders at the Annual General Meeting on the result of its examination.

The Chairman of the Supervisory Board is an independent member. The same applies to the chairs of the committees which the Supervisory Board has set up.
→ p. 10 et seq.

The Chairman of the Supervisory Board chairs the meetings and coordinates communications. The members of the Supervisory Board generally have the same rights and obligations. Supervisory Board resolutions are above all passed in the Supervisory Board meetings but also, if necessary, using the written procedure or by other communication means. At least two meetings are held every six months. In addition, if necessary and on the basis of the rules of procedure of the Supervisory Board, a meeting of the Supervisory Board or its committees can be convened at any time at the request of a member or the Management Board. In the 2016 fiscal year, the Supervisory Board had ten meetings – including conference calls – and made decisions using the written procedure in three cases.

The Supervisory Board must be composed in such a way that its members as a group have the knowledge, ability and specialist experience required to properly complete its tasks. Each Supervisory Board member shall ensure that he or she has enough time to carry out his or her mandate. As a rule, nominations for election to the Supervisory Board should only be for persons who have not yet reached the age of 75 at the time of the election. The standard limit for length of membership on the Supervisory Board has been set at 15 years.

At least one member of the Supervisory Board must have expertise in the fields of accounting or auditing (Section 100 (5) of the German Stock Corporation Act).

A Supervisory Board member, who is also a member of the Management Board of a listed company, shall, in addition to the Supervisory Board mandate in the company, not accept positions on more than two other supervisory boards in listed companies or supervisory bodies of companies that make similar requirements and that do not belong to the Group of the company for which he or she is on the Management Board. Supervisory Board members shall not exercise directorships or similar positions or advisory tasks for important competitors of the company.

Supervisory Board Committees

The Supervisory Board sets up an Executive and Nomination Committee, an Audit Committee and a Finance Committee from among its members. Further committees are formed as required. Committees are made up of at least four members of the Supervisory Board. The committees prepare subjects which are to be discussed and/or resolved by the Supervisory Board. In addition, they pass resolutions on behalf of the entire Supervisory Board. The basis for committee work was the transfer of tasks and responsibilities within the scope of the legal provisions.

The **Executive and Nomination Committee** is made up of the Chairman of the Supervisory Board and four other members to be elected by the Supervisory Board. The Chairman of the Supervisory Board is the Chairman of the Executive and Nomination Committee. The tasks of this committee are, in particular, to prepare the appointment of Management Board members, to advise on the remuneration system, to assign responsibilities and to decide in cases of legal transactions with Management Board members and conflicts of interest.

The Supervisory Board appoints one of the members of the **Audit Committee** as the Chairman of the Audit Committee. When electing the committee members, the Supervisory Board shall ensure that the Chairman of the Audit Committee has specialist knowledge and experience in the application of accounting principles and internal control processes. The Committee Chairman should be independent and not be a former member of the company's Management Board whose appointment ended less than two years before his appointment as Chairman of the Audit Committee. The Chairman of the Supervisory Board shall not be the Chairman of the Audit Committee.

The Audit Committee handles, in particular, the monitoring of the accounting process, the effectiveness of the internal control system, risk management system and internal audit system, the audit of the annual financial statements, here in particular the independence of the auditor, the services rendered additionally by the auditor, the issuing of the audit mandate to the auditor, the determination of strategic audit objectives and the fee agreement, and – unless another committee is entrusted therewith – compliance.

The Audit Committee prepares the resolutions of the Supervisory Board on the annual financial statements (and, if applicable, the consolidated financial statements), and, in place of the Supervisory Board, reaches the agreements with the auditor (in particular the issuing of the audit mandate to the auditor, the determination of strategic audit objectives and the fee agreement). The Audit Committee takes suitable action to determine and monitor the independence of the auditor. In place of the Supervisory Board, the Audit Committee adopts resolutions on the approval of the contracts with the auditor on additional consultancy services, insofar as, according to the Articles of Association or the rules of procedure for the Management Board, these contracts require approval.

The Finance Committee prepares the resolutions of the Supervisory Board on the following matters:

a) Financing and investment principles, including the capital structure of the Group companies and dividend payments

b) Principles of the acquisition and disposal policies, including the acquisition and disposal of individual shareholdings of strategic importance

In place of the Supervisory Board, the Finance Committee adopts resolutions in particular on general guidelines and principles for the implementation of this financial strategy, including the handling of currency risks, interest, liquidity and other financial risks and the handling of credit risks and the implementation of external financing principles as well as on important transactions regarding the acquisition and disposal of properties and shares in companies as well as on the acquiring of financing.

Management Board

The Management Board members are jointly accountable for independently managing the company in the company's best interests while complying with the applicable laws and regulations, the Articles of Association and the rules of procedure. In doing so, they must take the interests of the shareholders, the employees and other stakeholders into account.

The Management Board, which must be made up of at least two members, is appointed by the Supervisory Board, whereby the term of office must not exceed six years and the employment contract is automatically terminated when the member turns 67. The Management Board is monitored and advised by the Supervisory Board. It has adopted the rules of procedure in consultation with the Supervisory Board. The Management Board has a chairman who coordinates the work of the Management Board and represents it in dealings with the Supervisory Board. The Chairman of the Management Board has the right to veto Management Board resolutions.

The members of the Management Board are Rolf Buch (Chairman) as well as Klaus Freiberg, Dr. A. Stefan Kirsten and Gerald Klinck. Further information is to be found in the 2016 Annual Report. → **p. 8 et seq.**

The Management Board informs the Supervisory Board regularly, in due time and comprehensively in line with the principles of diligent and faithful accounting in accordance with the law and the reporting duties specified by the Supervisory Board.

The Management Board develops the company's strategy, coordinates it with the Supervisory Board and implements it. The Management Board ensures that all statutory provisions and the company's internal policies are complied with. The Management Board also ensures appropriate risk management and risk controlling in the company.

It submits the corporate planning for the coming fiscal year to the Supervisory Board as well as the midterm and strategic planning. The Management Board informs the Supervisory Board Chairman without delay of important events that are essential for the assessment of the situation and the development of the company or for the management of the company as well as of any shortcomings that occur in the monitoring systems.

The Management Board requires the approval of the Supervisory Board for certain important transactions. Transactions and measures that require Supervisory Board approval are submitted to the Supervisory Board in good time.

The Management Board members are obliged to disclose any conflicts of interest to the Supervisory Board without delay and to inform the other Management Board members accordingly.

The Management Board members are subject to a comprehensive non-competition obligation. Management Board members may only take up sideline activities, in particular positions on supervisory boards outside the Group, with the approval of the Supervisory Board.

Important transactions between the company, on the one hand, and the Management Board members as well as persons they are close to or companies they have a personal association with, on the other hand, require the approval of the Supervisory Board. Reference is made to such relations in the remuneration report.

Cooperation Between the Management Board and the Supervisory Board

The Management Board develops the strategy of the company in cooperation with the Supervisory Board and discusses the current status of its implementation with the Supervisory Board at regular intervals. Furthermore, the Management Board regularly informs the Supervisory Board in written or verbal reports of topics including the development of business and the situation of the company. In this way, the Supervisory Board receives detailed documents from the Management Board regularly and without delay on the economic development and the company's current situation as well as a half-yearly risk management report that deals with the most important risks for the business of Vonovia SE. On the basis of these reports, the Supervisory Board monitors the company's management by the Management Board.

Avoidance of Conflicts of Interest

In the fiscal year, there were no conflicts of interest of Management Board or Supervisory Board members, which are to be reported immediately to the Supervisory Board.

Implementation of the Act on the Promotion of the Proportion of Women in Management

The "Act on the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector" (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in Privatwirtschaft und im öffentlichen Dienst) subjects companies that are subject to codetermination *and* listed on the stock market at the same time to comply with a fixed gender ratio of 30 % for new Supervisory Board positions to be filled. In addition, the Act means that companies that are listed on the stock market or subject to codetermination have to set their own targets for increasing the proportion of women on Supervisory Boards, Management Boards and at the top levels of management.

As a listed company that is not subject to codetermination, the Management Board and the Supervisory Board of Vonovia SE discussed the target for the proportion of women on the company's executive bodies and at management levels in their meetings held on June 29, 2015, and July 27, 2015, and agreed as follows:

For the first assessment period, the Management Board has set a target of 25 % for the level of management below the Management Board, to be met by June 30, 2017. Due to organizational changes and the streamlining of the level of management below the Management Board, the proportion of women is expected to come to around 19 % on June 30, 2017.

Taking the company's legal and financial circumstances into account, the Supervisory Board decided to leave the proportion of women on the Management Board at 0 % in the period leading up to June 30, 2017. A target of 25 % women, i.e., three women, has been set for the Supervisory Board, which consists of 12 members. Up until November 1, 2015, there were two women on the Supervisory Board, a figure that had increased to three by May 12, 2016 and that then increased to four. The proportion of women on the Supervisory Board now amounts to 33 %.

Transparency

Shareholders can obtain full and timely information about our company on our website and can access current as well as historical company data. Among other information on its website, Vonovia regularly posts all financial reports, important information on the company's governing bodies, its corporate governance documentation, information requiring ad hoc disclosure, press releases as well as directors' dealings notifiable pursuant to Article 19 of the Market Abuse Regulation.

Our shareholders can exercise their voting rights at the meeting or instruct a proxy of their choice or one of the proxies provided for that purpose by the company. Our shareholders are also able to submit a postal vote. The details regarding the postal voting procedure are in the respective shareholder's invitation to the Annual General Meeting. The entire documentation for the Annual General Meeting and opportunities to authorize, and issue instructions to the company's proxies as well as to submit a postal vote are available to shareholders in time on the Vonovia website.

Accounting and Financial Statement Auditing

The Annual General Meeting selected KPMG AG Wirtschaftsprüfungsgesellschaft as auditor for the annual financial statements and consolidated financial statements. We prepare the annual financial statements of Vonovia SE in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG) and the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) to be applied in the EU. In addition, we prepare a combined management report as required by the German Commercial Code and the German Stock Corporation Act (AktG). The Management Board is responsible for financial accounting. The Supervisory Board examines and adopts or approves the annual financial statements, the consolidated financial statements and the combined management report.

In addition to our annual financial statements, we also prepare quarterly statements for the first and third quarters, as well as an interim report for the first half-year. Our interim report complies with the German Securities Trading Act and is discussed with the Audit Committee of the Supervisory Board before it is published.

Under German stock corporation and commercial law, there are special requirements for internal risk management that apply to Vonovia. Therefore, our risk management system covers risk inventory, analysis, handling and elimination. In accordance with Section 317 (4) of the German Commercial Code applicable to listed companies, KPMG assesses in its audit the risk early warning system as part of the risk management system.

Furthermore, we maintain standard documentation of all our internal control mechanisms throughout the Group and continually evaluate their effectiveness. Our auditor has not reported any material weaknesses in the accounting-related internal control system detected in its audit to the Management Board and the Supervisory Board.

In the combined management report, we provide comprehensive information on the main features of the internal control and risk management system with regard to the accounting process and the Group accounting process in accordance with our reporting duties pursuant to Sections 289 (5), and 315 (2) No. 5 of the German Commercial Code.

Vonovia SE on the Capital Market

One Year on the DAX

The IPO of the company then known as Deutsche Annington back in July 2013 signaled the start of a long-term growth course, the aim being to create a modern service company that could offer attractive and affordable homes across Germany.

With a portfolio initially comprising around 180,000 units, the company started to systematically construct an efficient organizational model and develop an ambitious strategy for profitable and sustainable growth. Particularly as a result of the acquisitions of DeWag, Vitus, SÜDEWO and GAGFAH, the company continued to grow and, for the time being, now boasts a housing stock of more than 350,000 units.

The company's ascent through the ranks of the stock exchange was similarly swift; shortly after the IPO, it was admitted to the SDAX, before being promoted to the MDAX a year later. "Deutsche Annington" was renamed "Vonovia", the company's current name, on August 19, 2015. Vonovia was promoted to Germany's leading stock index, the DAX, on September 21, 2015. This promotion saw a real estate stock with market capitalization of € 13 billion at the time replace a chemicals stock.

Vonovia's promotion was the very first time the leading index had admitted a real estate stock. This also sends out important signals for a sector of the economy characterized by a special profile, creating a greater need for explanatory information to be provided to foreign investors, in particular.

Its listing among the top companies on the stock market has once again made Vonovia significantly more visible, for one among the media, policymakers and the business world in general, where there has been a significant increase in the level of interest shown in discussions with our Management Board members. For another, we are increasingly being seen as a general corporation on the capital market, as opposed to simply a real estate company. This means that Vonovia competes directly with all of the other sectors represented in the index on the equity and debt capital markets.

Its promotion to the DAX has done little to change Vonovia's shareholder structure towards the top of the list: BlackRock (8.3 %), Norges Bank (Ministry of Finance on behalf of the State of Norway, 7.6 %) and Lansdowne Partners (5.4 %) were already our biggest investors in the past and remain our biggest investors to this day. We are, however, witnessing a significant increase in the interest shown by investors with a more general focus. Vonovia also has a broader base when it comes to the geographical distribution of its investors and is attracting increasing interest from among Asian investors, too, not least due to its market capitalization.

Following what was already a marked increase in our transaction volume after a capital measure in the summer of 2015, Vonovia's entry on to the DAX had a further positive impact: the daily transaction volume for our stock on Xetra has increased by more than 70 % compared with the period before our promotion to the DAX and comes in at around € 40 million. In the rankings based on free float market capitalization and transaction volume, Vonovia comes in 21st and 26th place respectively (as of: December 2016), meaning that it has firmly established itself on the DAX.

The promotion of Vonovia's stock to the DAX was never one of the company's primary aims; rather, this development came as a result of the implementation of a long-term growth strategy, meaning that it serves as confirmation of the systematic way in which we are managing the company in the interests of our shareholders.

Developments on the International Capital Markets

2016 was a turbulent year for the international capital markets. The DAX gained 6.9 % in the course of the year, touching on a low of 8,752 points on February 11, 2016. The Stoxx Europe 600 (-1.7 %) and the FTSE EPRA/NAREIT Developed Europe (-8.2 %) showed negative development in 2016.

The international financial markets were under pressure in the first few months of 2016. Global concerns over national and international conflicts, fears of a recession and the associated generally low interest rate environment prompted many investors to pull their money out of more cyclical stocks and seek security in European and, in particular, German real estate stocks. We believe that the low interest rate environment is the main reason why Vonovia's shares, together with other real estate stocks, outperformed the DAX and other international equity indices. On January 20, 2016, for example, the 10-year US yield dropped to below the 2 % mark for the first time. On March 10, 2016, the ECB reinforced the low interest rate by making the decision to cut the key rate to 0 %. On June 14, 2016, the yield on 10-year German government bonds slipped into negative territory for the very first time.

On June 24, 2016, a majority of British voters opted for "Brexit", which also encumbered the DAX, among other indices. German housing company stocks benefited from the reallocation of investments to continental European real estate stocks that followed the referendum vote.

From the end of the third quarter of 2016, booking of the European real estate stocks was on a downward trajectory, a development that we believe was due in particular to the marginal increase in the yield on 10-year German Federal bonds. Numerous investors opted to rebalance their portfolios in reaction to this increase, reallocating their money into less defensive stocks in some cases. On November 9, 2016, Donald Trump was elected as President of the USA, prompting pronounced recovery trends on the international stock exchanges, which also reached new highs since. The decision made by the US Federal Reserve on December 14, 2016 to implement a further rate hike, coupled with state-driven investment programs, made the prospect of an end to the policy of low interest rates more likely. This lured numerous investors towards cyclical stocks at the end of 2016, putting further pressure on defensive stocks like shares in German residential property companies.

Share Price Development

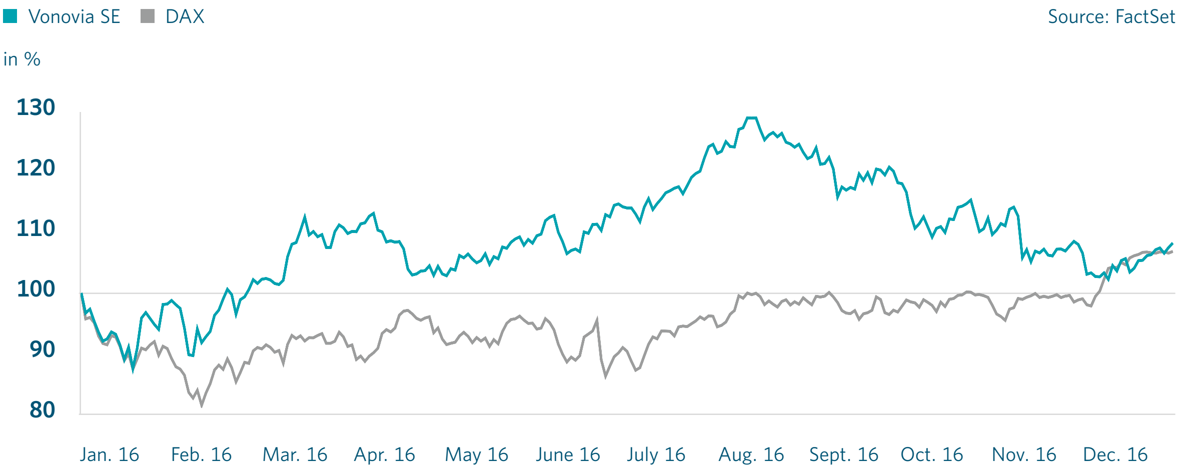
In the 2016 fiscal year, Vonovia's share price rose by approx. 8.2 %, climbing from a closing price of € 28.55 on December 31, 2015 to a closing price of € 30.91 on December 30, 2016. During the same period, the DAX increased by around 6.9 %, from 10,743 points on December 31, 2015 to 11,481 points.

Especially in the first eight months of 2016, Vonovia's share benefited from the low interest rate environment described above, and from the high demand for German real estate stocks. As a result, Vonovia's shares reached a new all-time high of € 37.00 in August 2016.

Towards the end of 2016, Vonovia's share price, together with virtually all European real estate shares, was on a downward trend, which we believe is due, in particular, to a shift among some investors towards less defensive stocks and to a general correction after the previous all-time high.

Irrespective of the dip in the price of Vonovia's shares in the interim, the environment – which is characterized by an imbalance between high demand for, and a short supply of, affordable housing in urban locations; the ongoing environment of low interest rates and a continued keen interest in our sector – remains positive.

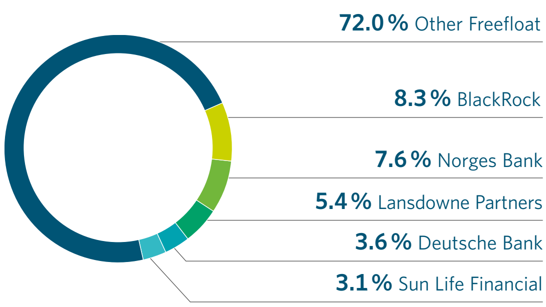
Share Price Performance of Vonovia's Shares



Shareholder Structure

Free Float and Breakdown of Major Shareholders

(as of December 31, 2016)



Based on the German stock exchange's definition of free float, only the interest held by Norges Bank (Ministry of Finance on behalf of the State of Norway) does not count towards the free float. This means that 92.4 % of Vonovia's shares were in free float on December 31, 2016.

In line with Vonovia's long-term strategic focus, the majority of its investors have a similarly long-term focus. The company's investors include pension funds, sovereign wealth fund and international asset managers. There is also a large number of individual shareholders.

2016 Annual General Meeting

The Annual General Meeting of Vonovia SE was held in Düsseldorf on May 12, 2016. 68.65 % of the share capital was represented at the main event of the year. All of the agenda items were carried by a large majority, including the proposal to distribute a dividend of € 0.94 per share to the company's shareholders. This corresponds to a dividend yield of 3.3 % in relation to the share's closing price of € 28.55 on December 31, 2015. The dividend for the 2015 fiscal year was paid out from a contribution account for tax purposes. It was therefore paid out to shareholders without capital gains tax or the solidarity surcharge being deducted.

Investor Relations Activities

Vonovia SE is committed to transparent, ongoing dialogue with its shareholders and potential investors. Throughout the 2016 fiscal year, Vonovia participated in a total of 14 investors' conferences and 19 roadshows in key financial centers in Europe, North America, Asia and South Africa. In addition, numerous one-on-one meetings and teleconferences were held with investors and analysts to keep them informed of current developments and special issues. In the 2016 fiscal year, communication with investors focused on the following issues: valuation, modernization, innovative property management, the immunity of Vonovia SE's business model to macroeconomic fluctuations, and the importance of acquisitions and organic growth.

Our annual Capital Markets Day was held on June 6 and 7, 2016, in Essen and attracted 55 external participants. The Eltingviertel district in the north of Essen played a key role in our decision to host the event in the city. Vonovia is collaborating with partners to turn this district into a vibrant neighborhood. A tour of the district showed the participants that sustainable district development is something that is actively put into practice at Vonovia. In addition, as well as a management presentation made to smaller groups, the topics of "Extension", "Planning Affordable Housing" and "Modernization" were presented by the responsible employees and discussed as a group.

The Investor Relations team also organized and carried out numerous property tours for interested investors and analysts on location with colleagues from the operational areas of the company. The aim of these events was to provide the participants with firsthand insight into Vonovia's real estate portfolio and processes. Investor Relations also held detailed presentations on Vonovia and the situation on the German residential real estate market at informational events for private shareholders.

In 2017, we will continue to communicate openly with the capital market. Various roadshows and conferences have already been planned. Information can be found in the Financial Calendar on our Investor Relations website. **http://investors.vonovia.de**

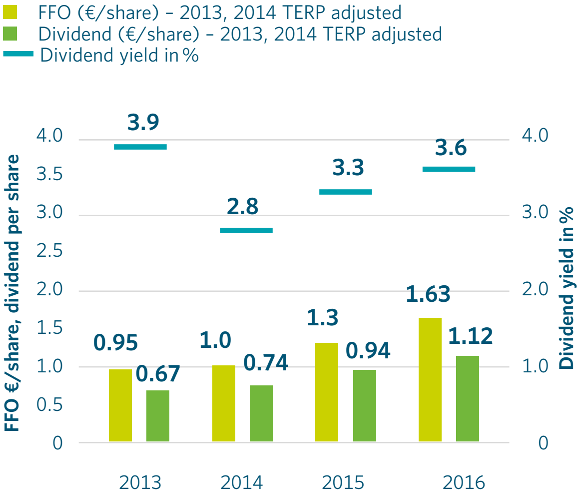
Analyst Recommendations

At present, 28 international analysts publish studies on Vonovia on a regular basis (as of December 31, 2016). The average target share price was € 36.00 as of December 31, 2016. Of these analysts, 56 % issued a "buy" recommendation, with 37 % issuing a "hold" recommendation and only 7 % recommending that investors sell the company's shares.

Attractive Dividend

The continuity of our business strategy is also reflected in our dividend policy. Our aim is to distribute around 70 % of our FFO 1 to our shareholders. This provides our shareholders with an attractive distribution while also ensuring, in the long run, that the funds we need to maintain our portfolio, for example, remain within the company.

Attractive Dividend



Since our IPO in 2013, we have been able to increase our dividend per share by at least 10 % every year. As far as the 2016 fiscal year is concerned, we plan to propose a dividend per share of € 1.12 to the Annual General Meeting, which represents an increase of 20 % as against 2015.

Share Information

First day of trading	July 11, 2013
Subscription price	€ 16.50
Total number of shares	466.0 million
Share capital in €	€ 466,000,624
ISIN	DE000A1ML7J1
WKN	A1ML7J
Ticker symbol	VNA
Common code	94567408
Share class	Registered shares with no par value
Stock exchange	Frankfurt Stock Exchange
Market segment	Regulated market
Indices & Weight	DAX (1.4 %), Stoxx Europe 600 (0.2 %) MSCI Germany (1.3 %), GPR 250 (1.1 %) FTSE EPRA/NAREIT Europe Index (7.3 %)

Vonovia SE

Combined Management Report

Fundamental Information about the Group

The Company

Vonovia stands for around 333,000 apartments in almost all of Germany's attractive cities and regions. The total fair value comes to around € 27 billion, with net assets based on the EPRA definition coming to approximately € 17 billion (EPRA – European Public Real Estate Association). An additional 59,000 or so apartments are also managed by Vonovia for third parties. This makes Vonovia Germany's leading nationwide residential real estate company.

As a modern service company, Vonovia focuses on customer orientation and, as a result, on the satisfaction of its tenants. Offering tenants affordable, attractive and livable homes is a prerequisite for the company's successful development. A central service center together with local caretakers and the company's own technical and residential environment organization ensure that our tenants' concerns are attended to in a timely, straightforward and reliable manner.

Vonovia's business model is based on two pillars: the nationwide rental of good-quality and, most importantly, affordable living space and the provision of fairly priced property-related services. These property-related services mainly relate to cable TV, bathroom renovations in response to tenant requests, automated meter reading and senior-friendly apartment modernization. Finally, Vonovia makes long-term investments in maintenance and modernization.

In addition to its successful long-term and modern property management, Vonovia also develops its real estate portfolio through targeted acquisitions and sales. The company will also be using densification and vertical expansion to build an increasing number of new apartments. The goals associated with the company's new portfolio acquisitions include strengthening its overall regional presence in Germany, realizing operational and financial economies of scale and optimizing structures.

As one of Germany's leading residential real estate companies, Vonovia enjoys a wide range of close relationships not only with its customers, but also with stakeholder groups that are important for the company's development. These mainly include its employees, investors, suppliers and service providers, as well as social interest groups, including non-governmental/non-profit organizations.

While this Annual Report is aimed primarily at providing investors with financial information on the company, reporting to the company's other stakeholders will be achieved as part of the independently published Sustainability Report.

Corporate Structure

The parent company of the Vonovia Group is organized in the legal form of a European company (SE). Vonovia SE is directed by a Management Board, which is responsible for conducting business and developing the Group's strategy. Implementation occurs in close coordination with the Supervisory Board, which is regularly briefed by the Management Board regarding the development of business, strategy and potential opportunities and risks. The Supervisory Board oversees the activities of the Management Board.

The parent company, Vonovia SE, performs the function of the management holding company for the Group. In this role, it is responsible for determining and pursuing the overall strategy and implementing the company's goals. It also performs property management, financing, service and coordination tasks for the Group. Furthermore, it is responsible for the management, control and monitoring system as well as risk management.

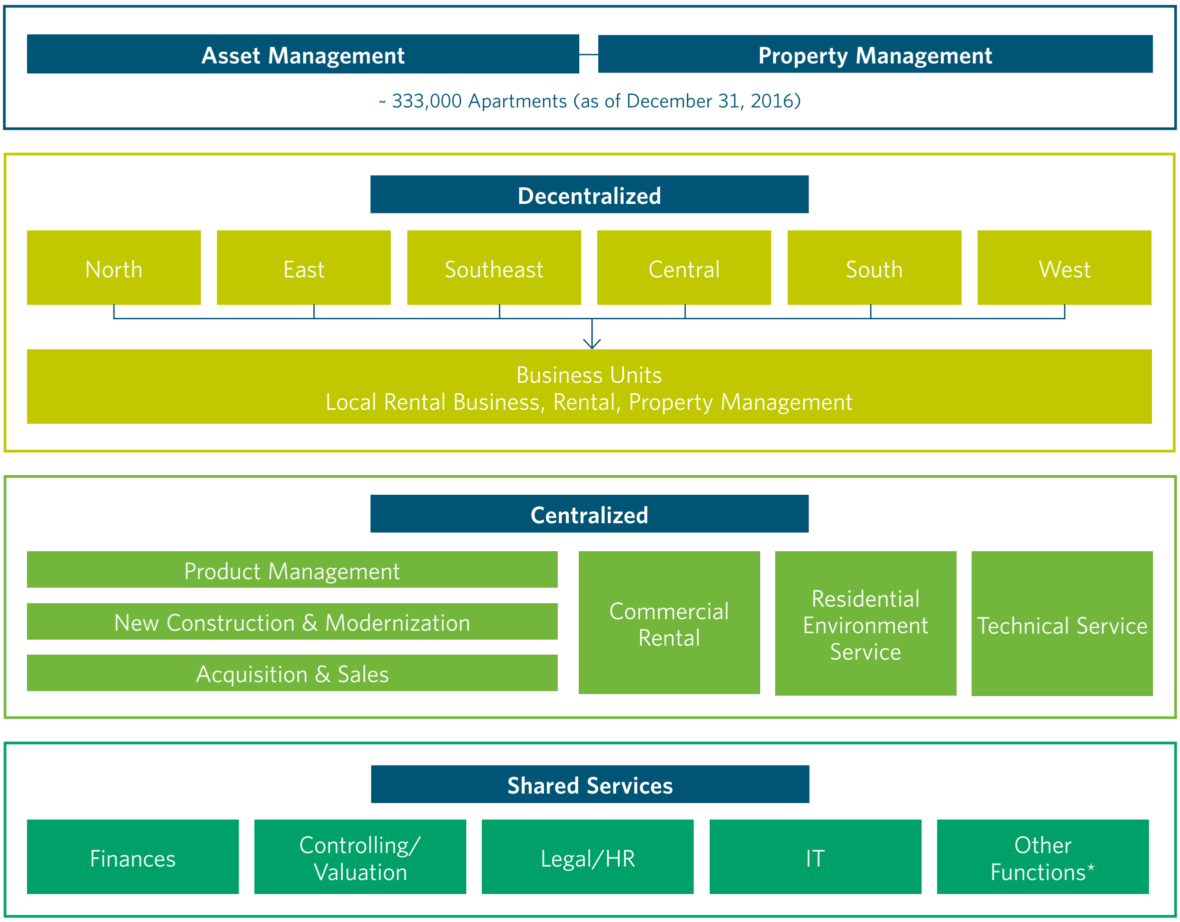
Vonovia's core operating business is currently divided into six business areas. These are split into business units, each of which is responsible for an average of around 9,300 housing units on location as part of a decentralized structure.

Responsibility for product management, new construction and modernization, acquisition and sales, as well as the commercial and operational support functions, are centralized.

To carry out these management functions, Vonovia has established a series of service companies. By pooling the corporate functions on a uniform management platform, Vonovia achieves harmonization, standardization and economies of scale objectives, and the other Group companies thus do not need to perform such functions themselves.

Vonovia SE is based in Germany. Its registered office is in Düsseldorf. The head office (principal place of business) is located at Philippstrasse 3, Bochum.

Corporate Structure



* Other shared services areas: audit, UKOM, central purchasing, insurance, investor relations, accounting, taxes

As of December 31, 2016, 189 legal entities/companies formed part of the Vonovia Group. A detailed list of shareholdings for Vonovia SE is provided in the Notes.

The **management of the business** is based on the strategic approaches of the company and is conducted via the three segments: Rental, Extension and Sales.

The **Rental segment** combines all of the business activities that are aimed at the value-enhancing management of the properties.

The **Extension segment** combines all of the business activities relating to the expansion of the core business to include customer-oriented services, e.g., services that are closely related to and/or influence the rental business.

The **Sales segment** is derived from the Operate sector of our portfolio and bundles all real estate sales from the portfolio. This includes the individual sale of apartments from the Privatize subportfolio and the sale of entire buildings or pieces of land from the Non-Strategic and Non-Core subportfolios; combined, these will be reported as Non-Core sales.

Details on the management of our business can be found in the chapter on our management system.

Societal Megatrends

The overall strategic framework that will shape the future for Vonovia is characterized by three megatrends: demographic change (1), changes in domestic migration patterns and increased immigration to Germany (2) and the energy transition (3):

(1) Demographic change is having a major impact on the real estate industry in Germany. The population is aging rapidly and presenting the real estate industry with considerable challenges, particularly when it comes to senior-friendly homes. This development is reinforcing the growing demand for one- and two-person households, a trend that benefits Vonovia's business model.

(2) In the recent past, migration within Germany towards urban areas has increased. Rural and non-urban regions are losing out. But the migration flow fueled by immigration to Germany, a trend that has been accelerated by the influx of refugees from global crisis regions, is also creating greater demand for good-quality, suitable and affordable living space in these urban regions.

(3) A sustained, significant reduction in energy consumption is a key prerequisite for the success of the energy transition in Germany. Buildings account for a large share of total energy consumption. Vonovia is aware of its responsibility in this area, which is why it has launched a program for the energy-efficient refurbishment of its buildings.

Overall Conditions on the Residential Real Estate Market

According to the German Association of German Housing and Real Estate Companies (GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e. V.), the German residential real estate market comprises around 40.5 million units, approximately 17.3 million, or 43 % of which, are owned residential properties. The approximately 23.2 million rented apartments are split into around 14.9 million units that are offered by small private landlords, and 8.3 million units offered by professional commercial providers, a segment that corresponds to 20 % of Germany's housing stock.

In the recent past, Germany's residential real estate market has been characterized by significant migration flows. Major cities and large metropolitan areas are the winners of **domestic migration** and **immigration** trends. Those municipalities with an urban flair in the vicinity of these major cities and large metropolitan areas are also growing. Domestic migration is also shaping the overall demographic environment in Germany. 30 or so metropolitan areas or **"High Influx Cities"** are reaping above-average benefits from this migration trend. Magnet behavior, shown primarily by younger age groups, is characterized mainly by the growing importance of living in locations that offer a vibrant urban lifestyle. This means that Germany's rural and less developed regions are losing out.
The demand for housing in the cities and regions in

question is focused in particular on low-cost smaller apartments, or apartments that can be shared by several people, also due to a further increase in the number of students. A shortage of apartments in the growing metropolitan regions and university towns is offset by lower demand for housing in those regions where the population is on the wane.

Due to these developments, Vonovia has adopted a regional residential market perspective. This means that we are focusing not on individual towns and cities as in the past, but rather on metropolitan regions each comprising a core city and its neighboring/surrounding municipalities. This perspective is reflected in the assessment of the portfolio structure and complements the analysis of our portfolio, such as Vonovia's own total return matrix, allowing locations to be evaluated in even greater depth and strategic options for action to be identified.

Acquisition of conwert

The takeover of Deutsche Wohnen AG that Vonovia intended to complete in early January 2016 did not meet with a majority vote among the shareholders of Deutsche Wohnen AG. The efforts to achieve a successful transaction were suspended on February 10, 2016 as a result.

On September 5, 2016, Vonovia then published notice of its intention to make a voluntary public takeover offer, in accordance with the Austrian Takeover Act (UebG), to the shareholders of conwert Immobilien Invest SE, Vienna ("conwert"), for the acquisition of all shares in conwert. Vonovia and conwert Immobilien Invest SE, whose shares are traded on the Vienna Stock Exchange, have signed a Business Combination Agreement in this regard. Pursuant to the takeover offer, all conwert shareholders will be offered 74 shares in Vonovia for every 149 shares in conwert. As an alternative, Vonovia will be offering the conwert shareholders a cash payment, in line with a mandatory requirement in Austria, of € 16.16 per share. The corresponding offer document was published on November 17, 2016.

With around 333,000 apartments across Germany, Vonovia offers the basis for the efficient management of conwert's approximately 24,500 units, particularly the properties on the German real estate market. The aim of the offer is to consolidate the complementary real estate portfolios of the two companies. Management under a joint umbrella will allow significant added value to be achieved for tenants and shareholders alike. The merger will allow Vonovia to further expand its presence in the expanding cities of Leipzig, Berlin, Potsdam and Dresden and to add the highly attractive German-speaking city of Vienna to its, until recently, purely German portfolio.

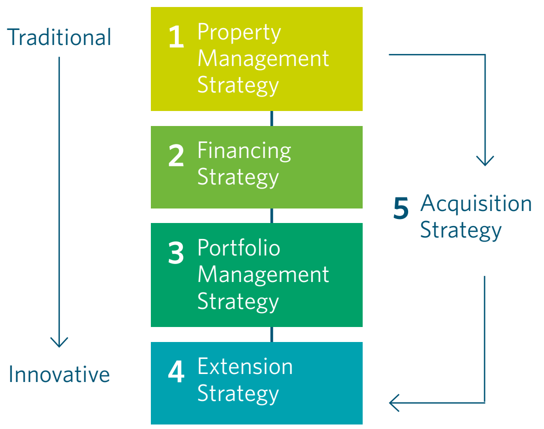
At the end of the acceptance deadline on December 19, 2016, Vonovia SE had reached the minimum acceptance threshold of "50 % plus 1 share" required to complete the intended transaction with 71.54 %. 72.2 million shares were tendered in cash, with 682.9 k tendered for exchange. This means that the majority of conwert's shareholders have approved the takeover. The end of the acceptance deadline on December 19, 2016, signals the start of a second acceptance period of three months, which is obligatory under Austrian law and will run until the end of March 2017. The corresponding non-cash capital increase for Vonovia was entered in the Düsseldorf Commercial Register on January 10, 2017. This means that conwert will be included in Vonovia's consolidated financial statements with effect from January 10, 2017. Following the completion of the transaction, representatives of Vonovia were appointed to conwert's Administrative Board at conwert's extraordinary Annual General Meeting held on January 27, 2017.

Strategy

4+1 Strategy

Our Group pursues a 4+1-pillar strategy that aims to boost customer satisfaction and enhance Vonovia's reputation. From a financial perspective, we aim to further boost growth in FFO 1 per share and EPRA NAV per share.

The 4+1 Pillars of our Strategy



In line with the order in which they are shown, the first four pillars represent elements that are increasingly innovative for the market as a whole. The fifth pillar, our acquisition strategy, is designed to strengthen the impact of the first four strategic approaches.

In detail, our 4+1 strategies can be described as follows:

Property Management Strategy

The paramount goal of our property management strategy is the systematic optimization of operating performance and core business productivity. With Vonovia, we have developed a mature and efficient operational management platform that reaps considerable benefits from the company's customer-oriented local business units, from its shared service centers, which use appropriate automated systems to deal with mass processes, and from its cost-efficient operations.

On the basis of this platform, we are able to effectively manage and scale our portfolio. Our management platform also allows us to control maintenance costs and to manage and plan the release of capital for new property investments that offer greater potential.

Financing Strategy

The financing strategy pursues various yet complementary goals: These are centered on adequate liquidity at all times, a balanced structure and maturity of debt capital, optimization of financing costs and credit rating maintenance.

Thanks to its broad range of equity and debt capital providers and the 'BBB+' long-term corporate credit rating awarded to our company by S&P, our company has excellent access to the international debt and equity capital markets. This gives us flexible access to capital based on favorable financing conditions at all times, securing Vonovia's liquidity on a permanent basis.

This comprehensive access to the international debt and equity capital markets gives a German residential real estate company a clear strategic competitive edge. This becomes obvious if we look at the acquisitions that were announced and completed, and the modernization measures that were implemented, in the reporting year. Without fast and free access to the equity and debt capital markets, it would not have been possible to carry out these measures.

Portfolio Management Strategy

The portfolio management strategy aims to optimize building stocks by way of investments, tactical acquisitions and sales.

Our properties have been split into three portfolios since March 31, 2015:

(i) "Strategic": This portfolio comprises the "Operate," "Upgrade Buildings" and "Upgrade Apartments" subportfolios.

(ii) "Non-Strategic": This portfolio includes locations and properties that are not absolutely essential to the Group's further strategic development.

(iii) The "Privatize & Non-Core" portfolio comprises the "Privatize" and "Non-Core" subportfolios.

The **"Strategic"** portfolio, which represents 92.1 % of the overall portfolio in terms of fair value, contains locations that offer development potential that is above average and for which we are pursuing a value-enhancing property management strategy. The "Strategic" portfolio is, in turn, split into three subportfolios:

In the "Operate" subportfolio, which accounts for 28.1 % of the overall portfolio, our strategy is to further increase the value of the properties by increasing rents, reducing vacancy levels and carrying out sustainable maintenance measures. The high portfolio density, among other factors, means that we are able to manage our housing stocks very efficiently. In the "Upgrade Buildings" subportfolio, which accounts for 35.1 % of the overall portfolio in terms of fair value, we are creating additional added value by implementing an extensive program of investments that responds to climate protection concerns and focuses on investments in energy-efficient renovation. Most of our investments are in heat insulation for facades and roofs, as well as in new windows and heating systems.

In the "Upgrade Apartments" subportfolio, which accounts for 28.9 % of the overall portfolio, we take the reletting of units as an opportunity to make extensive investments in apartment fittings, for example, by modernizing bathrooms or installing new floors and electrical installations that are in line with the latest standards. This means that the properties can meet our customers' current demand for modern residential standards, including the demand for senior-friendly fittings, for example.

The **"Non-Strategic"** portfolio accounts for 1.0 % of the overall portfolio. It contains locations and properties that were identified in the latest extensive review of the overall portfolio as not being absolutely essential for further strategic development. The portfolio includes, on the one hand, locations that are likely to have below-average development potential in terms of rent growth in the medium term and, on the other, locations in areas that can be described as peripheral compared with the overall portfolio and in view of future acquisitions, meaning that they do not represent strategic regions. Properties in the "Non-Strategic" portfolio are reviewed on a regular basis and offer further sale potential.

The **"Privatize & Non-Core"** portfolio comprises the "Privatize" and "Non-Core" subportfolios.

In the "Privatize" subportfolio, which accounts for 5.9 % of the overall portfolio, our focus is on generating additional added value by privatizing owner-occupied apartments and single-family houses at a premium compared with their fair value.

In the "Non-Core" subportfolio, which accounts for 1.1 % of the overall portfolio, our focus is on selling properties in locations that offer below-average development potential in the medium to long term to private and institutional investors. Limited potential is defined, in particular, by below-average property condition combined with a microlocation that is of similarly below-average quality. This means that these properties are not suitable for successful management using Vonovia's standardized processes in the long run.

Extension Strategy

As part of our extension strategy, we are expanding our core business to include customer-oriented services. Thanks to our most recent acquisitions, we estimate that we have direct access to up to around 1,000,000 customers. We can offer our customers services that are closely related to and/or influence the rental business.

The extension strategy also includes **maintenance and modernization** services that make the units more attractive in general and help to boost customer satisfaction. Over the past few years, we have established our own **caretaker organization** and also our own **craftsmen's organization,** bundling all technical services for the Vonovia Group, to serve our customers. Within the **residential environment** area, we have also installed our own employees to provide support on site. This organization is responsible for looking after outdoor areas, playgrounds, vegetation and refuse collection points, particularly in conurbations.

Our systematic **insourcing** strategy allows us to ensure that our own employees are on-site in the various property locations allowing the Group to improve the quality of repair work, react more quickly to customer complaints and ultimately to increase customer satisfaction.

We want to create **new living space** in our portfolio in the future, also as part of our densification strategy. The first set of new construction projects, like the one on Insterburger Strasse in Bochum, have already been successfully completed and others are in the planning stage. These also include moves to add extra stories to existing buildings. New construction and vertical expansion projects are realized using a standardized series construction system with the help of pre-configured segments, making them much quicker to complete. Modular construction using pre-configured elements allows standardization and scaling at a low cost, while ensuring reliable project implementation at the same time. We want to implement our projects with our own qualified employees in the future, also in projects relating to **new construction and neighborhood development.**

Other Vonovia service initiatives include the **cable TV business** and the **smart metering business.** At the end of 2016, around 75 % of Vonovia's properties were already being supplied with cable TV signals by Vonovia's multimedia subsidiary. When it comes to recording and billing heating consumption, we are already billing the costs for around 30,000 units with the help of state-of-the-art technology via a wholly-owned subsidiary for our customers.

In addition to our established services, we are developing further products and services to respond to societal megatrends, for example in areas such as outpatient care, household services and energy services.

Acquisition Strategy

Our Group has been growing in recent years thanks to a large number of **acquisitions.** Our scalable operational management system allows us to generate economies of scale from the full and swift **integration** of newly acquired companies and portfolios. Over the past few years, we have been able to prove, time and again, that this strategy pays off.

Making the most of this competitive advantage and using the expertise that has been built up within our organization over time, we are constantly analyzing portfolios that could constitute potential takeover targets. In accordance with our portfolio management strategy and our extension strategy, we do not consider acquisitions to be the only way in which to achieve growth, but rather see them as a fifth strategic lever that helps to strengthen the impact of the first four.

We pursue our acquisitions as and when opportunities present themselves. Acquisitions have to be expected to increase value before they are conducted. Such increases in value are generally assessed in terms of strategic suitability, increases in FFO 1 and a neutral impact on the NAV per share. Furthermore, an acquisition must not pose any risk to the company's stable 'BBB+' long-term corporate credit rating.

We identified around 136,000 units in 2016. Out of these units, we

(i) analyzed around 71,000, or 52 %, more closely,

(ii) performed, or are still in the process of performing, a due diligence assessment for around 69,000 or 51 % and

(iii) submitted bids for around 37,000 or 27 %.

This process resulted in us acquiring around 25,000 apartments, or 18 %. The successful offer made to the shareholders of conwert Immobilien Invest SE, with a portfolio of around 24,500 apartments, clearly stands out in this context.

Customer Service

Customer Satisfaction as a Priority

In addition to the financial performance indicators, customer satisfaction is especially relevant for Vonovia as a non-financial performance factor. Our company's economic success and, in particular, the success of our extension strategy are directly linked to the satisfaction level of our customers. We compare our service orientation and customer focus with the level of service provided by our competitors, and not only our competitors from within the industry. Rather, we also take industries such as telecommunications or internet trading as a benchmark, making the necessary adjustments to reflect our product promise. In emergencies, for example, our tenants can reach us 24 hours a day, 365 days a year. We extended the hours during which we are available to answer all additional tenant questions in 2016 and are now open from 7 a.m. until 8 p.m. from Monday to Friday, and from 8 a.m. until 4 p.m. on Saturdays.

We have been conducting a **customer satisfaction survey** once a quarter since 2012. This survey looks at general customer satisfaction aspects, such as image, loyalty and overall satisfaction, as well as issues relating to customer service, maintenance and conversion work. With the help of this survey, we report our Customer Satisfaction Index (CSI) and Customer Commitment Index (CCI), which allow us to gain important insights into the perceived satisfaction of our customers in statistical terms and their loyalty to the company. Since we started measuring these indices, both the CSI and the CCI have improved continuously.

In addition to the regular surveys, we conduct event-based interviews with our customers on an ongoing basis for the purposes of internal quality assurance. During these interviews, we ask customers to describe how satisfied they are with the manner in which Vonovia handled their last issue. We are also conducting a written survey among regional customer groups as part of a pilot project to allow us to identify even more specific measures for our regions and the efficient use of resources in specific neighborhoods, streets or units.

The surveys cover all of the key stages in the customer relationship: From their first contact with us expressing interest in an apartment to ongoing contact regarding repair reports and their perception of the company as a whole all the way to the experience of terminating their contract. We want to find out what our customers think of us as a company and what they think of our services. This feedback forms the basis for the ongoing, sustainable optimization of our internal processes and further communication with customers.

The company attaches a great deal of importance to customer satisfaction, which is why the survey results have an impact on the variable remuneration of selected Vonovia employees. This link underscores the close relationship between customer and staff satisfaction, which, from the company's viewpoint, are mutually dependent.

Customer Support Aimed at On-Site Service

Vonovia considers the management and rental of homes to be a local business that requires in-depth knowledge of the specific local market conditions, the company's own properties and customer needs. Local customer service is provided by the Group's local business units. The close interaction of the departments providing local customer service – New Rentals, Property Management, Technology and Caretaking – permits high flexibility and fast response times in the on-site handling of customers' inquiries. In order to become less reliant on external service providers, Vonovia has incorporated on-site services into its offering by establishing its own caretaker organization. This brings Vonovia closer to its customers and improves the quality of its customer service.

Our concept based on the on-site presence of our own caretaker and craftsmen's organization was extended to include the integration of gardening and landscaping employees (residential environment) and ongoing measures to expand our capacities in this area. Our gardeners now complete the network of Vonovia employees who are available for tenants on location. Thanks to integrated collaboration with Vonovia's caretakers, the Vonovia gardeners are in a better position to judge what is required on-site to maintain the residential environment to the tenants' satisfaction and also to efficiently and qualitatively develop it in the long term.

Rental points are operated at an organizational level via the business units as a point of contact for customers interested in new rentals on-site. They play a key role in the reletting of units and can be opened and closed in a flexible manner in response to changes in the demand for local marketing.

Comprehensive Availability of the Central Customer Service Team

Although Vonovia provides its services at local level in principle, it has centralized all tasks that can be provided based on uniform quality standards and in a more cost-efficient manner at a nationwide level. The Group's property management platform is characterized overall by a high degree of automation and full integration.

The customer service team comprises almost 1,000 employees and serves Vonovia customers across Germany from two customer service departments that are redundant in terms of both the infrastructure used and the content of the work they perform. It is tailored to suit the needs of individual customers and support is also offered in English and Turkish, for example. The central customer service department operates across two locations in Duisburg and Dresden and can be reached using a regional service hotline as well as by email, fax or post. The customer service team acts as a central unit that is responsible for processing all matters relating to rent agreements, energy consumption and ancillary expense bills, to name but a few. This process is managed according to defined service levels in order to ensure that customers receive a swift and binding response to their inquiries.

Tenants can also use the online customer service platform. Since 2011, this platform has enabled them to access their contractual details and additional functions 24 hours a day. Our customer service team resolves around 85 % of all incoming telephone inquiries directly. The customer service team has an emergency hotline that is permanently available, 7 days a week, 24 hours a day, to deal specifically with urgent tenant emergencies.

The repair center is responsible for scheduling the tenant visits to be made by the local craftsperson. This is done in close cooperation with the nationwide technical units of the on-site technicians' organization.

Most recently in 2015, the quality of **ancillary expense and service charge bills** was again attested by ISO 9001:2008 certification by TÜV Rheinland. The certification verifies the efficiency of our processes as well as the high quality of our ancillary expense and service charge bills.

The systematic incorporation of ancillary expense-related matters into the remit of the customer service department also allowed the number of customer complaints to be reduced further last year. At the same time, we have been able to further improve tenants' understanding of the ancillary expense bills by communicating with tenants' associations and other institutions in a transparent manner.

Housing-Related Services/Extension

2016 was characterized by the expansion of **Vonovia Mess Service GmbH (VMSG).** This company bundles all activities relating to the Group's own meter reading service and the provision of energy services.

VMSG successfully expanded the number of properties it is responsible for in 2016. At the end of the year, automated meter reading (smart metering) was being used for 30,000 apartments. This also includes the performance of ancillary expense settlement services. The company is to continue to grow in this area in the years to come, too. Tenants benefit from automated remote meter reading, rendering the need for them to be at home on "meter-reading day" obsolete. The remote testing of the meter devices at periodic intervals allows device faults to be picked up on early on, meaning that consumption estimates are becoming increasingly superfluous.

We are tapping into further potential by investing in decentralized **power generation.** Our own photovoltaic facilities have generated more than 2,300 MWh of electricity. Our 29 decentralized cogeneration units allowed us to generate more than 170,000 kWh of electricity – the heat generated in the process is used to heat the drinking water within the building. We believe that this area offers further growth potential as well. Our additional efforts aim to allow our tenants to participate even more directly in the energy transition, ideally in the form of electricity which has been generated locally.

One service that is already well-established is Vonovia's **cable TV business.** This business area was launched at the end of 2011, when a strategic partnership was entered into with Deutsche Telekom. Further partnerships with other cable network operators followed and today, Vonovia's multimedia subsidiary already supplies more than 75 % of Vonovia's properties with TV signals and high-bandwidth telecommunications connections offering Internet bandwidths of 50 Mbit/s and more. We plan to expand our existing cooperation with Deutsche Telekom to include further service offerings.

We are also expanding the level of support we provide to our older tenants within the Extension segment: In particular, **senior-friendly apartment conversions** and bathroom design based on our tenants' wishes respond to the needs of our tenants. We are currently also collaborating with another provider on a pilot project trialling a mobile home emergency system in one particular region.

In addition, we are currently running a pilot project on **ambient assisted living systems,** which we expect to result in a significant increase in quality of life and safety for our older tenants. Among other things, we are also involved in a number of research projects on "decentralized SmartHome" systems. We are also analyzing the market for outpatient care and household services. Specific models for the implementation of a high-quality service offering for Vonovia's older tenants are already in the planning stages.

The issue of **"burglary protection"** is relevant for many tenants. We are counteracting an increase in burglaries by allowing our customers to request that the security features of critical windows and doors be structurally reinforced. These modernization measures are being coordinated with the State Criminal Police Agency of North Rhine-Westphalia.

Vonovia has established its own efficient **craftsmen's organization,** which assumes responsibility for almost all repair and maintenance work for those companies in the Vonovia Group with real estate holdings. This craftsmen's organization also realizes a large part of the Upgrade Buildings and Upgrade Apartments programs independently, or coordinates the use of subcontractors.

Vonovia also ensures compliance with the environmental, health and safety (EHS) regulations by scheduling regular safety inspections that are performed in all units. The specialized department plans the implementation of corrective measures without delay as and when required and monitors amendments to EHS legislation.

As well as saving costs, the purpose of Vonovia's own craftsmen's organization is to ensure that the customer service that the Group offers adheres to uniform quality standards and increases these standards on an ongoing basis, as well as to exploit the procurement advantages resulting from bundling and standardization. The fact that the Group is able to influence quality and scheduling directly also helps to improve customer satisfaction.

In the 2016 fiscal year, the craftsmen's organization performed around 679,000 (2015: 449,000) smaller repairs and renovated around 40,000 (2015: 14,300) vacant units. As of December 31, 2016, the craftsmen's organization as a whole had a workforce of 3,765 employees (2015: 2,568), with 2,989 craftsmen (2015: 1,625) working in 18 locations (2015: 16) across Germany.

Measures were taken to expand our insourcing efforts relating to the residential environment in the form of the **gardening and landscaping service,** particularly in conurbations, in 2016. More than 400 employees are now responsible for managing the outdoor areas. The plan is to expand this service further, particularly as far as maintenance is concerned. The standardization of residential environment modules such as playgrounds and refuse collection points serves to boost efficiency and generate additional cost advantages. In addition to the higher quality of the services provided, cost savings can also be achieved in this area by bundling and standardizing procurement processes (consumer materials, playgrounds, etc.).

Via its wholly-owned subsidiary Vonovia Immobilien-Treuhand GmbH (VIT), Vonovia offers **condominium administration services** for homeowners' associations. The subsidiary operates in 22 office locations across Germany, split into six regional teams. As of December 31, 2016, VIT supported 2,240 homeowners' associations (2015: 1,250) accounting for 72,247 residential and commercial units (2015: 41,051), 17,208 units (2015: 13,191) of which belonged to Vonovia, and also managed 55,039 units for third parties (2015: 27,860).

VIT is one of Germany's biggest property managers. It now also works for external homeowners' associations in order to manage communal property in line with the German Condominium Act (Wohnungseigentumsgesetz) and offers full property management services for self-contained properties. In addition to these services, Vonovia offers its customers access to nationwide framework agreements with craftsmen and other service providers at special conditions. VIT also offers services relating to technical building evaluation for external owners.

Maintenance/Modernization/Neighborhood Development/New Construction

The quality of our portfolio plays a particularly large role in achieving the economic goal of "increasing our company's value." Accordingly, we deal with it intensively in our daily business. Portfolio quality has two facets for us: First, it is important that our properties are in good structural condition; and second, we want to promote the income and value of our portfolio through new construction and holistic neighborhood development projects, as well as acquisitions and sales.

We use modernization and maintenance measures to make ongoing investments in our portfolio. As a leading residential real estate company, we have considerable opportunities open to us when it comes to using standardized procedures and materials to achieve economies of scale in our investment activities. Wherever it is appropriate and technically feasible, we try to use standard products for our maintenance and modernization measures. The volumes we can generate as a result enable us to agree on special conditions with our suppliers, allowing us to either receive higher-quality goods for the same price, or to purchase the material to be used at a lower price. The fact that the construction work is executed exclusively by our technical service also allows us (thanks to the large number of recurring orders) to shape the service processes in such a way that the necessary measures can be performed with shorter construction times and optimum resource use. This saves additional costs or increases revenue because apartments can be relet more quickly.

Modernization and Maintenance

We continued to pursue our goal of steadily improving the quality of our housing stocks and neighborhoods in 2016 as well. Expenses for maintenance totaled € 247.4 million in the 2016 fiscal year and were therefore up by 2 % on the previous year's figure of € 242.2 million. We increased our value-enhancing modernization program by more than 33 % in the 2016 fiscal year, from € 355.6 million in 2015 to € 472.3 million in 2016. This means that, including capitalized maintenance of € 72.7 million, we invested a total volume of € 792.4 million (2015: € 686.3 million) in modernization and maintenance work on our properties in the 2016 fiscal year.

Expenditure on maintenance and modernization amounted to € 36.18/m² in 2016, up by around 10 % on the prior-year value of € 33.04/m². This is largely due to the clear increase in the modernization volume.

Vonovia will continue to roll out the investment program. In November, the company decided on an investment program in the amount of around € 1 billion for 2017 (investment spending in 2017 of between € 700 million and € 730 million). These measures will focus on improvements to existing building stock, new construction measures and moves to add extra stories to existing buildings.

in € million	2016	2015
Expenses for maintenance	247.4	242.2
Capitalized maintenance	72.7	88.5
Modernization work	472.3	355.6
Total cost of modernization and maintenance*	**792.4**	**686.3**

* Incl. intra-Group profits for 2016: € 45.5 million (thereof € 1.1 million capitalized maintenance, thereof € 8.7 million modernization); 2015: € 31.0 million (thereof € 1.0 million capitalized maintenance, thereof € 3.8 million modernization), new construction in 2016: € 13.9 million (2015: € 1.5 million).

Through **maintenance,** we preserve and take care of our building stock. We include the corresponding expenses under routine and partially long-term planned economic expenses. Continuity helps to prevent order peaks and to distribute capacities evenly.

Modernization measures are long-term and sustainable value-enhancing investments in housing and building stocks. Energy-efficient modernization generally involves improvements to the building shell and communal areas as well as the heat and electricity supply systems. Upgrade Apartments measures involve upgrading facilities within a self-contained living area. Where required, the floor plans are altered to meet changed housing needs.

As part of the energy-efficient modernization measures in the "Upgrade Buildings" subportfolio, we heat-insulated facades, basement ceilings and attics for a living area of over 570,000 m². The catalog of measures also included the optimization and renewal of heating systems – benefiting around 10,000 apartments. All these measures reduce energy consumption which, in turn, cuts CO_2 emissions. The lower energy consumption not only benefits the environment but also our tenants in the form of lower heating costs. In addition, our customers profit from the improved standard of comfort of our properties.

Investments in the "Upgrade Apartments" subportfolio relate to measures designed to improve the standard of comfort of our properties, a process that often also involves senior-friendly conversion work. As a result, we implemented modernization measures accounting for a volume of around € 130 million in this subportfolio in 2016. More than 9,500 apartments were completed in 2016. If technically feasible, conversions were carried out according to the standards of the KfW program 159 "Senior-Friendly Conversions."

We make decisions about portfolio investments for both operating and strategic reasons. In any event, these investments support Vonovia's objectives – not least as far as customer satisfaction is concerned. The investments cover the entire stock in the corresponding subportfolios and the whole of Germany.

The table below shows the volume of our modernization measures in recent years:

Program year	Investment volume (in € million)	Units (No.)	Yield (in %)
Ø 2010–2013	49	3,257	6.9
2014	163	12,934	7.5
2015	343	17,690	7.8
2016 (Forecast)	483	28,900	7.2

- "Program year" is generally defined as the calendar year in which construction work on the respective measure started.
- "Investment volume" includes all costs of the measures performed excluding internal personnel costs incurred, e.g. for program coordination or for the site managers employed in the Group.
- "Yield" is the static net initial yield and is calculated for the "Upgrade Buildings" sector from the change in the property management income (i.e., changes in the rent and level of vacancy) in relation to the external planning and construction costs of the measure. The time of measurement is December of the calendar year following the program year; in the "Upgrade Apartments" sector, the difference between the last rent before the refurbishment and the reletting rent achieved after refurbishment is completed is compared with construction costs of the project. The time of measurement is, in this case, the middle of the calendar year following the program year.
- The "forecast" nature of the figures for the 2016 program year is due to the fact that success is not measured until the middle or the end of the calendar year following the program year and is therefore not finally determined until mid-2017 (Upgrade Apartments) or the end of 2017 (Upgrade Buildings).
- The difference between the € 483 million forecast for 2016 shown here and the € 472 million shown in the Report on Economic Position is due in part to the different approach (program year vs. fiscal year). It is also due to the fact that, in the Report on Economic Position, small-scale measures that do not form part of the centrally managed Group investment program are shown and also classed as modernization measures in accordance with the accounting standards.

As far as its technical measures are concerned, Vonovia endeavors not only to adhere to the latest technical standards and the applicable requirements at all times, but also to anticipate future developments. Within this context, Vonovia is involved, by way of example, in the new nationwide "Alliance for Climate-Neutral Housing" (Allianz für klimaneutralen Wohnungsbestand), which brings together companies and institutions from the real estate sector, industry and research. The members of the Alliance are convinced that the key to affordable environmental protection in residential buildings lies in increasing the efficiency of building heating supplies. They believe that, as well as renovating the building shell, the technical building infrastructure, in particular, has to be improved by taking measures with a high cost-benefit effect. In the biggest academic study conducted on this topic to date, various technologies are being analyzed in more than 500 multifamily residences to investigate their effects in terms of generating savings. The research results are intended to show which measures result in particularly substantial savings in relation to the required investment.

We are not only addressing general trends, but are also implementing measures derived from the needs of our customers. An entirely new approach for our industry is that our customers can initiate modernization measures on their own – at a fair fixed price in the form of a monthly rent surcharge. In 2014, following a successful pilot phase, a bathroom modernization program for occupied properties was launched as the first major project. We offer our customers three comfort options as part of this program. Thanks to the high degree of standardization, the installation time amounts to one week at the most. In 2016, over 700 bathroom modernization projects were implemented at our customers' request. Due to the popularity of the program, the range of "tenant request" products was expanded in 2016 to include fitted kitchens and apartment security.

New Construction

Creating affordable living space in central locations is the most pressing challenge facing the real estate industry in Germany. Vonovia is creating this new affordable living space.

As far as its **new construction activities** are concerned, Vonovia makes a distinction between undeveloped and developed land. On developed land, we create new living space by adding **extra stories to existing buildings.** On undeveloped land, we create new living space by constructing new buildings. What both of these measures have in common is that we always focus on series production based on modular construction.

The company has completed its first series-built residential unit with a modular construction in Bochum in 2016. Fourteen new, turnkey apartments were completed following a construction period of just three months. The term "modular" means that the three-story building was erected at the construction site using standardized elements that were directly transported there. As a result, the construction period was shortened, thus reducing disruption to residents in particular. We attach great importance to a good neighborhood spirit and try to also consider the needs of local residents during the construction phase. In times characterized by a shortage of apartments, the demand for affordable living space is on the rise, particularly in major cities. The growing popularity of construction using prefabricated components also offers an opportunity for tackling urban development challenges. Standardized construction allows both the costs of new residential construction and the construction period to be reduced considerably. This allows real estate companies like Vonovia to create new living space more quickly. What is more, the costs are not only lower – they are also easier to calculate than with other forms of construction. The main advantage is that this more efficient construction method allows the new apartments to be offered at affordable rents as a result.

The initial experience gleaned in 2016 will prove fundamental for the significant expansion of the new construction volume over the next few years. By the time we have reached the final expansion stage, we plan to be creating more than 1,000 new apartments every year in the future.

Neighborhood Development

We understand "neighborhood development" as a holistic approach to developing entire areas of towns or cities. Contiguous groups of buildings and their environment are seen as an inseparable unit. Neighborhood development measures are implemented taking both financial and social criteria into account. A conscious decision has been made to focus on a neighborhood's long-term development.

The investment measures aimed at maintenance, modernization and new construction described above are being expanded to include other measures. These measures relate to infrastructure improvements for any demolition measures that have to be taken, the realization of holistic energy concepts and urban development issues. "Soft" factors are also very important when it comes to implementing neighborhood development measures. Identifying the right combination of all of these tools allows us to consider to the diverse array of stakeholder interests. We often have to take conflicting interests into account. These also include, not least, the interests of public-sector stakeholder groups. The active involvement of residents and the cooperation initiatives with federal states and municipalities are designed to help identify solutions to create livable neighborhoods in the future. Holistic neighborhood development always has an impact on urban planning development as well, not only because the existing infrastructure is improved. These measures often strengthen the provision of local basic services as well. Taken together, all of these measures have an impact today and in the future, which is why it is absolutely crucial for the measures to focus on the needs of the specific target group.

In 2016, Vonovia invested a total of around € 120 million in new initiatives, which also include neighborhood development and new construction projects.

Portfolio

The residential portfolio that Vonovia manages accounts for approximately 83 % of the Group's assets in terms of fair value.

As of December 31, 2016, the Group had a real estate portfolio across Germany comprising 333,381 residential units, 85,421 garages and parking spaces and 3,405 commercial units. Our locations span around 660 cities, towns and municipalities. 58,969 units are also managed for other owners. Most of the properties in the Group's portfolio constitute multifamily residences.

The Group's real estate portfolio covered 20,781,489 m² of living area in total as of December 31, 2016, with the average apartment size coming in at approximately 62 m². The average unit consists of two or three rooms, a kitchen and a bathroom.

The vacancy rate came to 2.4 % on December 31, 2016, and Vonovia generated average monthly in-place rent of € 6.02 per m². The annualized in-place rent came to € 1,464.9 million for apartments, € 43.5 million for commercial units and € 26.5 million for garages and parking spaces.

Changes in the Portfolio

At the beginning of the 2016 fiscal year, one portfolio, comprising 2,417 apartments predominately located in Baden-Württemberg, was incorporated into our portfolio.

The GRAINGER acquisition portfolio was as follows at the time of the takeover:

				In-place rent	
GRAINGER	Units	Living area (in thou. m²)	Vacancy rate (in %)	(p.a. in € million)	(€/m²/month)
Acquisition portfolio	2,417	152	4.9	12.3	7.06

In the course of 2016, properties in the Non-Core and Non-Strategic portfolios were sold as part of several partial sales during the implementation of the portfolio management strategy.

At the time of the sale, the statistics for the portfolios sold were as follows:

				In-place rent	
Package sales	Units	Living area (in thou. m²)	Vacancy rate (%)	(p.a. € million)	(in €/m²/month)
Sales portfolios 2016	19,716	1,228	6.4	65.9	4.80

Portfolio Structure

In addition to the acquisition and sale of larger housing stocks, Vonovia's portfolio changed in 2016 as a result of additions arising from tactical acquisitions and attic extensions on the one hand, and disposals of owner-occupied apartments from our Privatize portfolio and the sale of multifamily residences from the Non-Core and Non-Strategic portfolio on the other.

Furthermore, our regular portfolio reviews due to strategic reassessments resulted in certain housing stocks being reallocated within the overall portfolio.

Following the implementation of the annual structured reassessment of all potential, as of December 31, 2016, Vonovia's residential portfolio is as follows:

				Residential In-place rent			
as at Dec. 31, 2016	Units	Living area (in thou. m²)	Vacancy rate (in %)	(p.a. in € million)	(in €/m²)	Change like-for-like (in %)*	Fair value (in €/m²)
Strategic	302,710	18,749	2.1	1,338.4	6.07	+ 3.4	1,290
Operate	88,359	5,475	2.2	403.9	6.28	+ 3.1	1,281
Upgrade Buildings	125,016	7,581	2.2	523.7	5.89	+ 3.8	1,236
Optimize Apartments	89,335	5,692	1.8	410.9	6.12	+ 3.3	1,370
Privatize	17,195	1,180	4.2	81.0	5.97	+ 2.3	1.323
Non-Strategic	7,480	455	7.3	23.8	4.70	+ 1.9	576
Non-Core	5,996	397	7.1	21.7	4.96	+ 1.8	685
Total	**333,381**	**20,781**	**2.4**	**1,464.9**	**6.02**	**+ 3.3**	**1,264**

* The underlying portfolio has a fair value of € 25,650.2 million.

In order to boost transparency among the portfolios, we showed our extended portfolio in **15 regional markets** for the first time in our reporting on the third quarter of 2016. This presentation allows us to provide a better regional overview of our portfolio. We have also supplemented the key figures we have reported to date to include “rental development”. This provides a comprehensive picture of our portfolio.

The regional market classification is orientated toward the residential real estate market regions in Germany. These markets are core towns/cities and their surrounding **metropolitan areas** that are largely similar in terms of the supply of real estate and the real estate market, both at present and in the forecasts. They are also the markets that especially benefit from domestic migration. This definition of the real estate market regions is based on the definition developed by the German Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR). Where local real estate markets show overlaps, we have grouped them together.

Our decision to focus on the selected 15 regional markets that are particularly relevant to Vonovia is our way of looking ahead to the future. This approach provides an overview of our strategic core portfolio. The regional market breakdown does not include our housing stocks from the Non-Core and Non-Strategic subportfolios, or stocks for privatization in locations that do not include any strategic stocks.

In relation to the fair value, 91 % of our total portfolio is located in 15 regional markets. Only a small part of our strategic stock is located outside of the metropolitan regional markets that we have defined. We have referred to this group as “Other strategic locations” (7 % of the total fair value).

Breakdown of Strategic Housing Stock by Regional Market

Regional market	Fair value (in € million)	Fair value (in €/m²)	Multiple (in-place rent)	Residential units	Living area (in thou. m²)
Berlin	3,448.3	1,640	22.6	32,454	2,034
Rhine Main Area (Frankfurt, Darmstadt, Wiesbaden)	3,099.8	1,695	19.0	28,203	1,799
Rhineland (Cologne, Düsseldorf, Bonn)	2,847.4	1,437	18.2	28,669	1,928
Dresden	2,438.6	1,070	16.4	37,983	2,155
Southern Ruhr Area (Dortmund, Essen, Bochum)	2,370.7	889	13.8	42,834	2,606
Hamburg	1,733.2	1,595	20.0	16,644	1,054
Munich	1,651.9	2,497	26.8	9,773	643
Stuttgart	1,584.7	1,701	19.3	14,303	901
Northern Ruhr Area (Duisburg, Gelsenkirchen)	1,290.8	758	12.4	27,097	1,680
Hanover	1,027.1	1,167	16.6	13,668	866
Kiel	861.2	1,020	15.4	13,989	813
Bremen	761.6	1,070	17.1	11,339	691
Westphalia (Münster, Osnabrück)	588.9	929	14.5	9,652	625
Freiburg	493.3	1,759	21.6	4,063	278
Leipzig	260.7	1,010	15.3	4,089	255
Other strategic locations	1,882.5	1,243	17.1	23,514	1,490
Total strategic locations	**26,340.7**	**1,293**	**17.8**	**318,274**	**19,817**

A look at the six largest regional markets, from Berlin to the Rhineland, the Rhine-Main region, the southern Ruhr area, Dresden and Stuttgart, already shows our balanced presence in strong markets across Germany.

In addition to these focal points, we also have properties primarily in very prospering regions, such as Hamburg, Munich and Freiburg.

Both the increase in in-place rents and the development in new contract rents show that we are able to generate above-average growth rates across Germany, without being reliant on the conditions in individual growth markets.

The foundation for this success lies in our business model, which focuses not only on professional property management but also on successfully leveraging all of the investment potential available: We have been modernizing our buildings and apartments for years now – and this approach is paying off.

	In-place rent				
Vacancy (in %)	Total (p.a. in € million)	Residential (p.a. in € million)	Residential (in €/m²)	Change like-for-like (in %)	Average rent growth forecast CBRE (5 yrs)
1.5	152	145	6.02	3.2	3.1
2.2	163	157	7.42	3.7	3.3
2.6	157	149	6.60	4.0	2.9
1.8	149	139	5.47	3.7	3.2
2.7	172	165	5.43	3.5	1.9
1.8	87	82	6.55	3.5	3.1
0.7	62	57	7.50	3.8	4.6
1.7	82	78	7.36	2.2	2.9
3.2	104	101	5.18	3.5	1.8
2.3	62	60	5.88	2.8	2.9
1.3	56	53	5.49	2.4	2.3
3.1	45	42	5.27	3.7	3.1
2.3	41	39	5.38	3.7	2.6
1.0	23	22	6.72	3.0	3.8
2.6	17	17	5.61	1.4	2.4
2.3	110	106	6.10	3.5	3.1
2.2	**1.480**	**1.412**	**6.07**	**3.4**	**2.9**

Management System

Management Model

Our management system is based on our corporate strategy, which continued to apply unchanged in the 2016 fiscal year. Details can be found in the Targets and Strategy chapter above. As part of the management of the company, we make a distinction between three segments: Rental, Extension and Sales.

Our **Rental segment** bundles all of our core business activities that are aimed at the value-enhancing management of our properties. These activities focus on our customers, whom we want to provide with affordable homes to meet their needs. Our business activities center on increasing the value of the company using a strategy of sustainability and profitability.

The **Extension segment** combines all of the business activities relating to the expansion of our core business to include additional customer-oriented services, e.g., services that are closely related to and/or influence the rental business. The segment comprises the following activities in detail:

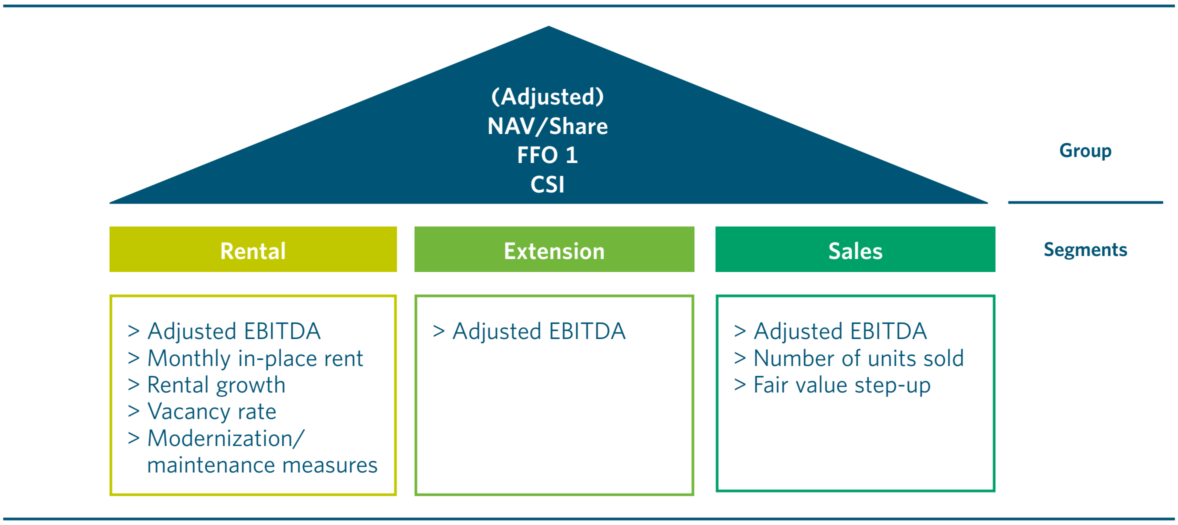
> Our own craftsmen's organization
> Our organization for the upkeep and maintenance of the residential environment in which our properties are located
> The provision of cable TV services to our tenants
> Condominium administration for our own apartments and for third parties
> The management of units for other owners
> Metering services for measuring the consumption of water and heating
> Insurance services for our own apartments and for third parties

The **Sales segment** is derived from the active management of our portfolio and bundles all real estate sales from our portfolio. This includes the individual sale of apartments from the Privatize subportfolio and the sale of entire buildings or pieces of land from the Non-Strategic and Non-Core subportfolios; combined, we report these as Non-Core sales.

Performance Indicators

Our management system has a modular structure and makes a distinction between performance indicators at Group level (most meaningful performance indicators within the meaning of DRS 20) and those at segment level.

In order to ensure that our business activities are focused on growing the value of the company in the long term, we have an integrated Group planning and controlling system in place that is based on central performance indicators. Based on the medium-term plans derived from our strategy, which are subject to an annual review and are updated during the year in the event of significant transactions, we prepare a budget for all areas of the Group. In the course of the fiscal year, current business developments are



compared with these targets and the current forecasts on a regular basis for all key figures that are relevant to control. The business is then steered accordingly in a targeted manner, with any necessary counter-measures being initiated and tracked.

We make a distinction between **financial** and **non-financial performance indicators.**

Financial Performance Indicators

At the level of the Group as a whole, our activities focus on boosting the value of the company. Growth from operating activities, modernization services and the value of our property assets are factors that are decisive for the further development of our company and that are reflected in the **net asset value (NAV)** – a standard parameter in our sector. Our NAV calculations are based on the best practice recommendations of the EPRA (European Public Real Estate Association). The adjusted NAV per share, after corrections for goodwill, is the relevant performance indicator.

Calculation of Adjusted NAV

	Equity attributable to Vonovia's shareholders
(+)	Deferred taxes on investment properties and assets held for sale
(+/-)	Fair value of derivative financial instruments
(-/+)	Deferred taxes on derivative financial instruments
=	EPRA NAV
(-)	Goodwill
=	**Adjusted NAV**

The main standard key figure in the sector is **Funds from Operations 1 (FFO 1)** for managing the sustained operational earnings power of our business. This can be derived from the profit or loss for the period.

Calculation of FFO 1

	Profit for the period
(+)	Financial result
(+)	Income taxes
(+)	Depreciation and amortization
(-)	Net income from fair value adjustments of investment properties
=	EBITDA IFRS
(+)	Non-recurring items
(+/-)	Period adjustments from assets held for sale
(-)	Financial income from investments in other real estate companies
=	Adjusted EBITDA
(-)	Adjusted EBITDA Sales
=	Adjusted EBITDA Operations
(-)	FFO interest expense
(-)	FFO 1 current income taxes
=	**FFO 1 (Funds from Operations 1)**

Based on the profit or loss for the period, we can calculate the **EBITDA IFRS,** i.e., earnings before interest, taxes, depreciation and amortization with the additional elimination of income from fair value adjustments of investment properties.

Adjusted EBITDA is calculated by adjusting for effects that do not relate to the period, recur irregularly or are atypical for business operation, period adjustments from assets held for sale and financial income from investments in other real estate companies. This can be broken down into the segment results: **adjusted EBITDA Rental, adjusted EBITDA Extension** and consolidation effects that are combined in **adjusted EBITDA Other,** as well as **adjusted EBITDA Sales.**

The **adjusted EBITDA Rental** reflects the operating profit from residential property management. It can be broken down into three central components: rental income from property management, expenses for maintenance and operating expenses from property management. The latter include all costs that do not comprise maintenance.

Calculation of Adjusted EBITDA Rental

	Rental income from property management
(-)	Expenses for maintenance
(-)	Operating expenses from property management
=	**Adjusted EBITDA Rental**

In addition to the expenses for **maintenance,** we make **large-scale investments** in our real estate portfolios, with a distinction being made between **capitalized maintenance** and **value-enhancing investment** in modernization measures. The total amount of all **maintenance and modernization measures** includes the services performed by the Group's own craftsmen's organization, valued at the market price, and any third-party services that have been purchased. This figure shows the value of all value-maintaining and value-enhancing measures for our properties.

The Extension segment encompasses all of the business activities relating to the expansion of our core business to include customer-oriented services, e.g., services that are closely related to and/or influence the rental business. We manage these business activities using the **adjusted EBITDA Extension.**

Calculation of Adjusted EBITDA Extension

	Extension income
(-)	Operating expenses Extension
=	**Adjusted EBITDA Extension**

The total of the adjusted EBITDA Rental, Extension and Other, in which consolidation effects between these segments are combined, reflects the result of our entire operating core business and produces the **adjusted EBITDA Operations.**

As financing is a fundamental component for the success of our business activities, we deduct the current interest expense excluding non-recurring items **(FFO interest expense)** and also the current cash-effective income taxes incurred on the corresponding amounts from the total of these indicators of our operating result to calculate the **FFO 1** as the key figure for the sustained earnings power of our business.

If we deduct capitalized maintenance from FFO 1, we arrive at the **AFFO.** This number reflects our sustained earnings power after deducting all necessary investments in our properties.

We always refer both metrics, adjusted NAV and FFO 1, to the number of shares in order to make the sustainable earnings and the company value per share transparent.

In addition to the management of our residential real estate portfolio and the services that are closely related to our rental business, another business segment relates to sales. We measure the success of our sales activities using **adjusted EBITDA Sales.**

Calculation of Adjusted EBITDA Sales

	Income from disposal of properties
(-)	Carrying amount of assets sold
(+)	Revaluation of assets held for sale
=	**Profit on disposal of properties (IFRS)**
(-)	Revaluation (realized) of assets held for sale
(+)	Revaluation from disposal of assets held for sale
=	**Adjusted profit from disposal of properties**
(-)	Selling costs
=	**Adjusted EBITDA Sales**

The adjusted EBITDA Sales compares the proceeds generated with the fair values of assets sold and also deducts the related costs of sale. In order to disclose profit and revenue in the period in which they are incurred and to report a sales margin, the fair value of properties sold, valued in accordance with IFRS, have to be adjusted to reflect realized/unrealized changes in value.

Adding adjusted EBITDA Sales to FFO 1, while also taking current income taxes relating to the Sales segment into account, produces FFO 2. This means that **FFO 2** shows the operating income generated from all of our business activities in the period in question.

As a non-operational key financial figure, the **loan-to-value ratio (LTV ratio)** is used for monitoring the degree to which debt is covered by the value of the properties. This key figure helps to ensure a sustainable ratio of borrowings to fair values.

All of the key financial figures shown here are so-called **non-GAAP measures,** i.e., key figures which cannot be taken directly from the figures in the consolidated financial statements according to the IFRS standards. The financial performance indicators can, however, all be reconciled to the closest-possible key figure in the consolidated financial statements.

Non-Financial Performance Indicators

We also focus on non-financial operating performance indicators as drivers for our key financial figures.

We focus on our customers and offer them affordable homes that meet their needs together with housing-related services and reliable customer support. Consequently, the third main key figure alongside FFO 1 and adjusted NAV is the **Customer Satisfaction Index (CSI).** It is determined at regular intervals in systematic customer surveys conducted by an external service provider and shows the effectiveness and sustainability of our services for the customer. Our company's economic success and, in particular, the success of our extension strategy are directly linked to the satisfaction level of our customers. We are aware of this fact and implement a wide variety of measures to improve our services in the interest of our tenants.

We have been conducting the customer satisfaction survey on a quarterly basis since 2012. This survey looks at general customer satisfaction aspects, such as image, loyalty and overall satisfaction, as well as issues relating to customer service, maintenance and conversion work. With the help of this survey, we report our CSI and Customer Commitment Index (CCI), which allow us to gain important insights into the perceived satisfaction of our customers in statistical terms and their loyalty to the company. In this respect, the results of the customer satisfaction surveys serve as a key indicator that helps to identify potential for improvement and focuses intently on our tenants' needs.

The company attaches a great deal of importance to **customer satisfaction,** which is why the survey results have an impact on the variable remuneration of selected Vonovia employees. This link underscores the close relationship between customer and staff satisfaction, which, from Vonovia's viewpoint, are mutually dependent.

The **vacancy rate** shows the proportion of units in our own housing stocks that are not rented and therefore generate no rental income. It can serve as an early-warning indicator, e.g. to identify non-marketable apartments.

The monthly **in-place rent per square meter** gives information on the average rental income from the rented properties. In particular, over the course of time, the average rent increase achieved in the rented properties can be derived from this figure.

The **vacancy rate** and the **average rent** are key drivers for the development of our key figures related to the management of rental income. Together with the CSI they serve as essential early warning indicators.

The **total amount spent on maintenance and modernization measures** in relation to the total area covered by units we own and manage is a further operational figure for the management of the investments we make in our real estate portfolio. It serves as an indicator of the intensity of maintenance and modernization within our housing stocks.

The **number of units sold** in the Privatize portfolio and the Non-Core sales indicate the sales performance in the Sales segment. Non-Core sales come from both the "Non-Core" and "Non-Strategic" portfolios.

The **fair value step-up** represents the difference between the income from the sale of a unit and its fair value. It shows the percentage increase in value for the company on the sale of a unit before further costs of sale.

Non-Financial Performance Indicators

Employees

An HR Strategy Focusing on Performance and Responsibility

Vonovia's HR strategy is aligned with our mission statement and corporate strategy. The fundamental component of the HR strategy is to support the development and sustainable growth of the Group by placing the right people in the right positions. In order to achieve this, we focus first on external recruitment and second on identifying the options available to us internally, such as vocational training, further training and filling positions with in-house staff.

We value a strong focus on performance and development on the one hand, and pronounced social responsibility on the other. Creating conditions that help to promote employee loyalty play a key role in this regard, because our success rests to a decisive degree on the expertise, commitment and motivation of our employees.

Vonovia's workforce comes from around 30 different nations. This sort of diversity is a matter of course for us and is consistent with the diversity of our tenants.

In order to allow them to master both current and future professional challenges, we support our employees not just in their endeavors to obtain additional qualifications and pursue further training, but also in helping them to stay healthy and be able to achieve a good work-life balance.

Further Increase in Number of Employees

As an employer, the Vonovia Group had a total workforce of 7,437 employees as of December 31, 2016 (Dec. 31, 2015: 6,368 employees). The increase in the number of employees is largely due to the increase in the number of employees working for the craftsmen's and residential environment organization. A balanced staff structure is important to us. This means that we truly live and breathe diversity. We employ people from all age groups, various nationalities and cultures, both genders and with a whole range of different educational backgrounds. We also employ people with varying levels of disability.

Company Training: Filling Positions From Within the Company Itself

Training is a top priority within our company. We are proud of the fact that we are continuing to expand our commitment to vocational training on an ongoing basis and in a whole variety of areas. As of December 31, 2016, our company employed a total of 430 trainees (Dec. 31, 2015: 352) training in 17 occupations in 22 locations (150 commercial and 280 technical trainees).

During the reporting year, 68 commercial and 13 technical trainees had reached the first milestone in their careers by successfully completing their traineeship at Vonovia in the summer of 2016.

In recognition of the excellent quality of training provided by Vonovia, the company was singled out in 2016 as an exemplary training company by the German Association of German Housing and Real Estate Companies (GdW) and received an award from the magazine Focus Money for being one of "Germany's best training companies".

New HR Development Tools

In 2016, we introduced our new HR development tools to ensure that our mission statement is put into practice in employees' day-to-day work. The HR development tools form the basis for ongoing further development. The tools allow development objectives and measures to be identified in a targeted manner, talents to be identified and developed, and measures to be taken to ensure that high-performers stay with the company, as well as ensuring systematic succession planning.

The HR development tools include the annual and summer appraisals. The annual appraisal is a structured discussion in which employees are given feedback from their managers. In the summer appraisal, employees provide their managers with feedback.

Around 230 managers underwent training as part of the introduction of the new HR development tools.

Use of Digital Learning Media

We are represented in almost 300 locations across Germany, which is why knowledge transfer irrespective of location is very important to us. We are making increased use of new technologies such as learning videos, webinars or material that can be accessed on the intranet.

Targeted HR Development

Targeted ongoing and further training forms a key component of our HR management system. Training courses and programs are tailored to suit our needs. Our employees are given the training they need for their current or future positions.

Our certified "Residential Real Estate Caretaker" (Chamber of Industry and Commerce) course is proving extremely popular. This year, it was restructured to focus even more specifically on day-to-day working life, and on the needs and challenges facing caretakers.

Tenancy law and skills for conducting difficult conversations are also extremely important for our caretakers. We equip our caretakers with the knowledge they need in these areas using numerous cases taken from real life.

Individual employees complete targeted training or individual coaching sessions to enable them to assume management responsibility, for example.

Active Health Management

Demographic change, combined with an increasing workload, means that the use of the workforce is becoming increasingly intense. As a result, we are committed to promoting and maintaining employees' health, their ability to work and earning capacity. The Health & Social Affairs department bundles all measures relating to health promotion in the workplace as well as work-life balance under one roof.

Our workplace health promotion system bundles all measures designed to support healthy behavior. The program focuses, in particular, on prevention and on strengthening personal skills and knowledge so that each and every employee can play an active role in shaping his or her own health.

We have been committed to promoting family life for years now as part of our "Career and Family" program. The goal is to offer needs-based concepts in this area in order to boost employee satisfaction.

Remuneration and Profit Sharing

Vonovia offers its employees performance-based remuneration. Around 50 % of employees participate in the company's success by receiving an amount of up to € 1,600 under the Group works council agreement entitled "Employee Profit Share" and by enjoying access to an employee share program.

Social Commitment via Foundations

Vonovia uses foundations to show its social commitment by providing support to tenants, the rental environment and in cases of social hardship.

With its work, the GAGFAH Foundation "Mensch und Wohnen" (people and living) focuses on promoting a residential environment that brings young and old people together, and fosters a sense of community spirit between these groups in Vonovia's housing developments. The foundation finances meeting places, playgrounds and other assistance and support services with a focus on social activities. The GAGFAH Foundation exclusively supports charitable work.

The Geheimrat Huber Foundation is a support association founded by the former Deutsche Annington. As a registered association, its purpose, as set out in its articles of association, is to support employees of the company by providing them with cash payments in times of financial hardship, without conferring any legal rights and reserving the right to revoke the payments at any time. Surviving dependents can also receive support in the event of an employee dying.

The Vonovia Foundation is a charitable foundation under German civil law. The foundation is committed to social affairs, community life, helping others to help themselves and vocational training. Its mission is to provide help in cases of social hardship to individuals who need assistance, and to promote intact neighborhoods and vocational training. In this respect, the foundation makes a key contribution to shaping and ensuring social and neighborhood cohesion in Vonovia's properties. It expressly supports active citizenship, personal responsibility and individual initiative within a residential context.

Further information on our employees can be found in our Sustainability Report.

Sustainability

Corporate Social Responsibility

We have focused our attention on the long-term, stable economic development of our business. This requires, first and foremost, maintaining the value of our real estate portfolio and keeping our performance promise to our customers. On this basis, we are achieving the targeted increase in value for our company and long-term growth.

A special responsibility results for us as a company from the object of our business: the renting of affordable homes. We want to live up to this in a comprehensive manner. For Vonovia, the commitment to social responsibility is consistent with our goal of long-term value creation.

Vonovia undertakes extensive efforts to maintain and develop existing properties (maintenance, modernization, construction). In particular, this includes measures to improve the energy efficiency of apartments, by which we simultaneously make a significant contribution to climate protection. Well-insulated apartments increase efficiency, while simultaneously reducing ancillary expenses for our customers. Compliance with the regulatory requirements of environmental, energy and rental law is always a material component of our business processes.

By its very nature, our business model deals with very long-term planning horizons: Properties are used for well over 80 years, while maintenance and modernization investments must pay off over the course of 15 to 30 years. This means that we must carefully weigh our decisions, analyzing in detail potential long-term developments.

For Vonovia, housing does not end at the front door: A nice environment is part of a good residential atmosphere. Therefore, together with other social actors, we become involved beyond our buildings and set trends with cities, companies and city planners, as well as with associations, initiatives and, last but not least, with our local customers for the development of entire neighborhoods.

In order to ensure our customers good quality over the long term, we perform as many tasks as possible on our own – via well-trained and committed service employees, caretakers, craftsmen and gardeners.

We are currently developing our sustainability management on the basis of this understanding of sustainability.

At the highest level, the Chief Executive Officer of Vonovia SE is responsible for the issue of sustainability. The Supervisory Board supports and monitors the issue in the Strategy Committee. As a next step, we are planning the medium-term orientation of our company toward sustainability. This includes the development of a sustainability strategy as well as the definition of corresponding goals and the determination of measures arising from them.

Vonovia's Stakeholders

As Germany's largest real estate company we are involved in a wide range of relationships with various stakeholders. Our success essentially depends on how well our business processes are adapted to the needs of these stakeholders. Our dialogue with them helps us to address their expectations, recognize potential room for improvement and convert this into specific measures.

Vonovia's four areas of activity

Sustainable management

> Compliance and anti-corruption
> Long-term growth
> Social and environmental standards in the supply chain

Society and customers

> Portfolio maintenance
> Affordable rents
> Demographic trend
> Sustainable neighborhood development
> Service quality
> Customer health and safety

Environment

> Waste and water management
> Energy efficiency
> Reduction of greenhouse gas emissions

Employees

> Initial and further training
> Occupational safety and health
> Work-life balance

But sustainability is also about striking a balance between the interests of Vonovia's various stakeholders in the long term. We are engaged in a regular and mutual exchange with our stakeholders in order to achieve this. In particular, they include customers, employees, investors and analysts as well as policymakers at the municipal, state and federal levels. Additional interest groups are tenants' associations, suppliers and service providers, the media and non-governmental organizations (NGOs). The interaction results from day-to-day issues that link us to the respective stakeholders. The stakeholder groups have different interests with regard to our company and exert influence on our company.

The interests and wishes that stakeholders call to our attention are manifold. However, our business approach largely ensures that all our stakeholders benefit from it since it combines essential economic, social and environmental expectations:

Our **customers** expect from us the uncomplicated and service-oriented resolution of all questions and tasks involving their housing. Important issues for them are good availability, responsiveness and a local presence. We want to satisfy these expectations through the good coordination of our central customer service with our own local employees.

Fair dealings in tenant matters as well as the quick and constructive identification of solutions in case of conflicts are important to **tenants' associations** and initiatives. We maintain close contact with local tenants' associations. We conduct tenant assemblies and, if necessary, are ready to respond to questions from tenant advocates on a short-term basis.

Our **employees** would like an attractive employer, who challenges and promotes them, with an interesting task profile and a reliable work environment. With our broad business approach, our employees find numerous opportunities for professional and personal development in an industry offering future security. We prefer to promote executives from within. In addition, active health management and possibilities for combining career and family life make us interesting to our employees as a long-term employer.

It is important to our **investors and analysts** that we successfully implement our business model, which is oriented toward stable growth and a reliable yield, and report on it transparently. We pursue our goals very actively with a broad-based strategy. In recent years, we were able to increase the earnings power of our portfolio significantly through our property management, our portfolio management and the expansion of our Extension activities. In addition to our core business, we also regularly review acquisition opportunities.

Policymakers would like us to work with them on issues of neighborhood and urban development and participate as a major market partner in the solution of socially relevant matters such as the rising demand for housing, demographic change or climate change. For this, we engage in regular and comprehensive discussions with political representatives and associations at the municipal, regional and federal levels. We conduct non-partisan discussions with representatives and participate as an opinion leader in forums and events on real estate matters. We also initiate projects of social relevance, such as projects for neighborhood development, projects for the inclusion of migrants or our measures to build new housing.

Our **suppliers and service providers** expect from us a business relationship conducted on a partnership basis, in which the interests of both sides are adequately taken into account. We are involved in numerous business relationships in commercial, trade and other industry-related areas. We are bound together by the common interest to deliver very good services for Vonovia, our customers and other partners.

The **media** expect from us the readiness to communicate and an open communication policy – also regarding matters that in certain circumstances may be unpleasant for our company. We conduct comprehensive public relations and strive to provide information even on short notice. In order to prioritize our communication properly, we continually inform ourselves about issues that influence our environment.

NGOs and the **public sphere** would appreciate our economic and operating participation in social issues. As a corporate citizen, Vonovia is directly involved in municipal life since our day-to-day life affects the day-to-day lives of the neighborhood community and vice versa. Accordingly, we cooperate with numerous organizations such as welfare associations or church institutions. We participate in school projects, maintain playgrounds and support sports clubs and social institutions through our three foundations. In addition, we involve public organizations in the development of new services.

It is important to Vonovia to take into account sustainability aspects along our **value chain** and in our company's decisions. Vonovia wants to convey this to employees, customers, shareholders, business partners and our stakeholder groups in society in its **Sustainability Report.**

Sustainability Report

Vonovia published its first Sustainability Report in October 2016, laying the foundation for its future sustainability reporting. This means that the Sustainability Report was published before the expected statutory obligation to disclose non-financial information. The future requirements relating to a declaration made by the company on non-financial aspects such as environmental issues, employee, diversity and social issues, including occupational health and safety, human rights and measures to fight corruption and bribery, will be met by Vonovia's Sustainability Report, which will be published as an independent report in the future, i.e., outside of the management report. The report will follow the G4 guidelines of the Global Reporting Initiative (GRI), as well as the EPRA best practice recommendations on corporate social responsibility reporting. It is a stated goal of the management to further expand and refine the company's sustainability reporting over the next few years.

Although the management report is aimed primarily at providing financial reporting to investors and analysts, transparency regarding the extent to which sustainability aspects are taken into account in investment decisions is becoming increasingly important.

We identified the sustainability topics that are important to us in connection with our business activities and that we want to address in a structured manner in the future. Over the course of the next few years, we will further expand and refine our reporting. This also includes setting specific targets in connection with our operating business.

Report on Economic Position

Development of the Economy and the Industry

Rate of Expansion in the German Economy Picks Up Again in the Fourth Quarter of 2016

According to the Kiel Institute for the World Economy (IfW), Germany has been experiencing an unusually prolonged upswing for three years now. Economic output increased considerably in the first half of 2016, although the first quarter of 2016, which brought growth of 0.7 % in a quarter-on-quarter comparison, was followed by a much weaker second quarter (0.4 %). The IfW attributed the dip in construction activity in the spring first and foremost to a reaction to the very strong rate of expansion seen in the winter due to favorable weather conditions. Nevertheless, the drop in value creation in the manufacturing industry pointed towards more subdued economic development. The fact that incoming industry orders were very subdued in the middle of the year, coupled with the marked deterioration in the business climate, resulted in weaker growth of 0.2 % in the third quarter of 2016, whereas growth is expected to have picked up considerably again to 0.6 % in the fourth quarter of 2016, also due to increasing orders from countries outside of the eurozone. The IfW therefore expects to see gross domestic product (GDP) increase by 1.9 % in 2016 in price-adjusted terms, while the German federal government forecasted growth of 1.8 % in its autumn projection, which has since been raised to 1.9 %.

Despite the damper in the second quarter of 2016, the upswing is still being fueled by domestic economic drivers. The IfW reports that the domestic economy was already able to match its previous high pace of expansion in the third quarter of 2016. Thanks to the extremely stimulating overall environment, construction activity continued on an upward trajectory following the end of the weather-related fluctuations and reached an annual high in the fourth quarter of 2016. Private consumption grew at a brisk rate, bolstered by substantial growth in real income as a result of the positive situation on the labor market, a significant increase in monetary social benefits, and low inflation (at least for the time being). There are, however, signs that the price-dampening effect of oil prices is waning and that consumer prices will start to pick up again.

Equipment investments dropped considerably during the six-month summer period, largely due to the considerable political uncertainty worldwide. This uncertainty relates, first and foremost, to the future focus of US policy, the implications of the Brexit vote, the events in Turkey and their impact on relations with the EU, and the consequences of the constitutional referendum in Italy. Nevertheless, this uncertainty would not appear to have put any considerable damper on German economic growth to date, especially given that equipment investments were on an upward trend – albeit a moderate one – again in the fourth quarter of 2016.

The monetary policy pursued by the European Central Bank (ECB) remains expansive, with the main refinancing rate still hovering close to the zero percent mark. The US Federal Reserve, on the other hand, lifted its key interest rate by 0.25 percentage points in December 2016. This will bring it to somewhere in the region of between 0.50 % and 0.75 % in the future, although this still corresponds to a loose monetary policy and had already been anticipated by the markets in advance.

According to information supplied by the German Federal Statistical Office (Statistisches Bundesamt), the average number of employed people in 2016 rose by 429,000 or 1.0 % year-on-year, compared with an increase of 395,000 or 0.9 % in the previous year. This brings the employment level to its peak since reunification in 1990. Based on the total civilian labor force, the German Federal Employment Agency (Bundesagentur für Arbeit) put the unemployment rate at 5.8 % in December 2016, down by 0.3 percentage points year-over-year. The demand for new employees remains high and the introduction of the minimum wage in 2015 would not appear to have had much of an impact: The number of people with "mini-jobs" has declined, while the number of people with second jobs has increased.

While consumer price performance stabilized at a relatively low level last year and in the first half of 2016, the rate of inflation – based on the consumer price index – had risen by the end of the year and is likely to have reached 1.7 % in December 2016, the highest level seen since July 2013. The average annual rate of increase was up slightly on the previous year (0.3 %) to 0.5 %. Falling prices for household energy (with the exception of electricity) and fuel continued to have a dampening effect, while the price of food, tobacco and stationery pushed inflation up.

Housing Market

Increase in Quoted Rents and Quoted Prices

As in the previous year, quoted rents rose continuously from the start of 2016 onwards, and were up by a nationwide total of 5.8 percentage points (or 4.7 %) year-on-year in December 2016 according to IMX, the price index of the real estate portal ImmobilienScout24. According to ImmobilienScout24, the market for owner-occupied apartments was characterized by extreme price developments. The increase was much more pronounced than the increase in rents. As reported by IMX, the prices for newly built apartments rose by 13.0 percentage points (or 8.6 %) in December 2016 compared with the same month of the previous year. The prices for existing owner-occupied apartments increased by 19.6 percentage points (or 13.8 %) during the same period. These developments are attributed to the low interest rates and extremely strained housing markets, particularly in Germany's metropolitan areas. The independent research institute F+B Forschung und Beratung für Wohnen, Immobilien und Umwelt GmbH (F+B) reports that the prices for owner-occupied apartments and single-family residences are becoming less and less correlated with rental price development. F+B says that the trend witnessed in recent years is gaining even more momentum, documenting the sustained boom for residential property as an investment, a trend that would increasingly appear to apply irrespective of the rents that can be achieved in real terms.

Investors Continue to Show Keen Interest in German Residential Investment Market

In 2016, residential building bundles and residential developments accounted for a total transaction volume of around € 13.7 billion on the German residential investment market, according to the real estate consultancy firm CBRE. The analysis includes transaction bundles encompassing 50 or more units. Although the transaction volume is down considerably on the record result of around € 23.3 billion achieved in the previous year, it is still just ahead of the average value for the last five years. According to CBRE, the very strong closing quarter of the year, in which almost half of the total transaction volume for 2016 was realized, is clear testimony to the ongoing interest showed by national, and increasingly also by international, investors on the German residential investment market. CBRE reported a further increase in prices in an environment characterized by short supply and situations in which investors were forced to divert their attention towards new construction developments. Around three quarters of the transaction volume was attributable to existing portfolios. The volume invested in project developments increased again, accounting for 25 % of the transaction volume. In addition to project developments, investors are also focusing increasingly on student residences. Looking ahead to 2017, CBRE expects to see a similarly high transaction volume extending into the double-digit billions.

Demand for Housing Driven by Immigration

The last time the German population contracted was around six years ago. While the euro crisis, freedom of movement for employees from the eastern European EU states and refugees from war and crisis regions had already started contributing to population growth in Germany back in 2010, the number of refugees skyrocketed in the second half of 2015, in particular, and has been driving the immigration trend ever since. According to the German Association of German Housing and Real Estate Companies (GdW), this is driving the demand for housing in major towns and cities, in particular. High levels of immigration are predicted for the next few years, too. GdW puts the need for housing resulting from the influx of refugees from early 2015 until mid-2016 at an estimated 260,000 apartments. What is more, rising student numbers have already been creating short-term tension on the housing markets in university towns for some years now. According to GdW, the vast majority of students, like other low-income households, are looking for apartments in the lower price segment. The demand is focused on low-cost small apartments or apartments that can be used by flat-sharing communities. Analyses of domestic migration highlight growing disparity on the housing markets. Whereas, according to GdW, 30 or so high-influx cities ("Schwarmstädte") are reaping above-average benefits from domestic migration, virtually all rural districts are losing inhabitants.

Group's Business Development

In the 2016 fiscal year, we were able to maintain our leading market position and continue with our successful business strategy. All of our key operating figures showed excellent development and we made very good progress with the services that we offer our customers.

One thing became clear this year: looking at the issue of housing from an all-encompassing angle has proven to be the right course of action. Our strategy of focusing on our customers and their needs is paying off. Our services are being well received by our customers, as the results in the Extension segment show.

We are in a very good position overall when it comes to customer satisfaction. In order to achieve our objective of boosting customer satisfaction, we expanded our customer service team to include an office in Dresden at the beginning of the year. In the summer, our colleagues from Bochum, Mülheim and Essen moved into the new customer service center in Duisburg. This was a key step to make our entire customer service team fit for the future. Having two state-of-the-art, strong locations allows us to improve the organization of operating procedures so that we can serve our customers better. This will also make it easy for our customers to contact us, even during peak times.

Our housing stock continued to increase in value in the 2016 fiscal year. This is due, for one thing, to the fact that our investments are bearing fruit. We have invested around one billion euros in our housing stocks since the IPO, significantly improving the quality of our apartments and buildings. For another, our active portfolio management is having a very positive impact. Acquisitions in fast-growing regions such as Baden-Württemberg and Bavaria give us an even greater presence in locations that offer potential. At the same time, we used sales to significantly reduce the proportion of properties located in less attractive regions.

In social policy terms, developments on the real estate market were one of the key issues of the year. Many people are currently moving to the country's major cities. At the same time, refugees are increasingly looking for apartments in the metropolises. As the biggest landlord, we are aware of our responsibility and are providing municipalities with pragmatic assistance in the allocation of apartments.

New apartments, however, also need to be built. We have taken a good look at how we can build new and affordable apartments at a low cost. We believe that the standardized construction method offers a good solution. This is why, as well as adding extra stories to existing buildings, we successfully completed a new construction pilot project using series construction in Bochum and launched an ambitious new construction program. Modular construction allows us to keep construction costs down and offer apartments at affordable rents. We are convinced that quality and cost awareness are not mutually exclusive and that we can live up to a special social responsibility by making new, affordable living space available. Our innovative new building solutions are our way of underpinning the role in which we see ourselves, namely as a company that provides impetus for the industry as a whole.

These strategic measures allowed us to further reinforce our leading nationwide position in the German real estate industry in the 2016 fiscal year, which puts us in a good starting position for the coming year. Further challenges await us in 2017, challenges that we can certainly rise to with the measures described above and the outstanding commitment shown by our employees.

Key Events

In the first quarter of 2016, we incorporated a real estate portfolio comprising 2,417 units into our portfolio with effect from January 1, 2016. The properties in this portfolio are spread across six federal states, with around 40 % of them located in Baden-Württemberg.

On February 9, 2016, the public takeover offer that we made to the shareholders of Deutsche Wohnen AG came to an end. At this time, fewer Deutsche Wohnen AG shareholders had voted in favor of the takeover offer made by Vonovia than would have been necessary in accordance with the takeover conditions, meaning that the takeover did not come to fruition.

With effect from March 31, 2016, we sold a real estate portfolio comprising 13,570 residential units to the LEG Group.

In the second quarter of 2016, we optimized our portfolio by making further block sales accounting for a volume of 2,913 units. The largest block sale comprised 1,486 apartments, largely in northern Germany, and was realized with effect from June 30, 2016.

We moved into the premises for our local customer service operations at our new location in Dresden, with around 300 employees working in an office covering a total area of roughly 3,100 m².

In the context of our financing activities in the 2016 fiscal year, the interest rate hedging transactions concluded in October 2015 were terminated in accordance with the corresponding contracts.

With effect from June 10, 2016, we issued bonds in the amount of € 1.0 billion as part of our EMTN program.

In the third quarter of 2016, we executed several key financing transactions and announced that we would be making a public takeover offer to the shareholders of conwert Immobilien Invest SE, Vienna.

In July 2016, the euro bond issued in July 2013 in the amount of € 700 million was then repaid on schedule.

In August 2016, the CMBS financing which originates from the takeover of GAGFAH and amounted to € 1.8 billion was repaid prematurely.

On September 5, 2016, Vonovia published its intention to make the shareholders of conwert a takeover offer for the acquisition of all shares in conwert.

In September 2016, a floating rate note worth € 500 million was issued as part of a private placement under the EMTN program.

In the third quarter of 2016, we also moved into our second central customer service center in Duisburg, which offers space for around 650 employees who had previously worked in a number of different locations.

We also sold 1,204 units in Bavaria as part of a block sale.

In the fourth quarter of 2016, we launched our public takeover offer for conwert's shares on November 17, 2016. In line with the conditions set out in the offer document, Vonovia is offering a cash payment of € 16.16 for each share in conwert. As an alternative, Vonovia is offering 0.496645 new shares in Vonovia for each share in conwert. This corresponds to the originally announced exchange ratio of 74 shares in Vonovia for every 149 shares in conwert. By the reporting date, 71.54 % of shareholders had accepted the offer. This means that the takeover efforts were successful and the integration of conwert can begin as scheduled during 2017.

On November 28, 2016, the second CMBS financing which originates from the takeover of GAGFAH and amounted to € 597 million was repaid prematurely.

On December 6, 2016, bonds worth € 1.0 billion with a maturity of eight years and a coupon of 1.25 % were issued. The proceeds were used to finance the cash component of the conwert acquisition.

Business Development in 2016 – An Overview

Our business development in the 2016 fiscal year was very successful overall, as is evident from our key performance indicators.

In general, it is important to bear in mind that the business figures for 2016 include all of the acquisitions made in 2015 with an earnings contribution for the months from January to December 2016. These figures are compared with the business figures for the previous year, in which GAGFAH was only included with an earnings contribution for the months from March to December 2015, Franconia was included with an earnings contribution for the months from April to December 2015 and SÜDEWO was included with an earnings contribution for the months from July to December 2015.

In detail, our performance indicators at Group level (most meaningful performance indicators within the meaning of DRS 20) are as follows:

	Actual 2015	Last forecast for 2016 in the Interim Financial Report for Q3 2016	Actual 2016
Adjusted NAV/share	€ 24.19	approx. € 30	€ 30.75
EPRA NAV/share	€ 30.02	approx. € 36	€ 36.58
FFO 1	€ 608.0 million	approx. € 760 million	€ 760.8 million
FFO 1/share	€ 1.30	approx. € 1.63	€ 1.63
CSI	Increase of 2.8 %	Increase of more than 5 %	Increase of 8.0 %

The **adjusted NAV** per share came in at € 30.75 in 2016, up by 27.1 % on the prior-year value of € 24.19 and by 2.5 % on the most recent forecast of around € 30. This corresponds to an EPRA NAV per share of € 36.58 (2015: € 30.02, last forecast approx. € 36). This increase was due primarily to the net income from fair value adjustments of investment properties of € 3,236.1 million (2015: € 1,323.5 million).

FFO 1 rose by € 152.8 million to € 760.8 million in 2016 (2015: € 608.0 million), slightly ahead of the most recent forecast of around € 760 million. This corresponds to an FFO 1 per share of € 1.63 (2015: € 1.30, last forecast approx. € 1.63). The improvement in adjusted EBITDA Operations was the main factor behind the increase in FFO. It rose by € 136.4 million, from € 957.6 million in 2015 to € 1,094.0 million. The interest expense excluding non-recurring items (FFO interest expense) came to € -322.7 million in 2016, down by 4.9 % on the prior-year value of € -339.4 million and, as a result, slightly above the most recent forecast of around € -320 million.

We were also able to further improve our customer satisfaction. With growth of 8 %, we outperformed our target for 2016 of a planned increase in the **CSI** of more than 5 %.

Statement of the Management Board on the Economic Situation

The net assets, financial position and results of operations of the Group are extremely positive, particularly given the solid financing, the resulting balanced maturity profile and the financing flexibility gained through the rating-backed bond financings with a view to both organic and external growth. Steady improvements to the property management processes promote ongoing improvements in profitability.

Results of Operations

The Group's positive overall development in the 2016 fiscal year is also reflected in positive development in results of operations. The GAGFAH, Franconia and SÜDEWO subportfolios purchased at various points of 2015 are included in the annual financial statements for the 2016 reporting year with a full fiscal year volume for the very first time. Regarding the different times at which the earnings contributions from the subportfolios acquired in 2015 were included, we refer to the comments made in the chapter above on overall business development.

The following key figures provide an overview of how Vonovia's results of operations and their drivers developed in 2016.

Key Figures on Earnings Development

in € million	2016	2015
Income from property management	2,209.3	2,063.5
thereof rental income	1,538.1	1,414.6
Adjusted EBITDA Operations	1,094.0	957.6
Adjusted EBITDA Rental*	1,046.2	924.4
Adjusted EBITDA Extension	57.0	37.6
Adjusted EBITDA Other	-9.2	-4.4
FFO 1	760.8	608.0
Income from disposal of properties	1,227.9	726.0
Adjusted EBITDA Sales	92.5	71.1
Adjusted EBITDA*	1,186.5	1,028.7
Monthly in-place rent (€/m²)	6.02	5.75
Number of residential units in portfolio	333,381	357,117
Vacancy rate (in %)	2.4	2.7
Maintenance and modernization (€/m²)	36.18	33.04
thereof expenses for maintenance and capitalized maintenance (€/m²)	14.88	15.92
thereof for modernization (€/m²)	21.30	17.12
Number of units bought	2,815	168,632
Number of units sold	26,631	15,174
thereof Privatize	2,701	2,979
thereof Non-Core	23,930	12,195
Number of employees (as at December 31)	7,437	6,368

* Exclusion of financial income from investments in other real estate companies from adjusted EBITDA, correction of € 0.4 million to the value for 2015. New allocation relating to FFO interest.

The income from property management showed positive development in the 2016 fiscal year in line with our expectations and came to € 2,209.3 million in total (2015: € 2,063.5 million). The increase was mainly due to the development in rental income in the Rental segment. It rose from € 1,414.6 million in 2015 to € 1,538.1 million in 2016, mainly due to the acquisitions made in 2015, which were only included in the annual financial statements for that year on a pro rata basis. The vacancy rate was low, coming in at 2.4 % at the end of the 2016 fiscal year (2015: 2.7 %). As of the end of 2016, Vonovia managed a portfolio comprising 333,381 of its own residential units across Germany (2015: 357,117). In the course of 2016, we sold a total of 26,631 units (2015: 15,174) and acquired 2,815 (2015: 168,632).

The GAGFAH portfolio contributed € 814.0 million to income from property management in 2016 (March to December 2015: € 702.5 million), with the Franconia portfolio contributing € 28.1 million (April to December 2015: € 21.1 million) and the SÜDEWO portfolio contributing € 128.8 million (July to December 2015: € 68.3 million).

Adjusted EBITDA Operations rose by 14.2 % from € 957.6 million in the 2015 fiscal year to € 1,094.0 million in 2016. Both segments, Rental and Extension, made a positive contribution to this trend. Adjusted EBITDA Rental rose by 13.2 % from € 924.4 million in the 2015 fiscal year to € 1,046.2 million in 2016. Adjusted EBITDA Extension rose by 51.6 % from € 37.6 million in the 2015 fiscal year to € 57.0 million in 2016. In the Extension segment, the further expansion of our craftsmen's organization had a particularly positive impact. In the 2016 fiscal year, spending on modernization and maintenance per square meter of living area came to € 36.18 in total, up by 9.5 % on the prior-year value of € 33.04. The share attributable to modernization rose considerably, from around 52 % in 2015 to around 59 % in 2016. The consolidation effects, which we report in adjusted EBITDA Other, came to € -9.2 million in 2016 (2015: € -4.4 million).

FFO 1 rose by 25.1 % from € 608.0 million in 2015 to € 760.8 million in 2016. The FFO interest included in FFO 1 came to € -322.7 million in 2016 (2015: € -339.4 million), while current income taxes FFO 1 came to € -10.5 million (2015: € -10.2 million).

Income from disposal of properties stood at € 1,227.9 million in the 2016 fiscal year (2015: € 726.0 million). This increase was due primarily to the considerable increase in sales in 2015 from a total of 15,174 units in 2015 to 26,631 units in 2016. This is mainly due to moves to step up sales in the Non-Core portfolio. These sales increased from 12,195 units in 2015 to 23,930 units in the 2016 fiscal year.

The GAGFAH portfolio contributed € 290.3 million to income from disposal of properties in 2016 (March to

December 2015: € 259.6 million), with the Franconia portfolio contributing € 7.0 million (April to December 2015: € 5.4 million) and the SÜDEWO portfolio contributing € 10.5 million (July to December 2015: € 0.2 million).

The **adjusted EBITDA Sales** rose by 30.1 % from € 71.1 million in 2015 to € 92.5 million in 2016, largely due to the increase in the volume of units sold.

The **adjusted EBITDA** rose by 15.3 % from € 1,028.7 million in 2015 to a total € 1,186.5 million in 2016.

At the end of 2016, Vonovia had a workforce of 7,437 employees (2015: 6,368), with 3,765 employees working within the craftsmen's organization (2015: 2,568).

Rental

Following the successful integration of the GAGFAH, Franconia and SÜDEWO subportfolios, which were acquired in the previous year, into the Vonovia real estate portfolio, our **Rental segment** developed positively in the 2016 fiscal year. These acquired subportfolios were included with a full fiscal year volume for the very first time in 2016.

Adjusted EBITDA Rental

in € million	2016	2015
Rental income	1,538.1	1,414.6
Maintenance expenses	-247.4	-242.2
Operating expenses*	-244.5	-248.0
Adjusted EBITDA Rental	**1,046.2**	**924.4**

* Correction to property management costs for 2015 from the previous figure of € -247.6 million to € -248.0 million in operating expenses due to the exclusion of financial income from investments in other real estate companies from adjusted EBITDA in the 2016 reporting period.

Adjusted EBITDA Rental rose by 13.2 % from € 924.4 million in 2015 to € 1,046.2 million in 2016.

Rental income in the Rental segment rose by 8.7 % from € 1,414.6 million in 2015 to € 1,538.1 million in 2016. The GAGFAH portfolio contributed € 562.5 million (March to December 2015: € 479.3 million) to this amount, with the Franconia portfolio contributing € 19.6 million (April to December 2015: € 14.5 million) and the SÜDEWO portfolio contributing € 104.6 million (July to December 2015: € 52.3 million). If we leave the addition of the acquired portfolios of GAGFAH, Franconia, SÜDEWO and the portfolio acquired in the first quarter of 2016 out of the equation, then rental income came to € 838.0 million in 2016, down slightly on the level seen in the previous year of € 868.4 million as a result of sales.

The monthly in-place rent per square meter rose by 4.7 % from € 5.75/m² as of December 2015 to € 6.02/m² in December 2016. At the end of December 2016, the GAGFAH portfolio was included in the Group value at a monthly in-place rent of € 5.74/m² (end of December 2015: € 5.55/m²), the Franconia portfolio at a monthly in-place rent of € 6.07/m² (end of December 2015: € 5.89/m²), and the SÜDEWO portfolio at a monthly in-place rent of € 7.04/m² (end of December 2015: € 6.87/m²). The monthly in-place rent per square meter, on a like-for-like basis (incl. GAGFAH, Franconia and SÜDEWO), came to € 6.01/m² at the end of 2016. This corresponds to an increase of 3.3 % compared to € 5.82/m² the end of December 2015.

We further reduced our vacancy rate in the 2016 reporting period. The vacancy rate dropped from 2.7 % at the end of 2015 to 2.4 % at the end of 2016. This development also had a positive impact on rental income. Accordingly, the EPRA vacancy rate fell from 2.5 % at the end of 2015 to 2.2 % at the end of 2016.

We consistently continued our modernization and maintenance strategy in the 2016 fiscal year as planned. **Expenses for maintenance** totaled € 247.4 million in 2016 and were therefore up by 2.1 % over the expenses for maintenance incurred in 2015, namely € 242.2 million, largely due to acquisitions.

In 2016, expenses for maintenance totaling € 94.4 million were attributable to the GAGFAH portfolio (March to December 2015: € 82.3 million), with € 3.6 million attributable to the Franconia portfolio (April to December 2015: € 3.4 million) and € 11.9 million attributable to the SÜDEWO portfolio (July to December 2015: € 3.9 million). Expenses for maintenance in the subportfolio, excluding the acquired GAGFAH, Franconia and SÜDEWO portfolios, came in at € 137.5 million in 2016, down by around 10 % on the figure for 2015 (€ 152.6 million), mainly due to sales. We increased our value-enhancing modernization program by more than 32.8 % in the 2016 fiscal year, from € 355.6 million in 2015 to € 472.3 million in 2016. This means that, including capitalized maintenance of € 72.7 million (2015: € 88.5 million), we invested a total volume of € 792.4 million (2015: € 686.3 million) in maintenance and modernization work on our properties in the 2016 fiscal year.

The capitalized maintenance and modernization measures in the Rental segment can be derived largely from the reported capitalized modernization costs for investment properties, plus the interim profits made by our own craftsmen's organization, which is responsible for performing/coordinating services. The term "capitalized maintenance" refers to the capitalizable expenses that help maintain the value of the real estate portfolio. The term "modernization measures" refers to the capitalizable expenses that help increase the value of the real estate portfolio.

Maintenance and Modernization

in € million	2016	2015
Expenses for maintenance	247.4	242.2
Capitalized maintenance	72.7	88.5
Modernization work	472.3	355.6
Total cost of modernization and maintenance*	**792.4**	**686.3**

* Incl. intra-Group profits for 2016: € 45.5 million (thereof € 1.1 million capitalized maintenance, thereof € 8.7 million modernization); 2015: € 31.0 million (thereof € 1.0 million capitalized maintenance, thereof € 3.8 million modernization), new construction in 2016: € 13.9 million (2015: € 1.5 million).

In relation to the average number of square meters of living area, this corresponds to spending on modernization and maintenance of € 36.18/m² in the 2016 reporting period (2015: € 33.04/m²).

In the 2016 fiscal year, **operating expenses** in the Rental segment came to € -244.5 million, up by 1.4 % on the prior-year value of € -248.0 million due to acquisitions.

Extension

In the 2016 fiscal year, we successfully continued with our strategy in the **Extension segment** and expanded our property-related services. In particular, we increased the range of services provided by our craftsmen's organization, also allowing us to make a key contribution to improving our real estate portfolio.

As Germany's biggest property manager, our subsidiary Vonovia Immobilien-Treuhand GmbH is represented at 22 sites across Germany and is responsible for the management of around 76,000 owner-occupied apartments on a fiduciary basis.

We were able to further boost our earnings power in the Extension segment in the 2016 fiscal year. The income reported in the Extension segment includes other income from property management, rental income from third-party real estate management, income from investments, and other operating income reported in accordance with the consolidated income statement, insofar as this income relates to the above-mentioned business activities. It also includes internal income from the services performed or coordinated by the craftsmen's organization for those companies in the Group with real estate holdings. Compared with the previous year, segment income in the Extension segment rose by 98.6 % in total, from € 428.7 million to € 851.2 million in the 2016 reporting period. Our craftsmen's organization, which performs and coordinates maintenance and modernization services for Vonovia's overall portfolio, made a key contribution to this increase. Since the beginning of the 2016 fiscal year, all maintenance and modernization measures have been coordinated through Deutsche TGS, even if services are then passed on to subcontractors. In the 2016 fiscal year, we increased the production output (mainly total output less subcontractor and material costs) of our craftsmen's organization considerably.

Operating expenses in the Extension segment came in at € -794.2 million in 2016, around 103 % higher than in the previous year (€ -391.1 million). The operating expenses reported in the Extension segment include the material and personnel expenses and other operating expenses reported in accordance with the consolidated income statement, insofar as they relate to the above-mentioned business activities, as well as internal expenses associated with the services performed or coordinated by the craftsmen's organization for those companies in the Group with real estate holdings. All in all, adjusted EBITDA Extension rose to € 57.0 million in the 2016 fiscal year, up by 51.6 % on the figure of € 37.6 million reported in the previous year.

Adjusted EBITDA Extension

in € million	2016	2015
Income	851.2	428.7
thereof external income	108.1	59.3
thereof internal income	743.1	369.4
Operating expenses	-794.2	-391.1
Adjusted EBITDA Extension	**57.0**	**37.6**

Costs per Unit and EBITDA Margin

The actual costs incurred by Vonovia for the management of its properties are shown in the costs of the Rental segment, excluding maintenance costs and including the earnings contribution made by the service business, which is directly linked to the properties. As a result, we have grouped the operating expenses of the Rental segment and the adjusted EBITDA of the Extension and Other segments to show the Group-wide property management costs. In terms of the average number of residential units, these costs came to € 570 per unit in 2016 (2015: € 645).

Furthermore, the EBITDA margin of the core business, expressed in the cumulative adjusted EBITDA of the Rental, Extension and Other segments, once again showed positive development in relation to rental income within the Group during the reporting period. It increased from 67.7 % in 2015 to 70.9 % in 2016, which equates to an improvement of 3.2 percentage points.

Sales

We successfully continued our sales strategy in the **Sales segment** in the 2016 fiscal year. The segment covers all business activities relating to the sale of single residential units (Privatize) and the sale of entire buildings or land (Non-Core sales). Sales in the Non-Strategic portfolio are also reported under Non-Core sales.

The following table shows the **privatization of apartments:**

Sales in the Privatize Portfolio

in € million	2016	2015
Number of units sold	2,701	2,979
Income from disposal of properties Privatize	267.4	262.7
Fair value of properties sold Privatize*	-196.3	-201.3
Adjusted profit from disposal of properties Privatize	**71.1**	**61.4**
Fair value step-up (in %)	36.2	30.5

* Fair value of properties sold adjusted to reflect effects not relating to the period from assets held for sale

2,701 units were sold in 2016, down slightly on the figure of 2,979 reported in 2015. Sales proceeds rose by 1.8 % from € 262.7 million in 2015 to € 267.4 million in 2016. At 36.2 %, the fair value step-up was slightly higher than the value for the previous year (30.5 %). If we leave the 706 units sold as part of the block sales out of the equation, the fair value step-up came to 38.6 % in the 2016 reporting period (2015: 38.1 %).

In 2016, 253 units from the GAGFAH portfolio (2015: 558) and 56 units from the SÜDEWO portfolio were privatized during the reporting period (2015: one unit). Just as in 2015, no units from the Franconia portfolio were privatized.

Non-Core Sales

in € million	2016	2015
Number of units sold	23,930	12,195
Income from disposal of properties non-core	960.5	463.3
Fair value of properties sold non-core*	-911.4	-424.4
Adjusted profit from disposal of properties non-core	**49.1**	**38.9**
Fair value step-up (in %)	5.4	9.2

* Fair value of properties sold adjusted to reflect effects not relating to the period from assets held for sale

In the Non-Core portfolio, we took advantage of opportunities that arose to sell properties that do not fit with our medium- to long-term strategy. With 23,930 units sold in 2016, the sales volume was up considerably on the value for the same period in the previous year (12,195 units). This figure includes two block sales with a total of 1,851 units in the fourth quarter of 2016, one block sale of 1,204 units in the third quarter of 2016, three block sales in the second quarter of 2016 comprising 2,812 units and 13,145 units from the LEG package in the first quarter of 2016.

6,894 Non-Core units (2015: 5,486 Non-Core units) were sold from the GAGFAH portfolio, 145 Non-Core units from the SÜDEWO portfolio (2015: 0 units) and 126 Non-Core units from the Franconia portfolio (2015: 59 Non-Core units).

Overall, the Sales segment developed as follows:

Adjusted EBITDA Sales

in € million	2016	2015
Income from disposal of properties	1,227.9	726.0
Carrying amount of assets sold	-1,177.7	-658.7
Revaluation of assets held for sale	52.0	51.7
Profit on disposal of properies (IFRS)	102.2	119.0
Revaluation (realised) of assets held for sale	-52.0	-51.7
Revaluation from disposal of assets held for sale	70.0	33.0
Adjusted profit from disposal of properties	120.2	100.3
Selling costs	-27.7	-29.2
Adjusted EBITDA Sales	**92.5**	**71.1**

The adjusted profit from disposal of properties rose by 19.8 % from € 100.3 million in 2015 to € 120.2 million in 2016. In the Sales segment, we make adjustments for effects not relating to the period from assets held for sale. This adjustment is made to show the effect of real estate sales on the result only in the period in which the sale takes place. The total adjustment during the 2016 reporting period was € 18.0 million, compared with € -18.7 million in the previous year. This effect is mainly attributable to the 13,570 units already registered as of December 31, 2015, as part of the portfolio sale to LEG, the sale of which was concluded in the first quarter of 2016. In accordance with the IFRS, the associated profits were already reported in the previous year, while the adjusted EBITDA Sales relates to profits and revenue posted in the same period, thus allowing the undistorted disclosure of the step-up.

The selling costs, i.e., the total of all direct and indirect personnel and non-personnel expenses incurred in connection with the sale of real estate and land, came to € -27.7 million in 2016, slightly below the value of € -29.2 million reported in 2015. Adjusted EBITDA Sales rose by 30.1 % from € 71.1 million in 2015 to € 92.5 million in 2016.

Non-Recurring Items

To show the development of operating performance and to ensure comparability with previous periods, we calculate adjusted EBITDA for our Rental, Extension and Sales segments, as mentioned above. The total of these key figures, taking consolidation effects into account (adjusted EBITDA Other), produces the adjusted EBITDA for the Group as a whole. The adjustments made include items that are not related to the period, items that recur irregularly or items that are atypical for business operation. The non-recurring items include the development of new fields of business and business processes, acquisition projects including integration costs, expenses for refinancing and equity increases (where not treated as capital procurement costs), as well as expenses for pre-retirement part-time work arrangements and severance payments. Due to the new ESMA Guidelines on Alternative Performance Measures, the definition of non-recurring items was tightened up/improved.

At € 94.5 million, non-recurring items in the 2016 fiscal year were considerably lower than the prior-year value of € 209.4 million, due to acquisition costs. Details on the non-recurring items can be found in the Notes to the consolidated financial statements in the chapter on segment reporting.

Non-Recurring Items

in € million	2016	2015
Business model optimization/development of new fields of business	21.0	11.3
Acquisition costs incl. integration costs*	46.8	179.8
Refinancing and equity measures	3.2	0.7
Severance payments/pre-retirement part-time work arrangements	23.5	17.6
Total non-recurring items	**94.5**	**209.4**

* Including takeover costs and one-time expenses in connection with acquisitions, such as HR measures relating to the integration process

All in all, adjusted EBITDA rose to € 1,186.5 million in 2016, up by 15.3 % on the prior-year figure of € 1,028.7 million. In the 2016 reporting period, we are reporting financial income from investments in other real estate companies outside of adjusted EBITDA for the first time. For 2015, financial income from investments in other real estate companies amounting to € 0.4 million was taken out of adjusted EBITDA Rental and FFO interest was reclassified. In the 2016 reporting period, there was financial income from investments in other real estate companies of € 9.6 million as a result of the acquisition of the shares in Deutsche Wohnen.

Excluding the adjustments for financial income from investments in other real estate companies and the adjustments for non-recurring items and effects not relating to the period in the Sales segment, EBITDA IFRS came in at € 1,083.7 million in the 2016 fiscal year, which was 29.3 % above the prior-year figure of € 838.4 million.

FFO

In the 2016 fiscal year, we were able to increase our primary key figure for the sustained earnings power of our core business, FFO 1, by 25.1 % or € 152.8 million to € 760.8 million compared with the prior year.

Funds From Operations (FFO)

in € million	2016	2015
Profit for the period	2,512.9	994.7
Financial result*	433.0	414.0
Income taxes	1,346.9	739.8
Depreciation and amortization	27.0	13.4
Net income from fair value adjustments of investment properties	-3,236.1	-1,323.5
= EBITDA IFRS	1,083.7	838.4
Non-recurring items	94.5	209.4
Total period adjustments from assets held for sale	17.9	-18.7
Financial income from investments in other real estate companies	-9.6	-0.4
= Adjusted EBITDA	1,186.5	1.028.7
Adjusted EBITDA Sales	-92.5	-71.1
= Adjusted EBITDA operations	1,094.0	957.6
Interest expense FFO**	-322.7	-339.4
Current income taxes FFO 1	-10.5	-10.2
= FFO 1	760.8	608.0
Capitalized maintenance	-71.6	-87.5
= AFFO	689.2	520.5
Current income taxes Sales	-29.5	-17.0
FFO 2 (FFO 1 incl. adjusted EBITDA Sales/current income taxes Sales)	823.8	662.1
FFO 1 per share in €***	1.63	1.30
AFFO per share in €***	1.48	1.12

* Excluding income from other investments
** Incl. Financial income from investments in other real estate companies
*** Based on the shares carrying dividend rights on the reporting date of Dec. 31, 2016: 466,000,624; Dec. 31, 2015: 466,000,624

The **financial result** in 2016 came to € -433.0 million, slightly lower than the comparable figure for 2015 of € -414.0 million. This was largely due to the increased financing costs due to our acquisition activities. In 2016 fiscal year, the operating FFO-related interest result came to € -322.7 million, 4.9 % lower than the comparable value of € -339.4 million for 2015.

Reconciliation of Financial Result to Net Cash Interest

in € million	2016	2015
Income from non-current loans	1.9	2.3
Interest income	14.1	2.1
Interest expense	-449.0	-418.4
Financial result*	-433.0	-414.0
Adjustments:		
Transaction costs	21.5	60.5
Prepayment penalties and commitment interest	64.4	29.9
Effects from the valuation of non-derivative financial instruments	-31.0	-53.2
Derivatives	12.9	21.9
Interest accretion to provisions	11.2	8.6
Accrued interest	-7.9	16.0
Other effects	0.6	6.5
Net cash interest	-361.3	-323.8
Accrued interest adjustment	7.9	-16.0
Adjustments EMTN interest**	21.1	-
Adjustments Income from investments in other real estate companies	9.6	0.4
FFO interest expense	-322.7	-339.4

* Excluding income from other investments
** Interest on the difference between the taking up and making use of the € 3 billion bonds from December 2015, which were intended to be used for the financing of the Deutsche Wohnen acquisition

Tax

Income taxes in the 2016 fiscal year came in at € -1,346.9 million, up considerably on the prior-year value of € -739.8 million as a result of valuation results. The effective income tax rate came to 34.9 % in 2016, down considerably year-on-year (2015: 42.7 %). Current income taxes rose from € 21.7 million in 2015 to € 50.2 million in 2016, mainly due to sales.

Profit for the period

In the 2016 fiscal year, the profit for the period came to € 2,512.9 million, up considerably on the value of € 994.7 million reported in 2015, which is mainly due to the full inclusion of GAGFAH, Franconia and SÜDEWO in 2016 as well as the valuation results.

Fair View of the Net Assets

Asset and Capital Structure

Consolidated Balance Sheet Structure

	Dec. 31, 2016		Dec. 31, 2015	
	in € million	in %	in € million	in %
Non-current assets	30,459.8	93.7	26,678.6	86.2
Current assets	2,062.3	6.3	4,280.5	13.8
Total assets	**32,522.1**	**100.0**	30,959.1	100.0
Equity	13,888.4	42.7	11,866.9	38.3
Non-current liabilities	16,229.1	49.9	17,405.0	56.2
Current liabilities	2,404.6	7.4	1,687.2	5.5
Total equity and liabilities	**32,522.1**	**100.0**	**30,959.1**	**100.0**

Vonovia's **total assets** increased by around € 1.6 billion year-on-year, coming in at € 32,522.1 million. **Non-current assets** increased in particular due to the increase in investment properties as part of the fair value measurement, and due to the further acquisition and subsequent measurement of the shares in Deutsche Wohnen AG, Frankfurt am Main. The drop in **current assets** is attributable, in addition to the clear drop in cash and cash equivalents, to the disposal of assets held for sale.

The € 2,021.5 million increase in **equity** year-on-year to total € 13,888.4 million is largely attributable to the positive profit for the 2016 period. The main contrary effect relates to the dividend distribution in the amount of € 438.0 million.

The **equity ratio** came to 42.7 % as of December 31, 2016, compared with 38.3 % at the end of 2015.

The value of our **Investment Properties,** our most important asset, came to € 26,980.3 million at the end of the 2016 fiscal year, which corresponds to 82.9 % of our total assets. The values of the real estate portfolio are a material factor influencing the assessment of our asset position and therefore also influencing the reporting of our important performance indicators, net asset value (NAV).

Another major asset, which amounts to € 2,718.9 million or 8.4 % of total assets, relates to the goodwill reported under intangible assets. There is no indication that points to any possible impairments in goodwill.

The drop in **non-derivative financial liabilities,** which fell by € 1,568.9 million compared with the previous year, is due to the repayment of CMBS financing and a bond from 2013, largely using available liquidity.

The € 1,241.2 million increase in **deferred tax liabilities** in connection with the fair value measurement of investment properties had the opposite effect.

Net Asset Value

Vonovia's net asset value (NAV) figures are based on the best practice recommendations of the EPRA (European Public Real Estate Association). At the end of 2016, the net asset value (NAV), in accordance with EPRA standards, was 21.9 % higher than the level at the end of 2015 at € 17,047.1 million. This is largely due to the increase in net income from fair value adjustments of investment properties in the 2016 fiscal year. Net income from fair value adjustments amounted to € 3,236.1 million in 2016 (2015: € 1,323.5 million). The adjusted NAV rose slightly from € 11,273.5 million to € 14,328.2 million. This represents an increase in the adjusted NAV per share from € 24.19 to € 30.75.

Net Asset Value (NAV) Based on Application of IAS 40

in € million	Dec. 31, 2016	Dec. 31, 2015
Equity attributable to Vonovia shareholders	12,467.8	10,620.5
Deferred taxes on investment properties/asset held for sales	4,550.3	3,241.2
Fair value of derivative financial instruments*	44.4	169.9
Deferred taxes on derivative financial instruments	-15.4	-43.4
EPRA NAV	17,047.1	13,988.2
Goodwill	-2,718.9	-2,714.7
Adjusted NAV	**14,328.2**	**11,273.5**
EPRA NAV per share in €**	**36.58**	**30.02**
Adjusted NAV per share in €**	**30.75**	**24.19**

* Adjusted for effects from cross currency swaps
** Based on the number of shares on the reporting date of Dec. 31, 2016: 466,000,624; Dec. 31, 2015: 466,000,624

Over a period of five years, Vonovia has continually created value and increased NAV and GAV (gross asset value) every year.

in € million	NAV	GAV
2016	17,047.1	27,106.4
2015	13,988.2	24,153.9
2014	6,578.0	12,757.1
2013	5,123.4	10,324.5
2012	3,758.4	9,981.9

Fair Values

Major market developments and valuation parameters that have an impact on the fair values of Vonovia are assessed every quarter. The portfolio was revalued at the end of the year. Due to the extensive investments made in the energy-efficient modernization of our buildings and to improve the fittings in our apartments, Vonovia's portfolio showed very positive development in 2016. This is evident from the development of rents, among other things. At the same time, the residential property market in Germany was particularly dynamic in 2016. Sale prices for multi-family residences rose considerably in 2016 and not only in expensive and very dynamic locations such as Munich, Berlin and Hamburg. Similar developments (albeit to a lesser degree) were also observed for the areas in the direct vicinity of these cities and for locations with lower growth rates. Since the return expectations of property buyers have dropped at the same time, the increase in market values is ahead of rent developments in these locations (yield compression). This means that in 2016, the value of our property portfolio rose considerably by 16.3 % compared with 2015, after adjustments for acquisitions and sales.

In addition to the internal valuation, the property assets are also assessed externally by the independent property appraiser CBRE GmbH. The market value resulting from the CBRE expert opinion deviates from the internal valuation result by less than 0.1 %.

Regular Determination of the Fair Values Creates a Transparent Valuation of the Company's Properties

Calculating and showing the fair values provides a control parameter inside the company and also helps to make the development of the value of our assets transparent to people outside the company.

The value of the entire portfolio of residential properties was determined on the basis of the International Valuation Standard Committee's definition of market value.

The valuation methodology used by Vonovia is based on the discounted cash flow (DCF) methodology. Under the DCF methodology, the fair values are derived from the income and costs associated with a property. Under the DCF methodology, the expected future income and costs of a property are forecast over a period of ten years and discounted to the date of valuation as the net present value. The income mainly comprises expected rental income (current in-place rent, market rents as well as their development) taking vacancy losses into account. These are derived for each location from the latest rent indices and rent tables (e.g., empirica and IVD), as well as from studies on spatial prosperity (Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), Prognos, empirica, Bertelsmann Stiftung, etc.).

On the cost side, maintenance expenses and management costs, as well as other cost items such as ground rent, non-allocable ancillary costs and rent losses, have been taken into account and inflated in the reporting period, Modernization measures carried out in the housing stocks are factored in by decreasing the current maintenance expenses and adjusting market rents. The commercial properties in the portfolio are mainly small commercial units for the supply of the local residential area. Different cost approaches were used to those for residential properties, and the capitalized interest rates were adjusted to reflect the market specifics.

The recognition and valuation of investment properties are explained in detail in the Notes to the consolidated financial statements (note [21]).

The fair value of the real estate portfolio of Vonovia comprising residential buildings, commercial properties, garages and parking spaces as well as undeveloped land and any inheritable building rights granted was € 27,115.6 million as of December 31, 2016 (2015: € 24,157.7 million). This led overall to net income from fair value adjustments of investment properties of € 3,236.1 million.

The fair values for each strategic real estate portfolio cluster are as follows.

	Residential units		Fair value (in € million)*	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Strategic	302,710	300,343	24,871.8	21,110.0
Operate	88,359	125,357	7,601.9	8,634.1
Upgrade Buildings	125,016	102,479	9,469.5	6,895.5
Optimize Apartments	89,335	72,507	7,800.3	5,580.4
Privatize	17,195	19,582	1,585.9	1,573.4
Non-Strategic	7,480	25,056	265.4	981.7
Non Core	5,996	12,136	289.7	422.1
Total	**333,381**	**357,117**	**27,012.6**	**24,087.2**

* Fair value of the developed land excluding € 103.0 million (2015: € 70.5 million) for undeveloped land, inheritable building rights granted and other

The value of our real estate portfolio is a crucial factor influencing the assessment of our asset position and therefore the development of our net asset value, which is an important performance indicator.

Financial Position

Cash Flow

The following table shows the Group cash flow:

Statement of Cash Flows

in € million	2016	2015
Cash flow from operating activities	828.9	689.8
Cash flow from investing activities	416.4	-3,239.8
Cash flow from financing activities	-2,812.4	4,093.1
Net changes in cash and cash equivalents	**-1,567.1**	**1,543.1**
Cash and cash equivalents at the beginning of the period	3,107.9	1,564.8
Cash and cash equivalents at the end of the period	**1.,540.8**	**3,107.9**

The cash flow from **operating activities** rose from € 689.8 million in 2015 to € 828.9 million in 2016. The increase of around € 139.1 million is primarily due to the improved EBITDA IFRS operating performance and results, in particular, from the increased business volume due to the full inclusion of the acquired GAGFAH and SÜDEWO portfolios. In the previous year, GAGFAH was only included with the contribution for the months from March to December, while SÜDEWO was only included with the contribution for the months from July to December. The change in net current assets, which is down by around € 115 million on the value for 2015, had the opposite effect.

The positive cash flow from **investing activities** in the amount of € 416.4 million is mainly influenced by proceeds from the disposal of properties amounting to € 1,418.5 million. This increase was due primarily to the considerable increase in sales to 26,631 units in the 2016 fiscal year. On the other hand, payouts were made to acquire shares in Deutsche Wohnen AG in the amount of € 393.3 million, as well as to perform modernization measures on investment properties in the amount of € 548.8 million.

The cash flow from **financing activities** shows a payout balance for the 2016 fiscal year of € 2,812.4 million, compared with a proceeds balance of € 4,093.1 million in the previous year. Cash flow from financing activities in 2016 was influenced by scheduled and unscheduled loan repayments in the amount of € 4,219.0 million, as well as new borrowing in the amount of € 2,576.9 million in total, comprising the bond placements with a nominal value of € 2.5 billion and mortgages (especially funds relating to the German government-owned development bank, KfW). The financing costs, which essentially consist of prepayment penalties, came to € 272.3 million and interest payments to € 365.6 million. What is more, the dividend payments made to the shareholders of Vonovia SE and to minority shareholders in the amount of € 445.4 million, and payouts to hybrid capital investors in the amount of € 40.0 million, resulted in a cash outflow. Cash flow from financing activities in the previous year is characterized by equity and debt capital financing measures in connection with the takeovers of GAGFAH and SÜDEWO as well as the financing of the acquisition of the Franconia portfolio.

This brings the total **net change** in cash and cash equivalents to € -1,567.1 million, meaning that **cash and cash equivalents** came to € 1,540.8 million as of December 31, 2016.

Financing

The rating agency Standard & Poor's has assigned Vonovia a long-term corporate credit rating of 'BBB+' with a stable outlook and a short-term credit rating of 'A-2'. At the same time, the credit rating for the issued unsecured bonds issued is 'BBB+'. This rating was confirmed in a letter dated September 6, 2016.

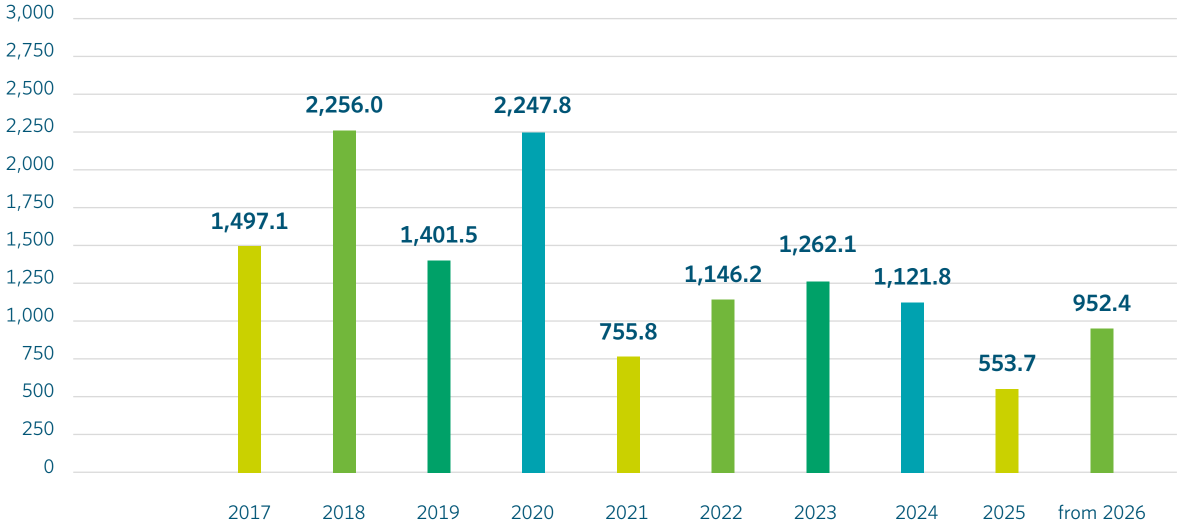
A European medium-term notes program (EMTN program) has been launched for the Group via Vonovia Finance B.V., allowing funds to be raised quickly at any time using bond issues, without any major administrative outlay. The prospectus for the EMTN program has to be updated annually and approved by the financial supervisory authority of the Grand Duchy of Luxembourg (CSSF). The current prospectus is still valid until the end of March 2017.

Vonovia Finance B.V. has placed a total bond volume of € 10.5 billion, € 6.5 billion of which relates to the EMTN program. The total volume also includes € 1.7 billion in hybrid bonds, € 1.0 billion of which is reported as equity.

The debt maturity profile of Vonovia's financing was as follows as of December 31, 2016:

Maturity profile

as at December 31, 2016, in € million



In a declaration issued on July 6, 2016, Vonovia irrevocably announced that it would be repaying the secured financing in connection with the CMBS (commercial mortgage-backed security) GRF-1 (German Residential Funding 1 from 2013), the original amount of which came to € 2.0 billion. This early repayment of € 1.8 billion was made on August 22, 2016.

Furthermore, a bond amounting to € 700 million from 2013, with a coupon of 2.125 %, was repaid as scheduled on the due date of July 25, 2016.

In September 2016, Vonovia placed a floating rate note under the EMTN program in the amount of € 500 million, which will mature on September 13, 2018, via Vonovia Finance B.V.

In order to protect against interest rate fluctuations, the floating rate note was hedged using a corresponding derivative.

In December 2016, Vonovia placed a fixed rate note under the EMTN program in the amount of € 1.0 billion, which will mature on December 6, 2024, via Vonovia Finance B.V.

In a declaration issued on November 03, 2016, Vonovia irrevocably announced that it would be repaying the secured financing in connection with the CMBS (commercial mortgage-backed security) GRF-2 (German Residential Funding 2 from 2013), the original amount of which came to € 700 million. This early repayment of € 597 million was made on November 28, 2016.

For more detailed information on financing, please refer to the relevant explanations in the Notes under "Non-Derivative Financial Liabilities."

In connection with the issue of unsecured bonds by Vonovia Finance B.V., Vonovia has undertaken to comply with the following standard market covenants:

> Limitations on incurrence of financial indebtedness
> Maintenance of consolidated coverage ratio
> Maintenance of total unencumbered assets

The existing structured and secured financing arrangements also require adherence to certain standard market covenants. Any failure to meet the agreed financial covenants could have a negative effect on the liquidity status.

The LTV (loan to value) is as follows as of December 31, 2016. Compared with the information presented as of December 31, 2015, the adjusted net debt now includes receivables from disposals because the disposal of properties is also included in the fair value of the real estate portfolio. Furthermore, the investments in other real estate companies are reported in the adjusted fair value of the real estate portfolio.

in € million	Dec. 31, 2016	Dec. 31, 2015
Non derivative financial liabilities	13,371.0	14,939.9
Foreign exchange rate effects	-209.9	-179.4
Cash and cash equivalents	-1,540.8	-3,107.9
Net debt	11,620.3	11,652.6
Sales receivables*	-135.4	-330.0
Additional loan amount for outstanding acquistions	-	134.9
Adjusted net debt*	11,484.9	11,457.5
Fair value of the real estate portfolio	27,115.6	24,157.7
Fair value of outstanding acquisitions	-	240.0
Shares in other real estate companies	503.1	13.7
Adjusted fair value of the real estate portfolio**	**27,618.7**	**24,411.4**
LTV	**41.6%**	**46.9%**

* Value as of December 31, 2015, adjusted, full disclosure of outstanding purchase price payments from disposals
** Value as of December 31, 2015, adjusted, separate disclosure of investments in the adjusted fair value

These financial covenants have been fulfilled as of the reporting date.

in € million	Dec. 31, 2016	Dec. 31, 2015
Non-derivative financial liabilities	13,371.0	14,939.9
Total assets	**32,522.1**	**30,959.1**
LTV bond covenants	**41.1%**	**48.3%**

Economic Development of Vonovia SE

(Reporting on the basis of the German Commercial Code (HGB))

Fundamental Information

Vonovia SE, Düsseldorf, was established as Deutsche Annington Immobilien GmbH on June 17, 1998, with its registered headquarters in Frankfurt am Main, to serve as an acquisition vehicle for the purchase of residential properties by financial investors. Following further successful acquisitions over the course of time, it now forms the Vonovia Group together with its subsidiaries and is Germany's leading residential real estate management company. Vonovia SE performs the function of the management holding company within the Vonovia Group.

The description of the company's net assets, financial position and results of operations is based largely on the reporting of the Vonovia Group. The net assets, financial position and results of operations of Vonovia SE as the management holding company are largely determined by the assets of the Group companies and their ability to make positive contributions to earnings and generate positive cash flows in the long run. The company's risk profile is therefore largely the same as the Group's.

The preceding reporting for the Group of Vonovia SE therefore also expresses the company's position.

The Vonovia SE annual financial statements have been prepared in accordance with the provisions of the German Commercial Code (HGB) taking into account the supplementary regulations of the German Stock Corporation Act (AktG). As a listed company, it is classed as a large corporation.

The separate and consolidated financial statements as well as the combined management report are published in the Federal Gazette (Bundesanzeiger).

Development of Business in 2016

Results of Operations, Net Assets and Financial Position

Results of Operations of Vonovia SE

The company regularly generates **income** from the charging of the services it provides, from income from investments in the form of dividend distributions from Group companies and from the transfer of profits. Profit-and-loss transfer agreements exist with, among other entities, the service companies, which themselves generate income by charging the real estate companies for the services they have provided. The income from investments collected is based on the net profit of the subsidiaries that is eligible for distribution, which is, in turn, calculated based on the accounting standards set out in the German Commercial Code. The main difference between these standards and the IFRS accounting principles lies in the fact that, under IFRS accounting, the fair value principle has more of an impact than the cost principle does under HGB accounting. In the consolidated financial statements under the IFRS, the properties are remeasured at periodic intervals. Under the HGB, the fixed assets are stated at amortized cost, taking scheduled depreciation into account. The capitalization regulations also vary.

Expenses relate largely to personnel expenses and administrative expenses associated with the management holding function, as well as to losses to be compensated for in connection with profit-and-loss transfer agreements.

The **financial result** is governed by the Group financing.

Business developments in 2016 were characterized by the public takeover offer made to the shareholders of Deutsche Wohnen AG in the spring, and by the public takeover offer made to the shareholders of conwert Immobilien Invest SE, Vienna, Austria in the second half of the fiscal year.

On November 17, 2016, Vonovia SE had published a voluntary public takeover offer for the assumption of control, pursuant to Section 25a of the Austrian Takeover Act (UebG), made to the shareholders of conwert Immobilien Invest SE, Vienna, Austria (conwert), which had been accepted by 71.54 % of the shareholders by the end of the acceptance deadline at 5 p.m. local time in Vienna, Austria on December 19, 2016.

The special effects associated with the two takeover offers had an impact on the results of operations in 2016, as did the refinancing measures and the impact of company law measures. Income was also characterized by the revised Group fee charging system, which now includes the GAGFAH and SÜDEWO portfolios in full. The acquisition of the Deutsche Wohnen shares resulted in the flow of € 9.1 million in dividends to the company in the fiscal year.

The main effects on the results of operations for the 2016 fiscal year are as follows:

> Higher income from the revised Group fee charging system in the amount of € 74.0 million.
> Expenses passed on by Vonovia Finance B.V., Amsterdam, the Netherlands, on the basis of the structural agreement relating to the financing of the public takeover offer made to the shareholders of Deutsche Wohnen AG and due to interest rate hedging transactions in the amount of € 74.2 million.
> Drop in structural and consultancy expenses.
> An improvement in the financial result of € 122.2 million resulting from profit transfers that were up by € 101.1 million due to company law measures and an improvement in the net interest expense of € 10.5 million, as well as the collection of the dividend paid by Deutsche Wohnen AG.

Personnel expenses came to € 33.7 million in 2016, on a par with the previous year. Depreciation and amortization increased due to volume-related aspects. Tax expenses had been affected by tax reimbursements for earlier years of € 5.0 million in the previous year.

Income Statement*

in € million	2016	2015
Revenues	139.0	-
Income from onward-charging and services	26.0	81.7
Other income	18.4	9.1
Expenses for external services	-57.2	-
Personel expenses	-33.7	-33.7
Other administrative expenses	-211.6	-269.8
Loss (profit) before financial result and tax	**-119.1**	**-212.7**
Income from profit transfer	114.1	42.9
Income from investments	11.0	4.9
Write-down of financial assets	-	-4.5
Interest and similar income	9.9	11.7
Expense from the assumption of losses	-16.1	-46.0
Interest and similar expense	-62.3	-74.5
Tax	-1.6	5.0
Net loss for the year	**-64.1**	**-273.2**

* The prior-year values are only of limited comparative value due to the first-time use of the German Accounting Directive Implementation Act (BILRUG).

Net Assets and Financial Position of Vonovia SE

The company's assets of € 8,486.9 million are largely characterized by financial assets, which rose by € 393.3 million in 2016 due to the acquisition of the shares in Deutsche Wohnen AG. A capital increase at Vonovia Finance B.V. in the amount of € 95.0 million, designed to create a more advantageous balance sheet structure, also increased financial assets in 2016.

The intangible assets and property, plant and equipment increased due to IT investments.

Net current assets, however, are governed by the Group financing. The Group's net lending/borrowing position improved by a total of € 960.3 million in 2016. This includes the reduction of the position vis-à-vis Vonovia Finance B.V. in line with the intended reduction in cash and cash equivalents and securities used to repay borrowed funds within the Group.

The provisions fell by € 25.7 million due to the drop in the provisions for outstanding invoices, which had been higher in connection with the public takeover offer for Deutsche Wohnen AG in the previous year than they were in connection with the offer for conwert Immobilien Invest SE.

Equity fell in 2016 due to the dividend distribution and the net loss for the year.

For the 2016 fiscal year, a dividend distribution of € 521,920,698.88 is to be resolved at the Annual General Meeting to be held on May 16, 2017. This corresponds to € 1.12 per share.

In order to provide the necessary profit, € 558,511,606.44 million was taken from the capital reserves.

Assets

Assets in € million	Dec. 31, 2016	Dec. 31, 2015
Financial assets	8,486.9	7,995.7
Other assets	16.9	9.0
Receivables from affiliated companies	1,083.4	856.2
Other receivables and assets	10.4	9.9
Securities	–	999.9
Cash and cash equivalents	914.0	1,864.6
Total assets	**10,511.6**	**11,735.3**

Equity and liabilities in € million	Dec. 31, 2016	Dec. 31, 2015
Equity	6,662.2	7,164.3
Provisions	124.7	150.4
Liabilities to banks	32.0	–
Liabilities to affiliated companies	3,678.0	4,411.1
Other liabilities	14.7	9.5
	–	–
Total equity and liabilities	**10,511.6**	**11,735.3**

Employees of Vonovia SE

At the end of the year, 206 people were employed by Vonovia SE (previous year: 208 employees).

Opportunities and Risks for Vonovia SE

The likely development of Vonovia SE in the 2017 fiscal year depends to a considerable extent on the development of the Group as a whole and its opportunity and risk situation. This situation is set out in the Group's opportunity and risk report, meaning that the statements set out there in regard to the opportunity and risk situation of the Group also apply to the individual financial statements of Vonovia SE, where the risks can have an impact on the valuation of long-term financial assets and on the amount of the results of subsidiaries collected/compensated for.

Forecast for Vonovia SE

Since the company's net assets, financial position and results of operations are determined solely by the ability of the Group companies to make positive earnings contributions and generate positive cash flows in the long term, we refer at this point to the Forecast Report for the Group. The most important financial performance indicator for the annual financial statements of Vonovia SE is the annual result.

The company's earnings in 2016 were largely influenced by the effects referred to above, which is why the prior-year forecast of a marked improvement in earnings compared with 2015 actually materialized.

The results for the 2017 fiscal year will in turn be characterized by the results of subsidiaries collected/compensated for on the basis of profit-and-loss transfer agreements, income from services, personnel and administrative expenses and the financial result. As far as the 2017 fiscal year is concerned, we expect expenses to increase again due to the public takeover offer made to the shareholders of conwert Immobilien Invest SE and the resulting integration expenses. Earnings will also be encumbered by structuring measures under company law. By contrast, special effects seen in 2016 will cease to apply.

All in all, we expect the net loss for the 2017 fiscal year to be on a par with the figure seen in 2016.

It is still generally planned for Vonovia SE to distribute 70 % of the Group's performance indicator, FFO 1, to the shareholders as a dividend. Sufficient free reserves are available to cover this.

Further Statutory Disclosures

Corporate Governance

In the corporate governance declaration, we report, in accordance with No. 3.10 of the German Corporate Governance Code (DCGK) and Section 289a of the German Commercial Code (HGB) on the principles of management and corporate governance. The declaration contains the declaration of conformity, information on corporate governance practices, a description of how the Management Board and Supervisory Board work and key corporate governance structures. The declaration is also available to the public on our website at www.vonovia.de.

Corporate governance is the responsible management and supervision of a company.

With balanced corporate governance, the Management Board and the Supervisory Board wish to safeguard Vonovia SE's competitiveness, strengthen the trust of the capital market and the general public in the company and sustainably increase the company's value.

As a major housing company, we are aware of the particular significance of our entrepreneurial actions for society at large. As a result, we are also committed to the main aims and principles of the corporate governance initiative of the German housing industry, which we have been a member of since November 14, 2003. The initiative supplements the corporate governance principles to include housing-specific aspects and is committed to even greater transparency, an improved image and a more competitive real estate sector.

Remuneration Report

The remuneration report describes the principles of the remuneration system for members of the Management Board of Vonovia SE and explains the structure, as well as the amount, of the income received by each Management Board member. Furthermore, the remuneration report contains information on the principles and the amount of remuneration for the members of the Supervisory Board. The total remuneration received by each Management Board member, including the names of the members, is shown in the Notes.

The remuneration report takes account of the applicable regulations of the German Commercial Code (HGB), the German Accounting Standards (DRS 17), the laws on disclosure and appropriateness of Management Board remuneration (VorstAG, VorstOG) as well as the principles of the German Corporate Governance Code (DCGK).

Management Board

Remuneration System

The remuneration system and the amount of remuneration of the Management Board are determined by the Supervisory Board on the proposal of the Executive and Nomination Committee.

The criteria used to assess whether the remuneration is appropriate include the duties of the individual Management Board member, his or her personal performance, the economic situation, the company's success and future outlook and the extent to which such remuneration is standard practice. When determining whether the level of remuneration is standard practice, the company looks at its peer group and the remuneration structure that applies in the rest of the company. Furthermore, we compare ourselves with other listed companies of a similar size. The remuneration structure is oriented towards the sustainable growth of the company.

In addition to fixed remuneration, the members of the Management Board receive variable short-term as well as variable long-term remuneration which takes account of both positive and negative developments. The Supervisory Board can, at their own due discretion, award Management Board members a discretionary bonus for particular achievements, even without a prior agreement. There is no entitlement to these bonuses. Furthermore, the members of the Management Board receive fringe benefits in the form of insurance premiums, as well as the private use of means of communication and company vehicles. In one case, the company assumes the costs associated with the rental of an apartment instead of insurance premiums.

Fixed Remuneration and Fringe Benefits

The fixed remuneration is paid to the Management Board members in twelve equal monthly installments. In addition to their fixed remuneration, the Management Board members are given the opportunity to pay an annual pension contribution into a deferred compensation scheme. The contribution for Mr. Buch comes to € 225,000, the contribution for Mr. Freiberg, Dr. Kirsten and Mr. Klinck amounts to € 160,000 in each case, and the contribution for Mr. Zinnöcker comes to € 12,500 on a corresponding pro rata basis. Alternatively, the amount is paid out as cash remuneration.

The fringe benefits include premiums for a term life insurance policy and 50 % of health and nursing care insurance contributions, albeit up to the amount of the maximum statutory employer's share at the most. In the event of illness, salaries continue to be paid for a period of twelve months, but until the end of the employment contract at the latest. In the event of death, the company continues to pay the salary to the employee's surviving dependents for up to six months.

The members of the Management Board are provided with a company car as well as communication means, which they have the right to use for private purposes. Travel expenses are reimbursed in line with the Vonovia Travel Expense Policy.

Should the Management Board members be held liable for financial losses while executing their duties, this liability risk is, in principle, covered by the D&O insurance for Management Board members of the company. Vonovia follows the statutory requirements, which provide for a deductible of 10 % of any claim up to an amount of one-and-a-half times the fixed annual remuneration for all claims in one fiscal year.

Bonus

The variable short-term remuneration is based on success criteria set in advance by the Supervisory Board as well as personal targets. The variable short-term remuneration is capped at € 700,000 for Rolf Buch as the Chairman of the Management Board, at € 50,000 for Thomas Zinnöcker as the former Deputy Chairman of the Management Board who left the company with effect from January 31, 2016, and at € 440,000 each for Klaus Freiberg, Dr. A. Stefan Kirsten and Gerald Klinck. The success criteria state that 40 % of the variable short-term remuneration depends on the achievement of the Group FFO target, 15 % on the achievement of the Group adjusted NAV/share target and a further 15 % on the achievement of the Group EBITDA sales target. A further 30 % of the variable short-term remuneration is related to the achievement of the personal targets agreed with the Supervisory Board.

The Management Board members receive the variable short-term remuneration one month after the adoption of the annual financial statements of Vonovia.

Long-Term Incentive Plan

As far as the variable long-term remuneration (long-term incentive plan – LTIP) is concerned, a distinction has to be made between the previous long-term incentive plan (LTIP) – which was launched at the time of the successful IPO, is based on the achievement of internal and external success factors and is paid out in the form of notional shares in the company – and a new long-term incentive plan (new LTIP), which meets the requirements set out in the German Stock Corporation Act (AktG) and the German Corporate

Governance Code and aims to ensure that the remuneration structure focuses on sustainable corporate development.

In order to achieve this, the members of the Management Board have, since 2015, been offered an annual remuneration component with a long-term incentive effect and a balanced risk-return profile in the form of notional shares ("performance shares") in line with the provisions of the new LTIP "Plan".

The Supervisory Board offers the Management Board members a prospective target amount ("grant value") in euros for each performance period, which corresponds to four years as a general rule. Deviating from the above, the performance period for Klaus Freiberg, Dr. A. Stefan Kirsten and Gerald Klinck lasts three years, as opposed to four, for half the initial number of performance shares in the 2015 tranche and a quarter of the 2016 tranche. As a result, the corresponding amounts shall be paid out after three years instead of four.

Rolf Buch, Klaus Freiberg and Dr. A. Stefan Kirsten have been taking part in the new LTIP "Plan" since January 1, 2015. Thomas Zinnöcker and Gerald Klinck have been participating in the plan since April 1, 2015. Rolf Buch is awarded performance shares with a grant value of € 1,350,000 a year, while Thomas Zinnöcker is awarded performance shares with a value of € 1,150,000 a year, which comes to a pro rata value of € 95,833 for 2016. Klaus Freiberg, Dr. A. Stefan Kirsten and Gerald Klinck are each awarded performance shares with a grant value of € 800,000 a year.

The actual payout amount is calculated based on this grant value, the target achievement level during the performance period and the performance of Vonovia's shares, including dividends paid during the performance period. If the share price remains the same and the target achievement level comes to 100 %, then the actual payout amount corresponds to the grant value (plus any dividends paid during the performance period).

The initial number of performance shares for the performance period in question corresponds to the grant value divided by the initial share price, rounded up to the next full share.

The overall target achievement level for a performance period is determined based on the following success targets:

a) Relative Total Shareholder Return (RTSR)
b) Development of NAV per share
c) Development of FFO 1 per share
d) Customer Satisfaction Index (CSI)

Each of the four success targets is assigned a weighting of 25 %.

At the start of each performance period, the Supervisory Board sets an objective for each of the four success targets. If all of these objectives are reached, the target achievement level comes to 100 %. It also sets a minimum value for each of the four success targets as the lower target corridor threshold. If this value is reached, the target achievement level comes to 50 % ("minimum value"). The Supervisory Board also sets a maximum value. If this value is reached or exceeded, the target achievement level comes to 200 % ("maximum value").

The Supervisory Board has the right and the obligation to appropriately adjust the calculation modalities if there are significant changes in the comparator group.

The reporting on the new LTIP "Plan" is based on actuarial reports of an independent actuary.

At the end of each performance period, the initial number of performance shares is multiplied by the overall target achievement level and rounded up to the next full share. This multiplication produces the final number of performance shares.

The final number of performance shares is multiplied by the final share price, which, by definition, includes the total dividends paid per share during the performance period in relation to the final number of performance shares. This multiplication produces the payout amount.

The payout amount is limited to 250 % of the grant value ("cap").

In 2013, the Management Board members Rolf Buch, Klaus Freiberg and Dr. A. Stefan Kirsten were granted a total of 931,030 notional shares (SAR = stock appreciation rights) as part of the LTIP in force at that time. These shares were earned over five annual tranches of equal size. Over the five-year period, 400,000 notional shares are attributable to Rolf Buch, with Klaus Freiberg and Dr. A. Stefan Kirsten each being allocated 265,515. The notional shares will be converted into payout amounts for each annual tranche on the basis of a formula laid down in the LTIP agreement.

In connection with the conclusion of new employment contracts with the Management Board members Klaus Freiberg and Dr. A. Stefan Kirsten, an agreement was reached that there would be no further vesting after the vesting in the 2017 fiscal year.

Last year's remuneration report contains further details on the content of the above-mentioned LTIP agreement. Since the shareholding of the sole shareholder was reduced to below 30 % in 2014, the third tranche was paid out in 2016 as agreed.

Upper Remuneration Thresholds

In addition to the provisions governing variable remuneration, upper thresholds have been contractually agreed for the remuneration paid to the Management Board as a whole in line with the recommendations set out in the German Corporate Governance Code (DCGK). As a result, the total remuneration for Rolf Buch is capped at a total of € 5,600,000 a year, excluding the claims under the LTIP dated June 14, 2013. The total remuneration is capped at € 4,900,000 for Thomas Zinnöcker, while the total remuneration for Klaus Freiberg and Dr. A. Stefan Kirsten, excluding the claims under the LTIP dated June 14, 2013, is capped at € 3,500,000 in each case. The total remuneration for Gerald Klinck is also capped at € 3,500,000 a year.

Payments in the Event of Premature Termination of Management Board Duties

Payments to a Management Board member on premature termination of his or her contract, including fringe benefits, are contractually regulated to not exceed the value of two years' remuneration and are paid for no more than the remaining term of the employment contract (severance pay cap).

Payments in the event of premature termination of a Management Board member's contract due to a change of control are limited to 150 % of the severance pay cap.

As a result of the contractual termination as of January 31, 2016, Mr. Zinnöcker will receive compensation in the amount of € 1,800,000 a year (gross) for a period of 24 months based on the non-competition obligation agreed in his Management Board contract. If Mr. Zinnöcker generates additional income without breaching the non-competition regulation, this income shall be offset against this compensation insofar as an upper threshold agreed in the Management Board contract is exceeded.

Following the termination of his employment contract, Mr. Buch is subject to a twelve-month non-competition regulation. The other Management Board members are not subject to any non-competition regulation.

Total Remuneration Paid to the Management Board Within the Meaning of the German Corporate Governance Code

In the reporting year, the following total remuneration was granted to the Management Board members:

	Rolf Buch CEO			
Grants allocated to the Management Board in €	2015	2016	2016 (Min)	2016 (Max)
Fixed remuneration	900,000	1,000,000	1,000,000	1,000,000
Deferred compensation	-	-	-	-
Fringe benefits	38,702	39,446	39,446	39,446
Total	938,702	1,039,446	1,039,446	1,039,446
Annual variable remuneration (bonus)	700,000	700,000	0	700,000
Multi-year variable remuneration (new LTIP)				
2015-2017	-	-	-	-
2015-2018	1,263,136	-	-	-
2016-2018	-	-	-	-
2016-2019	-	1,429,217	0	3,375,000
Total	1,963,136	2,129,217	0	4,075,000
Pension expenses	355,916	600,398	600,398	600,398
Total remuneration	**3,257,754**	**3,769,061**	**1,639,844**	**5,600,000***

* This is the total contractually agreed upper threshold.

	Dr. A. Stefan Kirsten CFO			
Grants allocated to the Management Board in €	2015	2016	2016 (Min)	2016 (Max)
Fixed remuneration	550,000	600,000	600,000	600,000
Deferred compensation	-	-	-	-
Fringe benefits	36,665	31,571	31,571	31,571
Total	586,665	631,571	631,571	631,571
Annual variable remuneration (bonus)	440,000	440,000	0	440,000
Multi-year variable remuneration (new LTIP)				
2015-2017	419,790	-	-	-
2015-2018	421,045	-	-	-
2016-2018	-	212,035	0	500,000
2016-2019	-	635,201	0	1,500,000
Total	1,280,835	1,287,236	0	2,440,000
Pension expenses	228,251	367,388	367,388	367,388
Total remuneration	**2,095,751**	**2,286,195**	**998,959**	**3,500,000***

* This is the total contractually agreed upper threshold.

Thomas Zinnöcker
CRO
April 1, 2015 until January 31, 2016

	2015	2016	2016 (Min)	2016 (Max)
	600,000	66,667	66,667	66,667
	112,500	12,500	12,500	12,500
	19,713	2,369	2,369	2,369
	732,213	**81,536**	**81,536**	**81,536**
	1,284,600	50,000	0	50,000
	-	-	-	-
	907,879	-	-	-
	-	-	-	-
	-	101,481	0	239,583
	2,192,479	151,481	0	289,583
	-	-	-	-
	2,924,692	**233,017**	**81,536**	**408,333***

Klaus Freiberg
COO

	2015	2016	2016 (Min)	2016 (Max)
	550,000	600,000	600,000	600,000
	110,000	160,000	160,000	160,000
	22,813	27,627	27,627	27,627
	682,813	**787,627**	**787,627**	**787,627**
	440,000	440,000	0	440,000
	419,790	-	-	-
	421,045	-	-	-
	-	212,035	0	500,000
	-	635,201	0	1,500,000
	1,280,835	1,287,236	0	2,440,000
	-	-	-	-
	1,963,648	**2,074,863**	**787,627**	**3,500,000***

Gerald Klinck
CCO
since April 1, 2015

	2015	2016	2016 (Min)	2016 (Max)
	412,500	600,000	600,000	600,000
	-	-	-	-
	15,300	25,865	25,865	25,865
	427,800	**625,865**	**625,865**	**625,865**
	330,000	440,000	0	440,000
	314,842	-	-	-
	315,784	-	-	-
	-	212,035	0	500,000
	-	635,201	0	1,500,000
	960,626	1,287,236	0	2,440,000
	240,356	491,198	491,198	491,198
	1,628,782	**2,404,299**	**1,117,063**	**3,500,000***

In the reporting year, the following total remuneration was paid out to the Management Board members:

	Rolf Buch CEO		Thomas Zinnöcker CRO April 1, 2015 until January 31, 2016		Klaus Freiberg COO		Dr. A. Stefan Kirsten CFO		Gerald Klinck CCO	
Inflow in €	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Fixed remuneration	900,000	1,000,000	600,000	66,667	550,000	600,000	550,000	600,000	412,500	600,000
Cash remuneration	-	-	112,500	12,500	110,000	160,000	-	-	-	-
Fringe benefits	38,702	39,446	19,713	2,369	22,813	27,627	36,665	31,571	15,300	25,865
Total	938,702	1,039,446	732,213	81,536	682,813	787,627	586,665	631,571	427,800	625,865
Annual variable remuneration (bonus)	693,000	694,750	1,284,600	50,000	434,808	437,360	434,500	434,720	330,000	310,200
Multi-year variable remuneration (LTIP)										
Second 2015 tranche	2,514,921	-	-	-	1,428,641	-	1,428,641	-	-	-
Third 2016 tranche	-	2,527,211	-	-	-	1,975,934	-	1,975,934	-	-
Total	3,207,921	3,221,961	1,284,600	50,000	1,863,449	2,413,294	1,863,141	2,410,654	330,000	310,200
Pension expenses	355,916	600,398	-	-	-	-	228,251	367,388	240,356	491,198
Total remuneration	**4,502,539**	**4,861,805**	**2,016,813**	**131,536**	**2,546,262**	**3,200,921**	**2,678,057**	**3,409,613**	**998,156**	**1,427,263**

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is determined by the shareholders at the Annual General Meeting and is regulated in Article 13 of the Articles of Association of Vonovia.

The current Supervisory Board remuneration system is based on the resolution passed by the Annual General Meeting on June 9, 2013.

Each member of the Supervisory Board receives annual fixed basic remuneration of € 100,000. The Chairman of the Supervisory Board receives double this amount and a Deputy Chairman receives one-and-a-half times this amount.

The members of the Audit Committee receive additional annual fixed remuneration of € 40,000; the Audit Committee Chairman receives double this amount. Supervisory Board members who are members of one or more other Supervisory Board committees that have acted at least once a year receive additional annual remuneration of € 20,000 per committee; in the case of the Committee Chairman € 40,000.

The sum total of all aforementioned remuneration plus remuneration for membership of Supervisory Boards and comparable supervisory bodies of Group companies must not exceed an amount of € 300,000 per calendar year and Supervisory Board member.

The company reimburses the Supervisory Board members for appropriate expenses incurred due to the exercising of their office. VAT is reimbursed by the company to the extent that the Supervisory Board members are eligible to separately invoice VAT and have exercised such right.

The remuneration of the Supervisory Board of Vonovia breaks down as follows for each member – on a pro rata basis according to the length of service on the Supervisory Board:

	Fixed remuneration		Remuneration for committee work		Total remuneration	
in €	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Supervisory Board members in office as at December 31, 2016						
Dr Wulf H. Bernotat [2, 3, 6] (since June 18, 2013) Chairman	200,000	200,000	100,000	100,000	300,000	300,000
Prof. Dr Edgar Ernst [1] (since June 18, 2013) Deputy Chairman	150,000	150,000	80,000	80,000	230,000	230,000
Burkhard Ulrich Drescher [2] (since December 12, 2014)	100,000	100,000	6,667	40,000	106,667	140,000
Dr Florian Funck [2] (since August 21, 2014)	100,000	100,000	40,000	40,000	140,000	140,000
Dr. Ute Geipel-Faber [6] (since November 1, 2015)	16,667	100,000	3,333	20,000	20,000	120,000
Hendrik Jellema [2] (since June 2, 2015)	66,667	100,000	6,666	40,000	73,333	140,000
Daniel Just [6] (since June 2, 2015)	66,667	100,000	3,333	20,000	70,000	120,000
Hildegard Müller [4] (since June 18, 2013)	100,000	100,000	20,000	20,000	120,000	120,000
Prof. Dr Klaus Rauscher [4] (since August 1, 2008)	100,000	100,000	20,000	20,000	120,000	120,000
Dr. Ariane Reinhart [4] (since May 13, 2016)	-	66,667	-	13,333	-	80,000
Clara-Christina Streit [4, 5] (since June 18, 2013)	100,000	100,000	60,000	60,000	160,000	160,000
Christian Ulbrich [6] (since August 21, 2014)	100,000	100,000	28,333	20,000	128,333	120,000
Former Supervisory Board members						
Manuela Better [6] (until May 31, 2015)	41,667	-	8,333	-	50,000	-
Gerhard Zeiler [4] (until May 12, 2016)	66,667	41,667	3,333	8,333	70,000	50,000
Total					**1,588,333**	**1,840,000**

(1) Chairman of the Audit Committee
(2) Member of the Audit Committee
(3) Chairman of the Executive and Nomination Committee
(4) Member of the Executive and Nomination Committee
(5) Chairman of the Finance Committee
(6) Member of the Finance Committee

All remuneration is payable after the expiry of each fiscal year. Supervisory Board members who are Supervisory Board members or members of a committee of the Supervisory Board for only part of a fiscal year receive corresponding pro rata remuneration rounded up to the full month.

Furthermore, Vonovia has taken out a liability insurance (D&O insurance) for the members of the Supervisory Board. Vonovia follows the statutory requirements, which provide for a deductible of 10 % of any claim up to an amount of one-and-a-half times the fixed annual remuneration for all claims in one fiscal year.

Opportunities and Risks

Structure and Instruments

Vonovia has a comprehensive risk management system in place that aims to subject the entrepreneurial opportunities and risks to differentiated, regular monitoring. Risks are defined as possible developments or events in the future that could result in a negative forecast/deviation from targets for the company, whereas opportunities are seen as positive deviations from an expected outcome.

Organizationally, risk management is assigned directly to the Management Board, which regularly monitors its effectiveness. The Management Board has overall responsibility for the risk management system. It decides on the organizational structures and workflows of risk management and provision of resources. It approves the documented risk management findings and takes account of them in steering the company. The Audit Committee of the Supervisory Board monitors the effectiveness of the risk management system. Executives belonging to the first level below Management Board level are appointed as risk owners and, in this role, assume responsibility for the identification, assessment, documentation and communication of all material risks in their area of responsibility.

For the benefit of the company's five main interest groups – customers, employees, investors, society and suppliers – the Management Board pursues a conservative, security-focused risk strategy.

Each and every Vonovia employee is encouraged to act in a risk-conscious manner, i.e., to fully clarify the risk situation in their area of responsibility on the one hand and to handle any risks identified in a responsible manner on the other. Unreasonably high risks are to be avoided. The threshold value for the reporting of new individual risks takes account of the company's conservative strategy and currently amounts to a low value of € 10,000 per individual risk. This allows the company to ensure that suitable measures are taken to avoid, reduce or transfer risks or to consciously accept calculated risks.

The risk manager coordinates the recording, assessment, documentation and communication of the risks as part of the risk management process. He triggers the risk management process, consolidates the risk reports of the risk owners and prepares the report for the Management Board and the Supervisory Board. The Internal Audit department monitors the risk management function as part of its auditing remit.

This system not only ensures the continued existence of the company but also makes a sustainable contribution to achieving the company's goals. The Management Board is able at all times to identify and assess material risks within the company and in the company's environment in good time as well as to take appropriate counteraction.

In order to take the opportunities and risks into account, the company uses an integrated management approach based on five key pillars.

5 Pillars of Risk Management at Vonovia

Management Board

(Strategy, Requirements/Goals, Control Environment, Monitoring)

1 Performance	2 Compliance	3 Risik Management	4 Internal Control System	5 Internal Audit
Controlling > Budget > Forecast > Results	**Compliance Officer** > Guidelines, regulations > Contracts > Capital market compliance > Data protection	**Controlling** > Risk management process > Risk reporting	**IT** > Process documentation **Accounting** > Accounting-based internal control system	**Internal Audit** > Process-oriented audits > Risk-oriented audits
Operational Areas > Performance management > Technical integrity	**Operational Areas** > Ensuring compliance	**Operational Areas** > Risk identification and evaluation > Risk control	**Operational Areas** > Documentation of core processes > Control activities	**Operational Areas** > Process improvements

(1) Performance Management
High-quality corporate planning and appropriate reporting on operational and financial key figures from Controlling constitute the backbone of the early warning system used at the company. Analyses are made of the business performance compared with the plans approved by the Supervisory Board and the previous year. Furthermore, a forecast is prepared regularly which takes appropriate account of the effect of any potential risks and opportunities on the development of business. Reporting includes detailed monthly controlling reports to the Management Board and the Supervisory Board. The direct operational business is described in regular reports on key figures, some of which are drawn up on a weekly basis. On the basis of these reports and the deviations that they highlight between the actual and target figures, countermeasures are implemented and then checked in subsequent reporting periods to ensure they are effective.

(2) Compliance Management
Compliance describes the lawful action of the company, its bodies and employees. For the Management Board, compliance with statutory law and the observance of internal guidelines are the basis of corporate management and culture. Compliance is to ensure the integrity of employees, customers and business partners and avoid possible negative consequences for the company.

The management and monitoring of Vonovia is based on the relevant statutory requirements, the Articles of Association and the rules of procedure for the Supervisory Board and the Management Board. They form the basis for the company's internal rules and guidelines, adherence to which is monitored by a central compliance management system and administered by a guideline management team that forms part of the Legal department.

The guidelines describe clear organizational and monitoring structures with specified responsibilities and appropriately installed checks. The legally compliant behavior of all employees in the business processes is ensured by suitable control procedures and supervision by managers. The company has also put in place a compliance management system based on IDW (Institute of Public Auditors in Germany) standard PS 980 and has appointed a central compliance officer, whose remit focuses on identifying compliance risks, taking suitable measures to avoid and detect these risks and taking appropriate action in response to compliance risks (compliance program).

In terms of specific content, the main features of the compliance management system are Vonovia's Code of Conduct, which focuses on ethical values and statutory requirements and reinforces the personal responsibility of employees, Vonovia's Compliance Guidelines and a Business Partner Code setting out requirements that the company's contractual partners have to meet. An external ombudsman is available to all employees and business partners as a confidant in respect of compliance issues.

At present, there have been no known major violations of laws or rules by employees.

(3) Risk Management

Vonovia's risk management system ensures the early identification, assessment, control and monitoring of all material risks within the Group that exceed the short-term financial risks dealt with by the Performance Management pillar and could pose a risk not only to the company's results of operations and net assets, but also to intangible assets such as the company's reputation. This means that potential risks which might impair the value and/or development of the company can be identified at an early stage. Early warning indicators that are specific to the environment and the company are taken into account, as are the observations and regional knowledge of our employees across Germany. The range of early warning indicators is extensive and includes, by way of example, the technical monitoring of the condition of our buildings and the residential environment, the analysis of demographic trends and recording of regional migration patterns, the monitoring of supply, rental price and new construction forecasts in our regional residential real estate submarkets, the analysis of developments relating to the regulations governing rental prices, the monitoring of our peers and their business activities, the observation of construction technology trends and developments in the field of building optimization and modernization, demand analyses on the development of property-related services and analyses and forecasts relating to the development of the financial markets and interest rates.

Responsibility for concrete risk control in daily business is decentralized and lies with the first management level below the Management Board, whereas the risk manager (same level as the Head of Controlling) is assigned to the Chief Controlling Officer's division. The risk owners use a systematic process to identify and update all risks in their respective areas of responsibility on a regular basis. Once validated by the risk manager, these risks are split into five categories: "economic environment and market-related risks," "regulatory and legal risks," "risks related to business," "financial risks" and "other risks." The potential amount of loss and the probability of occurrence are classified within set ranges before action (gross) and after action (net) for each risk and documented in a Group-wide risk register. As with the period used for medium-term corporate planning, the observation period used is five years. Based on the probability of occurrence and the amount of loss arising from the gross and net risk assessments, a score is established for each risk and the risks are prioritized accordingly. The ten risks with the highest score make up the "Top 10 risks."

Risk Classification

Category	Probability	in %	Amount of loss	in € million
I	Unlikely	< 20 %	Low	< 5
II	Possible	21 % to 50 %	Moderate	5 to 25
III	Likely	51 % to 80 %	Considerable	25 to 250
IV	Very likely	> 80 %	High	> 250

The risk management system and the risk register are updated and refined on a regular basis and are also adjusted to reflect changes at the company. The effectiveness of the risk management system is examined in regular audits.

Risk management is documented regularly in a half-yearly risk report, which is made available to the Management Board. The Audit Committee of the Supervisory Board is informed twice a year at its regular meetings about the risk situation. The risk management system is described in a risk reporting policy that is updated on an annual basis.

This reporting system ensures that both managers and supervisory bodies are comprehensively informed and provides relevant operational early warning indicators. In this way, misguided developments can be recognized in good time and counteraction taken at an early stage. Should material risks occur unexpectedly, they are reported directly to the Management Board on an ad hoc basis.

(4) Internal Control System

Vonovia's Management Board is responsible for the preparation of the annual financial statements, the consolidated financial statements and the combined and Group management report. This includes responsibility for the setup and maintenance of a suitable accounting-related internal control and risk management system.

The aim of the accounting-related internal control and risk management system is to ensure due and proper and legally compliant financial reporting pursuant to the relevant regulations. The accounting-related internal control and risk management system is embedded in the overarching Group-wide risk management system.

Organizationally, preparation of the financial statements is in the area of responsibility of the Chief Financial Officer and in particular of the Accounting department. Therefore, the Accounting department exercises the authority to lay down guidelines for the application of relevant accounting standards as well as for the content and timing of the steps in the financial statements preparation process.

From the organizational and systems side, the preparation of the financial statements for all companies included in the consolidated financial statements as well as the preparation of the consolidated financial statements themselves are performed in the central shared service center of the Accounting department, which ensures consistent and continual application of accounting policies in a uniform financial statement preparation process. Furthermore, through the shared service center it is ensured that both content and organizational changes in the requirements are incorporated in the financial statement preparation process.

The financial statements of all companies included in the consolidated financial statements are located in a computerized SAP environment with a uniform system configuration and are thus subject to uniform charts of account, accounting guidelines, processes and process controls. The requirement of separation of functions and the four-eye principle are taken appropriate account of with preventive and also subsequent checks.

Finally, the relevant financial statement data of the individual companies are made available to the SAP consolidation module via an integrated, automated interface with comprehensive validation rules for further processing and preparation of the consolidated financial statements. A comprehensive authorization concept is in place granting access to the financial statements in line with the respective job profile of the employee.

Newly acquired companies are immediately incorporated into the internal control environment as part of a structured integration process, which includes integration in terms of both IT systems and processes relating to financial statements. The prepared consolidated financial statements and the individual financial statements of the companies included then constitute the authoritative source of data for internal analysis and external communications.

Once the financial statements have been drawn up, the annual and consolidated financial statements, including the consolidated management report, are submitted to the Audit Committee of the Supervisory Board. The Committee then makes a recommendation for the Supervisory Board to adopt or approve them. This examination may include the auditor's presence at the committee meeting and is subject to the auditor's report. The Audit Committee is continually involved in the establishment and refinement of the accounting-related internal control and risk management system.

(5) Internal Audit

The effectiveness of the system and control environment, as well as the internal control system, is checked on a regular basis by the Internal Audit department. Internal Audit's annual audit plan is drawn up on a risk-oriented basis, taking particular account of the company's risk atlas, and is approved by the Management Board/Audit Committee of the Supervisory Board. The audits conducted throughout the year focus on assessing the effectiveness of the control and risk management systems, as well as identifying process improvements in order to minimize risks. Audits are also conducted in consultation with the compliance officer. The internal audit reports are provided to the Management Board, the responsible head of the audited department and the risk manager on a regular basis. The Audit Committee receives a quarterly summary of the audit results. The implementation status of all jointly approved improvement measures is checked on an ongoing basis after the relevant due dates and reported to the Management Board and to the Audit Committee of the Supervisory Board at their regular meetings.

Current Risk Assessment

Overall Assessment of the Risk Situation by the Management

As part of the risk control system that has been implemented, a scheduled risk inventory was taken in both the first and second half of the 2016 fiscal year based on a risk scoring system in line with the internal risk guidelines. The risk scoring model used in the previous year was applied unchanged in 2016. The resulting risk report was presented to the Management Board and the Audit Committee. There were no unscheduled ad hoc risk reports in 2016.

As far as the **overall assessment** of the risk situation is concerned, there was no major year-on-year change in the risk situation for Vonovia in the 2016 fiscal year. From today's point of view, Vonovia's **Management Board** has not identified any risks which the company cannot suitably combat or which may jeopardize the Group's results of operations, net assets and/or financial position. Both our business model and our diversified capital market instruments ensure that we have the greatest possible degree of independence from economic fluctuations.

The number of risks with a high net potential impact came to three at the end of 2016, as at the end of 2015. The number of risks with a considerable potential net impact fell from five risks at the end of 2015 to four risks at the end of 2016. The number of risks with a a moderate net impact rose from two risks at the end of 2015 to three risks at the end of 2016. Overall, Vonovia's Management Board continues to see no risks to the Group's survival. The main risk factors have been identified as changes in the legal framework, reputation/customer satisfaction and changes in interest rate developments.

At its ordinary meeting for the fourth quarter of 2016, the Audit Committee confirmed the following overview of the Top 10 risks of all the risks identified for the reporting period, submitted by the Management Board:

No.	Risk	Risk category	Net potential impact
1	Changes to the regulatory framework	Regulatory and legal risks	High
2	Public image/reputation and customer satisfaction	Economic environment and market-related risks	Considerable
3	Recoverability of Goodwill	Economic environment and market-related risks	High
4	Incorrect determination of the fair value of our properties	Risks related to business	High
5	Incorrect aquisition decisions	Risks related to business	Considerable
6	Unfavorable interest rate development	Financial risks	Considerable
7	Unfavorable refinancing	Financial risks	Considerable
8	Risk affine management behavior	Risks related to business	Moderate
9	Material impact of legal disputes	Regulatory and legal risks	Moderate
10	Insufficient monitoring of contractural special rights (BEV)	Risks related to business	Moderate

Regulatory and Legal Risks

Risk 1: Vonovia closely follows planned amendments to laws, as our business activities are above all subject to tax, environmental, tenancy and construction law. Any adverse changes in the legal environment, such as regulations regarding rental amounts/developments, provisions regarding modernization measures as well as restrictions on modernization opportunities or provisions (including taxes), that result in the incurrence of costs in the event of a property sale may be detrimental to Vonovia's business activities.

In order to be able to pick up on potential changes in the overall statutory framework early on, Vonovia is involved in active dialogue with policymakers and other stakeholders. Vonovia is also represented in associations and monitors the legislative procedure and recent court decisions on a regular basis.

Risk 9: Vonovia is involved in legal disputes resulting from normal business activities. In particular, this involves disputes under the law of tenancy and sales disputes. None of the legal disputes, taken in isolation, will have any material effects on the net assets, financial position or results of operations of Vonovia. There is, however, a risk of a material legal impact resulting from the simultaneous effect of a large number of individual cases, even if these are minor cases when taken in isolation.

In order to minimize the material impact and to enable a better assessment of the overall situation, Vonovia receives professional support from external law firms. The Management Board is also provided with information on the claims at regular intervals.

Economic Environment and Market-Related Risks

Risk 2: Vonovia's reputation is of crucial importance for establishing business connections. A bad reputation may make it more difficult to let our residential units or lead to the termination of rental contracts. Furthermore, on the financing side, there is the risk that the raising of capital could be impaired. Vonovia continues to take reputation and customer satisfaction very seriously and counteracts this risk with a large number of measures. For example, customer satisfaction is measured on a quarterly basis and is monitored using the performance indicator CSI in order to identify potential problems at an early stage. Improvements to the process workflows and quality initiatives increase customer satisfaction. Active public relations work helps to communicate the efforts made to improve customer satisfaction and enhance Vonovia's reputation.

Risk 3: The acquisitions made in 2015 have resulted in considerable stated goodwill, which may be associated with certain risks. The value of this stated goodwill depends largely on the development of market interest rates, average market and sector developments as well as the cash flow from the Group that can be generated in the future by the cash-generating units. Any impairment in this goodwill would be recognized in the income statement, meaning that it would have a direct impact on the company's net assets and results of operations. With regard to possible triggering events, we monitor interest rate developments, in particular, and perform an annual impairment test.

Risks Related to Business

A whole range of risks arise for Vonovia in connection with the performance of its business activities.

Risk 4: The determination of the fair values of our housing stocks, for example, is subject to assumptions that may deviate from our current expectations. Should, for example, the estimate of the microlocation of the buildings and the quality of the macrolocation deteriorate or the current low interest rate level start to increase, the fair value of our entire real estate portfolio would decrease. As far as our investment properties are concerned, changes in value are recognized in the income statement as increases or decreases in value. This means that they have a direct impact on the company's net assets, financial position and results of operations. We counter the associated risk of error with a separate department for internal determination of fair value. This department works in line with the standards that apply to professional property appraisers. Furthermore, our fair values are checked or calculated on neutral terms by professional, external and independent valuation companies that, in turn, work in line with professional rules and regulations. In the 2016 fiscal year, the assessment was once again performed by CBRE GmbH.

Risk 5: Risks can arise for Vonovia in connection with acquisition decisions. These risks can include, for example, excessive purchase prices, unexpected cases of liability, greater indebtedness, higher interest expenses, and challenges with respect to integrating acquisitions into the procedural landscape and achieving anticipated synergies. Furthermore, portfolios or real estate companies that can be acquired in the future may not develop as favorably as expected.

By applying complex, quality-assured investment models during the investment decision process, we counter the risk of uneconomic real estate acquisitions. These models not only take the purchase price and the financing cost into consideration but also regional scenarios for regular maintenance and the development of rents. We also use the in-depth market knowledge of our local regional managers to assess potential acquisition portfolios.

Vonovia's response to the risk associated with procedural integration is a systematic, structured and tried and tested integration process.

Risk 8: In principle, there is the risk that the management may make incorrect, particularly risky decisions as a result of insufficient information or lack of knowledge of the facts. Vonovia counters this risk with clearly formulated instructions for action and rules governing powers and responsibilities. Responsibility for the business is decentralized to permit better local decision-making.

Risk 10: In connection with company/portfolio acquisitions in the past, Vonovia/its predecessor companies entered into various obligations vis-à-vis the Federal Railway Fund (BEV). In particular, special contractual rights were agreed with regard to the employees transferred in connection with these acquisitions. Vonovia has agreed to certain restrictions being imposed relating to the dismissal of former BEV employees for operational and conduct-related reasons, and has also agreed to continue employment relationships (transfer of operations). In the event of a breach, these obligations could give rise to contractual penalties. Vonovia has set up internal control structures in this respect to ensure and monitor compliance with these contractual obligations, and reports to the BEV on a regular basis in this regard.

Financial Risks

Risk 6/7: The expansive monetary policy pursued by the European Central Bank (ECB) and the decision made by the United Kingdom (UK) to leave the European Union (EU) have resulted in increased demand for bonds issued by continental European issuers. As a result, the refinancing conditions and property valuations have continued to show positive development. The outcome and implications of possible exit negotiations between the UK and the EU are impossible to forecast at the moment. In particular, however, the less favorable economic outlook could have a negative impact on both general credit demand and the quality of existing credit exposures. Both could encumber the banking sector and, as a result, on the financial system as a whole.

To limit the financial risks, we continuously monitor the financial markets and are also in constant contact with many different market players. Furthermore, we continually evaluate all financing options available on the capital and banking markets. We expect to be able to refinance the necessary volumes by making use of all financing instruments in the future as well. This is based on our investment grade rating, the balanced maturity profile of the financial liabilities and our standing as a regular and reliable issuer on the capital market.

Our external loans are normally subject to loan conditions that are customary on the market (covenants) which, on the one hand, require adherence to defined key financial ratios but can also, for example, restrict the sale of properties or prescribe minimum selling prices. Vonovia also has to adhere to the conditions required to maintain the credit rating awarded by rating agencies, which also relate mainly to compliance with certain key financial ratios. As a result, adherence to the relevant conditions is monitored and reported on an ongoing basis.

Some of our borrowings are loans granted by promotional banks, which limit rent increases and thus our business options. Here, we pay strict attention to compliance with all covenants but use any scope available to us.

As part of the financial risks, we are also exposed to a liquidity risk. Our liquidity management is based on daily cash management of our bank accounts, a weekly financial flexibility status and rolling liquidity planning on a monthly basis, allowing for the relevant restrictions. The regular positive cash flows from our core business do not indicate any particular liquidity risk in the forecast period.

Overall, as of the reporting date, Vonovia SE has sufficient liquid funds and potential financing options to guarantee the Vonovia Group's ability to pay at all times.

The liabilities with variable interest rates expose the Group to a cash-effective interest rate risk. The company uses derivative financial instruments in order to limit or eliminate these risks. The purpose of these financial instruments is to hedge interest rate risks in connection with existing loans and they may never be used for speculation. For a description of the derivative financial instruments, we refer to the Notes to the consolidated financial statements, specifically note [40] (Cash Flow Hedges and Stand-Alone Interest Rate Swaps).

Other Risks

Vonovia could also be exposed to risks from residual pollution, including mining subsidence damage, soil conditions, wartime ordnance and contaminants in building materials as well as possible building code violations. Vonovia is the owner and/or property manager of a large number of buildings in the Ruhr area which are situated in the area of near-surface mine workings where the overburden layers are only thin, predominantly in the Essen/Bochum/Dortmund region. These mine workings may represent risks of damage to the surface and/or structures (e.g., traffic routes, buildings, etc.). Vonovia counters this economic and liability risk by having inspections of all buildings in the area of near-surface mining works systematically conducted by external experts. On the basis of the inspection findings and the opinions of external experts, the properties classified as subject to risks are examined for mining damage, which is immediately rectified where necessary. Proof of stability and public safety is then confirmed in an expert opinion.

At the time this report was drawn up, there were no risks in connection with future development that were identified as potentially posing a risk to the survival of Vonovia SE, a major company included in the scope of consolidation or the Group as a whole. Compared with the previous year, the estimated probability of occurrence and/or possible financial impact of some risk areas/some opportunity areas has increased slightly. Nevertheless, there are no fundamental changes to the risk or opportunity situation on the whole.

Current Assessment of the Main Opportunities

Economic Environment and Market-Related Opportunities

The demand for affordable accommodation remains largely determined by demographic factors and the economic climate. In general, households in Germany are becoming increasingly smaller. One- to two-person households have made up the largest group for more than three decades now, and their share is increasing almost continuously. While the number of one- and two-person households is growing virtually constantly, the number of households with more than two people is declining. According to the 2035 Regional Planning Forecast of the German Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), the population will have decreased slightly by 2030 compared to 2012 but the number of private households will have risen. Developments are also expected to vary considerably from region to region. While the number of households in the old German federal states (former West Germany) and Berlin will increase by 2030 compared to 2012, a decrease is to be expected in the new German states (former East Germany).

With the high influx of refugees from the crisis-ridden areas of the Middle East, immigration to Germany has further exacerbated the situation on the residential real estate market. Although not all asylum seekers will remain in Germany in the long run, we have already identified a rise in demand as a result of these developments in the 2016 fiscal year. If we also consider that many families are likely to move to join their relatives in Germany at a later date, the country could benefit increasingly from higher immigration in the years to come.

In view of these trends, demand and market opportunities for existing small- and medium-sized apartments may increase. Vonovia could benefit from this trend in the future.

Vonovia could also benefit from migration flows within the German population. According to a study conducted by the German Association of German Housing and Real Estate Companies (GdW) in 2016 on migration patterns within Germany (High Influx Cities, so-called "Schwarmstädte"), migration movements within the population are resulting in above-average population growth in various large and medium-sized cities in western Germany, and in selected cities in eastern Germany. 68 % of Vonovia's portfolio of residential properties is located in these magnet cities, meaning that Vonovia could also benefit from this trend.

In addition, the continued strained situation on the housing market in certain conurbations may lead to government decisions to extend housing or rent subsidies. This may have positive effects on Vonovia's business activities in some regions.

Opportunities Arising from the Business

Today, we already provide a significant proportion of the repair and maintenance services for our residential properties with our own craftsmen's organization. We intend to extend the scope of these services to all kinds of technical work and to our entire residential portfolio and thus bring added value from these services to Vonovia. We are also coordinating our new construction activities via our craftsmen's organization and working on new construction concepts such as modular construction solutions.

We have also extended the range of services provided by our own employees in the Berlin, Dresden and North Rhine-Westphalia regions to cover the maintenance of a building's surroundings, and will be expanding this service to cover further regions in 2017.

By offering our tenants the option of targeted modernization measures in their own homes, we can boost customer satisfaction and help promote longer-term loyalty to the company. This also allows us to further improve the quality of the homes we offer.

We already supply around 270,000 households with a direct cable TV signal. We expect to further extend this business in the coming years and also provide broadband data access.

Moreover, there might be potential for additional added value resulting from other housing-related services that provide benefit for our customers such as heat and power generation and metering directly on-site. In 2016, we started reading our customers' heating and energy meters ourselves and preparing the data required to bill this consumption. At the end of 2016, we ensured that the costs for 30,000 of our apartments were billed, and we plan to expand this business activity to include all apartments in our portfolio with central heating over the next few years.

Vonovia manages its housing stocks throughout Germany using standardized systems and processes. The acquisition of further residential real estate portfolios offers the opportunity to generate additional value through economies of scale on the property management side by reducing the costs per residential unit. Therefore, we watch the market very closely for acquisition portfolios and assess them on the basis of our strict success criteria.

We also see targeted small-scale "tactical" acquisitions of single or multiple buildings in specific locations as well as targeted measures in the residential environment as an opportunity to improve the nature and quality of whole residential districts and thus increase the appeal of our apartments for our customers and the value of our residential properties. There is also the option of constructing new buildings on land that we own and adding additional floors to existing buildings in order to expand Vonovia's housing supply in metropolitan areas, which also allows us to help reduce the short supply of housing in urban locations.

Financial Opportunities

Vonovia's financing depends on the conditions on the capital market, which are very favorable at the moment due to the low interest rates. Furthermore, we strive to improve the financing costs while maintaining our credit rating performance indicators and the desired financing structure. The internal determination of the fair values of our residential properties not only takes account of building-specific parameters but also location features in the valuation. Given the possibility, described above, of a further increase in demand with the supply of affordable accommodation remaining virtually the same, our fair values could increase further beyond the increase in the value of our properties seen in this fiscal year. This would have a direct positive impact on the results of operations and our company's stated level of debt.

Forecast Report

Further Course of the Group

Expected Development of the Overall Economic Environment

Upswing in Germany Remains Largely Intact

A forecast by the Kiel Institute for the World Economy (IfW) shows that the German economy is resisting the headwind from abroad. Experts at the IfW finally expect to see growth in gross domestic product (GDP) to the tune of 1.9 % in 2016, with economic momentum in the six summer months expected to lag behind the high rate of expansion witnessed in the first and fourth quarters. After slightly weaker growth of 1.7 % in 2017, growth is, however, expected to pick up again to 2.0 % in 2018. The expectations of slower growth during the course of 2017 can be traced back to factors that will have a temporary effect, such as the Brexit vote. The German federal government, on the other hand, expects to see lower GDP growth than the IfW, pointing to a figure of 1.4 % in its annual projection for 2017.

Despite the damper in the six summer months of 2016, the economy is still reportedly being fueled mainly by domestic economic drivers. According to the IfW, private consumption is expected to show dynamic growth of around 1.5 % during the forecast period, mainly due to continued strong growth in real disposable incomes. This nevertheless represents a drop compared with previous years (approx. -0.4 %), which can likely be explained by the recovery in oil prices, which translates into higher consumer prices and less purchasing power. The IfW expects construction activity to pick up considerably as weather-related fluctuations start to peter out thanks to the extremely stimulating overall environment, and in particular the sustained favorable financing conditions. While equipment investments were initially hindered by the continual temporary emergence of global political uncertainty, they are starting to pick up again and are expected to grow by an average of 1.3 % per quarter in both 2017 and 2018. The initial damper on exports is likely to resolve itself quickly as economic activity on key sales markets gradually starts to pick up, allowing export activity to provide a boost to the upswing. The IfW predicts that German foreign trade will remain on an expansive trajectory despite a temporary slowdown. The labor market is still showing positive development, The unemployment rate fell to 5.8 % in 2016. The rate could increase to 6.0 % in 2017 before plateauing at 5.8 % again in 2018. Despite fairly substantial increases in real wages of late, wage development remains employment-friendly, meaning that the marked increase in employment looks set to continue. The IfW believes that, while the economic impact of the large-scale migration of refugees is now showing up clearly in official budget data, it is not shaping the overall economic picture for Germany, especially since the corresponding expenditure is not likely to increase any further over the next two years. The economic momentum will allow public-sector budgets to generate further surpluses during the forecast period.

The IfW says that its forecast is subject to considerable uncertainty. The current economic pattern is unusually long/moderate, which the IfW says hinders both data interpretation and forecasting. This is compounded by the unusual monetary situation in the eurozone and in other key currency areas, as well as numerous political risks, e.g., in connection with the Brexit vote, the expected political realignment in the US or the failed referendum in Italy.

Real Estate Market: Demand for Apartments and Multifamily Residences Expected to Remain

According to experts at Deutsche Genossenschafts-Hypothekenbank AG (DG Hyp), the German real estate market is still showing very positive development. The solid economic situation, a robust labor market, a growing population thanks to immigration and low interest rates are fueling high demand for apartments and commercial spaces, as well as a considerable willingness to buy among investors. Rents and real estate prices continue to rise, whereas the yields on multifamily residences and commercial properties have been falling for several years now. This development is said to be particularly pronounced in Germany's top locations. Although Germany's economic momentum is expected to wane slightly, the favorable overall framework for the real estate market is expected to continue, according to DG Hyp. The demand for apartments, offices and retail spaces, as well as investor interest in German multifamily residences and commercial properties are expected to continue. The real estate service provider Immobilien-Scout24 expects quoted prices for apartments to continue to rise looking at Germany on average, although the downward trend in price increases for newly built apartments witnessed nationwide since the middle of 2016 could be seen as the first sign of market activity calming down. A slight increase in quoted rents remains likely. As far as the rent ceiling is concerned, a study conducted by the German Institute for Economic Research (DIW Berlin) shows that this is not having the effect lawmakers had hoped for. By the end of 2016, the rent ceiling was in force in a total of 313 cities and municipalities in twelve federal states. It was most recently introduced in Lower Saxony on December 1, 2016. The rent ceiling could potentially come into force in Mecklenburg-West Pomerania in 2017. The federal director of the German Tenants' Association (Deutscher Mieterbund) Lukas Siebenkotten does not believe that the Federal Minister of Justice Heiko Maas (SPD) will be able to push through the second package of tenancy legislation before the 2017 Bundestag elections. The draft version of the second package of reforms, which contains new provisions on rent increases after modernization and on rent indices, has not made it past the coordination stage between the relevant government departments to date.

According to FERI EuroRating Services AG (Feri), the German real estate market is currently at a relatively low risk of overheating in an international comparison. Nevertheless, the differences between a number of regional real estate markets and between urban and rural locations are particularly pronounced. While the risk of overheating is mounting in Germany on the whole, it remains limited to major cities and regional hotspots. According to Commerzbank, the real estate boom in Germany is starting to look increasingly like a bubble as house prices move further and further away from the fundamentals driven by the ECB's extremely expansive monetary policy. The empirica bubble index increased again in the fourth quarter of 2016. Nevertheless, empirica does not see any conventional nationwide price bubble at the moment. Rents and purchase prices in 227 out of 402 administrative districts and self-governing cities are no longer developing in tandem, with the bubble index indicating a medium to high risk for 158 districts. Nevertheless, there are only 7 districts in which too many apartments are being built.

Due to positive income momentum and lower interest rates for construction, DB Research says that residential property ownership remains affordable on average in Germany, despite rising house prices. There are, however, pronounced differences from region to region. Even if mortgage interest rates and house prices increase slightly, DB Research still expects houses and apartments to remain affordable in 2017.

Current Construction Activity Falling Considerably Short of the Annual Need for New Construction
According to GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e. V. (German Association of German Housing and Real Estate Companies), at least 400,000 new apartments will be required over the next few years, 80,000 of which will be social housing apartments and at least a further 60,000 apartments in the low-cost segment. As far as 2016 is concerned, GdW expects around 275,000 units to be completed across Germany. The number of new apartments being built is still too low, despite an increase in construction activity. GdW points to the long and drawn-out processes involved in making land available for construction, a lack of planning permission capacities, high construction costs, rising real estate transfer taxes and high energy-related requirements combined with insufficient investment subsidies as reasons why new construction activity aimed at creating affordable rented apartments has been unable to pick up sufficient speed.

Expected Development of Business

Comparison of the Forecast with the Results from the 2016 Fiscal Year

The 2016 fiscal year was a very successful year for Vonovia overall. Bolstered by the acquisitions made in 2015 and the further expansion of our Extension business, we were able to further expand our leading market position in 2016.

At the level of the Group as a whole, we were able to achieve a significant further improvement in our most meaningful performance indicators within the meaning of DRS 20 in the 2016 fiscal year, namely adjusted NAV per share, FFO 1 and CSI, exceeding the forecast we published in the 2015 Annual Report by far and achieving the forecast values most recently published in the Interim Report for the third quarter of 2016.

Our **adjusted NAV per share** came in at € 30.75 in 2016, up by 27.1 % on the prior-year value of € 24.19 and by 2.5 % on the most recent forecast of around € 30. This includes effects from fair value adjustments of investment properties in the amount of € 3.2 billion in total. The distribution of the dividend of € 438.0 million to our shareholders in 2016 had the opposite effect. Our EPRA NAV increased by 21.9 %, from € 13,988.2 million at the end of 2015 to € 17,047.1 million as of December 31, 2016.

FFO 1 rose by 25.1 % to € 760.8 million in 2016 (2015: € 608.0 million), on a par with the most recent forecast value of around € 760 million and well ahead of the forecast range of between € 690 million and € 710 million announced at the beginning of the year in the 2015 Annual Report. This was largely due to the much earlier realization of synergy potential from the integration of GAGFAH and SÜDEWO, the acquisition of an additional real estate portfolio comprising around 2,400 units with effect from January 1, 2016 and business developments that were generally better than expected in the 2015 Annual Report.

We were also able to further improve our customer satisfaction levels, which overshot the level we had expected. With growth of 8 %, we were able to clearly exceed our target for 2016 of an increase in the **CSI** of more than 5 %.

The table below provides an overview of the development of our forecast performance indicators and the target achievement level for these indicators in 2016.

	Actual 2015	Forecast for 2016 in the 2015 Annual Report	Last Forecast for 2016 in the 2016 Q3 Report	Actual 2016	Forecast 2017**
Adjusted EPRA NAV/share	**€ 24.19**	**€ 24–25**	**approx. € 30**	**€ 30.75**	**€ 31–32**
EPRA NAV/share	€ 30.02	€ 30–31	approx. € 36	€ 36.58	€ 37–38
FFO 1	**€ 608.0 million**	**€ 690–710 million**	**approx. € 760 million**	**€ 760.8 million**	**€ 830–850 million**
FFO 1/share	€ 1.30	€ 1.48–1.52	approx. € 1.63	€ 1.63	€ 1.78–1.82
CSI	**Increase of 2.8 %**	**Increase of up to 5 %**	**Increase > 5 %**	**Increase of 8 %**	**Similar CSI as 2016**
Monthly in-place rent €/m² (like-for-like)*	€ 5.82	Increase of 2.8–3.0 %	Increase of 3.0–3.2 %	€ 6.01	Increase of 3.5–3.7 %
Vacancy rate	2.7 %	approx. 3 %	approx. 2.5 %	2.4 %	< 2.5 %
Maintenance incl. capitalized maintenance	€ 330.7 million	approx. € 330 million	approx. € 340 million	€ 320.1 million	> 16 €/m²
Modernization	€ 355.6 million	€ 430–500 million	€ 470–500 million	€ 472.3 million	€ 700–730 million
Number of units sold Privatize	2,979	approx. 2,400	approx. 2,500	2,701	approx. 2,300
Step-up Privatize	30.5 %	approx. 30 %	> 35 %	36.2 %	approx. 35 %
Number of units sold Non-Core	12,195	Continue opportunistic sales	Up to 24,000, Continue opportunistic sales	23,930	Continue opportunistic sales
Step-up Non-Core	9.2 %	0 %	approx. 5 %	5.4 %	0 %

* Monthly in-place rent in 2015 per m² (like-for-like) incl. GAGFAH, Franconia, SÜDEWO
** excl. conwert

Forecast for the 2017 Fiscal Year

Our forecast for the 2017 fiscal year is based on the corporate planning for the Vonovia Group as a whole described in the chapter on our management system. Our plans for 2017 have taken appropriate account of possible opportunities and risks associated with the company's future development, meaning that these plans reflect realistic expectations regarding portfolio development and Vonovia's development. The forecast data below is based on Vonovia's portfolio as it stood when the plans for 2017 were drawn up in the fall of 2016.

We also plan to use the conwert takeover, which was completed in January 2017, to grow further in attractive locations. At the time the management report was prepared, final reporting figures for conwert were not yet available for the fiscal year ending on December 31, 2016. In addition, while the integration of conwert, including the harmonization of the forecasting process, had already started, this process had not yet been completed at the time the management report was prepared. In line with our acquisition criteria and based on conwert's size characteristics, we expect the takeover of conwert to have a slightly positive impact on our key figures FFO 1/share and NAV/share in the 2017 fiscal year. The effects resulting from the takeover of conwert, however, have not been included in the forecast values.

Furthermore, the Group's further development remains exposed to general opportunities and risks. These have been described in the chapter on opportunities and risks.

The forecast for the main performance indicators was based on the accounting principles used in the annual financial statements, with the adjustments described elsewhere in the management report being made.

The planning for 2017 is based on the above-mentioned assumptions on the development of the overall economy and on the development of the real estate market in Germany.

In the 2017 fiscal year, we once again plan to further expand our leading position on the German residential real estate market and continue with our successful business strategy. In particular, we will be further expanding our investment program in the areas of modernization and new construction, as well as our activities in the Extension segment. We will continue to pursue our established sales strategy in 2017 and dispose of properties that do not fit with our real estate portfolio in the long term and do not meet our location, quality and/or return requirements.

We expect to be able to increase the value of the company even further in 2017. By the end of 2017, we expect to have increased the EPRA NAV per share to € 37–38. This corresponds to an adjusted NAV per share (excl. goodwill) of € 31–32. This improvement does not include an expected increase in the market value of our real estate ("yield compression").

We plan to further improve our sustained operational earnings power in the 2017 fiscal year. The modernization measures taken in the 2016 fiscal year will also help us to achieve this. We predict that FFO 1 will increase to somewhere in the range of € 830 million to € 850 million in 2017. This works out at an FFO 1 per share of between € 1.78 and € 1.82. This forecast does not take account of any further larger acquisitions of real estate portfolios and, in particular, does not include the takeover of conwert. In the 2017 fiscal year, we will continue to forge ahead with our efforts to improve our customer service. Given the marked increase in customer satisfaction in the 2016 fiscal year, we expect to see a similar CSI in 2017.

We will be stepping up our investments in our properties considerably in 2017. We plan to implement a modernization program with a volume of € 700 million – € 730 million in the 2017 fiscal year. The focus will remain on energy-efficient modernizations, the refurbishment of units to improve the standard of comfort, and on senior-friendly conversions. We will also, however, be investing in programs such as modernization in response to tenant requests, the development of residential districts, the construction of new apartments and the addition of stories to existing properties. In addition, we expect to perform ongoing maintenance work, including capitalized maintenance, with a volume of over € 16 per square meter. All in all, this equates to a maintenance and modernization volume of up to € 1 billion in the 2017 fiscal year.

As far as rental development is concerned, we expect the monthly in-place rent per square meter to increase by between 3.5 % and 3.7 % on a like-for-like basis in 2017. We expect the vacancy rate to come in at under 2.5 % at the end of 2017. All in all, we expect rental income to remain stable at a level of around € 1.5 billion despite the planned sales.

In the Sales segment, we will continue to pursue our strategy of selective sales. In the privatization business, we expect around 2,300 apartments to be sold in 2017 with a step up on the fair value of these apartments of around 35 %. We will also continue with our strategy of selling properties from the "Non-Core" subportfolio with slightly positive step-ups insofar as corresponding opportunities present themselves.

We again plan to allow our shareholders to participate adequately in our company's success in 2016 and intend to propose a dividend of € 1.12 per share.

Düsseldorf, Germany, February 28, 2017

Rolf Buch
(CEO)

Klaus Freiberg
(COO)

Dr. A. Stefan Kirsten
(CFO)

Gerald Klinck
(CCO)

Consolidated Financial Statements

As of the reporting date, the Group had a stable financial and asset position. With total assets up by € 1.6 billion to a total of € 32.5 billion, the equity ratio comes to 42.7 %. The total value of the real estate assets – including properties used by the Group and assets held for sale – amounts to € 27.1 billion. Cash and cash equivalents amounted to € 1.5 billion at the end of the year.

Consolidated Income Statement

January 1 until December 31

in € million	Notes	2016	2015
Income from property letting		2,170.0	2,035.3
Other income from property management		39.3	28.2
Income from property management	6	**2.209.3**	**2,063.5**
Income from disposal of properties		1,227.9	726.0
Carrying amount of properties sold		-1,177.7	-658.7
Revaluation of assets held for sale		52.0	51.7
Profit on disposal of properties	7	**102.2**	**119.0**
Net income from fair value adjustments of investment properties	8	**3,236.1**	**1,323.5**
Capitalized internal expenses	9	341.0	174.9
Cost of materials	10	-1,081.9	-972.5
Personnel expenses	11	-353.8	-359.7
Depreciation and amortization	12	-27.0	-13.4
Other operating income	13	105.3	73.1
Other operating expenses	14	-249.5	-263.5
Financial income	15	27.1	8.0
Financial expenses	16	-449.0	-418.4
Earnings before tax		**3,859.8**	**1,734.5**
Income taxes	17	-1,346.9	-739.8
Profit for the period		**2,512.9**	**994.7**
Attributable to:			
Vonovia's shareholders		2,300.7	923.5
Vonovia's hybrid capital investors		40.0	40.0
Non-controlling interests		172.2	31.2
Earnings per share (basic and diluted) in €	18	**4.94**	**2.29**

Consolidated Statement of Comprehensive Income

January 1 until December 31

in € million	2016	2015
Profit for the period	**2,512.9**	994.7
Cash flow hedges		
Change in unrealized gains/losses	-66.1	59.1
Taxes on the change in unrealized gains/losses	1.7	-14.5
Net realized gains/losses	26.9	-45.3
Taxes on the change in net realized gains/losses	-7.4	10.7
Total	**-44.9**	10.0
Available-for-sale-financial assets		
Changes in the period	95.8	0.6
Taxes on changes in the period	-1.5	-0.2
Total	**94.3**	0.4
Items which will be recognized in profit or loss in the future	**49.4**	10.4
Actuarial gains and losses from pensions and similar obligations		
Change in actuarial gains/losses, net	-32.2	34.8
Tax effect	10.7	-10.9
Items which will not be recognized in profit or loss in the future	**-21.5**	23.9
Other comprehensive income	**27.9**	34.3
Total comprehensive income	**2,540.8**	**1,029.0**
Attributable to:		
Vonovia's shareholders	2,328.9	957.9
Vonovia's hybrid capital investors	40.0	40.0
Non-controlling interests	171.9	31.1

Also see the corresponding explanations in the Notes.

Consolidated Balance Sheet

in € million	Notes	Dec. 31, 2016	Dec. 31, 2015
Assets			
Intangible assets	19	2,743.1	2,724.0
Property, plant and equipment	20	115.7	70.7
Investment properties	21	26,980.3	23,431.3
Financial assets	22	585.9	221.7
Other assets	23	15.2	158.5
Income tax receivables	24	-	0.1
Deferred tax assets	17	19.6	72.3
Total non-current assets		30,459.8	26,678.6
Inventories	25	5.0	3.8
Trade receivables	26	164.4	352.2
Financial assets	22	153.2	2.0
Other assets	23	102.7	113.4
Income tax receivables	24	34.6	23.1
Cash and cash equivalents	27	1,540.8	3,107.9
Assets held for sale	28	61.6	678.1
Total current assets		2,062.3	4,280.5
Total assets		**32,522.1**	**30,959.1**

in € million	Notes	Dec. 31, 2016	Dec. 31, 2015
Equity and liabilities			
Subscribed capital		466.0	466.0
Capital reserves		5,334.9	5,892.5
Retained earnings		6,665.4	4,309.9
Other reserves		1.5	-47.9
Total equity attributable to Vonovia's shareholders		12,467.8	10,620.5
Equity attributable to hybrid capital investors		1,001.6	1,001.6
Total equity attributable to Vonovia's shareholders and hybrid capital investors		13,469.4	11,622.1
Non-controlling interests		419.0	244.8
Total equity	29	13,888.4	11,866.9
Provisions	30	607.9	612.9
Trade payables	31	1.3	0.9
Non-derivative financial liabilities	32	11,643.4	13,951.3
Derivatives	33	19.1	144.5
Liabilities from finance leases	34	94.7	94.9
Liabilities to non-controlling interests	35	9.9	46.3
Other liabilities	36	83.3	25.9
Deferred tax liabilities	17	3,769.5	2,528.3
Total non-current liabilities		16,229.1	17,405.0
Provisions	30	370.8	429.5
Trade payables	31	138.8	91.6
Non-derivative financial liabilities	32	1,727.6	988.6
Derivatives	33	57.5	58.8
Liabilities from finance leases	34	4.5	4.4
Liabilities to non-controlling interests	35	2.7	9.8
Other liabilities	36	102.7	104.5
Total current liabilities		2,404.6	1,687.2
Total liabilities		18,633.7	19,092.2
Total equity and liabilities		**32,522.1**	**30,959.1**

Also see the corresponding explanations in the Notes.

Consolidated Statement of Cash Flows

January 1 until December 31

in € million	Notes	2016	2015
Profit for the period		2,512.9	994.7
Net income from fair value adjustments of investment properties	8	-3,236.1	-1,323.5
Revaluation of assets held for sale	7	-52.0	-51.7
Depreciation and amortization	12	27.0	13.4
Interest expenses/income		433.0	414.0
Income taxes	17	1,346.9	739.8
Results from disposals of investment properties		-50.2	-67.3
Results from disposals of other non-current assets		-0.4	1.6
Other expenses/income not affecting net income		-2.6	-0.4
Change in working capital		-85.9	29.6
Repayments of tax liabilities (EK02)		-	-44.4
Income tax paid		-63.7	-16.0
Cash flow from operating activities		**828.9**	**689.8**
Proceeds from disposals of investment properties and assets held for sale		1,418.5	449.1
Proceeds from disposals of other assets		1.8	1.3
Proceeds from disposals of shares in consolidated companies	3	-	7.4
Payments for acquisition of investment properties	21	-548.8	-604.6
Payments for acquisition of other assets	19/20	-459.7	-37.8
Proceeds (last year: payments) for acquisition of shares in consolidated companies, in due consideration of liquid funds	3	0.3	-3,058.7
Interest received		4.3	3.5
Cash flow from investing activities		**416.4**	**-3,239.8**

in € million	Notes	2016	2015
Capital contributions on the issue of new shares (including premium)	29	-	2,372.0
Cash paid to shareholders of Vonovia SE and to shareholders of non-controlling interests	29	-445.4	-295.8
Payments to hybrid capital investors	29	-40.0	-40.0
Proceeds from issuing financial liabilities	32	2,576.9	5,007.1
Cash repayments of financial liabilities	32	-4,219.0	-2,390.1
Payment for transaction costs in relating to capital measures		-27.7	-165.3
Payments for other financing costs		-272.3	-57.7
Payments for the acquisition of shares in non-controlling interests		-19.3	-66.5
Proceeds for the sale of shares of consolidated companies		-	56.7
Interest paid		-365.6	-327.3
Cash flow from financing activities		**-2,812.4**	4,093.1
Net changes in cash and cash equivalents		**-1,567.1**	1,543.1
Cash and cash equivalents at the beginning of the period		3,107.9	1,564.8
Cash and cash equivalents at the end of the period [1)]	27	**1,540.8**	**3,107.9**

Also see the corresponding explanations in the Notes.

1) Thereof restricted cash € 51.7 million (Dec. 31, 2015: € 84.2 million)

Consolidated Statement of Changes in Equity

in € million	Subscribed capital	Capital reserves	Retained earnings	Other reserves – Can be reclassified – Cash flow hedges	Other reserves – Can be reclassified – Available-for-sale financial assets
As of Jan. 1, 2015	271.6	2,076.0	2,643.4	-58.4	0.0
Profit for the period			923.5		
Other comprehensive income					
Changes in the period			23.9	44.7	0.4
Reclassification affecting net income				-34.6	
Total comprehensive income			947.4	10.1	0.4
Capital increase	194.4				
Premium on the issue of new shares		4,849.2			
Transaction costs in connection with the issue of shares		-33.3			
Dividend distributed by Vonovia SE			-276.2		
Withdrawal from capital reserves		-1,000.0	1,000.0		
Changes recognized directly in equity		0.6	-4.7		
As of Dec. 31, 2015	**466.0**	**5,892.5**	**4,309.9**	**-48.3**	**0.4**
As of Jan. 1, 2016	466.0	5,892.5	4,309.9	-48.3	0.4
Profit for the period			2,300.7		
Other comprehensive income					
Changes in the period			-21.2	-64.4	94.3
Reclassification affecting net income				19.5	
Total comprehensive income			2,279.5	-44.9	94.3
Dividend distributed by Vonovia SE			-438.0		
Withdrawal from capital reserve		-558.5	558.5		
Changes recognized directly in equity		0.9	-44.5		
As of Dec. 31, 2016	**466.0**	**5,334.9**	**6,665.4**	**-93.2**	**94.7**

Total	Equity attributable to Vonovia's shareholders	Equity attributable to Vonovia's hybrid capital investors	Equity attributable to Vonovia's share-holders and hybrid capital investors	Non-controlling interests	Total equity
-58.4	4,932.6	1,001.6	5,934.2	28.0	5,962.2
	923.5	40.0	963.5	31.2	994.7
45.1	69.0		69.0	-0.1	68.9
-34.6	-34.6		-34.6		-34.6
10.5	957.9	40.0	997.9	31.1	1,029.0
	194.4		194.4		194.4
	4,849.2		4,849.2		4,849.2
	-33.3		-33.3		-33.3
	-276.2		-276.2		-276.2
	-4.1	-40.0	-44.1	185.7	141.6
-47.9	**10,620.5**	**1,001.6**	**11,622.1**	**244.8**	**11,866.9**
-47.9	**10,620.5**	**1,001.6**	**11,622.1**	**244.8**	**11,866.9**
	2,300.7	40.0	2,340.7	172.2	2,512.9
29.9	8.7		8.7	-0.3	8.4
19.5	19.5		19.5		19.5
49.4	2,328.9	40.0	2,368.9	171.9	2,540.8
	-438.0		-438.0		-438.0
	-43.6	-40.0	-83.6	2.3	-81.3
1.5	**12,467.8**	**1,001.6**	**13,469.4**	**419.0**	**13,888.4**

Notes

Accounting Policies

1 Principles of the Consolidated Financial Statements

Vonovia SE is incorporated and domiciled in Germany; its registered office is located in Düsseldorf. The head office (principal place of business) is located at Philippstrasse 3, Bochum.

The consolidated financial statements as of and for the year ended December 31, 2016, have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the EU. In addition, the supplementary commercial law provisions under Section 315a (1) of the German Commercial Code (HGB) have been observed.

The consolidated financial statements have been prepared on the basis of amortized cost except for investment properties, assets held for sale, derivative financial instruments, available-for-sale financial instruments, plan assets and financial liabilities arising from binding share purchase offers to minority shareholders. These are measured at their fair value or, in the case of financial liabilities arising from binding share price offers, at the minimum purchase price if it is higher than the fair value. The income statement has been prepared using the nature of expense method.

These consolidated financial statements are presented in euros, which is the Group's functional currency.

Unless stated otherwise, all figures are shown in million euros (€ million).

The Management Board of Vonovia SE drew up the consolidated financial statements on February 28, 2017.

2 Consolidation Principles

Business Combinations

An entity shall account for each business combination by applying the acquisition method if it obtains control. All hidden reserves and charges of the company acquired are disclosed as part of the necessary remeasurement. Any excess of the cost of a business combination over Vonovia's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, following the disclosure of hidden reserves and charges, is recognized as goodwill in the balance sheet. The consideration transferred at the time of the acquisition and the identifiable net assets that are acquired are measured at fair value as a general rule. Transaction costs are recognized as an expense immediately insofar as they do not relate to capital procurement costs or costs relating to the issue of debt capital.

Subsidiaries

Subsidiaries are companies that are controlled by the Group. The Group controls an investee if it is exposed to risks or has rights to variable returns from its involvement with the investee and has the ability to use its power of control over the investee to influence the level of these returns. In the process of full consolidation, the assets and liabilities of a subsidiary are included in the consolidated financial statements in their entirety. Subsidiaries are included in the consolidated financial statements from the date on which Vonovia SE obtains control until the day control ceases.

Non-controlling Interests

The equity of a subsidiary that is not attributable to Vonovia is shown as a separate component of equity under non-controlling interests. Non-controlling interests are measured based on their share of the identified net assets of the acquired company at the time of acquisition.

Changes in a parent ownership's interest in a subsidiary that do not result in the parent's losing control of the subsidiary are equity transactions.

Loss of Control

If Vonovia loses control over a subsidiary, the assets and liabilities of the subsidiary in question, as well as any corresponding non-controlling interests, are derecognized. The result is recognized in the income statement. Any investment retained is recognized at fair value when control is lost.

Joint Arrangements

Joint arrangements classified as joint ventures are accounted for using the equity method. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, instead of having rights to its assets and obligations for its liabilities.

Business Transactions Eliminated on Consolidation

The effects of the business transactions between the entities included in the Vonovia consolidated financial statements are eliminated.

Results from business transactions with companies accounted for using the equity method are only eliminated in line with the Group's share in the investee.

The financial statements of Vonovia SE and all subsidiaries are consistently prepared according to uniform accounting policies.

3 Scope of Consolidation and Business Combinations

All in all, and including Vonovia SE, 189 companies (Dec. 31, 2015: 190) – thereof 168 (Dec. 31, 2015: 158) domestic companies and 21 (Dec. 31, 2015: 32) foreign companies – have been included in the consolidated financial statements as of December 31, 2016. In addition, three domestic companies were included as joint ventures (Dec. 31, 2015: four).

For all subsidiaries included in the consolidated financial statements, the reporting date is December 31.

The list of Vonovia shareholdings is appended to the Notes to the consolidated financial statements as an integral part thereof.

Companies that have made use of the exemption provision set out in Section 264 (3) of the German Commercial Code (HGB) are marked accordingly in the list of shareholdings.

The changes as of December 31, 2016, compared with December 31, 2015, result from the acquisition of the GRAINGER Group (four companies), the IVV Group (eight companies), three further acquisitions, nine mergers, two sales, three accruals and three liquidations.

The measurement period for the first-time recognition of the merger with GAGFAH S.A., Luxembourg, ended on March 6, 2016.

During the first half of 2016, the obligation under "multiemployer plans" recognized in connection with the acquisition of the SÜDEWO Group was updated and stated at a value of € 15.7 million under "other provisions" (as of Dec. 31, 2015: € 12.7 million). Taking into account the deferred tax liabilities resulting from this change in the amount of € 0.9 million, the goodwill from the acquisition of the SÜDEWO Group increased by € 2.1 million to € 346.0 million. The measurement period for the first-time recognition of the merger with the SÜDEWO Group ended on July 8, 2016.

Acquisition of conwert Immobilien Invest SE Completed after the Reporting Date for the Consolidated Financial Statements

In connection with the voluntary public takeover offer that Vonovia SE made on November 17, 2016 to the shareholders of conwert Immobilien Invest SE, Vienna (conwert), a total of 72,902,498 or 71.54 % of the shares were tendered after the end of the acceptance deadline on December 19, 2016, 682,852 of which were tendered as part of an alternative exchange offer. This corresponds to 339,135 new Vonovia shares to be created.

The acquisition date, at which Vonovia SE obtained control of the conwert Group, is January 10, 2017. Vonovia's non-cash capital increase, using authorized capital, was entered in the commercial register of Düsseldorf Local Court on this day, which was formulated as a suspensive condition of the takeover offer. This transaction shall be treated as a business combination in accordance with IFRS 3.

The provisional consideration transferred for the acquisition of 71.54 % of the shares in the subscribed capital of the conwert Group comprises the following:

in € billion

Net cash purchase price component	1.17
Equity instruments	0.01
Total consideration	**1.18**

The cash offer involves the payment of the cash purchase price of € 16.16 per share in conwert.

The share-based component relates to 339,135 no-par value shares from the non-cash capital increase of Vonovia SE, which were exchanged by Vonovia SE for the conwert shares. This share-based component was valued at the XETRA closing price of € 31.48 per share on January 10, 2017, and amounts to € 10.7 million.

The provisional allocation of the total purchase price to the acquired assets and liabilities (PPA) of the conwert Group as of the date of first-time consolidation is based on a preliminary external valuation report that was commissioned for this purpose to calculate the fair values of these assets and liabilities.

The assets and liabilities assumed in the course of the business combination had the following provisional fair values as of the date of first-time consolidation:

in € billion

Investment properties	2.47
Cash and cash equivalents	0.03
Assets held for sale	0.35
Fair value of other assets	0.14
Total assets	**2.99**
Non-controlling interests	0.43
Non-derivative financial liabilities	1.23
Deferred tax liabilities	0.17
Fair value of other liabilities	0.16
Total liabilities	**1.99**
Fair value net assets	**1.00**
Consideration	1.18
Goodwill	**0.18**

The goodwill represents synergies from the future integration of the conwert Group.

Out of the trade receivables that were acquired, an amount of € 17.7 million is likely to have been uncollectible at the time of acquisition. The gross amount of the acquired trade receivables was € 75.3 million. The net carrying amount, which corresponds to the fair value, was € 57.6 million.

In the 2016 fiscal year, transaction costs of € 9.9 million were recognized as other operating expenses.

A total of 121 domestic and 87 foreign companies of the conwert Group will be newly included in the scope of consolidation as of the date of acquisition.

Pursuant to Article 19 (3) of the Austrian Takeover Act, the acceptance deadline is extended by three months, starting at the time the result is announced, namely until 5 p.m. local time in Vienna on March 23, 2017 (grace period), for those shareholders who have not yet accepted the offer. The conwert shareholders who want to accept this offer will be given the option, as with the first tender period, to choose between a cash offer and an alternative exchange offer. The cash offer involves the payment of the cash purchase price of € 16.16 per share in conwert. As part of the exchange offer, the conwert shareholders will receive 74 shares in Vonovia for every 149 shares in conwert. This constitutes a linked transaction to the actual share purchase and will be reported in the first quarter of 2017 accordingly.

4 Currency Translation

In the separate financial statements of Vonovia SE and the subsidiaries included in the consolidated financial statements, foreign currency transactions are translated into the functional currency at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rate prevailing on the reporting date. Non-monetary items that are measured in terms of historical cost are recorded on the reporting date at the exchange rate on the date when they were first recognized. Non-monetary items that are measured at fair value are translated on the reporting date using the exchange rate on the date when the fair value was determined. Any resulting translation gains and losses are recognized with effect on net income.

5 Accounting Policies

a) Recognition of Income and Expenses

Income from property management includes income from the rental of investment properties and assets held for sale which is recognized, net of discounts, over the duration of the contracts when the remuneration is contractually fixed or can be reliably determined and collection of the related receivable is probable.

In Vonovia's financial statements, the corresponding income for all the services for ancillary costs performed by the end of the year is also recognized in the year in which the service is performed.

Income from real estate sales is recognized as soon as the material risks and rewards of ownership have been transferred to the buyer and Vonovia has no substantial further obligations. As far as any remaining obligations are concerned, a provision is recognized for the probable risk.

Expenses are recognized when they arise or at the time they are incurred. Interest is recognized as income or expense in the period in which it is incurred using the effective interest method.

b) Goodwill

Goodwill results from a business combination and is defined as the amount by which the acquisition costs for shares in a company or Group company exceed the proportional net assets acquired. The net assets are the total of the identifiable assets acquired that are valued at fair value in accordance with IFRS 3 as well as the assumed liabilities and contingent liabilities.

Goodwill is not subject to amortization, but rather is subjected to impairment testing on an annual basis. It is also tested for impairment whenever events or circumstances indicating an impairment arise.

The impairment testing of goodwill is performed at the level of a cash-generating unit (CGU) or a group of cash-generating units. A cash-generating unit is the smallest group of assets containing the asset and generating cash inflows that are largely independent of the cash inflows generated by other assets or other groups of assets. Goodwill purchased as part of a business combination is allocated to the CGUs or a group of CGUs that are expected to produce benefits resulting from the synergy effects of the combination. At Vonovia, each property meets the requirements for classification as a CGU as a general rule. As part of operational management, these properties are grouped first of all to form geographically structured business units and then to form regional business areas. Since the regional business areas are the lowest level within the company at which goodwill is monitored for internal management purposes, the impairment test is performed at business area level and, as a result, in accordance with IAS 36.80 for a group of CGUs. The acquired assets are allocated to the business areas based on the geographical location of the properties. A further group of CGUs for which goodwill is monitored for internal management purposes relates to the Extension segment. The Extension segment combines all business activities relating to the expansion of Vonovia's core business that are based on additional property-related services. These primarily include the business activities of the company's own craftsmen's organization, the supply of cable TV and Internet to tenants as well as real estate management for third parties.

The group of CGUs to which goodwill has been allocated are tested for impairment.

This involves comparing the recoverable amount with the carrying amount of the group of CGUs. The recoverable amount of the group of CGUs is either its value in use or fair value less costs of sale, whichever is higher. When calculating the value in use, the estimated future cash flows are discounted to their present value. A discount rate before tax is used that reflects the current market assessment of the interest rate effect and the specific risks associated with an asset or business area.

If goodwill has been allocated to a business area and its carrying amount exceeds the recoverable amount in the future, the goodwill is to be written down in the amount of the difference in the first instance. Any need for write-downs in excess of this amount is distributed among the other assets in the group of CGUs in proportion to their carrying amount.

Impairment losses relating to the valuation of goodwill are not reversed.

c) Other Intangible Assets

Acquired other intangible assets are capitalized at amortized cost and internally generated intangible assets at amortized cost provided that the requirements of IAS 38 for the capitalization of internally generated intangible assets are met. All of Vonovia's other intangible assets have definite useful lives and are amortized on a straight-line basis over their estimated useful lives. Software and licenses are amortized on the basis of a useful life of three years.

d) Property, Plant and Equipment

Items of property, plant and equipment are carried at amortized cost less accumulated depreciation and are depreciated over their respective estimated useful lives on a straight-line basis.

Subsequent costs of replacing part of an item of property, plant and equipment are capitalized provided it is probable that future economic benefits associated with the item will flow to Vonovia and the cost can be estimated reliably.

Real estate used by the company itself (owner-occupied properties) is depreciated over 50 years; equipment, fixtures, furniture and office equipment are depreciated over periods of between three and thirteen years.

e) Impairment of Other Intangible Assets and Property, Plant and Equipment

In accordance with IAS 36 "Impairment of Assets," other intangible assets as well as property, plant and equipment are tested for impairment whenever there is an indication of an impairment. An impairment loss is recognized when an asset's recoverable amount is less than its carrying amount. If the recoverable amount cannot be determined for the individual asset, the impairment test is conducted on the CGU to which the asset belongs. Impairment losses are recognized as expenses in the income statement with effect on net income.

An impairment loss recognized for prior periods is reversed if there has been a change in the estimates used to determine the asset's (or the CGU's) recoverable amount since the last impairment loss was recognized. The carrying amount of the asset (or the CGU) is increased to the newly estimated recoverable amount. The carrying amount is limited to the amount that would have been determined if no impairment loss had been recognized in prior years for the asset (or the CGU).

f) Investment Properties

When Vonovia acquires properties, whether through a business combination or separately, the intended use determines whether such properties are classified as investment properties or as owner-occupied properties.

Investment properties are properties that are held for the purpose of earning rental income or for capital appreciation or both and are not owner-occupied or held for sale in the ordinary course of business. Investment properties include undeveloped land, land and land rights including buildings and land with inheritable building rights of third parties. Properties that are capitalized under a finance lease in accordance with IAS 17 "Leases" and covered by the definition of investment properties are also classified as investment properties.

Investment properties are initially measured at cost. Related transaction costs, such as fees for legal services or real estate transfer taxes, are included in the initial measurement. If properties are purchased as part of a business combination and if the transaction relates to a "business," then IFRS 3 applies as far as recognition is concerned. Transaction costs are recognized as an expense. Property held under a finance lease is recognized at the lower of the fair value of the property and the present value of the minimum lease payments upon initial recognition.

Following initial recognition, investment properties are measured at fair value. Any change therein is recognized as affecting net income in the income statement.

Vonovia uses the discounted cash flow (DCF) method to value investment properties. Under the DCF methodology, the expected future income and expenses associated with each property are generally forecasted over a ten-year period. For a more detailed description of the determination of the fair values of investment properties, see note [21] Investment Properties.

Investment properties are transferred to property, plant and equipment when there is a change in use evidenced by the commencement of owner-occupation. The properties' deemed cost for subsequent measurement corresponds to the fair value at the date of reclassification.

g) Leases

Finance Leases

Leases where all material risks and rewards associated with ownership are transferred to the lessee are accounted for as finance leases.

Vonovia as a Lessee under a Finance Lease

The leased asset and corresponding liability are recognized at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. Subsequently, the leased asset is accounted for in accordance with the standards applicable to that asset. The minimum lease payments are split into an interest and a principal repayment component in respect of the outstanding liability.

Operating Leases

All leases where not all material risks and rewards associated with ownership are transferred are accounted for as operating leases.

Vonovia as a Lessor under an Operating Lease

Lease payments are recognized as income on a straight-line basis over the lease term.

Vonovia as a Lessee under an Operating Lease

Lease payments are recognized as an expense on a straight-line basis over the lease term.

h) Non-Derivative Financial Assets

Loans and Receivables

Receivables and loans are first recognized as incurred, other non-derivative financial assets as of the day of trading. The day of trading is the date on which Vonovia becomes a contracting party of the financial instrument. All financial instruments are initially measured at fair value, taking account of transaction costs. A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire, or the financial asset is transferred and Vonovia neither retains control nor retains material risks and rewards associated with ownership of the financial asset.

Loans and receivables are stated at amortized cost using the effective interest method.

Vonovia determines whether there is an objective indication of an impairment at the level of individual financial instruments if they are material, and, for financial instruments for which no impairments have been identified at the level of the individual financial instruments or such impairments are immaterial, grouped according to risk profile. Impairments are identified for individual financial instruments when the counterparty has defaulted or breached a contract or there are indications of risks of impairments due to a rating downgrade and general information (loss event). For groups of financial instruments with similar risks, historical default probabilities in relation to the time overdue are drawn upon (loss event). An impairment is calculated after the occurrence of a loss event as the difference between the carrying amount and the value of the discounted estimated future cash flow. The original effective interest rate is taken as the discount rate. Impairment losses are recognized with effect on net income and offset directly with the carrying amount of the financial instrument. Any interest income on impaired financial instruments is still recognized. If there are indications that the amount of the impairment loss will be smaller, this reduction is credited to the financial instrument affecting net income to the extent that the sum does not exceed the amortized cost that would have been recognized if the impairment had not occurred.

Available-for-Sale Financial Assets

Available-for-sale financial assets are initially stated at their fair value, plus the directly attributable transaction costs. Subsequent measurement is at fair value as a general rule. In exceptional cases, subsequent measurement is at cost of acquisition if the fair value cannot be determined. Changes in the fair value are, if not an impairment loss, recognized in other comprehensive income. Impairments are reclassified from other comprehensive income to the income statement. Reversals of impairments are recognized in accordance with IAS 39.67f.

The fair value of available-for-sale financial assets is based on quoted market prices as of the reporting date. When an available-for-sale financial asset is derecognized, the cumulative gain or loss recognized in other comprehensive income is transferred to the income statement with an impact on net income. Interest on interest-bearing financial instruments of this category is calculated using the effective interest method. Dividends on equity instruments in this category are shown in the income statement.

i) Inventories

Inventories are valued at cost or at their net realizable value, whichever is lower.

j) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, checks and deposits at banking institutions as well as marketable securities with an original term of up to three months.

k) Assets Held for Sale

To be classified as held for sale, the assets must be available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets, and it must be highly probable that a sale will take place. A sale is deemed to be highly probable if there is a commitment to a plan to sell the asset, an active program to locate a buyer and complete the plan has been initiated, the asset is being actively marketed for sale at a reasonable price, and a sale is expected to be completed within one year of the date on which the asset is classified as held for sale.

Vonovia accounts for investment properties as assets held for sale when notarized purchase contracts have been signed or a declaration of intent to purchase has been signed by both parties as of the reporting date but transfer of title will, under the contract, not take place until the subsequent period. Initially they are recognized at the contractually agreed selling price and subsequently at fair value following deductions for costs to sell, if the latter is lower.

l) Income and Expense Recognized Directly in Other Comprehensive Income

This equity line item includes changes in other comprehensive income not affecting net income except those resulting from capital transactions with equity holders (e.g., capital increases or dividend distributions). Vonovia includes under this item unrealized gains and losses from the fair value measurement of available-for-sale financial assets and derivative financial instruments that are designated as cash flow hedges, as well as actuarial gains and losses from defined benefit pension commitments.

m) Tax

Current Income Taxes

Income taxes for the current and prior fiscal years are recognized as current income tax liabilities to the extent that they have not yet been paid.

The dividend payment to the shareholders does not trigger any tax obligation at Vonovia SE.

Deferred Taxes

In principle deferred tax assets and liabilities are recognized using the liability method under the temporary concept, providing for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are only recognized for temporary differences and on loss carryforwards to the extent that there are deferred tax liabilities that can be offset against them – taking the minimum taxation into account – or, based on the predictable profits in the foreseeable future, it can be verified that they will be realized.

Deferred tax assets and liabilities are not recognized where the temporary difference arises from initial recognition of goodwill in connection with a business combination or the initial recognition (other than a business combination) of other assets and liabilities in a transaction that neither affects taxable income nor net income.

The carrying amount of a deferred tax asset is reviewed at each reporting date. If necessary, the carrying amount of the deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available in the future.

Deferred taxes are measured at the tax rates that apply, or are expected to apply, to the period when the tax asset is realized or the liability is settled based on the current legislation in the countries in question. As in 2015, the combined tax rate of corporate income tax and trade tax of 33.1% was basically used to calculate domestic deferred taxes for 2016.

Deferred tax assets and liabilities are offset against each other only if Vonovia has a legally enforceable right to set off the recognized amounts, when the same tax authority is involved and when the realization period is the same. In accordance with the regulations of IAS 12 “Income Taxes,” deferred tax assets and liabilities are not discounted.

n) Earnings Per Share

The basic earnings per share are calculated by dividing the profit for the period attributable to the shareholders by the weighted average number of ordinary shares in circulation during the reporting period. The diluted earnings per share are obtained by adjusting the profit for the period and the number of outstanding shares on the basis of the assumption that convertible instruments will be converted, options or warrants will be exercised or ordinary shares will be issued under certain conditions. Potential ordinary shares will only be included in the calculation if the conversion into ordinary shares would reduce the earnings per share.

o) Provisions

Provisions for Pensions and Similar Obligations

When valuing the provisions for pensions, the company pension obligations are determined using the projected unit credit method pursuant to IAS 19 "Employee Benefits," whereby current pensions and vested pension rights as of the reporting date, as well as expected future increases in salaries and pensions, are included in the valuation. An actuarial valuation is performed at every reporting date.

The amount shown in the balance sheet is the total present value of the defined benefit obligations (DBO) after offsetting against the fair value of the plan assets.

Actuarial gains and losses are accounted for in full in the period in which they occur and recognized in retained earnings as a component of other comprehensive income and not in profit or loss. The actuarial gains and losses are also no longer recognized with effect on net income in subsequent periods.

Service cost is shown in personnel expenses. The service cost is the increase in the present value of a defined benefit obligation resulting from employee service in the reporting period.

The interest expense is recognized as an increase in the present value in the financial result. Interest expense is the increase during a period in the present value of a defined benefit obligation that arises due to the fact that the benefit obligation is one period closer to being discharged.

Reinsurance contracts that qualify as plan assets have been taken out to cover the pension obligations toward particular individuals. Where the value of those reinsurance contracts exceeds the related pension obligations, the excess is recognized as an asset and shown under other assets.

Obligations from joint defined benefit multi-employer plans by the Federal and State Government Employees Retirement Fund (VBL) are stated, in line with IAS 19.34, in the same way as obligations from defined contribution plans, insofar as the information required for the statement of defined benefit plans is not available. The obligations are based on the amounts to be paid for the current period.

Other Provisions

Other provisions are recognized when there is a present obligation, either legal or constructive, vis-à-vis third parties as a result of a past event, if it is probable that a claim will be asserted and the probable amount of the required provision can be reliably estimated. Provisions are discounted if the resulting effect is material. The carrying amount of discounted provisions increases in each period to reflect the passage of time and the unwinding of the discount is recognized within interest expense. The discount rate is a pre-tax rate that reflects current market assessments.

Provisions for restructuring expenses are recognized when the Group has set up and communicated a detailed formal plan for restructuring and has no realistic possibility of withdrawing from these obligations.

Provisions for onerous contracts are recognized when the expected benefits from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is stated at the lower of the present value of the fulfillment obligation and the cost of terminating the contract, i.e., a possible indemnity or fine for breach or non-fulfillment of contract.

Provisions are reviewed regularly and adjusted to reflect new information or changed circumstances.

The provisions for pre-retirement part-time work arrangements are basically to be classified as other long-term employee benefits that are to be accrued over the employees' service periods.

The assets of the insolvency policy to secure fulfillment shortfalls arising from pre-retirement part-time work arrangements are offset against the amounts for fulfillment shortfalls contained in the provisions for pre-retirement part-time work arrangements.

p) Financial Liabilities

Vonovia recognizes non-derivative financial liabilities, which mainly include liabilities to banks and to other creditors, at their fair value on the day of trading, less the directly attributable transaction costs. These liabilities are subsequently measured at amortized cost using the effective interest method. Financial liabilities are derecognized when Vonovia's obligations specified in the contract expire or are discharged or canceled.

Liabilities bearing no interest or interest below market rates in return for occupancy rights at rents below the prevailing market rates are recorded at present value.

Derivative financial instruments are stated at their fair value on the day of trading when they are recognized for the first time. The fair values of the derivative financial instruments are calculated using standard market valuation methods for such instruments on the basis of the market data available on the valuation date.

With derivatives that are not designated as a hedging instrument in the balance sheet, changes in the fair value are recognized in profit or loss with effect on net income.

With derivatives designated as hedging instruments, the recognition of changes in the fair value depends on the type of hedge:

With a fair value hedge, the changes in the fair value of the derivative financial instruments and of the underlying hedged items attributable to the hedged risk are recognized affecting net income.

With a cash flow hedge, the unrealized gains and losses are initially recognized in other comprehensive income to the extent that the hedge is effective. Amounts accumulated in other comprehensive income are reclassified to the income statement at the same time the underlying hedged item affects net income. To the extent that the hedge is ineffective, the change in fair value is immediately recognized in net interest.

Embedded derivative financial instruments that are combined with a non-derivative financial instrument (host contract) to form a hybrid financial instrument are to be separated from the underlying contract pursuant to IAS 39 as a general rule and accounted for separately if (i) its economic risks and characteristics are not closely related to those of the host contract, (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and (iii) the hybrid instrument is not measured at fair value affecting net income with changes in fair value recognized in the income statement. As soon as the derivative is to be separated from its host contract, the individual components of the hybrid financial instrument are to be accounted for based on the provisions that apply to the individual financial instruments.

In order to measure interest rate swaps, future cash flows are calculated and subsequently discounted. The calculated cash flows result from the contract conditions. The contract conditions refer to the EURIBOR reference rates (3M and 6M EURIBOR). Discounting is based on market interest rate data as of the reporting date for comparable instruments (EURIBOR rate of the same tenor). The fair value contains the credit risk of the interest rate swaps and therefore allows for adjustments for the company's own credit risk or for the counterparty credit risk.

To measure the cross currency swaps, future cash flows are calculated and subsequently discounted. The calculated cash flows result from the contract conditions and the US-$ forward rates (development of exchange rates expected by the market). Discounting is based on market interest rate data as of the reporting date for comparable instruments (EURIBOR rate of the same tenor). The fair value contains the credit risk of the cross currency swaps and therefore allows for adjustments for the company's own credit risk or for the counterparty credit risk.

Liabilities from finance leases are initially recognized at the fair value of the leased object or the lower present value of the minimum lease payments. For the purposes of subsequent measurement, the leased asset is accounted for in accordance with the standards applicable to that asset. The minimum lease payments are split into an interest and a principal repayment component in respect of the residual debt.

Liabilities to non-controlling interests, which include obligations from the guaranteed dividend agreements, in particular, are stated at fair value when they are recognized for the first time. They are subsequently measured at amortized cost using the effective interest method.

q) Share-Based Payment

The obligations arising from share-based payments are calculated using standard valuation methods based on option pricing models.

Equity-settled share-based payments are recognized at the grant date at the fair value of the equity instruments vested by that date. The fair value of the obligation is therefore recognized as personnel expenses proportionally over the vesting period and is offset directly against the capital reserves.

The cash-settled share-based payments are shown under other provisions and remeasured at fair value at each reporting date. The expenses are also recognized as personnel expenses over the vesting period (see notes [30] Provisions and [46] Share-Based Payment).

r) Government Grants

Vonovia companies receive grants from public authorities in the form of construction subsidies, expenses subsidies, expenses loans and low-interest loans.

Government grants are recognized when there is reasonable assurance that the relevant conditions will be fulfilled and that the grants will be awarded.

Government grants that do not relate to investments are regularly recognized as income in the periods in which the relevant expenses are incurred.

Expenses subsidies granted in the form of rent, interest and other expenses subsidies are recorded as income in the periods in which the expenses are incurred and shown within other income from property management.

The low-interest loans are grants from public authorities that – insofar as the company received them as part of a business combination – are recorded at present value. The difference between face value and present value is recognized with an effect on net income over the maturity term of the corresponding loans.

New expenses loans or low-interest loans are initially recognized at their present value within the non-derivative financial liabilities on the basis of the market interest rate at the time the loans are taken out. The difference between the face value and the present value of the loan is recognized as deferred income. Reversal occurs, in principle, with an effect on net income in line with the length of the fixed-interest-rate period of the relevant loans. In cases where the low-interest loans are issued as part of capitalized modernization measures, the difference between the face value and the present value of the loan is deducted from the capitalized acquisition cost. In subsequent measurements, the loans are measured at amortized cost. In the 2016 fiscal year, Vonovia was granted low-interest loans of € 75.0 million (2015: € 84.0 million).

s) Contingent Liabilities

A contingent liability is a possible obligation towards third parties that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events or a present obligation that arises from past events for which an outflow of resources is not probable or the amount of which cannot be estimated with sufficient reliability. According to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets," contingent liabilities are not generally recognized.

t) Estimates, Assumptions, Options and Management Judgment

Estimates and Assumptions

To a certain extent, the preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the reporting date, as well as reported amounts of income and expenses during the reporting year. The actual amounts may differ from the estimates as the business environment may develop differently than assumed. In this case, the assumptions and, where necessary, the carrying amounts of the assets or liabilities affected are prospectively adjusted accordingly.

Assumptions and estimates are reviewed on an ongoing basis and are based on experience and other factors, including expectations regarding future events that appear reasonable under the given circumstances.

The estimates and assumptions that may have a material risk of causing an adjustment to the carrying amounts of assets and liabilities mainly relate to the determination of the fair value of investment properties.

The best evidence of fair value of investment properties is current prices in an active market for comparable properties. If, however, such information is not available, Vonovia uses standard valuation techniques.

A detailed description of the discounted cash flow (DCF) method used can be found in note [21] Investment Properties.

In accordance with IAS 40 in conjunction with IFRS 13, the respective market values of the investment properties owned by Vonovia are determined for accounting purposes. Changes in certain market conditions such as prevailing rent levels and vacancy rates may affect the valuation of investment properties. Any changes in the fair value of the investment portfolio are recognized as part of the profit for the period in the Group's income statement and can thus substantially affect Vonovia's results of operations.

The statement of financial liabilities at amortized cost using the effective interest method takes the expected contractual cash flows into account. In some cases, the agreements do not have any fixed maturity terms. As a result, the cash flows included in the valuation are subject to management assumptions in terms of amount and term.

As explained in the accounting policies, Vonovia checks for goodwill impairments on an annual basis, or if there is any reason to suspect such impairments. The next step involves estimating the recoverable amount of the group of cash-generating units (CGU). This corresponds to either the fair value less costs of sale or the value in use, whichever is higher. Determining the value in use includes adjustments and estimates regarding the forecast and discounting of the future cash flow. Although the management believes that the assumptions used to determine the recoverable amount are appropriate, any unforeseeable changes in these assumptions could result in impairment losses, with a detrimental impact on the net assets, financial position and results of operations.

When determining the volume of current and deferred taxes, the Group takes into account the effects of uncertain tax items and whether additional taxes and interest may be due. This assessment is made on the basis of estimates and assumptions and may contain a number of judgments about future events. New information may become available that causes the Group to change its judgments regarding the appropriateness of existing tax liabilities; such changes to tax liabilities will affect the tax expense in the period in which such a change is made.

Furthermore, in preparing its consolidated financial statements, Vonovia needs to estimate its income tax obligations. This involves estimating the tax obligation as well as assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. Estimates are required in determining the provision for income taxes because, during the ordinary course of business, there are transactions and calculations for which the ultimate tax obligation is uncertain.

Deferred tax assets are recognized to the extent that it can be demonstrated that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that there will be sufficient future taxable profits to realize the tax benefit. Estimates are required in determining the amounts of deferred tax assets and whether those assets can be utilized.

Additional estimates and assumptions mainly relate to the uniform definition of useful lives, the assumptions made on the value of land and buildings, the recognition and measurement of provisions, as well as the realization of future tax benefits.

Options and Judgments

Options exercised and judgments made by Vonovia's management in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognized in the consolidated financial statements include the following:

> Determining whether the acquisition of investment properties as part of a business combination constitutes the acquisition of a "business" or the acquisition of an individual asset or group of assets can involve discretionary judgments.
> Upon initial recognition, the management must determine whether properties are classified as investment properties or owner-occupied properties. The classification determines the subsequent measurement of those assets.
> Vonovia measures investment properties at fair value. If management had opted to use the cost model as permitted under IAS 40, the carrying amounts of the investment properties, as well as the corresponding income and expense items in the income statement, would differ significantly.
> The criteria for assessing in which category a financial asset is to be classified may involve discretionary judgments.
> Vonovia accounts for ancillary costs using the principal method, since Vonovia, as the landlord, bears responsibility for performing the service as well as the credit risk. With the principal method, income and expenses are not netted.
> The decision on how to define a group of cash-generating units to which goodwill is allocated may involve discretionary judgments.
> Allocating the goodwill to the group of individual cash-generating units may also involve discretionary judgments.
> The parameters used in the impairment test, such as the determination of undiscounted cash flows, the weighted average cost of capital and the growth rate, may also involve discretionary judgments.

- Due to a lack of any detailed definition of the term "operation" (IAS 36.86), the disposal of goodwill within the context of real estate sales may involve discretionary decisions.
- Due to a lack of any detailed definition of the term "a separate major line of business or geographical area of operations" (IFRS 5), a disposal group within the context of real estate sales may involve discretionary decisions.
- At the moment, there are no definitive provisions on how to reflect a mandatory acquisition of non-controlling interests following the acquisition of control as part of a voluntary public takeover offer. In general, the acquisition of shares as part of a public offer during the second offer period is based on exactly the same conditions as those that applied in the first offer period, and the two acquisitions are closely related in terms of content and timing. This means that, even if it is executed in two offer periods, the acquisition constitutes one and the same transaction (linked transaction). Following the completion of the later acquisition, the original purchase price allocation is to be adjusted with retroactive effect from the acquisition date, resulting in a change in the consideration transferred, the fair value of net assets transferred and, consequently, the resulting goodwill.

u) Changes in Accounting Policies Due to New Standards and Interpretations

The application of numerous new standards, interpretations and amendments to existing standards became mandatory for the 2016 fiscal year.

The following new or amended standards and interpretations became mandatory for the first time in the 2016 fiscal year and have no material effects on Vonovia's consolidated financial statements:

- Improvements and supplements to a selection of IFRS 2012–2014
- IAS 1 "Presentation of Financial Statements"
- IAS 16 "Property, Plant and Equipment"
- IAS 27 "Separate Financial Statements"
- IAS 28 "Investments in Associates and Joint Ventures"
- IAS 38 "Intangible Assets"
- IAS 41 "Agriculture"
- IFRS 10 "Consolidated Financial Statements"
- IFRS 11 "Joint Arrangements"
- IFRS 12 "Disclosure of Interests in Other Entities"

v) New Standards and Interpretations Not Yet Applied

Application of the following standards, interpretations and amendments to existing standards was not yet mandatory for the 2016 fiscal year. Vonovia also did not choose to apply them in advance. Their application will be mandatory for the fiscal years following the dates stated in the following table:

Relevant New Standards, Interpretations and Amendments to Existing Standards and Interpretations		Effective date for Vonovia
Improvements and supplements to a selection of IFRS 2014–2016		Jan 1, 2017* Jan 1, 2018*
Amendments to Standards		
IAS 7	"Statement of Cash Flows"	Jan 1, 2017*
IAS 12	"Income Taxes"	Jan 1, 2017*
IAS 40	"Investment Property"	Jan 1, 2018*
IFRS 2	"Share-based Payment"	Jan 1, 2018*
IFRS 4	"Insurance Contracts"	Jan 1, 2018*
IFRS 15	"Revenue Recognition"	Jan 1, 2018*
IFRIC 22	"Foreign Currency Transactions and Advance Consideration"	Jan 1, 2018*
New Standards		
IFRS 9	"Financial Instruments: Classification and Measurement"	Jan 1, 2018
IFRS 15	"Revenue Recognition"	Jan 1, 2018
IFRS 16	"Leases"	Jan 1, 2019*

* Not yet endorsed

IFRS 9

In July 2014, the IASB published the final IFRS 9 "Financial Instruments", which replaces IAS 39 "Financial Instruments: Recognition and Measurement".

The material impact of the standard is shown below:

Classification and Measurement

In particular, IFRS 9 contains a new approach to the classification and measurement of financial assets that reflects both the business model in which the assets are held and the characteristics of their cash flows. The criteria determine whether the instrument in the subsequent measurement is to be measured at cost or fair value. At the time of the initial recognition of financial investments in equity instruments, companies can exercise an irrevocable (instrument-specific) option to state future changes to the fair value under other comprehensive income in equity or under profit or loss. Gains or losses recognized in other comprehensive income are never reclassified from equity to the income statement when disposed of. So far, the Group has not made a decision on whether or not to exercise the option.

Based on a preliminary analysis, the Group believes that the new classification requirements, if they were to be applied as of December 31, 2016, would not have any significant effect on the recognition of receivables from property letting, receivables from the sale of properties and other non-current loans.

As far as the classification of financial liabilities is concerned, IFRS 9 continues to apply the existing requirements set out in IAS 39.

Impairment Losses

The main difference compared with IAS 39 relates to the newly developed expected loss model. Under the old standard, impairments tended only to be recognized when the counterparty triggered such an event (incurred loss model). Based on the new standard, expected losses are already to be reflected in an impairment loss.

The guiding principle of the expected credit loss model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments.

Under the general approach, there are two measurement bases:

> 12-month expected credit losses (ECLs) (Stage 1), which applies to all items (from initial recognition) as long as there is no significant deterioration in credit quality,
> Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis.

With regard to trade receivables (e.g. rent receivables, receivables from the sale of properties) or contract assets, the "simplified approach" can be used and the entire term is taken as a basis.

A company can determine that the credit risk of a financial asset has not increased significantly if the asset has a low credit risk on the reporting date.

The need to include information concerning the future in the valuation of expected defaults means that the application of the standard will involve substantial discretionary decisions regarding the impact that changes in economic factors will have on the expected defaults.

The Vonovia Group is currently of the opinion that impairment losses for assets that fall under the impairment model set out in IFRS 9 are likely to increase. The impairment methods to be applied in accordance with IFRS 9 have not yet been set with definitive effect.

Hedge Accounting

The changes to IFRS 9 relating to hedge accounting include, among other things, an expanded range of eligible hedged items, changes regarding the posting approach for certain undesignated value components of hedging instruments, the abolition of the fixed effectiveness ranges for retrospective effectiveness testing and the first-time introduction of "recalibration". The less restrictive provisions compared with IAS 39 make it easier to reflect economic risk management in the balance sheet, which can, in turn, reduce artificial volatility in the income statement.

Transition

IFRS 9 is mandatory, for the first time, for fiscal years beginning on or after January 1, 2018. Earlier application is permissible. At the moment, Vonovia intends to apply IFRS 9 for the first time as of January 1, 2018.

The actual impact of the application of IFRS 9 on the consolidated financial statements for 2018 is not known and cannot be reliably estimated, because it will depend on the financial instruments held by the Group and the economic conditions prevailing at this point in time, as well as on the choice of accounting methods and discretionary decisions that will be made in the future.

Changes to accounting methods based on the application of IFRS 9 will be applied with retroactive effect as a general rule.

There is, however, the option of making use of the exceptional regulation under which comparative information for prior periods does not have to be adjusted to reflect the changes in classification and measurement (including impairment). Differences between the carrying amounts of financial assets and financial liabilities due to the application of IFRS 9 will generally be recognized in retained earnings and other reserves as of January 1, 2018. The Group currently plans to adhere to the exceptional regulation.

The accounting standards for hedging transactions are to be applied prospectively as a general rule.

The assessments below are to be performed based on the facts and circumstances prevailing at the time of initial application:

> Determination of the business model in which a financial asset is held,
> Designation of certain equity securities held as financial assets that are not held for trading as FVOCI (fair value through other comprehensive income).

IFRS 15

The new accounting standard IFRS 15 – "Revenue from Contracts with Customers" establishes a comprehensive framework for determining whether and when to recognize revenue and how much revenue to recognize.

The aim of the new standard is to consolidate the wide range of provisions previously contained in various standards and interpretations. The new standard contains a single, comprehensive model on how companies are to recognize revenue from contracts with customers. The core principle of this model is that companies should recognize revenue in an amount that reflects the consideration to which they expect to be entitled in exchange for the performance obligations they have assumed. The standard contains much more extensive application guidelines and provisions on disclosures in the notes to the financial statements than the previous provisions.

IFRS 15 is to be applied to all contracts with customers, with the exception, inter alia, of leases covered by IAS 17 "Leases".

The main types of revenue within the Vonovia Group are:

> Income from property letting (rental income and ancillary costs),
> Income from disposal of investment properties and
> other income from property management.

The Group has yet to perform a definitive analysis on the possible impact of the application of IFRS 15 on income from property letting.

The new standard is not expected to have any major impact on the income from disposal of investment properties and other income from property management.

Vonovia has not yet decided which of the available transition methods and simplified approaches it intends to apply.

The standard is to be applied, for the first time, in the first reporting period in a fiscal year beginning on or after January 1, 2018 and earlier application is permissable. At the moment, Vonovia intends to apply IFRS 15 for the first time as of January 1, 2018.

IFRS 16

IFRS 16 "Leases", which is to replace the previous IAS 17 "Leases" and its accompanying interpretations, was published in January 2016. The new standard, which is expected to be mandatory, is to apply to fiscal years beginning on or after January 1, 2019. It has still to be adopted into EU law.

IFRS 16 specifies how a company measures, presents and discloses leases according to IFRS.

The standard provides a single lessee accounting model. This model requires lessees to recognize all assets and liabilities for leases in the balance sheet unless the lease term is 12 months or less or the underlying asset has a low value (option in each case). Under IFRS 16, the lessee recognizes a lease liability equal to the present value of the future lease payments, plus directly attributable costs, and at the same time capitalizes a corresponding right of use to the underlying asset, for all leases in the balance sheet. During the term of a lease, the lease liability is adjusted in line with actuarial principles in a manner similar to that set out in the provisions of the previous IAS 17 for finance leases. Rights of use to assets that are not investment properties pursuant to IAS 40 are subject to scheduled amortization. Rights of use to investment properties that are measured at fair value in accordance with IAS 40 are measured in line with the standard recognition and measurement rules set out in IAS 40.

As far as lessors are concerned, the accounting model that IFRS 16 provides for does not differ significantly from the requirements set out in IAS 17. For accounting purposes, a distinction is still made between finance and operating leases.

The Vonovia Group has started work on an initial assessment of the possible impact on the IFRS consolidated financial statements. At the time of initial application, Vonovia expects to see an increase in its total assets due to the recognition of lease liabilities, as well as a similarly marked increase in fixed assets due to the rights of use to be capitalized. The equity ratio will fall accordingly.

The type of expenses associated with these leases will change in the income statement. The linear expenses for operating leases will be replaced by interest expenses for lease liabilities and, depending on the right-of-use asset, either by amortization expense for the right of use or by the earnings effect of the fair value measurement of investment properties. This will result in an improvement in (adjusted) EBITDA and an increase in the cash flow from operating activities.

Based on the current analyses, the Group is not yet able to quantify the impact of the application of IFRS 16. The quantitative impact will depend, among other things, on the transition method selected, on the extent to which the Group applies the practical simplified approaches and exceptional regulations for recognition, and on the volume of existing leases at the time of initial application. Vonovia is in the process of determining whether the simplification regulations are to be applied and what the potential impact on the consolidated financial statements would be.

The Group currently intends to apply IFRS 16 for the first time as of January 1, 2019. The Group has not yet decided which transition method to apply.

The financial statements for the previous year already contain a description of the other new and amended standards and interpretations and their possible impact on Vonovia's consolidated financial statements.

Notes to the Consolidated Income Statement

The figures from the previous year are only comparable to a limited extent due to acquisitions made during the fiscal year.

6 Income from Property Management

in € million	2016	2015
Rental income	1,542.5	1,414.6
Ancillary costs	627.5	620.7
Income from property letting	**2,170.0**	**2,035.3**
Other income from property management	39.3	28.2
Income from property management	**2,209.3**	**2,063.5**

7 Profit on Disposal of Properties

in € million	2016	2015
Income from disposal of investment properties	366.7	448.7
Carrying amount of investment properties sold	-317.0	-381.4
Profit on disposal of investment properties	49.7	67.3
Income from sale of assets held for sale	861.2	277.3
Retirement carrying amount of assets held for sale	-860.7	-277.3
Revaluation of assets held for sale	52.0	51.7
Profit on disposal of assets held for sale	52.5	51.7
	102.2	**119.0**

The fair value adjustment of investment properties held for sale for which a purchase contract had been signed but for which transfer of title had not yet taken place led to a gain of € 52.0 million as of December 31, 2016 (2015: € 51.7 million).

The total profit on disposal of property is offset by the following expenses. Transaction costs, mainly for own personnel, sales commissions as well as other sales incidentals in the line items personnel expenses, cost of materials and other operating expenses.

8 Net Income from Fair Value Adjustments of Investment Properties

Investment properties are measured according to the fair value model. Any gains or losses from a change in fair value are recognized in the income statement. The measurement of the investment properties led to a net valuation gain during the 2016 fiscal year of € 3,236.1 million (2015: € 1,323.5 million). The high valuation result for 2016 is mainly due, in addition to the strong development of Vonovia's operating business, to the dynamic market conditions for residential properties in Germany at the moment. These are reflected both in rental price developments and, in particular, also in an increase in real estate purchase prices triggered, among other things, by yield compression on the demand side.

9 Capitalized Internal Expenses

Capitalized internal expenses in the fiscal year amount to € 341.0 million (2015: € 174.9 million) and mainly relate to the expenses of the Group's own craftsmen's organization contained in the capitalized modernization costs as well as the management costs for major modernization projects.

10 Cost of Materials

in € million	2016	2015
Expenses for ancillary costs	611.9	601.7
Expenses for maintenance	387.3	268.7
Other cost of purchased goods and services	82.7	102.1
	1,081.9	**972.5**

11 Personnel Expenses

in € million	2016	2015
Wages and salaries	290.4	307.6
Social security, pensions and other employee benefits	63.4	52.1
	353.8	**359.7**

The personnel expenses include expenses for severance payments in the amount of € 12.0 million (2015: € 71.5 million), allocations to the provisions for pre-retirement part-time work arrangements in the amount of € 7.8 million (2015: € 8.4 million) and expenses for the long-term incentive plan (LTIP) at € 7.8 million (2015: € 8.2 million) (see note [30] Provisions).

In the fiscal year under review, employers' contributions to statutory pension insurance amounted to € 24.2 million (2015: € 20.0 million).

As of December 31, 2016, Vonovia had 7,437 employees (Dec. 31, 2015: 6,368). On an annual average, 6,937 people (2015: 6,027) were employed. As of December 31, 2016, Vonovia had 419 apprentices (Dec, 31, 2015: 352).

12 Depreciation and Amortization

With regard to developments in depreciation, amortization and impairment, we refer to the information set out in notes [19] Intangible Assets and [20] Property, Plant and Equipment.

13 Other Operating Income

in € million	2016	2015
Compensation for damages and cost reimbursements	40.2	36.9
Reversal of provisions	25.5	10.1
Dunning and debt collection fees	10.3	6.6
Reversal of impairment losses	1.6	4.3
Miscellaneous other	27.7	15.2
	105.3	**73.1**

Income from compensation for damages and cost reimbursements includes € 32.8 million in compensation paid by insurance companies (2015: € 26.8 million).

14 Other Operating Expenses

in € million	2016	2015
Consultants' and auditors' fees	73.0	108.7
Vehicle and traveling costs	33.7	26.1
Impairment losses	25.5	24.0
Rents, leases and ground rents	20.1	17.4
Communication costs and work equipment	15.8	14.5
Administrative services	15.6	7.2
Sales incidentals	10.9	4.2
Additions to provisions	10.1	19.1
Dunning and debt collection fees	5.1	3.0
Legal and notary costs	3.8	2.8
Insured losses	1.7	0.9
Advertising costs	1.2	5.7
Miscellaneous other	33.0	29.9
	249.5	**263.5**

15 Financial Income

in € million	2016	2015
Income from other investments	11.1	3.6
Income from non-current securities and non-current loans	1.9	2.3
Other interest and similar income	14.1	2.1
	27.1	**8.0**

The income from other investments comprises financial income from investments in other real estate companies in the amount of € 9.6 million (2015: € 0.4 million). The increase during the reporting period is due to the collection of the dividend paid by Deutsche Wohnen AG in the amount of € 9.1 million.

The other interest and similar income in 2016 includes, at € 9.4 million, the valuation result for the put option of the co-investor J.P. Morgan Securities plc in connection with the GAGFAH acquisition (in the previous year, financial expenses of € 18.7 million).

16 Financial Expenses

The financial expenses mainly relate to interest expense on financial liabilities measured at amortized cost as well as transaction costs and prepayment penalties for financing measures.

in € million	2016	2015
Interest expense from non-derivative financial liabilities	325.0	309.7
Swaps (current interest expense for the period)	27.7	35.0
Effects from the valuation of non-derivative financial instruments	-31.0	-53.2
Effects from the valuation of swaps	13.3	-4.0
Transaction costs	21.5	60.5
Prepayment penalties and commitment interest	64.4	29.9
Interest expenses purchase price liabilities from put options/rights to reimbursement	9.1	25.9
Interest accretion to provisions	11.3	9.1
Other financial expenses	7.7	5.5
	449.0	**418.4**

The prepayment penalties include not only the fees for the unscheduled repayment of a loan during the fixed interest period, but also the hedge break costs for corresponding cash flow hedges that were terminated prematurely. This interest expense is adjusted, where appropriate, in the amount of the results from the reversal of valuation changes for these loans and from the derecognition of the last market valuation of the above-mentioned derivatives.

A reconciliation of net interest to net interest with regard to measurement categories in accordance with IAS 39 is shown in the following table:

in € million	2016	2015
Interest income	14.1	2.1
Interest expense	-449.0	-418.4
Net interest	-434.9	-416.3
Less:		
Net interest from provisions for pensions in acc. with IAS 19*	10.4	9.0
Net interest from other provisions in acc. with IAS 37	0.9	-0.4
Net interest from derivatives in acc. with IAS 39: swaps	41.0	31.1
Net interest from finance leases in acc. with IAS 17	5.7	5.4
Net interest with regard to measurement categories in acc. with IAS 39	**-376.9**	**-371.2**

* including interest income on plan assets of € 0.5 million (2015: € 0.4 million)

The net interest breaks down into the measurement categories in accordance with IAS 39 as follows:

in € million	Measurement category in acc. with IAS 39*	2016	2015
Loans and receivables	LaR	4.5	1.0
Available-for-sale financial assets	AfS	0.1	0.5
Financial liabilities held for trading	FLHfT	0.4	-25.9
Financial liabilities measured at amortized cost	FLAC	-381.9	-346.8
		-376.9	**-371.2**

* see note [37] Additional Financial Instrument Disclosures

17 Income Taxes

in € million	2016	2015
Current income tax	40.0	27.2
Prior-year current income tax	10.2	-5.5
Deferred tax – temporary differences	1,353.9	732.7
Deferred tax – unutilized loss carryforwards	-57.2	-14.6
	1,346.9	**739.8**

The current tax expense is determined on the basis of the taxable income for the fiscal year. For the 2016 fiscal year, the combined tax rate of corporate income tax and solidarity surcharge for domestic companies is 15.8 % (2015: 15.8 %). Including trade tax at a rate of about 17.3 % (2015: 17.3 %), the combined domestic tax rate is 33.1 % in 2016 (2015: 33.1 %). The income generated by Vonovia Finance B.V. is subject to Dutch tax law; current taxes of € 2.0 million (2015: € 0.9 million) were incurred there. The other companies that hold properties and are based in the Netherlands and Luxembourg are subject to limited corporation tax liability in Germany. These companies, together with the Irish companies, pay insignificant minimum taxes from the Group's perspective in the countries in which they are domiciled.

Due to the discontinuation of the extended trade tax exemption at various companies, deferred tax liabilities are also subject to trade tax, unlike in the previous year. This effect results in a deferred tax expense of € 46.7 million (2015: € 55.3 million).

For domestic deductible temporary differences (excl. loss carryforwards) in the amount of € 21.4 million (Dec. 31, 2015: € 30.8 million), no deferred corporate income taxes or deferred trade taxes were recognized, because they are not likely to be used in the future.

As of December 31, 2016, there were corporate income tax loss carryforwards amounting to € 3,636.9 million (Dec. 31, 2015: € 3,540.7 million), as well as trade tax loss carryforwards amounting to € 1,899.2 million (Dec. 31, 2015: € 1,848.3 million), for which deferred tax assets have been recognized to the extent that their realization is sufficiently probable. The increase in tax loss carryforwards resulted from current tax losses at individual companies.

No deferred taxes were recognized in the balance sheet for corporate income tax loss carryforwards amounting to € 949.8 million (Dec. 31, 2015: € 1,047.8 million). Of this amount, € 13.5 million (2015: € 119.2 million) arose for the first time in the 2016 fiscal year. Under current tax law, these loss carryforwards are not subject to restrictions either with regard to time or the amount of the loss carryforward. The fact that no deferred tax assets were recognized on the new corporate income tax loss carryforwards results in a tax effect of € 2.1 million (2015: € 18.8 million). In addition, there are further trade tax loss carryforwards subject to no restrictions with regard to how they can be carried forward in the amount of € 631.2 million in total (Dec. 31, 2015: € 678.8 million). These did not give rise to any deferred tax assets. Of this amount, € 7.1 million arose for the first time in the 2016 fiscal year (2015: € 112.0 million) and the resulting tax effect is € 1.2 million (2015: € 19.4 million).

The measurement of deferred tax assets (without impairment losses on new tax loss and interest carryforwards) led to tax income amounting to € 30.4 million in the 2016 fiscal year (2015: income amounting to € 1.7 million).

Deferred taxes on interest carryforwards are recognized if the interest carryforward is likely to be able to be used in the future. Due to the Group's capital structure, no interest carryforwards are likely to be able to be used in the future. As a result, no deferred tax assets have been recognized on interest carryforwards in the amount of € 557.5 million (Dec. 31, 2015: € 382.7 million). In the 2016 fiscal year, non-deductible interest at individual companies increased the interest carryforward by € 179.3 million (2015: € 174.4 million). The fact that no deferred tax assets were recognized on the new interest carryforward generated a tax effect of € 59.4 million (2015: € 56.9 million).

A reconciliation between actual income taxes and expected tax expense, which is the product of the accounting profit for the period multiplied by the average tax rate applicable in Germany, is shown in the table below.

in € million	2016	2015
Earnings before tax	3,859.8	1,734.5
Income tax rate in %	33.1	33.1
Expected tax expense	1,277.6	574.1
Trade tax effects	42.7	62.8
Non-deductible operating expenses thereof losses from merger and accrual not taken into account for tax purposes: € 40.2 million (2015: € 5.0 million)	43.2	7.5
Tax-free income	-1.0	-0.5
Change in the deferred tax assets on loss carryforwards and temporary differences	-30.4	-1.7
New loss and interest carry-forwards not recognized	62.7	95.1
Prior year current income tax and taxes on guaranteed dividends	13.7	1.3
Differing foreign tax rates	-54.0	-1.7
Other tax effects (net)	-7.6	2.9
Effective income taxes	**1,346.9**	**739.8**
Effective income tax rate in %	**34.9**	**42.7**

The deferred taxes refer to temporary differences in balance sheet items and unutilized loss carryforwards as follows:

in € million	Dec. 31, 2016	Dec. 31, 2015
Intangible assets	-	0.6
Investment properties	1.2	3.5
Assets held for sale	0.1	0.1
Property, plant and equipment	0.2	0.3
Financial assets	3.6	3.2
Other assets	52.5	58.4
Provisions for pensions	86.7	75.5
Other provisions	13.5	50.6
Liabilities	94.1	82.2
Loss carryforwards	641.9	584.7
Deferred tax assets	**893.8**	**859.1**

in € million	Dec. 31, 2016	Dec. 31, 2015
Intangible assets	3.4	0.9
Investment properties	4,541.7	3,089.5
Assets held for sale	9.7	154.8
Property, plant and equipment	7.8	3.5
Financial assets	5.0	5.4
Other assets	7.0	11.6
Other provisions	31.5	21.8
Liabilities	37.6	27.6
Deferred tax liabilities	4,643.7	3,315.1
Excess deferred tax liabilities	**3,749.9**	**2,456.0**

Deferred tax assets and liabilities are netted against each other when the same company and the same tax authority are involved and the realization period is the same. As a result, the following deferred tax assets and liabilities are stated:

in € million	Dec. 31, 2016	Dec. 31, 2015
Deferred tax assets	19.6	72.3
Deferred tax liabilities	3,769.5	2,528.3
Excess deferred tax liabilities	**3,749.9**	**2,456.0**

The change in deferred taxes is as follows:

in € million	2016	2015
Excess deferred tax liabilities as of Jan. 1	2,456.0	1,117.8
Deferred tax expense in income statement	1,296.7	718.1
Deferred tax due to first-time consolidation	1.8	620.5
Change recognized in other comprehensive income in deferred taxes on available-for-sale financial assets	1.5	0.2
Change recognized in other comprehensive income in deferred taxes on actuarial gains and losses from pensions and similar obligations	-10.6	10.9
Change recognized in other comprehensive income in deferred taxes on derivative financial instruments regarding liabilities	5.7	3.8
Deferred taxes recognized in equity on accrued capital procurement costs resulting from the issuance of a hybrid bond with an indefinite term	-0.4	-
Deferred taxes recognized in the capital reserve on capital procurement costs of capital increases	-0.8	-15.3
Excess deferred tax liabilities as of Dec. 31	**3,749.9**	**2,456.0**

No deferred tax liabilities are recognized for profits accumulated at subsidiaries of € 10,505.9 million (Dec. 31, 2015: € 7,579.4 million), as these profits are to remain invested for an indefinite period or are not subject to taxation. In the event of distribution or disposal of the subsidiaries, 5 % of the distributed amounts or the capital gains would be subject to German taxation so that there would normally be an additional tax obligation. Determination of the potential tax effects was dispensed with in view of the disproportionately high cost.

18 Earnings per Share

The earnings per share are calculated by dividing the profit for the period attributable to the shareholders by the weighted average number of ordinary shares in circulation during the reporting period.

	2016	2015
Profit for the period attributable to Vonovia shareholders (in € million)	2,300.7	923.5
Weighted average number of shares	466,000,624	403,954,873*
Earnings per share (basic and diluted) in €	**4.94**	**2.29**

* The number of outstanding shares on average was adjusted in order to take account of the effect of the bonus element for subscription rights issued in July 2015 as part of the capital increase.

When calculating the diluted weighted average of ordinary shares as of December 31, 2016, 14,743,685 potential ordinary shares resulting from the public takeover offer made to the shareholders of conwert were not included, as they do not have a diluting effect.

At the end of the reporting periods, no diluting financial instruments were in circulation. The basic earnings per share correspond to the diluted earnings per share.

Notes to the Consolidated Balance Sheet

19 Intangible Assets

in € million	Concessions, industrial property rights, licences and similar rights	Self-developed software	Customer relationships and similar values	Goodwill	Total
Cost					
As of Jan. 1, 2016	25.8	2.9	-	2,714.7	**2,743.4**
Additions due to business combinations	0.1	-	7.8	4.2	**12.1**
Additions	9.3	2.0	4.3	-	**15.6**
Disposals	-4.0	-0.2	-	-	**-4.2**
As of Dec. 31, 2016	31.2	4.7	12.1	2,718.9	**2,766.9**
Accumulated amortization					
As of Jan. 1, 2016	19.3	0.1	-	-	**19.4**
Additions due to business combinations	0.1	-	-	-	**0.1**
Amortization in reporting year	4.4	1.5	2.4	-	**8.3**
Disposals	-4.0	-	-	-	**-4.0**
As of Dec. 31, 2016	19.8	1.6	2.4	-	**23.8**
Carrying amounts					
As of Dec. 31, 2016	11.4	3.1	9.7	2,718.9	**2,743.1**
Cost					
As of Jan. 1, 2015	9.2	7.4	15.8	106.0	138.4
Additions due to business combinations	12.0	-	-	2,608.7	2,620.7
Additions	5.2	2.9	-	-	8.1
Disposals	-0.6	-7.4	-15.8	-	-23.8
As of Dec. 31, 2015	25.8	2.9	-	2,714.7	2,743.4
Accumulated amortization					
As of Jan. 1, 2015	6.7	7.4	15.8	-	29.9
Additions due to business combinations	10.7	-	-	-	10.7
Amortization in reporting year	2.4	0.1	-	-	2.5
Disposals	-0.5	-7.4	-15.8	-	-23.7
As of Dec. 31, 2015	19.3	0.1	-	-	19.4
Carrying amounts					
As of Dec. 31, 2015	6.5	2.8	-	2,714.7	2,724.0

Goodwill

Goodwill came to € 2,718.9 million as of December 31, 2016. The increase of € 4.2 million is attributable to the acquisition of the IVV Group and to an adjustment to the SÜDEWO acquisition in 2015.

The allocation of goodwill to the regional business areas and to the Extension segment was performed based on the two indicators that reflect the synergy effects expected to be generated as a result of the business combination: “direct planned synergies” and “fair values.”

In the fourth quarter, the mandatory annual impairment test was performed. As part of the impairment test and in accordance with IAS 36.19, first the value in use was calculated based on the medium-term plans, with a planning period of five years, approved by the

Management Board and adjusted to reflect portfolio effects. With regard to the regional business areas of the Rental segment, the main drivers behind the results of the five-year plan are the increase in gross rental income and the planned reduction in the vacancy rate. Developments in the Extension segment are characterized primarily by the extension of existing business areas (craftsmen's organization, multimedia, management of residential property, smart metering, etc.). On the other hand, there is an increase in operating expenses, taking into account the rate of inflation. The development in these values is in line with our past experience of business model development. The cash flows from the last detailed planning year were derived to calculate the perpetual annuity. The plans were drawn up taking into account both factors that can be influenced, and factors that cannot be influenced at all, or can hardly be influenced.

The main parameters for calculating the recoverable amount are the sustainable rate of increase, the weighted average cost of capital (WACC) and payments for maintenance and modernization measures as well as rent increases.

The growth rate was calculated in a regionally specific manner based on in-place rents. The weighted average cost of capital before tax is based on the risk-free interest rate of 0.95 % calculated as a three-month average using the Svensson method, a market risk premium of 7.0 % and a beta of 0.52. The beta and the equity ratio used are determined on the basis of a peer comparison.

Groups of cash-generating units as of December 31, 2016

in € million	North area	East area	Southeast area	West area	Middle area	South area	Central area	Extension segment	Group
Goodwill	481.4	307.7	337.7	527.8	400.1	455.3	11.2	197.7	**2,718.9**
WACC before tax in %	3.8	3.8	3.9	3.9	3.9	3.9	3.8	4.1	**-**
Sustainable rate of increase in %	1.0	1.0	1.0	0.8	1.1	1.1	1.0	1.0	**1.0**

Groups of cash-generating units as of December 31, 2015

in € million	North area	East area	Southeast area	West area	Middle area	South area	Central area	Extension segment	Group
Goodwill	481.0	307.5	337.4	527.4	399.7	455.0	11.2	195.5	2,714.7
WACC before tax in %	3.8	3.8	3.8	3.9	3.9	3.8	3.8	4.2	-
Sustainable rate of increase in %	1.0	1.1	1.1	0.8	1.1	1.1	1.1	1.0	1.0

The results of the assessment confirm the value of the goodwill from the acquisitions. No need for impairment would arise up to an increase of the weighted average cost of capital (after tax) by 0.4 percentage points. The value of the goodwill is also confirmed in a sensitivity analysis based on realistic changes in the additional key parameters.

20 Property, Plant and Equipment

in € million	Owner-occupied properties	Technical equipment, plant and machinery	Other equipment, fixtures, furniture and office equipment	Total
Cost				
As of Jan. 1, 2016	50.1	19.4	41.4	**110.9**
Additions due to business combinations	–	–	0.7	**0.7**
Additions	9.1	19.6	20.5	**49.2**
Capitalized modernization costs	1.3	–	–	**1.3**
Disposals	-2.9	-2.5	-15.7	**-21.1**
Transfer from investment properties	27.1	–	–	**27.1**
Transfer to investment properties	-14.1	–	–	**-14.1**
As of Dec. 31, 2016	70.6	36.5	46.9	**154.0**
Accumulated depreciation				
As of Jan. 1, 2016	5.6	8.2	26.4	**40.2**
Additions due to business combinations	–	–	0.4	**0.4**
Depreciation in reporting year	0.5	3.6	10.5	**14.6**
Impairment	4.2	–	–	**4.2**
Reversal of impairments	-2.1	–	–	**-2.1**
Disposals	-2.1	-2.1	-14.8	**-19.0**
As of Dec. 31, 2016	6.1	9.7	22.5	**38.3**
Carrying amounts				
As of Dec. 31, 2016	64.5	26.8	24.4	**115.7**
Cost				
As of Jan. 1, 2015	17.7	6.8	23.0	47.5
Additions due to business combinations	28.9	5.3	10.7	44.9
Additions	0.3	7.3	9.0	16.6
Capitalized modernization costs	0.2	–	–	0.2
Disposals	-0.3	–	-1.3	-1.6
Transfer from investment properties	4.0	–	–	4.0
Transfer to investment properties	-0.7	–	–	-0.7
As of Dec. 31, 2015	50.1	19.4	41.4	110.9
Accumulated depreciation				
As of Jan. 1, 2015	1.6	2.3	14.6	18.5
Additions due to business combinations	1.1	4.1	6.7	11.9
Depreciation in reporting year	0.5	1.8	6.0	8.3
Impairment	2.6	–	–	2.6
Reversal of impairments	-0.2	–	–	-0.2
Disposals	0.0	–	-0.9	-0.9
As of Dec. 31, 2015	5.6	8.2	26.4	40.2
Carrying amounts				
As of Dec. 31, 2015	44.5	11.2	15.0	70.7

As of December 31, 2016, the "owner-occupied properties" item includes € 9.1 million in construction costs for the construction of the new Vonovia headquarters.

Furthermore, carrying amounts of owner-occupied properties amounting to € 36.8 million as of December 31, 2016 (Dec. 31, 2015: € 26.0 million) are encumbered with land charges in favor of various lenders.

21 Investment Properties

in € million

As of Jan. 1, 2016	**23,431.3**
Additions	304.8
Capitalized modernization costs	518.8
Grants received	-1.2
Transfer from property, plant and equipment	14.1
Transfer to property, plant and equipment	-27.1
Transfer from assets held for sale	0.1
Transfer to assets held for sale	-230.8
Disposals	-317.0
Net income from fair value adjustments of investment properties	3,236.1
Revaluation of assets held for sale	51.2
As of Dec. 31, 2016	**26,980.3**
As of Jan. 1, 2015	12,687.2
Additions due to business combinations	9,817.9
Additions from the acquisition of the Franconia portfolio	298.1
Additions	41.8
Capitalized modernization costs	433.5
Grants received	-0.7
Other transfers	22.3
Transfer from property, plant and equipment	0.7
Transfer to property, plant and equipment	-4.0
Transfer from assets held for sale	0.1
Transfer to assets held for sale	-859.4
Disposals	-381.4
Net income from fair value adjustments of investment properties	1,323.5
Revaluation of assets held for sale	51.7
As of Dec. 31, 2015	**23,431.3**

The additions in 2016 include € 13.9 million (2015: € 1.5 million) in construction costs for new construction activities.

In the amount of € 51.6 million (2015: € 39.4 million), the investment properties contain leased assets that are defined as finance leases according to IAS 17 and are treated as if they were the Group's economic property. These relate to the Spree-Bellevue (Spree-Schlange) property in Berlin. The property has been leased from DB Immobilienfonds 11 Spree-Schlange von Quistorp KG until 2044. The lease agreement includes an obligation to pay compensation for loss of use as agreed by contract. At the end of 2028, each fund subscriber is entitled to return his share to the property fund at a fixed redemption price. If all of the fund investors make use of this option, Vonovia is obliged to acquire the property at a fixed purchase price after deduction of borrowings. If more than 75 % of the shares are returned in this way, Vonovia has a call option for the purchase of all fund shares. Details of minimum lease payments are given under note [32] Non-derivative Financial Liabilities.

For the investment properties encumbered with land charges in favor of various lenders, see note [32] Non-derivative Financial Liabilities.

Directly Attributable Operating Expenses

Rental income from investment properties amounted to € 1,542.4 million during the fiscal year (2015: € 1,414.6 million). Operating expenses directly relating to these properties amounted to € 236.8 million during the fiscal year (2015: € 226.4 million). These include expenses for maintenance, ancillary costs that cannot be passed on to the tenants, personnel expenses from the caretaker and craftsmen's organizations, and income from the capitalized internal expenses. The capitalized internal expenses relate to the work performed by the Group's own craftsmen's organization and the management costs for major modernization projects.

Long-Term Leases

Vonovia as a lessor has concluded long-term leases on commercial properties. These are non-cancelable operating leases. The minimum future lease receipts from these leases are due as follows:

in € million	Dec. 31, 2016	Dec. 31, 2015
Total minimum lease payments	62.1	42.9
Due within 1 year	18.5	8.7
Due in 1 to 5 years	40.5	19.1
Due after 5 years	3.1	15.1

As part of IFRS accounting, the fair values of the real estate portfolios were determined in accordance with IAS 40.

Fair Values

The value of the entire portfolio of residential properties was determined on the basis of the International Valuation Standard Committee's definition of market value. Portfolio premiums and discounts, which can be observed when portfolios are sold in market transactions, were not included. Nor were time restrictions in the marketing of individual properties. Vonovia determines fair value in accordance with the requirements of IAS 40 in conjunction with IFRS 13.

Vonovia values its portfolio using a method known as the discounted cash flow (DCF) method. Under the DCF methodology, the expected future income and costs of a property are forecast over a period of ten years and discounted to the date of valuation as the net present value. The income mainly comprises expected rental income (current in-place rent, market rents as well as their development) taking vacancy losses into account. These are derived for each location from the latest rent indices and rent tables (Empirica and IVD), as well as from studies on spatial prosperity (Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), Prognos, empirica, Bertelsmannstiftung, etc.).

On the cost side, maintenance expenses and administrative costs are taken into account in accordance with the II. Berechnungsverordnung and inflated in the reporting period (II. BV; German Regulation on Calculations for Residential Buildings in Accordance with the Second Housing Construction Law, stipulating how economic viability calculations for accommodation are to be performed). Further cost items are, for example, ground rents, non-allocable ancillary costs and rent losses. Modernization measures carried out in the housing stocks are factored in by decreasing the current maintenance expenses and adjusting market rents.

On this basis, the forecast cash flows are calculated on an annual basis and discounted to the date of valuation as the net present value. In addition, the terminal value of the property at the end of the ten-year period is determined using the expected stabilized net operating income and again discounted to the date of valuation as the net present value. The discount rate applied reflects the market situation, location, type of property, special property features (e.g. inheritable building rights, rent restrictions), the yield expectations of a potential investor and the risk associated with the forecast future cash flows of the property. The present value calculated in this way is reconciled to the market value by deducting standard market transaction costs, such as real estate transfer taxes, agent and notary costs.

The commercial properties in the portfolio are mainly small commercial units for the supply of the local residential area. Different cost approaches were used to those for residential properties, and the discount rates were adjusted to reflect the market specifics.

The valuation is, in principle, performed on the basis of homogeneous valuation units. These meet the criteria of economically cohesive and comparable land and buildings. They include:

> Geographical location (identity of the microlocation and geographical proximity)
> Comparable types of use, building class, construction year class and condition of property
> Same property features such as rent restrictions, inheritable building rights and full or part ownership

The Vonovia portfolio also contains development areas and land areas with inheritable building rights that make up less than 1 % of the total value. The development areas are valued using a comparable method on the basis of the local standard land value. Deductions are taken into account, in particular for the readiness for construction and potential use as well as for likelihood of development and the development situation. Inheritable building rights granted are valued in the same way as the property portfolio using a DCF method. The input parameters here are the duration and amount of ground rent and the value of the land.

Vonovia determined the fair values as of December 31, 2016, in its in-house valuation department on the basis of the methodology described above. The property assets are also assessed by the independent property appraiser CBRE GmbH. The contractually fixed remuneration for the valuation report is based on a tender and is not linked to the valuation results. The market value resulting from the external review deviates from the internal valuation result by less than 0.1 %.

The real estate portfolio of Vonovia is to be found in the items investment properties, property, plant and equipment (properties used by the company itself) and assets held for sale. The fair value of the real estate portfolio comprising residential buildings, commercial properties, garages and parking spaces as well as undeveloped land and any inheritable building rights granted was € 27,115.6 million as of December 31, 2016 (Dec. 31, 2015: € 24,157.7 million). This corresponds to a net initial yield of 4.0 % (Dec. 31, 2015: 4.5 %) for the developed land, an in-place-rent multiplier of 17.6 (Dec. 31, 2015: 15.4) and fair value per m² of € 1,264 (Dec. 31, 2015: € 1,054).

The material valuation parameters for the investment properties (level 3) are as follows as of December 31, 2016, broken down by regional markets*:

Dec. 31, 2016 Regional market	Valuation results** Fair value (in € million)	thereof assets held for sale (in € million)	thereof Owner-occupied properties (in € million)	thereof Investment properties (in € million)
Berlin	3,448.3	0.6	13.0	3,434.7
Rhine Main Area (Frankfurt, Darmstadt, Wiesbaden)	3,099.8	7.0	4.8	3,088.0
Rhineland (Cologne, Düsseldorf, Bonn)	2,847.4	2.5	4.7	2,840.1
Dresden	2,438.6	0.0	5.5	2,433.1
Southern Ruhr Area (Dortmund, Essen, Bochum)	2,370.7	4.5	4.0	2,362.2
Hamburg	1,733.2	0.7	2.6	1,729.9
Munich	1,651.9	6.3	2.5	1,643.1
Stuttgart	1,584.7	6.1	7.8	1,570.9
Northern Ruhr Area (Duisburg, Gelsenkirchen)	1,290.8	3.1	4.1	1,283.6
Hanover	1,027.1	1.1	1.3	1,024.8
Kiel	861.2	0.0	2.9	858.3
Bremen	761.6	0.2	3.9	757.5
Westphalia (Münster, Osnabrück)	588.9	0.1	1.1	587.7
Freiburg	493.3	0.8	1.7	490.8
Leipzig	260.7	0.5	0.5	259.8
Other strategic locations	1,882.5	5.4	3.2	1,873.9
Total strategic locations	**26,340.7**	**38.9**	**63.5**	**26,238.3**
Non-strategic locations	671.9	22.1	1.2	648.6
Total	**27,012.6**	**61.0**	**64.7**	**26,886.9**

* For explanatory information on the regional markets, please refer to the chapter on portfolio structure in the management report
** Fair value of the developed land excluding € 103.0 million for undeveloped land, inheritable building rights granted and other, thereof € 93.4 million investment properties

Valuation parameters investment properties (Level 3)

	Management costs residential (€ per residential unit p.a.)	Maintenance costs total (per m² p.a.)	Market rent (per m² p.a.)	Market rent increase	Stabilized vacancy rate	Discount rate	Capitalized interest rate
	245	13.78	6.57	1.3 %	1.7 %	4.6 %	3.3 %
	266	13.98	8.21	1.4 %	1.3 %	5.5 %	4.1 %
	262	13.54	7.26	1.3 %	2.0 %	5.5 %	4.2 %
	231	14.24	6.07	1.2 %	2.3 %	5.6 %	4.5 %
	259	13.09	5.85	1.1 %	2.8 %	6.0 %	5.0 %
	252	14.24	7.47	1.2 %	1.5 %	5.1 %	4.1 %
	255	13.69	10.15	1.5 %	0.9 %	5.0 %	3.5 %
	264	13.98	8.15	1.4 %	1.6 %	5.5 %	4.2 %
	261	13.27	5.54	0.9 %	4.0 %	6.0 %	5.4 %
	252	13.77	6.44	1.2 %	2.1 %	5.7 %	4.5 %
	251	14.24	6.14	1.2 %	1.8 %	5.7 %	4.8 %
	255	13.05	5.87	1.3 %	2.8 %	5.5 %	4.3 %
	254	13.53	5.92	1.1 %	2.4 %	5.8 %	4.8 %
	261	14.12	7.58	1.4 %	1.2 %	5.0 %	3.7 %
	246	13.21	5.82	1.2 %	3.7 %	5.6 %	4.5 %
	264	13.59	6.66	1.2 %	2.2 %	5.6 %	4.4 %
	254	**13.69**	**6.73**	**1.3 %**	**2.2 %**	**5.5 %**	**4.2 %**
	261	13.08	5.15	0.9 %	5.7 %	6.0 %	5.3 %
	255	**13.66**	**6.66**	**1.2 %**	**2.4 %**	**5.5 %**	**4.3 %**

Dec. 31, 2015 Regional market	Valuation results* Fair value (in € million)	thereof Assets held for sale (in € million)	thereof Owner-occupied properties (in € million)	thereof Investment properties (in € million)
Berlin	2,709.2	5.7	1.6	2,701.9
Rhine Main Area (Frankfurt, Darmstadt, Wiesbaden)	2,708.4	4.9	2.8	2,700.7
Rhineland (Cologne, Düsseldorf, Bonn)	2,460.9	1.4	2.3	2,457.2
Dresden	2,108.7	0.0	0.0	2,108.7
Southern Ruhr Area (Dortmund, Essen, Bochum)	2,169.1	3.0	4.3	2,161.7
Hamburg	1,455.3	0.4	1.3	1,453.5
Munich	1,292.4	5.0	2.1	1,285.4
Stuttgart	1,355.3	1.7	6.3	1,347.3
Northern Ruhr Area (Duisburg, Gelsenkirchen)	1,245.5	12.7	2.7	1,230.1
Hanover	877.8	2.3	0.6	874.9
Kiel	719.5	0.5	2.5	716.5
Bremen	630.9	0.0	2.3	628.6
Westphalia (Münster, Osnabrück)	513.9	0.3	0.6	513.0
Freiburg	389.8	0.0	1.5	388.3
Leipzig	234.2	0.9	0.5	232.7
Other strategic locations	1,655.0	4.4	1.3	1,649.3
Total strategic locations	22,525.7	43.1	32.7	22,449.9
Non-strategic locations	1,561.5	641.4	0.5	919.6
Total	**24,087.2**	**684.5**	**33.2**	**23,369.5**

* Fair value of the developed land excluding € 70.5 million for undeveloped land, inheritable building rights granted and other, thereof € 61.8 million investment properties

The same inflation rate, namely 1.5 %, has been applied across the portfolio. This led overall to net income from fair value adjustments of € 3,263.1 million in the 2016 fiscal year (2015: € 1,323.5 million).

Sensitivity Analyses

The sensitivity analyses performed on Vonovia's real estate portfolio show the impact of the value drivers influenced by the market. Those influenced in particular are the market rents and their development, the amount of recognized administrative and maintenance expenses, cost increases, the vacancy rate and interest rates. The effect of possible fluctuations in these parameters is shown separately for each parameter according to regional market in the following.

Interactions between the parameters are possible but cannot be quantified owing to the complexity of the interrelationships. The "vacancy" and "market rent" parameters, for example, can influence each other. If rising demand for housing is not met by adequate supply developments, then this can result in lower vacancy rates and, at the same time, rising market rents. If, however, the rising demand is compensated for by a high vacancy reserve in the location in question, then the market rent level does not necessarily change.

Changes in the demand for housing can also impact the risk associated with the expected payment flows, which is then reflected in adjusted amounts recognized for discounting and capitalized interest rates. The effects do not, however, necessarily have to have a favorable impact on each other, for example if the

Valuation parameters investment properties (Level 3)

Management costs residential (€ per residential unit p.a.)	Maintenance costs total (per m² p.a.)	Market rent (per m² p.a.)	Market rent increase	Stabilized vacancy rate	Discount rate	Capitalized interest rate
242	13.40	6.35	1.3 %	1.8 %	5.3 %	4.0 %
262	13.84	7.94	1.3 %	1.4 %	5.8 %	4.5 %
257	13.53	6.97	1.3 %	2.0 %	5.8 %	4.6 %
233	13.73	5.65	1.4 %	2.5 %	5.9 %	4.7 %
255	13.00	5.58	1.0 %	3.0 %	6.0 %	5.2 %
248	14.21	7.22	1.3 %	1.5 %	5.7 %	4.7 %
251	13.59	10.11	1.4 %	0.9 %	5.6 %	4.3 %
264	13.58	8.07	1.3 %	1.5 %	5.8 %	4.5 %
257	13.13	5.33	0.9 %	4.3 %	6.0 %	5.4 %
251	13.65	6.08	1.2 %	2.6 %	5.9 %	4.9 %
246	14.01	5.73	1.1 %	1.8 %	6.2 %	5.3 %
250	12.81	5.61	1.2 %	3.1 %	5.9 %	4.9 %
249	13.29	5.51	1.1 %	2.3 %	6.0 %	5.1 %
257	14.08	7.41	1.3 %	1.1 %	5.8 %	4.5 %
249	12.80	5.74	1.1 %	4.5 %	5.8 %	4.9 %
261	13.35	6.37	1.2 %	2.4 %	5.9 %	4.8 %
251	**13.48**	**6.45**	**1.2 %**	**2.3 %**	**5.8 %**	**4.7 %**
254	12.88	4.93	0.9 %	5.7 %	6.1 %	5.5 %
252	**13.41**	**6.28**	**1.2 %**	**2.7 %**	**5.8 %**	**4.7 %**

changes in the demand for residential real estate are overshadowed by macroeconomic developments.

In addition, factors other than demand can have an impact on these parameters. Examples include changes in the housing stock, in seller and buyer behavior, political decisions and developments on the capital market.

The table below shows the percentage impact on values in the event of a change in the valuation parameters. The absolute impact on values is calculated by multiplying the percentage impact by the fair value of the investment properties.

Regional market	Change in parameters		
	Management costs residential	Maintenance costs residential	Cost increase/inflation
Dec. 31, 2016	-10 % / +10 %	-10 % / +10 %	-0.5 % / +0.5 % points
Berlin	0.7 / -0.7	2.3 / -2.3	5.2 / -5.2
Rhine Main Area (Frankfurt, Darmstadt, Wiesbaden)	0.6 / -0.6	1.8 / -1.8	2.9 / -3.1
Rhineland (Cologne, Düsseldorf, Bonn)	0.6 / -0.6	2.0 / -2.0	3.4 / -3.5
Dresden	0.8 / -0.8	2.6 / -2.6	4.3 / -4.4
Southern Ruhr Area (Dortmund, Essen, Bochum)	1.0 / -1.0	2.8 / -2.9	4.2 / -4.4
Hamburg	0.6 / -0.6	2.1 / -2.1	3.8 / -3.9
Munich	0.4 / -0.4	1.4 / -1.4	3.3 / -3.5
Stuttgart	0.5 / -0.5	1.8 / -1.8	3.4 / -3.3
Northern Ruhr Area (Duisburg, Gelsenkirchen)	1.1 / -1.1	3.3 / -3.3	4.6 / -4.7
Hanover	0.8 / -0.8	2.5 / -2.5	3.8 / -3.9
Kiel	0.9 / -0.9	2.7 / -2.7	4.1 / -4.2
Bremen	0.9 / -0.9	2.8 / -2.8	4.9 / -5.0
Westphalia (Münster, Osnabrück)	0.9 / -0.9	3.0 / -3.0	4.4 / -4.6
Freiburg	0.6 / -0.6	1.9 / -2.0	3.7 / -3.8
Leipzig	0.9 / -0.9	2.7 / -2.8	4.6 / -4.8
Other strategic locations	0.8 / -0.8	2.3 / -2.3	3.8 / -3.9
Total strategic locations	**0.7 / -0.7**	**2.3 / -2.3**	**4.0 / -4.1**
Non-strategic locations	1.2 / -1.2	3.7 / -3.7	5.4 / -5.4
Total	**0.7 / -0.7**	**2.3 / -2.3**	**4.0 / -4.1**

Change in parameters			
Market rent	Market rent increase	Stabilized vacancy rate	Discounting and capitalized interest rates
-2.0 % / +2.0 %	-0.2 % / +0.2 % points	-1 % / +1 % points	-0.25 % / +0.25 % points
-2.4 / 2.4	-7.7 / 9.0	1.9 / -1.9	8.6 / -7.4
-2.2 / 2.2	-5.6 / 6.3	1.4 / -1.6	6.5 / -5.8
-2.2 / 2.2	-5.6 / 6.4	1.7 / -1.7	6.5 / -5.7
-2.4 / 2.3	-5.8 / 6.4	2.0 / -2.0	6.1 / -5.5
-2.5 / 2.4	-5.4 / 6.0	2.1 / -2.1	5.4 / -4.9
-2.2 / 2.2	-6.2 / 7.0	1.5 / -1.8	7.1 / -6.2
-2.0 / 2.0	-6.7 / 7.7	1.0 / -1.5	8.3 / -7.2
-2.2 / 2.2	-5.8 / 6.6	1.6 / -1.6	6.7 / -5.9
-2.6 / 2.6	-5.3 / 5.8	2.3 / -2.3	5.0 / -4.6
-2.3 / 2.3	-5.5 / 6.2	2.0 / -1.9	6.0 / -5.3
-2.3 / 2.4	-5.5 / 6.2	2.0 / -2.0	5.8 / -5.1
-2.3 / 2.2	-6.1 / 6.8	2.0 / -2.1	6.4 / -5.7
-2.3 / 2.3	-5.6 / 6.2	2.1 / -2.1	5.7 / -5.1
-2.3 / 2.3	-6.6 / 7.5	1.5 / -1.7	7.4 / -6.5
-2.7 / 2.6	-6.1 / 6.7	2.1 / -2.2	6.0 / -5.5
-2.3 / 2.3	-5.7 / 6.4	1.8 / -1.9	6.2 / -5.5
-2.3 / 2.3	**-6.0 / 6.8**	**1.8 / -1.9**	**6.7 / -5.9**
-2.6 / 2.6	-5.5 / 6.1	2.5 / -2.5	5.1 / -4.7
-2.3 / 2.3	**-6.0 / 6.8**	**1.8 / -1.9**	**6.6 / -5.9**

Regional market	Change in parameters		
	Management costs residential	Maintenance costs residential	Cost increase/inflation
Dec. 31, 2015	-10 % / +10 %	-10 % / +10 %	-0.5 % / +0.5 % points
Berlin	0.7 / -0.7	2.4 / -2.3	4.2 / -4.3
Rhine Main Area (Frankfurt, Darmstadt, Wiesbaden)	0.6 / -0.6	1.8 / -1.8	2.8 / -2.9
Rhineland (Cologne, Düsseldorf, Bonn)	0.6 / -0.7	2.1 / -2.1	3.2 / -3.4
Dresden	0.9 / -0.9	2.7 / -2.7	4.4 / -4.5
Southern Ruhr Area (Dortmund, Essen, Bochum)	1.0 / -1.0	3.1 / -3.1	4.4 / -4.5
Hamburg	0.6 / -0.6	2.1 / -2.1	3.2 / -3.3
Munich	0.4 / -0.5	1.5 / -1.5	2.8 / -3.0
Stuttgart	0.5 / -0.6	2.2 / -1.8	2.8 / -4.3
Northern Ruhr Area (Duisburg, Gelsenkirchen)	1.2 / -1.1	3.4 / -3.4	4.7 / -4.8
Hanover	0.8 / -0.9	2.6 / -2.7	3.8 / -4.0
Kiel	0.9 / -0.9	2.8 / -2.8	3.9 / -4.0
Bremen	0.9 / -0.9	2.9 / -2.9	4.5 / -4.6
Westphalia (Münster, Osnabrück)	1.0 / -1.0	3.1 / -3.1	4.2 / -4.3
Freiburg	0.6 / -0.6	2.0 / -2.0	3.0 / -3.2
Leipzig	1.0 / -1.0	2.8 / -2.8	4.4 / -4.5
Other strategic locations	0.8 / -0.8	2.4 / -2.4	3.6 / -3.8
Total strategic locations	**0.8 / -0.8**	**2.4 / -2.4**	**3.7 / -3.9**
Non-strategic locations	1.3 / -1.3	3.8 / -3.8	5.4 / -5.4
Total	**0.8 / -0.8**	**2.5 / -2.5**	**3.8 / -4.0**

Contractual Obligations

In connection with major acquisitions, Vonovia entered into contractual obligations or assumed such obligations indirectly via acquired companies, among other things in the form of Social Charters, which could limit its ability to freely sell parts of its portfolio, increase rents or terminate existing rent agreements for certain units and which, in the event of a breach, could give rise to substantial contractual penalties in some cases. Moreover, when acquiring and financing some of the properties in the portfolio, Vonovia also entered into an obligation to spend a certain average amount per square meter on maintenance and improvements.

After a certain period of time, these obligations often cease to apply either in full or in part. As of December 31, 2016, around 199,000 units in Vonovia's portfolio were subject to one or several contractual restrictions or other obligations.

> **Sale restrictions:** As of December 31, 2016, around 60,000 units were subject to sale restrictions (excl. occupancy rights). Around 40,000 of these units cannot be freely sold before a certain date. Sale restrictions like these include a full or partial ban on the sale of units and provisions requiring the consent of certain representatives of the original seller prior to sale.

Change in parameters			
Market rent	Market rent increase	Stabilized vacancy rate	Discounting and capitalized interest rates
-2.0 % / +2.0 %	-0.2 % / +0.2 % points	-1 % / +1 % points	-0.25 % / +0.25 % points
-2.3 / 2.3	-6.3 / 7.2	1.7 / -1.8	6.9 / -6.0
-2.2 / 2.2	-5.1 / 5.7	1.0 / -1.6	5.9 / -5.3
-2.1 / 2.1	-5.0 / 5.6	1.5 / -1.7	5.9 / -5.3
-2.5 / 2.5	-5.8 / 6.4	1.9 / -1.9	6.0 / -5.4
-2.5 / 2.4	-5.2 / 5.7	2.1 / -2.1	5.2 / -4.7
-2.1 / 2.1	-5.1 / 5.6	0.8 / -1.7	6.0 / -5.4
-1.9 / 1.9	-5.3 / 5.9	0.4 / -1.5	6.9 / -6.1
-2.1 / 2.1	-5.1 / 5.8	1.2 / -1.5	6.0 / -5.4
-2.6 / 2.6	-5.2 / 5.8	2.2 / -2.2	5.0 / -4.5
-2.4 / 2.3	-5.1 / 5.6	1.9 / -1.9	5.5 / -5.0
-2.4 / 2.4	-5.0 / 5.5	1.9 / -1.9	5.1 / -4.6
-2.2 / 2.2	-5.3 / 5.9	1.9 / -1.9	5.5 / -5.0
-2.1 / 2.1	-4.5 / 5.0	1.9 / -2.1	5.3 / -4.8
-2.2 / 2.2	-5.3 / 6.0	0.9 / -1.6	5.9 / -5.3
-2.6 / 2.6	-5.5 / 6.1	2.0 / -2.0	5.5 / -4.9
-2.3 / 2.3	-5.3 / 5.9	1.5 / -1.8	5.7 / -5.1
-2.3 / 2.2	**-5.3 / 6.0**	**1.5 / -1.8**	**5.9 / -5.3**
-2.6 / 2.6	-5.2 / 5.7	2.4 / -2.4	4.9 / -4.5
-2.3 / 2.3	**-5.3 / 5.9**	**1.6 / -1.8**	**5.9 / -5.2**

- **Preemptive rights on preferential terms:** Around 7,000 units can only be sold if the tenants are offered preemptive rights on preferential terms. This means that Vonovia is obliged to offer these tenants the units at a price that is up to 15 % below the price that could be achieved by selling the units in question to third parties.
- **Restrictions on the termination of rent agreements:** Around 74,000 units are affected by restrictions on the termination of rent agreements. These restrictions include notice to vacate for personal use and notice to vacate for appropriate commercial utilization. In some cases, units are covered by a lifelong ban on the termination of rent agreements.
- **Expenses for minimum maintenance and restrictions on maintenance and modernization measures:** Around 137,000 units are subject to a requirement to spend a weighted average of at least € 13.40 per square meter on maintenance and modernization every year. Furthermore, around 145,000 units are affected by restrictions relating to modernization and maintenance measures, which are designed to prevent changes in socio-economic tenant composition (i.e., to prevent luxury modernization). Some of the restrictions to prevent luxury modernization have been agreed on a permanent basis.

> **Restrictions on rent increases:** Restrictions on rent increases (including provisions stating that "luxury modernization" measures are subject to approval) affect around 102,000 units. These restrictions could prevent Vonovia from realizing the rent that could potentially be generated from the units in question.

In many cases, in the event that all or part of a portfolio is transferred or individual units are sold, the aforementioned obligations are to be assumed by the buyers, who are in turn subject to the obligation to pass them on to any future buyers.

Under structured financing programs, Vonovia is subject to fundamental restrictions on the use of excess property disposal proceeds, such restrictions being particularly in the form of mandatory minimum capital repayments. Excess cash from property management is also restricted to a certain extent.

Due to their structure and content, the aforementioned contractual obligations have either no effect or no significant effect on the values of the investment properties.

22 Financial Assets

	Dec. 31, 2016		Dec. 31, 2015	
in € million	non-current	current	non-current	current
Non-consolidated subsidiaries	0.9	–	–	–
Joint venture investments at equity	3.9	–	3.9	–
Other investments	504.5	–	15.4	–
Loans to other investments	33.5	–	33.5	–
Securities	7.4	–	7.2	–
Other non-current loans	4.0	–	3.4	–
Derivatives	31.7	153.2	155.2	–
Long-term bank balances restricted with regard to their use	–	–	3.1	–
Dividends from other investments	–	–	–	2.0
	585.9	**153.2**	**221.7**	**2.0**

The carrying amount of financial assets corresponds to maximum risk of loss as of the reporting date.

The other investments include € 501.9 million (Dec. 31, 2015: € 12.8 million) in shares in Deutsche Wohnen AG.

The loans to other investments not yet due relate to a loan to the property fund DB Immobilienfonds 11 Spree-Schlange von Quistorp KG.

Positive market values from cross currency swaps in the amount of € 182.3 million (Dec. 31, 2015: € 154.3 million) are reported under derivatives.

23 Other Assets

in € million	Dec. 31, 2016 non-current	Dec. 31, 2016 current	Dec. 31, 2015 non-current	Dec. 31, 2015 current
Right to reimbursement for transferred pensions	7.0	–	7.6	–
Receivables from insurance claims	2.0	22.3	3.1	15.8
Miscellaneous other assets	6.2	80.4	147.8	97.6
	15.2	**102.7**	**158.5**	**113.4**

The right to reimbursement for transferred pensions is in connection with the indirect obligation shown under provisions for pensions arising from pension obligations transferred to former affiliated companies of the Viterra Group.

The receivables from insurance claims include the recognition of the excess of the fair value of plan assets over the corresponding pre-retirement part-time work arrangement obligations amounting to € 0.9 million (Dec. 31, 2015: € 2.2 million).

24 Income Tax Receivables

The income tax receivables shown relate to corporate income tax and trade tax receivables for the current fiscal year and prior years.

25 Inventories

The raw materials and supplies recognized relate to repair materials for our craftsmen's organization.

26 Trade Receivables

The trade receivables break down as follows:

	Impaired		Not impaired						Carrying amount
in € million	Gross amount	Impairment losses	Neither impaired nor past due at the end of the reporting period	less than 30 days	between 30 and 90 days	between 91 and 180 days	between 181 and 360 days	more than 360 days	Corresponds to maximum risk of loss*
Receivables from the sale of properties	3.5	-2.7	18.8	112.2	1.4	0.5	1.6	0.1	135.4
Receivables from property letting	52.3	-24.3	–	–	–	–	–	–	28.0
Other receivables from trading	–	–	1.0	–	–	–	–	–	1.0
As of Dec. 31, 2016	**55.8**	**-27.0**	**19.8**	**112.2**	**1.4**	**0.5**	**1.6**	**0.1**	**164.4**
Receivables from the sale of properties	2.6	-1.8	325.0	1.1	0.7	0.5	0.3	1.6	330.0
Receivables from property letting	49.3	-27.8	–	–	–	–	–	–	21.5
Other receivables from trading	–	–	0.7	–	–	–	–	–	0.7
As of Dec. 31, 2015	51.9	-29.6	325.7	1.1	0.7	0.5	0.3	1.6	352.2

* The maximum default risk on the receivables from the sale of properties is limited to the margin and the transaction unwinding costs as the title to the properties remains with Vonovia as security until receipt of payment.

The carrying amounts of current trade receivables correspond to their fair values.

In principle, all impaired trade receivables are due and payable. As regards the trade receivables that are neither impaired nor past due, there was no indication on the reporting date that the debtors would not meet their payment obligations.

Receivables from the sale of properties arise on economic transfer of ownership. The due date of the receivable may, however, depend on the fulfillment of contractual obligations. Some purchase contracts provide for the purchase price to be deposited in an escrow account. Impairment losses for doubtful debts are recorded up to the amount of the posted proceeds from sales.

Receivables from property letting generally arise at the beginning of a month. When determining the impairment losses on rent receivables, a difference is made with regard to rent arrears between those under terminated contracts and those under continuing rental contracts. Furthermore, with rent receivables under continuing rental contracts, a difference is made between rent arrears resulting from existing payment difficulties and product-related rent arrears based on rent increases, ancillary cost bills and withheld rents.

Impairment losses on trade receivables developed as follows:

in € million	Trade receivables
Impairment losses as of Jan. 1, 2016	29.6
Addition	24.4
Utilization	-26.9
Reversal	-0.1
Impairment losses as of Dec. 31, 2016	**27.0**
Impairment losses as of Jan. 1, 2015	20.0
Addition	16.6
Utilization	-3.3
Reversal	-3.7
Impairment losses as of Dec. 31, 2015	29.6

The following table shows the expenses for the full derecognition of receivables, as well as income from the receipt of derecognized receivables:

in € million	**2016**	**2015**
Expenses for the derecognition of receivables	1.0	12.9
Income from the receipt of derecognized receivables	2.1	10.2

27 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, checks and deposits at banking institutions totaling € 1,540.8 million (Dec. 31, 2015: € 2,108.0 million), as well as marketable current securities in the amount of € 999.9 million, as in the previous year.

€ 51.7 million (Dec. 31, 2015: € 84.2 million) of the bank balances are restricted with regard to their use.

28 Assets held for Sale

The assets held for sale include properties totaling € 61.6 million (Dec. 31, 2015: € 678.1 million) for which notarized purchase contracts had already been signed as of the reporting date.

29 Total Equity

Subscribed Capital

The subscribed capital represents the company's share capital. As of December 31, 2016, the share capital was unchanged year-over-year, amounting to € 466,000,624.00, split into 466,000,624 no-par-value registered shares. The shares are uncertificated.

In the event of capital increases, the profit participation of new shares can be determined in a manner which differs from that stipulated in Section 60 (2) of the German Stock Corporation Act (AktG).

2013 Authorized Capital

The Management Board is authorized, with the consent of the Supervisory Board, to increase the company's share capital by up to € 1,900,790.00 once or several times on or before June 29, 2018, by issuing up to 1,900,790 new registered no-par-value shares in return for cash contributions and/or contributions in kind (2013 authorized capital). Shareholders are to be granted in principle the statutory subscription right to the new shares as a general rule.

The Management Board is, however, authorized, with the consent of the Supervisory Board, to exclude shareholder subscription rights in full or in part, once or several times, subject to the detailed conditions set out in Section 5 of the Articles of Association.

As of December 31, 2016, the 2013 authorized capital was unchanged year-over-year at € 1,900,790.00.

2015 Authorized Capital

On the basis of the resolution passed by the Annual General Meeting on April 30, 2015, the Management Board is authorized, with the consent of the Supervisory Board, to increase the company's share capital by up to € 63,257,928.00 once or several times on or before April 29, 2020, by issuing up to 63,257,928 new registered no-par-value shares in return for cash contributions and/or contributions in kind (2015 authorized capital). Shareholders shall be granted in principle a subscription right.

The shares may be acquired by one or several financial institutions provided that such institutions undertake to offer them for subscription to the shareholders (known as an "indirect subscription right"). The Management Board is authorized, with the consent of the Supervisory Board, to exclude subscription rights for one or several capital increases as part of the authorized capital subject to the detailed conditions set out in Section 5a of the Articles of Association.

With regard to the capital increase that has been resolved but not completed as of December 31, 2016 and in connection with the voluntary public takeover offer made to the shareholders of conwert Immobilien Invest SE, reference is made to the further comments.

2016 Authorized Capital

On the basis of the resolution passed by the Annual General Meeting on May 12, 2016, the Management Board is authorized, with the consent of the Supervisory Board, to increase the company's share capital by up to € 167,841,594.00 once or several times on or before May 11, 2021, by issuing up to 167,841,594 new registered no-par-value shares in return for cash contributions and/or contributions in kind (2016 authorized capital). Shareholders shall be granted in principle a subscription right.

The shares may be acquired by one or several financial institutions provided that such institutions undertake to offer them for subscription to the shareholders (known as an "indirect subscription right"). The Management Board is authorized, with the consent of the Supervisory Board, to exclude subscription rights for one or several capital increases as part of the authorized capital subject to the detailed conditions set out in Section 5b of the Articles of Association.

As of December 31, 2016, the 2016 authorized capital amounted to € 167,841,594.00.

2015 Conditional Capital

The existing authorization for the existing conditional capital (2015 conditional capital) was canceled at the Annual General Meeting held on May 12, 2016, and replaced by a new authorization and a new conditional capital (2016 conditional capital).

2016 Conditional Capital

A conditional capital was resolved in order to issue shares required to satisfy conversion rights stemming from convertible bonds, bonds with warrants, participating rights and/or participating bonds (or a combination of these instruments) (hereinafter collectively "debentures") that are issued on the basis of the authorization of the issuance resolved by the

Annual General Meeting held on May 12, 2016. The share capital is conditionally increased by up to € 233,000,312.00 through the issuance of up to 233,000,312 new no-par value registered shares with an entitlement to dividend (2016 conditional capital).

Based on the resolution passed by the company's Annual General Meeting on May 12, 2016, the Management Board was authorized, with the consent of the Supervisory Board, to issue bonds carrying conversion rights, bonds carrying option rights, participating rights and/or participating bonds (or combinations of these instruments) (hereinafter collectively referred to as "debentures") in bearer or registered form, once or several times on or before May 11, 2021, with a par value of up to € 6,990,009,360.00 with or without definite maturity, and to grant the creditors/holders of the debentures conversion or option rights for the shares of the company in a pro rata amount of the share capital of up to € 233,000,312.00 according to the detailed terms and conditions of the bonds carrying option/conversion rights and/or the terms and conditions of the participating rights. The Terms and Conditions in question may also provide for mandatory conversion at maturity or at other points in time, including the obligation to exercise the conversion or option right. The debentures may also be issued against contributions in kind.

In addition to issues in euros, the debentures may also be issued in the legal currency of an OECD country – limited to the appropriate equivalent amount in euros. Furthermore, the debentures may also be issued by companies that are dependent on, or in which a majority interest is directly or indirectly held by, the company; in such cases, the Management Board shall be authorized, on behalf of the company that is dependent on, or in which a majority interest is held by, the company, to assume the guarantee for the debentures and to grant the holders of such debentures conversion or option rights relating to shares in the company. When the debentures are issued, they may/generally shall be split into partial debentures of equal rank. Shareholders shall generally be granted a subscription right to acquire the debentures. The Management Board is, however, authorized to exclude shareholder subscription rights to the debentures with the consent of the Supervisory Board.

Authorization to Purchase Own Shares

The Management Board was authorized to purchase shares in the company on or before June 29, 2018, of up to a total of 10 % of the company's share capital at the time of the resolution.

Capital Increase That Has Been Resolved but Not Completed as Part of the Voluntary Public Takeover Offer Made to the Shareholders of conwert Immobilien Invest SE as of December 31, 2016

For the purposes of implementing the exchange offer, Vonovia SE's Management Board passed a resolution on October 19, 2016, with the Supervisory Board granting its consent on October 26, 2016, on an increase in the company's share capital using the 2015 authorized capital pursuant to Article 5a.1 of the Articles of Association.

The increase in the share capital in return for contributions in kind was implemented using the 2015 authorized capital in the amount of € 339,135.00 by way of a Management Board resolution passed on December 31, 2016, with the Supervisory Board granting its approval on January 3, 2017, and with the measure being entered in the commercial register on January 10, 2017.

This means that the company's share capital in the amount of € 466,000.624.00, split into 466,000,624 no-par-value registered shares (ordinary shares) each accounting for a pro rata amount of € 1.00 of the company's share capital, is increased by € 339,135.00 using the 2015 authorized capital pursuant to Article 5a.1 of the Articles of Association in return for contributions in kind to a total of € 466,339,759.00 by way of the issue of new no-par-value registered shares (ordinary shares), each accounting for a pro rata amount of € 1.00 of the company's share capital ("new shares"). The issue price of the new shares amounts to € 1.00 per share. The difference between the issue price of the new shares and the contribution value of the contributions in kind (see No. 4 below) is to be treated as a voluntary additional payment within the meaning of Section 272 (2) No. 4 HGB. The new shares are issued with a dividend entitlement as of January 1, 2016. Shareholder subscription rights were excluded.

After being partially used, the 2015 authorized capital amounts to € 62,918,793.

Capital Reserves

Capital reserves amounted to € 5,334.9 million (Dec. 31, 2015: € 5,892.5 million).

Development of Capital Reserves

in €

as of Jan. 1, 2016	**5,892,440,076.55**
Withdrawal from capital reserve	-558,511,606.44
Other changes not affecting income	969,993.81
As of Dec. 31, 2016	**5,334,898,463.92**

Dividend

The Annual General Meeting held on May 12, 2016, in Düsseldorf resolved inter alia to pay a dividend for the 2015 fiscal year in the amount of 94 cents per share and subsequently distributed € 438.0 million.

Retained Earnings

Retained earnings of € 6,665.4 million (Dec. 31, 2015: € 4,309.9 million) were reported as of December 31, 2016. This figure includes actuarial gains and losses of € -67.1 million (Dec. 31, 2015: € -45.9 million), which cannot be reclassified and therefore may no longer be recognized in profit or loss in subsequent reporting periods.

Other Reserves

The other reserves contain cumulative changes in equity not affecting income. At Vonovia, the effective portion of the net change in the fair value of cash flow hedging instruments, as well as the cumulative net change in the fair value of available-for-sale financial assets, are recognized within this reserve.

The other reserves from cash flow hedges and available-for-sale financial assets can be reclassified. When the underlying hedged item of the cash flow hedge affects net income, the reserves attributable thereto are reclassified to profit or loss. The other reserves from available-for-sale financial assets are reclassified if the asset is derecognized or impaired.

Equity Attributable to Hybrid Capital Investors

In December 2014, Vonovia issued a hybrid bond with a nominal volume of € 1.0 billion via a subsidiary, Vonovia Finance B.V., Amsterdam/Netherlands (issuer). This subordinated hybrid bond is of unlimited duration and can only be terminated by Vonovia on certain contractually fixed dates or occasions.

Up until the first termination date in December 2021, the hybrid bond shall bear interest at a rate of 4.0 % p.a. If the bond is not terminated, then the coupon for the next five-year period increases automatically (step-up clause). The bond terms and conditions do not provide for any unconditional legal obligations to pay interest. Interest that is not paid out is carried forward to the new account and accumulated. If a resolution is passed on a dividend, or if a voluntary payment is made in connection with comparable subordinated bonds, then this triggers an interest payment obligation for this bond.

Pursuant to IAS 32, the hybrid bond is to be classified as equity in full. The interest payments to be made to the bondholders are recognized directly in equity.

Non-controlling Interests

Shares of third parties in Group companies are recognized under non-controlling interests.

30 Provisions

in € million	Dec. 31, 2016 non-current	Dec. 31, 2016 current	Dec. 31, 2015 non-current	Dec. 31, 2015 current
Provisions for pensions and similar obligations	522.6	-	495.2	-
Provisions for taxes (current income taxes excl. deferred taxes)	-	145.5	-	148.9
Other provisions				
Environmental remediation	19.1	1.2	21.5	3.4
Personnel obligations	55.0	83.4	81.7	95.4
Outstanding trade invoices	-	60.0	-	83.1
Miscellaneous other provisions	11.2	80.7	14.5	98.7
	85.3	225.3	117.7	280.6
	607.9	**370.8**	**612.9**	**429.5**

Provisions for Pensions and Similar Obligations

Vonovia has pension obligations towards various employees which are based on the length of service. Defined benefit and defined contribution obligations – for which Vonovia guarantees a certain level of benefit – are financed through provisions for pensions. Vonovia has taken out reinsurance contracts for individual people.

Generally, they are pension benefits that depend on the final salary with percentage increases depending on the number of years of service.

The pension commitments cover 4,002 eligible persons (Dec. 31, 2015: 4,320).

Executives in active service in the companies formerly belonging to the Deutsche Annington Group have the opportunity to participate in the "Pension Instead of Cash Remuneration" model (Versorgungsbezüge anstelle von Barbezügen) in the version dated October 2003. Retirement, invalidity and surviving dependent benefits in the form of a lifelong pension are offered under this deferred compensation model. The retirement benefits can also be paid out as a one-time capital sum.

The 2002 pension scheme (VO 2002) for former GAGFAH employees replaces the pension systems that existed until December 31, 2001. For employees who joined the company prior to 1991, existing claims arising from the previous pension commitment as of December 31, 2001, are protected in the form of a status of possession. After this point, these employees acquire rights to future pension benefits in accordance with VO 2002. With the introduction of VO 2002, the pension regulations for employees joining the company after 1990 was updated with regard to changes in legislation and court rulings. Pension components acquired before the date VO 2002 replaced the previous pension systems remain in existence. As part of VO 2002, retirement, invalidity and surviving dependent benefits are provided in the form of lifelong pensions. The pension is calculated as the sum of annually acquired pension components that form a fixed percentage of salary. Salary components exceeding the income limit for the assessment of contributions to statutory pension insurance are weighted in a quadruple manner. For new pension commitments beginning in 2002, a pension guarantee of 1.0 % p.a. is provided. For all other employees, the provisions of Section 16 of the German Occupational Pensions Improvement Act (BetrAVG) apply.

The following overview summarizes the most important basic data of the closed pension plans:

	VO 1 Veba Immobilien	VO 91 Eisenbahnges.	Bochumer Verband
Type of benefits	Retirement, invalidity and surviving dependent benefits	Retirement, invalidity and surviving dependent benefits	Retirement, invalidity and surviving dependent benefits
Pensionable remuneration	Final salary	Final salary	Not applicable
Max. pension level			
Remuneration up to state pension assessment limit	25 %	27 %	Depends on
Remuneration in excess of state pension assessment limit	25 %	72 %	individual grouping
Total pension model based on final salary	Yes	Yes	No
Net benefit limit incl. state pension	None	90 %	None
Gross benefit limit	70 %	None	None
Adjustment of pensions	Section 16, (1,2) BetrAVG	Section 16, (1,2) BetrAVG	Adjustment every 3 years by Bochumer Verband (Management Board resolution)
Supplementary periods	Age of 55	None	Age of 55 (half)
Legal basis	Works agreement	Works agreement	Commitment to executives in individual contracts
Number of eligible persons	330	375	485

	VO 60 Eisenbahnges.	Viterra commitment to Management Board members (with plan assets)	Deferred compensation until 1999
Type of benefits	Retirement, invalidity and surviving dependent benefits	Retirement, invalidity and surviving dependent benefits	Retirement, invalidity and surviving dependent benefits
Pensionable remuneration	Final salary	Final salary	Not applicable
Max. pension level			
Remuneration up to state pension assessment limit	48 %	75 %	Not applicable
Remuneration in excess of state pension assessment limit	48 %	75 %	Not applicable
Total pension model based on final salary	Yes	No	No
Net benefit limit incl. state pension	None	None	None
Gross benefit limit	75 %	None	None
Adjustment of pensions	Section 16, (1,2) BetrAVG	Annual according to development of cost of living	Section 16, (1,2) BetrAVG, min. 8 % every 3 years
Supplementary periods	None	None	Age of 55
Legal basis	Works agreement	Commitment to Management Board members in individual contracts	Commitment to executives in individual contracts
Number of eligible persons	164	6	29

The current pensions according to the classic pension benefit regulations of Bochumer Verband are adjusted in line with Section 20 of those regulations. Section 20 is a rule which is based on Section 16 (1.2) of the German Occupational Pensions Improvement Act (BetrAVG) but which, according to a ruling of the Federal Labour Court of Germany, is an independent rule. Other company pensions are reviewed and adjusted under the terms of the agreement according to Section 16 (1.2) BetrAVG. On every review date, the development of the cost of living since the individual retirement date is reviewed and compensated for. Only in the aforementioned deferred compensation model is the option, available since January 1, 1999, used to raise the current pensions every year by 1 % (Section 16 (3) No. 1 BetrAVG). No further risks are seen.

The company has decided to use the internal financing effect of the provisions for pensions and only back a relatively small portion of the pension obligations with plan assets. Reinsurance policies have been taken out for former Management Board members against payment of a one-time insurance premium in order to provide additional protection against insolvency; these reinsurance policies were pledged to the eligible persons. They constitute plan assets, which are offset against the gross obligation. The fair value of the reinsurance policies for individual persons is higher than the extent of the obligations towards the respective person. This surplus of the fair values of the assets over the obligation is shown under non-current other assets. The conclusion of further reinsurance policies is not planned.

Pension plan obligations and the expenses necessary to cover these obligations are determined using the projected unit credit method prescribed by IAS 19. Both pensions known on the reporting date and vested rights, as well as expected future increases in salaries and pensions, are included in the measurement. The following actuarial assumptions were made at the reporting date – in each case related to the end of the year and with economic effect for the following year.

Actuarial Assumptions

in %	Dec. 31, 2016	Dec. 31, 2015
Actuarial interest rate	1.70	2.15
Pension trend	1.75	1.75
Salary trend	2.75	2.75

The 2005 G mortality tables of Prof. Dr. Klaus Heubeck have been taken for the biometric assumptions without any changes.

The defined benefit obligation (DBO) developed as follows:

in € million	2016	2015
Defined benefit obligation as of Jan. 1	**516.7**	378.2
Additions due to business combinations	0.6	178.9
Disposal due to company sale	-0.1	–
Interest expense	10.8	9.4
Current service cost	8.6	6.2
Actuarial gains and losses:		
Changes in the biometric assumptions	-1.7	1.3
Changes in the financial assumptions	34.5	-35.6
Transfer	0.3	0.9
Benefits paid	-25.7	-24.7
Past service cost	–	2.1
DBO as of Dec. 31	**544.0**	**516.7**

The present value of the defined benefit obligation is divided among the groups of eligible persons as follows:

in € million	Dec. 31, 2016	Dec. 31, 2015
Active employees	112.8	104.8
Former employees with vested pension rights	86.7	75.8
Pensioners	344.5	336.1
DBO as of Dec. 31	**544.0**	**516.7**

Plan assets comprise solely reinsurance contracts. The fair value of the plan assets has developed as follows:

in € million	2016	2015
Fair value of plan assets as of Jan. 1	22.5	18.0
Additions due to business combinations	0.1	4.6
Return calculated using the actuarial interest rate	0.5	0.4
Actuarial gains:		
Changes in the financial assumptions	0.5	0.5
Benefits paid	-1.1	-1.0
Fair value of plan assets as of Dec. 31	**22.5**	**22.5**

The actual return on plan assets amounted to € 1.0 million during the fiscal year (2015: € 0.9 million).

The following table shows a reconciliation of the defined benefit obligation to the pension obligation recognized in the balance sheet:

in € million	Dec. 31, 2016	Dec. 31, 2015
Present value of funded obligations*	35.2	31.0
Present value of unfunded obligations	508.8	485.7
Total present value of defined benefit obligations	544.0	516.7
Fair value of plan assets*	-22.5	-22.5
Net liability recognized in the balance sheet	521.5	494.2
Other assets to be recognized	1.1	1.0
Provisions for pensions recognized in the balance sheet	**522.6**	**495.2**

* largely attributable to the “Viterra Management Board commitment” and “GAGFAH Management Board commitment” pension plans

In 2016, actuarial gains of € 32.2 million (excluding deferred taxes) were recognized in other comprehensive income. Cumulative changes in equity not affecting net income of € 100.2 million (excluding deferred taxes) from actuarial losses on defined benefit obligations are recognized in other comprehensive income.

The weighted average term of the defined benefit obligations is 15.1 years.

The following table contains the projected, undiscounted pension payments of the coming five fiscal years and the total of those in the subsequent five fiscal years:

in € million	Projected pension payments
2017	25.5
2018	24.8
2019	24.4
2020	24.3
2021	24.0
2022–2026	117.0

Sensitivity Analyses

An increase or decrease in the material actuarial assumptions would have lead to the following DBO as of December 31, 2016, providing the other assumptions did not change:

in € million		DBO
Actuarial interest rate	Increase by 0.5 %	506.1
	Decrease by 0.5 %	587.0
Pension trend	Increase by 0.25 %	557.0
	Decrease by 0.25 %	531.2

An increase in life expectancy of 5.3 % would have resulted in an increase in the DBO of € 23.5 million as of December 31, 2016. This percentage rise corresponds to a one-year increase in the life expectancy of a man who was 65 at the reporting date.

If several assumptions are changed simultaneously, the cumulative effect is not necessarily the same as if there had been a change in just one of the assumptions.

The provisions for pensions include € 7.0 million (Dec. 31, 2015: € 7.6 million) for pension obligations which were transferred to third parties as part of an assumption of debt and which relate to vested rights and the payment of current pensions. A corresponding non-current receivable is shown under miscellaneous other assets.

Development of Other Provisions

in € million	As of Jan. 1, 2016	Additions due to changes in scope of consolidation	Additions	Reversals	Interest accretion to provisions	Netting plan assets	Utilization	As of Dec. 31, 2016
Other provisions								
Environmental remediation	24.9	–	–	-2.1	-0.1	–	-2.4	20.3
Personnel obligations	177.1	3.1	74.7	-19.2	0.3	1.1	-98.7	138.4
Outstanding trade invoices	83.1	0.2	49.3	-7.5	–	-1.4	-63.7	60.0
Miscellaneous other provisions	113.2	0.8	18.6	-22.9	0.6	–	-18.4	91.9
	398.3	**4.1**	**142.6**	**-51.7**	**0.8**	**-0.3**	**-183.2**	**310.6**

Reversals of provisions are generally offset against the expense items for which they were originally established.

The provisions for environmental remediation primarily refer to site remediation of locations of the former Raab Karcher companies. Remediation has either already begun or an agreement has been reached with the authorities as to how the damage is to be remedied. The cost estimates are based on expert opinions detailing the anticipated duration of the remediation work and the anticipated cost.

The personnel obligations are provisions for planned departure from the company with multi-employer plans, provisions for pre-retirement part-time work arrangements, provisions for bonuses, severance payments not relating to restructuring and other personnel expenses. The other personnel expenses include a provision for the long-term incentive plan (LTIP) of € 14.8 million (Dec. 31, 2015: € 16.2 million) determined in accordance with IFRS 2 (see note [45] Related Party Transactions).

The miscellaneous other provisions include, among others, costs for legal disputes, sale-related costs and costs for entering transfers of titles.

31 Trade Payables

in € million	Dec. 31, 2016 non-current	Dec. 31, 2016 current	Dec. 31, 2015 non-current	Dec. 31, 2015 current
Liabilities				
from property letting	–	69.7	–	60.7
from other supplies and services	1.3	69.1	0.9	30.9
	1.3	**138.8**	**0.9**	**91.6**

32 Non-Derivative Financial Liabilities

in € million	Dec. 31, 2016 non-current	Dec. 31, 2016 current	Dec. 31, 2015 non-current	Dec. 31, 2015 current
Non-derivative financial liabilities				
Liabilities to banks	3,259.1	180.3	6,444.2	199.5
Liabilities to other creditors	8,384.3	1,474.7	7,507.1	711.9
Deferred interest from non-derivative financial liabilities	–	72.6	–	77.2
	11,643.4	**1,727.6**	**13,951.3**	**988.6**

Deferred interest is presented at this point as current in order to show the cash effectiveness of the interest payments transparently. In principle, the deferred interest is part of the non-derivative financial liability. Of the deferred interest from non-derivative financial liabilities, € 68.6 million (Dec. 31, 2015: € 67.2 million) is from bonds reported under non-derivative financial liabilities to other creditors.

The US-$ bonds issued in 2013 are translated at the exchange rate at the end of the reporting period in line with applicable IFRS provisions. Allowing for the hedging rate prescribed through the interest hedging transaction entered into, this financial liability would be € 209.9 million (Dec. 31, 2015: € 179.4 million) lower than the recognized value.

The maturities and average interest rates of the nominal obligations of the liabilities to banks and the liabilities to other creditors are as follows during the fiscal year:

in € million	Nominal obligation Dec. 31, 2016	Maturity	Average interest rate	Repayment of the nominal obligations is as follows: 2017	2018	2019	2020	2021	From 2022
Bond*	600.0	2019	3.13 %	–	–	600.0	–	–	–
Bond (US-$)*	554.9	2017	2.97 %	554.9	–	–	–	–	–
Bond (US-$)*	184.9	2023	4.58 %	–	–	–	–	–	184.9
Bond (EMTN)*	500.0	2021	3.63 %	–	–	–	–	500.0	–
Bond (EMTN)*	500.0	2022	2.13 %	–	–	–	–	–	500.0
Bond (EMTN)*	500.0	2020	0.88 %	–	–	–	500.0	–	–
Bond (EMTN)*	500.0	2025	1.50 %	–	–	–	–	–	500.0
Bond (EMTN)*	750.0	2017	0.84 %	750.0	–	–	–	–	–
Bond (EMTN)*	1,250.0	2020	1.63 %	–	–	–	1,250.0	–	–
Bond (EMTN)*	1,000.0	2023	2.25 %	–	–	–	–	–	1,000.0
Bond (EMTN)*	500.0	2022	0.88 %	–	–	–	–	–	500.0
Bond (EMTN)*	500.0	2026	1.50 %	–	–	–	–	–	500.0
Bond (EMTN)*	500.0	2018	0.14 %	–	500.0	–	–	–	–
Bond (Hybrid)	700.0	2019	4.63 %	–	–	700.0	–	–	–
Bond (EMTN)*	1,000.0	2024	1.25 %	–	–	–	–	–	1,000.0
Taurus*	1,020.4	2018	2.38 %	10.8	1,009.6	–	–	–	–
Portfolio loans									
Berlin-Hannoversche Hypothekenbank (Landesbank Berlin) (1)*	501.4	2018	3.10 %	8.4	493.0	–	–	–	–
Berlin-Hannoversche Hypothekenbank, Landesbank Berlin and Landesbank Baden-Württemberg*	401.5	2020	3.61 %	4.2	4.2	4.2	388.9	–	–
Corealcredit Bank AG (1)*	147.7	2018	4.22 %	1.8	145.9	–	–	–	–
Deutsche Hypothekenbank*	174.5	2021	3.98 %	4.9	5.0	5.3	5.5	153.8	–
HSH Nordbank*	17.1	2017	2.50 %	17.1	–	–	–	–	–
Nordrheinische Ärzteversorgung	33.3	2022	3.49 %	0.6	0.6	0.7	0.7	0.7	30.0
Norddeutsche Landesbank (2)*	37.3	2020	3.99 %	2.2	2.3	2.3	30.5	–	–
	83.1	2023	3.76 %	1.1	1.1	1.2	1.2	1.3	77.2
Mortgages	1,238.3	2046	1.98 %	141.1	94.3	87.8	71.0	100.0	744.1
	13,194.4			**1,497.1**	**2,256.0**	**1,401.5**	**2,247.8**	**755.8**	**5,036.2**

* Under the conditions of existing loan agreements, Vonovia is obliged to fulfil certain financial covenants.

In the previous year, the maturities and average interest rates of the nominal obligations were as follows:

in € million	Nominal obligation Dec. 31, 2015	Maturity	Average interest rate	Repayment of the nominal obligations is as follows: 2016	2017	2018	2019	2020	from 2021
Bond*	700.0	2016	2.13 %	700.0	-	-	-	-	-
Bond*	600.0	2019	3.13 %	-	-	-	600.0	-	-
Bond (US-$)*	554.9	2017	2.97 %	-	554.9	-	-	-	-
Bond (US-$)*	184.9	2023	4.58 %	-	-	-	-	-	184.9
Bond (EMTN)*	500.0	2021	3.63 %	-	-	-	-	-	500.0
Bond (EMTN)*	500.0	2022	2.13 %	-	-	-	-	-	500.0
Bond (EMTN)*	500.0	2020	0.88 %	-	-	-	-	500.0	-
Bond (EMTN)*	500.0	2025	1.50 %	-	-	-	-	-	500.0
Bond (EMTN)*	750.0	2017	0.84 %	-	750.0	-	-	-	-
Bond (EMTN)*	1,250.0	2020	1.63 %	-	-	-	-	1,250.0	-
Bond (EMTN)*	1,000.0	2023	2.25 %	-	-	-	-	-	1,000.0
Bond (Hybrid)	700.0	2019	4.63 %	-	-	-	700.0	-	-
Portfolio loans									
Norddeutsche Landesbank (1)*	137.5	2018	3.67 %	3.6	3.7	130.2	-	-	-
Corealcredit Bank AG (1)*	154.0	2018	4.22 %	1.8	1.8	150.4	-	-	-
Berlin-Hannoversche Hypotheken-bank (Landesbank Berlin) (1)*	569.1	2018	3.13 %	8.4	8.4	552.3	-	-	-
Nordrheinische Ärzteversorgung	34.4	2022	3.49 %	0.6	0.6	0.6	0.6	0.7	31.3
AXA S.A. (Société Générale S.A.)*	155.4	2018	3.61 %	2.4	2.4	150.6	-	-	-
Norddeutsche Landesbank (2)*	39.4	2020	3.99 %	2.1	2.2	2.3	2.4	30.4	-
	84.1	2023	3.76 %	1.0	1.1	1.1	1.2	1.2	78.5
Berlin-Hannoversche Hypotheken-bank, Landesbank Berlin and Landesbank Baden-Württemberg*	419.3	2020	3.58 %	4.2	4.2	4.2	4.2	402.5	-
Deutsche Hypothekenbank*	179.7	2021	3.96 %	4.7	4.9	5.1	5.3	5.5	154.2
Mortgages	946.8	2042	2.27 %	41.4	127.8	80.4	71.1	55.4	570.7
GAGFAH:									
GERMAN RESIDENTIAL FUNDING 2013-1 (CMBS GRF-1)*	1,850.6	2018	2.80 %	10.0	10.0	1,830.6	-	-	-
GERMAN RESIDENTIAL FUNDING 2013-2 (CMBS GRF-2)*	679.8	2018	2.67 %	3.5	3.5	672.8	-	-	-
Taurus*	1,032.3	2018	3.35 %	10.8	10.8	1,010.7	-	-	-
Portfolio loans									
HSH Nordbank*	22.6	2017	2.75 %	2.0	20.6	-	-	-	-
Berlin-Hannoversche Hypotheken-bank (Landesbank Berlin) (2)*	228.3	2021	2.03 %	2.3	2.3	2.3	2.3	2.3	216.8
Corealcredit Bank AG (2)*	94.1	2016	2.95 %	94.1	-	-	-	-	-
Mortgages	328.8	2054	1.53 %	19.5	11.9	17.0	21.4	14.7	244.3
	14,696.0			**912.4**	**1,521.1**	**4,610.6**	**1,408.5**	**2,262.7**	**3,980.7**

* Under the conditions of existing loan agreements, Vonovia is obliged to fulfil certain financial covenants.

The loan repayments shown for the following years contain contractually fixed minimum repayment amounts.

Of the nominal obligations to creditors, € 3,621.9 million (Dec. 31, 2015: € 6,955.5 million) are secured by land charges and other collateral (account pledge agreements, assignments, pledges of company shares and guarantees). In the event of a breach of the covenants, failure to repay or insolvency, the securities provided are used to satisfy the claims of the creditors.

The nominal interest rates on the financial liabilities to banks and other creditors are between 0.0 % and 8.0 % (average approx. 2.2 %). The financial liabilities as a whole do not contain any significant short-term interest rate risks as they relate either to loans with long-term fixed interest rates or variable-interest liabilities that are hedged using suitable derivative financial instruments (see note [38] Financial Risk Management).

In the reporting year, capital repayments totaling € 4,219.0 million were made (2015: € 2,390.1 million). This figure includes unscheduled repayments of € 3,436.2 million (2015: € 1,338.4 million). These are set against inflows of € 2,576.9 million arising from financing measures (2015: € 5,007.1 million). The unscheduled repayments include € 220.0 million for mortgages, € 2,520.5 million for debentures and € 695.7 million for portfolio loans.

Repayment of GERMAN RESIDENTIAL FUNDING 2013-1 (CMBS GRF-1)

In June 2013, GAGFAH had concluded a loan agreement with a volume of € 1,998.1 million and a term of five years, which was set to reach maturity in August 2018, with GERMAN RESIDENTIAL FUNDING 2013-1 Limited (GRF 2013-1). The loans were refinanced via debentures as part of a commercial mortgage-backed securities (CMBS) structure. The entire financing structure was terminated prematurely and in full in August 2016, when its outstanding volume was € 1,796.8 million.

Repayment of GERMAN RESIDENTIAL FUNDING 2013-2 (CMBS GRF-2)

In October 2013, GAGFAH concluded a loan agreement with a volume of € 699.7 million and a term of five years, which reaches maturity in November 2018, with GERMAN RESIDENTIAL FUNDING 2013-2 Limited (GRF 2013-2). The loans were refinanced via debentures as part of a commercial mortgage-backed securities (CMBS) structure. The entire financing structure was terminated prematurely and in full in November 2016, when its outstanding volume was € 603.1 million.

Issue of Bonds under the EMTN – Tap Issuance (European Medium-Term Notes Program)

Based on the current tap issuance master agreement dated April 12, 2016 (€ 8,000,000,000 debt issuance program), Vonovia has issued the following bonds via its Dutch financing company:

In June 2016, bonds worth € 500 million each were issued in two tranches. The bonds were issued at an issue price of 99.53 %, a coupon of 0.875 % and with a maturity of six years for one tranche, and at an issue price of 99.165 %, a coupon of 1.50 % and with a maturity of ten years for the other.

In September 2016, a bond worth € 500 million was issued. The bond was issued at an issue price of 100 %, with a maturity of two years and a variable coupon based on the EURIBOR, which was fixed using a corresponding interest rate hedging transaction at 0.14 %.

In December 2016, a bond worth € 1,000 million was issued. The bond was issued at an issue price of 99.037 %, with a maturity of eight years and a fixed coupon of 1.25 %.

33 Derivatives

in € million	Dec. 31, 2016 non-current	Dec. 31, 2016 current	Dec. 31, 2015 non-current	Dec. 31, 2015 current
Derivatives				
Purchase price liabilities from put options/rights to reimbursement		57.2		57.6
Cash flow hedges	19.1		43.7	
Stand-alone derivatives			100.8	
Deferred interest from cash flow hedges		0.3		1.2
	19.1	**57.5**	**144.5**	**58.8**

Regarding derivative financial liabilities please refer to notes [37] Additional Financial Instrument Disclosures and [40] Cash Flow Hedges and Stand-alone Interest Rate Swaps.

34 Liabilities from Finance Leases

The following table shows the total minimum lease payments and the reconciliation to their present value for the Spree-Bellevue property in the amount of € 93.6 million (Dec. 31, 2015: € 93.1 million) and the finance leases for heat generation plants in the amount of € 5.6 million (Dec. 31, 2015: € 6.2 million).

in € million	Dec. 31, 2016 Total minimum lease payments	Dec. 31, 2016 Interest portion	Dec. 31, 2016 Present value	Dec. 31, 2015 Total minimum lease payments	Dec. 31, 2015 Interest portion	Dec. 31, 2015 Present value
Due within 1 year	4.8	0.3	4.5	4.7	0.3	4.4
Due in 1 to 5 years	26.8	4.6	22.2	27.7	5.2	22.5
Due after 5 years	209.5	137.0	72.5	214.8	142.4	72.4
	241.1	**141.9**	**99.2**	**247.2**	**147.9**	**99.3**

As part of finance leases, expenses of € 5.2 million (2015: € 5.2 million) were recognized for the Spree-Bellevue property and expenses of € 0.6 million (2015: € 0.6 million) for finance leases for heat generation plants in the fiscal year under review. As of the reporting date, there were no significant non-cancellable subtenancies on the Spree-Bellevue property.

35 Liabilities to Non-Controlling Interests

The liabilities to non-controlling interests relate especially to the obligations to pay a guaranteed dividend under the valid profit-and-loss transfer agreements.

36 Other Liabilities

in € million	Dec. 31, 2016 non-current	Dec. 31, 2016 current	Dec. 31, 2015 non-current	Dec. 31, 2015 current
Advance payments received	–	45.7	–	64.7
Miscellaneous other liabilities	83.3	57.0	25.9	39.8
	83.3	**102.7**	**25.9**	**104.5**

The advance payments received include on-account payments of € 44.8 million (Dec. 31, 2015: € 60.0 million) from tenants for ancillary costs after offsetting against the corresponding trade receivables.

The miscellaneous other liabilities include purchase price liabilities in the amount of € 76.1 million for the acquisition of further shares in companies that are already consolidated.

Other Notes and Dislosures

37 Additional Financial Instrument Disclosures

Measurement categories and classes: in € million	Measurement category in acc. with IAS 39	Carrying amounts Dec. 31, 2016
Assets		
Cash and cash equivalents		
Cash on hand and deposits at banking institutions	LaR	1,540.8
Trade receivables		
Receivables from the sale of properties	LaR	135.4
Receivables from property letting	LaR	28.0
Other receivables from trading	LaR	1.0
Financial assets		
Joint ventures valued at equity	n. a.	3.9
Loans to other investments	LaR	33.5
Other non-current loans	LaR	4.0
Non-current securities	AfS	7.4
Other investments	AfS	504.5
Derivative financial assets		
Cash flow hedges (cross currency swaps)	n. a.	184.7
Embedded derivatives	FLHfT	0.2
Liabilities		
Trade payables	FLAC	140.1
Non-derivative financial liabilities	FLAC	13,371.0
Derivative financial liabilities		
Purchase price liabilities from put options/rights to reimbursement	FLHfT	57.2
Other swaps	n. a.	19.4
Liabilities from finance leases	n. a.	99.2
Liabilities to non-controlling interests	FLAC	12.6
Thereof aggregated by measurement categories in accordance with IAS 39:		
Loans and receivables	LaR	1,742.7
Available-for-sale financial assets	AfS	511.9
Financial liabilities held-for-trading	FLHfT	57.0
Financial liabilities measured at amortized cost	FLAC	13,523.7

Amounts recognized in balance sheet in accordance with IAS 39							
Face value	Amortized cost	Acquisition cost	Fair value affecting net income	Fair value recognized in equity	Amounts recognized in balance sheet in acc. with IAS 17/IAS 28	Fair value Dec. 31, 2016	Fair value hierarchy level
1,540.8						1,540.8	1
	135.4					135.4	2
	28.0					28.0	2
	1.0					1.0	2
					3.9	3.9	n.a.
	33.5					55.7	2
	4.0					4.0	2
				7.4		7.4	1
		2.6		501.9		504.5	1
						184.7	2
			0.2			0.2	2
	140.1					140.1	2
	13,371.0					14,041.0	2
			57.2			57.2	3
						19.4	2
					99.2	207.7	2
	12.6					12.6	2
1,540.8	201.9					1,764.9	
		2.6		509.3		511.9	
			57.0			57.0	
	13,523.7					14,193.7	

Measurement categories and classes: in € million	Measurement category in acc. with IAS 39	Carrying amounts Dec. 31, 2015
Assets		
Cash and cash equivalents		
Cash on hand and deposits at banking institutions	LaR	2,108.0
Commercial Papers	LaR	999.9
Trade receivables		
Receivables from the sale of properties	LaR	330.0
Receivables from property letting	LaR	21.5
Receivables from other management	LaR	0.6
Receivables from affiliated companies	LaR	0.1
Financial assets		
Joint ventures valued at equity	n. a.	3.9
Long-term bank balances restricted with regard to their use	LaR	3.1
Loans to other investments	LaR	33.5
Other non-current loans	LaR	3.4
Dividends from other investments	LaR	2.0
Non-current securities	AfS	7.2
Other investments	AfS	15.4
Derivative financial assets		
Cash flow hedges (cross currency swaps)	n. a.	154.3
Embedded derivatives	FLHfT	0.9
Liabilities		
Trade payables	FLAC	92.5
Non-derivative financial liabilities	FLAC	14,939.9
Derivative financial liabilities		
Purchase price liabilities from put options/rights to reimbursement	FLHfT	57.6
Standalone interest rate swaps	FLHfT	100.8
Other swaps	n. a.	44.9
Liabilities from finance leases	n. a.	99.3
Liabilities to non-controlling interests	FLAC	56.1
Thereof aggregated by measurement categories in accordance with IAS 39:		
Loans and receivables	LaR	3,502.1
Available-for-sale financial assets	AfS	22.6
Financial liabilities held-for-trading	FLHfT	157.5
Financial liabilities measured at amortized cost	FLAC	15,088.5

Amounts recognized in balance sheet in accordance with IAS 39							
Face value	Amortized cost	Acquisition cost	Fair value affecting net income	Fair value recognized in equity	Amounts recognized in balance sheet in acc. with IAS 17/IAS 28	Fair value Dec. 31, 2015	Fair value hierarchy level

2,108.0						2,108.0	1
	999.9					999.9	2
	330.0					330.0	2
	21.5					21.5	2
	0.6					0.6	2
	0.1					0.1	2
					3.9	3.9	n.a.
3.1						3.1	1
	33.5					48.0	2
	3.4					3.4	2
	2.0					2.0	2
				7.2		7.2	1
		2.6		12.8		15.4	1
						154.3	2
			0.9			0.9	2
	92.5					92.5	2
	14,939.9					16,270.8	2
			57.6			57.6	3
			100.8			100.8	2
						44.9	2
					99.3	160.5	2
	56.1					56.1	2
2,111.1	1,391.0					3,516.6	
		2.6		20.0		22.6	
			157.5			157.5	
	15,088.5					16,419.4	

Financial assets and financial liabilities not covered by IAS 39 comprise:

> Employee benefits IAS 19: gross presentation of right to reimbursement arising from transferred pension obligations in the amount of € 7.0 million (Dec. 31, 2015: € 7.6 million).
> Amount by which the fair value of plan assets exceeds the corresponding obligation: € 1.1 million (Dec. 31, 2015: € 1.0 million).
> Provisions for pensions and similar obligations: € 522.6 million (Dec.31, 2015: € 495.2 million).

IFRS 13 defines fair value as a price that would be received by selling an asset or paid to transfer a liability in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. The fair value is to be determined using valuation parameters that are as market-based as possible as inputs. The measurement hierarchy (fair value hierarchy) categorizes the inputs for the measurement technique in three levels, giving the highest priority level to the most market-based inputs:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs: valuation parameters other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable valuation parameters for the asset or liability.

When inputs used to measure the fair value are categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Should the level of the input parameters used for a financial instrument change in a period subsequent to initial recognition, the financial instrument is reclassified to the new hierarchy level as of the end of that reporting period. No financial instruments were reclassified to different hierarchy levels during the reporting period.

The following table shows the assets and liabilities which are recognized in the balance sheet at fair value and their classification according to the fair value hierarchy:

in € million	Dec. 31, 2016	Level 1	Level 2	Level 3
Assets				
Investment properties	26,980.3			26,980.3
Available-for-sale financial assets				
Non-current securities	7.4	7.4		
Other investments	501.9	501.9		
Assets held for sale				
Investment properties (contract closed)	61.6		61.6	
Derivative financial assets				
Cash flow hedges (cross currency swaps)	184.9		184.9	
Liabilities				
Derivative financial liabilities				
Purchase price liabilities from put options/rights to reimbursement	57.2			57.2
Cash flow hedges	19.1		19.1	

in € million	Dec. 31, 2015	Level 1	Level 2	Level 3
Assets				
Investment properties	23,431.3			23,431.3
Available-for-sale financial assets				
Non-current securities	7.2	7.2		
Other investments	12.8	12.8		
Assets held for sale				
Investment properties (contract closed)	678.1		678.1	
Derivative financial assets				
Cash flow hedges (cross currency swaps)	155.2		155.2	
Liabilities				
Derivative financial liabilities				
Purchase price liabilities from put options/rights to reimbursement	57.6			57.6
Cash flow hedges	43.7		43.7	
Stand-alone derivatives	100.8		100.8	

Vonovia measures its investment properties on the basis of the discounted cash flow (DCF) methodology (Level 3). The main valuation parameters and valuation results can be found in note [21] Investment Properties.

Non-current securities are measured using the quoted prices in active markets (Level 1).

The investment properties classified as assets held for sale are recognized at the time of their transfer to assets held for sale at their new fair value, the agreed purchase price (Level 2).

For the measurement of financial instruments, cash flows are initially calculated and then discounted. In addition to the tenor-specific EURIBOR rates (3M; 6M), the respective credit risk is taken as a basis for discounting. Depending on the expected cash flows, either Vonovia's own credit risk or the counterparty risk is taken into account in the calculation. For the consolidated financial statements, Vonovia's own credit risk was relevant for interest rate swaps. This credit risk is derived for material risks from rates observable on the capital markets and ranges of between 25 and 95 basis points, depending on the residual maturities of financial instruments. Regarding the positive market values of the cross currency swaps, a counterparty risk of between 40 and 65 basis points was taken into account.

The non-derivative financial liabilities, the liabilities from finance leases and the liabilities to non-controlling interests are measured at fair value by discounting contractually agreed future cash flows.

The fair value of the purchase price liabilities from put options/rights to reimbursement granted to minority shareholders is generally based on the going concern value of the respective company; if a contractually agreed minimum purchase price is higher than this amount, this purchase price is recognized (Level 3). The unobservable valuation parameters may fluctuate depending on the going concern values of these companies. However, a major change in value is not likely, as the business model is very predictable.

The following table shows the development of the put options recognized at fair value:

		Change in		Change		
in € million	as of Jan. 1	scope of consolidation	affecting net income	Cash effective	not affecting net income	as of Dec. 31
2016						
Purchase price liabilities from put options/rights to reimbursement	**57.6**	6.7	-0.4	-	-6.7	**57.2**
2015						
Purchase price liabilities from put options/rights to reimbursement	-43.6	77.6	23.6	-65.3	-	**57.6**

The contingent consideration component within the scope of the acquisition of GAGFAH S.A. is an option held by the co-investor J.P. Morgan Securities plc., London. The number of shares and the difference between the current and guaranteed price per share are material valuation parameters. It was stated at fair value using the Black Scholes model (Level 2). For the current price, the share price of GAGFAH S.A. at the date of delisting was taken into consideration (Level 3 valuation parameters), so as to avoid distorted stock market valuations due to the extremely low trading volume. The fair value of the option is subject to sensitivities that reflect inputs that cannot be empirically observed: the historical volatility of the share price, limited price calculation using negative yield curves in the Black Scholes model, the deviations from GAGFAH's valuation and the uncertain term of the option. An increased level of volatility, a lower price of the underlying, a longer term and a lower interest rate reflect an increase in the value of the option, and vice versa.

The addition relating to the change in the scope of consolidation relates to a put option as part of the acquisition of the GRAINGER portfolio in the amount of € 6.7 million. In April 2016, this put option was transferred to an external third party.

The change affecting net income is largely the result of subsequent measurement effects.

The sensitivity analysis has shown that if the value of the company deviates by 10 % in each case, the purchase price liability from put options granted as of the reporting date would differ by € +5.2 million or € -5.2 million (Dec. 31, 2015: € +5.4 million or € -5.4 million). The changes would be recognized in full in net interest.

In order to measure interest rate swaps, future cash flows are calculated and then discounted (Level 2). The calculated cash flows result from the contract conditions. The contract conditions refer to the EURIBOR reference rates (3M and 6M EURIBOR).

The calculated cash flows of the cross currency swap result from the forward curve for US-$/EUR. The cash flows are discounted on the basis of the reference interest rate of each currency (LIBOR and EURIBOR) and translated into euros at the current exchange rate (Level 2).

Financial instruments, which are not recognized in the balance sheet at fair value but at amortized cost, but whose fair values are nonetheless disclosed in the Notes, are also classified in the three-level fair value hierarchy.

The fair values of the cash and cash equivalents, trade receivables as well as other financial receivables approximate their carrying amounts at the reporting date owing to their mainly short maturities.

The fair values of the other non-current financial receivables correspond to the present values of the payments associated with the assets, taking into account the relevant current interest parameters (Level 2).

Shares in Deutsche Wohnen are reported under other investments at their fair value of € 501.9 million as of the reporting date. All other investments are measured at cost as there is no price quoted on an active market and the fair market value cannot be determined reliably.

Liabilities from property letting and liabilities from other goods and services usually have short maturities; the values recognized approximate the fair values.

The fair values of the other non-derivative financial liabilities are also measured by discounting the future cash flows using the current risk-adjusted interest rate structure curve at the reporting date (Level 2).

Net results according to measurement category:

2016

in € million	Measurement category in acc. with IAS 39	From interest	Income from other non-current loans	Impairment losses (from subsequent measurement)	Derecognized receivables (from subsequent measurement)	Derecognized liabilities (from subsequent measurement)	Dividends from other investments	Net results 2016
Loans and receivables	LaR	4.5	1.9	-24.3	1.1	-	-	-16.8
Available-for sale financial assets	AfS	0.1	-	-	-	-	11.1	11.2
Financial liabilities held for trading	FLHfT	0.4	-	-	-	-	-	0.4
Financial liabilities measured at amortized cost	FLAC	-381.9	-	-	-	1.4	-	-380.5
		-376.9	**1.9**	**-24.3**	**1.1**	**1.4**	**11.1**	**-385.7**

2015

in € million	Measurement category in acc. with IAS 39	From interest	Income from other non-current loans	Impairment losses (from subsequent measurement)	Derecognized receivables (from subsequent measurement)	Derecognized liabilities (from subsequent measurement)	Dividends from other investments	Net results 2015
Loans and receivables	LaR	1.0	2.3	-12.9	-2.7	-	-	-12.3
Available-for sale financial assets	AfS	0.5	-	-	-	-	3.6	4.1
Financial liabilities held for trading	FLHfT	-25.9	-	-	-	-	-	-25.9
Financial liabilities measured at amortized cost	FLAC	-346.8	-	-	-	0.2	-	-346.6
		-371.2	**2.3**	**-12.9**	**-2.7**	**0.2**	**3.6**	**-380.7**

Vonovia basically recognizes the components of the net result under financial income and financial expenses.

In the reporting year, the financial result for financial assets or financial liabilities that are not measured at fair value through profit and loss (calculated using the effective interest method) adds up to € -385.7 million (2015: € -350.5 million).

Impairment losses which can be assigned to the measurement category “Loans and receivables” (LaR) as well as income and expenses in connection with derecognized receivables are shown under other operating income or other operating expenses.

The income from derecognized liabilities assigned to the measurement category “Financial liabilities measured at amortized cost” (FLAC) was recognized under other operating income.

38 Financial Risk Management

In the course of its business activities, Vonovia is exposed to various financial risks. The Group-wide financial risk management system aims to identify any potentially negative impact on the financial position of the Group early on and take suitable measures to limit this impact. For the structure and organization of financial risk management, we refer to the management report (chapter "Structure and Instruments of the Risk Management System"). This system was implemented on the basis of Group guidelines, which were approved by the Management Board and which are continually reviewed. The risks associated with financial instruments and the corresponding risk management are described in detail as follows:

Market Risks

a) Currency Risks

The cash-effective currency risks arising in connection with the issuance of US-$ bonds were eliminated by the simultaneous contracting of cross currency swaps. Apart from the aforementioned, Vonovia is still not exposed to any material currency risks in its normal business activities.

b) Interest Rate Risks

In the course of its business activities, Vonovia is exposed to cash-effective interest rate risks as a result of floating-rate debt as well as new and follow-on loans. Within this context, the interest markets are continually monitored by the Finance and Treasury department. Its observations are incorporated into the financing strategy.

As part of its financing strategy, Vonovia uses derivative financial instruments, in particular EUR interest rate swaps, to limit or manage interest rate risks. Vonovia's policies permit the use of derivatives only if they are associated with underlying assets or liabilities, contractual rights or obligations and planned, highly probable transactions.

Preceding this chapter, there is a sensitivity analysis with regard to purchase price liabilities from put options. A sensitivity analysis for cash flow hedges is provided under note [40] Cash Flow Hedges and Stand-Alone Interest Rate Swaps.

c) Deutsche Wohnen Share Price Risks

Vonovia holds 16.8 million shares in Deutsche Wohnen AG as strategic stock. This stock is subject to standard market price fluctuations. On December 31, 2016, a drop in the relevant share price of 5 % would have resulted in a reduction in equity of € 25.0 million without allowance for income taxes.

Credit Risks

Vonovia is exposed to a default risk resulting from the potential failure of a counterparty to fulfill its part of the contract. In order to minimize risks, financial transactions are only executed with banks and partners whose credit rating has been found by a rating agency to be at least equivalent to Vonovia's. These counterparties are assigned volume limits set by the Management Board. The counterparty risks are managed and monitored centrally by the Finance and Treasury department.

Liquidity Risks

The companies of Vonovia are financed by borrowings to a notable degree. Due to their high volume, the loans are in some cases exposed to a considerable refinancing risk. The liquidity risks arising from financing transactions with high volumes (volume risks) have become apparent in the financial sector, especially in the wake of the financial crisis. In order to limit these risks, Vonovia is in constant contact with many different market players, continuously monitors all financing options available on the capital and banking markets and uses these options in a targeted manner. Moreover, Vonovia subjects its existing financings to an early review prior to the respective final maturity date in order to ensure refinancing.

Under the conditions of existing loan agreements, Vonovia is obliged to fulfill certain financial covenants such as the debt service coverage ratio or debt-equity ratio. If financial covenants are violated, the breach is not rectified within so-called cure periods and no mutually acceptable agreement can be reached with the lenders, the financing may be restructured and the cost structure changed. Should all commonly practiced solutions be unsuccessful, the lenders could call in the loan. The fulfillment of these financial covenants is continually monitored by Finance and Treasury on the basis of current actual figures and budgetary accounting.

In order to ensure its ability to pay at all times, Vonovia has put a system-supported cash management system in place. This system monitors and optimizes Vonovia's cash flows on an ongoing basis and provides the Management Board with regular reports on the Group's current liquidity situation. Liquidity management is supplemented by short-term rolling, monthly liquidity planning for the current fiscal year, of which the Management Board is also promptly notified.

The following table shows the forecast for undiscounted cash flows of the non-derivative financial liabilities and derivative financial instruments. The loan repayments shown for the following years contain only contractually fixed minimum repayment amounts:

		2017		2018		2019 to 2023	
in € million	**Carrying amount as of Dec. 31, 2016**	Interest	Repayment	Interest	Repayment	Interest	Repayment
Non-derivative financial liabilities							
Liabilities to banks	3,439.4	93.6	169.3	64.6	734.6	106.2	985.3
Liabilities to other creditors	9,859.0	136.2	1,485.3	175.8	1,521.4	537.6	5,843.3
Deferred interest from other non-derivative financial liabilities	72.6	72.6	-	-	-	-	-
Liabilities from finance leases	99.2	5.9	-	5.9	-	31.2	-
Derivative financial liabilities							
Purchase price liabilities from put options/rights to reimbursement	57.2	-	31.6	-	-	-	25.6
Cash flow hedges (interest)	19.1	16.7	-	5.2	-	13.2	-
Cash flow hedges (cross currency swap) US-$ in €	-182.3	-33.4	-712.4	-11.0	-	-52.5	-200.1
€		25.0	554.7	8.5	-	42.4	184.9
Deferred interest from swaps	-2.1	-2.1	-	-	-	-	-

In April 2014, Vonovia issued a subordinated hybrid bond with terms and conditions stating that the issuer has its first special right of termination after five years. In line with the principle of prudence, the nominal value of these bonds has been recognized in the repayments from the 2019–2023 period, although the contractual term extends well beyond this period.

Credit Line

In September 2015, Vonovia entered into an agreement with Commerzbank AG, Frankfurt worth € 300 million. This unsecured credit line runs until September 2018 and is subject to interest on the basis of EURIBOR plus a mark-up. It had not been utilized by December 31, 2016. Furthermore, there are two guarantee credit agreements in place between Vonovia and Commerzbank, one for € 10 million, from which bills of exchange of approximately € 0.9 million had been drawn as of the end of the fiscal year, and one for € 50 million, from which bills of exchange had been drawn in the full amount.

All in all, Vonovia has cash on hand and deposits at banking institutions of € 1,540.8 million on the reporting date (Dec. 31, 2015: € 2,108.0 million and commercial papers in the amount of € 999.9 million). Therefore Vonovia's ability to service debt continues to be guaranteed at all times.

We refer to the information on financial risk management in the management report.

39 Capital Management

Vonovia's management aims to achieve a long-term increase in value in the interests of customers, employees and investors. Within this context, maintaining a degree of financial flexibility in order to be able to pursue the company's growth and portfolio optimization strategy is crucial. This is why Vonovia's capital management focuses on ensuring our investment grade rating. The priority is to ensure sufficient liquidity resources and maintain an efficient ratio between secured and non-secured capital components.

As part of the opportunities and risk management of Vonovia, the members of the Management Board are given monthly reports on the development of results and the potential effects on the capital structure.

The equity situation of the subsidiaries is regularly examined.

Vonovia's equity developed as follows:

in € million	Dec. 31, 2016	Dec. 31, 2015
Total equity	13,888.4	11,866.9
Total assets	32,522.1	30,959.1
Equity ratio	42.7 %	38.3 %

Vonovia plans to continue funding possible acquisitions by an optimal mix of debt capital and equity.

In order to protect itself against changes in exchange rates and interest rates, Vonovia regularly contracts derivative hedging transactions in the case of liabilities with variable interest rates or liabilities in foreign currencies. The Finance and Treasury department is responsible for implementing the approved financing strategy.

40 Cash Flow Hedges and Stand-Alone Interest Rate Swaps

The nominal value of the euro interest rate swaps has fallen due to contractual reductions and premature terminations and came to € 1,481.0 million on the reporting date (Dec. 31, 2015: € 6,653.2 million). Interest rates vary between 0.14 % and 3.760 % with original swap periods of between two and ten years.

In connection with the € 500-million bond with a variable coupon issued in September 2016, the company has used a corresponding interest rate hedging transaction to fix the interest rate at 0.14 % for two years.

In line with the planned early repayment of selected mortgage-backed loans, nine interest rate swaps with a volume of € 2,945.0 million have been terminated prematurely in the reporting year.

In addition, the forward swaps with a nominal volume of € 2,700 million that were designated in October 2015 were terminated in June and December 2016. Three hedging instruments are maintained within a so-called passive hedge accounting and the changes in value previously reported outside profit or loss under OCI (other comprehensive income) will be reclassified to profit or loss in line with the expected cash flows from the underlying hedged items (two tranches of the bond issued on June 6, 2016, each with a volume of € 500 million, as well as the € 1,000 million bond issued on December 6, 2016). Since the originally intended hedged items for the other two hedging instruments are no longer associated with a high probability of occurrence, their termination prices totaling € 54.5 million were recognized with an direct effect on net income.

All derivatives are included in netting agreements with the issuing banks. Whereas the cross currency swaps were all recognized with positive market values, basically the euro interest rate swaps have an inherently negative market value as of the reporting date. No economic or accounting offsetting was performed in the reporting year.

Key parameters of the interest rate swaps were as follows:

in € million	Face value	Beginning of term	End of term	Current average interest rate (incl. margin)
Bonds (EMTN)				
Hedged items	750.0	Dec. 15, 2015	Dec. 15, 2017	3M EURIBOR margin 0.95 %
Interest rate swaps	750.0	Dec. 15, 2015	Dec. 15, 2017	0.835 %
Bonds (EMTN)				
Hedged items	500.0	Sep. 13, 2016	Sep. 13, 2018	3M EURIBOR margin 0.38 %
Interest rate swaps	500.0	Sep. 13, 2016	Sep. 13, 2018	0.140 %
Portfolio loans				
Corealcredit Bank AG (1)				
Hedged items	147.7	Dec. 14, 2010	Dec. 31, 2018	3M EURIBOR margin 0.88 %
Interest rate swaps	147.9	Apr. 13, 2011	Apr. 13, 2018	3.335 %
Norddeutsche Landesbank (2)				
Hedged items	83.1	Jun. 28, 2013	Jun. 30, 2023	3M EURIBOR margin 1.47 %
Interest rate swaps	83.1	Jun. 28, 2013	Jun. 30, 2023	2.290 %

In 2013, two cross currency swaps were contracted in equal amounts with each of J.P. Morgan Limited and Morgan Stanley Bank International Limited; these hedging instruments (cross currency swaps/CCS) became effective on the issuance of two bonds for a total amount of US-$ 1,000 million. The CCS, each for an amount of US-$ 375 million, originally had a term of four years and the hedging instruments, each for an amount of US-$ 125 million, originally had a term of ten years. Therefore, the EUR-US-$ currency risk resulting from the coupon and capital repayments is eliminated for the entire term of the bonds.

The nominal volume of the CCS is still € 739.8 million at the reporting date. The interest rate for the transaction due in 2017 comes to 2.97 % and the rate for the transaction due in 2023 comes to 4.58 %.

in million	Face-value US-$	Face-value €	Beginning of term	End of term	Interest rate US-$	Interest rate €	Hedging rate US-$/€
J.P. Morgan Securities plc Morgan Stanley & Co. International plc							
Hedged items	750.0	554.9	Oct. 2, 2013	Oct. 2, 2017	3.20 %		
Hedged items	250.0	184.9	Oct. 2, 2013	Oct. 2, 2023	5.00 %		
CCS	750.0	554.9	Oct. 2, 2013	Oct. 2, 2017		2.97 %	1.3517
CCS	250.0	184.9	Oct. 2, 2013	Oct. 2, 2023		4.58 %	1.3517

The designation of the cash flow hedges as hedging instruments is prospectively determined on the basis of a sensitivity analysis, retrospectively on the basis of the accumulated dollar offset method. The fair value changes of the hedged items are determined on the basis of the hypothetical derivative method. In the reporting year – as in the prior year – the impact of default risk on the fair values is negligible and did not result in any adjustments of the balance sheet item.

In the reporting year, the interest rate swaps as of December 31, 2016, were shown at their negative clean fair values totaling € -19.1 million (Dec. 31, 2015: € -144.5 million), whereas a positive clean fair value of € 182.3 million (Dec. 31, 2015: € 154.3 million) was reported for the cross currency swaps for the same period.

In addition, an embedded derivative that was identified as part of the takeover of GAGFAH S.A. was recognized at a positive fair value of € 0.2 million as of the reporting date.

The corresponding deferred interest was shown at € +2.1 million (Dec. 31, 2015: € -1.2 million).

As a result of the valuation, € 44.9 million was encumbered to other comprehensive income during the fiscal year (2015: credit of € 10.0 million).

Net interest was impacted by reclassifications in the amount of € 26.9 million in 2016 (2015: credit of € 45.3 million).

In the reporting year, after allowing for deferred taxes, positive cumulative ineffectiveness amounts to just € 0.7 million (2015: € 8.9 million), as a result the net interest deteriorated by € 8.2 million.

On the basis of the valuation as of December 31, 2016, Vonovia used a sensitivity analysis to determine the change in equity given a parallel shift in the interest rate structure of 50 basis points in each case:

	Change in equity		
in € million	Other reserves not affecting net income	Ineffective portions affecting net income	Total
2016			
+ 50 basis points	5.8	0.1	**5.9**
- 50 basis points	-5.8	-0.1	**-5.9**
2015			
+ 50 basis points	72.8	28.9	**101.7**
- 50 basis points	-75.8	-29.0	**-104.8**

A further sensitivity analysis showed that a change in the foreign currency level of -5 % (+5 %) would lead, after allowance for deferred taxes, to a change in the other reserves not affecting net income of € -3.0 million (or € +4 million), while ineffectiveness affecting net income in the amount of € +2.2 million (or € -2.0 million) would result at the same time. In the previous year, a change in the other reserves not affecting net income of € -3.6 million (or € +4.1 million) was recognized in connection with ineffectiveness affecting net income in the amount of € +3.4 million (or € -3.7 million).

41 Information on the Consolidated Statement of Cash Flows

The statement of cash flows shows how Vonovia's cash has changed during the reporting year as a result of cash inflows and outflows. In accordance with IAS 7 (Statements of Cash Flows), a distinction is made between changes in cash flow from operating activities, investing activities and financing activities.

The cash flow from operating activities is determined from the profit for the period using the indirect method, the profit for the period being adjusted for effects of transactions that are not cash-effective, any deferrals or accruals of past or future operating cash receipts or payments as well as items of income or expense associated with investing or financing cash flows.

The effects of changes in the scope of consolidation are shown separately. Therefore, direct comparison with the corresponding changes in the items of the consolidated balance sheet is not possible.

The proceeds from the disposal of intangible assets, property, plant and equipment and investment properties are shown in cash flow from investing activities.

Exercising the IAS 7 option, interest received is shown under cash flow from investing activities and interest paid is shown under cash flow from financing activities.

The item "Payments for acquisition of investment properties" mainly shows expenses for modernization measures.

Of the cash and cash equivalents, restraints on disposal apply to € 51.7 million (Dec. 31, 2015: € 84.2 million).

42 Contingent Liabilities

Contingent liabilities exist for cases in which Vonovia SE and its subsidiaries give guarantees to various contractual counterparts.

The terms are in many cases limited to an agreed time. In some cases, the term is unlimited.

Contingent liabilities of Vonovia are as follows:

in € million	Dec. 31, 2016	Dec. 31, 2015
Property transfer obligations	0.1	0.6
Rent surety bonds	0.4	0.3
Other	4.6	6.3
	5.1	**7.2**

The property transfer obligations are shown in the amount of the guarantees utilized.

Vonovia is involved in legal disputes resulting from normal business activities. In particular, this involves disputes under the law of tenancy and sales disputes. None of the legal disputes, taken in isolation, will have any material effects on the net assets, financial position or results of operations of Vonovia.

43 Other Financial Obligations

The future minimum lease payment obligations resulting from non-cancellable operating leases are due as follows:

in € million	End of contract term	Due within 1 year	Due in 1 to 5 years	Due after 5 years	Total
Total minimum lease payments Dec. 31, 2016					
Rents	2016–2022	6.3	10.4	–	16.7
Lease contracts	2016–2020	13.1	17.7	–	30.8
Leasehold contracts	2017–2109	9.4	37.1	373.9	420.4
		28.8	**65.2**	**373.9**	**467.9**
Dec. 31, 2015					
Rents	2015–2020	6.6	13.9	–	20.5
Lease contracts	2015–2018	13.0	15.5	–	28.5
Leasehold contracts	2017–2109	9.4	39.0	384.4	432.8
		29.0	**68.4**	**384.4**	**481.8**

Payments of € 29.7 million (2015: € 29.5 million) under rental, tenancy and lease contracts were recognized as expenses in the reporting period.

The Vonovia leasehold contracts generally have a term of 99 years. The average remaining term of these contracts was approx. 43 years as of December 31, 2016. The owners of inheritable building rights are in particular the German state, church institutions, German federal states, municipalities and Deutsche Post AG, Bonn.

In addition to obligations under operating leases, other financial obligations include:

in € million	Dec. 31, 2016	Dec. 31, 2015
Other financial obligations		
Cable TV service contracts	355.4	373.7
IT service contracts	21.9	22.4
Surcharges under the German Condominium Act	4.5	5.1
Caretaker service contracts	-	23.5
	381.8	**424.7**

The obligations under cable TV service contracts are set against future income from the marketing of the cable TV service. The caretaker service contracts were gradually terminated and assumed by Vonovia's own craftsmen's organization.

44 Segment Reporting

Vonovia is an integrated real estate company. The company's strategy remains focused on sustainably increasing the value of the company. This is aided by a value-enhancing property management strategy for the company's own properties, value-enhancing investment, active portfolio management and a property-related service business. Since the reorganization measures implemented in the fourth quarter of 2015, Vonovia has made a distinction between three business segments: Rental, Extension and Sales. These segments were still managed independently in the 2016 fiscal year.

The Rental segment pools all business activities for active management as well as investments in the company's own properties. The maintenance expenses shown include the services of the Group's own craftsmen's organization measured at the market price. Only ancillary costs that cannot be passed on to the tenants are included in the operating expenses of the Rental segment. Other income from property management that cannot be allocated to the Extension segment is offset against the operating expenses of the Rental segment.

The Extension segment combines all business activities relating to the expansion of the core business to include additional property-related services. These include the company's own craftsmen's organization, which performs maintenance and modernization services for the Group, the organization for the upkeep and maintenance of the residential environment, the provision of cable TV services to our tenants, condominium administration for third-party apartments and for those Vonovia apartments managed in homeowners associations, metering services for measuring the consumption of water and heating (smart metering) and insurance services for own properties and for third parties.

The Sales segment covers all business activities relating to the sale of single units as well as the sale of entire buildings or plots of land.

A Group-wide planning and controlling system ensures that resources for all three segments are efficiently allocated and their successful use is monitored.

Reporting to the chief decision-makers and thus the assessment of business performance as well as the allocation of resources are performed on the basis of this segmentation. Accordingly, segment reporting is presented in accordance with IFRS 8.22. No segmentation by region is performed. Assets and liabilities are not viewed separately by segment.

Internal reporting is generally based on the IFRS reporting standards.

The Management Board as chief decision-makers of Vonovia assess the contribution of the business segments against the company's performance on the basis of their income as well as the adjusted EBITDA. The adjusted segment EBITDA represents earnings before interest, taxes, depreciation and amortization adjusted for items that are not related to the period, recur irregularly or that are atypical for business operation and excluding effects from adjustments in value in accordance with IAS 40.

In contrast to the presentation in the statements from December 31, 2015, services in the Extension segment that are performed by third parties are reported as internal income in 2016, provided that Group companies are responsible for managing these services.

Furthermore, we are reporting the financial income from investments in other real estate companies outside of adjusted EBITDA for the first time in the 2016 reporting period. During the previous year from January 1 to December 31, 2015, financial income from investments in other real estate companies amounting to € 0.4 million was taken out of adjusted EBITDA Rental. The financial income from investments in other real estate companies came to € 9.6 million in the reporting period from January 1 to December 31, 2016.

The following table shows the segment information for the reporting period:

in € million	Rental	Extension	Sales	Other*	Group
Jan. 1 – Dec. 31, 2016					
Segment income	1,538.1	851.2	1,227.9	-180.0	3,437.2
thereof external income	1,538.1	108.1	1,227.9	563.1	3,437.2
thereof internal income		743.1		-743.1	
Carrying amount of assets sold			-1,177.7		
Revaluation from disposal of assets held for sale			70.0		
Expenses for maintenance	-247.4				
Operating expenses	-244.5	-794.2	-27.7	170.8	
Adjusted EBITDA	1,046.2	57.0	92.5	-9.2	1,186.5
Non-recurring items					-94.5
Period adjustments from assets held for sale					-17.9
Income from investments in other real estate companies					9.6
EBITDA IFRS					1,083.7
Net income from fair value adjustments of investment properties					3,236.1
Depreciation and amortization					-27.0
Income from other investments					-11.1
Financial income					27.1
Financial expenses					-449.0
EBT					3,859.8
Income taxes					-1,346.9
Profit for the period					**2,512.9**

* The income for the segments Rental, Extension and Sales constitutes income that is regularly reported to the Management Board as chief operating decision-maker. The income in the column "Other" results from the onward charging of ancillary costs amounting to € 627.5 million, as well as consolidation effects. These are not part of the regular reporting to the Management Board and have thus been presented in the "Other" column. The cost side is also part of the reporting to the Management Board in order to ensure efficient property management.

in € million	Rental	Extension	Sales	Other*	Group
Jan. 1 – Dec. 31, 2015					
Segment income	1,414.6	428.7	726.0	220.2	2,789.5
thereof external income	1,414.6	59.3	726.0	589.6	2,789.5
thereof internal income		369.4		-369.4	
Carrying amount of assets sold			-658.7		
Revaluation from disposal of assets held for sale			33.0		
Expenses for maintenance	-242.2				
Operating expenses	-248.0	-391.1	-29.2	-224.6	
Adjusted EBITDA	924.4	37.6	71.1	-4.4	1,028.7
Non-recurring items					-209.4
Period adjustments from assets held for sale					18.7
Income from investments in other real estate companies					0.4
EBITDA IFRS					838.4
Net income from fair value adjustments of investment properties					1,323.5
Depreciation and amortization					-13.4
Income from other investments					-3.6
Financial income					8.0
Financial expenses					-418.4
EBT					1,734.5
Income taxes					-739.8
Profit for the period					**994.7**

* The income for the segments Rental, Extension and Sales constitutes income that is regularly reported to the Management Board as chief operating decision-maker. The income in the column "Other" results from the onward charging of ancillary costs amounting to € 620.7 million as well as consolidation effects. These are not part of the regular reporting to the Management Board and have thus been presented in the "Other" column. The cost side is also part of the reporting to the Management Board in order to ensure efficient property management. Unlike in the previous year, the income and expenses from property management that are attributable to the Extension segment is now reported in the Extension segment.

To show the development of operating performance and to ensure comparability with previous periods, we calculate adjusted EBITDA for our Rental, Extension and Sales segments, as mentioned above. The total of these key figures, taking consolidation effects into account (adjusted EBITDA Other), produces the adjusted EBITDA for the Group as a whole. The adjustments made include items that are not related to the period, items that recur irregularly and items that are atypical for business operation. The non-recurring items include the development of new fields of business and business processes, acquisition projects including integration costs, expenses for refinancing and equity increases (where not treated as capital procurement costs), as well as expenses for pre-retirement part-time work arrangements and severance payments.

The following table gives a detailed list of the non-recurring items for the reporting period:

in € million	Jan. 1 - Dec. 31, 2016	Jan. 1 - Dec. 31, 2015
Business model optimization/ Development of new fields of business	21.0	11.3
Acquisition costs incl. integration costs*	46.8	179.8
Refinancing and equity measures	3.2	0.7
Severance payments/Preretirement part-time work arrangements	23.5	17.6
Total non-recurring Items	**94.5**	**209.4**

* including takeover costs and one-time expenses in connection with acquisitions, such as HR measures relating to the integration process

In the 2016 fiscal year, non-recurring items came to € 94.5 million, down by 54.9 % on the figure for the previous year (€ 209.4 million). In the 2016 fiscal year, the non-recurring items related primarily to acquisition costs of € 46.8 million (including integration costs in 2015: € 179.8 million), mainly due to the costs incurred in connection with the public takeover offer made to the shareholders of Deutsche Wohnen and costs associated with the integration of GAGFAH.

45 Related Party Transactions

At Vonovia, the individuals in key positions pursuant to IAS 24 include the members of the Management Board and the Supervisory Board of Vonovia SE.

As far as the total remuneration paid to the Management Board and Supervisory Board is concerned, reference is made at this point to the remuneration report and to note [47] Remuneration.

46 Share-Based Payments

Management Board

Under the long-term incentive plan (LTIP), the former Management Board members were granted a total of 931,030 notional shares (SARs = stock appreciation rights) in 2013. These are paid out in five annual tranches with a cliff vesting of 20 % per calendar year of the total number of notional shares granted. In this context, the fair value corresponds to the actuarial fair value of the remuneration expected over the total five-year period. These notional shares will be converted into payout amounts for each annual tranche on the basis of a formula laid down in the LTIP agreement. Therefore, this LTIP qualifies as a cash-settled share-based payment plan in accordance with IFRS 2.

In connection with the conclusion of new employment contracts with Klaus Freiberg and Dr. A. Stefan Kirsten, an agreement was reached that there would be no further vesting after the vesting in the 2017 fiscal year.

The value of the total notional shares that had been granted but not paid out from the LTIP as of December 31, 2016, was calculated by an external expert based on recognized actuarial principles. The obligation disclosed as of the reporting date breaks down as follows:

Tranche	End of vesting period	Rolf Buch	Klaus Freiberg	Dr. A. Stefan Kirsten
2016	Feb. 28, 2017	2,837,789	–	–
2016	July 11, 2017	–	1,723,684	1,723,684
2017	Feb. 28, 2018	2,169,378	–	–

The LTIP program results in expense pursuant to IFRS 2 totaling € 3.9 million in the 2016 reporting year (2015: € 5.7 million), with € 2.1 million attributable to Rolf Buch, € 0.5 million attributable to Klaus Freiberg and € 1.3 million attributable to Dr. A. Stefan Kirsten.

As a result of the departure of Monterey Holdings S.à r.l. (MHI) as a majority shareholder in 2014, key criteria of this LTIP were met, meaning that it once again had to be replaced by a new variable long-term incentive plan (LTIP “Plan”).

As part of the new LTIP “Plan”, the Management Board members are granted on January 1 of the calendar year, with effect from January 1, 2015, a fixed number of phantom stocks (performance share units or

"PSU"), which are paid out at the end of a four-year performance period based on the extent to which a pre-defined target achievement level has been reached. The level of target achievement that determines the payout amount under the new LTIP "Plan" is calculated based on the following parameters: Relative Total Shareholder Return (RTSR), Performance of NAV per Share, Performance of FFO I per Share and the Customer Satisfaction Index (CSI), which are all assigned an equal weighting of 25 %. As a result, this new LTIP "Plan" constitutes a form of cash-settled share-based payment pursuant to IFRS 2; in turn, the payout claim can be lost entirely if the defined target achievement level has not been reached.

The value of the total notional shares that had been granted but not paid out from the new LTIP "Plan" as of December 31, 2016, was calculated by an external expert based on recognized actuarial principles. The obligation disclosed as of the reporting date breaks down as follows:

Tranche	End of vesting period	Rolf Buch	Thomas Zinnöcker	Klaus Freiberg	Dr. A. Stefan Kirsten	Gerald Klinck
2015–2017	Dec. 31, 2017	–	–	302,998	302,998	216,919
2015–2018	Dec. 31, 2018	688,246	461,702	229,424	229,424	160,597
2016–2018	Dec. 31, 2018	–	–	72,205	72,205	72,205
2016–2019	Dec. 31, 2019	367,073	26,064	163,142	163,142	163,142

The LTIP "Plan" program resulted in expenses pursuant to IFRS 2 totaling € 2.5 million in the 2016 reporting year (2015: € 1.2 million), with € 0.7 million attributable to Rolf Buch, € 0.5 million attributable to Klaus Freiberg, Dr. A. Stefan Kirsten and Gerald Klinck and € 0.3 million attributable to Thomas Zinnöcker.

For further information, please refer to the remuneration report.

Executives Below Management Board Level

In 2014, Vonovia resolved a virtual share program (LTIP) for executives at the highest level of management below the Management Board with effect from January 1, 2014. The executives receive notional shares on January 1 of each calendar year. The terms and conditions of the LTIP are basically the same as those for the Management Board LTIP. The LTIP has a term of three years.

The level of target achievement is calculated every year based on three equally weighted targets (AFFO, NAV, TSR) and is capped at 150 % for each target. An amount is accumulated over the three-year period. For the notional shares granted on January 1, 2014, the waiting period is three calendar years, meaning that it ends on December 31, 2016.

The value of the total notional shares that had been granted but not paid out as of December 31, 2016, was calculated by an external expert based on recognized actuarial principles. The obligation disclosed as of the reporting date breaks down as follows:

Tranche	End of vesting period	Dec. 31, 2016
2014	Dec. 31, 2016	1,016,086
2015	Dec. 31, 2017	683,193

The LTIP program results, in accordance with IFRS, in expenses of € 1.0 million in the 2016 reporting year (2015: € 0.7 million).

In 2016, a new LTIP "Plan" was launched for the first level of management, replacing the LTIP that was launched in 2014, to bring the targets for the Management Board and other employees in management positions below Management Board level even closer into line with shareholder interests.

The LTIP "Plan" is based largely on the LTIP "Plan" launched for the Management Board in 2015, also regarding the identical performance objectives and the calculation of the objective values with regard to the minimum value, the "target achievement value", and the maximum value.

The value of the total notional shares that had been granted but not paid out from the new LTIP "Plan" as of December 31, 2016, was calculated by an external expert based on recognized actuarial principles. The obligation disclosed as of the reporting date breaks down as follows:

Tranche	End of vesting period	Dec. 31, 2016
2016	Dec. 31, 2019	369,574

The LTIP "Plan" program results, in accordance with IFRS, in expenses of € 0.4 million in the 2016 reporting year (2015: € - million).

As part of the acquisition of GAGFAH, share-based remuneration programs for GAGFAH managers were assumed. These are remuneration plans featuring cash compensation. The virtual stocks are granted over a period of three consecutive years, with one tranche being granted per year. The conditions for exercise are the corresponding target achievement level and an uninterrupted length of service in each vesting period.

The value of the total notional shares that had been granted but not paid out as of December 31, 2016, was calculated by an external expert based on recognized actuarial principles. The obligation disclosed as of the reporting date breaks down as follows:

Tranche	End of vesting period	Dec. 31, 2016
2014	Dec. 31, 2016	78,125
2015	Dec. 31, 2017	83,312

The LTIP program results, in accordance with IFRS, in total expenses of € 0.0 million in the 2016 reporting year (2015: € 0.5 million).

Employees

An employee share program was resolved on the basis of a works agreement in 2014. The program started in the first quarter of 2015 and the shares granted are subject to a vesting period of six months. The costs associated with the securities deposit account are borne by Vonovia. Shares with a value of between € 90.00 and € 360.00 at the most are granted to the eligible employees, depending on their gross annual salary, without the employees having to make any contribution of their own.

The new employee share program results, in accordance with IFRS, in total expenses of € 1.9 million in the 2016 reporting year (2015: € 0.7 million), which have been offset directly against the capital reserves.

47 Remuneration

Remuneration of the Supervisory Board

The members of the Supervisory Board received total remuneration of € 1.8 million during the 2016 fiscal year (2015: € 1.6 million) for their work.

Total Remuneration of the Management Board

The total remuneration paid to the individual members of the Management Board comprises the following:

	Rolf Buch, CEO		Thomas Zinnöcker, CRO April 1, 2015 until January 31, 2016		Klaus Freiberg, COO	
Total remuneration of the Management Board in €	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Fixed remuneration	900,000	1,000,000	600,000	66,667	550,000	600,000
Cash remuneration/deferred compensation	180,000	225,000	112,500	12,500	110,000	160,000
Fringe benefits	38,702	39,446	19,713	2,369	22,813	27,627
Total	1,118,702	**1,264,446**	732,213	**81,536**	682,813	**787,627**
Annual variable remuneration (bonus)	693,000	700,000	1,284,600	50,000	434,808	440,000
Multi-year variable remuneration (LTIP „Plan“):						
2015–2017	-	-	-	-	419,790	-
2015–2018	1,263,136	-	907,879	-	421,045	-
2016–2018	-	-	-	-	-	212,035
2016–2019	-	1,429,217	-	101,481	-	635,201
Total	1,956,136	**2,129,217**	2,192,479	**151,481**	1,275,643	**1,287,236**
Total remuneration	**3,074,838**	**3,393,663**	**2,924,692**	**233,017**	**1,958,456**	**2,074,863**

	Dr. A. Stefan Kirsten, CFO		Gerald Klinck, CCO since April 1, 2015		Total remuneration	
Total remuneration of the Management Board in €	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Fixed remuneration	550,000	600,000	412,500	600,000	3,012,500	2,866,667
Cash remuneration/deferred compensation	109,600	160,000	82,500	160,000	594,600	717,500
Fringe benefits	36,665	31,571	15,300	25,865	133,193	126,878
Total	696,265	**791,571**	510,300	**785,865**	3,740,293	**3,711,045**
Annual variable remuneration (bonus)	434,500	440,000	330,000	440,000	3,176,908	2,070,000
Multi-year variable remuneration (LTIP „Plan“):						
2015–2017	419,790	-	314,842	-	1,154,422	-
2015–2018	421,045	-	315,784	-	3,328,889	-
2016–2018	-	212,035	-	212,035	-	636,105
2016–2019	-	635,201	-	635,201	-	3,436,301
Total	1,275,335	**1,287,236**	960,626	**1,287,236**	7,660,219	**6,142,406**
Total remuneration	**1,971,600**	**2,078,807**	**1,470,926**	**2,073,101**	**11,400,512**	**9,853,451**

The Management Board members do not receive any additional remuneration for positions held at Group companies.

Pension Obligations to Members of the Management Board

Rolf Buch, Dr. A. Stefan Kirsten and Gerald Klinck are paying their contractual share of € 225,000 (Rolf Buch), € 160,000 (Dr. A. Stefan Kirsten) and (Gerald Klinck) respectively, based on their fixed remuneration, into the deferred compensation scheme. Klaus Freiberg and Thomas Zinnöcker opted for a cash payout for their entitlements of € 160,000 and € 12,500 respectively.

The pension obligations to members of the Management Board from deferred compensation comprise the following:

	Contribution total as of December 31,		Defined benefit obligation as of December 31,	
€	2016	2015	2016	2015
Rolf Buch	225,000	180,000	2,105,694	1,324,821
Dr. A. Stefan Kirsten	160,000	109,600	1,782,051	1,255,072
Gerald Klinck	160,000	82,500	742,668	223,785

Remuneration of Former Management Board Members and Their Surviving Dependents

The total remuneration of the former Management Board members and their surviving dependents amounts to € 1.9 million for the 2016 fiscal year (2015: € 0.2 million). The pension obligations (DBO) to former members of the Management Board and their surviving dependents amount to € 14.4 million (2015: € 13.2 million).

48 Auditor's Fees

In the fiscal year, the following fees (including expenses and excluding VAT) have been credited for the services rendered by the Group auditors KPMG Wirtschaftsprüfungsgesellschaft:

in € million	2016	2015
Audits	2.4	3.1
Other confirmation services	1.0	2.0
Tax consultancy services	0.1	0.0
Other services	0.1	0.1
	3.6	**5.2**

The other confirmation services mainly comprise the issuing of comfort letters for acquisition projects and financing measures.

49 Subsequent Events

In January 2017, Vonovia placed two fixed-rate notes, each with a volume of € 500 million, which will mature on January 25, 2022 and January 25, 2027 respectively, via Vonovia Finance B.V. under the EMTN program. The proceeds were used to repay the Taurus financing prematurely on February 14, 2017.

In connection with the voluntary public takeover offer that Vonovia SE made on November 17, 2016 to the shareholders of conwert Immobilien Invest SE, Vienna (conwert), a total of 71.54 % of conwert shares were tendered to Vonovia. For information relating to the acquisition, which was completed after the reporting date for the consolidated financial statements, reference is made to note [3] Scope of Consolidation and Business Combinations.

Information on the capital increase, which has been resolved but not completed, of € 339,135.00 in connection with the voluntary public takeover offer made to the shareholders of conwert Invest SE can be found in note [29] Equity.

50 Declaration of Conformity with the German Corporate Governance Code

In February 2017, the Management Board and the Supervisory Board declared compliance with the recommendations of the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG) and made the declaration publicly and permanently available on the company's website. **www.vonovia.de**.

51 Management Board's Proposal for the Appropriation of Profit

"The Management Board and the Supervisory Board propose to the Annual General Meeting that, of the profit of Vonovia for the 2016 fiscal year of € 802,881,048.32, an amount of € 521,920,698.88 on the 466,000,624 shares of the share capital as of December 31, 2016, be paid as a dividend (corresponding to € 1.12 per share) to the shareholders and the remaining amount of € 280,960,349.44 be carried forward to the new account or be used for other dividends on shares carrying dividend rights at the time of the Annual General Meeting and which go beyond those as of December 31, 2016.

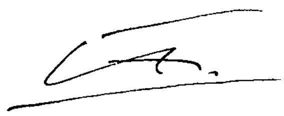
The maximum number of possible additional shares carrying dividend rights is 14,743,665, in line with the maximum possible use of authorized capital of 14,743,665 shares in connection with the public takeover offer for all shares in conwert. This can increase the dividend by a further € 16,512,904.80 in total. There is also a maximum remaining authorized capital of 218,256,647 shares, which can increase the dividend by a further € 244,447,444.64 at the most.

That is an unchanged dividend distribution of € 1.12 per share.

If all potential 233,000,312 shares belonging to the authorized capital were to be issued, with dividend rights, by the Annual General Meeting, then an amount of at least € 20,000,000.00 remaining after the distribution would be carried forward to the new account."

Düsseldorf, February 28, 2017

Rolf Buch



Klaus Freiberg

Dr. A. Stefan Kirsten

Gerald Klinck

Information

List of Vonovia Shareholdings

as at December 31, 2016
according to section 313 para. 2 HGB

Company	Company domicile	Interest %
Vonovia SE	Düsseldorf	
Consolidated Companies		
Bau- und Siedlungsgesellschaft Dresden mbH	Dresden	100.00
Baugesellschaft Bayern mbH	Munich	94.90
Beamten-Baugesellschaft Bremen Gesellschaft mit beschränkter Haftung	Bremen	94.90
Börsenhof A Besitz GmbH	Bremen	94.00
Bremische Gesellschaft für Stadterneuerung, Stadtentwicklung und Wohnungsbau mit beschränkter Haftung	Bremen	94.90
Bundesbahn Wohnungsbaugesellschaft Kassel Gesellschaft mit beschränkter Haftung	Kassel	94.90
Bundesbahn-Wohnungsbaugesellschaft Regensburg mbH	Regensburg	94.90
BWG Frankfurt am Main Bundesbahn-Wohnungsgesellschaft mbH	Frankfurt/Main	94.90
Carl HR AcquiCo GmbH	Stuttgart	100.00
Carl Immo AcquiCo2 GmbH & Co. KG	Stuttgart	100.00 [3]
Carl Immo AcquiCo2 Verwaltungs GmbH	Stuttgart	100.00
DA DMB Netherlands B.V.	Eindhoven/NL	100.00
DA EB GmbH	Nuremberg	100.00
DA Jupiter NL JV Holdings 1 B.V.	Amsterdam/NL	100.00
DA Jupiter Wohnanlage GmbH	Düsseldorf	94.00 [1]
DAIG 1. Objektgesellschaft mbH	Düsseldorf	100.00 [1]
DAIG 10. Objektgesellschaft B.V.	Amsterdam/NL	94.00
DAIG 11. Objektgesellschaft B.V.	Amsterdam/NL	94.00
DAIG 12. Objektgesellschaft mbH	Düsseldorf	94.00
DAIG 13. Objektgesellschaft mbH	Düsseldorf	94.00
DAIG 14. Objektgesellschaft B.V.	Amsterdam/NL	94.00
DAIG 15. Objektgesellschaft B.V.	Amsterdam/NL	94.00
DAIG 16. Objektgesellschaft B.V.	Amsterdam/NL	94.00
DAIG 17. Objektgesellschaft B.V.	Amsterdam/NL	94.00
DAIG 18. Objektgesellschaft B.V.	Amsterdam/NL	94.00
DAIG 19. Objektgesellschaft B.V.	Amsterdam/NL	94.00

Company	Company domicile	Interest %
DAIG 2. Objektgesellschaft mbH	Düsseldorf	100.00 1)
DAIG 20. Objektgesellschaft B.V.	Amsterdam/NL	94.00
DAIG 21. Objektgesellschaft B.V.	Amsterdam/NL	94.00
DAIG 22. Objektgesellschaft B.V.	Amsterdam/NL	94.00
DAIG 23. Objektgesellschaft B.V.	Amsterdam/NL	94.00
DAIG 24. Objektgesellschaft B.V.	Amsterdam/NL	94.00
DAIG 25. Objektgesellschaft B.V.	Amsterdam/NL	94.00
DAIG 3. Objektgesellschaft mbH	Düsseldorf	100.00 1)
DAIG 4. Objektgesellschaft mbH	Düsseldorf	100.00 1)
DAIG 9. Objektgesellschaft B.V.	Amsterdam/NL	94.00
Deutsche Annington Acquisition Holding GmbH	Düsseldorf	100.00 1)
Deutsche Annington Beteiligungsverwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington DEWG GmbH & Co. KG	Bochum	100.00 3)
Deutsche Annington DEWG Verwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington DMB Eins GmbH	Bochum	100.00
Deutsche Annington Fundus Immobiliengesellschaft mbH	Cologne	100.00
Deutsche Annington Fünfte Beteiligungsgesellschaft mbH	Düsseldorf	100.00
Deutsche Annington Haus GmbH	Kiel	100.00
Deutsche Annington Heimbau GmbH	Kiel	100.00
Deutsche Annington Holdings Drei GmbH	Bochum	100.00
Deutsche Annington Holdings Eins GmbH	Düsseldorf	100.00
Deutsche Annington Holdings Fünf GmbH	Düsseldorf	100.00 1)
Deutsche Annington Holdings Sechs GmbH	Bochum	100.00 1)
Deutsche Annington Holdings Vier GmbH	Düsseldorf	100.00 1)
Deutsche Annington Holdings Vier GmbH & Co. KG	Bochum	100.00 3)
Deutsche Annington Holdings Zwei GmbH	Düsseldorf	100.00
Deutsche Annington Immobilien-Dienstleistungen GmbH	Düsseldorf	100.00
Deutsche Annington Interim DAMIRA GmbH	Düsseldorf	100.00
Deutsche Annington Kundenservice GmbH	Bochum	100.00 1)
Deutsche Annington McKinley Eins GmbH & Co. KG	Bochum	100.00 3)
Deutsche Annington McKinley Eins Verwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington McKinley-Holding GmbH & Co. KG	Bochum	100.00 3)
Deutsche Annington Rheinland Immobiliengesellschaft mbH	Cologne	100.00
Deutsche Annington Rhein-Ruhr GmbH & Co. KG	Düsseldorf	100.00 3)
Deutsche Annington Sechste Beteiligungs GmbH	Düsseldorf	100.00
Deutsche Annington WOGE Sechs Verwaltungs GmbH	Bochum	100.00 1)
Deutsche Annington WOGE Sieben Verwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington WOGE Vier Bestands GmbH & Co. KG	Bochum	100.00 3)
Deutsche Annington WOGE Vier GmbH & Co. KG	Bochum	100.00 3)
Deutsche Annington Wohnungsgesellschaft I mbH	Essen	100.00
Deutsche Annington Zweite Beteiligungsgesellschaft mbH	Düsseldorf	100.00
Deutsche Eisenbahn-Wohnungs-Gesellschaft mbH	Leipzig	100.00
Deutsche Multimedia Service GmbH	Düsseldorf	100.00 1)
Deutsche TGS GmbH	Düsseldorf	51.00
Deutsche Wohn-Inkasso GmbH	Bochum	100.00 1)

Company	Company domicile	Interest %
DOMIZIL Immobilienverwaltung Geschäftsführungsgesellschaft mbH	Brühl	100.00
DOMIZIL Immobilienverwaltung GmbH & Co. KG	Brühl	100.00 [3]
Eisenbahn-Siedlungsgesellschaft Augsburg mbH (Siegau)	Augsburg	94.90
Eisenbahn-Siedlungsgesellschaft Stuttgart gGmbH	Stuttgart	94.87
Eisenbahn-Wohnungsbau-Gesellschaft Karlsruhe GmbH	Karlsruhe	94.90
Eisenbahn-Wohnungsbaugesellschaft Köln mbH	Cologne	94.90
Eisenbahn-Wohnungsbaugesellschaft Nürnberg GmbH	Nuremberg	94.90
Franconia Invest 1 GmbH	Düsseldorf	94.90
Franconia Wohnen GmbH	Düsseldorf	94.90
Frankfurter Siedlungsgesellschaft mbH	Düsseldorf	100.00 [1]
FSG-Holding GmbH	Düsseldorf	94.80
GAG ACQ. IRELAND DESIGNATED ACTIVITY COMPANY (former GAG ACQ Ireland Limited)	Clonee/IRL	100.00
GAGFAH A Asset GmbH & Co. KG	Bochum	100.00 [3]
GAGFAH Acquisition 1 GmbH	Bochum	100.00
GAGFAH Acquisition 2 GmbH	Bochum	100.00
GAGFAH Asset Management GmbH	Essen	100.00
GAGFAH B Beteiligungs GmbH	Essen	100.00
GAGFAH Dritte Grundbesitz GmbH	Essen	100.00
GAGFAH Erste Grundbesitz GmbH	Bochum	100.00
GAGFAH GmbH	Essen	100.00
GAGFAH Griffin GmbH	Essen	94.90
GAGFAH Griffin Holding GmbH	Bochum	100.00
GAGFAH Hausservice GmbH	Essen	100.00
GAGFAH Holding GmbH	Bochum	100.00
GAGFAH I Invest GmbH & Co. KG	Essen	100.00 [3]
GAGFAH M Immobilien-Management GmbH	Bochum	100.00
GAGFAH Operations Advisor GmbH	Essen	100.00
GAGFAH S.A.	Luxembourg/L	93.84
GAGFAH WEG Service GmbH	Essen	100.00
GAGFAH Zweite Grundbesitz GmbH	Essen	100.00
GBH Acquisition GmbH	Essen	100.00
GBH Service GmbH	Heidenheim an der Brenz	100.00
Haase Immobilienverwaltung GmbH	Nuremberg	100.00 [4]
HaBeGe Bau- und Projektentwicklungsgesellschaft mbH	Bochum	100.00
Haus- und Boden-Fonds 38	Essen	54.15
Immo Service Dresden GmbH	Dresden	100.00
Immobilienfonds Koblenz-Karthause Wolfgang Hober KG	Düsseldorf	92.71
IVV Immobilien-Mietservice GmbH	Troisdorf	100.00 [1]
IVV Immobilien-Verwaltungen GmbH	Troisdorf	100.00 [1]
JANANA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
KADURA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.91
KALIRA Grundstücksgesellschaft mbH	Grünwald	94.90
Kieler Stadtentwicklungs- und Sanierungsgesellschaft mbH	Kiel	94.95
Kieler Wohnungsbaugesellschaft mit beschränkter Haftung	Kiel	94.90 [1]
LEMONDAS Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90

Company	Company domicile	Interest %
LEVON Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
Liegenschaften Weissig GmbH	Dresden	100.00
MAKANA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
MANGANA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
MELCART Grundstücks-Verwaltungsgesellschaft mbH	Grünwald	94.80
MIRA Grundstücksgesellschaft mbH	Düsseldorf	94.90
MIRIS Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
Münchener Verwaltungsgesellschaft mit beschränkter Haftung	Munich	100.00 [4]
Neues Schweizer Viertel Betriebs + Service GmbH & Co. KG	Berlin	94.99
NILEG Commercial Asset GmbH & Co. KG	Hanover	100.00 [3]
NILEG Immobilien Holding GmbH	Hanover	100.00
NILEG Norddeutsche Beteiligungs GmbH	Hanover	100.00
NILEG Norddeutsche Immobiliengesellschaft mbH	Hanover	100.00
NILEG Real Estate GmbH	Hanover	100.00
NILEG Real Estate Management GmbH	Hanover	100.00
NILEG Residential Asset GmbH & Co. KG	Hanover	100.00 [3]
Opera Co-Acquisition GmbH & Co. KG	Dresden	94.90 [3]
Opera Co-Acquisition GP GmbH	Dresden	94.80
Osnabrücker Wohnungsbaugesellschaft mit beschränkter Haftung	Osnabrück	100.00
Prima Wohnbauten Privatisierungs-Management GmbH	Berlin	100.00 [1]
RSTE Objektgesellschaft Wohnanlagen für Chemnitz mbH	Wuppertal	94.73
RVG Rheinauhafen Verwaltungsgesellschaft mbH	Cologne	74.00
Schweizer Viertel Grundstücks GmbH	Berlin	100.00
"Siege" Siedlungsgesellschaft für das Verkehrspersonal mbH Mainz	Mainz	94.90
Süddeutsche Wohnen Gebäude GmbH	Stuttgart	100.00 [1]
Süddeutsche Wohnen GmbH	Stuttgart	94.33 [1]
Süddeutsche Wohnen Grundstücksgesellschaft mbH	Stuttgart	100.00 [1]
Süddeutsche Wohnen Management Holding GmbH (former Süddeutsche Wohnen Management Holding GmbH & Co. KG)	Stuttgart	100.00 [1]
Süddeutsche Wohnen Service Holding GmbH & Co. KG	Stuttgart	100.00 [3]
SÜDOST WOBA DRESDEN GMBH	Dresden	100.00
UC ACQ. IRELAND DESIGNATED ACTIVITY COMPANY (former UC ACQ Ireland Limited)	Clonee/IRL	0.00 [2]
Verimmo2 GmbH	Bochum	100.00 [1]
Viterra Holdings Eins GmbH	Düsseldorf	100.00 [1]
Viterra Holdings Zwei GmbH	Düsseldorf	100.00
Vonovia Eigentumsverwaltungs GmbH	Bochum	100.00 [1]
Vonovia Elbe Berlin II GmbH (former CitCor Franconia Berlin II S.à r.l., Luxembourg)	Nuremberg	94.90
Vonovia Elbe Berlin III GmbH (former CitCor Franconia Berlin III S.à r.l., Luxembourg)	Nuremberg	94.90
Vonovia Elbe Berlin IV GmbH (former CitCor Franconia IV S.à r.l., Luxembourg)	Nuremberg	94.90
Vonovia Elbe Berlin VI GmbH (former CitCor Franconia Berlin VI S.à r.l., Luxembourg)	Nuremberg	94.90
Vonovia Elbe Dresden I GmbH (former CitCor Franconia Dresden I S.à r.l., Luxembourg)	Nuremberg	94.90
Vonovia Elbe GmbH (former CitCor Franconia Privatisierung S.à r.l., Luxembourg)	Nuremberg	94.90
Vonovia Elbe Ost GmbH (former CitCor Franconia Ost S.à r.l., Luxembourg)	Nuremberg	94.90
Vonovia Elbe Wannsee I GmbH (former CitCor Wannsee I S.à r.l., Luxembourg)	Nuremberg	94.90
Vonovia Elbe Wohnen GmbH	Bochum	100.00

Company	Company domicile	Interest %
Vonovia Finance B.V.	Amsterdam /NL	100.00
Vonovia Immobilien Treuhand GmbH	Bochum	100.00 [1]
Vonovia Immobilienmanagement GmbH	Bochum	100.00 [1]
Vonovia Immobilienmanagement one GmbH (former Grainger Stuttgart Portfolio one GmbH & Co. KG)	Frankfurt/Main	94.90
Vonovia Immobilienmanagement two GmbH (former Grainger Stuttgart Portfolio two GmbH & Co. KG)	Frankfurt/Main	94.90
Vonovia Immobilienservice GmbH (former Deutsche Annington Immobilienservice GmbH)	Munich	100.00 [1]
Vonovia Kundenservice GmbH	Bochum	100.00 [1]
Vonovia Managementverwaltung GmbH (former Vonovia Managementverwaltung S.à r.l., Luxembourg)	Nuremberg	100.00
Vonovia Mess Service GmbH	Essen	100.00 [1]
Vonovia Modernisierungs GmbH	Düsseldorf	100.00 [1]
Vonovia Portfolio Verwaltungs GmbH (former MH Grainger Portfolio Verwaltungs GmbH)	Frankfurt/Main	100.00
Vonovia Property Management GmbH (former GAGFAH Property Management GmbH)	Bochum	100.00
Vonovia Technischer Service Nord GmbH (former GAGFAH Facility Management GmbH)	Essen	100.00
Vonovia Technischer Service Süd GmbH (former GAGFAH Facility-Management Dresden GmbH)	Dresden	100.00
Vonovia Transaktionsmanagement GmbH (former GAGFAH Transaktionsmanagement GmbH)	Bochum	100.00
Vonovia Wohnumfeld Service GmbH	Düsseldorf	100.00 [1]
WBN Asset GmbH & Co. KG	Hanover	100.00 [3]
WBN Beteiligungs GmbH	Hanover	100.00
WEKÖ Haus- und Grundstücksverwaltung GmbH	Cologne	100.00
WGNorden Asset GmbH & Co. KG	Hanover	100.00 [3]
WGNorden Beteiligungs GmbH	Hanover	100.00
WOBA DRESDEN GMBH	Dresden	100.00
WOBA HOLDING GMBH	Dresden	100.00
WOHNBAU NORDWEST GmbH	Dresden	100.00
Wohnungsbau Niedersachsen GmbH (WBN)	Hanover	94.85
Wohnungsgesellschaft Norden mit beschränkter Haftung	Hanover	94.88
Wohnungsgesellschaft Ruhr-Niederrhein mbH Essen	Essen	94.90
12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG	Leipzig	0.02 [2]
At equity consolidated joint ventures		
Möser GbR	Essen	50.00
Objekt Dresden GbR	Hanover	50.00
Wolmirstedt GbR	Essen	50.00

Company	Company domicile	Interest %	Equity € k Dec. 31, 2015	Net income for the year € k Dec. 31, 2015
Hellerhof GmbH	Frankfurt/Main	13.17	67,882	33,494
VBW Bauen und Wohnen GmbH	Bochum	14.15	92,730	5,725

[1] exemption according to section 264 para. 3 HGB
[2] control on the basis of contractual and factual circumstances in accordance with IFRS 10
[3] the unlimited liable Shareholder of this company is a company which is integrated in the financial consolidated statement
[4] valued at cost

Further Information about the Bodies

Management Board

The Majnagement Board of Vonovia SE consisted of four members as of December 31, 2016.

Rolf Buch, Chairman of the Management Board

Responsible for acquisition, general counsel, HR management, auditing, corporate communications and sales.

Appointments:

> GSB Gesellschaft zur Sicherung von Bergmannswohnungen mbH (Member of the Supervisory Board)
> Woldemar-Winkler Stiftung of Sparkasse Gütersloh (Member of the Board of Trustees)
> ZIA Zentraler Immobilien Ausschuss e.V. (Deputy Chairman of the Board of Directors and Chairman of the Residential Committee)
> Deutscher Verband für Wohnungswesen (Management Board member and Vice President)
> GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V. (Chairman of the Federal Working Committee of the German Private Real Estate Industry and Member of the Executive Board of the Association Council)

Klaus Freiberg, Member of the Management Board

Function: Chief Operating Officer
Responsible for product management, IT and process management, customer service, residential environment, the craftsmen's organization and the local rental business in the various regions (north, south, southeast, east, central, west).

Appointments:

> VBW Bauen und Wohnen GmbH (Vice Chairman of the Supervisory Board)
> Freiberg-Beteiligungs-GmbH (Shareholder and Managing Director)

Dr. A. Stefan Kirsten, Member of the Management Board

Function: Chief Financial Officer
Responsibilities: finance, investor relations, accounting, tax affairs and insurance

Appointments:

> AVW Versicherungsmakler GmbH (Member of the Supervisory Board)
> Jerónimo Martins SGPS, S.A. (Non-executive Director)
> SOCIEDADE Francisco Manuel dos Santos B. V. (Non-executive Director)

Gerald Klinck, Member of the Management Board

Function: Chief Controlling Officer
Responsibilities: controlling, portfolio controlling, valuation, purchasing and residential property

Appointments:

> BeLouNa UG (haftungsbeschränkt) & Co. KG (Limited Partner)
> BeLouNa Beteiligungs UG (haftungsbeschränkt) (Partner)
> LouNaGe Immobilien GmbH (Shareholder and Managing Director)

Thomas Zinnöcker, Deputy Chairman of the Management Board (from April 1, 2015 to January 31, 2016)
Function: Chief Restructuring Officer
Responsible for acquisition, sales, integration of GAGFAH, HR management – GAGFAH, new construction/land management
Appointments:
> Stiftung Becker & Kries (Member of the Board of Trustees)
> CORESTATE Capital AG (Member of the Supervisory Board)
> Initiative Corporate Governance der deutschen Immobilienwirtschaft e.V. (Chairman of the Board of Directors)
> ZIA Zentraler Immobilien Ausschuss e.V. (Deputy Chairman of the Board of Directors)

Supervisory Board

The current Supervisory Board consists of twelve members. At the Annual General Meeting held on May 12, 2016, a new member of the Supervisory Board, Dr. Ariane Reinhart, was appointed following the resignation of Gerhard Zeiler.

Dr. Wulf H. Bernotat, Chairman
Former CEO of E.ON AG

Appointments:
> Allianz SE (Deputy Chairman of the Supervisory Board)
> Bernotat & Cie. GmbH (Managing Director)
> Bertelsmann SE & Co. KGaA (Member of the Supervisory Board)
> Bertelsmann Management SE (Member of the Supervisory Board)
> Deutsche Telekom AG (Member of the Supervisory Board)
> Innovation City Management GmbH (Chairman of the Supervisory Board)

Burkhard Ulrich Drescher
Managing Director of Innovation City Management GmbH
Managing Director of BDC Consulting GmbH & Co. KG
Managing director of BDC Verwaltungs GmbH

Appointment:
> STEAG Fernwärme GmbH (Advisory Board member)

Prof. Dr. Edgar Ernst
President of the German Financial Reporting Enforcement Panel

Appointments:
> Deutsche Postbank AG (Member of the Supervisory Board)
> DMG MORI AG (Member of the Supervisory Board)
> TUI AG (Member of the Supervisory Board)
> Wincor Nixdorf AG/Wincor Nixdorf International GmbH (Member of the Supervisory Board until January 25, 2016)

Dr. Florian Funck
Member of the Management Board of Franz Haniel & Cie. GmbH

Appointments:
> Metro AG (Member of the Supervisory Board)
> TAKKT AG (Member of the Supervisory Board)

Dr. Ute Geipel-Faber
Self-employed management consultant

Appointment:
> Bayerische Landesbank (Member of the Supervisory Board)

Hendrik Jellema
Chairman of Stiftung Berliner Leben

Daniel Just
Chairman of Bayerische Versorgungskammer

Appointments:
> RREEF Investment GmbH (Deputy Chairman of the Supervisory Board)
> Universal Investment GmbH (Member of the Supervisory Board)

Hildegard Müller
Member of the Management Board of innogy SE

Appointments:
> Dortmunder Energie- und Wasserversorgung GmbH (Member of the Supervisory Board)
> envia Mitteldeutsche Energie AG (Member of the Supervisory Board)
> NEW AG (1st Deputy Chairman of the Supervisory Board)

- rhenag Rheinische Energie AG (Deputy Chairman of the Supervisory Board)
- Süwag Energie AG (Member of the Supervisory Board)
- Stadtwerke Essen AG (2nd Deputy Chairman of the Supervisory Board)

Prof. Dr. Klaus Rauscher
Self-employed management consultant

Appointments:
- Drägerwerk AG & Co. KGaA (Member of the Supervisory Board)
- Dräger Safety GmbH (Member of the Supervisory Board)
- Drägerwerk Verwaltungs AG (Member of the Supervisory Board)
- Stiftung Berliner Philharmoniker (Member of the Board of Trustees)

Dr. Ariane Reinhart (as of May 13, 2016)
Member of the Management Board of Continental AG

Clara-Christina Streit
Self-employed management consultant

Appointments:
- Delta Lloyd N.V. (Member of the Supervisory Board)
- Jerónimo Martins SGPS, S.A. (Member of the Administrative Board)
- UniCredit S.p.A. (Member of the Administrative Board)
- Vontobel Holding AG (Member of the Administrative Board)

Christian Ulbrich
Global CEO & President Jones Lang LaSalle Incorporated
Member of the Board of Directors of Jones Lang LaSalle Incorporated

Appointments:
- RE/BS International Real Estate Business School (Advisory Board member)
- ZIA Zentraler Immobilien Ausschuss e.V. (Deputy Chairman of the Board of Directors)
- 38. VIGAVI Vermögensverwaltungsgesellschaft mbH (CEO)

Members Who Left the Supervisory Board

Gerhard Zeiler (up until May 12, 2016)
President of Turner Broadcasting Systems International Inc.

Appointment:
- Central European Media Enterprises Ltd. (CME) (Member of the Board of Directors)

Independent Auditor's Report

To Vonovia SE, Düsseldorf

Report on the Audit of the Consolidated Financial Statements

Opinion on the Consolidated Financial Statements

We have audited the consolidated financial statements of Vonovia SE, Düsseldorf, and its subsidiaries (the Group or Vonovia), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from January 1, 2016, to December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Pursuant to Section 322 (3) sentence 1 half sentence 2 HGB ("Handelsgesetzbuch": German Commercial Code), we state that, in our opinion, based on our knowledge obtained in the audit, the accompanying consolidated financial statements comply in all material respects with IFRS as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code [HGB], and give a true and fair view of the net assets and financial position of the Group as at December 31, 2016, as well as the results of operations for the fiscal year from January 1, 2016, to December 31, 2016, in accordance with these requirements.

Pursuant to Section 322 (3) sentence 1 half sentence 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations with respect to the propriety of the consolidated financial statements.

Basis for Opinion on the Consolidated Financial Statements

We conducted our audit in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW] as well as in supplementary compliance with International Standards on Auditing (ISA). Our responsibilities under those standards and additional guidelines are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the requirements of German commercial law and the rules of professional conduct, and we have fulfilled our other ethical responsibilities applicable in Germany in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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 fiscal year from January 1, 2016 to December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

Measurement of investment properties

See notes 5, 8 and 21 to the consolidated financial statements and chapter of "opportunities and risks" in the Combined Management Report.

Financial Statement Risk

Investment properties of EUR 27.0 billion are reported in the consolidated financial statements of Vonovia as of December 31, 2016. Vonovia measures investment properties at fair value in accordance with IAS 40 and IFRS 13. In 2016, an increase in fair value of EUR 3.2 billion was recognized in the consolidated income statement.

Vonovia determines the fair value of its investment properties with an internal valuation model. The fair value of all residential and commercial properties is determined as a discounted cash flow (DCF) for homogeneous valuation units of commercially related and comparable land and buildings. In addition, an independent valuation expert provides an appraisal, which is used to corroborate the internal valuations.

The valuation of the investment properties is based on several assumptions, which are subject to considerable estimation uncertainty and judgment. Even minor changes in these parameters may have a material effect on the resulting fair values. The most significant parameters in the reporting year were market rents and discount rates. Their volatility reflects the changing dynamic in real estate prices and rental rates (yield compression), which is the main driver for the rise in fair value as of December 31, 2016, compared to the prior year.

Due to the outlined estimation uncertainties and judgments, there is a risk for the consolidated financial statements that the fair values changes recognized in profit or loss are not within an acceptable range.

Moreover, IAS 40 and IFRS 13 require numerous note disclosures of which completeness and accuracy is to be assured.

Our Response

Our audit procedures include, in particular, an assessment of the internal valuation method used with a view to compliance with IAS 40 in conjunction with IFRS 13, the homogeneity of defined valuation units, the accuracy and completeness of data used for real estate portfolios, as well as appropriateness of the valuation parameters used, such as discount capitalization rates, market rents per square meter and planned maintenance costs per square meter.

We viewed and inspected a sample of valuation units, which were partially selected randomly and partially subjectively based on risk criteria, on site, and also verified the valuations conducted by Vonovia by comparing them with our own calculations based on the standardized capitalization model pursuant to the German Real Estate Appraisal Regulation [ImmoWertV].

We were satisfied with the qualification and objectivity of the external valuation expert commissioned by Vonovia, audited the valuation method used for the appraisal with regard to compliance with IAS 40 in conjunction with IFRS 13 and compared the external appraisal with the internal measurements (valuation).

We also audited the completeness and adequacy of disclosures required in the notes to the consolidated financial statements pursuant to IAS 40 and IFRS 13.

Our Observations

The valuation method implemented by Vonovia is appropriate and suitable for measuring fair value in compliance with IFRS. The measurements (appraisal) of the external valuer support the measurements of Vonovia. The fair value recognized for investment properties of EUR 27.0 billion is appropriate based on the assumptions made. The underlying assumptions reflect current market conditions.

The disclosures in the notes to the consolidated financial statements pursuant to IAS 40 and IFRS 13 are complete and accurate.

Presentation and measurement of non-derivative and derivative financial instruments

See notes 5, 15, 16, 22, 32, 33 and 37 to the consolidated financial statements

Financial Statement Risk

As of December 31, 2016, Vonovia held non-derivative financial liabilities at a total value of EUR 13.4 billion. In financial year 2016, new loans amounted to EUR 2.6 billion, while repayments totaled EUR 4.2 billion.

In addition, derivative financial assets of EUR 184.9 million and derivative financial liabilities of EUR 76.6 million were set up as of the reporting date. Part of the derivative financial liabilities refer to rights to adjust the value of non-controlling interests in GAGFAH S.A. As the price and volatility of GAGFAH shares is no longer determinable on liquid markets, Vonovia estimates these parameters relevant for valuation. The remaining derivative financial instruments refer to interest rate and currency hedging of existing non-derivative financial liabilities.

Some of the hedging instruments are designated for hedge accounting. Hedge accounting requires comprehensive documentation in compliance with accounting standards, which in addition to the designation of hedged items and hedging instruments in particular must include the prospective and retrospective measurement of hedge effectiveness based on the hypothetical derivative method.

The risk for the consolidated financial statements consists of judgment inherent in the measurement of the financial instruments as well as adequate presentation of financial instruments, taking into account their designation for hedge accounting.

In addition, IFRS 7 and IFRS 13 require extensive and detailed disclosures in the notes to the consolidated financial statements.

Our Response

For non-derivative financial instruments, we verified the subsequent foreign currency valuation of US dollar bonds based on the ECB fixing as of the reporting date. For new non-derivative financial liabilities, we verified the cut-off procedures for ancillary financing charges and the effective interest method by means of our own calculations.

We verified the calculation of net present values of derivatives with our own valuation model by calculating expected cash flows based on market interest rates and subsequently discounting them. We then assessed the credit risk of net present values based on credit default swaps, ratings and quoted liquid bonds and determined their fair value from a combination of net present value and credit risk, which served as a reference value for the fair value determined by Vonovia. We also took account of fair value measurement for determining the effectiveness of derivatives in hedge accounting. With regard to documentation of hedge accounting, we assessed whether it is in compliance with the requirements of IAS 39.

Furthermore, we assessed whether the parameters relevant for evaluating the rights to adjust the value of non-controlling interests in GAGFAH S.A. were properly determined and corroborated the evaluation based on our own Black Scholes calculation.

We audited quantitative information in particular for consistency with the audit evidence obtained for the recognition and measurement of financial instruments as well as completeness and adequacy of disclosures in the notes.

Our Observations

The non-derivative and derivative financial instruments are properly disclosed in the consolidated financial statements. The assumptions and parameters used for the measurement of non-derivative and derivative financial instruments are reasonable. The disclosures in the notes to the consolidated financial statements pursuant to IFRS 7 and IFRS 13 are complete and accurate.

Impairment testing of goodwill

See notes 5 and 19 to the consolidated financial statements and chapter of “opportunities and risks” in the Combined Management Report

Financial Statement Risk

Goodwill of EUR 2.7 billion is reported in the consolidated financial statements of Vonovia as of December 31, 2016. Goodwill is allocated pursuant to IAS 36 to groups of cash-generating units that are expected to benefit from synergies of prior business combinations in which goodwill arose.

Vonovia tests existing goodwill for impairment on an annual basis as of the closing date (December 31). For each group of cash-generating units, the carrying amount (including the goodwill) is compared with the recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. Vonovia determines the value in use by means of the discounted cash flow method. As the value in use of all groups of cash-generating units exceeded the carrying amount of the unit as of December 31, 2016, it was not necessary to also determine the fair value less costs to sell.

When determining value in use, determination of the discount rate (WACC) is the primary source of judgment together with cash flow forecasts. As even minor changes in WACC may have a material effect on the recoverable amount, the measurement of goodwill is affected with considerable estimation uncertainties.

In the operating segment "Rental", the increasing yield compression observed in financial year 2016 (i.e. the difference in dynamic of real estate prices compared to rental rates) had a material effect on the recoverability of goodwill. Specifically, the fair value of the investment properties outgrew the expected values based on cash flow projections. As a consequence, the headroom, i.e. the difference between value in use and the carrying amount of the groups of cash-generating units, decreased.

In addition, extensive disclosures in the notes are required according to IAS 36.

Our Response

In addition to auditing the adequacy of the calculation model and the validations performed by Vonovia, our audit procedures included, in particular, a comparison of expected future cash flows with the five-year plan adopted by the executive board as well as checking the planning data for plausibility based on sector-specific market expectations.

As for all groups of cash-generating units defined by Vonovia in the property management segment, value in use is based to a considerable degree on cash flow forecasts beyond the five-year planning horizon (period of perpetuity), we critically evaluated in particular the reinvestment rate per square meter of living space as well as sustainable growth rate used for the period of perpetuity.

With regard to the WACC determined by Vonovia, we audited the individual parameters used in detail and also critically evaluated the WACC as a whole. Due to the material effect of even minor changes in WACC, we focused in particular on the sensitivity analyses conducted by Vonovia and verified whether impairment losses would arise with the change of individual WACC parameters within an expected range.

We also audited the completeness and adequacy of disclosures required in the notes to the consolidated financial statements pursuant to IAS 36.

Our Observations

We agree with the conclusion of Vonovia's impairment testing that no impairment loss had to be recognized in financial year 2016. The WACC used by Vonovia was properly determined. The other parameters used are in line with sector-specific market expectations. The disclosures in the notes to the consolidated financial statements pursuant to IAS 36, including those on sensitivities, are complete and accurate.

Other Information in the Annual Report

The Executive Board of Vonovia SE is responsible for the other information. The other information comprises the Annual Report, except for the consolidated financial statements, the Combined Management Report of Vonovia SE and our auditor's report thereon.

Our audit opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Board and the Supervisory Board for the Consolidated Financial Statements

The Executive Board of Vonovia SE is responsible for the preparation of consolidated financial statements which comply with IFRS as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the Executive Board is responsible for such internal control as the Executive Board determines is 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, the Executive Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Executive Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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 to issue an auditor's report that includes our opinion on the consolidated financial statements. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW] as well as in supplementary compliance with ISA will always detect a material misstatement when it exists. 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.

As part of an audit in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW] as well as in supplementary compliance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, 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 opinion. 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 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 the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board.

- Conclude on the appropriateness of the Executive Board'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 our auditor's report to the related disclosures in the consolidated financial statements or the Combined Management Report or, if such disclosures are inadequate, to modify our opinion. 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 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 represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315a (1) HGB.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board 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 the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, 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 report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Audit of the Combined Management Report

Opinion on the Combined Management Report

We have audited the Combined Management Report of Vonovia SE, Düsseldorf, for the financial year from January 1, 2016 to December 31, 2016.

In our opinion, based on our knowledge obtained in the audit, the accompanying Combined Management Report as a whole provides a suitable view of the Group's position. In all material respects, the Combined Management Report is consistent with the consolidated financial statements, complies with the German statutory requirements and suitably presents the opportunities and risks of future development.

Our audit has not led to any reservations with respect to the propriety of the Combined Management Report.

Basis for Opinion on the Combined Management Report

We conducted our audit in accordance with Section 317 (2) HGB and German generally accepted standards for the audit of management reports promulgated by the German Institute of Public Auditors [IDW]. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Executive Board and the Supervisory Board for the Combined Management Report

The Executive Board of Vonovia SE is responsible for the preparation of the Combined Management Report, which as a whole provides a suitable view of the Group's position, is consistent with the consolidated financial statements, complies with the German statutory requirements and suitably presents the opportunities and risks of future development. Furthermore, the Executive Board is responsible for such arrangements and measures (systems) as the Executive Board determines are necessary to enable the preparation of the Combined Management Report in compliance with the requirements of German commercial law applicable pursuant to Section 315a (1) HGB and for providing sufficient and appropriate evidence for the statements in the Combined Management Report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the Combined Management Report.

Auditor's Responsibilities for the Audit of the Combined Management Report

Our objectives are to obtain reasonable assurance whether the Combined Management Report as a whole provides a suitable view of the Group's position, as well as, in all material respects, is consistent with the consolidated financial statements and our knowledge obtained in the audit, complies with the German statutory requirements, and suitably presents the opportunities and risks of future development and to issue an auditor's report that includes our opinion on the Combined Management Report.

As part of an audit, we examine the Combined Management Report in accordance with Section 317 (2) HGB and German generally accepted standards for the audit of management reports promulgated by the IDW, we draw attention to the following:

- The audit of the Combined Management Report is integrated into the audit of the consolidated financial statements.

- We obtain an understanding of the arrangements and measures (systems) relevant to the audit of the Combined 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 arrangements and measures (systems).

- We perform audit procedures on the prospective information presented by the Executive Board in the Combined Management Report. Based on sufficient and appropriate audit evidence, we hereby, in particular, trace the significant assumptions used by the Executive Board as a basis for the prospective information and assess the reasonableness of these assumptions as well as the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.

- We are also not issuing a separate opinion on individual disclosures in the Combined Management Report; our opinion covers the Combined Management Report as a whole.

Responsible Auditor

The engagement partner on the audit resulting in this independent auditor's report is Martin Bornhofen.

Essen, March 3, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer	Bornhofen
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Responsibility Statement

"To the best of our knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations, and the combined Group management report includes a fair view of the business development including the results and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group in the remainder of the fiscal year."

Düsseldorf, Germany, February 28, 2017

Rolf Buch
(CEO)

Klaus Freiberg
(COO)

Dr. A. Stefan Kirsten
(CFO)

Gerald Klinck
(CCO)

EPRA Reporting

Vonovia SE has been a member of EPRA since 2013. The eponymous European Public Real Estate Association (EPRA) is a non-profit organization that has its registered headquarters in Brussels and represents the interests of listed European real estate companies. Its mission is to raise awareness of European listed real estate companies as a potential investment destination that offers an alternative to conventional investments.

In order to make it easier to compare real estate companies and to reflect special features that apply to the real estate sector, EPRA has developed a framework for standardized reporting that goes beyond the scope of the IFRS.

As already reported in the previous year, Vonovia reports the EPRA key figures based on the EPRA Best Practice Recommendations (BPRs). Vonovia only uses some of the EPRA key figures as performance indicators, which is why they are reported outside of the report on economic position. They are non-GAAP measures.

We would like to point out that the EPRA BPRs refer generally to both residential and commercial real estate companies. Vonovia's business model is based primarily on renting out homes and offering housing-related services. Unlike companies with a commercial portfolio and, as a result, a relatively small number of properties, Vonovia's portfolio features a large number of fairly similar residential units. This means that it does not make sense for a company specializing in residential real estate to report much of the information recommended in the EPRA BPRs, which focus in particular on significant individual properties. This is why, with regard to the current real estate portfolio, we have opted not to report an analysis of the lease expiration profile (the lease agreements tend to be concluded for an indefinite period), the estimated market rent upon the expiry of the lease or the ten biggest tenants in terms of rental income.

When it comes to real estate development, too, an area that can be taken to include Vonovia's new apartment construction area, the resulting properties tend, as in the existing portfolio, to be fairly similar residential units on the whole. As a result, we do not publish separate information on individual large properties. In general, the development projects are executed on the company's own land and do not involve third-party owners.

EPRA Key Figures

in € million EPRA-Performance Measure	Definition	Purpose	2016	2015	Change in %
EPRA Earnings	Earnings from operational activities.	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	448.5	329.2	36.2
EPRA NAV	Net Asset Value adjusted to include properties and other investment interests at fair value and exclude certain items not expected to crystallize in a long-term investment property business model.	Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy.	17,047.1	13,988.2	21.9
EPRA NNNAV	EPRA NAV adjusted to include the fair values of financial instruments, debt and deferred taxes.	Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.	12,034.4	9,739.8	23.6
EPRA Net Initial Yield in %	Annualized rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.	A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y.	4.1	4.5	-0.4 pp
EPRA topped-up Net Initial Yield in %	This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).		4.1	4.5	-0.4 pp
EPRA Vacancy rate in %	Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio.	A "pure" (%) measure of investment property space that is vacant, based on ERV.	2.2	2.5	-0.3 pp
EPRA Cost Ratio (incl. direct vacancy costs) in %	Administrative & operating costs (including costs of direct vacancy) divided by gross rental income.	A key measure to enable meaningful measurement of the changes in a company's operating costs.	28.4	31.9	-3.5 pp
EPRA Cost Ratio (excl. direct vacancy costs) in %	Administrative & operating costs (excluding costs of direct vacancy) divided by gross rental income.		27.0	30.2	-3.2 pp

EPRA Earnings

The EPRA earnings is a measure of the operating result. It indicates the extent to which current dividend payments are supported by the operating result. Based on the profit for the period, adjustments are made to reflect changes in the value of assets and liabilities affecting net income, and to reflect sale effects and costs for acquisition/integration.

As far as company-specific adjustments are concerned, prior-year and non-recurring interest expenses, depreciation and amortization, other non-recurring items and taxes that do not correspond to current income taxes are eliminated. The adjusted earnings correspond to FFO 1.

As there were no diluting financial instruments on the reporting dates, the undiluted EPRA earnings equals the diluted figure.

in € million	2016	2015	Change in %
Earnings per IFRS income statements	2,512.9	994.7	152.6
Changes in value of investment properties, development properties held for investment and other interests	-3,236.1	-1,323.5	144.5
Profits or losses on disposal of investment properties, development properties held for investment and other interests	-102.2	-119.0	-14.1
Selling costs	27.7	29.2	-5.1
Tax on profits or losses on disposals	29.5	17.0	73.5
Changes in fair value of financial instruments and associated close-out costs	98.8	112.3	-12.0
Acquisition costs	46.8	179.8	-74.0
Deferred tax in relation to EPRA adjustments	1,071.1	438.7	144.2
EPRA earnings	**448.5**	**329.2**	**36.2**
EPRA earnings per share in €*	**0.96**	**0.71**	**36.2**
Adjustments other non-recurring Items	47.7	29.6	61.1
Adjustment depreciation and amortization	27.0	13.4	101.5
Adjustments of prior-year/one time interest expense	1.9	-38.1	-105.0
Adjustments for other deferred/prior-year taxes	235.7	273.9	-13.9
Adjusted earnings (FFO 1)	**760.8**	**608.0**	**25.1**
Adjusted earnings (FFO 1) per share in €*	**1.63**	**1.30**	**25.1**

* Based on the shares carrying dividend rights on the reporting date of Dec. 31, 2016: 466,000,624; Dec. 31, 2015: 466,000,624

NAV/NNNAV

The presentation of the NAV based on the EPRA definition aims to show the net asset value in a long-term business model. The total equity attributable to Vonovia's shareholders is adjusted to reflect the deferred taxes on investment properties/assets held for sale, the fair value of derivative financial instruments and the deferred taxes on derivative financial instruments. In order to boost transparency, an adjusted NAV, which involves eliminating goodwill in full, is also reported.

The EPRA NNNAV is designed to show the net asset value of a real estate company, taking the current market values of assets and liabilities into account.

in € million	Dec. 31, 2016	Dec. 31, 2015	Change in %
Equity attributable to Vonovia`s shareholders	12,467.8	10,620.5	17.4
Deferred taxes on investment properties/assets held for sale	4,550.3	3,241.2	40.4
Fair value of derivative financial instruments*	44.4	169.9	-73.9
Deferred taxes on derivative financial instruments	-15.4	-43.4	-64.5
EPRA NAV	17,047.1	13,988.2	21.9
Goodwill	-2,718.9	-2,714.7	0.2
Adjusted NAV	**14,328.2**	**11,273.5**	**27.1**
EPRA NAV per share in €**	**36.58**	**30.02**	**21.9**
Adjusted NAV per share in €**	**30.75**	24.19	27.1

in € million	Dec. 31, 2016	Dec. 31, 2015	Change in %
EPRA NAV	17,047.1	13,988.2	21.9
Fair value of derivative financial instruments*	-44.4	-169.9	-73.9
Fair value of financial liabilities	-647.8	-1,316.5	-50.8
Deferred taxes on derivative financial instruments	15.4	43.4	-64.5
Deferred taxes on fair value of financial liabilities	214.4	435.8	-50.8
Deferred taxes on investment properties/assets held for sale	-4,550.3	-3,241.2	40.4
EPRA NNNAV	**12,034.4**	**9,739.8**	**23.6**
EPRA NNNAV per share in €**	**25.82**	**20.90**	**23.6**

* Adjusted for effects from cross currency swaps
** Based on the shares carrying dividend rights on the reporting date of Dec. 31, 2016: 466,000,624; Dec. 31, 2015: 466,000,624

EPRA Net Initial Yield

The EPRA net initial yield shows the ratio of annualized rental income minus property outgoings (annualized net rents) to the gross fair values of the properties. The fair values are increased by the estimated purchasers' costs.

The topped-up net initial yield eliminates the rental incentives in the annualized net rents. Rental incentives are of only minor importance to a company specializing in residential properties.

in € million	2016	2015	Change in %
Investment Properties	26,980.3	23,431.3	15.1
Assets held for sale	61.6	678.1	-90.9
Fair value of the real estate portfolio (net)	27,041.9	24,109.4	12.2
Allowance for estimated purchasers' costs	2,229.8	1,993.4	11.9
Fair value of the real estate portfolio (gross)	29,271.7	26,102.8	12.1
Annualized cash passing rental income	1,535.0	1,564.6	-1.9
Property outgoings	-332.3	-387.4	-14.2
Annualized net rents	1,202.7	1,177.2	2.2
Adjustments for rental incentives	2.8	1.8	55.6
Topped-up net annualized rent	**1,205.5**	**1,179.0**	**2.2**
EPRA net initial yield in %	**4.1**	**4.5**	**-0.4 pp**
EPRA 'topped-up' net initial yield in %	**4.1**	**4.5**	**-0.4 pp**

EPRA Vacancy Rate

The calculation of the EPRA vacancy rate is based on the ratio of the estimated market rent for the vacant residential properties to the estimated market rent of the residential property portfolio, i.e., the vacancy rate shown in the Rental chapter is valued based on the market rent for the residential properties.

The reduction in the EPRA vacancy rate from 2.5 % in 2015 to 2.2 % in 2016 reflects both the improved rental performance and effects resulting from portfolio adjustments and investments.

in € million	Dec. 31, 2016	Dec. 31, 2015	Change in %
Market rent of vacant apartments	36.9	42.3	-12.8
Market rent of residential property portfolio	1,658.1	1,678.0	-1.2
EPRA vacancy rate in %	**2.2**	**2.5**	**-0.3 pp**

EPRA Cost Ratio

The EPRA cost ratio (EPRA costs to gross rental income) provides information on the cost efficiency of a real estate company. Adjustments are made to reflect ground rent and direct vacancy costs. This means that, in principle, the EPRA cost ratio expresses the same information as the EBITDA margin.

in € million	2016	2015	Change in %
Operating expenses	244.5	248.0	-1.4
Maintenance expenses	247.4	242.2	2.1
Adjusted EBITDA Extension	-57.0	-37.6	51.6
Adjusted EBITDA Other	9.2	4.4	109.1
Ground rent costs	-9.3	-8.2	13.4
EPRA Costs (including direct vacancy costs)	434.8	448.8	-3.1
Direct vacancy costs	-22.4	-24.5	-8.6
EPRA Costs (excluding direct vacancy costs)	412.4	424.3	-2.8
Rental Income	1,538.1	1,414.6	8.7
Ground rent costs	-9.3	-8.2	13.4
Gross rental income	1,528.8	1,406.4	8.7
EPRA Cost ratio (including direct vacancy costs) in %	**28.4**	**31.9**	**-3.5 pp**
EPRA Cost ratio (excluding direct vacancy costs) in %	**27.0**	**30.2**	**-3.2 pp**

Property-related Capital Expenditures

The table below provides an overview of the property-related capital expenditures made by the company throughout the fiscal year.

In the “acquisitions” category, the previous year was characterized by the GAGFAH, SÜDEWO and Franconia acquisitions. The main addition in 2016 was the GRAINGER portfolio.

The increase in investments in the like-for-like portfolio from € 433.5 million in 2015 to € 518.8 million in 2016 reflects our move to step up our modernization program.

in € million	2016	2015	Change in %
Acquisitions	290.9	10,156.3	-97.1
Development	13.9	1.5	-
Like-for-like portfolio	518.8	433.5	19.7
Other	-	-	-
Property-related capital expenditures	**823.6**	**10,591.3**	**-92.2**

EPRA Sustainability

Performance Measures

In October 2016, Vonovia published its first Sustainability Report on the 2015 fiscal year. Vonovia prepared its Sustainability Report in line with the G4 guidelines of the Global Reporting Initiative (GRI), the leading standard for sustainability reporting, as well as the EPRA Best Practice Recommendations on Sustainability Reporting (sBPR).

In line with the Best Practice Recommendations on Sustainability Reporting, Vonovia reported key figures, insofar as this was possible at the time, on energy, water, waste and key emissions figures relating to its own administrative buildings and part of the communal areas in its portfolio.

At the time the report was drawn up, it was not possible to report on tenant consumption or key consumption figures on a like-for-like basis. Vonovia plans to further develop its sustainability reporting on an ongoing basis over the next few years, also expanding the key sustainability figures further.

Explanatory information on the key figures set out below and the management approaches can be found in the 2015 Sustainability Report on pages 58–60 and 72–73. SR 2015, pp. 58–60, 72–73

At the time the 2016 Annual Report was published, the key energy consumption and CO_2 figures for the 2016 fiscal year were not yet available. These will be published in the 2016 Sustainability Report, which will be published at the end of June 2017.

Total Energy Consumption

in MWh/year	**2015**	EPRA code	GRI G4
Electricity consumption in communal areas of properties*	47,100.0	Electricity consumption	G4-EN3
Electricity consumption by Vonovia's business operations**	2,523.0	Electricity consumption	G4-EN3
Total electricity consumption	**49,623.0**	**Electricity consumption**	**G4-EN3**
District heating in communal areas of properties*	540	DH&C (district heating & cooling) consumption	
Heating systems by Vonovia's business operations**	3,105.3	DH&C (district heating & cooling) consumption	
Total heating	**3,645.3**	**DH&C (district heating & cooling) consumption**	
Direct energy consumption from fuel by Vonovia's business operations**	44,975.2	Fuel consumption	G4-EN3
Direct energy consumption from fuel in properties**	1,220,685.0	Fuel consumption	G4-EN3
of which from non-renewable sources	1,217,685.0		
of which from renewable sources	3,000.0		
Total direct energy consumption from fuel	1,265,660.2	Fuel consumption	G4-EN3
Intensity figures			
Energy intensity in administrative buildings (MWh/m²)**	0.3		

* Key figures from Deutsche Annington from 2015 with 1,500 delivery points

** Electricity consumption and heating energy relate exclusively to the Group's headquarters in Bochum. The heating boiler facility of the main administration building is operated by ENGIE Deutschland. Vonovia purchases the heat using a contracting model. Energy intensity also relates only to the Group's headquarters in Bochum.

*** Fuel consumption relates exclusively to the Vonovia vehicle fleet. No fuels from renewable sources were used.

CO_2 Emissions by Scope

t/CO_2	2015	EPRA code	GRI G4
Direct CO_2 emissions (scope 1) from Vonovia's business operations*	11,974.4	GHG direct emissions	G4-EN15
from gas	567.4		
from diesel	11,407.0		
Direct CO_2 emissions (scope 1) in properties**	253,433.0	GHG direct emissions	G4-EN15
from non-renewable sources	252,454.6		
from renewable sources	978.3		
Total direct CO_2 emissions (scope 1)	265,407.4	GHG direct emissions	G4-EN15
Indirect CO_2 emissions (scope 2) from Vonovia's business operations***	1,974.4	GHG-Indir-Abs	G4-EN16
from electricity consumption	1,349.8		
from heating systems	624.9		
Indirect CO_2 emissions (scope 2) in properties	25,310.6	GHG indirect emissions	G4-EN16
from electricity consumption	25,198.5		
from district heating****	112.1		
Total indirect CO_2 emissions (scope 2)	27.285	GHG indirect emissions	G4-EN16
Intensity figures			
Greenhouse gas intensity in administrative buildings (t CO_2/m^2)*	0.1	GHG intensity	G4-EN18, CRE3

* Direct CO_2 emissions relate exclusively to the vehicle fleet. Source of GHG emission factors: German Federal Environment Agency (UBA) 2016; Greenhouse gases included: CO_2

** Consolidated consumption of all heating centers. Source of GHG emission factors: German Federal Environment Agency (UBA) 2016; Greenhouse gases included: CO_2

*** Indirect CO_2 emissions relate exclusively to the Group's headquarters in Bochum. Source of the GHG emission factors: German Federal Environmental Agency (UBA) 2016 and UK Department of Energy and Climate Change 2015; greenhouse gases included: CO_2

**** Key figures from Deutsche Annington from 2015 with 1,500 delivery points; Source of the GHG emission factors: German Federal Environmental Agency (UBA) 2016 and the UK Department of Energy and Climate Change 2015; Greenhouse gases included: CO_2

Water and Wastewater

	2015	EPRA code	GRI G4
Total water usage (m^3)*	11,598.0	Water withdrawal	G4-EN8
Water intensity of buildings (m^3/m^2)	0.5	Water intensity	CRE2
Total wastewater discharges (m^3)*	9,996.0	GHG direct emissions	G4-EN22

* Water consumption relates exclusively to the company headquarters in Bochum, billing period February 11, 2015, to February 16, 2016. Vonovia obtains water for its headquarters exclusively from the municipal supply. All wastewater is drained into the public sewage system.

Waste and Recycling

t	2015	EPRA code	GRI G4
Non-hazardous waste	74.2	Waste disposal	G4-EN23
Recycling	36.8	Waste disposal	G4-EN23
Residual waste	37.4	Waste disposal	G4-EN23

The waste key figures relate exclusively to the company headquarters in Bochum. Hazardous waste is generated during our renovations. The precise amount is not recorded, however.

Glossary

Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)

Adjusted EBITDA is the result before interest, taxes, depreciation and amortization (including income from other operational investments) adjusted for effects that do not relate to the period, recur irregularly or that are atypical for business operation, and for net income from fair value adjustments to investment properties. These non-recurring items include the development of new fields of business and business processes, acquisition projects, expenses for refinancing and equity increases (where not treated as capital procurement costs), IPO preparation costs and expenses for pre-retirement part-time work arrangements and severance payments.

Adjusted EBITDA Extension

The adjusted EBITDA Extension is calculated by deducting operating expenses from the segment's income.

Adjusted EBITDA Operations

The adjusted EBITDA Operations is calculated by subtracting the adjusted EBITDA Sales from the adjusted EBITDA of the Group.

Adjusted EBITDA Rental

The adjusted EBITDA Rental is calculated by subtracting the operating expenses of the Rental segment and the expenses for maintenance in the Rental segment from the Group's rental income.

Adjusted EBITDA Sales

The adjusted EBITDA Sales is calculated by subtracting all operating expenses (excl. overheads) incurred in connection with sales activities from the profit on the disposal of properties generated by the Group and by adjusting the profit on the disposal of properties to reflect certain reclassification and time effects.

Cash-Generating Unit (CGU)

The cash-generating unit refers, in connection with the impairment testing of goodwill, to the smallest group of assets that generates cash inflows and outflows independently of the use of other assets or other cash-generating units (CGUs).

Covenants

Requirements specified in loan agreements or bond conditions containing future obligations of the borrower or the bond obligor to meet specific requirements or to refrain from undertaking certain activities.

CSI (Customer Satisfaction Index)

The CSI is determined at regular intervals by means of systematic customer surveys and reflects how our services are perceived and accepted by our customers. The CSI is determined on the basis of points given by the customers for our properties and their neighborhood, customer service and commercial and technical support as well as maintenance and modernization management.

EPRA NAV/Adjusted NAV

The presentation of the NAV based on the EPRA definition aims to show the net asset value in a long-term business model. The equity attributable to Vonovia's shareholders is adjusted to reflect deferred taxes on investment properties/assets held for sale, the fair value of derivative financial instruments and the deferred taxes on derivative financial instruments. In order to boost transparency, an adjusted NAV, which involves eliminating goodwill in full, is also reported.

EPRA (European Public Real Estate Association)
The European Public Real Estate Association (EPRA) is a non-profit organization that has its registered headquarters in Brussels and represents the interests of listed European real estate companies. Its mission is to raise awareness of European listed real estate companies as a potential investment destination that offers an alternative to conventional investments. EPRA is a registered trademark of the European Public Real Estate Association.

EPRA Key Figures
For information on the EPRA key figures, we refer to the chapter on segment reporting according to EPRA. → p. 208

Fair Value
Valuation pursuant to IAS 40 in conjunction with IFRS 13. The estimated value of an asset. The fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Fair Value Step-up
Fair value step-up is the difference between the income from selling a unit and its current fair value in relation to its fair value. It shows the percentage increase in value for the company on the sale of a unit before further costs of sale.

FFO (Funds From Operations)
FFO reflects the recurring earnings from the operating business. In addition to adjusted EBITDA, FFO allow for recurring cash-effective net interest expenses from non-derivative financial instruments as well as income taxes. This key figure is not determined on the basis of any specific international reporting standard but is to be regarded as a supplement to other performance indicators determined in accordance with IFRS.

FFO 1/FFO 1 Before Maintenance/FFO 2/AFFO
Vonovia differentiates between

FFO 1: The profit or loss for the period to reflect the adjusted profit or loss from sales; period adjustments from assets held for sale; specific effects that do not relate to the period, are non-recurring or do not relate to the objective of the company; the net income from fair value adjustments of investment properties; depreciation and amortization; deferred and prior-year current taxes (tax expenses/income); transaction costs; prepayment penalties and commitment interest; valuation effects on financial instruments; the unwinding of discounting for provisions, particularly provisions for pensions, and other prior-year interest expenses and income that are not of a long-term nature.

For the purposes of FFO 1 (before maintenance), FFO 1 is adjusted to reflect maintenance expenses.

AFFO refers to capex-adjusted FFO 1 in which FFO 1 is adjusted for capitalized maintenance.

In order to calculate FFO 2, the adjusted EBITDA Sales is added to FFO 1 for the periods in question and adjusted to reflect the FFO taxes attributable to sales.

LTV Ratio (Loan-to-Value Ratio)
The LTV ratio shows the extent to which financial liabilities are covered. It shows the ratio of non-derivative financial liabilities pursuant to IFRS, less foreign exchange rate effects, cash and cash equivalents, receivables from disposals, plus purchase prices for outstanding acquisitions, to the total fair values of the real estate portfolio, plus the fair values of outstanding acquisitions and investments in other real estate companies.

Maintenance
Maintenance covers the measures that are necessary to ensure that the property can continue to be used as intended over its useful life and that eliminate structural and other defects caused by wear and tear, age and weathering effects.

Modernization Measures
Modernization measures are long-term and sustainable value-enhancing investments in housing and building stocks. Energy-efficient refurbishments generally involve improvements to the building shell

and communal areas as well as the heat and electricity supply systems. Typical examples are the installation of heating systems, the renovation of balconies and the retrofitting of prefabricated balconies as well as the implementation of energy-saving projects, such as the installation of double-glazed windows and heat insulation, e.g., facade insulation, insulation of the top story ceilings and basement ceilings. In addition to modernization of the apartment electrics, the refurbishment work upgrades the apartments, typically through the installation of modern and/or handicapped-accessible bathrooms, the installation of new doors and the laying of high-quality and non-slip flooring. Where required, the floor plans are altered to meet changed housing needs.

Monthly In-Place Rent

The monthly in-place rent is measured in € per square meter and is the current gross rental income per month for rented units as agreed in the corresponding rent agreements at the end of the relevant month before deduction of non-transferable ancillary costs divided by the living area of the rented units. The in-place rent is often referred to as the net cold rent. The monthly in-place rent (in €/m²) on a like-for-like basis refers to the monthly in-place rent for the residential portfolio that was already held by Vonovia 12 months previously, i.e., portfolio changes during this period are not included in the calculation of the in-place rent on a like-for-like basis.

Non-Core/Non-Strategic

In the “Non-Core” subportfolio, our focus is on selling properties in locations that offer below-average development potential in the medium to long term to private and institutional investors. Limited potential is defined, in particular, by below-average property condition combined with a location that is of similarly below-average quality.

The “Non-Strategic” subportfolio contains locations and properties that were identified in the latest extensive review of the overall portfolio as not being absolutely essential for further strategic development. Properties in the “Non-Strategic” portfolio are reviewed on a regular basis and offer further sale potential.

Privatize

In the “Privatize” subportfolio, our focus is on generating additional added value by privatizing owner-occupied apartments and single-family houses at a premium compared with their fair value.

Rating

Classification of debtors or securities with regard to their creditworthiness or credit quality according to credit ratings. The classification is generally performed by rating agencies.

Rental Development Assumption CBRE (5 years)

Assumed average rent growth for apartments that are not subject to pricing restrictions over the next five years in accordance with the current CBRE property valuation.

Rental Income

Rental income refers to the current gross income for rented units as agreed in the corresponding rent agreements before the deduction of non-transferable ancillary costs.

Strategic

The “Strategic” subportfolio contains locations that offer development potential that is above average and for which we are pursuing a value-enhancing property management strategy.

Vacancy Rate

The vacancy rate is the number of empty units as a percentage of the total units owned by the company. The vacant units are counted at the end of each month.

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Financial Calendar

March 7, 2017	Publication of 2016 Annual Report
May 16, 2017	Annual General Meeting
May 24, 2017	Publication of Interim Report Q1 2017
August 2, 2017	Publication of Interim Report H1 2017
November 8, 2017	Publication of Interim Report Q3 2017

Note

This Annual Report is published in German and English. The German version is always the authoritative text. The Annual Report can be found on the website at www.vonovia.de.

EPRA is a registered trademark of European Public Real Estate Association

Disclaimer

This report contains forward-looking statements. These statements are based on current experience, assumptions and forecasts of the Management Board as well as information currently available to the Board. The forward-looking statements are not guarantees of the future developments and results mentioned therein. The future developments and results depend on a large number of factors. They involve certain risks and uncertainties and are based on assumptions that may prove to be inaccurate. These risk factors include but are not limited to those discussed in the Risk Report of the 2016 Annual Report. We do not assume any obligation to update the forward-looking statements contained in this report. This financial report does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy any securities of Vonovia SE.

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