Annual Report
Vonovia SE
2015

It's Time

01

to Rethink Housing

Key Figures

in € million **Financial Key Figures**	2015	2014	Change in %
Rental income	1,414.6	789.3	79.2
Adjusted EBITDA Rental	924.8	483.1	91.4
Adjusted EBITDA Extension	37.6	23.6	59.3
Income from disposal of properties	726.0	287.3	152.7
Adjusted EBITDA Sales	71.1	50.1	41.9
Adjusted EBITDA	1,029.1	554.0	85.8
EBITDA IFRS	838.4	500.3	67.6
FFO interest expense	-339.8	-209.3	62.4
FFO 1	608.0	286.6	112.1
thereof attributable to shareholders	575.0	286.6	100.6
thereof attributable to equity hybrid	33.0	-	-
FFO 2	662.1	336.7	96.6
AFFO	520.5	258.3	101.5
FFO 1 per share in €*	1.30	1.00	30.0
Net income from fair value adjustments of investment properties	1,323.5	371.1	256.6
EBT	1,734.5	589.1	194.4
Profit for the period	994.7	409.7	142.8
Cash flow from operating activities	689.8	453.2	52.2
Cash flow from investing activities	-3,239.8	-1,177.9	175.0
Cash flow from financing activities	4,093.1	1,741.7	135.0
Expenses for maintenance and modernization	686.3	345.5	98.6
thereof for maintenance and capitalized maintenance	330.7	173.8	90.3
thereof for modernization	355.6	171.7	107.1

in € million **Key Balance Sheet Figures**	Dec. 31, 2015	Dec. 31, 2014	Change in %
Fair value of the real estate portfolio	24,157.7	12,759.1	89.3
Adjusted EPRA NAV	11,273.5	6,472.0	74.2
Adjusted EPRA NAV per share in €*	24.19	22.67	6.7
LTV in %**	47.3	49.7	-2.4 pp

Non-Financial Key Figures	2015	2014	Change in %
Number of units managed	397,799	232,246	71.3
thereof own apartments	357,117	203,028	75.9
thereof apartments owned by others	40,682	29,218	39.2
Number of units bought	168,632	31,858	429.3
Number of units sold	15,174	4,081	271.8
thereof Privatize	2,979	2,238	33.1
thereof Non-Core	12,195	1,843	561.7
Vacancy rate in %	2.7	3.4	-0.7 pp
Monthly in-place rent in €/m²	5.75	5.58	3.0
Monthly in-place rent in €/m² like-for-like ***	5.78	5.62	2.9
Number of employees (as of .December 31)	6,368	3,850	65.4

in € million **EPRA Key Figures**	2015	2014	Change in %
EPRA NAV	13,988.2	6,578.0	112.7
EPRA NAV per share in €*	30.02	23.04	30.3
EPRA NNNAV	12,988.2	6,150.2	111.2
EPRA surplus	239.5	169.8	41.0
EPRA net initial yield in %	5.6	5.9	-0.3 pp
EPRA "topped-up" net initial yield in %	5.6	6.0	-0.4 pp
EPRA vacancy rate in %	2.5	3.0	-0.5 pp
EPRA cost ratio (incl. direct vacancy costs) in %	31.9	35.7	-3.8 pp
EPRA cost ratio (excl. direct vacancy costs) in %	30.1	34.0	-3.9 pp

* Based on the shares carrying dividend rights on the reporting date Dec. 31, 2015: 466,000,624; Dec. 31, 2014: 271,622,425; Prior-year value TERP-adjusted
** Adjusted to reflect effects in connection with the acquisitions of Franconia and GAGFAH as well as effects from portfolio sales / outstanding acquisitions
*** Incl. DeWAG/Vitus excluding GAGFAH/Franconia/SÜDEWO

ANNUAL REPORT 2015

It's Time

Be it the printing press, the steam engine or the World Wide Web – history has repeatedly shown that when the time is right, developments can sometimes happen very quickly. Not even three years have passed since we started putting our concept – one that signaled a true innovation for the real estate sector – into practice.

Our model is a simple one: We offer affordable apartments for rent and provide fairly priced housing-related services as part of our offerings. This strategy works because we have found a way of implementing it in a financially viable manner. And because we make sure that all of our stakeholder groups – our customers, our shareholders, our employees and, last but not least, society as a whole – reap the benefits in the process.

With Vonovia, we want to provide people with a home and set trends in the housing industry at the same time. We, the more than 6,000 people now working for Vonovia, are not prepared to sit back and wait. We want to tackle things head on.

von

Key Figures

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Content

01 02 03

Home is not just any old place. It's where we feel secure and protected and where we can find the time to recharge so that we can rise to the challenges of the next day.

People want to be able to play an active role in day-to-day life in **old age** as well. To do so, they need lively **neighbor-hoods** where they truly feel they belong.

01

02

03

People who are in the process of building their futures also need **affordable** apartments. **Families** are home to the tenants of tomorrow.

01

02

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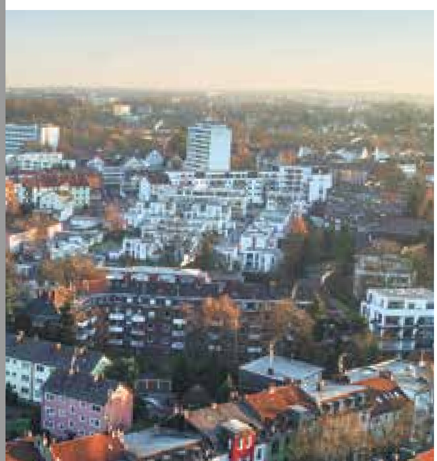
Currently, more and more people feel drawn to the idea of life in **the city**. The rising demand means that city planners and housing providers have to find new solutions.

As a **housing-related service provider**, there are many ways in which we can turn our tenants into satisfied customers. It's easy to tap into these opportunities if we look at things from the customer's perspective.



Maintaining our existing properties is also a question of responsibility. That makes these activities a top priority in a company focused on sustainability.

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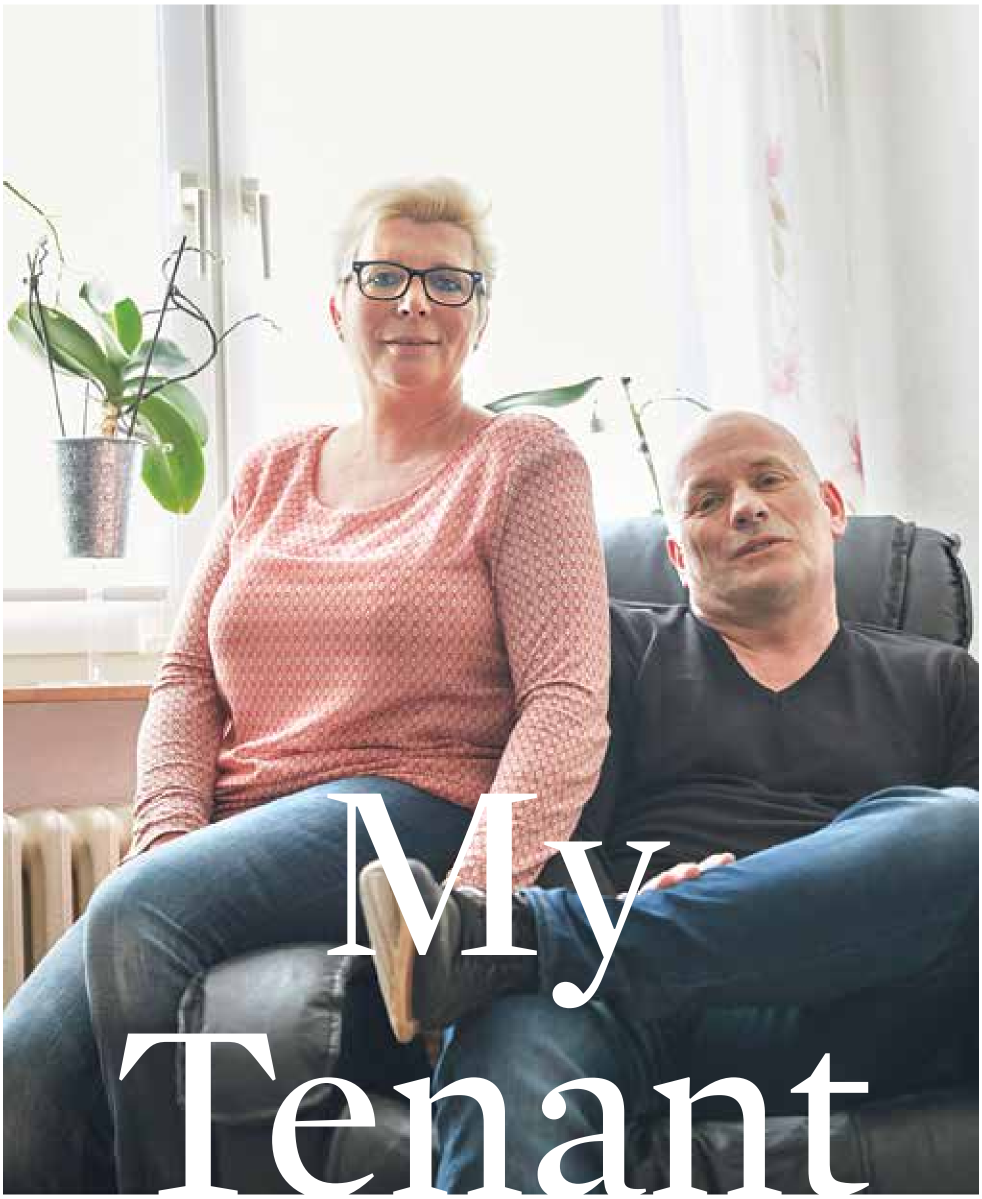
It’s Time to Rethink Housing

01 02 03



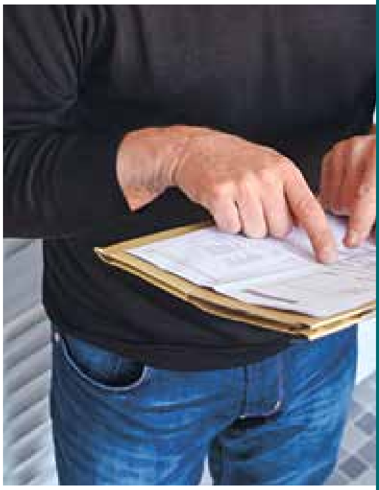
My Tenant Is My Customer

A New Idea of the Customer for a New Era

Time for Change
The Debski family has been a Vonovia customer for some time now. When they decided they wanted to modernize their bathroom to include a walk-in shower, new tiles and electrical wiring, a modern wall-hung toilet and a heated towel rack, they contacted Vonovia's head office.

40.2

There are 40.2 million "most important places" in Germany. This is how many households we have in our country. As a landlord for more than one million people, we at Vonovia can help to ensure that these places are where people feel at home.



While companies in other sectors reinvented themselves as service providers long ago, the real estate industry was able to retain the old business model of merely offering a supply of housing. But that time has passed in our sector as well. Tenants are customers who want to be treated as equals by their housing providers, asked for their opinions and provided with support. At Vonovia, we have since taken this important task back into our own hands. In doing so, we ensure a high level of availability with our own caretakers and craftsmen, our own on-site property managers and, since recently, our own service division for the residential environment.

When they entered the German real estate market, private equity investors began a new but difficult chapter in the story of the industry. However, they also set a process in motion that was long overdue – viewing the housing industry from the perspective of the market economy. Over the past twenty years, we have seen very good examples of this trend in other areas of society that provide basic services like health care, energy and public transport. While opening these sectors up to the principles of the market economy has not ironed out every imperfection, many aspects have improved considerably for customers →

02

03

Time to Work
Michael Bandt did the tiling work in the Debskis' new bathroom. "Fast, clean, friendly and good" is his motto.

→ compared with the situation two decades ago.

"Living well," however, is a different challenge entirely. It is intertwined with one of our most fundamental needs, making it one of the most emotional aspects of daily life. Having a place to live, a home, is something we take for granted. This is why the matter is constantly in the focus of public debate from a social, political and societal perspective. Anyone who wants to drive change in this sector has to expect a lot of questions to be asked. This is exactly what the major private equity investors were confronted with.

Unlike countries like the United States or the United Kingdom, Germany is a country of tenants, meaning that the era in which private equity investors could focus on returns alone is now history. They are starting to realize that, in Germany, successful real estate management only works if you are prepared to take responsibility – not just for the properties in the portfolio, but also for the context in which the tenants live. And they are realizing that this can only be achieved in the spirit of collaboration – with tenants and the people representing their interests or, on a larger scale, with municipalities and the legislature.

01

“If I’ve repaired the heating system, I can always tell what the overall atmosphere in the residential environment is like as well.”

Michael Bandt, tiler, paver and mosaic layer at Deutsche TGS Group

02

03

300 x 2 GREEN THUMBS

Since 2015, we have had our own landscaping company in place to look after Vonovia properties. Our gardening teams mow lawns, trim hedges and tend to the 200,000 trees surrounding our units. They maintain walkways, look after the garbage collection points and optimize the equipment at our more than 1,000 playgrounds. This means that many of our customers’ questions relating to maintenance can be answered on-site and right away.

Responsibility and collaboration: These are the aspects we want to address with Vonovia. And there is a third aspect that is crucial if we want our model to work in a market economy: treating our tenants as our customers. This means that the people living in our properties are no longer just passive recipients of a service. Instead, they are becoming active players with questions, wishes and expectations of their own. They have been more than familiar with their role as well-informed customers in other contexts for some time now. So they know that their home is not just a commodity, but requires care and has to pay off. →

Stefan Schmeißner
is a plant engineer specializing in sanitary equipment, heating and air-conditioning technology and was responsible for ensuring the professional installation of the shower and other fixtures during the renovation work.

Time to Offer Support
Norbert Rieger is responsible for customer service at Vonovia. When dealing with customers, the concept of service is a top priority for him.

→ They see how their neighbors live and have an idea of what might suit them, too. And if they feel at home in their apartment, they naturally also ask themselves whether the apartment will still work for them in ten years' time.

In terms of day-to-day corporate life at Vonovia, this new understanding means that we are, first and foremost, service providers and that we have to remain systematically focused on the customer's perspective in everything that we do. Seeing things from the customer's perspective means that we always have to think about what our customers need today – and what they will want tomorrow.

We can find this out by talking to the people who are actually living in our properties. We also have to take the background data into account by observing the age structure of our customers and analyzing demographic trends in our locations. We assess pension developments and look at the ideas that social institutions are coming up with. And then, we take a creative approach, setting our old ways of thinking aside and instead thinking about how we can ensure and improve our customers' satisfaction (see p. 18 et seq.).

> 400,000 x

We attend a total of more than 400,000 on-site customer visits a year.

"In the past, we simply rented out apartments. Nowadays, we ask our customers what they need."

Norbert Rieger, responsible for customer service

Our sense of duty comes before everything else: The most important thing for our customers is that they can reach us when they have a problem. We now have the issue of availability well under control. In order to improve our availability even further, we set up an additional customer service hub with more than 200 employees in Dresden at the start of this year and also extended our telephone availability considerably: We are now available from 7 a.m. until 8 p.m. from Monday to Friday, and between 8 a.m. and 4 p.m. on Saturdays. If a pipe bursts or a heating system breaks down outside of these hours, our emergency hotline is available 24 hours a day. In the summer of 2016, we will also be opening a new customer service location in Duisburg. This will bring the 650 employees currently working in various locations across the Ruhr region together in one location that will be ideally equipped to meet the demands of modern customer service.

It is at least equally important to our customers that we are on hand to support them on-site. Today, more than 3,000 caretakers and craftsmen are working directly in and around our properties across Germany. We also recently decided to set up a separate segment encompassing all activities →

01

“We feel even more at home in our apartment with our new modernized bathroom.”

Debski family, Vonovia customers for more than ten years

→ relating to the maintenance of the residential environment surrounding properties. This means that we mow our lawns ourselves, tend to the hedges and the more than 220,000 trees on our properties, renew walkways, perform paving work or optimize garbage collection processes. But our understanding of a residential environment where customers can feel at home does not end where the grass does. Our new service segment is also responsible for developing outdoor areas within our housing developments where people can play, relax or simply meet up with their neighbors. The residential environment service (Vonovia Wohnumfeld Service GmbH) is also responsible for maintaining and designing our more than 1,000 playgrounds. Our new residential environment service is currently in the process of establishing itself as the biggest of its kind in Germany – just like our craftsmen's organization.

We are incorporating services back into the company whenever it makes sense to do so. This allows us to maintain constant contact with our customers and to keep control over the quality of, and responsibility for, the services provided. At the same time, we are extending our value chain,

generating price advantages in the procurement process and boosting the efficiency of our processes.

Efficiency. For our business model to work, efficiency is absolutely crucial. After all, while our customers' needs and wishes know virtually no limits, the same does not necessarily apply to their budgets. This is why we are systematically committed to standardization – and to size. The bigger our portfolio is in a certain location, the more efficiently it can be managed. This allows us to provide customers with things that would otherwise be unaffordable for them.

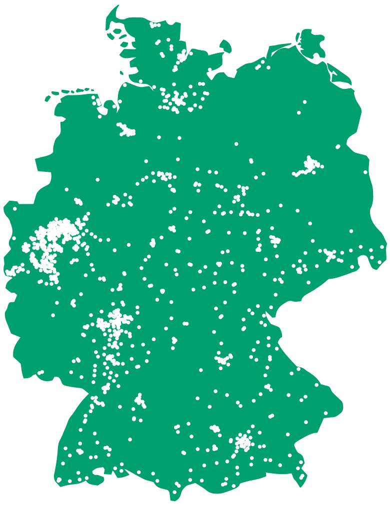
Time to Enjoy
Fast, efficient, high-quality, modern – the Debski family's bathroom modernization project was complete after only ten working days.

Why Not Go Further? Ideas for True Well-Being

New Services Boost Customer Satisfaction and Make Customers More Loyal to the Company as a Result

770

At Vonovia, one new idea has the potential to affect more than 770 locations across Germany at once.



Konstantina Kanellopoulos is responsible for the "think tank" at Vonovia. This is where ideas for improving our customers' day-to-day lives are born.

The great thing about progress is that it brings new opportunities along with it. Especially if economies of scale allow these opportunities to be exploited in an affordable manner. With its model of offering customers services at fair prices, Vonovia is playing a proactive role in addressing this issue and using it to maintain customer satisfaction. Equipping its apartments across Germany with broadband connections is only the beginning. Step by step, our company is tapping into new fields of business.

"Our business used to be about living space. Now, it's about living," says Konstantina Kanellopoulos, Head of Product Management at Vonovia, when asked to explain the difference between the former Deutsche Annington and the new Vonovia. Together with her 30-person team, Kanellopoulos is responsible, day in and day out, for →

A new kitchen as a service – this has been part of Vonovia's offering since this year

→ looking at what new services Vonovia could offer to make its customers' lives easier and to improve living standards. All ideas are welcome – provided that they fulfill three requirements: They have to meet real-life needs, be able to be realized in a fast, pragmatic manner and be affordable at the same time.

This means that Vonovia's product management department essentially does what other companies refer to as product development. And it's a job that the team does very successfully, too. After all, many of the ideas, big and small, are now making real improvements to customers' everyday lives and expanding Vonovia's business.

Bathrooms are a prime example. Older customers need accessible bathrooms. Demographic change is already an issue that the company pays close attention to in its day-

170,000

170,000 Vonovia apartments across Germany are equipped with cable TV signals.

50,000

50,000 additional apartments are also being equipped with fiber-optic technology.

Some ideas make their way to Vonovia as well: DHL has developed a type of mailbox especially for packages that can be installed in the hallways of multifamily residences. Pilot projects in Dortmund and Berlin have shown that this is also an attractive option for tenants in some cases.

to-day work. So what happens if, instead of standard renovation or modernization measures, a customer wants a shower stall as opposed to a bathtub? Kanellopoulos: "Nowadays, that's no problem. Quite the opposite, in fact. We can offer the customer a solution that he can finance without any trouble in the form of a fixed rent surcharge and can even give him various design options to choose from." The customer response to this offering has far exceeded expectations.

Success stories like these serve as a source of motivation. After all, if it works for bathrooms, why shouldn't it work for kitchens, too? Although kitchens are more complex, the experience gleaned from the bathroom process coupled with close collaboration with an experienced kitchen manufacturer mean that Vonovia is well on track to achieve the next roll-out.

The product development process is one that is now running very smoothly. The fact that Vonovia has the necessary expertise available within the company, namely with its own craftsmen's organization, is a big help. "We can discuss our ideas right away with the people who know our customers from their everyday work and who will ultimately perform the work on-site, too." Regardless of this, the teams are constantly on the lookout for optimization potential when it comes to their processes: "There is a lesson to be learned from every solution. We make sure that we incorporate these lessons into the next idea."

The product management team certainly isn't facing a shortage of projects to work on. One idea that a team is currently looking into relates to household emergency call systems. Another team is developing solutions for mechanical burglary protection

"We want every single idea that we put into practice to improve our customers' everyday lives."

Konstantina Kanellopoulos, Head of Product Management

devices with the support of the police. The product management team has also been examining the idea of boxes that would allow customers to store walkers and strollers outdoors for some time now. It might sound like a small issue, but it's the sort of thing that makes a huge contribution to peace in the neighborhood.

When it comes to new services, Vonovia is no longer restricting itself only to things that are tangible either: "If we are serious about wanting to focus on 'living,' then we have to delve deep into our customers' everyday lives. One question that we have to ask, for example, is what sort of role we want to, and indeed are able to, play in the future as far as long-term outpatient care is concerned." Konstantina Kanellopoulos' team is currently thinking about possible options for long-term care support centers or long-term care services. The ideas being raised show that there is a lot of potential there. —

Quality of Life Comes from the Neighborhood

The Eltingviertel District in Essen, a Pilot Project for Holistic Neighborhood Development

Diversity is already an important characteristic of the Eltingviertel district – it is crucial that this spirit and the district's established structures remain preserved.

A good neighborhood environment should not be left to chance – especially if you have the opportunity to shape it. A good environment increases the appeal of apartments in the neighborhood, strengthens the sense of community spirit and minimizes social tension. As the landlord of larger contiguous settlements, Vonovia is making targeted investments in measures that benefit people living in its neighborhoods both directly and indirectly. But holistic neighborhood development needs the commitment of a whole number of different players. The Eltingviertel district project in Essen shows how these endeavors can be successful if municipalities, experts and housing companies pull together to achieve a common goal.

In terms of its location, the Eltingviertel district in Essen has everything that an attractive neighborhood needs: proximity to the city center, to nature, to the university. Attractive, traditional buildings with generous courtyards and outdoor areas. But many of the buildings are in need of renovation, many inhabitants only have limited financial resources at their disposal and the neighborhood is home to a high proportion of people with migrant backgrounds. Furthermore, the northern part of Essen, which is where the Eltingviertel district is located, is not exactly known for being one of the city's best areas.

Substantial economic activity is needed to make fundamental changes to the neighborhood's image and to allow it to unfold its full potential. Initiatives like this have certainly worked in comparable cases in the past – but often resulted in old tenants moving out.

This is precisely what is not to happen to the Eltingviertel district. The neighborhood is to retain its diverse character and remain affordable for the people living there. In order to make this happen, Vonovia, the Essen city authorities and experts from Innovation City Management GmbH came together in 2015 to inaugurate a project for holistic, sustainable neighborhood development. The objective is an ambitious one, but has the full backing of all of the parties involved. The aim is to secure the value of the properties, reduce CO_2 emissions and boost the quality of life and sense of well-being of people living in the neighborhood. The structural and cultural character of the district is to remain intact. The planning period is five to ten years. The project kicked off in the spring of 2015.

Looking back: Vonovia provided the initial impetus for the process. We own around 1,000 apartments in the Eltingviertel →

→ district, or around 40 % of the neighborhood. As real estate managers, we have to take a good look at our locations on a regular basis and ask ourselves how we want to support the apartments and our customers. This is exactly what we did with the Eltingviertel district two years ago. How can we protect the existing properties? Where do we have to invest? What are the characteristics that shape the environment and to what extent can we have a positive impact on them?

> 1,000

Vonovia **playgrounds** across Germany

> 222,000

trees and **groups of trees covering 415,000 square meters** in our portfolio

There was absolutely no doubt that action had to be taken, both in terms of energy efficiency, looking at the apartments themselves, and for social reasons, looking at the wider residential environment. In terms of its development history, the entire neighborhood had not changed much since the 1970s. The question we asked was: Why not look at the big picture and involve the other stakeholders as well?

This was no sooner said than done. We held talks with the city authorities and experts and then commissioned the expert team from Innovation City Management GmbH to conduct a large-scale exploratory study from a holistic neighborhood development perspective. The results – including recommendations for the energy-efficient renovation of our buildings and proposals for the further urban development of the entire district – formed the basis for this extensive joint project. We all met up to discuss our ideas, make any necessary adjustments and pass resolutions before ultimately getting down to work. The joint project was set out in a target agreement for the sustainable development of the neighborhood.

In addition to the three initiators – the city of Essen, InnovationCity and us, Vonovia – the project enjoys the support of other institutions such as the utilities companies Emschergenossenschaft, STEAG Fernwärme and RWE. The people living in the area themselves – along with individual private owners, educational and social institutions,

A healthy neighborhood is characterized by an atmosphere in which a unique way of life unfolds.

Vonovia has made a total investment volume of 29 million euros available for the Eltingviertel project.

religious communities, associations, creative minds and committed individuals, as well as retail and commercial businesses – are encouraged to make their own contribution to the successful implementation of the project. They have been actively called upon to contribute to the process with their ideas and suggestions – for example on the design of outdoor areas and in matters relating to mobility.

Status quo: The first phase of the project focuses on Vonovia's northern residential complexes: Electric thermal storage heaters are being replaced by "green" district heating, balconies are being added to buildings, windows are being replaced, basements and top story ceilings are being insulated, facades and stairwells are being renewed and entry hallways are being renovated. The outdoor areas are also being extensively planned and revised. When making all of these investments, the parties involved take care to ensure that the apartments will also remain affordable for tenants in the future. In order to ensure that this is the case, the federal state of North Rhine-Westphalia is also pumping public funds into the project. One third of the apartments, for example, are being renovated thanks to public-sector subsidies that contribute to ensuring affordable living space.

While Vonovia is working on its existing properties, Essen's authorities are currently taking a good look at how to design the district's public areas, improve the transport situation and connect the Eltingviertel district to the neighboring ones. In addition to the renovation work, Vonovia will also be prioritizing the development of open spaces and courtyards to make them livable and lovable. In order to achieve this, a landscape architecture design competition was launched with the involvement of the city of Essen, policymakers and, of course, the tenants themselves. The open space concept is now to be implemented in 2016: Dark courtyard areas will make way for newly structured, inviting green spaces that invite residents to relax and play.

Together, we can achieve more. The Eltingviertel project is the best possible example of this. It is worth approaching others and joining forces to come up with a vision, complementing each other where it makes sense to do so and implementing the solution together. —

* "Green" district heating is generated using renewable energy sources such as biomass (wooden pellets) and biogas (biomethane) as opposed to fossil fuels.

It's Time to Join Forces

Nadir Köse
is a rental agent for existing properties at Vonovia. At the morning briefing session with technicians and caretakers, he discusses viewing appointments and necessary renovation measures for vacant apartments.

The Challenge of Migration

Rising to Social Challenges Together

700,000

people joined the German population in 2015 – largely due to the wave of immigration*

75 %

of people in Germany live in conurbations today, a percentage that is on the rise*

* Source: Federal Statistical Office

In the afternoon, the Aydin family comes to view a Vonovia apartment. They are already Vonovia tenants but are looking for a bigger home. At the meeting, the apartment swap is discussed in both German and Turkish.

More and more people are moving from the countryside to the city. And more and more people are moving to Germany from other countries. These trends come hand in hand with challenges. In addition, there is demographic change: People are living longer and their lifestyles are becoming more varied. As one of Germany's leading real estate companies and a landlord with a long-term focus, Vonovia also has its part to play in finding answers to these challenges that make sense and are financially viable at the same time. We fully accept this responsibility.

The second appointment is with the protestant association for child welfare services in Bochum, which Vonovia is cooperating with as part of the "Help for Unaccompanied Minor Refugees" project.

→ The number of refugees coming to Germany adds a whole new dimension to the question of affordable living space. Many of the refugees who have arrived will remain here in the long term, meaning that we will need up to an extra 400,000 apartments a year over the next few years. In order to achieve this, the federal government, federal states and municipalities, as well as the construction and housing industries, will have to join forces. But simply making more living space available is not enough. These people from different cultures have to be integrated into our society – into our day-to-day life and our working world. Large new settlements on the outskirts of town are not the answer. Active integration by way of districts and neighborhoods with a good mix of residents is a more sensible solution.

This is an area in which Vonovia has a great deal of experience. Our residences have been home to people from many different nations for years now. Vonovia has tenants hailing from more than 170 countries. We are familiar with their cultural needs and provide them with support to suit these needs: providing contact people who speak their language, documents and house rules in their native tongue and taking targeted measures to make their lives easier in their social environment. These include language courses to allow them to improve their German skills. We try to take people's current situation as a starting point and offer them support. This allows them to integrate into their social environment, which in turn benefits our neighborhoods.

“This is a project in which we’re acting not as a landlord, but as a corporate citizen.”

As part of MONDO, an initiative for young refugees who have arrived in Germany alone, Vonovia can offer apartments to the young people.

The number of refugees already living with us runs into the thousands. And we are taking new refugees in every day across Germany, working in collaboration with local municipalities and social institutions. In Dresden, for example, we are renting out around 300 apartments to the city authorities so that asylum seekers can move in. In Bremen, we are going one step further and have taken on the ongoing role of general contractor with seven employees to ensure that refugee accommodations are renovated to make them ready for occupancy and are also maintained while being used. In Bochum, we have joined forces with the association for multicultural children and young people, IFAK, to run a home for young refugees who came to Germany without their parents. →

→ The emergence of refugee-related issues has once again stepped up the dialogue between Vonovia, on the one hand, and political and municipal representatives on the other. We believe that we have a responsibility to fulfill and fully intend to do so. This means additional work and administrative efforts on our part. But it reinforces the way we see ourselves: As a socially responsible partner that does its part to resolve the challenges facing society wherever these challenges overlap with our business activities. Another example is a project we are using to give people who have been unemployed for a long time the chance to reenter the job market. Based on our very positive experience, we are now also approaching refugees to offer them opportunities in the workforce.

INTEGRATION INTO WORKING LIFE

We will be looking for more than 600 new employees to join our craftsmen's organization and our gardening team by the end of 2016. In order to help us find these employees, we have also registered with a special jobs database for refugees and are in contact with the employment agencies so that we can offer immigrants jobs. We are mainly looking for people to join our team of craftsmen. We can also offer language courses to help people improve their German.

It's Time to Arrive
Papamamadois Diep comes from Guinea, West Africa. He is moving into a Vonovia apartment with another young man.

A central issue remains: Germany needs up to 400,000 new apartments every year. This demand is on a scale that cannot be satisfied using conservative solutions. Over the past few years, we at Vonovia have gathered extensive experience that will help us to tackle this task as well. Modularization, standardization, prefabrication and the use of building shell and finishing elements allow us to shorten construction times and keep construction costs down. Adding a fourth story to a building with three stories is easy. And it is easy to fill a construction gap in a park-like development dating back to the 1950s or 1960s by adding an additional wing to a building. Furthermore: Someone who can renovate properties efficiently also has the skills required to build brand new ones.

At Vonovia, we have a lot of options at our disposal as a major housing company. Nevertheless, we are only part of the solution. In order to ensure fast, efficient implementation, we need numerous partners to work on the tasks at hand in a pragmatic fashion: the legislature, which has to adapt the legal framework to reflect the new conditions, municipalities to open up the right avenues and institutions and partners to help put together individual solution packages. The good news is: We are already working on these issues together. —

It's Time to Train
Nadir Köse talks to Maximilian Hetfeld, a trainee in the first year of his training, about the appointments held that day and their outcome, completes the necessary documents and prepares the property fact sheets for the next set of appointments.

Good Quality at Affordable Prices Thanks to Insourcing and Efficiency

Modern, Cost-Effective Residential Concepts

Efficient processes are very valuable to our customers as well: They allow them to benefit from advantages that they would not normally be able to access. That aside, efficiency also has a protective role to play: It ensures that the resources are there to keep their costs under control and to protect the very substance of their home. The same applies to insourcing. We take on every process step we can and thereby save time and money.

A child born in Germany today has a 50 % chance of celebrating his 100th birthday. And why shouldn't he be able to stay in his apartment and neighborhood – where he hopefully made a lot of happy memories over the years – in old age, too? While the demands placed on an apartment start to rise in old age, the same does not necessarily apply to the financial resources of the person living there. Both of these factors create a real challenge for landlords of socially responsible and affordable living space – only one challenge among many. Essentially, it's all about answering the same question: How can we find an

New windows can reduce the energy consumption in older apartments considerably.

intelligent response to the different demands of our customer groups without putting them under too much financial pressure?

We asked ourselves this question three years ago and arrived at a straightforward answer: insourcing. Our size allows us to generate efficiency advantages, while maintaining control over the individual processes allows us to ensure quality. This represents an about-turn on a decision made in the past and we have been working hard on setting up the corresponding structures ever since. The measures taken include setting up our own caretaker organization and establishing a craftsmen's division. With a total workforce of what is now more than 3,000 employees based in 19 locations, this area is responsible for renovation work and for professional energy efficiency improvements to our properties. The next big step will be to expand our residential environment service even further, meaning that we will assume responsibility for gardening and landscaping duties ourselves in the future.

Efficiency is something that applies not just to our services, but also to the products themselves. Let's take the example of our windows: Today, we purchase the windows directly from the manufacturer in the Romanian city of Oradea, where the windows are manufactured stringently in line with German standards and are subject to German quality controls. We no longer have any intermediary involved in this process. The more we implement ourselves, the more efficiently we can manage our processes. This allows us to reduce ancillary expenses for our customers and to ensure that our apartments meet state-of-the-art energy standards. It's a win-win situation.

The decision to pursue an insourcing strategy has opened up a wealth of new opportunities for both us and our tenants. These opportunities do not only include full control over costs and quality. When it comes to sanitary facilities, we can now offer our tenants not only the obligatory services but also options that they can "order" from us on request – such as an accessible bathroom installed in a matter of days in various designs and at a fixed, affordable monthly premium.

This is possible because all of our processes are perfectly coordinated: Before our craftsmen arrive at the apartment to be renovated, the tiles and other heavy materials are already waiting on-site. And the things the craftsmen need to be able to work on the customer order the next day are deposited in their vans the night before. In this way, insourcing and efficiency help to ensure affordable, high-quality housing services.

Lars Schnidrig, Head of Finance & Treasury, joined Vonovia in 2008.

Money Doesn't Grow On Trees. But Clever Financing Is Another Option.

Strength for Growth and Portfolio Maintenance

The step we took in the summer of 2013 was a big one. But it carved the path that allowed Vonovia to get to where it is today: the IPO. But Vonovia's business model also rests on a unique, well-balanced financing structure. This structure allows the funds the company needs to tackle the next set of operational tasks to be raised in an efficient, risk-controlled manner at any time, both as growth and as modernization financing. Our listing on the stock market is a big help in this respect, as are the other instruments that an experienced team of real estate, financial and capital market experts at Vonovia monitor and use on a daily basis. An interview with Lars Schnidrig, Head of Finance and Treasury at Vonovia.

“Today, we have very flexible access to the capital markets.”

— The best business model in the world is useless without money. How has Vonovia managed to equip itself with such strong financial resources in such a short space of time?

Schnidrig — This isn’t something you can achieve overnight. Especially if you consider that, in the period leading up to 2013, our company had something completely different on its plate: the refinancing of a 5.8-billion-euro securitization from 2006. This was anything but an easy task in light of the considerable volume and the aftereffects of the financial market crisis, especially since no options for extending the contract had been agreed back when it was concluded. But the solution we found laid the foundation for the financial resources we have at our disposal today.

— In what way?

Schnidrig — So as not to come under pressure and also to allow us to tap into other capital market options early on, as and when required, we wanted to get to grips with the refinancing sooner rather than later. So we started establishing treasury structures, which are standard practice in the industry, at the same time. We made a conscious decision to treat the best DAX-listed companies as role models back then. The idea was to enable greater diversification in terms of financing, reducing risks at the same time. In the past, we had pursued the usual approach for a real estate company at the time – one that was much more akin to the role of asset manager. The establishment of our pioneering treasury structures – in particular the introduction of a front, middle and back office structure on the process side – allowed us to take a “step towards industrialization,” so to speak, on the equity and liabilities side of the balance sheet.

— And you did, in fact, manage to achieve debt restructuring earlier than planned …

Schnidrig — That’s correct. We’d managed at least a major portion by the end of 2012 and, seven months later, we were finished. The financial restructuring process allowed us to reduce our debt burden and make the temporal refinancing profile of the bond package much more flexible. The transaction was extremely complex in terms of both its size and the conditions on the capital markets and it posed a real challenge to everyone at the company. We can be proud of the fact that we managed to use cross-divisional collaboration to rise to this liberating challenge. Our solution also achieved external recognition at the “Deals of the Year 2013” awards.

— And then the company decided to attempt the leap on to the stock exchange. How important is the trading floor for Vonovia’s business model?

Schnidrig — The stock exchange opens up the range of financing options available to us to include a crucial equity component. Our shareholders are extra partners in the business. And if we need to do so, we can use capital increases to get them even more involved and attract even more extra partners in the process. Another aspect is the fact that we are now being monitored particularly closely due to our stock market presence – all the more so now that we are listed on the DAX. We have to be very transparent in our actions and strategies. This boosts investor trust and bolsters our credibility. The financial sector is beholden to the stakeholder principle and this is something we really put into practice every day.

— You say that you can achieve growth on your own steam at any time …

Schnidrig — Yes, from a financial perspective, that's true. Our stock exchange listing and our solid, sustainable investment grade rating awarded by Standard & Poor's give us extremely flexible access to the national and international capital markets. We can seek conventional financing via the German Pfandbrief market, which is always very secure, or opt to use modern financing instruments, equity and debt capital, secured and unsecured. Our platform allows us to manage our financing in a balanced manner. But we need partners who believe in our business model each and every time we seek financing. The measures taken over the past year show that we have these partners. Every time, the demand for our offers was always higher than we needed.

— Like many other companies, Vonovia is currently reaping the benefits of very low interest rates. What will happen when the interest rates rise?

Schnidrig — We are glad that the interest rates are low. But our success isn't reliant on low rates. Our business model also has a very long-term financial focus. We've already done our latest homework: Our maturity profile is balanced and our loan-to-value ratio has cleared the 50 % mark, which is much lower than the ratio of around 84 % seen in 2008, for example. Even after major acquisitions, we have recently been able to push the ratio back down to the target level within a short space of time. In general, our financing policy is clear and easy to understand. So we believe that we are in a very stable position. Nevertheless, and in spite of the low interest rates, we recently arranged an interest rate hedging package with a volume of € 2.7 billion as part of our new risk management system.

— What else is on your agenda for 2016?

Schnidrig — The financial markets are in constant flux. We have to keep a close eye on them to ensure that we are prepared for every eventuality. Apart from that, our day-to-day work involves making sure that we can suggest the best solutions to our management team at any time – whether we want to grow, need to invest more in portfolio maintenance or need funds to implement new product ideas. Every euro that we can save in connection with financing activities benefits our tenants and, of course, our shareholders, just as the stakeholder principle dictates. —

AN AWARD-WINNING PERFORMANCE!

The business newspaper Börsen-Zeitung awarded Vonovia the continuity prize at the Corporate Finance Award (CFA) in June 2015. The jury of renowned experts bestowed the CFA upon the company to honor the high quality of its transactions from both a corporate strategy and a financial point of view. The continuity prize recognizes continuous corporate development and financial strategy over a period of several years. The size, complexity and originality of the transactions were also taken into account. The Finance and Treasury department had already received the "European Treasury Team of the Year 2014" award at a ceremony held in London back in February. The prize is awarded by the Association of Corporate Treasurers (ACT) on an annual basis and is considered to be the highest accolade for a finance department in Europe. The department also received the "Best Debut Corporate Bond Issuer" award from GlobalCapital in 2014. At the end of 2015, it received the "Special Editorial Prize for Outstanding Treasury Achievements" from the leading treasury magazine "Der Treasurer."

It's Time to Move Forward Together

03

Available On the Phone and In Person

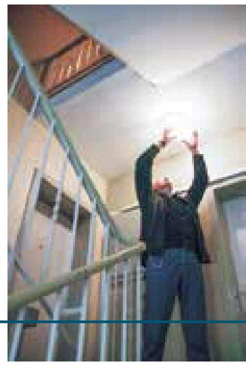
Closer to Customers Than Ever Before

Michael Putrafki is a caretaker working in Bochum-Stahlhausen. Before he sets off in the morning, he looks at the assignments that have come in via the customer service hub.

Time for Efficient Management
Nelli Rodwald and her colleagues from the central customer service team form the hub responsible for coordinating appointments with caretakers, tenants and craftsmen.

6,368
employees are working across Germany every day

Every day, Vonovia employees across Germany work hard to ensure that more than one million people have a living environment that is as pleasant as possible. The fact that this works so well is due to the coordinated interplay between the central customer service department and the employees working on-site.



Time for Precise Documentation
The most important communications tool for employees who are on the move is their iPad. Caretakers use their iPads to maintain constant contact with the customer service hub, arrange appointments for inspections and handovers and report building-related repairs to Deutsche TGS Group directly.

In the real estate management business, customer satisfaction can be achieved in three ways: by offering a high level of availability, rapid response times and high-quality services. We have organized our structure and processes in such a way that we can address all three of these areas irrespective of the size of our portfolio: At 85 %, we can offer a good level of average availability. We also offer rapid response times: Out of the average of 10,500 inquiries made by our existing customers by telephone, letter, fax or email every day, around 93 % of telephone inquiries are resolved right away, with all other inquiries being passed on to the department responsible for final processing in a targeted manner as soon as possible. And thanks to our caretakers, craftsmen and gardeners, we have recently been able to significantly improve the quality of our on-site services because we once again have control over them.

“Our central customer service hub is the central element of our process management.”

As the site manager responsible for the project, **Andreas Kohnert** deals with modernization work performed at the tenant’s request, i. e., modernization measures in apartments that are currently occupied. He works hand in hand with Vonovia’s head office.

For more than six years now, our central customer service hub has been the central element of our process management. This is where all information and processes that are relevant from a customer perspective meet – the repair request from Kiel and the inquiry about an apartment in Cologne, the complaint about an ancillary expense bill from Munich and a report about bulk waste lying on the grass in Dresden. Even requests that tenants raise directly with caretakers on-site are first transmitted in digital form to the customer service hub so that the solution can be coordinated.

The advantages of centralized management are evident: Knowledge is bundled in one location and processes can be managed in a coordinated manner across the board – across Germany, at a uniform level and in a highly efficient manner. →

→ In our central digital system, each piece of information is only stored once. This means that each customer has only one digital file. Any changes and new pieces of information relating to this customer are only saved here. This ensures that information is consistent and helps to prevent misunderstandings. The same applies to customer inquiries: Any order that a customer places with the central customer service team is assigned a unique order ticket that can be accessed by the responsible employees with the corresponding access rights at any time and from any place. This helps to prevent delays in the process and ensures high-quality service.

Our customer service team collaborates closely with our on-site employees, with thousands of points of contact a day. The most important information channel for caretakers, craftsmen or gardeners working on-site is an iPad. These tablet computers are the employees' constant companions and the devices they use to receive their orders, research information, upload data to the central Vonovia system, document their activities, continue with the process of solving the task at hand and initiate new tasks.

The employee's counterpart in the customer service hub is responsible for planning what tasks have to be performed by on-site employees and in what order. This counterpart has an overview of the incoming tickets and plans the optimum route for the employee – taking various criteria into account. This saves work for the on-site employees and reduces the distances

Managing 635 rented units and approx. 90 garages or parking spaces – no problem for Michael Putrafki.

they have to cover (= less CO_2!), while also allowing tasks to be completed more quickly overall.

The central management approach creates new advantages that were not available to customers in the past – when it comes to looking for an apartment, for example. Today, we know which apartments are vacant across Germany at any given time. If a tenant wants to move from Kassel to Bremen, we can offer him a suitable apartment right away. This allows us to keep the tenant as a customer of the company. Similarly, the customer can continue to make use of the advantages we provide as a landlord that he is already familiar with. →

"I attend to any smaller repairs myself right away. That's part of the job."

The interplay between Vonovia's central customer service department and the employees working on-site is closely coordinated and is something they get to practice countless times a day. The customer service department has an overview of all tickets that come in and can plan the optimum route for the on-site employees.

85 %
of telephone inquiries can be resolved right away.

10,500
inquiries are made with us every day by letter, fax, email or telephone.

→ Today, our employees across Germany respond to inquiries in several languages: in German, English, Turkish and, the most recent addition, in Arabic, too. Important documents and other written information can also be accessed online in these languages at any time.

We have also extended our availability hours for our customers considerably: Whereas our decentralized organization was only available for 35 hours a week, our central customer service center was initially available for 54 at the time of its launch. Today, we offer a total of 73 hours of availability, spread over six days of the week, for customers who want to contact us by telephone. Customers can use our customer portal to submit repair requests online around the clock.

Particularly when it comes to direct customer contact, we are constantly looking for areas in which we can improve. We implement any lessons learned from past experience as quickly as possible. Within our customer service team, for example, we have made our service teams more flexible: A voice menu is used to allocate incoming calls to three topics: “looking for an apartment,” “repair request” and “general property management.” This ensures that customers reach the right employee to help with their inquiry right away. But after sudden events like storms, for example, the number of repair requests tends to peak considerably – increasing the risk of long waiting periods. Our employees have been trained to deal with various different areas of customer support. This helps us to handle customer communication peaks like these in a fast, flexible manner.

We will be introducing another new function this year: When customers call us in the future, they will be able to activate a recall function and then hang up, ensuring that they do not have to waste time on hold. Once the recall function has been activated, our system saves the phone call and the position in the queue and calls the customer back when it is their turn. This makes yet another marked improvement to our availability.

There is no doubt that this is not the last improvement we will make. But with our combination of central availability and on-site presence, we are definitely closer to our customers than ever before.

Time to Store Information
At the end of every working day, Michael Putrafki enters his final comments into Vonovia's central system. Each piece of information is only stored once in the system. A unique order ticket ensures that jobs are processed quickly and without any misunderstandings.

Three. Two. One. Go!

Vonovia Gets Started

Vonovia: Our new name stands for what we do as a landlord and service provider. We are helping to shape the way people live in the future – in a manner that is fair and affordable for broad sections of society. The idea is to create advantages not only for our tenants, but for all stakeholder groups. We have been working on implementing our new business model for almost three years now. It is now well-established and we are breathing more life into it by the day. Find out more about what that means – and for whom.

When a company is transformed, within the space of only a few years, to such an extent that it has essentially taken on new DNA, then it is only logical to give it a new name as well. This is the step we took last September with the name "Vonovia." In the future, we want Vonovia to stand for a company with nationwide appeal that provides efficient, friendly support to its customers, providing them with homes and services. Our business model establishes us as a pioneer in our sector. So we are often met with curiosity, questions and sometimes also with a certain degree of caution from those around us. This makes it all the more important for us to explain to our stakeholders who we are, what we stand for and where we are headed.

Let us highlight three key aspects. First, we are a company that thinks and acts with economic efficiency in mind and uses its size to achieve efficient real estate management. Second, we take responsibility – not just as a landlord that provides its customers with affordable and intact residential space in the long term – but also as part of our society, contributing ideas and showing commitment to help solve social challenges. And third, we are on track. Now that our processes are becoming established in day-to-day corporate life, we are starting to pick up on a whole number of ways in which we can provide our customers with even better, more successful support in the future.

In everything we do, we are committed to striking a sustainable balance between the interests of our three major stakeholder groups: our customers, our employees and our investors. They are our most important stakeholders. Our relationship with our customers is a service-based relationship. Our employees are the ones responsible for keeping our service promise. And with the help of our investors, we can make our business model a profitable one for all involved. In addition to this, however, we also want to be a reliable dialogue partner for all of our other stakeholders.

We want our customers to feel at home in their Vonovia properties. After all, their four walls are their home, the place where they feel secure and relaxed and to which they return at the end of every day. In order to achieve this, we are constantly thinking about which services we could offer to make their daily lives easier. At the same time, we want their homes to remain affordable for them. After all, we want our customers to stay with us and we are also well aware that their incomes are not going to change overnight just because we are offering them new ideas. In order to resolve this conflict, we have to be clever in exploiting the opportunities that come with our size.

Our employees want jobs that are fit for the future in a market environment that is showing positive development. Our "homes and services" business model means that the range →

The new logo has been visible at Vonovia's head office since September 2, 2015. But Vonovia is more than just a new logo. Vonovia embodies the new corporate strategy, the mission statement and the new brand.

CEO **Rolf Buch** knows what is important in the service industry. Vonovia wants to set new standards in the sector with his help.

“We have a lot of responsibility on our shoulders. And we have many opportunities available to us to ensure that we can live up to this responsibility. Let’s make sure that we make the most of them.” Rolf Buch

→ of jobs on offer at Vonovia is extremely diverse: ranging from traditional real estate occupations to management, IT and a whole number of trades. This is why we are making massive investments in initial and further training, also via our Vonovia Academy. If at all possible, we want to find internal candidates to fill management positions. We are a fast-moving and very down-to-earth company. Employees who perform well and are prepared to do their part can be promoted to positions of responsibility very quickly.

We offer our investors a crisis-proof investment model. It might not be the most spectacular and does not hold the promise of quick, speculative gains, but it offers all investors the prospect of reliable yields in the long run. Our shareholders participate in our company’s success, i.e., in our day-to-day business, our growth and our innovations. And our external capital providers can enjoy appropriate returns based on manageable risks.

True to the principle that "ownership and size imply an obligation," we will be doing even more to help solve the issues currently facing our society in the future. We will be making a contribution as a partner for policymakers, seeking collaboration with municipalities and remaining an attentive point of contact for social and tenants' associations.

How can we solve the challenges associated with demographic change? How can we keep energy-efficient modernization measures affordable? How can we improve the social climate in our neighborhoods and resolve the shortage of apartments in our cities? What concepts can be used to help us deal with immigration? These are questions that we can, and indeed, want to help answer.

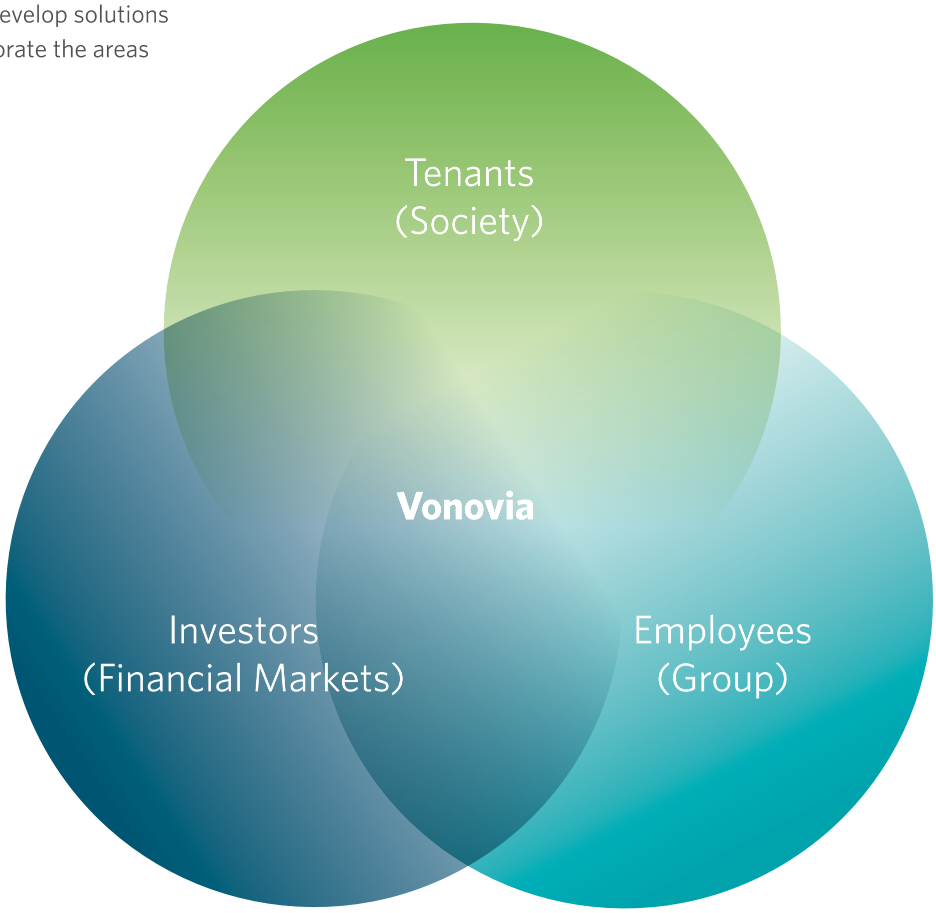
In the past, we concentrated on a specific object of our business, namely on "property." Today, we are focusing on the people who live in these properties. This new way of looking at things makes us a company that is, first and foremost, a service provider. Over the next few years, we aim to use this philosophy to

- make substantial investments in order to improve the quality of our existing properties
- improve our tenants' quality of life by implementing new residential ideas
- deliver stable business figures
- work hand in hand with social partners to develop solutions for the real estate industry that also incorporate the areas beyond people's doorsteps.

Vonovia

The new name Vonovia is a newly created word that calls forth associations with the German word for living: "Wohnen." The "Novia" component is a nod to the company's aspirations: Vonovia wants to shape a new way of living.

As a service provider, we have to deliver on promises we make to people. United under the Vonovia flag and inspired by the same philosophy, we are setting off on this quest together: our craftsmen, gardeners and caretakers working on-site, the individuals responsible in our future regional units, the employees working in our central units and the management team, which is responsible for ensuring that the strategy we are pursuing is still the right one. ⟶



Group photo from Vonovia Day in Düsseldorf. A similar picture was taken at the very same time in Stuttgart, Dresden, Hamburg and Berlin.

“We want to offer our customers more than just a roof over their heads.”

What Drives Us

Giving Our Customers A Home

Our new name reflects our new philosophy and expresses our new sense of direction.

We are Vonovia. As Germany's biggest housing agency, we are setting trends in the housing industry and providing people with a home – one that offers living space to meet their needs, as well as reliable and innovative housing-related services in residential environments offering real quality of life.

Our homes and services are aimed at all sorts of people – single people, students and trainees, as well as couples, families and senior citizens.

We want to make our tenants' satisfaction our very top priority in all we do.

We see our tenants as our customers and we want to make sure that our customers experience this.

We aim to be a reliable and fair partner to our customers and all stakeholders – a partner that keeps its promises.

We take responsibility for the well-being of our customers and for ensuring that things run smoothly within our neighborhoods.

We tackle the challenges and tasks that present themselves in everyday life in a fast, pragmatic manner. And we continue to focus systematically on further enhancing the products and services we offer our customers.

In the future, we want to be even closer to our customers and establish ourselves as a friendly partner who listens carefully and maintains a sense of proportion in its activities.

We want to offer our customers more than just a roof over their heads. We want to offer them a real home for a comfortable life and everything that goes along with it.

Management

We have cemented and built on our position as the leading nationwide real estate company. Moreover, the services we offer allow us to serve our customers even better.

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

Dear Shareholders, Ladies and Gentlemen,

Vonovia's schedule was packed full again in 2015 and we can look back at a very successful fiscal year. We again took strategic measures that gave impetus to the development of our business and made our shares even more valuable.

2015 was a year of integration for us: The acquisitions of GAGFAH and SÜDEWO mean that we have incorporated two particularly large portfolios into our own housing stocks. In particular, the merger with GAGFAH has cemented and built on our position as the leading nationwide real estate company. This has expanded our portfolio to around 357,000 units. The organizational integration of the two acquisitions went more quickly than planned, which bears testimony to our excellent integration processes.

Through these acquisitions and organic growth, we have significantly boosted our revenue and earnings and even far exceeded our targets in some areas. At the same time, we remained systematically committed to improving the quality of our portfolios and apartments even further. This will translate into significant increases in customer satisfaction this year as well. Our core belief remains unchanged: Only satisfied customers can form the basis for the long-term success and profitability of a company.

The successful business development has resulted in Vonovia being listed on the DAX 30 since September 21, 2015. This listing among the top companies makes us even more visible on the capital market, on the national and, most importantly, on the international stage. At the same time, the listing of Vonovia in the DAX raises the profile of the industry as a whole: Real estate is a key sector of the German economy and offers a great deal of potential in terms of management that is more closely aligned with the principles of the market economy.

The acquisitions made in the past year have not only brought us additional apartments and value increases, but also allow us to tap into synergy potential. Both tenants and you, dear shareholders, will be able to benefit from these economies of scale. This is coupled with the fact that we intend to exploit additional growth opportunities with innovative services.

All of these measures are mirrored in a marked improvement in our operating figures: Our FFO 1 (Funds from Operations) per share climbed by 30.0 % to € 1.30. At the same time, our net asset value (EPRA NAV) per share has risen by 30.3 % to € 30.02. The monthly rent per square meter once again showed positive development, increasing by 2.9 % (on a like-for-like basis) to € 5.78. The vacancy rate fell again, dropping by 0.7 percentage points to just 2.7 %.

This healthy development means that we can keep the promise we made to you, our shareholders: At the Annual General Meeting on May 12, 2016, we will be proposing a dividend per share of € 0.94. This corresponds to a year-over-year increase of 27 % and to an attractive dividend yield of 3.3 % based on the closing share price at the end of last year. This means that we aim to distribute 72 % of FFO 1, a figure that is exactly in line with our long-term dividend policy of distributing around 70 % of FFO 1 to our shareholders.

The investments we have made in our apartments and buildings, as well as in the residential environment, show that this distribution is not being made at the expense of our residential portfolio. Including the new units that have been added to our portfolio, in 2015 we invested a total of € 331 million in maintenance and € 356 million in modernization that increases the value of the portfolios and strengthens them for the future.

At the same time, we increased our on-site presence for our customers considerably by continuing to establish and expand our internal services. We now have more than 3,400 in-house caretakers and craftsmen working in our housing developments. We also have 300 gardeners in fixed employment tending to the areas surrounding the housing. This means that we are in full control of the costs and quality of our services. The further improvements in the customer satisfaction index show that our tenants recognize and appreciate the change in our approach.

We have also enhanced our customer service and, from 2016 on, we will pool our central customer services at the sites in Duisburg and Dresden. We have also expanded our business as a real estate manager and, since January 2016, have been managing around 90,000 units in the field of residential property, building and third-party real estate management. Put another way: Vonovia is also the leading real estate manager in Germany, profiting from economies of scale in this area.

Innovation is important to us: In 2015, we once again took a detailed look at the trends in the housing industry and addressed the wishes of our customers. We developed new solutions that we can efficiently roll out across the board. These include our successful smart metering project and the very popular service among our customers that allows tenants to choose from various options for bathroom renovations. Our innovative strength and the successful development of our craftsmen's organization are reflected in our ability to report these business activities, as a result of their size, in a separate "Extension" segment for the very first time.

Vonovia continues to have a robust financial structure. This has allowed us to push our loan-to-value ratio to 47 %, well below the target threshold of under 50 %. This is attributable to a marked increase in the value of our residential portfolio, due to market developments, our active portfolio optimization and extensive modernization measures. Last year saw us virtually double the fair value of our real estate portfolio to around € 24 billion as a result of acquisitions and organic growth.

Our business model is very well understood on the capital market – both on the equity and on the debt capital side. We are in a position to refinance ourselves based on attractive conditions, as the placement of bonds in December 2015 with a total value of € 3 billion and a weighted coupon rate of 1.69 % per year shows. Our 'BBB+' rating is stable as well. Our share price performed moderately last year compared to the 2014 fiscal year, due primarily to what was, in general, a difficult market environment. However, let me make something clear: What is important is that we continue to develop well in terms of our operating business, remain transparent and keep our promises. In a normal macroeconomic environment, our corporate development should then also be reflected accordingly in our share price. Developments since our IPO in the summer of 2013 bear testimony to this: Our dividend has risen by 40 % and our share price by 75 percent as against the closing price for 2015.

As you know, we made a takeover offer for the acquisition of the majority of the shares in Deutsche Wohnen AG on December 1, 2015. The highly compacted rental market in Berlin would have given us the chance to further expand our proven business model and use our advantages with regard to property management. You, our shareholders, agreed with the move: At our extraordinary general shareholders' meeting on November 30, 2015, around 78 % of you approved the decision to take this step. On behalf of the entire Management Board, I would like to thank you for your support.

The takeover offer was our reaction to Deutsche Wohnen's intention to acquire LEG, a housing company in North Rhine-Westphalia. Such a merger would not have been in the interests of our company. In February 2016, we had to acknowledge the fact that we were not tendered a sufficient number of shares in Deutsche Wohnen. This meant that we were unable to proceed with our plan and harness the promised synergies. While this result is obviously disappointing, we have managed to ensure that LEG will remain independent, meaning the company will remain one of our key strategic partners in the future as well. At the same time, Vonovia's position as a leading housing company with a presence across the country has been reaffirmed and clarity on the market achieved. In the coming years, two million apartments from larger portfolios will come on to the market, offering our company additional growth opportunities. We also want to stress, however, that the outcome will have no impact whatsoever on our successful strategy: Our approach has long been one that does not focus exclusively on acquisitions, and we will continue to expand our successful business model with a nationwide platform.

Dear shareholders, our society is fundamentally changing during this time. As the market leader, we have a responsibility to help find answers to urgent issues in society. A growing shortage of living space in cities, demographic change and the diversification of lifestyle concepts – these changes are giving rise to challenges that neither policymakers nor the economy can solve alone.

Rising immigration has further increased the demand for affordable housing: It is now estimated that Germany needs 400,000 new apartments a year. In order to make our own contribution to the solution, we stepped up our dialogue with policymakers and municipalities even further and accelerated planned projects: We expect to be able to offer significantly more residential space very soon thanks to a combination of infill developments and new buildings.

We have been carrying the new name Vonovia since the fall of 2015. The new name stands for the shared beginning of the combined companies Deutsche Annington and GAGFAH and our business model, which connects the renting of apartments with innovative services. Vonovia both reflects our aspirations and obligations: We want to provide affordable residences offering real quality of life, use innovations to set new standards in our industry and generate added value for customers and shareholders alike. We can only achieve this with the special commitment shown by our employees, to whom I extend my most sincere thanks on behalf of the entire Management Board. Without their commitment, motivation and professionalism, we would never be where we are today.

We would also like to thank you, our shareholders, for the trust you have placed in us with your investment in Vonovia. This motivates us to maintain a targeted focus on this strategy in 2016 as well – for your benefit, for the benefit of our tenants and for the good of our company.

Bochum, Germany, March 2016

Yours,
Rolf Buch
Chairman of the Management Board

Rolf Buch (CEO)

Management Board

As of December 31, 2015 the Management Board of Vonovia was made up of five members.

Rolf Buch
CEO

Klaus Freiberg
Member of the Management Board (COO)

As Chief Executive Officer, Rolf Buch is responsible for acquisition, general counsel, HR management, auditing, corporate communications and sales. Before joining the company, 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. Rolf Buch began his career at Bertelsmann in 1991 after studying mechanical engineering and business management at RWTH Aachen University.

As Chief Operating Officer, Klaus Freiberg is responsible for product management, IT and processes, the central rental business, infrastructural FM/residential environment, the craftsmen's organization and the local rental business in the various regions (north, south, southeast, west, central, east). 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. A. Stefan 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. A. Stefan 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. Since 2001, he has been lecturing at the Westphalian University of Applied Science in Gelsenkirchen under 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 in 1997, taking over as head of the organizational unit responsible for equity investments in 2002. A year later, he was appointed to join the management team of HSH N REAL ESTATE CONSULTING GmbH as CFO. 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 February 1, 2016, another member of the Management Board was **Mr. Thomas Zinnöcker,** who held the post of Deputy Chairman of the Management Board.

Supervisory Board

In accordance with the resolution of the Annual General Meeting of April 30, 2015, the current Supervisory Board has been enlarged by three members, making the total number of members twelve (12). The Düsseldorf Local Court appointed a new member on October 22, 2015, following the resignation of a previous member.

Members of the Supervisory Board

Dr. Wulf H. Bernotat

Chairman
Former CEO of E.ON SE

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. Ute Geipel-Faber (since November 1, 2015)
Business consultant

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

Hendrik Jellema (since June 2, 2015)
Chairman of Stiftung Berliner Leben
Former member of the Management Board of GEWOBAG

Daniel Just (since June 2, 2015)
Chairman of Bayerische Versorgungskammer

Hildegard Müller
Former Chairwoman of the Executive Board of the German Association of Energy and Water Industries

Prof. Dr. Klaus Rauscher
Business consultant

Clara-Christina Streit
Former Senior Partner with McKinsey & Company, Inc.

Christian Ulbrich
Chairman of the Management Board at Jones Lang LaSalle EMEA (Europe, Middle East and Africa) as well as member of the Management Board at Jones Lang LaSalle Inc.

Gerhard Zeiler (since June 2, 2015)
President of Turner Broadcasting System International Inc.

Members Who Left the Supervisory Board

Manuela Better (until May 31, 2015)
Former CEO of Hypo Real Estate Holding AG (HRE) and former member of the Management Board of Deutsche Pfandbriefbank AG (pbb)

Supervisory Board Committees

Audit Committee

Prof. Dr. Edgar Ernst, Chairman
Dr. Wulf H. Bernotat
Burkhard Drescher (since November 2, 2015)
Dr. Florian Funck
Hendrik Jellema (since November 2, 2015)
Christian Ulbrich (until May 31, 2015)

Finance Committee

Clara-Christina Streit, Chairwoman
Dr. Wulf H. Bernotat
Manuela Better (until May 31, 2015)
Dr. Ute Geipel-Faber (since November 2, 2015)
Daniel Just (since November 2, 2015)
Christian Ulbrich (since June 1, 2015)

Executive and Nomination Committee

Dr. Wulf H. Bernotat, Chairman
Hildegard Müller
Prof. Dr. Klaus Rauscher
Clara-Christina Streit
Gerhard Zeiler (since November 2, 2015)

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 (up until August 19, 2015: Deutsche Annington Immobilien SE, or DAIG for short) through a successful 2015 fiscal year. We are delighted that the Management Board was able to integrate the newly acquired companies into the Group as planned, while at the same time successfully developing the company's operating business even further. Our corporate growth allowed Vonovia to be promoted to the DAX, marking the first time that a real estate company has been represented in the German stock exchange's leading index.

In the 2015 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. We provide the Management Board with advisory support in relation to key decisions. The Management Board, which comprised three or five members during the reporting period, 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 senior management and supervisory personnel 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 integration activities and 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 the integration of GAGFAH and SÜDEWO and – in the last quarter of 2015 – on the takeover offer made to the shareholders of Deutsche Wohnen AG.

Meetings

In the 2015 fiscal year, the Supervisory Board met a total of sixteen times. We met at eight Supervisory Board meetings, with three meetings being organized as conference calls and five resolutions being passed via written circular. In preparation for each of these meetings, the Management Board submitted written reports and resolution proposals to us. On all but four occasions every member attended the Supervisory Board meetings. One member was excused from the meetings held on April 29, 2015, and on July 27, 2015, with two members being excused from the two meetings held on November 30, 2015.

On **February 9, 2015,** the Supervisory Board held a conference call to discuss, and pass a resolution on, two deviations in the declaration of conformity from the German Corporate Governance Code (long-term Management Board remuneration and later dates for publishing the reports on the first two quarters based on the first-time consolidation of the GAGFAH Group).

On **February 24, 2015,** we issued our consent, in writing, to the implementation of offer capital increase I in connection with the voluntary public takeover offer made by DAIG to the shareholders of GAGFAH S.A.

During the conference call held on **March 4, 2015,** we addressed details relating to the merger of DAIG and GAGFAH. These included the refinancing measures via the EMTN program, reports on operating business development and on the integration of GAGFAH, the financial performance of the Group as a whole, as well as branding and the identification of the new company name. We approved the company's separate and consolidated financial statements as of December 31, 2014, and prepared the agenda for the 2015 Annual General Meeting. We also discussed matters relating to Management Board remuneration and the appointment of the GAGFAH Management Board members Thomas Zinnöcker and Gerald Klinck to the DAIG Management Board.

On **March 30, 2015,** the Supervisory Board issued its consent, in writing, to the appointment of Thomas Zinnöcker and Gerald Klinck to the Management Board and named Thomas Zinnöcker the deputy chairman of the Management Board. Within this context, the Supervisory Board allocated duties to the five-member Management Board and set the targets for 2015 in connection with the short-term incentive plan.

On **April 29, 2015,** the Supervisory Board held a meeting focusing on business development and financial performance. The company's share price performance and feedback from investors and analysts were discussed at this meeting. The agenda also included a report on the integration of GAGFAH. The Supervisory Board issued its consent to a further capital increase for put options for GAGFAH shareholders and to the determination of the target achievement level for the 2014 long-term incentive plan.

On **May 28, 2015,** the Supervisory Board issued its consent, in writing, to Mr. Christian Ulbrich's move from the Audit Committee to the Finance Committee as of June 1, 2015, in order to replace Ms. Manuela Better.

On **June 12 and 13, 2015,** we held a conference call to discuss (with a decision later being made in writing) the opportunity to purchase the SÜDEWO Group, taking all of the related issues into account, such as financing, the Social Charter and the expected reactions of policymakers and the general public. Within this context, the Management Board and the Finance Committee proposed that a larger-scale capital increase be implemented with subscription rights. In writing, the Supervisory Board made the acquisition of SÜDEWO subject to the clarification of the last few negotiation issues that were still outstanding at that point in time, and issued its consent to an increase in the share capital of 107,538,606 shares (with a nominal value of € 1.00 each) in return for the granting of subscription rights.

On **June 18, 2015,** the Supervisory Board issued its consent, in writing, to the completion of the acquisition and financing of SÜDEWO, particularly the capital increase with subscription rights, after all of the open acquisition and financing issues had been clarified with definitive effect.

In connection with a report on operating business development, the ordinary meeting held on **July 27, 2015,** discussed increasing customer satisfaction by introducing "smart metering," which allows energy bills to be drawn up more quickly. The current status of the integration of GAGFAH was discussed in detail. In addition, the Supervisory Board discussed, and passed a resolution on, financial performance, financing measures and HR-related matters. In order to implement the Act on the Promotion of the Proportion of Women in Management, the Supervisory Board passed a resolution on increasing the proportion of women on the Supervisory Board to 25 % by June 30, 2017, and leaving the proportion of women on the Management Board at 0 % as of the same deadline.

At the meeting held on **September 8, 2015,** we appointed KPMG as the company's auditor, set the audit fee and, together with the auditor, the focal points of the audit. Our advisory sessions also focused on our future strategy.

The meeting held on **October 6, 2015,** focused on the potential takeover of Deutsche Wohnen AG. The Chairman of the Management Board, Rolf Buch, provided the Supervisory Board with information on the overall situation and summarized the strategic and operational reasons for the takeover of Deutsche Wohnen AG. The Supervisory Board discussed the possible transaction structure, the financing of the transaction and the discernible risks. We also discussed our company's hedging strategy.

On **October 12, 2015,** we held a conference call on the potential takeover of Deutsche Wohnen AG. We discussed a specific proposal for an offer to be made to the shareholders of Deutsche Wohnen AG, on which a resolution was passed by the responsible committee, the Finance Committee, on the evening of October 13, 2015, subject to the requirements set out by the rating agency Standard & Poor's. A decision was made to obtain a fairness opinion (bank confirmation that the offer is viable).

At the ordinary meeting held on **November 2, 2015,** the Supervisory Board discussed, and passed a resolution on, elections for the committees, the size of which was to be increased to five members after Dr. Ute Geipel-Faber joined the Supervisory Board on November 1, 2015. We passed a resolution stating that a self-assessment be performed of the efficiency of our activities in line with the provisions set out in the German Corporate Governance Code. Other agenda items related to the work of the committees, the reactions to the takeover offer made to the shareholders of Deutsche Wohnen AG and the integration of GAGFAH. We also approved the sale of two portfolios and passed a resolution on the acquisition of one portfolio.

On **November 30, 2015,** the Supervisory Board held two meetings – one before and one after the extraordinary general shareholders' meeting – to discuss and approve various major matters. These included the refinancing using the EMTN program and – following an in-depth discussion on various individual issues and aspects – the budget for the 2016 fiscal year. The Supervisory Board discussed the company's five-year plan taking various scenarios into account, and discussed the results of the 2015 assessment of the efficiency of the Supervisory Board's work.

At the last meeting of the year, which took place on **December 4, 2015**, we passed a written resolution on the acquisition of further shares in Deutsche Wohnen AG to achieve an investment interest of less than 5 %, with the aim of achieving a minimum acceptance level of 57.1 %.

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 was expanded to include five, as opposed to three, members on November 2, 2015. Up until May 31, 2015, the Committee members were Prof. Dr. Edgar Ernst (Chairman), Dr. Florian Funck, Christian Ulbrich and Dr. Wulf H. Bernotat. Christian Ulbrich left the Committee on May 31, 2015. Burkhard Drescher and Hendrik Jellema joined as new members of the Committee on November 2, 2015.

At a total of four meetings, the Committee assessed the annual, quarterly, half-yearly and nine-monthly financial statements. At the meeting held on March 4, 2015, the Committee reviewed the separate and consolidated financial statements as of December 31, 2014, and drew up a proposal for the appropriation of profit. Other issues included a report drawn up by the Internal Audit department on the auditing outlay required for the acquisitions of DeWAG and Vitus and the consolidation of the audit departments of DAIG and GAGFAH. At its meeting held on May 29, 2015, the Committee took a particular look at the interim financial statements for the first quarter, adjustments relating to risk management, the company's tax situation and corporate compliance. The Committee approved the half-yearly financial statements and discussed the current valuation of the GAGFAH portfolio at the meeting held on August 18, 2015. Other issues included a report drawn up by the Internal Audit department on IT security, a compliance status report and the company's potential admission to the DAX. The meeting held on November 2, 2015, focused not only on the audit of the nine-monthly financial statements, but also on non-audit services, EU audit reform, risk management, auditing, compliance, major legal disputes and the company's tax situation. The Committee also discussed the preliminary results of the property valuation.

Finance Committee

Since November 2, 2015, the Finance Committee has also been comprised of five members. Before this date, it had three members: Clara-Christina Streit (Chairwoman), Manuela Better and Dr. Wulf H. Bernotat. Manuela Better left the Committee on May 31, 2015. Christian Ulbrich joined as a new member on June 1, 2015. Dr. Ute Geipel-Faber and Daniel Just joined the Committee on November 2, 2015.

In the reporting year, the Finance Committee met three times (in March, July and November) and held five meetings as conference calls (in April, May, June, October and December). Resolutions were passed in writing on three occasions. At the meeting held on March 4, 2015, the Committee focused on the structure of the financing measures required for the acquisition of GAGFAH S.A. that had been taken to date. On March 16, 2015, the Committee issued its written approval of the issue of bonds under the EMTN program. On March 25, 2015, it consented, in writing, to the selling on of a portfolio of just under 1,000 apartments as a post-completion measure relating to the acquisition of the Franconia portfolio. The financing measures required for the acquisition of GAGFAH S.A. that had been taken to date were the focus of a conference call held on April 22, 2015. At a conference call held on May 8, 2015, the participants discussed various possibilities for expanding the portfolio and, among other things, a cash capital increase and a capital increase involving the granting of subscription rights. On May 18, 2015, the Committee issued its consent, in writing, to the implementation of an offer capital increase as part of the right to tender for the shareholders in GAGFAH S.A. On June 5, 2015, the members of the Committee held a conference call to discuss the SÜDEWO transaction and various capital measures (capital increases with subscription rights). At the meeting held on July 27, 2015, the Committee passed a resolution on the approval of the sale of three portfolios and issued recommendations to the Supervisory Board regarding the early repayment of loans and an increased working capital facility in the interests of efficient cash management. Investor relations issues were also the topic of discussion, including possible admission to the DAX.

In the fourth quarter, the focus was on preparations for the public takeover offer to be made to the shareholders of Deutsche Wohnen AG. Within this context, the Committee used a conference call on October 13, 2015, to discuss matters relating to strategy, risks and financing. At the meeting held on November 2, 2015, the Committee members discussed the current state of affairs now that the takeover offer had been made, and both discussed and passed resolutions on various financing measures resulting from the acquisition of GAGFAH. The Committee also drew up recommendations on sale and acquisition projects. At a conference call held on December 11, 2015, the Committee passed a resolution on a recommendation to be made to the Supervisory Board relating to measures to be taken to secure the takeover process in addition to the takeover offer.

Executive and Nomination Committee

Like the two other committees, the Executive and Nomination Committee was also increased to five members on November 2, 2015. Up until this date, the committee had consisted of Dr. Wulf H. Bernotat (Chairman), Hildegard Müller, Clara-Christina Streit and Prof. Dr. Klaus Rauscher. Gerhard Zeiler joined as a new member on November 2, 2015.

The Executive and Nomination Committee held three meetings and one conference call in 2015. Two resolutions were passed in writing. The meeting held on January 22, 2015, addressed changes to the long-term incentive plan (LTIP), an element of Management Board remuneration. Within this context, an independent remuneration expert was called into a discussion on a model for a new LTIP and a corresponding proposal was made to the Supervisory Board. On March 4, 2015, the Committee discussed the appointment of Thomas Zinnöcker and Gerald Klinck as members of the Management Board, as well as the extension of Dr. A. Stefan Kirsten's term on the Management Board. A proposal was made to the Supervisory Board and also included the employment contracts of these three individuals. The meeting also focused on the long-term incentive plan and the short-term incentive plan. The latter was reviewed in respect of the target achievement level for 2014 and the target agreement for 2015. Another issue covered was the election of three new Supervisory Board members by the Annual General Meeting as part of the acquisition of a majority interest in GAGFAH S.A. At a conference call held on April 27, 2015, the Executive and Nomination Committee passed a resolution on the setting of the target achievement level for the second Management Board LTIP period (January 1, 2014 to December 31, 2014). At the meeting held on July 27, 2015, the Committee discussed an adjustment to the granting of shares under the LTIP after the capital increase and recommended that the Supervisory Board pass a resolution on targets for the proportion of women on the Supervisory Board and on the Management Board by June 30, 2017. At the meeting held on September 29, 2015, the Committee issued written confirmation of the assumption of a position on the supervisory board of CORESTATE Capital AG in Zug, Switzerland, by Management Board member Thomas Zinnöcker. Similarly, on November 23, 2015, the Committee confirmed the assumption of a position on the supervisory board of Universal Investment GmbH, Frankfurt/Main, by Supervisory Board member Daniel Just.

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 reporting year. In February 2016, 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 (formerly Deutsche Annington Immobilien SE) 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 April 30, 2015, to audit financial statements for the 2015 fiscal year, KPMG AG Wirtschaftsprüfungsgesellschaft, Essen, has duly audited the annual financial statements and consolidated financial statements of Vonovia SE for the 2015 fiscal year as well as the corresponding management report and the accounting on which they were based and has expressed an unqualified opinion thereon. Our auditors also assessed the establishment and suitability of a risk early warning system as part of their audit.

The auditor has affirmed its independence from 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 by the chairman of the Supervisory Board in line with the Supervisory Board resolution and the choice of auditor made by the shareholders at the Annual General Meeting.

The separate financial statements were prepared by the Management Board in accordance with German generally accepted accounting practice, the rules laid down in the German Commercial Code (HGB) and the supplementary provisions set out in the German Stock Corporation Act (AktG). 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 separate financial statements and the consolidated financial statements, Vonovia SE prepared a combined management report based on the requirements set out in German Accounting Standard (DRS) 20.

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 2015 fiscal year and also considered the Management Board's proposal for the appropriation of profit.

At a joint meeting on March 2, 2016, with the Audit Committee, and at the subsequent Supervisory Board meeting on March 2, 2016, the auditors reported both on their overall audit findings and on the audit's individual focal points. In particular, the auditor looked at the recognition of the acquisitions and the related recognition of goodwill and once again focused on assessing the value of this stated goodwill. The auditor also looked at the impact of the integration of GAGFAH and SÜDEWO, the adjusted segment reporting, property valuations, the equity and debt capital transactions executed during the fiscal year and the tax situation of the Vonovia Group. 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 2, 2016, 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. The assessment looked, in particular, at the liquidity of the company and the Group, tax-related aspects, financial and investment planning, as well as possible additional shares carrying dividend rights as a result of the public takeover offer made to the shareholders of Deutsche Wohnen AG. The Management Board and the Supervisory Board propose to the Annual General Meeting of shareholders that, from the profit of Vonovia SE for the 2015 fiscal year, a dividend of € 0.94 per share or € 438,040,586.56 in total on the shares of the share capital as of December 31, 2015, be paid to the shareholders and the remaining amount of € 322,220,633.85 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, 2015.

Personnel

The Management Board underwent the following personnel changes during the reporting period: With effect from April 1, 2015, Thomas Zinnöcker and Gerald Klinck joined the Management Board as new members. At the same time, Thomas Zinnöcker assumed the position of deputy chairman of the Management Board.

Hendrik Jellema, Daniel Just and Gerhard Zeiler were appointed as new members of the Supervisory Board with effect from June 2, 2015. Dr. Ute Geipel-Faber joined them as another new member with effect from November 1, 2015. Manuela Better left the Supervisory Board with effect from May 31, 2015.

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. The Supervisory Board would like to extend its explicit thanks to Thomas Zinnöcker for the excellent collaboration over the past year. Thanks to his expertise and leadership skills, Thomas Zinnöcker made a key contribution to the successful integration of the portfolios last year.

Concluding remarks

We would like to thank the Management Board, the employees and the employees' representatives of Vonovia for their outstanding performance, which once again contributed to the company's considerable success in 2015.

Düsseldorf, Germany, March 2, 2016

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.

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 2016, 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 (see p. 66 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 three 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 2015 fiscal year, the Supervisory Board had sixteen meetings, including conference calls.

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 independent 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 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 sale of real estate, the granting of securities, the acquisition and establishment of subsidiaries 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. The Management Board is monitored and advised by the Supervisory Board. It has adopted rules of procedure and resolved the allocation of duties 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. Stefan A. Kirsten and Gerald Klinck. Further information is to be found in the 2015 Annual Report on page 64 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 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:

The company has one level of management below the Management Board. As a result, a target only had to be set by the Management Board for this level, which consists of 20 individuals. Based on 20 % women in these positions at the time the resolution was passed, the proportion is to increase to 25 % by June 30, 2017, the end of the initial stipulation period.

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, with three female Supervisory Board members after this date.

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 Section 15a of the German Securities Trading Act (WpHG).

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 vote by mail. 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 vote by mail are available to shareholders at all times 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. 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 reports for the first, second and third quarters. Our quarterly reports comply with the German Securities Trading Act and are discussed with the Audit Committee of the Supervisory Board before they are 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 throughout the Group standard documentation of all our internal control mechanisms 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.

Combined Management Report

We have significantly boosted our earnings through acquisitions and organic growth. At the same time, we made further improvements to the quality of our apartments. This is a strategy we aim to continue with in 2016.

Fundamental Information about the Group

Company and Business Model

The Company

Vonovia is a modern, efficient service company that provides people across Germany with a home and sets trends in the housing industry. Vonovia offers its customers affordable homes combined with one-stop housing-related services. By ensuring efficient property management, Vonovia can offer tenants a combination of affordable homes and modern services while at the same time acting as a reliable partner for public-sector interest groups and investors with a long-term focus.

In terms of the fair value of the portfolio and the number of units, Vonovia is the **biggest German private-sector real estate company.** On the supranational level, Vonovia is the second-largest listed real estate company in continental Europe based on the fair value of its portfolio. As of December 31, 2015, the Group's portfolio included 357,117 units, 89,746 garages and parking spaces, and 3,399 commercial units with a total fair value of around € 24 billion.

Vonovia's portfolio is located primarily in contiguous settlements in approximately **770 cities and municipalities in Germany.** Customers' concerns are addressed on-site by our own caretakers, gardening and landscaping employees for the outdoor areas and the company's own craftsmen's organization, so as to ensure customer proximity and a needs-based, rapid and reliable service. As of December 31, 2015, Vonovia has a workforce of 6,368 employees.

Vonovia makes long-term investments in the maintenance, modernization and senior-friendly conversion of its properties. The company teams up with others at the local level to support social and cultural projects that enrich community life. Our company also takes responsibility for urban development and social matters via its investment programs.

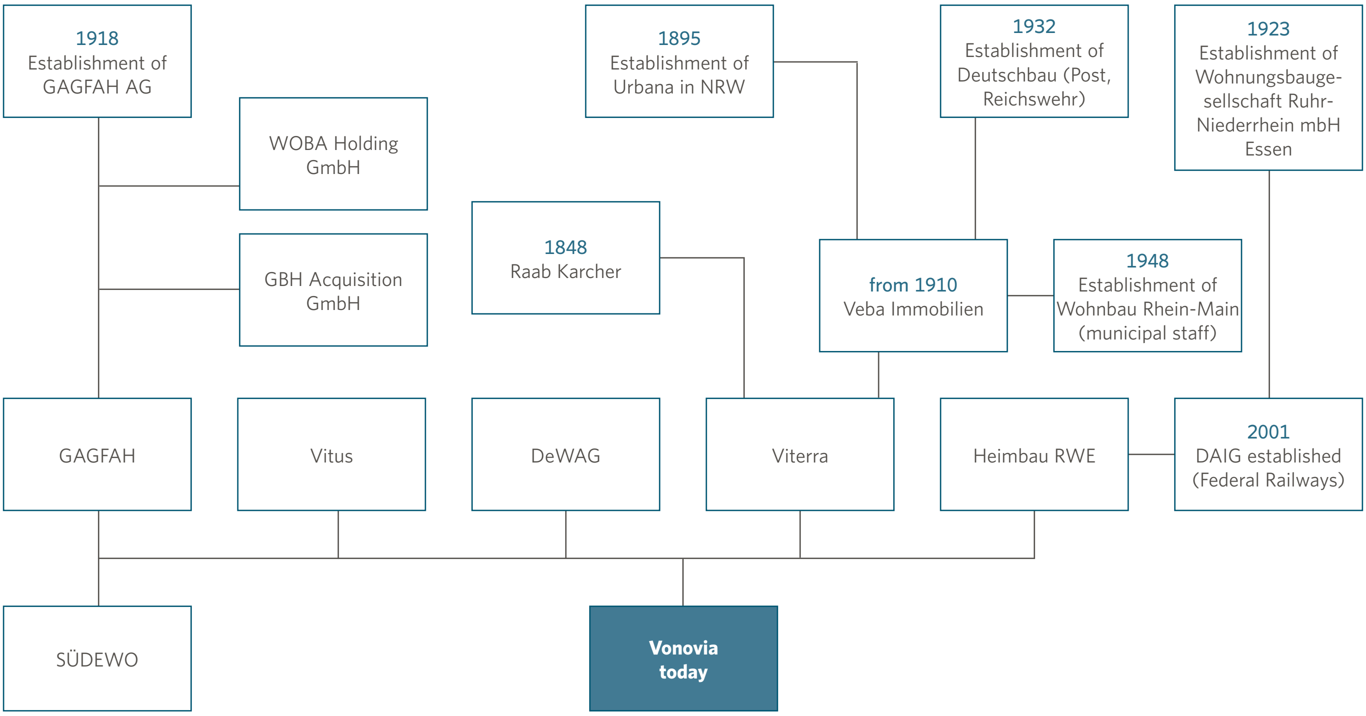
In addition to its successful long-term and modern **property management,** our Group develops its real estate portfolio through targeted **acquisitions and sales**. The goals associated with the company's new portfolio acquisitions include strengthening its overall regional presence in Germany, realizing operational and financial economies of scale and optimizing structures.

Our **extension strategy** aims to identify potential by making the most of product and service innovations. To give one example, we are continually expanding the range of services we offer to include **property-related services** that either serve to enhance our value chain or to expand and improve the services we offer our customers. This forms part of our ongoing endeavors to improve our customer satisfaction levels.

Vonovia's history is important to understanding the company and its current business model: Its predecessor companies can be traced back to 1848, the year in which the company Raab Karcher was established. The company can trace its roots back to the era of non-profit housing construction, when housing companies and cooperatives provided workers, salaried employees and civil servants with affordable living space. This means that many of Vonovia's housing developments are developments that were model projects of the time and are now covered by preservation orders.

These workers' settlements not only provided people with affordable homes, but also created neighborhoods in which people lived side by side with their colleagues. Community spirit and welfare were the order of the day back then. Vonovia wants these traditional values to be reflected in its mission statement in the future as well.

Vonovia's history



Vonovia's history also includes the period during which privatization saw residential portfolios being transferred to financial investors. These developments ushered in lasting changes on the German housing market as a whole in the 1990s. Among other changes, the balance between the fundamental need for secure and affordable homes for tenants on the one hand, and investor returns on the other, was upset. Ultimately, the business model pursued by the private equity investors failed to deliver the long-term success they had hoped for in the housing industry.

The **initial public offering (IPO)** of Deutsche Annington Immobilien SE in 2013 signaled the start of the latest era in the company's history: Ever since then, our Group has been established as a modern, efficient service company in the housing industry that uses its integrated and scalable corporate platform to set trends on the market and provide people with a home. With its efficient organizational model, optimized processes, a focus on service and a clear investment strategy, Vonovia is able to achieve profitable growth and generate sustainable yields for its shareholders.

Following the company's IPO, the previous financial investors gradually bowed out from their investment in what was then Deutsche Annington Immobilien SE. The IPO was followed by the integration of various real estate portfolios (Vitus, DeWAG, Franconia) and, with the entry in the Düsseldorf Commercial Register (Handelsregister) on March 6, 2015, the completion of the takeover offer for all of the shares in GAGFAH S.A. The SÜDEWO Group was subsequently acquired with effect as of July 8, 2015.

Our Group stopped using its previous name, Deutsche Annington Immobilien SE, on September 3, 2015. We have been operating as **Vonovia SE** ever since. The new company name was already added to the Commercial Register at the end of August 2015.

The new name and the associated corporate design, including the petrol blue Vonovia lettering, represent Vonovia's new identity, which is also expressed in a clearly formulated corporate mission statement. It reconciles the different needs of Vonovia's various interest groups: our customers, employees, suppliers, investors and the general public.

Our corporate strategy and our corporate mission statement are inextricably linked. Vonovia pursues a five-pillar strategy: the property management strategy, the portfolio management strategy, the extension strategy, the acquisition strategy and the financing strategy.

Since September 3, 2015, Vonovia SE has also been listed on the German stock exchange under its new name and with its new ticker symbol VNA. Moreover, on September 3, 2015, the German stock exchange decided to transfer Vonovia SE from the MDAX to the DAX with effect as of September 21, 2015, on the recommendation of its Working Committee for Equity Indices. This marks the first time that a real estate company has been represented in Germany's benchmark index. Our inclusion boosts the visibility and the profile not only of our company but also of the real estate industry as a whole, as an important sector of the economy.

Based on the German stock exchange's definition, today approximately 92.16 % of Vonovia SE shares are in free float. In accordance with Vonovia SE's long-term strategic focus, its largest individual shareholders are pension funds and other funds with a similarly long-term focus. The company's market capitalization amounts to around € 13.3 billion as of December 31, 2015. In addition to the DAX, Vonovia SE is listed in the international indices STOXX Europe 600, MSCI Germany, GPR 250 and EPRA/NAREIT Europe.

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

The parent company, **Vonovia SE,** performs the function of the management holding company for the Group. In this function, 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. To carry out these management functions, Vonovia has established a series of service companies. They pool certain functions, such as the central and local customer service units. 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.

Takeover Offer for Deutsche Wohnen AG

Vonovia made a public takeover offer to the shareholders of Deutsche Wohnen AG on October 14, 2015. This offer was approved by the German Federal Financial Supervisory Authority (BaFin) on December 1, 2015. The transaction was approved by the antitrust authorities on December 7, 2015.

Once the acceptance deadline had passed on February 9, 2016, the total number of shareholders who had opted to accept the takeover offer fell short of the number required based on the terms and conditions of acceptance.

Mission Statement of the Vonovia Group

Corporate Mission Statement: The Fundamental Principles Governing Our Activity

Vonovia's corporate mission statement provides the foundation and fundamental framework for our activities. The mission statement was carved out as part of a structured development process extending over a period of more than 12 months to which the Management Board, executives and the works council contributed. The utmost guiding principle was to strike a balance between the interests of all stakeholders. The mission statement serves to guide, motivate and legitimize employees in their activities for the company.

The three components of the mission statement answer key questions regarding the company's existence. The mission defines why we are here and what we aim to achieve. Our vision sets out where we want to go and how we want to be perceived. The values determine how we collaborate and provide guidance for our leadership culture.

Mission

The "mission" part of the mission statement sets out the company's core business and its responsibilities towards its stakeholders. As a leading real estate company, Vonovia aims to give people a home:

> Homes form the basis of our business, which we are constantly enhancing, using our competence and financial strength, in order to set new trends in the housing industry.

> We offer our customers affordable homes that meet their needs together with housing-related services and reliable customer support.

> We offer a high level of customer orientation and a scalable business model that aims to establish us as the quality leader in our market.

Vision

The mission statement also sets out a vision of how Vonovia wishes to be perceived by its stakeholders in the future: Our goal is to be held in high esteem as a force shaping the housing industry by all of our partners.

As far as society at large is concerned, we are committed to the idea that "owning residential property implies an obligation" and we aim to act in a manner that embraces the three aspects of sustainability: social, ecological and economic sustainability. We offer our customers more than just a residence – Vonovia provides a home for the whole family. We are on hand to provide reliable service when our customers need us. We want our employees to identify with their employer, Vonovia, thanks to our commitment to putting team spirit into practice, a long-term focus, a culture of appreciation and continual new challenges. The company provides investors with sustainable and adequate yields. We act as a discerning and fair partner to our suppliers.

Values

We are guided by our values, which are based on the image of the entrepreneur and are closely associated with the concepts of responsibility, transparency and flexibility. The mission statement sets out seven values that determine how we collaborate and that we aim to base our action on.

These values are the will to excel, pragmatism, responsibility, customer orientation, innovative drive, respect and team spirit. They apply to all employees and managers alike.

Taking these values as a basis, the Management Board and the first management level below the Management Board developed the leadership philosophy as part of the mission statement process. This philosophy is based on the idea that executives have a particular responsibility to set an example for their employees: They should provide guidance, encourage and motivate their employees, forge ahead with further development and make decisions.

Targets and Strategy

Overall Conditions on the German Residential Real Estate Market

An estimated 81.9 million people lived in Germany in December 2015. Three fundamental demographic trends are emerging as far as Germany is concerned:

(i) A population that is shrinking in the long term

(ii) An increase in the number of households, while the average household size declines at the same time

(iii) An aging population

In the period between 2000 and 2010, the German population shrank by around 0.8 %. Forecasts predict that this trend will continue in the long term. Contrary to forecasts of a declining population in the long run, the German population grew in 2015 for the fifth year in succession, a development that is once again presumed to be largely due to substantial immigration. Depending on the assumed rate of net migration, the population is likely to continue to grow for several years to come before declining again. According to the forecasts, it will take until 2023 at the earliest for the population to fall below the 2013 level again.

At the same time, the number of households in Germany has been increasing in recent years. Germany had 40.2 million households in 2014, compared with 39.9 million in 2013 and 39.7 million in 2012. The number of households is predicted to increase further by a total of 3 % between 2012 and 2030. The average size of German households dropped to 2.01 people in 2014 compared with 2.16 in 2000, a trend that reflects an increase in the number of single and two-person households and a drop in the number of households with three, four and more inhabitants. In the period between 2012 and 2030, the number of single households is expected to increase by a further 7.5 % (and the number of two-person households by 10 %).

Societies in many industrialized nations, particularly in Europe, are currently witnessing a gradual demographic shift: The population pyramid is increasingly expanding in the upper sections of the pyramid, which represent the older age ranges. Among the European countries as a whole, Germany is one of the countries in which this trend is most pronounced. In the years between 1990 and 2009, the number of people older than 65 living in Germany rose by 41.9 %. Eurostat estimates that in 2014, more than one-fifth (20.8 %) of the German population was aged 65 or above. Forecasts estimate that this percentage will have risen to between 27.0 % and 27.5 % in Germany by 2030 (see 13th coordinated population projection, variants 1 and 2).

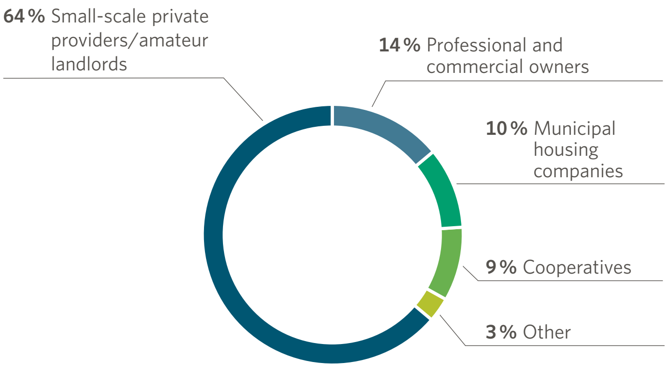
If the three demographic trends described continue as predicted, then the demand for homes in general, and for homes that meet the needs of older people in particular, will continue to rise. In particular, the future will bring considerable demand for apartments designed for single and two-person households.

Germany's housing market is more of a rental housing market. The 2011 Census reported that around 43 % of homes are owner-occupied, meaning that 57 % or 23.3 million homes are rented.

The rental housing market is extremely fragmented, as the diagram below shows:

Rental Housing Market in Germany

Total: Approx. 23.3 Million Rented Homes in Germany



(Source: German Association of German Housing and Real Estate Companies (GdW) provider structure)

The majority of rented homes are offered by various small-scale private providers. Large private companies, including Vonovia, only manage 3.2 million homes, or around 14 % of the rental housing market.

Strategic Classification

Demographic development and the fragmented rental housing market are two of the key conditions that will shape our company's strategic focus for the future.

Following the integration of our most recent takeovers, we have expanded Vonovia's leading position in the German real estate market. Today, the entire portfolio is managed based on uniform structures and using standardized processes. We expect that this will allow us to exploit a large number of operational and financial economies of scale in the future as well. Our strategically advantageous market position will also allow Vonovia to play a leading role in the ongoing consolidation of the German real estate sector.

We plan to exploit our economies of scale in order to offer value-added services to complement our rental activities, allowing us to sustainably boost customer satisfaction in the process.

In the 2011 fiscal year, we started to insource certain activities within the framework of our rental business, setting up our own caretaker organization and our own craftsmen's organization, Deutsche TGS. As of December 31, 2015, the craftsmen's organization employed a workforce of around 2,300. The caretaker organization provides on-site services and employed a staff of around 800.

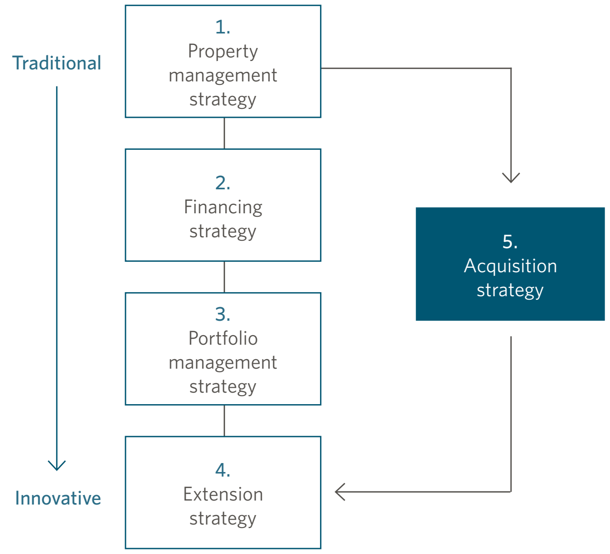
The company known as Vonovia Wohnumfeld Service GmbH was set up on February 1, 2015, to manage the outdoor areas of the properties in the company's portfolio with a current workforce of around 300 employees.

The subsidiary Deutsche Multimedia Service GmbH – in cooperation with its strategic partner Deutsche Telekom, among others – provides customers with cable TV and Internet.

Strategy

Our Group pursues a **five-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 per share and EPRA NAV per share.

The Five 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.

Thanks to our advantageous market position, as described above, and our broad-based strategic approach, Vonovia is able to set itself clearly apart from its competitors. We can offer higher quality and greater efficiency when responding to customer inquiries, helping to further stabilize cash flows and, as a result, generate attractive dividend yields.

In detail, our five 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.

Our operational management platform allows us to manage our portfolio effectively. 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.

We make ongoing investments in property maintenance. This guarantees the reliable quality of our apartments. Deutsche TGS, our Group subsidiary, is responsible for the operational implementation of these measures in order to ensure the quality and efficiency of the value chain.

Financing Strategy

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

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 based on favorable financing conditions at all times, securing Vonovia's liquidity on a permanent basis.

This reliable access to capital allows us to maintain a balanced and flexible financing and maturity structure, which plays a key role in our company's success.

Comprehensive access to the international debt and equity capital markets gives a German residential real estate company a clear strategic competitive edge. This is clear 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 "Optimize 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 87.6 % 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 35.8 % of the overall portfolio in terms of fair value, 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 28.6 % 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 "Optimize Apartments" subportfolio, which accounts for 23.2 % of the overall portfolio in terms of fair value, we take the reletting of units as an opportunity to make extensive investments in apartment fittings, e.g., 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, which accounts for 4.1 % of the overall portfolio in terms of fair value, 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 "Non-Strategic" portfolio tends to contain locations and properties of average quality; the profit contribution from property management is stable and slightly increasing in some submarkets to the extent possible. 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. These correspond to the portfolios of the same names that existed up until March 31, 2015.

In the "Privatize" subportfolio, which accounts for 6.5 % of the overall portfolio in terms of fair value, 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 1.8 % of the overall portfolio in terms of fair value, 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. This means that these properties are not suitable for successful management using Vonovia's standardized processes in the long run.

Our aim is to make our purchase and sale decisions on a sustainable basis, which is why we constantly review our portfolio to identify potential opportunities and risks. Within this context, our own analysis of the German market regarding the yields to be achieved and the future potential for value growth forms the basis for all purchase and sale decisions.

In order to better calculate growth potential and to forecast developments on the local markets, we have developed our own scorecard. In addition to the expected regional demographic developments, we also draw first and foremost on the local market knowledge of our on-site employees when making decisions. We consider their in-depth knowledge of their local markets to be one of Vonovia's key differentiators and a competitive advantage.

In the past, we have proved that we can implement our purchase and sale decisions efficiently and at short notice. We use the income from the sale of properties as needed to finance investments in residential properties that have been earmarked for building or apartment upgrading measures, repay debt, finance dividend payments or fund acquisitions.

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 expect to have direct access to around 1,000,000 customers. We can offer these customers services that are closely related to and/or influence the rental business.

These also include **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** (Deutsche TGS) to serve our customers. Insourcing caretaker and craftsmen functions means, that our 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 believe that the insourcing and industrialization of craftsmen's services in particular, which encompass repair, maintenance and also modernization projects, will allow substantial cost savings to be achieved. As well as making the actual service provision process more efficient, we are able to generate significant purchasing advantages when it comes to the procurement of materials, e.g., by using direct sourcing initiatives.

We were able to further increase the presence of our own employees on-site in 2015 by integrating **gardening and landscaping employees** into our organization to look after the residential environment of Vonovia properties. These employees are responsible for looking after outdoor areas, playgrounds, trees and refuse collection points, particularly in conurbations. These services are to be expanded in the future to provide an additional boost to efficiency and quality.

Other service initiatives include Vonovia's **cable TV business.** At the end of 2011, we entered into a strategic partnership with the Deutsche Telekom Group to provide more than 170,000 of the Group's apartments across Germany with cable TV signals in the long term. In the long run, this will involve equipping a further 50,000 apartments with fiber-optic technology. At the same time, we have also concluded contracts with other cable operators in order to equip more units with TV connections. We plan to expand our cooperation with the Deutsche Telekom Group in order to offer our customers attractive telephone rates as well.

Based on Vonovia's positive experience in the recent past, we want to tap into additional service areas that are closely related to our properties. One example is **smart metering.** As part of a pilot project that was launched in 2014, we equipped around 1,000 apartments with smart metering technology and set up wireless data transmission infrastructure with a direct data connection to our ERP system. Now that the pilot project has been successfully concluded, we started to roll the technology out across the board at the end of 2015. We firmly believe that the introduction of this smart technology offers considerable potential for increasing the quality of our service offering even further. At the same time, the use of this smart metering technology has the potential to contribute to the Group's income in the future.

When it comes to developing our services, we are also giving greater consideration to general demographic trends: In addition to our established program to modernize apartments before they are relet in order to adapt them to the needs of the elderly, we are constantly on the lookout for new products and services aimed at our older tenants. In 2014, for example, we launched **a bathroom modernization program** in response to tenant requests. The initiative allows selected existing tenants to have their bathrooms renovated to make them "senior-friendly" at a fixed price. The program has met with high demand from customers and has been continually expanded since its launch.

Currently, we are 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. In addition to these product innovations, Vonovia is 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.

Another area with potential for further business expansion is **energy services.** We have identified significant potential for additional value creation in this area within our own portfolio, for example via the decentralized generation and marketing of electricity. The first few pilot programs and partnerships within the company's own portfolio (e.g., establishment of combined heat and power units, photovoltaic projects) suggest that this area offers considerable potential for value creation. We are currently planning a pilot project that will look at self-sufficient, decentralized energy management and will combine several energy generation and storage components.

In the future, we will also be considering further options for expanding the range of services we offer our tenants and these initiatives will also have the potential to boost our company's income.

Acquisition Strategy

Our Group has been constantly 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 at a low cost. 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 expansion 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 accelerate the impact of the first four.

Acquisitions are pursued as and when opportunities present themselves and 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. Moreover, an acquisition must not pose any risk to the company's stable 'BBB+' long-term corporate credit rating.

This means that the acquisition of new portfolios can involve both takeovers of large corporations and takeovers of smaller companies, administration platforms and real estate portfolios.

In 2015, we identified around 200,000 units (not including the Deutsche Wohnen portfolio). Out of these units, we

(i) analyzed around 112,000, or 56 %, more closely,

(ii) performed, or are still in the process of performing, a due diligence assessment for around 79,000 or 40 %,

(iii) submitted bids for around 66,000 or 33 %.

Portfolio Structure

The residential portfolio that Vonovia manages accounts for approximately 78 % of the Group's assets in terms of fair value.

As of December 31, 2015, the Group had a real estate portfolio comprising 357,117 residential units, 89,746 garages and parking spaces and 3,399 commercial units. 40,682 units are also managed for other owners. Most of the properties in the Group's portfolio constitute multifamily residences. The portfolio is distributed across the whole of Germany, with properties located in around 770 cities and municipalities.

As of December 31, 2015, the Group's real estate portfolio covered 22,271,113 m² of living area in total, with the average apartment size coming in at 62 m². The average unit consists of two or three rooms, a kitchen and a bathroom. Vonovia had rented more than 97 % of its units as of the reporting date on December 31, 2015. The vacancy rate came to 2.7 % on December 31, 2015, and Vonovia generated average monthly in-place rent of € 5.75 per m².

The acquired Franconia portfolio and the portfolios of the GAGFAH and SÜDEWO Groups were integrated in the course of the 2015 fiscal year. This means that the number of apartments held by the Group increased by more than 75 % in 2015.

Integrated Housing Stocks

In early July 2015, a stock of 19,387 residential units, 102 commercial properties and 9,453 garages and parking spaces was added to the Vonovia portfolio as a result of the acquisition of the SÜDEWO Group. Through this acquisition, we strongly increased our market share in the economically prosperous region of Baden-Württemberg. With effect from April 1, 2015, a stock of 4,110 residential units, 202 commercial properties and 1,949 garages and parking spaces was added to our portfolio as a result of the Franconia acquisition. The portfolio was expanded to include the GAGFAH Group properties on as early as March 6, 2015, with the completion of the public takeover offer for all shares of GAGFAH S.A.

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

	Units	Living area (in thou. m²)	Vacancy (in %)	In-place rent (p.a. in € million)	In-place rent (€/m²/month)
SÜDEWO	**19,387**	**1,239.0**	**2.4**	**98.2**	**6.80**

	Units	Living area (in thou. m²)	Vacancy (in %)	In-place rent (p.a. in € million)	In-place rent (€/m²/month)
Franconia	**4,110**	**251.1**	**3.0**	**17.0**	**5.80**

	Units	Living area (in thou. m²)	Vacancy (in %)	In-place rent (p.a. in € million)	In-place rent (€/m²/month)
GAGFAH	**144,570**	**8,761.0**	**4.1**	**543.2**	**5.40**

Sold Housing Stocks

In December 2015, Vonovia sold two of the larger portfolios in its stocks. A portfolio comprising 13,570 units was sold to the LEG Group and the sale is scheduled for completion on March 31, 2016. The units in question are designated as assets held for sale in the consolidated balance sheet.

A portfolio comprising 5,971 units was sold to a company belonging to Deutsche Bank as of December 31, 2015. The transaction was completed on December 31, 2015. The properties in question were allocated to the Non-Strategic and Non-Core subportfolios.

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

	Units	Living area (in thou. m²)	Vacancy (in %)	In-place rent (p.a. in € million)	In-place rent (€/m²/month)
LEG	**13,570**	**842.6**	**5.0**	**46.9**	**4.88**

	Units	Living area (in thou. m²)	Vacancy (in %)	In-place rent (p.a. in € million)	In-place rent (€/m²/month)
Deutsche Bank	**5,971**	**354.3**	**8.3**	**18.5**	**4.79**

Vonovia's Residential Portfolio

In addition to the acquisition and sale of larger housing stocks, Vonovia's portfolio changed in 2015 as a result of additions arising from tactical acquisitions (purchase of around 500 units) on the one hand, and disposals resulting from privatization measures and the sale of multifamily residences from the Non-Strategic and Non-Core portfolio on the other.

Furthermore, ongoing portfolio reviews due to strategic reassessments resulted in certain housing stocks being reallocated within the overall portfolio. The takeover of the GAGFAH Group by the company then called Deutsche Annington SE was used as an opportunity to thoroughly review the strategic focus of the potential in the portfolio.

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

Dec. 31, 2015	Units	Living area (in thou. m²)	Vacancy (in %)	In-place rent (in €/m²)	Fair value (in €/m²)
Strategic	**300,343**	**18,618**	**2.1**	**5.87**	**1,103**
Operate	125,357	7,736	2.3	5.89	1,056
Upgrade Buildings	102,479	6,233	2.0	5.76	1,091
Optimize Apartments	72,507	4,649	2.0	5.99	1,200
Non-Strategic	**25,056**	**1,548**	**6.2**	**4.78**	**626**
Privatize	**19,582**	**1,339**	**4.3**	**5.80**	**1,159**
Non-Core	**12,136**	**766**	**8.5**	**4.57**	**539**
Total	**357,117**	**22,271**	**2.7**	**5.75**	**1,054**

Regional Distribution of the Housing Stocks by German Federal State

				In-place rent	
Dec. 31, 2015	Units	Living area (in thou. m²)	Vacancy (in %)	(p. a. in € million)	(€/m²/month)
North Rhine-Westphalia	122,749	7,743	3.2	484.5	5.39
Saxony	44,876	2,562	3.7	153.5	5.20
Baden-Württemberg	33,657	2,144	1.9	167.5	6.64
Berlin	30,588	1,909	1.2	131.8	5.83
Hesse	25,028	1,582	1.6	132.8	7.10
Lower Saxony	24,030	1,528	3.7	98.2	5.57
Schleswig-Holstein	20,901	1,245	2.3	79.2	5.45
Bavaria	19,716	1,287	1.6	95.6	6.29
Bremen	11,232	685	3.6	40.3	5.14
Hamburg	10,975	691	0.8	52.8	6.42
Rhineland-Palatinate	5,465	375	3.0	24.9	5.71
Thuringia	2,692	168	4.5	11.1	5.72
Brandenburg	2,404	161	3.7	11.0	5.91
Saxony-Anhalt	1,448	98	9.8	4.9	4.66
Mecklenburg-Western Pomerania	1,330	91	5.6	5.5	5.40
Saarland	26	2	3.8	0.1	4.78
Total	**357,117**	**22,271**	**2.7**	**1,493.7**	**5.75**

As of December 31, 2015, around 75 % of the portfolio was concentrated in towns and cities with a population in excess of 100,000. The focus is on the Ruhr and Rhine-Main areas, southern Germany – and as a result of the SÜDEWO takeover, with a much stronger presence in Baden-Württemberg as well – and also the Dresden metropolitan area, as well as Berlin and parts of northern Germany (particularly Bremen, Kiel and Hamburg). At 85 %, the vast majority of our housing stocks are situated in the old German federal states (former West Germany) including Berlin. 34 % are located in North Rhine-Westphalia. Therefore, by far the largest proportion of our residential portfolio is located in the most highly populated German state.

				In-place rent	
Dec. 31, 2015	Units	Living area (in thou. m²)	Vacancy (in %)	(p. a. in € million)	(€/m²/month)
Dresden	37,901	2,151	2.6	132.8	5.30
Berlin	30,588	1,909	1.2	131.8	5.83
Dortmund	20,184	1,245	2.1	74.0	5.07
Essen	12,209	756	4.1	46.8	5.39
Kiel	11,978	694	1.4	43.8	5.33
Frankfurt am Main	11,715	719	0.6	65.8	7.67
Bremen	11,101	677	3.5	39.9	5.15
Hamburg	10,975	691	0.8	52.8	6.42
Gelsenkirchen	7,720	471	5.5	25.9	4.86
Bochum	7,524	432	2.0	27.4	5.39
Hanover	7,218	462	1.9	32.9	6.05
Cologne	6,359	446	1.3	37.3	7.06
Duisburg	5,533	334	4.2	19.8	5.18
Munich	5,193	344	0.6	28.0	6.81
Bonn	5,180	364	1.5	27.6	6.43
Herne	4,987	302	4.2	17.5	5.02
Bielefeld	4,643	307	2.1	18.1	5.03
Stuttgart	4,643	290	1.1	27.8	8.09
Heidenheim an der Brenz	3,957	242	4.3	16.6	5.99
Osnabrück	3,915	248	3.6	15.5	5.42
Düsseldorf	3,516	227	2.7	19.2	7.27
Braunschweig	3,281	202	0.6	13.2	5.46
Gladbeck	3,144	193	2.8	11.5	5.11
Zwickau	3,104	174	9.4	8.0	4.28
Freiburg im Breisgau	2,711	183	0.9	14.6	6.72
Subtotal of the 25 largest locations	**229,279**	**14,063**	**2.3**	**948.6**	**5.76**
Other locations	127,838	8,208	3.5	545.1	5.74
Total	**357,117**	**22,271**	**2.7**	**1,493.7**	**5.75**

Roughly 64 % or almost two-thirds of our entire portfolio (229,279 units) is concentrated in our 25 largest locations. The three biggest locations as of the end of 2015 are the cities of Dresden, Berlin and Dortmund.

With locations like Munich, Stuttgart, Berlin, Hamburg and the metropolitan areas Rhine-Main (especially Frankfurt am Main) and Rhineland, which encompasses the cities of Cologne, Bonn and Düsseldorf, a large proportion of our residential portfolio is located in cities and regions with good growth prospects.

Modernization and Maintenance

We continued to pursue our goal of steadily improving the quality of our housing stocks and the neighborhoods in the 2015 fiscal year as well. Expenditure on maintenance and modernization amounted to € 33.04/m² in 2015.

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 550,000 m². The catalog of measures also included the optimization and renewal of heating systems – benefiting more than 7,000 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 "Optimize 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 € 100 million in this subportfolio in 2015. More than 6,900 apartments were completed in 2015. If technically feasible, conversions were carried out according to the standards of the KfW program 159 "Senior-Friendly Conversions."

Vonovia's Investment Program

Program year	Investment volume (in € million)	Units	Yield (%)
Average 2010–2013	49	3,257	6.9
2014	163	12,934	7.5
2015 (forecast)	342	17,690	7.6

Notes:
(1) "Program year" is defined as the calendar year in which construction work on the respective measure started.
(2) "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.
(3) "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 "Optimize 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.
(4) The "forecast" nature of the figures for the 2015 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-2016 (Optimize Apartments) or the end of 2016 (Upgrade Buildings).
(5) The difference between the € 342 million forecast for 2015 and shown here and the € 356 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.

Customers and Customer Service

Customer Satisfaction as a Priority

In addition to the financial performance indicators explained in the section on the management system, **customer satisfaction** is relevant for Vonovia as an additional 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 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.

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 can use the knowledge gained during this process to identify additional optimization potential for our customer service and develop specific measures to address this potential.

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 assets and customer needs.

Vonovia splits its core operating business into local business units that are grouped to form business areas. The integration of the portfolios that were acquired in 2015 resulted in a revision of the business unit and business area structure. The target organization, which is in the process of being finalized, provides for six different business areas. Within these six business areas, the portfolio will be split into 38 business units, each of which will be responsible for an average of around 9,300 units.

Although Vonovia provides its services at local level in principle, it has centralized all tasks that can be provided 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.

All necessary management and support functions are pooled in the **Corporate** unit. Vonovia SE performs the function of the management holding company for the Group.

Local Customer Service

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 setting up its own caretaker organization. This brings Vonovia closer to its customers and improves the quality of its customer service. The Group's caretakers support around 500 units each and respond to tenant inquiries and requests that cannot be handled on the phone by the central customer service department. Caretakers may be able to handle smaller maintenance jobs themselves and pass more complex repair jobs on to the company's own craftsmen's organization. Our concept based on the on-site presence of our own caretaker and craftsmen's organizations was extended to include the integration of gardening and landscaping employees (residential environment) and ongoing measures to expand our capacities in this area. Rental points are operated 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 highly flexible manner in response to changes in the demand for local marketing.

Comprehensive Availability

The central customer service department allows the Group's customers to contact Vonovia using a regional service hotline as well as by email, fax or post. The Service Center acts as a central unit that is responsible for processing all matters relating to rent agreements, energy consumption and ancillary expense bills. This process is managed according to defined service levels in order to ensure that customers receive a swift and binding response to their inquiries. The establishment of an additional customer service location in Dresden, as well as the move to adapt Vonovia's services to reflect new forms of, and technical solutions for, customer communication (e.g., social media) meant that customers enjoyed even better service in 2015. The customer service that Vonovia offers is tailored to suit the needs of individual customers and support is also offered in English and Turkish, for example. 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 Group's customer service team resolves around 85 % of all incoming telephone inquiries directly. We have set up a dedicated service hotline specifically for refugees living in our apartments, in particular to respond to inquiries in Arabic.

Certified Ancillary Expense Bills

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.

Technical Services

The Group's technical services consist primarily of four central functions: (i) central repair center, (ii) modernization team, (iii) EHS and (iv) mining team. The central functions are complemented by the craftsmen's organization at the local level.

The repair center is responsible for scheduling the on-site visits to be made by the local craftsperson. It inspects any work performed by third-party companies and ensures that all work is completed on time and in a satisfactory manner.

The modernization team consists of a group of highly specialized architects and engineers who are entrusted with the planning of modernization measures and with a construction supervision role. In particular, the modernization team is responsible for the operational implementation of the investment programs aimed at building and apartment modernization.

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.

A specialized mining team monitors the Group's buildings to identify potential damage and risks that could arise as in connection with previous mining activities, especially in Germany's Ruhr region. The mining team uses a mining action plan, which was introduced in 2003, to monitor the external experts who are responsible for inspecting the properties in question every one or two years.

A Highly Efficient Craftsmen's Organization

Vonovia established its craftsmen's organization in 2011. Since then, the organization has gradually assumed responsibility for almost all repair and maintenance work that was previously performed by third parties. The craftsmen's organization executes a large part of the Upgrade Buildings and Optimize Apartments programs.

The organization was set up in order to save costs and further improve the quality of the Group's customer service, 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 2015 fiscal year, the Group's craftsmen's organization performed around 449,000 smaller repairs (2014 fiscal year: 440,000 smaller repairs) and renovated around 14,300 vacant units (2014 fiscal year: 12,500 vacant units). As of December 31, 2015, the entire craftsmen's organization had around 1,984 employees, 1,625 were craftsmen (2014 fiscal year: 1,476 craftsmen) working in 16 locations across Germany who were responsible for more than 200,000 of the Group's units.

Property Management by DASG

Via its wholly owned subsidiary, Deutsche Annington Service GmbH ("DASG"), known as Vonovia Immobilien-Treuhand GmbH (VIT) since January 1, 2016, Vonovia also offers administrative services for homeowners' associations. DASG operates in 15 office locations across Germany, split into six regional teams. As of December 31, 2015, DASG supported 1,250 homeowners' associations with a total of 41,051 residential and commercial units, of which 13,191 residential units belong to Vonovia. 27,860 units were managed for third parties.

DASG 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. DASG also offers services relating to technical building evaluation for external owners.

As of January 1, 2016, DASG/VIT also acquired IVV Immobilien Verwaltung GmbH in Cologne and O-TEC Hausverwaltung GmbH. VIT has been represented in a total of 22 locations across Germany since the beginning of the year. The company, which remains Germany's biggest property manager, is responsible for the management of around 68,000 owner-occupied apartments on a fiduciary basis.

Senior-Friendly Conversions

Demographic change is already reflected in Vonovia's tenant structure. Many people want to live for as long as possible in the home and neighborhood they already know – and we have prepared ourselves accordingly. We are continuously converting some of our apartments to meet the needs of the elderly. It is not just in vacant apartments that we make sure that we can offer senior-friendly facilities. In selected housing developments, we offer our aging existing customers the option of having their bathroom renovated to make it senior-friendly within the space of a week so as to considerably increase their level of comfort and the length of time that they can stay in their home. Our aim is to safeguard the quality of housing and life for our customers in the long term. Therefore, our concept of accommodation suited for the elderly would not be complete without close cooperation with politicians, welfare associations and local service providers.

Energy Management

Electricity, gas and oil are key components of ancillary expenses. To keep the costs for our customers as low as possible, we have set up an energy management unit which focuses on negotiating pan-regional framework agreements with well-known energy suppliers. The aim is to secure long-term beneficial conditions for our customers. The prices in existing framework agreements are regularly reviewed.

Employees

Considerable Increase in the Number of Employees

As an employer, the Vonovia Group had a total workforce of 6,368 employees as of December 31, 2015 (Dec. 31, 2014: 3,850 employees). This increase in the number of employees is the result of the GAGFAH integration, the SÜDEWO integration and moves to increase the number of people working for the craftsmen's organization. A balanced staff structure is important to us.

Vonovia has a good and constructive relationship with its employees, works council members and unions and endeavors to maintain this relationship. Nevertheless, there is still a risk of strikes and other labor disputes in connection with negotiating the collective bargaining agreements. This could have a detrimental impact on the business situation, financial position, earnings, cash flow and operating results of the Group. Risks like these also exist at times when Vonovia is not involved in talks between the employee associations and the unions.

Company Training: Filling Positions From Within the Company Itself

Our company attaches a great deal of importance to vocational training. 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. The company employed a total of 352 apprentices as of December 31, 2015 (Dec. 31, 2014: 152). Looking at the last five years, the average percentage of apprentices taken on as permanent employees comes in at over 90 %.

This year, too, the apprentices who successfully completed their vocational training in the summer of 2015 proved to be flexible and mobile. The young employees are starting their careers not only in Bochum and the surrounding area, but in various locations across Germany.

Well-trained employees are important to our company's success. Vonovia offers a broad range of jobs and apprenticeships.

In 2015, Vonovia trained young people for seven **commercial occupations** and as part of various dual study courses:

> Real estate agent
> Office management specialist
> Dialogue marketing specialist
> IT specialist
> IT systems specialist
> HR services specialist
> Event management specialist
> Bachelor of Arts Real Estate + real estate agent
> Bachelor of Arts Business + real estate agent
> Bachelor of Science Industrial Engineering with Business Studies + real estate agent
> Bachelor of Science IT for Business + IT specialist
> Bachelor of Science IT for Business + IT systems specialist

In the **trades** as well, our company is continuing to focus on filling positions from within the company itself and, in doing so, investing in its own future. When the vocational training year started in 2015, more apprentices started their careers at the craftsmen's organization than ever before. Our commitment to vocational training was expanded to cover additional occupations and locations. We offered training in the following commercial occupations in 2015:

> Plant engineering with a specialization in plumbing, heating and air conditioning technology
> Roofing with a specialization in roof, wall and insulation technology
> Electronics with a specialization in energy and building technology
> Tiling with a specialization in tile and panel claddings and mosaics
> Painting/varnishing in the property construction and maintenance sector

The outlook for Vonovia's apprentices is a very positive one. As we continue to implement our growth strategy, new duties and career paths are constantly emerging. Acquisitions and takeovers of housing companies form part of the business model. In such cases, it goes without saying that we also take on any apprentices. We have a professional vocational training concept, can find individual solutions and offer the necessary experience when it comes to integrating apprentices.

Without vocational training, it is virtually impossible to integrate properly into the labor market. A lack of prospects restricts individuals considerably in their ability to participate in society. In the commercial sector, the number of applicants with limited qualifications is relatively high. This is why our recruitment activities also focus on **cooperation initiatives with vocational training centers and associations.** We offer targeted support to initiatives and institutions that are committed to helping disadvantaged young people. We believe that the vocational orientation stage is a crucial first step before young people enter the vocational training and working world. We make on-site visits, present our company and our vocational training programs and enter into dialogue with young people who are in the process of trying to identify their future occupation and are in need of guidance.

We offer **job application training sessions** as well as trial internships to give people the chance to gain an insight into our day-to-day business and to see whether the route they are pursuing is the right one. The aim is to come together with the young people to find out how they can put their skills, abilities and interests to the best possible use. We also offer these opportunities to applicants who often never get the chance to attend a job interview and prove what they are capable of in the first place, either due to their performance at school or their unconventional résumés. Studies have shown that, in the trades, this often applies to applicants of non-German heritage.

The team of apprentices has backgrounds as diverse as the range of occupations we offer: More than 50 % of our commercial apprentices have migrant backgrounds. Most of them have Turkish heritage, although we also have trainees with a Kosovan, Italian, Portuguese, Polish, Eritrean and Arabic background. Some of these young people have only been in Germany for a few years. Any language barriers can be overcome. We benefit from the multilingual skills that our young employees bring along with them. The cultural diversity is an asset to our company, because our apprentices can apply their experience of different cultural environments to their day-to-day working lives. Supposed weaknesses are in fact strengths that the young people can be proud of.

Hands-on projects during the apprenticeship period support and challenge our young talents. We want our apprentices to play an active role in shaping their apprenticeships. Our apprenticeship program attaches a great deal of importance to opportunities to make a real contribution to day-to-day working life and to put theory into practice early on. Projects allow the apprentices to work on real issues from daily life at our company. They benefit from the experience they gather at our company, from the network of people they meet as they move from department to department and also from the theoretical expertise relating to various different occupations. These additional hands-on projects promote social commitment and a sense of responsibility.

In-House Academy

Using targeted further training opportunities to help the company retain qualified employees is a key component of our HR strategy and helps minimize the risk of losing top performers and employees with high potential.

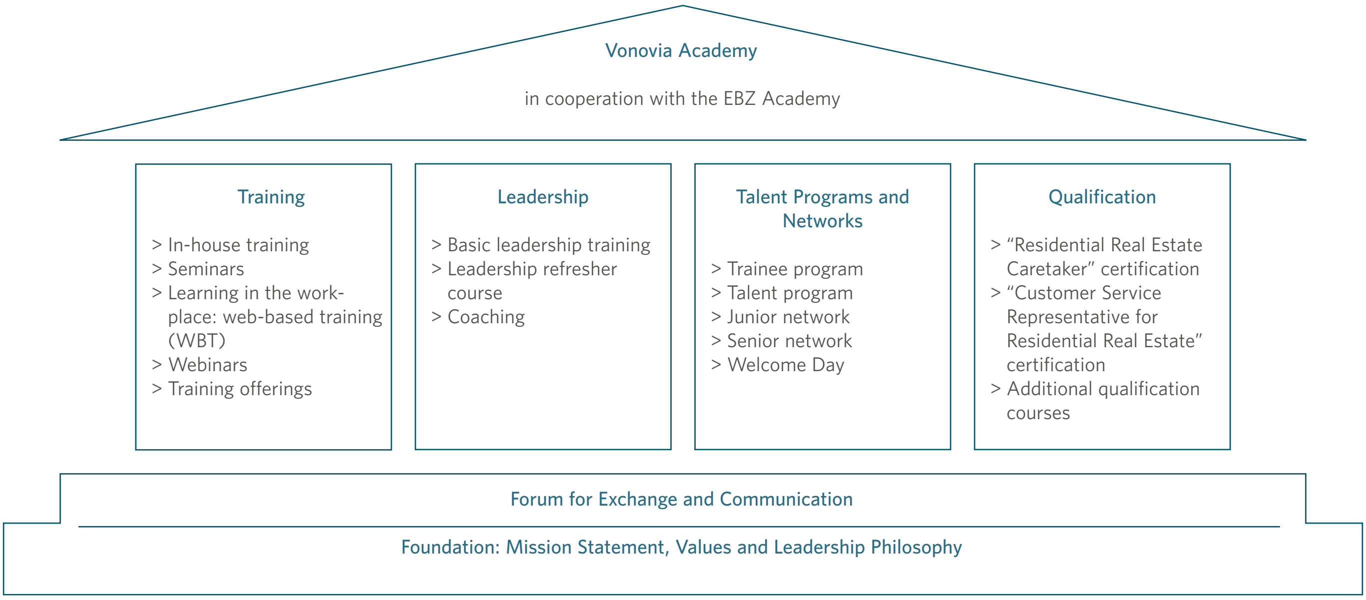
In order to make these further training programs even more professional, we have set up our own in-house corporate academy: the **"Annington Academy."** This allows us to provide our employees with a training program that helps us to attract and keep employees while promoting their further development on the one hand, and to create added value for our customers on the other. As the environment changes and becomes more demanding, further training measures also help to prepare our employees in the best possible way to meet the challenges of the market and to give us the edge over our competitors.

The Annington Academy was set up in cooperation with the **EBZ Business School** (Europäisches Bildungszentrum der Wohnungs- und Immobilienwirtschaft). The move takes our company's employee training strategy to the next level and sets new standards in the sector. Together with EBZ – Europe's largest provider of initial, further and ongoing training in the real estate sector – we launched a pilot project that is the first of its kind within the housing industry in February 2015.

The Annington Academy offers individual training and development courses for a large number of job profiles that are tailored specifically to meet our company's needs with the aim of promoting personal and professional development and to prepare all employees for future developments and demands in the best possible way. The Academy pursues a sustainable, forward-looking and demand-oriented strategy. The first step, taken in 2015, involved consolidating all matters relating to the areas of HR development, lifelong learning and leadership culture under the Annington Academy umbrella. The courses on offer cover five different areas: training, leadership, talents and networks, qualifications and certified further education. This provides a common foundation for further training and employee development within our company; in the future, the majority of training measures will be organized by our own Academy. The values on which our corporate culture and leadership philosophy are based are reflected in all HR development tools and measures.

We attach a great deal of importance to providing our employees with targeted support and the best possible preparation for their tasks.

The Pillars of the Vonovia Academy



Opportunities Thanks to Targeted HR Development

In addition to the courses offered by our Academy, we offer managers within our departments regular **HR retreats** and **development center events** so that they can identify potential among our employees and ensure the development of up-and-coming talents for our company. Individual development meetings can then be used to pinpoint the employees' needs and make them customized offers. 26 % of our commercial executives have undergone training at Vonovia.

Targeted investments have been made in further vocational training for our employees. The individual training courses on offer cover everything from soft skills to specific work-related topics, allowing all employees to acquire the knowledge and skills they need for their specific position. Our employees can also use recognized further training measures and courses of study to obtain additional professional qualifications while working. These include training to become Real Estate Specialists (offered by the Chamber of Industry and Commerce, IHK) and courses leading to a bachelor's or master's degree in Real Estate Management at the EBZ Business School.

Our individual further training concept was continued this year in cooperation with EBZ. Vonovia offers its employees the opportunity to obtain a Chamber of Industry and Commerce qualification as a "Residential Real Estate Caretaker (IHK)," something that aroused great interest among our caretakers. Of our 381 employed caretakers from across Germany, more than 300 have taken part in the certified training course to date. All of them obtained the Chamber of Industry and Commerce qualification.

The training sessions address topics such as tenancy law, technology, the initial assessment of construction faults, how to comply with public safety obligations, and communications. Our caretakers have to attend face-to-face sessions lasting a total of 80 hours over a ten-week period. In order to make the program a success for our caretakers and, as a result, also in terms of customer satisfaction, we maintain regular contact with our caretakers, EBZ and the relevant departments to exchange information, e.g., at workshops. This ensures that content is always up to date.

"Annington Academy" Becomes "Vonovia Academy"

As part of the integration of GAGFAH, more than 500 local customer service employees (caretakers, real estate managers, rental agents and technicians) across Germany completed three modules at the Vonovia Academy, in several waves, to prepare for the operational launch of Vonovia on January 1, 2016, by completing tailor-made training programs. The content of these courses was designed by our internal process experts before being further refined by the Academy from a teaching perspective and then implemented by dedicated trainers who had undergone specific preparatory training.

Regional managers were also involved in the training sessions. The managers participated as trainers in preparatory "train-the-trainer" sessions before delivering the training. In order to ensure the success of the various training courses and a sustainable knowledge transfer, individual (Deutsche Annington) employees in the regions were also trained as "mentors" for former GAGFAH employees.

The use of state-of-the-art digital learning concepts within the Vonovia Academy will mark another new milestone in our learning culture. This will facilitate knowledge transfer within Vonovia's decentralized organization.

Active Health Management

Demographic change, combined with an increasing workload, means that the use of the workforce is becoming more and more 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.

BALANCE BODY & MIND combines all of the 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 **BALANCE 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 the former Deutsche Annington 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.

Former GAGFAH employees receive performance-related remuneration largely via works council or individual agreements. In 2014, this payment corresponded to one monthly salary per employee on average.

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 only 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 **Deutsche Annington Foundation** is a charitable foundation under German civil law and has its registered headquarters in Düsseldorf. 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 the company's properties. It expressly supports active citizenship, personal responsibility and individual initiative within a residential context.

Cooperation Partner of the NRW Sports Foundation

Vonovia is committed to promoting talented young athletes. Our positive experience reinforces our decision to continue and further expand our commitment to competitive sports. As a cooperation partner of the NRW Sports Foundation in the "Twin Careers" (Zwillingskarriere) project, we offer young athletes the chance to work on their sporting and vocational careers at the same time and to be as successful as possible in both endeavors in the process.

Vonovia SE on the Capital Market

Reasons to Invest in Vonovia Shares

> Europe's largest listed real estate company with real estate assets worth more than € 24 billion
> The first and only real estate company to be listed on the DAX
> Nationwide portfolio of around 360,000 units
> Stable, sustainable cash flow and attractive distribution ratio
> Innovative property management strategy focused on standardized processes and the systematic expansion of the business model
> Transparent and open communication with the capital markets

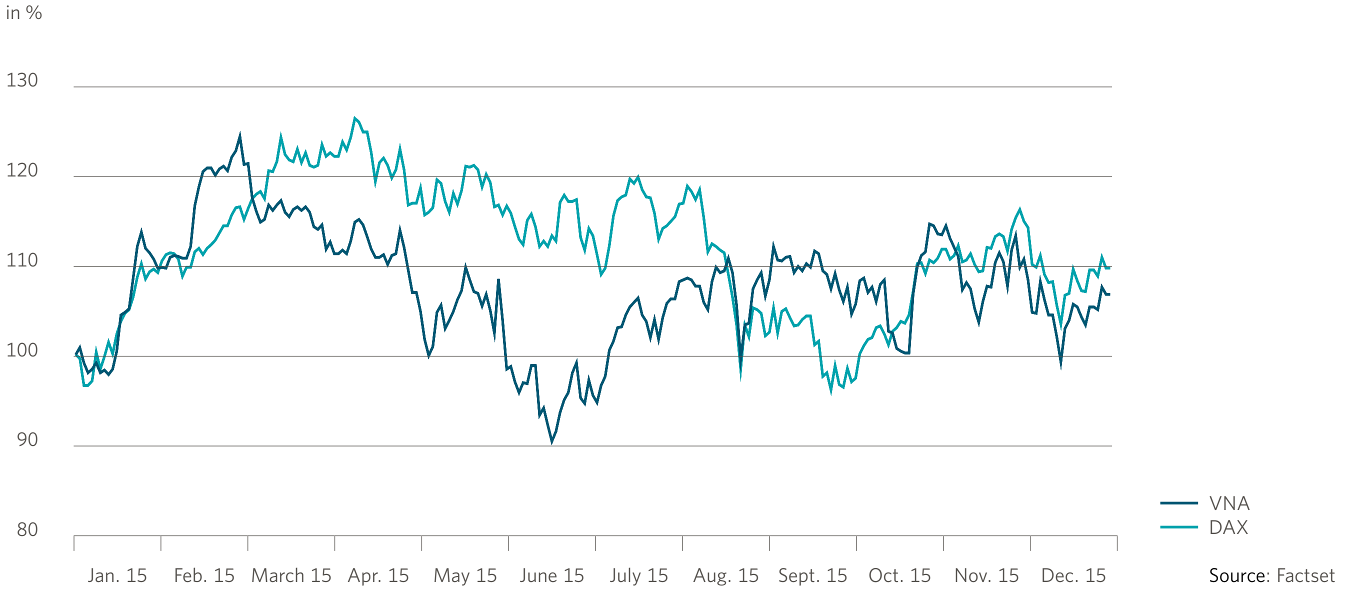
Developments on the International Capital Markets

The global stock markets proved to be very volatile in the course of the year: The key indices S&P500, FTSE100 and DAX showed solid to positive development in the period leading up to early June, 2015. In Germany and the rest of the eurozone, this increase was bolstered by intensive monetary stimulus measures taken by the European Central Bank. In early June 2015, and then again in late August, 2015, however, the markets were hit by significant global slumps triggered primarily by the marked slowdown in growth momentum in China, but also by the ongoing destabilization of the geopolitical situation. The risk of a Greek exit from the European Union, as well as the escalation of hostilities in the Middle East and the resulting wave of refugees heading for Europe were some of the main factors.

Company-Specific Factors Impacting Vonovia's Shares

In addition to the macroeconomic and geopolitical factors impacting the global stock markets, as described above, the performance of Vonovia's shares in 2015 was characterized by two major takeovers, a significant capital increase, the latest takeover offer made to the shareholders of Deutsche Wohnen AG and, finally, by the company's admission to the DAX: The takeover of GAGFAH S.A. took effect on March 6, 2015. At almost the very same time, a cash and non-cash capital increase was implemented in the amount of € 2.7 billion. In July 2015, the company implemented a cash capital increase with subscription rights of € 2.2 billion, the aim being not only to reduce its liabilities, but also to finance the takeover of SÜDEWO, which is based in the German federal state of Baden-Württemberg. The transaction was completed on July 8, 2015. The company was admitted to Germany's leading index, the DAX, on September 21, 2015, and represents a landmark in German stock exchange history: This is the first time that a real estate company has been represented in the DAX. On October 14, 2015, Vonovia announced that it would be making a voluntary takeover offer to the shareholders of Deutsche Wohnen AG. This offer was made on December 1, 2015, after being approved by the German Federal Financial Supervisory Authority (BaFin). Share price performance in the fourth quarter of 2015 was heavily influenced by this voluntary takeover offer.

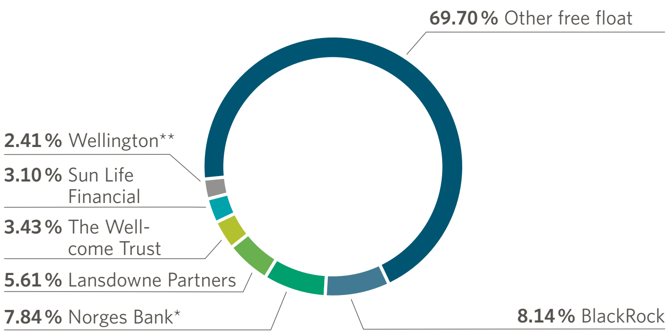
Share Price Performance of Vonovia's Shares



In the first quarter of 2015, the voluntary public takeover offer for the shares in GAGFAH S.A. made at the end of 2014 lifted Vonovia's shares from a closing price of € 26.75 (adjusted by a TERP factor of 1.051) as of December 31, 2014, to its highest closing price of € 33.23 (adjusted by a TERP factor of 1.051) recorded on March 2, 2015. This corresponds to an increase of more than 24 % and means that the company's shares gained around eight percentage points more than the DAX index did during the same period. From then on, both the DAX and Vonovia's shares remained on a downward trend until the middle of the year: The company's shares dropped to a low of € 24.19 on June 18, 2015. Against the backdrop of a stagnating to weak, very volatile DAX, Vonovia's shares bucked the trend in the third quarter of 2015 despite a number of setbacks and climbed back up to an interim high of € 30.62 on October 28, 2015. Share price performance was also supported by the offer for Deutsche Wohnen AG from mid-October, 2015, onwards. In the remainder of the year, the company's shares developed largely in tandem with the DAX: Vonovia's shares closed the year 2015 at a price of € 28.55, 6.7 % higher than the end of 2014 and more or less in line with the DAX increase of 9.6 % in the course of the year. The company's market capitalization came to € 13.3 billion as of December 31, 2015.

Shareholder Structure

Free Float and Breakdown of Major Shareholders (as of December 31, 2015)



* Investment interest as of October 26, 2015, as disclosed in writing by Norges on October 27, 2015. The last notification of voting rights submitted by Norges pursuant to the German Securities Trading Act was dated August 25, 2014, and showed an investment interest of 8.85 % of share capital totaling € 240,242,425.

** The last notification of voting rights submitted by Wellington pursuant to the German Securities Trading Act was dated March 17, 2015, and showed an investment interest of 3.18 % of share capital totaling € 354,106,228.

Based on the German stock exchange's definition of free float, only the interest held by Norges Bank does not count towards the free float. This means that 92.16 % of Vonovia SE's shares were in free float on December 31, 2015.

In accordance with Vonovia SE's long-term strategic focus, its largest individual shareholders are investors with a similarly long-term focus such as pension funds and other funds.

2015 Annual General Meeting

The Annual General Meeting of Vonovia SE was held in Düsseldorf on April 30, 2015. 52.5 % of the share capital was represented. All of the agenda items were carried by a large majority, including the proposal to distribute a dividend of € 0.78 per share to the company's shareholders. This corresponds to a dividend yield of 2.8 % in relation to the share's closing price of € 28.12 on December 31, 2014 (not adjusted by TERP factor). The dividend for the 2014 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. The Management Board held numerous roadshows throughout 2015, visiting key European, North American and Asian financial centers and attending a total of 15 investors' conferences. In addition, numerous "one-on-one" meetings and teleconferences were held with selected investors and analysts over the course of the year to keep them informed of current developments and special issues.

Our annual Capital Markets Day was held on June 15 and 16, 2015, in Berlin, attracting a total of 55 international participants. The Management Board and representatives from the individual departments used selected examples to give the guests a detailed insight into the operational implementation of the corporate strategy. The focal points included the management of the nationwide property management platform, which is one of the key differentiators we offer compared with our peers.

The Investor Relations team also organized and conducted numerous property tours for interested investors and analysts during the year. These events aim 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 German residential real estate market at informational events for private shareholders.

A revamped website also gives interested investors access to extensive information on the topic of investor relations.

Aims of Investor Relations Work in 2016

In 2016, we want to continue to communicate openly with the capital market. As well as attending conferences and conducting roadshows, property tours and individual meetings, another Capital Markets Day is scheduled to take place in 2016.

Analyst Recommendations

At present, 22 international analysts publish studies on Vonovia on a regular basis (as of February 15, 2016). The average target share price was € 31.30 as of February 15, 2016. 57 % of the analysts issued a "buy" recommendation, with 29 % issuing a "hold" recommendation and only 14 % recommending that investors sell the company's shares.

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	DAX; Stoxx Europe 600; MSCI Germany; GPR 250; FTSE EPRA / NAREIT Europe Index

Management System

Three Business Segments

Our management system is based on the strategic pillars of the Group. For the management of the company, we have thus split our activities into three business 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 customer-oriented services, e.g., services that are closely related to and/or influence the rental business. Among other things, the segment bundles those business activities that used to form part of the Rental segment. By reporting these activities separately, we want to present the activities in a transparent manner and emphasize our strategy of expanding our business to include services, in part by way of insourcing them, extending beyond our core business of property management. The segment comprises the following activities in detail:

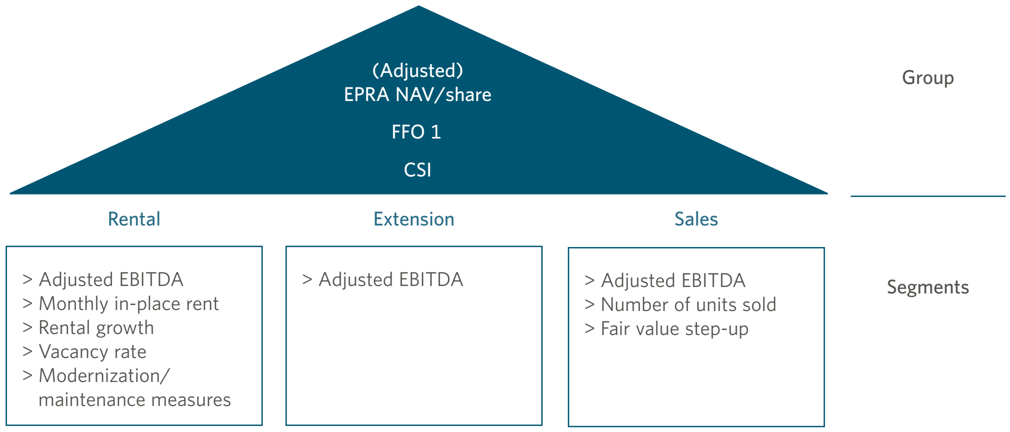
> Our own craftsmen's organization
> Our organization for the upkeep and maintenance of the residential environment in which our properties are located
> The provision of a cable TV connection to our tenants
> Condominium administration for our own apartments and for third parties
> Metering services 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 midterm 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 countermeasures 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 and the value of our property assets are two 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). For the 2016 fiscal year, the adjusted EPRA NAV per share, after corrections for goodwill, is the relevant performance indicator.

Calculation of Adjusted EPRA NAV

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

For managing the sustained operational earnings power of our business, the main standard key figure in the sector is **Funds from Operations 1 (FFO 1).** 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
=	**Adjusted EBITDA**
(-)	Adjusted EBITDA Sales
(-)	Adjusted EBITDA Extension
(-)	Adjusted EBITDA Other
=	**Adjusted EBITDA Rental**
(+)	Adjusted EBITDA Extension
(+)	Adjusted EBITDA Other
(-)	FFO interest expense
(-)	Current income taxes Rental
=	**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. Further adjustments are made to eliminate specific effects which do not relate to the period, are non-recurring or do not relate to the objective of the company, with the **adjusted EBITDA** as the resulting financial figure. 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, expenses for maintenance and operating expenses. The latter include all costs that do not comprise maintenance.

Calculation of Adjusted EBITDA Rental

	Rental income
(-)	Expenses for maintenance
(-)	Operating expenses
=	**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 expenses** 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, the adjusted EBITDA Extension and the adjusted EBITDA Other, in which consolidation effects are combined, reflects the result of our entire operating core business.

As financing is a fundamental component for the success of our business activities, we deduct the current cash-effective 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, 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 sustainable 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 real estate assets.

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 NAV is the **Customer Satisfaction Index (CSI).** It is determined at regular intervals in systematic customer surveys conducted by the service provider Infas TTR and represents the effectiveness and sustainability of our services for the customer.

The **vacancy rate** shows the proportion of units in our own housing stocks that are not rented and therefore generate no rental income. 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.** The vacancy rate, CSI, and in-place rent are important early 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 key 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** is 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.

Report on Economic Position

Development of the Economy and the Industry

German Economic Growth Remains Stable

According to the Kiel Institute for the World Economy (IfW), despite an uneasy global economic environment the German economy is once again gaining momentum. After GDP growth slowed slightly to 0.3 % at the beginning of 2015, favorable production figures were able to boost growth to 0.4 % in the second quarter of 2015. In the fall, however, stagnating exports resulted in slower growth of 0.3 %. Considerable impetus is, however, coming from the service sectors, with business confidence also signaling high economic momentum, meaning that GDP was able to grow by 0.5 % in the fourth quarter of last year. According to the IfW, GDP has grown by 1.7 % overall in the 2015 fiscal year. Favorable developments on the job market coupled with robust income growth and temporary factors such as higher monetary social benefits and the introduction of the minimum wage have meant that private consumption has been strongly increasing since mid-2015 following a somewhat restrained first half of the year. This is due to the fact that disposable incomes hardly increased while the temporary recovery of oil prices provided impetus for consumer prices. On the consumption side, the investment engine began stalling during the six-month summer period. In the case of construction investments, this was partly due to weather-related effects. Corporate investments once again notably increased at the end of the year, but over the year as a whole they are likely to fall short of the figure for 2014 by one third. However, the upturn in investment is gaining ground. This outlook is supported, not least, by improved sales and earnings prospects – also due to the depreciation of the euro – as well as the cyclical component with noticeably strained production capacities. The construction industry continues to operate close to its highest-ever level of capacity utilization. The depreciation of the euro and lower oil prices promoted faster export expansion. After growing at a solid rate of around 1.7 % in the first six months of the year 2015, export growth in the second half of 2015 is expected to have been very subdued at only around 0.4 %. While the central bank of the United States, the Federal Reserve, increased its benchmark interest rate by 0.25 %, to a range between 0.25 % and 0.5 %, for the first time in ten years at the end of 2015, the German Federal Ministry of Economic Affairs and Energy (BMWi) expects the European Central Bank to continue with its expansionary monetary policy. The main refinancing rate has been unchanged at 0.05 % since September 2014.

The job market trend remains positive, and the number of employees who are required to make social security contributions is continuing to increase considerably, according to the German Federal Employment Agency (Bundesagentur für Arbeit). The average unemployment rate in 2015 thus came in at 6.4 %, down by 0.3 percentage points on the previous year.

After inflation started to fall in June 2015 and reached the 0.0 % mark in September 2015, consumer price development started to pick up ever so slightly again in the fourth quarter of 2015. According to preliminary figures released by the German Federal Statistics Office (Statistisches Bundesamt), in 2015 the average rate of inflation – based on the consumer price index – was 0.3 % higher than in 2014. As in the previous months, falling energy prices put a damper on inflation, while the moderate increase in consumer prices can be attributed to rising food prices.

Housing Market

Rent Developments Becoming More Stable

According to the German Association of Real Estate Consultants, Agents, Managers and Experts (IVD), rental price development in Germany has stabilized, with average nationwide rents up by just under 3 % compared to the previous year. The increase in rent for existing apartments was moderate, coming in at around 2.9 % for apartments of an average standard and 2.7 % for apartments of a high standard. In cities with a population of 500,000 or more, which are characterized by excess demand, the increase in rents remained slightly higher at 4.2 % (apartments of an average standard). During the same period, the rent for newly constructed buildings rose by 2.9 % and 3.3 % for apartments of an average and high standard respectively. Here, too, the increase was higher in those German cities that are affected by considerable excess demand. The IVD believes that the anticipatory effects that some experts expected to see in connection with the introduction of the rent ceilings failed to materialize. For the purposes of its analysis, the IVD compiled and evaluated the real estate market data for 370 German towns, cities and municipalities for the second and third quarters of 2015.

Although the IVD says that the development in the purchase prices of owner-occupied apartments is down on the prior-year level, prices are still rising considerably. This applies equally to new and existing apartments of both an average and a high standard. Looking at Germany on average, the purchase prices of owner-occupied apartments rose by between 4.5 % and 5.8 %. The IVD believes that the boom in the country's major cities has now spilled over to smaller towns. This trend is a result of catch-up effects in terms of price increases. In general, however, the same rule of thumb continues to apply: the bigger the city, the higher the price increase.

Record Year for the German Residential Investment Market

According to experts from the real estate firm Savills, the German residential investment market achieved a transaction volume of around € 22.5 billion in total in 2015. The analysis includes transaction bundles encompassing 50 or more units. This makes last year the strongest ever on the German residential investment market in terms of revenue. German investors are dominating the market on the buyer side, with a share of almost 90 %, whereas the majority, or 58 %, of sellers tend to be foreign investors. Based on the information supplied by Savills, the bulk of the transactions were executed between listed real estate companies. Vonovia purchased more than 150,000 apartments, making it the biggest buyer, followed by Deutsche Wohnen, LEG Immobilien and Adler Real Estate. Investors are also buying more apartment packages outside of major metropolitan areas, which Savills attributes to the marked excess demand in top locations and a general sense of confidence in the German residential property market among investors.

Rent Ceilings Already in Force in Many German Federal States

The German Tenancy Amendment Act was passed by the German Bundestag (lower house of parliament) on March 5, 2015, and promulgated in the Federal Law Gazette on April 27, 2015. Among other things, the Act caps rents at a level that must not exceed the standard local comparative rent by more than 10 % when apartments are relet in housing markets that are evidently strained. Rent agreements concluded before the rent ceilings came into force, however, can be concluded once again at the existing rent level. The Act also includes a time limit and has excluded new buildings and apartments rented for the first time after extensive modernization from the provisions. The provisions have already been in force in nine federal states, including Berlin, Hamburg, some cities and municipalities in North Rhine-Westphalia and Bavaria, since 2015. Further federal states could follow. The provisions will, for example, also take effect for 31 cities and municipalities in Brandenburg on January 1, 2016.

Economic Development of the Group

Business Development in 2015 – An Overview

The 2015 fiscal year was extremely successful for **Vonovia as a whole** and came hand in hand with several acquisitions.

We were able to further develop our operating business and our real estate portfolio as planned, continue with our maintenance and modernization strategy, implement our rent increases as scheduled and further reduce our vacancy levels. In addition, we were able to use two major acquisitions (GAGFAH and SÜDEWO) in the Rental segment to considerably enhance our market position and our real estate portfolio. We successfully completed the integration of these portfolios and incorporated them into our maintenance and modernization strategy.

In the **Rental segment,** we acquired the real estate portfolio of the GAGFAH Group with effect from March 6, 2015. By way of a tender for the rest of the GAGFAH S.A. shares within the framework of the Luxembourg Takeover Act, the company's share of the share capital of GAGFAH S.A. rose to 93.8 %, which marks a major step in the expansion of our property portfolio. GAGFAH S.A. and its subsidiaries have been included in the consolidated financial statements of Vonovia SE since March 6, 2015. This acquisition had a significant impact on Vonovia's assets, equity and liabilities and thus materially affected its net assets, financial position and results of operations.

The real estate portfolio of the SÜDEWO Group (SÜDEWO) was subsequently acquired with effect as of July 8, 2015. We have thus considerably strengthened our presence in Baden-Württemberg, with an additional residential portfolio of approximately 19,400 units.

The portfolios of DeWAG, Vitus and Franconia have also already been fully incorporated into Vonovia's portfolio and processes and have also contributed to the company's successful business development in 2015. The GAGFAH and SÜDEWO portfolios have also been incorporated into Vonovia's property management platform.

On November 11, 2015, we acquired a further real estate portfolio of around 2,400 residential units which we included in 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.

Our property-related services have been bundled in our new Extension segment and were expanded considerably again in the 2015 fiscal year to include increased services provided by the craftsmen's organization. This contributed to the ongoing sustainable improvement of our housing stocks. We were also, however, able to expand our real estate administration services considerably thanks to two further acquisitions. We acquired the real estate manager and service provider O-TEC, which is based in Landsberg, in October 2015. The legal transfer of this company was completed on January 1, 2016. We also took over IVV Immobiliengruppe as of January 1, 2016, expanding our market leadership in the management of residential property, buildings and third-party real estate management. With around 16,000 residential units, IVV is one of Germany's largest building management firms. Its business has a particularly strong presence in the Rhine cities of Cologne, Bonn and Düsseldorf.

As of December 31, 2015, the company's workforce had increased to 6,368.

These acquisitions allowed us to significantly expand our real estate portfolio in the 2015 fiscal year. As of December 31, 2015, Vonovia managed 357,117 residential units of its own. The key performance indicators for 2015 include DeWAG and Vitus for twelve months, the GAGFAH Group with its figures for the period from March to December 2015, Franconia with its figures from April to December 2015 and SÜDEWO with its figures from July to December 2015. These figures are compared with the business figures for the months from January to December 2014, which included DeWAG for the period between April and December 2014 and Vitus for the months between October and December 2014, but do not include the acquisitions of GAGFAH, Franconia or SÜDEWO, which were completed in 2015.

In the 2015 fiscal year, income from property management was in line with our expectations and came in at a total of € 2,063.5 million (2014: € 1,156.6 million). Income from disposal of properties stood at € 726.0 million (2014: € 287.3 million). The GAGFAH portfolio contributed € 702.5 million towards income from property management and € 259.6 million towards income from disposal of properties in the 2015 reporting period. The DeWAG portfolio contributed € 83.7 million (Q2 to Q4 2014: € 61.7 million) towards income from property management and € 16.5 million (Q2 to Q4 2014: € 51.5 million) towards income from disposal of properties in the 2015 reporting period. The Vitus portfolio contributed € 118.3 million (Q4 2014: € 29.7 million) towards income from property management and € 19.9 million (Q4 2014: € 0.8 million) towards income from disposal of properties in the 2015 fiscal year. The Franconia portfolio contributed € 21.1 million towards income from property management and € 5.4 million towards income from disposal of properties in the period from April to December 2015. The SÜDEWO portfolio contributed € 68.3 million towards income from property management and € 0.2 million towards income from disposal of properties in the period from July to December 2015.

Overall, our key performance indicators developed very positively. In the 2015 fiscal year, FFO 1 came in at € 608.0 million, up by 112.1 % over the previous year. EBITDA IFRS amounted to € 838.4 million in the 2015 reporting period and was therefore 67.6 % above the figure for 2014 of € 500.3 million. Adjusted EBITDA increased by 85.8 % from € 554.0 million in 2014 to € 1,029.1 million in 2015. Our NAV increased by 112.7 %, from € 6,578.0 million at the end of 2014 to € 13,988.2 million as of December 31, 2015.

Results of Operations

The following primary key figures show the development of Vonovia's results of operations in the 2015 fiscal year. Regarding the different times at which the earnings contributions made by the individual GAGFAH, SÜDEWO, DeWAG, Vitus and Franconia subportfolios were included, we refer to the comments made in the chapter above on overall business development.

Key Performance Indicators of Vonovia

in € million	2015	2014
Income from property management	2,063.5	1,156.6
thereof rental income	1,414.6	789.3
Adjusted EBITDA Rental	924.8	483.1
Adjusted EBITDA Extension	37.6	23.6
Income from disposal of properties	726.0	287.3
Adjusted EBITDA Sales	71.1	50.1
EBITDA IFRS	838.4	500.3
Adjusted EBITDA	1,029.1	554.0
FFO 1	608.0	286.6
FFO 2 (incl. adjusted EBITDA Sales)	662.1	336.7
AFFO	520.5	258.3
Number of employees (as of December 31)	6,368	3,850
Number of units bought	168,632	31,858
Number of units sold	15,174	4,081
thereof Privatize	2,979	2,238
thereof Non-Core	12,195	1,843
Vacancy rate in %	2.7	3.4
Monthly in-place rent (€/m²)	5.75	5.58
Number of residential units in portfolio	357,117	203,028

Rental

In the 2015 fiscal year, our core Rental business showed very positive development on the whole. The successful acquisitions of GAGFAH, Franconia and SÜDEWO allowed us to considerably expand our real estate portfolio in 2015. Moreover, we made a significant contribution to improving the quality of our subportfolios Upgrade Buildings and Optimize Apartments by forging ahead with modernization and maintenance measures. We also applied our modernization and maintenance strategy to the acquired portfolios. In addition, we successfully continued with our performance-focused and customer-oriented property management strategy, further expanding our property management platform. The integration of GAGFAH, Franconia and SÜDEWO went either according to schedule or faster than planned.

Some of the business activities we had reported under the Rental segment in 2014 have now been bundled in a new Extension segment, meaning that they no longer fall under the Rental segment. These business activities relate to the expansion of our value chain to include property-related services (see the information in the "Extension" section). In the 2014 fiscal year, the consolidated earnings contribution made by these activities had been offset against other operating expenses in the Rental segment.

All in all, based on the expanded portfolio, we were able to increase our **adjusted EBITDA Rental** by 91.4 %, from € 483.1 million in 2014 to € 924.8 million in 2015. Due to the new segmentation of our business in 2015, the presentation of the prior-year figures has been adjusted accordingly. The adjusted EBITDA Rental reported in the previous year fell by € 20.8 million as a result. This earnings contribution is now attributable to the new Extension segment.

Adjusted EBITDA Rental

in € million	2015	2014
Rental income	1,414.6	789.3
Expenses for maintenance	-242.2	-145.1
Operating expenses*	-247.6	-161.1
Adjusted EBITDA Rental	**924.8**	**483.1**

* Correction of property management costs for 2014 from the former amount of € -140.3 million to € -161.1 million in operating expenses due to the resegmentation of the Extension segment

Rental income rose by 79.2 % from € 789.3 million in 2014 to € 1,414.6 million in 2015. The GAGFAH portfolio contributed € 479.3 million to this amount, with the DeWAG portfolio contributing € 61.9 million (Q2 to Q4 2014: € 45.8 million), the Vitus portfolio € 75.7 million (Q4 2014: € 19.8 million), the Franconia portfolio € 14.5 million and the SÜDEWO portfolio € 52.3 million. If we leave the inclusion of the acquired GAGFAH, Franconia and SÜDEWO portfolios out, rental income rose from € 789.3 million in 2014 (incl. DeWAG in Q2 to Q4 2014 and Vitus in Q4 2014) to € 868.4 million in 2015. In the 2015 fiscal year, we used the addition of extra stories to existing buildings and the conclusion of new property-related rental and license agreements to generate income of € 0.5 million. This corresponds to additional annualized income of € 1.0 million. In relation to total in-place rent, these measures generated an additional rent increase of 0.12 percentage points in 2015.

The monthly in-place rent per square meter rose from € 5.58 at the end of 2014 to € 5.75 at the end of 2015. This corresponds to an increase of 3.0 % in total. At the end of the year, the GAGFAH portfolio was included in the Group value at a monthly in-place rent of € 5.55/m², the DeWAG portfolio at a monthly in-place rent of € 6.99/m², the Vitus portfolio at a monthly in-place rent of € 5.16/m², the Franconia portfolio at a monthly in-place rent of € 5.89/m² and the SÜDEWO portfolio at a monthly in-place rent of € 6.87/m². The monthly in-place rent per square meter on a like-for-like basis (incl. DeWAG and Vitus) came in at € 5.78 at the end of 2015. This corresponds to an increase of 2.9 % compared to the end of December 2014.

We were also once again able to reduce our vacancy rate in the 2015 fiscal year. The vacancy rate dropped from 3.4 % at the end of 2014 to 2.7 % at the end of 2015. The development in vacancy also had a positive impact on rental income. Accordingly, the EPRA vacancy rate fell from 3.0 % at the end of 2014 to 2.5 % at the end of 2015.

We systematically continued with our modernization and maintenance strategy in the 2015 fiscal year. **Expenses for maintenance** totaled € 242.2 million in the 2015 fiscal year and were therefore up by 67 % on the previous year's figure of € 145.1 million. In the 2015 fiscal year, € 82.3 million was attributable to the GAGFAH portfolio, € 9.2 million to the DeWAG portfolio (Q2, Q3 and Q4 2014: € 7.1 million), € 15.4 million to the Vitus portfolio (Q4 2014: € 2.4 million), € 3.4 million to the Franconia portfolio and € 3.9 million to the SÜDEWO portfolio. Expenses for maintenance excluding the acquired GAGFAH, Franconia and SÜDEWO portfolios came in at € 152.6 million, up by 5.2 % on the figure for the previous year (€ 145.1 million). We increased our value-enhancing modernization program by more than 200 % in the 2015 fiscal year, from € 171.7 million in 2014 to € 355.6 million in 2015. This means that, including capitalized maintenance of € 88.5 million, we invested a total volume of € 686.3 million (2014: € 345.5 million) in modernization and maintenance work on our properties in the 2015 fiscal year.

Maintenance and Modernization

in € million	2015	2014
Expenses for maintenance	242.2	145.1
Capitalized maintenance	88.5	28.7
Modernization measures	355.6	171.7
Total cost of modernization and maintenance*	**686.3**	**345.5**
thereof sales of own craftsmen's organization	369.4	176.6
thereof bought-in services	316.9	168.9

* Incl. intra-Group profits for 2015: € 31.0 million (thereof € 1.0 million capitalized maintenance, thereof € 3.8 million modernization); 2014: € 18.7 million (thereof € 0.4 million capitalized maintenance, thereof € 2.0 million modernization)

Related to square meters of living area, this is an increase in the total cost of modernization and maintenance of around 14 %, from € 29.12 to € 33.04. This is largely due to the clear increase in the modernization volume.

In the 2015 fiscal year, operating expenses in the Rental segment came to € 247.6 million, up by € 86.5 million on the prior-year value of € 161.1 million due to acquisitions.

Extension

Our new Extension segment combines all of our business activities relating to the expansion of our core business with additional property-related services. At present, these include the following business activities:

- 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 television to our tenants
- Condominium administration for our own apartments and for third parties
- Metering services for measuring the consumption of water and heating
- Insurance services for our own apartments and for third parties

In the Extension segment, we were able to further increase our earnings power in the 2015 fiscal year. Income in the Extension segment more than doubled in the fiscal year under review. It rose from € 211.1 million in 2014 to € 428.7 million in 2015. The expansion of our craftsmen's organization played a key role in this respect. Operating expenses came in at € 391.1 million in 2015, around 109 % higher than in the previous year (€ 187.5 million). All in all, the adjusted EBITDA Extension rose to € 37.6 million in 2015, up by 59.3 % on the figure of € 23.6 million from 2014.

Adjusted EBITDA Extension

in € million	2015	2014
Income	428.7	211.1
thereof external income	59.3	28.9
thereof internal income	369.4	182.2
Operating expenses	-391.1	-187.5
Adjusted EBITDA Extension	**37.6**	**23.6**

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 that do not relate to maintenance, and in 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 relation to the average number of units, we were able to cut these costs considerably from € 754 per apartment in 2014 to € 644 per apartment in 2015.

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 in the 2015 fiscal year. It increased from 63.8 % in 2014 to 67.7 % in 2015, which equates to an improvement of 3.9 percentage points.

The EPRA cost ratio also provides an indicator allowing efficiency to be assessed. It is calculated as a reciprocal value to the EBITDA margin, plus additional adjustments such as ground rent. In line with the EPRA Best Practice Recommendations (BPR), the EPRA cost ratio (including direct vacancy costs) also includes the expenses for maintenance and improved from 35.7 % in 2014 to 31.9 % in 2015.

Sales

Our Sales 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). We continued to pursue our sales strategy in the 2015 fiscal year.

Sales in the **Privatize** segment were as follows in the 2015 fiscal year:

Sales in the Privatize Portfolio

in € million	2015	2014
Number of units sold	2,979	2,238
Income from disposal of properties	262.7	231.2
Fair value of properties sold*	-201.3	-168.0
Adjusted profit from disposal of properties	**61.4**	**63.2**
Fair value step-up in %	30.5	37.6

* The fair values of properties sold including fair value effects from assets held for sale

The figure of 2,979 units sold in the 2015 fiscal year was about 33 % higher than the figure of 2,238 from the previous year. Sales proceeds rose by 13.6 % from € 231.2 million in 2014 to € 262.7 million in 2015. At 30.5 %, the fair value step-up was slightly lower than the value for the previous year (37.6 %). This is due to the sale of a portfolio of single-family houses comprising 770 units, which was concluded at a value close to the fair value. Leaving this portfolio sale out of the equation, the fair value step-up was 38.1 % in 2015. 558 units from the GAGFAH portfolio were privatized in 2015, as were 101 units from the DeWAG portfolio (Q2 to Q4 2014: 269 units) and one unit from the SÜDEWO portfolio. No units from the Vitus or Franconia portfolios were privatized in 2015.

Sales in the Non-Core Portfolio

in € million	2015	2014
Number of units sold	12,195	1,843
Income from disposal of properties	463.3	56.1
Fair value of properties sold*	-424.4	-50.6
Adjusted profit from disposal of properties	**38.9**	**5.5**
Fair value step-up in %	9.2	10.9

* The fair values of properties sold including fair value effects from assets held for sale

In the Non-Core portfolio, we continued, as planned, to sell properties which do not fit in with our medium- to long-term strategy as the opportunity arises. With 12,195 units sold in 2015, the sales volume was up considerably on the prior-year value of 1,843 units. In 2015, this is due to a portfolio sale in northern Germany including 5,971 units and other smaller portfolio sales accounting for a combined total of 3,370 units.

5,486 Non-Core units were sold from the GAGFAH portfolio, 531 units from the Vitus portfolio, 59 units from the Franconia portfolio, five units from the DeWAG portfolio and none from the SÜDEWO portfolio.

Overall, the Sales segment developed as follows in 2015 compared with 2014:

Adjusted EBITDA Sales

in € million	2015	2014
Income from disposal of properties	726.0	287.3
Carrying amount of assets sold	-658.7	-243.4
Revaluation of assets held for sale	51.7	25.1
Profit on disposal of properties (IFRS)	**119.0**	**69.0**
Revaluation (realized) of assets held for sale	-51.7	-25.1
Revaluation from disposal of assets held for sale	33.0	24.8
Adjusted profit from disposal of properties	**100.3**	**68.7**
Selling costs	-29.2	-18.6
Adjusted EBITDA Sales	**71.1**	**50.1**

The adjusted profit from disposal of properties rose considerably from € 68.7 million in 2014 to € 100.3 million in 2015. The Non-Core sales made a particular contribution to this trend. 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 in the 2015 fiscal year was € -18.7 million, compared with € -0.3 million in 2014.

At € 29.2 million, selling costs were considerably up on the prior-year value of € 18.6 million. This is largely due to an increase in the number of sales on the whole. Adjusted EBITDA Sales rose by 41.9 % from € 50.1 million in 2014 to € 71.1 million in 2015.

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 specific factors which do not relate to the period, are non-recurring or do not relate to the objective of the company. 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 2015 fiscal year:

Non-Recurring Items

in € million	2015	2014
Business model optimization/ development of new fields of business	11.3	1.6
Acquisition costs incl. integration costs*	179.8	43.2
Refinancing and equity measures	0.7	1.2
Severance payments/pre-retirement part-time work arrangements	17.6	8.0
Total non-recurring items	**209.4**	**54.0**

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

In the 2015 fiscal year, the non-recurring items were mainly determined by € 179.8 million in acquisition costs, chiefly for purchases and integration in connection with the takeover of GAGFAH and costs relating to the public takeover offer made to the shareholders of Deutsche Wohnen AG.

All in all, adjusted EBITDA rose in the 2015 fiscal year to € 1,029.1 million and was therefore € 475.1 million above the comparable figure for the previous year of € 554.0 million. Excluding these adjustments for non-recurring items and effects not relating to the period in the Sales segment, EBITDA IFRS came in at € 838.4 million in 2015, € 338.1 million above the comparable figure of € 500.3 million for the previous year.

FFO

In the 2015 fiscal year, we were able to increase our primary key figure for the sustained earnings power of our core business, FFO 1, by € 321.4 million or 112 % compared to the previous year to € 608.0 million, largely due to our acquisitions GAGFAH, DeWAG, Vitus, Franconia and SÜDEWO.

The table shows the reconciliation of key financial figures. In general, it is important to bear in mind that the business figures for the same reporting period in 2014 do not include the acquisitions referred to above (with the exception of DeWAG in the second, third and fourth quarters of 2014 and Vitus in the fourth quarter of 2014):

Funds from Operations (FFO)

in € million	2015	2014
Profit for the Period	**994.7**	**409.7**
Financial result	414.0	274.9
Income taxes	739.8	179.4
Depreciation and amortization	13.4	7.4
Net income from fair value adjustments of investment properties	-1,323.5	-371.1
= EBITDA IFRS	**838.4**	**500.3**
Non-recurring items	209.4	54.0
Period adjustments from assets held for sale	-18.7	-0.3
= Adjusted EBITDA	**1,029.1**	**554.0**
Adjusted EBITDA Sales	-71.1	-50.1
Adjusted EBITDA Other	4.4	2.8
Adjusted EBITDA Extension	-37.6	-23.6
= Adjusted EBITDA Rental	**924.8**	**483.1**
Adjusted EBITDA Extension	37.6	23.6
Adjusted EBITDA Other	-4.4	-2.8
FFO interest expense	-339.8	-209.3
Current income taxes Rental	-10.2	-8.0
= FFO 1	**608.0**	**286.6**
Capitalized maintenance	-87.5	-28.3
= AFFO	**520.5**	**258.3**
Current income taxes Sales	-17.0	–
FFO 2 (FFO 1 incl. adjusted EBITDA Sales/current income taxes Sales)	**662.1**	**336.7**
FFO 1 per share in €*	1.30	1.00
AFFO per share in €*	1.12	0.90

* Based on the shares qualifying for a dividend on the reporting date Dec. 31, 2015: 466,000,624; Dec. 31, 2014: 271,622,425; due to the subscription right share issue, which allowed the new shares to be purchased at a discount, the key figures per share have been adjusted to make them comparable to the values including the rights issue (TERP adjustment). The adjustment factor is calculated based on the last share price prior to the deduction of subscription rights (€ 26.46) divided by the assumed share price following the issue of new shares (€ 25.18) (TERP, theoretical ex-rights price). This results in an adjustment factor of 1.051, by which the actual values were divided in order to ensure comparability.

The **financial result** in 2015 came to € -414.0 million, considerably lower than the comparable figure for the previous year of € -274.9 million. This was largely due to the financing costs for our acquisitions. At € -339.8 million, the operating FFO-related interest result in 2015 was down by 62.4 % on the corresponding figure for the previous year, due to acquisitions.

Reconciliation of Financial Result to Net Cash Interest

in € million	2015	2014
Income from other non-current loans	2.3	2.0
Interest income	2.1	3.4
Interest expenses	-418.4	-280.3
Financial result*	**-414.0**	**-274.9**
Adjustments:		
Transaction costs	60.5	5.0
Prepayment penalties and commitment interest	29.9	34.7
Effects from the valuation of non-derivative financial instruments	-53.2	18.2
Derivatives	21.9	-5.9
Interest accretion to provisions	8.6	12.4
Accrued interest	16.0	29.0
Other effects	6.5	-1.2
Net cash interest	**-323.8**	**-182.7**
Deferred interest adjustment	-16.0	-29.0
Early financing of Vitus acquisition	–	2.4
FFO interest expense	**-339.8**	**-209.3**

* Excluding income from other investments

Tax

Income taxes in the 2015 fiscal year came in at € -739.8 million, up considerably on the prior-year value of € -179.4 million. The higher tax rate is due primarily to fewer opportunities for eliminating expense. This corresponds to a tax rate of 42.7 % compared to 30.5 % for 2014. Current income taxes rose by € 18.4 million to € 21.7 million.

Profit for the Period

The profit for the period came in at € 994.7 million in the 2015 fiscal year (2014: € 409.7 million) and was influenced to a considerable degree by the net income from fair value adjustments to investment properties of € 1,323.5 million. By comparison, the profit for the period from the previous year included net income from fair value adjustments to investment properties of € 371.1 million. The company's earnings were also influenced by non-recurring effects linked to the takeover and integration of the acquisitions, and by transaction costs as part of the financing measures.

Financing Position

Cash Flow

The following table shows the Group cash flow:

Statement of Cash Flow

in € million	2015	2014
Cash flow from operating activities	689.8	453.2
Cash flow from investing activities	-3,239.8	-1,177.9
Cash flow from financing activities	4,093.1	1,741.7
Net changes in cash and cash equivalents	**1,543.1**	**1,017.0**
Cash and cash equivalents at the beginning of the period	1,564.8	547.8
Cash and cash equivalents at the end of the period	**3,107.9**	**1,564.8**

The cash flow from **operating activities** rose from € 453.2 million in 2014 to € 689.8 million in 2015 due to a higher operating cash surplus, in particular as a result of the expanded business volume in 2015 due to the inclusion of the DeWAG and Vitus business for the full year, and the inclusion of GAGFAH and SÜDEWO from the time of their respective acquisition. Income tax paid in the amount of € 60.4 million, of which € 44.4 million resulted from the repayment of the EK02 liability associated with the former GAGFAH area, had a negative impact on operating cash flow.

The cash flow from **investing activities** came to € -3,239.8 million in 2015, compared with € -1,177.9 million in 2014. It is characterized by payments made for the acquisitions of GAGFAH and SÜDEWO, and by the payments for the acquisition of the Franconia portfolio totaling € 3,058.7 million. The cash flow from investing activities of € 604.6 million was also influenced by payouts for modernization measures and the acquisition of selective individual stocks. Inflows relating from the sale of Non-Core and Non-Strategic portfolios as well as privatization in the amount of € 449.1 million had a positive impact.

The cash flow from **financing activities** in the 2015 fiscal year is characterized by the 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. The inflows from equity measures came to € 2,372.0 million. The inflows from debt financing relate, in particular, to drawdowns from the EMTN program in the amount of € 4.0 billion and the utilization of a bridge facility in the amount of € 923 million in connection with the GAGFAH transaction. The repayments in the amount of € 2,390.1 million relate to the repayment of the bridge facility again, and to both unscheduled and scheduled repayments on loans relating to the former Deutsche Annington Immobilien SE and the areas taken over from GAGFAH and SÜDEWO. Equity and debt capital financing led to transaction costs in the amount of € 165.3 million. The interest payments for 2015 came to € 327.3 million due to the considerably higher volume of debt financing. Payments of € 40.0 million were also made to the holders of the hybrid bond, which is treated as equity. In addition, dividends totaling € 295.8 million were paid to the shareholders of Vonovia SE and to minority shareholders of Group companies.

Financing

Responsibility for financing the Group as a whole and the Group companies individually lies with Vonovia. The latter raises the funds required, in line with the financing strategy, in a flexible manner on the international equity and debt capital markets. Within this context, Vonovia mainly makes use of Vonovia Finance B.V., Amsterdam.

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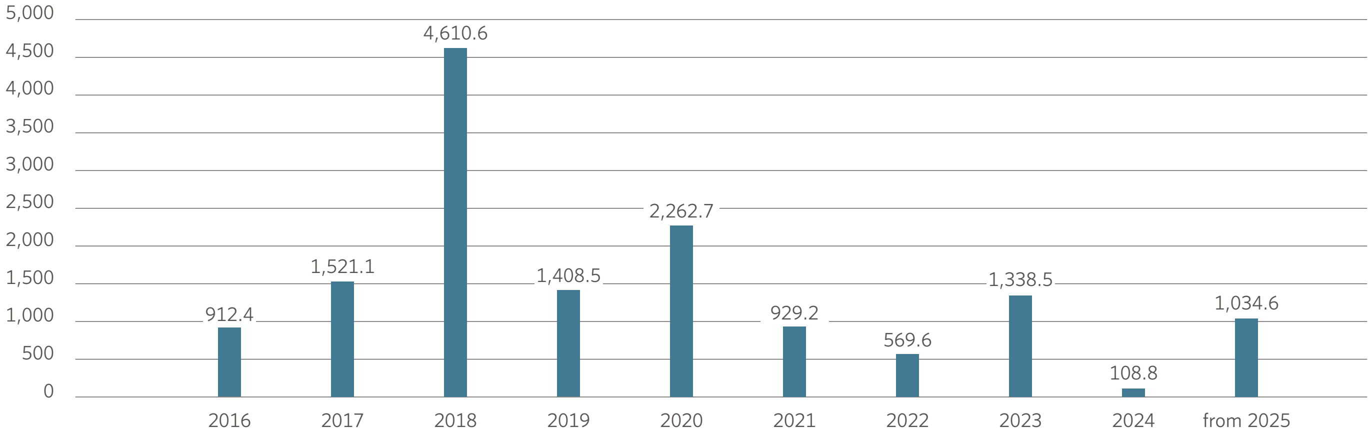
The debt maturity profile of Vonovia's financing was as follows at the end of the 2015 fiscal year:

Maturity profile

as at December 31, 2015, in € million



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.

At the end of the year, our LTV (loan-to-value ratio), a standard industry key figure, was as follows:

in € million	Dec. 31, 2015	Dec. 31, 2014
Non-derivative financial liabilities	14,939.9	6,664.8
Foreign exchange rate effects [1]	-179.4	-84.0
Cash and cash equivalents	-3,107.9	-1,564.8
Net debt	**11,652.6**	**5,016.0**
Funds held for Franconia purchase [2]	–	322.5
Funds held for GAGFAH purchase [2]	–	1,000.0
Outstanding proceeds from block sales	-244.5	–
Additional purchase price for outstanding acquisitions	134.9	–
Fund outflows for share purchases	-12.1	–
Adjusted net debt	**11,530.9**	**6,338.5**
Fair value of the real estate portfolio	**24,157.7**	**12,759.1**
Fair value of outstanding acquisitions	240.0	–
Adjusted fair value of the real estate portfolio	**24,397.7**	**12,759.1**
LTV	**47.3 %**	**49.7 %**

[1] See item [32] in the Notes
[2] Adjustment of equity instruments

Taking into account the outstanding purchase price for the portfolio sold to LEG, the LTV for the 2015 fiscal year improved to 45.9 %.

in € million	Dec. 31, 2015	Dec. 31, 2014
Non-derivative financial liabilities	14,939.9	6,664.8
Total assets	30,959.1	14,759.2
LTV bond covenants	**48.3 %**	**45.2 %**

These financial covenants have been fulfilled as expected.

As a result of the IPO in 2013, together with the investment grade rating granted by Standard & Poor's Rating Service, Vonovia now enjoys access to the equity and debt capital markets at all times, allowing it to ensure balanced and flexible financing with a balanced maturity profile in line with its financing strategy.

Furthermore, on October 15, 2015, S&P confirmed Vonovia's 'BBB+' investment grade rating (long-term corporate credit rating) with a positive outlook as well as the 'A-2' short-term corporate credit rating. The bonds placed, with their unsecured debt rating, are also rated 'BBB+', while the subordinated hybrid bonds are rated two levels lower, at 'BBB-'.

In the 2015 fiscal year, Vonovia once again turned to the international capital markets for equity financing and debt capital financing.

With effect from July 3, 2015, Vonovia SE increased its total equity by way of a cash capital increase with subscription rights, namely by 107,538,606 new no-par value registered shares to 466,000,624 shares. In addition to the face value of the new shares, the company received an inflow of € 2,149,946,026, which was added to its capital reserves. This inflow was used primarily to pay the purchase price for the SÜDEWO shares. In the course of 2015, equity was also nominally increased by non-cash and cash capital increases as part of the takeover of GAGFAH S.A., namely by 86,839,593 shares using the authorized capital.

In the 2015 fiscal year, Vonovia reached an agreement with Commerzbank to increase the current account credit line from € 130 million to € 300 million to optimize its liquidity supply and help fine-tune financing. This credit line had not been used as of the reporting date. In addition, a parallel guaranteed credit facility of € 10 million, which had a value of € 3.6 million as of December 31, 2015, has been in place since 2015.

In connection with the public takeover offer for the shares of Deutsche Wohnen AG, Vonovia received an acquisition credit line totaling € 7.8 billion in line with the bridging loan agreement of October 14, 2015 (most recently amended on November 30, 2015). The credit line was canceled following the conclusion of the public takeover offer. In connection with the takeover of GAGFAH, Vonovia had made use of an acquisition credit line of € 923 million, but this was already repaid in full in 2015.

As a result of the IPO in 2013, a bond tap issue was launched via Vonovia Finance B.V. in the form of an EMTN program (EMTN: European Medium Term Notes Program). An EMTN program allows funds to be raised quickly at any time, without any major administrative outlay, using bond issues.

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 prospectus was updated and approved on March 10, 2015, following the completion of the GAGFAH takeover. At the same time, the potential issue volume was increased from € 5 billion to € 8 billion. The prospectus was updated for a second time on September 7, 2015, as a result of the completion of the cash capital increase on July 3, 2015.

On March 30, 2015, bonds in the amount of € 1,000 million were placed in two tranches as part of this EMTN tap issue. Additional bonds with a volume of € 3,000 million were successfully placed on December 9, 2015. The proceeds from the March 2015 placement were largely used to repay the GAGFAH acquisition credit line. The proceeds from the December 2015 issue were invested temporarily in short-term investments and are to be used to repay financial liabilities.

Bonds with a total volume of € 8.7 billion were placed on the debt capital markets via Vonovia Finance B.V., with € 5.0 billion coming from the EMTN tap issue.

The financing volume of € 8.7 billion also includes € 1.7 billion in what are known as hybrid bonds, € 1.0 billion of which qualifies as equity and is reported in the consolidated financial statements as such. A hybrid bond is a bond that has both equity and debt capital elements.

Obligations under hybrid bonds have subordinated status and are only satisfied after all other obligations that the company has vis-à-vis third parties have been satisfied, ranking senior only to the company's shares. Hybrid bonds have a very long to unlimited term. Their structure means that hybrid bonds carry an increased risk for their investors, which is why the nominal return is often higher than for regular, pure, unsubordinated debt capital bonds. In particular due to their subordinated nature, hybrid bonds are assessed positively when it comes to determining the credit rating.

Hybrid bonds tend to offer fixed returns, meaning that they are fundamentally debt capital instruments, although the returns can change during the very long to unlimited term depending on the bond terms and conditions.

If a bond has an indefinite term, the hybrid issuer can exempt itself from any repayment obligation perpetually, until the company is liquidated, and the hybrid bond can only be terminated unilaterally by the issuer, and if interest payments can be suspended, they can be classed as equity instruments provided that no dividend is paid and no shares are bought back.

Hybrid bonds classed as debt capital are reported in the balance sheet as financial obligations under liabilities, whereas hybrid bonds that qualify as equity form a separate equity component in the balance sheet that is reported, as such, separately in the statement of changes in equity with its development. The inflow from an equity hybrid issue is shown as an addition, following deductions for transaction costs. The hybrid interest increases the obligation under the hybrid bond directly in equity, whereas the payment of the hybrid bond interest is treated as an appropriation of profit. The interest on a hybrid bond that qualifies as debt capital constitutes interest expenses in the income statement.

In the 2015 fiscal year, both scheduled and unscheduled repayments were made on borrowings. These repayments related to financing arrangements assumed via SÜDEWO and GAGFAH, but also to the GAGFAH acquisition credit line.

Assets Position

Asset and Capital Structure

Consolidated Balance Sheet Structure

	Dec. 31, 2015		Dec. 31, 2014	
	in € million	in %	in € million	in %
Non-current assets	26,678.6	86.2	12,980.0	87.9
Current assets	4,280.5	13.8	1,779.2	12.1
Total assets	**30,959.1**	**100.0**	**14,759.2**	**100.0**
Equity	11,866.9	38.3	5,962.2	40.4
Non-current liabilities	17,405.0	56.2	8,292.9	56.2
Current liabilities	1,687.2	5.5	504.1	3.4
Total equity and liabilities	**30,959.1**	**100.0**	**14,759.2**	**100.0**

The **assets** of the Vonovia Group increased in the course of the 2015 fiscal year from € 14,759.2 million to € 30,959.1 million, largely due to the takeover of the assets of the GAGFAH Group and the SÜDEWO Group as well as cash inflows from the bond placement in December 2015. **Liabilities** also increased accordingly, with non-derivative financial liabilities, in particular, rising from € 6,664.8 million to € 14,939.9 million.

The **equity** of the Vonovia Group increased by € 5,904.7 million in the course of the 2015 fiscal year, from € 5,962.2 million to € 11,866.9 million. This increase in equity is predominantly due not only to the total profit for the period of € 1,029.0 million, but also to the cash and non-cash capital increases implemented in 2015 in the amount of € 5,043.6 million. On the other hand, equity was reduced primarily by the dividend distribution of € 276.2 million for 2014 and by the interest payments on the hybrid bond qualified as equity in the amount of € 40 million. For further information relating to developments in equity, we refer to the information provided in the chapter "Equity" in the Notes to the consolidated financial statements. An overview of shareholdings is also provided in the list of shareholdings, which is included in an annex to the Notes.

At € 23,431.3 million (Dec. 31, 2014: € 12,687.2 million), the Group's **main non-current assets** are investment properties. The total value of the real estate assets including properties used by the Group and assets held for sale came in at € 24,153.9 million (Dec. 31, 2014: € 12,757.1 million) (GAV or gross asset value), meaning that these assets account for around 78.0 % (Dec. 31, 2014: 86.4 %) of total assets. The value of the investment properties rose by € 10,117.3 million compared to the previous year, largely due to the incorporation of the GAGFAH and SÜDEWO portfolios. Due to the splitting of the purchase price for the acquisitions, non-current assets also contain goodwill totaling € 2,714.7 million. The results of the impairment test confirmed the value of this goodwill. The **cash and cash equivalents** of € 3.1 billion include the short-term investment of the funds from the bond placement on December 9, 2015. These funds are to be used to repay liabilities. GAV, goodwill and cash and cash equivalents represent around 96.8 % of total assets.

As a result of the most recent bond placement, the **equity ratio** was 38.3 % on the reporting date of December 31, 2015, having stood at 40.4 % at the end of the 2014 fiscal year.

As of December 31, 2015, **non-current liabilities** include both the non-derivative financial liabilities and deferred tax liabilities totaling € 2,528.3 million. The increase in these deferred tax liabilities from € 1,132.8 million as of December 31, 2014, was in particular due to the takeovers of GAGFAH and SÜDEWO as well as revaluations of investment properties. In addition to pension obligations of € 495.2 million, the non-current provisions include non-current provisions for personnel expenses arising from other pension obligations totaling € 81.7 million as well as residual pollution provisions of € 21.5 million.

In addition to other provisions, **current liabilities** largely include current payment obligations for loan repayments and interest as well as prepayments on rents and ancillary costs.

The values of our real estate portfolio are a main factor influencing the assessment of our asset position and therefore the development of our important performance indicator, net asset value (NAV).

There are investment obligations in connection with public safety measures.

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). The net asset value (NAV), in accordance with EPRA standards, increased in the period under review in line with equity largely as a result of capital measures, but also due to the profit for the period that is attributable to Vonovia, by € 7,410.2 million from € 6,578.0 million to € 13,988.2 million. The adjusted EPRA NAV rose by € 4,801.5 million from € 6,472.0 million to € 11,273.5 million. This represents an increase in the adjusted EPRA NAV per share from € 22.67 to € 24.19.

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

in € million	Dec. 31, 2015	Dec. 31, 2014
Equity attributable to Vonovia's shareholders	**10,620.5**	**4,932.6**
Deferred taxes on investment properties/ assets held for sale	3,241.2	1,581.0
Fair value of derivative financial instruments*	169.9	88.1
Deferred taxes on derivative financial instruments	-43.4	-23.7
EPRA NAV	**13,988.2**	**6,578.0**
Goodwill	-2,714.7	-106.0
Adjusted EPRA NAV	**11,273.5**	**6,472.0**
EPRA NAV per share in €**	**30.02**	**23.04**
Adjusted EPRA NAV per share in €**	**24.19**	**22.67**

* Adjusted for effects from cross currency swaps
** Based on the number of shares on the reporting date Dec. 31, 2015: € 466,000,624; Dec. 31, 2014: € 271,622,425, prior-year value TERP-adjusted

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
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
2011	3,184.7	9,936.1

Fair Values

Major market developments and valuation parameters that had an impact on Vonovia's fair values 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 2015. This is evident from the development of rents, among other things. At the same time, the residential property market continues to show very positive development in 2015. Sale prices for multifamily residences rose considerably in 2015 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 locations 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. This means that in 2015, the value of our property portfolio rose by 8.0 % compared with 2014, after adjustments for acquisitions and sales.

The market value set out in the independent report of the external property appraiser CBRE GmbH ultimately deviates from the internal valuation result by less than 0.1 %.

Continuous 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., IVD and IDN ImmoDaten GmbH), 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.

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 rights granted was € 24,157.7 million as of December 31, 2015 (Dec. 31, 2014: € 12,759.1 million). This led overall to net income from fair value adjustments of investment properties of € 1,323.5 million.

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

	Units		Fair value* (in € million)	
	2015	2014	2015	2014
Strategic	**300,343**	**172,546**	**21,110.0**	**10,867.2**
Operate	125,357	86,325	8,634.1	5,302.1
Upgrade Buildings	102,479	51,901	6,895.5	3,271.9
Optimize Apartments	72,507	34,320	5,580.4	2,293.2
Non-Strategic	**25,056**	**-**	**981.7**	**-**
Privatize	**19,582**	**21,530**	**1,573.4**	**1,493.8**
Non-Core	**12,136**	**8,952**	**422.1**	**348.4**
Total	**357,117**	**203,028**	**24,087.2**	**12,709.4**

* Fair value of the developed land excluding € 70.5 million (previous year: € 49.7 million) for undeveloped land and inheritable building rights granted

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.

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.

Economic Development of Vonovia SE

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

Fundamental Information

Vonovia SE, formerly known as Deutsche Annington Immobilien 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 with around 357,117 units in its portfolio. 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 2015

As part of the voluntary public takeover offer made by DAIG to the shareholders of GAGFAH S.A., Luxembourg, on December 1, 2014, approximately 93.82 % of the current share capital and voting rights of GAGFAH were tendered after the end of the acceptance deadline on February 9, 2015. The takeover was completed when the last closing condition was fulfilled, namely the entry of the mixed cash and non-cash capital increase in the Düsseldorf Commercial Register on March 6, 2015.

On September 3, 2015, Deutsche Annington Immobilien SE was publicly renamed Vonovia SE and, at the same time, was admitted to the DAX by the German stock exchange with effect as of September 21, 2015.

The rating agency Standard & Poor's (S&P) confirmed the company's 'BBB+' investment grade rating (long-term corporate credit rating), as well as its 'A-2' short-term corporate credit rating with a stable outlook on October 15, 2015. This serves as clear confirmation of the strength of our business model and our long-term strategy. At the same time the 'BBB+' rating for the bonds issued by the Dutch subsidiary and the 'BBB-' rating for the subordinated hybrid bonds issued by the Dutch subsidiary were also confirmed.

The company made a public takeover offer to the shareholders of Deutsche Wohnen AG, Frankfurt am Main, on October 14, 2015. The public takeover offer ended with the expiration of the acceptance deadline on February 9, 2016. At this time, fewer Deutsche Wohnen AG shareholders had voted in favor of the public takeover offer than would have been necessary in accordance with the takeover conditions. As a result, the offer will not be completed.

Employees of Vonovia SE

At the end of 2015, 208 people were employed by Vonovia SE (2014: 196 employees).

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.

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.

Income Statement

in € million	2015	2014
Income from onward-charging and services	81.7	113.6
Other income	9.1	28.3
Personnel expenses	-33.7	-36.7
Other administrative expenses	-269.8	-141.0
Earnings before financial result and tax	**-212.7**	**-35.8**
Income from profit-and-loss transfer agreements	42.9	33.5
Income from investments	4.9	3.4
Amortization of financial assets	-4.5	–
Interest and similar income	11.7	26.7
Expenses from profit-and-loss transfer agreements	-46.0	-28.8
Interest and similar expenses	-74.5	-49.1
Extraordinary expenses	-	-1.4
Earnings before tax	**-278.2**	**-51.5**
Tax	5.0	**-5.1**
Net loss for the year	**-273.2**	**-56.6**

The net loss for the 2015 fiscal year of € 273.2 million is largely due to the following effects:

> The drop in the income from onward-charging and services is due to the lower amounts invoiced for holding company services compared with the previous year, because the corresponding expenses were more in Vonovia SE's own interests.
> Expenses passed on by Vonovia Finance B.V., Amsterdam, on the basis of a structural agreement, in connection with the financing of the GAGFAH acquisition in the amount of € 54.0 million.
> Costs of raising equity in connection with the capital increases in the amount of € 48.6 million.
> Funding of a provision for a price guarantee made to a co-investor as part of the GAGFAH acquisition in the amount of € 30.8 million (this price guarantee was treated as an option in the consolidated financial statements and was partly included in the purchase price allocation, as a component of the purchase price).
> The increase in other operating expenses is due, among other factors, to expenses in connection with the acquisition and integration of the GAGFAH Group and the public takeover offer made to the shareholders of Deutsche Wohnen AG.
> The deterioration in the financial result is due primarily to the increase in interest expenses for intercompany loans to finance the cash purchase price component of the GAGFAH acquisition, and to the drop in interest income.
> At € 33.7 million, personnel expenses in 2015 were down slightly on the personnel expenses for the previous year due to lower expenses in connection with the funding of the LTIP remuneration.

Vonovia SE Assets

Assets

in € million	Dec. 31, 2015	Dec. 31, 2014
Financial assets	7,995.7	3,239.1
Other assets	9.0	3.7
Accounts due from affiliated companies	856.2	592.1
Other receivables or assets	9.9	19.7
Securities	999.9	850.0
Cash and cash equivalents	1,864.6	605.3
Total assets	**11,735.3**	**5,309.9**

Equity and liabilities

in € million	Dec. 31, 2015	Dec. 31, 2014
Equity	7,164.3	2,670.1
Provisions	150.4	90.7
Liabilities from affiliated companies	4,411.1	2,535.5
Other liabilities	9.5	13.6
Total equity and liabilities	**11,735.3**	**5,309.9**

The company's assets are largely characterized by the financial assets, which rose by € 4,742.1 million in 2015 due to the takeover of GAGFAH S.A. The corresponding source of funds for the acquisition of the GAGFAH shares results from a cash and non-cash capital increase in the amount of around € 2.7 billion and from the liquidity provided by Vonovia Finance B.V. Other assets increased due to volume-related aspects as a result of the integration process and the acquisition of necessary IT hardware and software.

As in the previous year, cash and cash equivalents and securities also include marketable securities. They serve to enable the partial investment of the liquidity passed on from the bond placement by Vonovia Finance B.V. in December 2015 in the amount of € 3,000.0 million (previous year: € 850.0 million) and will serve to repay financial liabilities in 2016. This pushed the total assets up from € 5.3 billion to € 11.7 billion.

In 2015, equity increased as a result of the capital increases by € 5,043.5 million in connection with the takeover of GAGFAH S.A. and the cash capital increase in June. Equity was reduced by the dividend of € 276.2 million and the net loss for the year of € 273.2 million.

For the 2015 fiscal year, a dividend distribution of € 438,040,586.56 is to be resolved at the Annual General Meeting to be held on May 12, 2016. This corresponds to € 0.94 per share. In order to provide the necessary profit, € 1,000 million was taken from the capital reserves.

Net current assets are characterized by receivables and liabilities from Group financing. The main item within net current assets is the liability to Vonovia Finance B.V. in the amount of € 3,071.7 million.

Financial Position of Vonovia SE

The financial position is governed by the previously described Group finance strategy as well as, on the operations side, by the degree of Group financing and cash management. The company generates cash flows by charging services. Cash outflows result from personnel expenses and administrative costs.

Vonovia SE only has appreciable cash flows from investing activities when acquisitions are made.

Cash inflows from financing activities result from income from investments and interest income as well as from additions to equity. There are also cash outflows resulting from dividend payments and interest expenses. Interest expenses and interest income are closely connected with the Group financing.

The company received equity of approximately € 2,372.0 million in 2015 as a result of the capital increases. In May 2015, the dividend payment of € 276.2 million was made for the 2014 fiscal year following the Annual General Meeting.

Opportunities and Risks for Vonovia SE

The likely development of Vonovia SE in the 2016 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 separate 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 company's earnings in 2015 were largely influenced by the non-recurring effects referred to above, which explains why the company was unable to achieve the earnings forecast for last year, which had predicted earnings on a par with the 2014 fiscal year.

The results for the 2016 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. Looking ahead to the 2016 fiscal year, we expect to see a slight increase in the expenses relating to the assumption of losses due to company law restructuring measures and possible follow-up costs linked to the integration of the GAGFAH Group.

Overall, we expect the net loss for the year to be significantly lower in the 2016 fiscal year than in the reporting year due to comparatively lower non-recurring effects.

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 of 20 %, and in one case 18.75 %, of the fixed remuneration into a deferred compensation scheme. 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 € 600,000 for Thomas Zinnöcker as the deputy chairman of the Management Board and at € 440,000 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 AFFO target, 15 % on the achievement of the Group EBITDA target for sales and a further 15 % on the achievement of the Group NAV target. 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 EUR 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 ½ the initial number of performance shares in the 2015 tranche and ¼ 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 and Thomas Zinnöcker are awarded performance shares with a grant value of € 1,200,000 and € 1,150,000 a year respectively. 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 the pension 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 virtual 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 virtual shares are attributable to Rolf Buch, with Klaus Freiberg and Dr. A. Stefan Kirsten each being allocated 265,515. The virtual shares will be converted into payout amounts for each annual tranche on the basis of a formula laid down in the LTIP agreement.

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 second tranche was paid out in 2015 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 € 5,100,000 a year, while an upper threshold of € 4,900,000 a year applies to Thomas Zinnöcker. A threshold of € 3,400,000 a year applies to Klaus Freiberg, Dr. A. Stefan Kirsten and Gerald Klinck.

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.

Due to the non-competition obligation agreed in his Management Board contract, Mr. Zinnöcker will receive compensation in the amount of € 1,800,000 a year (gross) for a period of 24 months in the event that his contract is terminated. 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.

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 paid to the Management Board members:

	Rolf Buch CEO			
Grants allocated to the Management Board in €	2014	2015	2015 (min)	2015 (max)
Fixed remuneration	900,000	900,000	900,000	900,000
Cash remuneration	–	–	–	–
Fringe benefits	38,545	38,702	38,702	38,702
Total	**938,545**	**938,702**	**938,702**	**938,702**
Annual variable remuneration (bonus)	700,000	700,000	0	700,000
Multi-year variable remuneration (new LTIP)				
2015–2017	–	–	–	–
2015–2018	–	1,263,136	0	3,000,000
Total	**700,000**	**1,963,136**	**0**	**3,700,000**
Pension expenses	328,329	355,916	355,916	355,916
Total remuneration	**1,966,874**	**3,257,754**	**1,294,618**	**5,100,000 ***

* This is the total contractually agreed upper threshold.

	Dr. A. Stefan Kirsten CFO			
Grants allocated to the Management Board in €	2014	2015	2015 (min)	2015 (max)
Fixed remuneration	550,000	550,000	550,000	550,000
Cash remuneration	–	–	–	–
Fringe benefits	36,525	36,665	36,665	36,665
Total	**586,525**	**586,665**	**586,665**	**586,665**
Annual variable remuneration (bonus)	440,000	440,000	0	440,000
Multi-year variable remuneration (new LTIP)				
2015–2017	–	419,790	0	1,000,000
2015–2018	–	421,045	0	1,000,000
Total	**440,000**	**1,280,835**	**0**	**2,440,000**
Pension expenses	131,343	228,251	228,251	228,251
Total remuneration	**1,157,868**	**2,095,751**	**814,916**	**3,400,000 ***

* This is the total contractually agreed upper threshold.

	Thomas Zinnöcker CRO since April 1, 2015				Klaus Freiberg COO			
	2014	2015	2015 (min)	2015 (max)	2014	2015	2015 (min)	2015 (max)
	–	600,000	600,000	600,000	550,000	550,000	550,000	550,000
	–	112,500	112,500	112,500	110,000	110,000	110,000	110,000
	–	19,713	19,713	19,713	30,032	22,813	22,813	22,813
	–	**732,213**	**732,213**	**732,213**	**690,032**	**682,813**	**682,813**	**682,813**
	–	1,284,600	0	1,284,600	440,000	440,000	0	440,000
	–	–	–	–	–	419,790	0	1,000,000
		907,879	0	2,156,250	–	421,045	0	1,000,000
	–	**2,192,479**	**0**	**3,440,850**	**440,000**	**1,280,835**	**0**	**2,440,000**
	–	–	–	–	–	–	–	–
	–	**2,924,692**	**732,213**	**4,900,000 ***	**1,130,032**	**1,963,648**	**682,813**	**3,400,000 ***

	Gerald Klinck CCO since April 1, 2015			
	2014	2015	2015 (min)	2015 (max)
	–	412,500	412,500	412,500
	–	–	–	–
	–	15,300	15,300	15,300
	–	**427,800**	**427,800**	**427,800**
	–	330,000	0	330,000
	–	314,842	0	750,000
		315,784	0	750,000
	–	**960,626**	**0**	**1,830,000**
	–	240,356	240,356	240,356
	–	**1,628,782**	**668,156**	**3,400,000 ***

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

Inflow in €	Rolf Buch CEO 2014	Rolf Buch CEO 2015	Thomas Zinnöcker CRO since April 1, 2015 2014	Thomas Zinnöcker CRO since April 1, 2015 2015	Klaus Freiberg COO 2014	Klaus Freiberg COO 2015	Dr. A. Stefan Kirsten CFO 2014	Dr. A. Stefan Kirsten CFO 2015	Gerald Klinck CCO since April 1, 2015 2014	Gerald Klinck CCO since April 1, 2015 2015
Fixed remuneration	900,000	900,000	–	600,000	550,000	550,000	550,000	550,000	–	412,500
Cash remuneration	–	–	–	112,500	110,000	110,000	–	–	–	–
Fringe benefits	38,545	38,702	–	19,713	30,032	22,813	36,525	36,665	–	15,300
Total	**938,545**	**938,702**	**–**	**732,213**	**690,032**	**682,813**	**586,525**	**586,665**	**–**	**427,800**
Annual variable remuneration (bonus)	700,000	693,000	–	1,284,600	440,000	434,808	440,000	434,500	–	330,000
Multi-year variable remuneration (LTIP)										
First 2014 tranche	1,873,754	–	–	–	1,288,237	–	1,288,237	–	–	–
Second 2015 tranche	–	2,514,921	–	–	–	1,428,641	–	1,428,641	–	–
Total	**2,573,754**	**3,207,921**	**–**	**1,284,600**	**1,728,237**	**1,863,449**	**1,728,237**	**1,863,141**	**–**	**330,000**
Pension expenses	328,329	355,916	–	–	–	–	131,343	228,251	–	240,356
Total remuneration	**3,840,628**	**4,502,539**	**–**	**2,016,813**	**2,418,269**	**2,546,262**	**2,446,105**	**2,678,057**	**–**	**998,156**

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 €	2014	2015	2014	2015	2014	2015
Supervisory Board members in office as of December 31, 2015						
Dr. Wulf H. Bernotat [2 3 6] (since Jun. 18, 2013) Chairman	200,000	200,000	100,000	100,000	300,000	300,000
Prof. Dr. Edgar Ernst [1] (since Jun. 18, 2013) Deputy Chairman	116,667	150,000	80,000	80,000	196,667	230,000
Burkhard Ulrich Drescher (since Dec. 12, 2014)	8,333	100,000	–	6,667	8,333	106,667
Dr. Florian Funck [2] (since Aug. 21, 2014)	41,667	100,000	13,333	40,000	55,000	140,000
Dr. Ute Geipel-Faber [6] (since Nov. 1, 2015)	–	16,667	–	3,333	–	20,000
Hendrik Jellema [2] (since Jun. 2, 2015)	–	66,667	–	6,666	–	73,333
Daniel Just [6] (since Jun. 2, 2015)	–	66,667	–	3,333	–	70,000
Hildegard Müller [4] (since Jun. 18, 2013)	100,000	100,000	20,000	20,000	120,000	120,000
Prof. Dr. Klaus Rauscher [4] (since Aug. 1, 2008)	100,000	100,000	6,667	20,000	106,667	120,000
Clara-Christina Streit [4 5] (since Jun. 18, 2013)	100,000	100,000	46,667	60,000	146,667	160,000
Christian Ullbrich [2 6] (since Aug. 21, 2014)	41,667	100,000	13,333	28,333	55,000	128,333
Gerhard Zeiler [4] (since Jun. 2, 2015)	–	66,667	–	3,333	–	70,000
Former Supervisory Board members						
Manuela Better [6] (until May 31, 2015)	41,667	41,667	6,667	8,333	48,333	50,000
Fraser Duncan [2] (until Aug. 20, 2014)	66,667	–	26,667	–	93,333	–
Total					**1,130,000**	**1,588,333**

(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 is exposed to various opportunities and risks in connection with its business activities. 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. In order to make appropriate allowances for this situation, the company uses an integrated management approach based on five key pillars.

Five Pillars of Risk Management at Vonovia

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

1 Performance	2 Compliance	3 Risk 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-related internal control system	Internal Audit > Process-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

Strategy

Our business strategy is the main factor determining our risk management. 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 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. This allows the company to ensure that suitable measures are taken to avoid, reduce or transfer risks or to consciously accept calculated risks.

Responsibility

The Management Board has overall responsibility for risk management. 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. The risk manager coordinates the recording, assessment, documentation and communication of the risks as part of the risk management process. They trigger the periodic risk management process, consolidate the risk reports of the risk owners and prepare 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.

From today's point of view, the Management Board of Vonovia has not identified any risks which the company cannot suitably combat or which may jeopardize the Group's results of operations, net assets and financial position.

Pillar 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 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.

Pillar 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 the Code of Conduct of Vonovia, which focuses on ethical values and statutory requirements and reinforces the personal responsibility of employees, the Vonovia 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, we are not aware of any major violations of laws or rules by employees.

Pillar 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 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 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 of occurrence	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 %	Material	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.

Pillar 4 – Internal Control System

Accounting-Based 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 separate 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.

Process Documentation

All of Vonovia's core processes were identified in detail centrally as part of the 2013 IPO and documented in full using the ARIS software solution. This documentation highlights opportunities and risks in the interests of a process-oriented internal control system, providing a starting point for a process of continuous improvement in operational business.

Pillar 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 Assessment of Material Risks

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 2015 fiscal year based on a risk scoring system in line with the internal risk guidelines. The resulting risk report was presented to the Management Board and the Audit Committee. There were no unscheduled ad hoc risk reports.

The overall assessment showed a slight year-over-year increase in the risk situation for Vonovia following the integration of GAGFAH and SÜDEWO. The number of risks with a high potential net impact rose from one risk at the end of 2014 to three risks at the end of 2015. The number of risks with a material potential net impact rose from four risks at the end of 2014 to five risks at the end of 2015. Overall, Vonovia's Management Board continues to see no risks to the Group's survival.

At its ordinary meeting for the fourth quarter of 2015, 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	Damaged reputation and inadequate customer satisfaction	Economic environment and market-related risks	Material
2	Value of stated goodwill	Economic environment and market-related risks	High
3	Incorrect determination of the fair value of our properties	Risks related to business	High
4	Act reducing the modernization allocation with fixed amortization	Regulatory and legal risks	High
5	Incorrect acquisition decisions	Risks related to business	Material
6	Act limiting rents to 110 % of the standard local comparative rent when properties are relet	Regulatory and legal risks	Material
7	Lacking or unsuitable refinancing of debt capital	Financial risks	Material
8	Risk-taking management behavior	Risks related to business	Moderate
9	Material impact of legal disputes	Regulatory and legal risks	Moderate
10	Inadequate IT security – unauthorized external and internal access	Risks related to business	Material

Economic Environment and Market-Related Risks

The reputation (risk 1) of a company 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 takes 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.

The recently conducted acquisitions have resulted in considerable stated goodwill, which is associated with certain risks. The value of this stated goodwill (risk 2) depends largely on the development of market interest rates, average market and sector developments as well as the cash flow 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. Extensive measures have been taken to limit risks. The extent to which the actual results of the cash-generating units deviate from the targeted level is analyzed as part of the monthly performance reporting process and countermeasures are taken where appropriate. Synergies are also tracked on a monthly basis. This ensures that synergies planned in connection with integration projects are realized accordingly.

Risks Related to Business

A whole range of risks arise for Vonovia in connection with the performance of its business activities. 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 (risk 3). As far as our investment properties are concerned, changes in value are reported 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.

Risks can arise for Vonovia in connection with acquisition decisions (risk 5). These risks 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 may 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 and structured integration process.

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 (risk 8). Vonovia counters this risk with clear instructions for action and rules governing powers and responsibilities. Responsibility for the business is decentralized to permit better local decision-making.

Vonovia's computer systems are exposed to general IT security risks, in particular the risk of unauthorized access from outside and within the company (risk 10). There is the risk that the computer systems may not work properly or may be impaired as a result of such interference or other manipulations.

Regulatory and Legal Risks

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 mandatory environmental modernization requirements or restrictions regarding modernization measures 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.

The German Bundestag (lower house of parliament) has created an overall environment in the area of rental price regulation ("rent ceilings") that entails potential risks for Vonovia.

This includes the introduction of a cap on rents when properties are relet, limiting them to a level that is no more than 10 % above the standard local comparative rent in tight housing markets for a period of five years (risk 6). The passing of this draft bill and the subsequent gradual implementation of the bill by the German federal states and local authorities are associated with the risk that the potential for rent increases in relation to relet properties would change, potentially limiting the scope for such increases, for all market participants, i.e., also for Vonovia.

Furthermore, the provisions that apply to rent increases connected with improvements in property value following modernization (Section 559 of the German Civil Code (BGB) (risk 4)) also have a significant impact on Vonovia's business activities. In particular, plans to limit the amortization period for all investments to a period of ten years – thus essentially quashing any chances of a profitable investment – entail a significant risk for all market participants.

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 (risk 9) resulting from the simultaneous effect of a large number of individual cases, even if these are minor cases when taken in isolation.

Financial Risks

Vonovia's development depends on economic trends and developments on the international financial markets. The demand for properties and the refinancing of property-related liabilities (risk 7) depend to a considerable degree on expected interest rate developments. The current macroeconomic environment is characterized by low interest rates and comparatively high valuations of residential real estate portfolios in Germany. Any rise in interest rates, however, could have adverse effects on the German real estate market and on Vonovia. Should interest rates rise considerably in the years to come or the banks become less inclined to grant loans for the acquisition of properties, this may have a negative effect on demand for residential properties or the refinancing of property finance, as well as on property valuations.

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 monitor 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.

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 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. Moreover, 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 is largely determined by demographic factors and the economic climate. According to the Federal Statistical Office, the trend in Germany is towards increasingly smaller households. 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), which was published in 2015, 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 compare to 2012, a decrease is to be expected in the new German states (former East Germany).

The Federal Statistical Office estimates that Germany's population increased again in 2015. The reason for this is what is likely to be repeated high positive net migration, which will more than compensate for the birth deficit (difference between births and deaths). Given the weak job market situation in some southern European countries and the prosperity gap separating the eastern European member states from their western counterparts, immigration from the European Union, in particular, has increased considerably in recent years, accounting for the majority of immigration up until 2014. The high influx of refugees from the crisis-ridden areas of the Middle East pushed immigration up to another new high in Germany in 2015. This means that the net migration rate is likely to have been much higher in 2015. Although not all asylum seekers will remain in Germany in the long run, a large proportion of them will generate demand for living space over the coming years. 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. With 86 % of its entire real estate portfolio covering residences of < 80 m² and 96 % located in the old German federal states including Berlin, Vonovia could profit from this rising demand.

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 considerable part 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 will also be extending the range of services provided by our own employees to cover the maintenance of a building's surroundings.

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 110,000 households with a direct cable TV signal, approx. 60,000 of which via our cooperation with Deutsche Telekom. We expect to 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.

Vonovia manages its housing stocks throughout Germany using standardized systems and processes. The acquisition of further residential real estate portfolios, similar to the acquisition of GAGFAH, DeWAG, Franconia, SÜDEWO and the Vitus Group, 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. Nevertheless, we always strive to further improve the financing costs while maintaining our credit rating performance indicators and the desired financing structure. Even though a further fall in interest rates currently appears unlikely, such a development would open up opportunities to further reduce our financing costs.

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. In view of the above-mentioned possible rising demand with the supply of affordable accommodation remaining virtually the same, the assumptions we are currently making for determining the fair values could be exceeded in the positive sense and lead to a higher fair value of our residential real estate. This would have a direct positive impact on the results of operations of our company.

Subsequent Events

Public Takeover Offer

On October 14, 2015, the Management Board of Vonovia made the shareholders of Deutsche Wohnen AG a public takeover offer for their shares. On December 1, 2015, the German Federal Financial Supervisory Authority (BaFin) approved the offer documents for mandatory publication pursuant to Sections 34, 14 (2) and (3) of the German Securities and Takeover Act (WpÜG). The German Federal Cartel Office approved the planned transaction unconditionally on December 7, 2015.

The public takeover offer ended on the acceptance deadline of February 9, 2016. At this time, fewer Deutsche Wohnen AG shareholders had voted in favor of the public takeover offer than would have been necessary in accordance with the takeover conditions. As a result, the offer will not be completed.

Vonovia acquired a real estate portfolio (approx. 2,400 units) by way of a purchase agreement dated November 18, 2015, and transfer of rights and obligations on January 1, 2016. The purchase price, taking the assumed liabilities into account, is € 124.0 million.

Vonovia took over IVV Immobiliengruppe as of January 1, 2016, as part of a share purchase agreement. The provisional consideration for the acquisition of the shares comes to € 6.8 million.

Management Board

Thomas Zinnöcker resigned from his Management Board position by mutual agreement after the end of the fiscal year to assume a role outside of Vonovia following the conclusion of the integration of GAGFAH.

Forecast Report

Further Course of the Group

Expected Development of the Overall Economic Environment

German Economy Remains on an Upward Trajectory

In the last quarter of the year, the German economy saw stronger expansion once again after GDP growth leveled off since the beginning of the year to a range between 0.3 % and 0.4 % on a quarter-on-quarter basis. This meant that macroeconomic output grew by 1.7 % in 2015. The Kiel Institute for the World Economy (IfW) has since made an upward revision to its forecast for 2016 and predicts growth of 2.2 %. One of the reasons behind this revision is the higher estimate of additional expenses for refugees.

IfW experts expect the private consumption momentum to remain high, with the strong rate of growth in this area due primarily to a marked increase in real incomes among private households. Although the savings rate recently increased, also due to the low prices of oil products, the institute expects consumption to reach an even higher level in the years to come. The upturn in investment is likely to go from strength to strength and – also boosted by the continuation of a favorable overall monetary framework – looks set to become one of the main forces driving the economy in 2016. In particular, investment growth is likely to be accelerated by residential construction investment momentum, boosted by continued favorable financing conditions and the increasing demand for residential space, coupled with an increase in infrastructure spending. The recovery in the eurozone is proving to be robust, so that even nascent uncertainties such as those prompted by Greece will be unable to dampen business confidence. Companies in the service sector, in particular, believe that the situation they are in is the best it has been since German reunification. Exports are continuing to perform well, and slight declines in emerging markets may be made up for through exports to industrialized nations. Exports are receiving additional stimulus from the depreciation of the euro, whereas imports are likely to expand at a much faster rate due to the strong economic momentum in Germany. Employment remains on an upward trajectory. The number of employed people is expected to increase by an average of 414,000 in 2016 and 429,000 in 2017. The consequences of the introduction of the minimum wage – which initially resulted in losses of "mini-jobs" and thus slowed the employment trend – appear to have been overcome. After the drop in oil prices put a significant damper on inflation, the inflation rate is starting to pick up again and is expected to come in at 1.2 % in 2016. Driven by the favorable economy, public-sector budgets are still reporting surpluses, according to the IfW. Not least, the significant influx of refugees offers major opportunities subject to the necessary fine-tuning of economic policy, in particular the opening up of labor law and increased flexibility in building law.

The IfW sees the main risks for the German economy as relating to the foreign trade environment. The world economy is prone to turbulence due to the key central banks' ultra-expansionary policy. Even a slight tightening of monetary policy may be expected to trigger extreme exchange-rate reactions, with corresponding effects on international trade flows. The reactions to the recent, relatively minor devaluations of the Chinese currency alone suggest that competitive devaluations by the key currency areas would result in strong economic upheavals. Moreover, the IfW considers that the influence of China's further economic development on the German export sector will not be insignificant.

Real Estate Market: Rents and Prices Continue to Increase on Average

According to the IVD, the development in rents has stabilized again, showing a moderate increase in 2015. Although purchase price development was on a clear upward trajectory, the trend was less pronounced than in the previous year. Experts from the independent consultancy firm empirica believe that the "normal" real estate market cycle is slowly but surely coming to an end. Nevertheless, the effect of the influx of refugees, which has still not had an impact on demand on the real estate market, is unclear. According to empirica, the more refugees who will remain in Germany in the medium term and opt to live in cities where real estate is in short supply – as opposed to regions characterized by high vacancy rates – the bigger the rent boom will be in the future. As far as the purchase prices of owner-occupied apartments are concerned, a lack of investment alternatives and low interest rates are sparking a boom. The National Association of German Cooperative Banks (BVR) estimates that the prices for residential property ownership in Germany will increase by an average of more than 4 % in 2015 and 2016. While sparsely populated regions with low income levels will see real estate prices continue to fall in the future, prices in major German cities could increase considerably. According to the BVR, the main price drivers are the rising number of inhabitants, low interest rates and incomes, as well as the sluggish supply of real estate. HSH Nordbank expects existing rents to increase by 1.4 % and rents for new buildings to go up by 1.7 % in 2016. With regard to the rent ceiling, the experts at HSH Nordbank assume that, in the future, rent increases for existing properties will be restricted in tight markets in sought-after cities, particularly at the upper end of the market. At the same time, rents for initial tenancies will continue to increase significantly due to demand factors. Since the markets in the other cities examined are relatively balanced, moderate rent growth should be assumed here. A special analysis prepared by ImmobilienScout24 on the introduction of the rent ceiling in Berlin shows that, while quoted rent levels still depend to a considerable degree on the market situation, slight dampening effects can be identified, at least in some parts of the market. According to ImmobilienScout24, it remains to be seen whether these effects will have a lasting impact and whether they are, in fact, linked to the introduction of the rent ceiling. By the end of 2015, the rent ceiling was in force in nine federal states, and also came into effect for 31 cities and municipalities in Brandenburg on January 1, 2016 (see Report on Economic Position). Further federal states could follow.

Experts from the Cologne Institute for Economic Research (IW) insist that the current situation does not constitute a bubble, despite the fact that 50 % of the total loans awarded by German banks are currently destined for residential construction projects. With the exception of a few central locations in major cities, prices have shown a very moderate development in an international comparison. Since banks are still taking a very cautious approach, the IW experts cannot identify any conspicuous upward trend in lending activity to date. Experts from the research institute empirica likewise did not believe that there was any bubble at the end of the fourth quarter of 2015. Nevertheless, rents and purchase prices in 199 out of 402 administrative districts and self-governing cities are no longer developing in tandem, with the bubble index indicating a high risk for 124 districts. Yet, there are signs of excessive new construction volumes in only 14 districts. The risk of a bubble emerging in high-growth regions continues to mount. According to Deutsche Bank Research, residential property ownership remains relatively affordable in Germany in a historical comparison, although the market is characterized by considerable differences from region to region. The high level of affordability on average is due to growing disposable incomes and low interest rates. Due to higher lending costs, an increase in interest rates would, however, reduce the affordability of residential property ownership – assuming that all other conditions were to remain the same.

Very High Levels of New Construction Required

Whereas previous estimates put the annual need for new construction at between 300,000 and 400,000 apartments, experts from the Cologne Institute for Economic Research (IW) believe that the country will need 430,000 new apartments per year by 2020. This means that current construction activity would have to increase by 75 %. They stress that the marked increase in immigration in 2015 calls for an additional analysis of demographic trends. According to an IW estimate, around 83.75 million to 85 million people will be living in Germany by 2020 due to strong immigration from other EU countries and the large number of refugees. The population projection prepared by the Federal Statistical Office in March 2015 only put this figure at between 81.4 million and 82.25 million people at the most by 2020.

Expected Development of Business

Comparison of the Forecast Made in 2014 with the Results from the 2015 Fiscal Year

The 2015 fiscal year was a very successful and significant year for Vonovia overall. We were able to considerably expand our portfolio and, in doing so, significantly improve our market position thanks to the merger with GAGFAH. We were also able to further expand our portfolio again as a result of our acquisition of SÜDEWO. The EPRA NAV rose by 112.7 % from € 6,578 million at the end of 2014 to € 13,988.2 million. At € 30.02, the EPRA NAV per share was up considerably, namely by 30.3 % on the prior-year value, an increase that is well ahead of the 4 % that formed part of the forecast made in 2014. At € 24.19, the adjusted EPRA NAV per share was up by 6.7 % compared to the previous year. We surpassed the forecast set out in our 2014 Annual Report and the most recent forecast published in the quarterly report for Q3 2015 by far. The integration of the newly acquired portfolios into our real estate platform was completed as scheduled. Our rental income was up by 79.2 % on the prior-year value of € 789.3 million to € 1,414.6 million, which also put it well ahead of the range included in the forecast published in the 2014 annual report, which predicted a value of between € 880 million and € 900 million (excl. GAGFAH/SÜDEWO).

The net cash interest payments excluding non-recurring items (FFO interest expense) came to € 339.8 million in 2015. This value was much higher than the prior-year value of € 209.3 million due to acquisitions, primarily the acquisition of GAGFAH, and was also up significantly on the 2014 forecast, which only predicted a slight year-over-year increase.

The overview below provides an illustration of the business figures for 2014, the forecast set out in the 2014 Annual Report and the most recent forecast published for 2015, the business figures for 2015 and an overview of our forecast for 2016. In particular, the development of FFO 1, which rose from € 286.6 million in 2014 to € 608.0 million in 2015 shows just how much we expanded our business in 2015.

	Actual 2014 (DAIG excl. GAGFAH)	Forecast for 2015 in the 2014 Annual Report (DAIG excl. GAGFAH)	Last forecast for 2015 in the 2015 Q3 Report (incl. GAGFAH/SÜDEWO)	Actual 2015	Forecast 2016
Adjusted EPRA NAV/share*	€ 22.67		€ 23.50–24.50	€ 24.19	€ 24–25
EPRA NAV/share*	€ 23.04	€ 23–24	€ 29–30	€ 30.02	€ 30–31
FFO 1	€ 286.6 million	€ 340–360 million	€ 590–600 million	€ 608.0 million	€ 690–710 million
FFO 1/share*	€ 1.00	€ 1.19–1.27	€ 1.27–1.29	€ 1.30	€ 1.48–1.52
CSI	Increase of 5.7 % (=+3 index points)	Increase of up to 5 %	Increase of up to 5 %	Increase of 2.8 %	Increase of up to 5 %
Monthly in-place rent per m² (like-for-like)**	€ 5.62	Increase of 2.6–2.8 %	Increase of 2.8–2.9 %	€ 5.78	Increase of 2.8–3.0 %
Vacancy rate	3.4 %	around 3.3 %	around 3 %	2.7 %	around 3 %
Maintenance incl. capitalized maintenance	€ 173.8 million	around € 200 million	around € 330 million	€ 330.7 million	around € 330 million
Modernization	€ 171.7 million	> € 200 million	€ 330–350 million	€ 355.6 million	€ 430–500 million
Number of units sold Privatize	2,238	approx. 1,600	approx. 2,900	2,979	approx. 2,400
Step-up Privatize	37.6 %	approx. 30 %	approx. 30 %	30.5 %	approx. 30 %
Number of units sold Non-Core	1,843	Continue opportunistic sales	Continue opportunistic sales	12,195	Continue opportunistic sales
Step-up Non-Core	10.9 %	At previous year's level	0 %	9.2 %	0 %

* Due to the subscription right share issue, which allowed the new shares to be purchased at a discount, the key figures per share have been adjusted to make them comparable to the values including the rights issue (TERP adjustment). The adjustment factor is calculated based on the last share price prior to the deduction of subscription rights (€ 26.46) divided by the assumed share price following the issue of new shares (€ 25.18) (TERP, theoretical ex-rights price). This results in an adjustment factor of 1.051, by which the actual values and the original forecasts for EPRA NAV per share and FFO 1 per share were divided in order to ensure comparability.
** Monthly in-place rent in 2014 per m² (like-for-like) incl. DeWAG/Vitus excl. GAGFAH/Franconia

Forecast for the 2016 Fiscal Year

Our forecast for the 2016 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 2016 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 2016 were drawn up in the fall of 2015.

Beyond this, the Group's further development remains exposed to general opportunities and risks. These have been described in detail in the chapter on opportunities and risks.

The planning for 2016 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 coming fiscal year, we plan to once again expand our leading position on the German residential real estate market. We aim to use a high level of customer orientation to offer our customers affordable homes that meet their needs together with housing-related services and reliable support, while at the same time securing sustainable, risk-commensurate yields for our investors.

We expect to be able to increase the value of the company even further in 2016. By the end of 2016, we expect the adjusted EPRA NAV per share to have risen to up to € 25, with the EPRA NAV per share predicted to have increased to up to € 31.

We plan to further improve our sustained operational earnings power in the 2016 fiscal year. The modernization measures taken in the 2015 fiscal year will also help us to achieve this. In addition, the acquisitions made in 2015 will make a full-year contribution to earnings for the first time. We predict that the FFO 1 will increase to somewhere in the range of € 690 million to € 710 million in 2016. This corresponds to an FFO 1 per share of between € 1.48 and € 1.52 and includes the acquisitions of GAGFAH and SÜDEWO, which were completed in 2015. The forecast does not take account of any further larger acquisitions of real estate portfolios.

We will continue to aim to improve our customer service in 2016. As a result, we expect our customer satisfaction index, CSI, to improve by up to 5 % compared with 2015.

In 2016, we will once again be investing substantial volumes of money in our real estate portfolios. Our modernization program planned for the 2016 fiscal year is expected to comprise a volume of € 430–500 million. 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 new programs such as modernization in response to tenant requests, the development of residential districts or the construction of new apartments. In addition, we expect to perform ongoing maintenance work, including capitalized maintenance, with a volume of around € 330 million. All in all, this corresponds to an investment volume of up to € 830 million, or up to € 38 per square meter in 2016. We now expect an increase from 2.8 % to 3.0 % in the monthly in-place rent per square meter like-for-like in 2016. We expect the vacancy rate to come in at around 3 % at the end of 2016. Overall, we expect rental income to rise from € 1.4 billion in 2015 to around € 1.5 billion in 2016.

For the interest expense excluding non-recurring items (FFO interest expense), we expect to see a level of around € 320 million.

In the Sales segment, we will continue to pursue our strategy of selective sales. In the privatization business, we expect around 2,400 apartments to be sold in 2016 with a step up on the fair value of these apartments of around 30 %. We will also continue to intensify our strategy of selling buildings from the "Non-Core" subportfolio at prices that are roughly in line with the fair value in 2016, 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 distribute a dividend corresponding to around 70 % of FFO 1.

Düsseldorf, Germany, February 26, 2016

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 € 16.2 billion to a total of € 31.0 billion, the equity ratio comes to 38.3 %.

The total value of the real estate assets – including properties used by the Group and assets held for sale – amounts to € 24.2 billion. Cash and cash equivalents amounted to € 3.1 billion at the end of the year and resulted from the inflows associated with the bond placements.

Consolidated Income Statement

January 1 until December 31

in € million	Notes	2015	2014
Income from property letting		2,035.3	1,138.4
Other income from property management		28.2	18.2
Income from property management	6	**2,063.5**	**1,156.6**
Income from disposal of properties		726.0	287.3
Carrying amount of properties sold		-658.7	-243.4
Revaluation of assets held for sale		51.7	25.1
Profit on disposal of properties	7	**119.0**	**69.0**
Net income from fair value adjustments of investment properties	8	**1,323.5**	**371.1**
Capitalized internal expenses	9	174.9	85.6
Cost of materials	10	-972.5	-542.6
Personnel expenses	11	-359.7	-184.6
Depreciation and amortization	12	-13.4	-7.4
Other operating income	13	73.1	65.3
Other operating expenses	14	-263.5	-152.4
Financial income	15	8.0	8.8
Financial expenses	16	-418.4	-280.3
Earnings before tax		**1,734.5**	**589.1**
Income taxes	17	-739.8	-179.4
Profit for the period		**994.7**	**409.7**
Attributable to:			
Vonovia's shareholders		923.5	401.4
Vonovia's hybrid capital investors		40.0	1.2
Non-controlling interests		31.2	7.1
Earnings per share (basic and diluted) in €	18	**2.29**	**1.56**

Consolidated Statement of Comprehensive Income

January 1 to December 31

in € million	2015	2014
Profit for the period	**994.7**	**409.7**
Cash flow hedges		
Change in unrealized gains/losses	59.1	38.5
Taxes on the change in unrealized gains/losses	-14.5	-7.8
Net realized gains/losses	-45.3	-81.7
Taxes on the change in net realized gains/losses	10.7	19.9
Available-for-sale financial assets		
Changes in the period	0.6	–
Tax effect	-0.2	–
Items which will be recognized in profit or loss in the future	**10.4**	**-31.1**
Actuarial gains and losses from pensions and similar obligations		
Change in actuarial gains/losses, net	34.8	-58.1
Tax effect	-10.9	19.6
Items which will not be recognized in profit or loss in the future	**23.9**	**-38.5**
Other comprehensive income	**34.3**	**-69.6**
Total comprehensive income	**1,029.0**	**340.1**
Attributable to:		
Vonovia's shareholders	957.9	331.8
Vonovia's hybrid capital investors	40.0	1.2
Non-controlling interests	31.1	7.1

Also see the corresponding explanations in the Notes

Consolidated Balance Sheet

in € million	Notes	Dec. 31, 2015	Dec. 31, 2014
Assets			
Intangible assets	19	2,724.0	108.5
Property, plant and equipment	20	70.7	29.0
Investment properties	21	23,431.3	12,687.2
Financial assets	22	221.7	93.2
Other assets	23	158.5	47.0
Income tax receivables	24	0.1	0.1
Deferred tax assets	17	72.3	15.0
Total non-current assets		**26,678.6**	**12,980.0**
Inventories	25	3.8	2.2
Trade receivables	26	352.2	65.1
Financial assets	22	2.0	2.0
Other assets	23	113.4	77.5
Income tax receivables	24	23.1	13.8
Cash and cash equivalents	27	3,107.9	1,564.8
Assets held for sale	28	678.1	53.8
Total current assets		**4,280.5**	**1,779.2**
Total assets		**30,959.1**	**14,759.2**

in € million	Notes	Dec. 31, 2015	Dec. 31, 2014
Equity and liabilities			
Subscribed capital		466.0	271.6
Capital reserves		5,892.5	2,076.0
Retained earnings		4,309.9	2,643.4
Other reserves		-47.9	-58.4
Total equity attributable to Vonovia's shareholders		**10,620.5**	**4,932.6**
Equity attributable to hybrid capital investors		1,001.6	1,001.6
Total equity attributable to Vonovia's shareholders and hybrid capital investors		**11,622.1**	**5,934.2**
Non-controlling interests		244.8	28.0
Total equity	29	**11,866.9**	**5,962.2**
Provisions	30	612.9	422.1
Trade payables	31	0.9	1.0
Non-derivative financial liabilities	32	13,951.3	6,539.5
Derivatives	33	144.5	54.5
Liabilities from finance leases	34	94.9	88.1
Liabilities to non-controlling interests	35	46.3	46.3
Other liabilities	36	25.9	8.6
Deferred tax liabilities	17	2,528.3	1,132.8
Total non-current liabilities		**17,405.0**	**8,292.9**
Provisions	30	429.5	211.3
Trade payables	31	91.6	51.5
Non-derivative financial liabilities	32	988.6	125.3
Derivatives	33	58.8	21.9
Liabilities from finance leases	34	4.4	4.4
Liabilities to non-controlling interests	35	9.8	7.5
Other liabilities	36	104.5	82.2
Total current liabilities		**1,687.2**	**504.1**
Total liabilities		**19,092.2**	**8,797.0**
Total equity and liabilities		**30,959.1**	**14,759.2**

Also see the corresponding explanations in the Notes

Consolidated Statement of Cash Flows

January 1 to December 31

in € million	Notes	2015	2014
Profit for the period		994.7	409.7
Net income from fair value adjustments of investment properties	8	-1,323.5	-371.1
Revaluation of assets held for sale	7	-51.7	-25.1
Depreciation and amortization	12	13.4	7.4
Interest expenses/income		414.0	274.9
Income taxes	17	739.8	179.4
Results from disposals of investment properties		-67.3	-43.9
Results from disposals of other non-current assets		1.6	–
Other expenses/income not affecting net income		-0.4	0.4
Change in inventories		-0.1	0.4
Change in receivables and other assets		35.0	-11.8
Change in provisions		62.6	11.0
Change in liabilities		-67.9	27.0
Repayments of tax liabilities (EK02)		-44.4	–
Income tax paid		-16.0	-5.1
Cash flow from operating activities[1)]		**689.8**	**453.2**
Proceeds from disposals of investment properties and assets held for sale		449.1	329.6
Proceeds from disposals of other assets		1.3	0.9
Proceeds from disposals of shares in consolidated companies (net of cash inflow)	3	7.4	37.0
Payments for acquisition of investment properties	21	-604.6	-241.0
Payments for acquisition of other assets	19/20	-37.8	-1,079.0
Payments for acquisition of shares in consolidated companies (net of cash outflow)	3	-3,058.7	-230.7
Interest received		3.5	5.3
Cash flow from investing activities[1)]		**-3,239.8**	**-1,177.9**

in € million	Notes	2015	2014
Capital contributions on the issue of new shares (including premium)	29	2,372.0	1,024.0
Payments to/proceeds from hybrid capital investors	29	-40.0	990.2
Cash paid to shareholders of Vonovia SE and non-controlling interests	29	-295.8	-179.7
Proceeds from issuing financial liabilities	32	5,007.1	1,702.3
Cash repayments of financial liabilities	32	-2,390.1	-1,525.9
Payment for transaction costs relating to capital measures		-165.3	-39.5
Payments for other financing costs		-57.7	-44.6
Payments/proceeds for the sale/acquisition of shares in previously consolidated companies (net of cash inflow)		-9.8	2.9
Interest paid		-327.3	-188.0
Cash flow from financing activities		**4,093.1**	**1,741.7**
Net changes in cash and cash equivalents		**1,543.1**	**1,017.0**
Cash and cash equivalents at the beginning of the period		1,564.8	547.8
Cash and cash equivalents at the end of the period [2]	27	**3,107.9**	**1,564.8**

Also see the corresponding explanations in the Notes
[1] Adjustment to transaction costs disclosed in the previous year in the amount of € 10.1 million. Like the transaction costs incurred in 2015 in the amount of € 42.0 million, these will be reported under the cash flow from operating activities.
[2] Thereof restricted cash €84.2 million (Dec. 31, 2014: € 32.8 million)

Consolidated Statement of Changes in Equity

				Other reserves	
				Can be reclassified	
in € million	Subscribed capital	Capital reserves	Retained earnings	Cash flow hedges	Available-for-sale financial assets
As of Jan. 1, 2014	**224.2**	**1,430.1**	**2,178.5**	**-27.3**	**0.0**
Profit for the period			401.4		
Other comprehensive income					
Changes in the period			-38.5	30.7	0.0
Reclassification affecting net income				-61.8	
Total comprehensive income			362.9	-31.1	0.0
Capital increase	47.4				
Premium on the issue of new shares		976.5			
Transaction costs in connection with the issue of shares		-6.2			
Dividend distributed by Vonovia SE			-168.2		
Withdrawal from capital reserve		-324.9	324.9		
Changes recognized directly in equity		0.5	-54.7		
As of Dec. 31, 2014	**271.6**	**2,076.0**	**2,643.4**	**-58.4**	**0.0**
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 reserve		-1,000.0	1,000.0		
Changes recognized directly in equity[1]		0.6	-4.7		
As of Dec. 31, 2015	**466.0**	**5,892.5**	**4,309.9**	**-48.3**	**0.4**

[1] The main changes recognized directly in equity relate, with regard to the non-controlling interests, to the first-time consolidation of the GAGFAH Group and the sale of 5.7 % of the shares in Süddeutsche Wohnen GmbH, Stuttgart, which was completed in October 2015.

Also see note [29] in the Notes

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
-27.3	**3,805.5**		**3,805.5**	**12.5**	**3,818.0**
	401.4	1.2	402.6	7.1	409.7
30.7	-7.8		-7.8	0.0	-7.8
-61.8	-61.8		-61.8		-61.8
-31.1	331.8	1.2	333.0	7.1	340.1
	47.4	990.2	1,037.6		1,037.6
	976.5		976.5		976.5
	-6.2		-6.2		-6.2
	-168.2		-168.2		-168.2
	-54.2	10.2	-44.0	8.4	-35.6
-58.4	**4,932.6**	**1,001.6**	**5,934.2**	**28.0**	**5,962.2**
-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**

Notes

Accounting Policies

1
Principles of the Consolidated Financial Statements

On March 6, 2015, the completion of the voluntary public takeover offer for the shares of GAGFAH S.A. and, as a result, the inclusion of the GAGFAH Group (GAGFAH) in the consolidated financial statements of Vonovia SE (then operating under the name: Deutsche Annington Immobilien SE) created the second-largest listed real estate group in continental Europe.

Deutsche Annington Immobilien SE has operated under its new name Vonovia SE since September 3, 2015. The company is listed on the German stock exchange under its new ticker symbol VNA. The new company name was already added to the Commercial Register at the end of August 2015. Moreover, on September 3, 2015, the German stock exchange decided to include Vonovia SE in the DAX with effect as of September 21, 2015, on the recommendation of its Working Committee for Equity Indices.

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, 2015, 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 considered.

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 26, 2016.

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 (referred to in the following as minority 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 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 are 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 offset against the participating interest 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, 190 companies (Dec. 31, 2014: 114) – thereof 158 (Dec. 31, 2014: 95) domestic companies and 32 (Dec. 31, 2014: 19) foreign companies – have been included in the consolidated financial statements. In addition, four companies were included as joint ventures.

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, 2015, compared with the previous year largely result from the acquisition of GAGFAH (73 companies), the SÜDEWO Group (23 companies) and the Franconia portfolio (10 companies), as well as from 22 mergers, three liquidations and one sale.

Acquisition of GAGFAH

As part of the voluntary public takeover offer made by Vonovia SE to the shareholders of GAGFAH S.A., Luxembourg, on December 1, 2014, a total of 230,954,655 shares in GAGFAH S.A. were accepted after the end of the acceptance deadline on February 9, 2015, at 24:00 CET. This corresponds to around 93.82 % of the share capital and voting rights of GAGFAH S.A.

88.79 % of the shares tendered were taken over by Vonovia SE and 5.03 % by the co-investor J.P. Morgan Securities plc, London.

The acquisition date, the time at which Vonovia SE obtained control of GAGFAH S.A., is March 6, 2015. The last closing condition for the takeover offer, namely the entry of the mixed cash and non-cash capital increase in the Düsseldorf commercial register, was fulfilled on this date. This transaction shall be treated as a business combination in accordance with IFRS 3.

Pursuant to Art. 16 in conjunction with Art. 15 of the Luxembourg law on public takeover offers dated May 19, 2006, an additional 12,355,521 GAGFAH S.A. shares were tendered to Vonovia SE in the period leading up to May 10, 2015. 12,196,224 were attributable to the combined consideration consisting of a cash payment of € 122.52 and an additional consideration of five new shares in Vonovia SE for every 14 GAGFAH S.A. shares, and 159,297 were attributable to the cash consideration of € 18.68 per share. This is a transaction that is linked to the actual share purchase. As a result, Vonovia's share of the share capital of GAGFAH S.A. rose from 88.79 % to 93.80 %.

The provisional consideration transferred for the acquisition of 93.80 % of the shares in the share capital of GAGFAH S.A. comprises the following:

in € million	
Net cash purchase price component	2,022.5
Equity instruments	2,671.5
Contingent purchase price obligation	12.1
Total consideration	**4,706.1**

The combined consideration for 14 GAGFAH S.A. shares as part of the original tender comprised, in each case, a cash payment of € 122.52 and an additional consideration of five new registered shares in Vonovia SE. The share-based component relates to 78,060,390 no-par value shares from the non-cash capital increase of Vonovia SE, which were exchanged by Vonovia SE for the GAGFAH S.A. shares. This share-based component was valued at the XETRA closing price of € 32.58 per share on March 6, 2015, and amounts to € 2,543.2 million. The cash component amounts to € 1,912.8 million.

The share-based component granted as part of the extended tender under Luxembourg law relates to 4,355,790 no-par value shares in Vonovia SE, which Vonovia SE exchanged for the GAGFAH S.A. shares. The share-based component was valued at the XETRA closing price of € 29.45 per share on May 8, 2015. Since May 10, 2015 was a Sunday, the end of the tender period fell on May 8, 2015. This share-based component amounts to € 128.3 million. The cash consideration was valued at a price set as part of the tender process in the amount of € 18.68 per share. The total value of this cash purchase price component is € 109.7 million.

The contingent consideration is an option held by the co-investor J.P. Morgan Securities plc, with regard to the 5.03 % share of the share capital of GAGFAH S.A. that was originally acquired. It was stated at fair value using the Black-Scholes model. The maximum consideration under this option (right to reimbursement) is achieved from 12,385,559 shares based on a guaranteed price per share of € 18.00.

The provisional allocation of the total purchase price to the acquired assets and liabilities (PPA) of the GAGFAH 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 € million	
Investment properties	8,075.7
Property, plant and equipment	26.9
Financial assets	20.8
Cash and cash equivalents	154.8
Fair value of other assets	141.4
Total assets	**8,419.6**
Non-controlling interests	-134.9
Non-derivative financial liabilities	-4,825.5
Derivatives	-108.8
Pension obligations	-163.2
Other provisions	-128.7
Deferred tax liabilities	-420.8
Other liabilities	-196.4
Total liabilities	**-5,978.3**
Fair value net assets	**2,441.3**
Consideration	4,706.1
Goodwill	**2,264.8**

The goodwill represents synergies from the integration of GAGFAH's real estate business. Further information on goodwill can be found in note [19] Intangible Assets.

The measurement of the investment properties took into account expected costs for public safety measures in the form of a markdown.

It has not yet been possible to arrive at a definitive measurement of the multi-employer plans because not all of the current data is available. As a result, the obligation was included in other provisions at a provisional value of € 31.7 million.

Out of the trade receivables that were acquired, an amount of € 17.5 million is likely to have been uncollectible at the time of acquisition. The gross amount of the acquired trade receivables was € 49.1 million. The net carrying amount, which corresponds to the fair value, was € 31.6 million.

Since March 2015, the GAGFAH Group has recognized income from property management in the amount of € 702.5 million, as well as an earnings contribution in terms of earnings before fair value adjustments of investment properties, interest, taxes, depreciation and amortization (EBITDA IFRS) of € 310.5 million. If the GAGFAH Group had already been fully included in the consolidated Group as of January 1, 2015, it would have contributed to the income from property management in the amount of € 841.1 million and to EBITDA IFRS in the amount of € 363.9 million.

In the 2015 fiscal year, transaction costs of € 28.9 million were recognized as other operating expenses.

All in all, 68 domestic companies and five foreign companies have been newly included in the scope of consolidation as a result of the acquisition of the GAGFAH Group.

Acquisition of the SÜDEWO Group

On June 14, 2015, a subsidiary of Vonovia SE concluded a purchase agreement with a group of investors regarding the acquisition of a stake of 94.3 % in the SÜDEWO Group (SÜDEWO). The SÜDEWO portfolio comprises around 19,400 units, most of which are located in Baden-Württemberg.

The acquisition date, the time at which Vonovia obtained control of SÜDEWO, is July 8, 2015. This transaction shall be treated as a business combination in accordance with IFRS 3. As of this point in time, the SÜDEWO companies have been included in the consolidated financial statements of Vonovia SE for the first time.

The provisional consideration for the acquisition of the shares comprises the following:

in € million	
Cash and cash equivalents	1,062.8
Put option	65.2
Consideration for the acquisition of shares	**1,128.0**

The price for the acquisition of 94.3 % of the shares amounts to € 1,062.8 million.

The purchase agreement included a put option relating to a tender for the rest of the shares. This put option was stated in accordance with the anticipated-acquisition method. It was recognized at the present value of the exercise price. On November 4, 2015, the remaining shares, namely 5.7 %, were sold to Vonovia at a purchase price of € 65.2 million.

The provisional allocation of the total purchase price to the acquired assets and liabilities of SÜDEWO 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 € million	
Investment properties	1,742.1
Cash and cash equivalents	167.9
Fair value of other assets	48.7
Total assets	**1,958.7**
Non-derivative financial liabilities	-819.5
Derivatives	-26.9
Pension obligations	-11.1
Other provisions	-79.0
Deferred tax liabilities	-227.1
Other liabilities	-11.0
Total liabilities	**-1,174.6**
Fair value net assets	**784.1**
Consideration	1,128.0
Goodwill	**343.9**

The goodwill represents synergies from the integration of SÜDEWO's real estate business. Further information on goodwill can be found in note [19] Intangible Assets.

It has not yet been possible to arrive at a definitive measurement of the multi-employer plans because not all of the data is available. As a result, the obligation was included in other provisions at a provisional value of € 12.7 million.

Out of the trade receivables that were acquired, an amount of € 1.1 million is likely to have been uncollectible at the time of acquisition. The gross amount of the acquired trade receivables was € 5.4 million. The net carrying amount, which corresponds to the fair value, was € 4.3 million.

Since July 2015, SÜDEWO has recognized income from property management in the amount of € 68.3 million, as well as an earnings contribution in terms of earnings before fair value adjustments of investment properties, interest, taxes, depreciation and amortization (EBITDA IFRS) of € 23.2 million. If SÜDEWO had already been fully included in the consolidated Group as of January 1, 2015, it would have contributed to the income from property management in the amount of € 138.9 million and to EBITDA IFRS in the amount of € 52.8 million.

In the 2015 fiscal year, transaction costs of € 6.4 million were recognized as other operating expenses.

All in all, 22 domestic companies and one foreign company are included in the scope of consolidation as a result of the acquisition of SÜDEWO.

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. If Vonovia only retains insignificant risks of ownership, the proceeds are recognized at the time of sale and 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 exceed the pro rata 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 for an asset 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 CGUs to which goodwill has been allocated are tested for impairment.

This involves comparing the recoverable amount with the carrying amount of the cash-generating unit. The recoverable amount of a cash-generating unit 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 cash 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 cash-generating unit 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 forecast 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 apportioned between the finance charge and the reduction 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

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.

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

Generally speaking, available-for-sale financial assets are subsequently measured at fair value. 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.

Receivables and Other Assets

Loans and receivables are stated at amortized cost using the effective interest method.

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

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.

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 2014, the combined tax rate of corporate income tax and trade tax of 33.1 % was used to calculate domestic deferred taxes for 2015.

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.

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 on the annual costs is recognized 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 multi-employer defined benefit plans 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 investors, 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 then 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 then 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. Later, they are 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 2015 fiscal year, Vonovia was granted low-interest loans of € 84.0 million (Dec. 31, 2014: € 27.3 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

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 on an annual basis with a quarterly update as of the relevant reporting date. 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 cash-generating unit (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 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 cash-generating unit to which goodwill is allocated may involve discretionary judgments.

> Allocating the goodwill to the 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" (IFRS 5), 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.

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 2015 fiscal year.

The following new or amended standards and interpretations became mandatory for the first time in the 2015 fiscal year and have no material effects on Vonovia's consolidated financial statements:

> Improvements and supplements to a selection of IFRS 2010–2012

> Improvements and supplements to a selection of IFRS 2011–2013

> Changes to IAS 19 "Employee Benefits"

> IFRIC 21 "Levies"

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 2015 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 2012–2014		Jan. 1, 2016
Amendments to Standards		
IAS 1	"Presentation of Financial Statements"	Jan. 1, 2016
IAS 7	"Statement of Cash Flows"	Jan. 1, 2017*
IAS 12	"Income Taxes"	Jan. 1, 2017*
IAS 16	"Property, Plant and Equipment"	Jan. 1, 2016
IAS 27	"Separate Financial Statements"	Jan. 1, 2016
IAS 28	"Investments in Associates and Joint Ventures"	Jan. 1, 2016*
IAS 38	"Intangible Assets"	Jan. 1, 2016
IAS 41	"Agriculture"	Jan. 1, 2016
IFRS 10	"Consolidated Financial Statements"	Jan. 1, 2016*
IFRS 11	"Joint Arrangements"	Jan. 1, 2016
IFRS 12	"Disclosure of Interests in Other Entities"	Jan. 1, 2016*
New Standards		
IFRS 9	"Financial Instruments: Classification and Measurement"	Jan. 1, 2018*
IFRS 14	"Regulatory Deferral Accounts"	Jan. 1, 2016*
IFRS 15	"Revenue Recognition"	Jan. 1, 2018*
IFRS 16	"Leases"	Jan. 1, 2019*

* Not yet endorsed

The initial application of IAS 28 "Investments in Associates and Joint Ventures" and IFRS 10 "Consolidated Financial Statements" has been postponed indefinitely by the IASB. Early application is possible nevertheless. The amendments to IFRS 10 and IAS 28 will not have any effect on Vonovia's consolidated financial statements.

IAS 7 "Statement of Cash Flows"

The amendments to IAS 7 require entities to provide disclosures on changes in financial liabilities where the associated inflows and outflows are shown in the statement of cash flows as cash flow from financing activities. Corresponding financial assets are also to be included in the disclosures. The IASB proposes that these disclosures be made in a reconciliation statement or in other disclosures. The amendments are mandatory for fiscal years beginning on or after January 1, 2017; earlier application is permitted. Vonovia is examining the effects of the new standard.

IFRS 16 "Leases"

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. 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. The approach to lessor accounting in the new standards, on the other hand, is substantially unchanged from its predecessor, IAS 17. Lease contracts continue to be classified as operating leases or finance leases. The new standard is mandatory for fiscal years beginning on or after January 1, 2019; earlier application is permitted as long as IFRS 15 is also applied. Vonovia is examining the effects of the new standard.

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	2015	2014
Rental income	1,414.6	789.3
Ancillary costs	620.7	349.1
Income from property letting	**2,035.3**	**1,138.4**
Other income from property management	28.2	18.2
Income from property management	**2,063.5**	**1,156.6**

7
Profit on Disposal of Properties

in € million	2015	2014
Income from disposal of investment properties	448.7	155.0
Carrying amount of investment properties sold	-381.4	-111.1
Profit on disposal of investment properties	**67.3**	**43.9**
Income from sale of assets held for sale	277.3	132.3
Retirement carrying amount of assets held for sale	-277.3	-132.3
Revaluation of assets held for sale	51.7	25.1
Profit on disposal of assets held for sale	**51.7**	**25.1**
	119.0	**69.0**

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 € 51.7 million as of December 31, 2015 (2014: € 25.1 million). After value adjustment, these properties were transferred to "Assets held for sale."

The total profit on disposal of property does not take account of 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 2015 fiscal year of € 1,323.5 million (2014: € 371.1 million).

Further explanations on the measurement of investment properties are given under note [21] Investment Properties.

9
Capitalized Internal Expenses

Capitalized internal expenses in the fiscal year amount to € 174.9 million (2014: € 85.6 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	2015	2014
Expenses for ancillary costs	601.7	344.4
Expenses for maintenance	268.7	141.0
Other cost of purchased goods and services	102.1	57.2
	972.5	**542.6**

11
Personnel Expenses

in € million	2015	2014
Wages and salaries	307.6	150.9
Social security, pensions and other employee benefits	52.1	33.7
	359.7	**184.6**

The personnel expenses include expenses for severance payments in the amount of € 71.5 million (2014: € 5.1 million), allocations to the provisions for pre-retirement part-time work arrangements in the amount of € 8.4 million (2014: € 3.2 million) and expenses for the long-term incentive plan (LTIP) at € 8.2 million (2014: € 8.3 million) (see note [30] Provisions).

In the fiscal year under review, employers' contributions to statutory pension insurance amounted to € 20.0 million (2014: € 12.4 million).

As of December 31, 2015, Vonovia had 6,368 employees (Dec. 31, 2014: 3,850). On an annual average, 6,027 people (2014: 3,411) were employed. As of December 31, 2015, Vonovia had 352 apprentices (Dec. 31, 2014: 152).

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	2015	2014
Compensation for damages and cost reimbursements	36.9	27.2
Reversal of provisions	10.1	3.9
Dunning and debt collection fees	6.6	5.7
Reversal of impairment losses	4.3	-
Miscellaneous other	15.2	28.5
	73.1	**65.3**

Income from compensation for damages and cost reimbursements includes € 26.8 million in compensation paid by insurance companies (2014: € 18.4 million).

14
Other Operating Expenses

in € million	2015	2014
Consultants' and auditors' fees	108.7	46.9
Vehicle and traveling costs	26.1	17.1
Impairment losses	24.0	14.2
Additions to provisions	19.1	13.3
Rents, leases and ground rents	17.4	11.3
Communication costs and work equipment	14.5	8.4
Administrative services	7.2	9.6
Advertising costs	5.7	3.1
Sales incidentals	4.2	2.0
Dunning and debt collection fees	3.0	3.2
Legal and notary costs	2.8	2.9
Insured losses	0.9	0.9
Miscellaneous other	29.9	19.5
	263.5	**152.4**

The increase in consultants' and auditors' fees is connected, in particular, with the acquisitions of GAGFAH, SÜDEWO and the Franconia portfolio, which are described in further detail in note [3] Scope of Consolidation and Business Combinations.

15
Financial Income

in € million	2015	2014
Income from other investments	3.6	3.4
Income from non-current securities and non-current loans	2.3	2.0
Other interest and similar income	2.1	3.4
	8.0	**8.8**

16
Financial Expenses

The financial expenses mainly relate to interest expense on financial liabilities measured at amortized cost as well as transaction costs for financing measures.

The application of the effective interest method reduced the interest expense by € 53.2 million as of the reporting date. In 2014, financial expenses were increased by € 18.2 million through the use of the effective interest method.

Interest expense includes interest accretion to provisions for pensions in the amount of € 9.0 million (2014: € 9.1 million) and, for miscellaneous other provisions, reductions in the amount of € -0.4 million (2014: interest charges amounting to € 3.3 million).

In 2015, transaction costs of € 60.5 million were recognized as expenses, largely due to refinancing, the creation of land charges and consultancy costs (2014: € 5.0 million).

In addition, interest from prepayment penalties and commitment interest negatively impacted results in the amount of € 29.9 million (2014: € 34.7 million).

In the reporting year, € 31.1 million was recognized as net interest in connection with swaps (2014: € 3.7 million).

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	2015	2014
Interest income	2.1	3.4
Interest expense	-418.4	-280.3
Net interest	**-416.3**	**-276.9**
Less:		
Net interest from provisions for pensions in acc. with IAS 19*	9.0	9.1
Net interest from other provisions in acc. with IAS 37	-0.4	3.3
Net interest from derivatives in acc. with IAS 39: swaps	31.1	3.7
Net interest from finance leases in acc. with IAS 17	5.4	5.2
Net interest with regard to measurement categories in acc. with IAS 39	**-371.2**	**-255.6**

* Including interest income on plan assets of € 0.4 million (2014: € 0.6 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*	2015	2014
Loans and receivables	LaR	1.0	3.1
Available-for-sale financial assets	AfS	0.5	-
Financial liabilities held for trading	FLHfT	-25.9	-3.9
Financial liabilities measured at amortized cost	FLAC	-346.8	-254.8
		-371.2	**-255.6**

* See note [37] Additional Financial Instrument Disclosures

17
Income Taxes

in € million	2015	2014
Current income tax	27.2	8.0
Prior-year current income tax	-5.5	-4.7
Deferred tax – temporary differences	732.7	194.2
Deferred tax – unutilized loss carryforwards	-14.6	-18.1
	739.8	**179.4**

The current tax expense is determined on the basis of the taxable income for the fiscal year. For the 2015 fiscal year, the combined tax rate of corporate income tax and solidarity surcharge for domestic companies is 15.8 % (2014: 15.8 %). Including trade tax at a rate of about 17.3 % (2014: 16.8 %), the combined domestic tax rate is 33.1 % in 2015 (2014: 32.6 %). The income generated by Vonovia Finance B.V. is subject to Dutch tax law; current taxes of € 0.9 million (2014: € 0.4 million) were incurred there. The other companies that hold properties and are based in the Netherlands and Luxembourg have limited corporation tax liability in Germany. These companies, together with the Irish companies, pay minimum tax that is of a negligible amount from the Group's perspective in the countries in which they are based.

Anticipated effects of the so-called extended trade tax exemption on trade tax are taken into account when the deferred taxes are determined. Due to the discontinuation of the extended trade tax exemption at one company, deferred tax liabilities are also subject to trade tax, unlike in the previous year. This effect creates a deferred tax expense of € 55.3 million.

For domestic deductible temporary differences (excl. loss carryforwards) in the amount of € 30.8 million (Dec. 31, 2014: € 6.1 million), no deferred corporate income taxes were recognized, while no deferred trade taxes were recognized for domestic deductible temporary differences of € 30.8 million (Dec. 31, 2014: € 8.4 million), because they are not likely to be used in the future.

As of December 31, 2015, there were corporate income tax loss carryforwards amounting to € 3,540.7 million (Dec. 31, 2014: € 1,751.8 million), as well as trade tax loss carryforwards amounting to € 1,848.3 million (Dec. 31, 2014: € 901.8 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 as well as from the business combination with the GAGFAH Group.

No deferred taxes were recognized in the balance sheet for corporate income tax loss carryforwards amounting to € 1,047.8 million (Dec. 31, 2014: € 310.8 million). Of this amount, € 119.2 million (2014: € 25.0 million) arose for the first time in the 2015 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 € 18.8 million (2014: € 3.9 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

€ 678.8 million in total (Dec. 31, 2014: € 190.6 million). These did not give rise to any deferred tax assets. Of this amount, € 112.0 million arose for the first time in the 2015 fiscal year (2014: € 23.0 million) and the resulting tax effect is € 19.4 million (2014: € 3.8 million).

The measurement of deferred tax assets (without impairment losses on new tax loss and interest carryforwards) led to tax income amounting to € 1.7 million in the 2015 fiscal year (2014: tax expenses amounting to € 2.6 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 € 382.7 million (Dec. 31, 2014: € 6.8 million). The increase in the tax interest carryforwards resulted primarily from the business combination with the GAGFAH and the SÜDEWO Group. In the 2015 fiscal year, non-deductible interest at individual companies also increased the interest carryforward by € 174.4 million (2014: € 6.8 million). The fact that no deferred tax assets were recognized on the new interest carryforward generated a tax effect of € 56.9 million (2014: € 1.0 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	2015	2014
Earnings before tax	**1,734.5**	**589.1**
Income tax rate in %	33.1	32.6
Expected tax expense	**574.1**	**192.2**
Trade tax effects	62.8	-7.8
Non-deductible operating expenses	7.5	1.8
Tax-free income	-0.5	-2.0
Change in the deferred tax assets on loss carryforwards and temporary differences	-1.7	2.6
New loss and interest carryforwards not recognized	95.1	8.7
Prior-year current income tax and taxes on guaranteed dividends	1.3	-4.7
Tax rate change in Germany	–	-3.4
Differing foreign tax rates	-1.7	-0.3
Other tax effects (net)	2.9	-7.7
Effective income taxes	**739.8**	**179.4**
Effective income tax rate in %	**42.7**	**30.5**

The deferred taxes refer to temporary differences in balance sheet items and unutilized loss carryforwards as follows:

in € million	Dec. 31, 2015	Dec. 31, 2014
Intangible assets	0.6	–
Investment properties	3.5	–
Assets held for sale	0.1	–
Property, plant and equipment	0.3	0.1
Financial assets	3.2	2.1
Other assets	58.4	15.8
Provisions for pensions	75.5	58.6
Other provisions	50.6	18.2
Liabilities	82.2	76.0
Loss carryforwards	584.7	346.2
Deferred tax assets	**859.1**	**517.0**

in € million	Dec. 31, 2015	Dec. 31, 2014
Intangible assets	0.9	–
Investment properties	3,089.5	1,570.1
Assets held for sale	154.8	10.8
Property, plant and equipment	3.5	1.2
Financial assets	5.4	–
Other assets	11.6	16.8
Other provisions	21.8	2.2
Liabilities	27.6	33.7
Deferred tax liabilities	**3,315.1**	**1,634.8**
Excess deferred tax liabilities	**2,456.0**	**1,117.8**

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, 2015	Dec. 31, 2014
Deferred tax assets	72.3	15.0
Deferred tax liabilities	2,528.3	1,132.8
Excess deferred tax liabilities	**2,456.0**	**1,117.8**

The change in deferred taxes is as follows:

in € million	2015	2014
Excess deferred tax liabilities as of Jan. 1	**1,117.8**	**922.0**
Deferred tax expense in income statement	718.1	176.1
Deferred tax due to first-time consolidation	620.5	56.1
Change recognized in other comprehensive income in deferred taxes on available-for-sale financial assets	0.2	–
Change recognized in other comprehensive income in deferred taxes on actuarial gains and losses from pensions and similar obligations	10.9	-18.2
Change recognized in other comprehensive income in deferred taxes on derivative financial instruments regarding liabilities	3.8	-12.2
Deferred taxes recognized in equity on accrued capital procurement costs resulting from the issuance of a hybrid bond with an indefinite term	–	-2.9
Deferred taxes recognized in the capital reserve on capital procurement costs of capital increases	-15.3	-3.1
Excess deferred tax liabilities as of Dec. 31	**2,456.0**	**1,117.8**

No deferred tax liabilities are recognized for profits accumulated at subsidiaries of € 7,579.4 million (Dec. 31, 2014: € 3,304.3 million), as these profits are to remain invested for an indefinite period or are not subject to taxation. In the event of distribution, 5 % of the profits 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.

	2015	2014
Profit for the period attributable to Vonovia shareholders (in € million)	923.5	401.4
Weighted average number of shares*	403,954,873	257,295,886
Earnings per share (basic and diluted) in €	**2.29**	**1.56**

* The number of average outstanding shares was adjusted for all periods 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.

In March and May 2015, a combined cash and non-cash capital increase was performed against the issuance of 82,483,803 and 4,355,780 new shares respectively. Together with the issue of 107,538,606 new shares in July 2015 in return for a cash contribution, the total number of shares had risen to 466,000,624 by December 31, 2015.

The capital increase implemented in July 2015 also involved the issue of subscription rights for existing shareholders. Since the subscription price for the new shares was lower than the market price of the existing shares, the capital increase includes a bonus element. According to IAS 33, the bonus element is the result of an implicit change in the number of shares outstanding for all periods prior to the capital increase without a fully proportionate change in resources. As a consequence, the average number of shares outstanding has been adjusted retroactively for prior-year disclosures accordingly.

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, licenses and similar rights	Self-developed software	Customer relationships and similar values	Goodwill	Total
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**
Cost					
As of Jan. 1, 2014	8.0	7.4	15.8	–	**31.2**
Additions due to business combinations	0.8	–	–	106.0	**106.8**
Additions	0.9	–	–	–	**0.9**
Disposals	-0.5	–	–	–	**-0.5**
As of Dec. 31, 2014	9.2	7.4	15.8	106.0	**138.4**
Accumulated amortization					
As of Jan. 1, 2014	6.0	7.1	14.3	–	**27.4**
Additions due to business combinations	0.6	–	–	–	**0.6**
Amortization in reporting year	0.6	0.3	1.5	–	**2.4**
Disposals	-0.5	–	–	–	**-0.5**
As of Dec. 31, 2014	6.7	7.4	15.8	–	**29.9**
Carrying amounts					
As of Dec. 31, 2014	2.5	–	–	106.0	**108.5**

Goodwill

Due to the acquisitions in the fiscal year in question, goodwill came to € 2,714.7 million as of December 31, 2015. Of this amount, € 106.0 million is attributable to acquisitions in the previous year.

Due to the numerous acquisitions, Vonovia revamped its organizational and reporting structure as of October 1, 2015. In the Rental segment, the groups of cash-generating units are represented by way of the regional business areas of north, east, southeast, west, middle, south and central as well as by the Extension segment. The goodwill from the acquisitions in the previous year were tested for impairment before being reallocated to the reorganized reporting structure. The test did not reveal any need for impairment. The figures for the previous year are based on the reporting structure before the reorganization.

The allocation/reallocation of goodwill to the business areas and to the Extension CGU 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 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, etc.) and the implementation of new ones (e.g., smart metering). 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 plans were extended by one further year in order to arrive at strategic targets for 2020. The cash flows from the last 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 1.42 % calculated as a three-month average using the Svensson method, a market risk premium of 6.25 % and a beta of 0.54. The beta and the equity ratio used are determined on the basis of a peer comparison.

Cash-Generating Units as of Dec. 31, 2015

	North area	East area	Southeast area	West area	Middle area	South area	Central area	Extension segment	Total
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**

Cash-Generating Units as of Dec. 31, 2014

	North/East area	Ruhr area	Rhine/Main area	South area	Total
Goodwill	97.4	0.4	3.4	4.8	**106.0**
WACC before tax in %	5.0	5.1	5.0	5.0	**-**
Sustainable rate of increase in %	1.1	1.0	1.3	1.3	**1.2**

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 0.7 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, 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**
Cost				
As of Jan. 1, 2014	13.5	3.8	16.6	**33.9**
Additions due to business combinations	4.0	0.0	2.9	**6.9**
Additions	0.1	3.0	5.4	**8.5**
Capitalized modernization costs	0.1	–	–	**0.1**
Disposals	-0.1	–	-1.9	**-2.0**
Transfer from investment properties	1.2	–	–	**1.2**
Transfer to investment properties	-1.1	–	–	**-1.1**
As of Dec. 31, 2014	17.7	6.8	23.0	**47.5**
Accumulated depreciation				
As of Jan. 1, 2014	1.3	1.3	10.6	**13.2**
Additions due to business combinations	–	0.0	2.2	**2.2**
Depreciation in reporting year	0.3	1.0	3.6	**4.9**
Impairment	0.1	–	–	**0.1**
Reversal of impairments	-0.1	–	–	**-0.1**
Disposals	0.0	–	-1.8	**-1.8**
As of Dec. 31, 2014	1.6	2.3	14.6	**18.5**
Carrying amounts				
As of Dec. 31, 2014	16.1	4.5	8.4	**29.0**

As of December 31, 2015, carrying amounts of owner-occupied properties amounting to € 26.0 million (Dec. 31, 2014: € 9.5 million) are encumbered with land charges in favor of various lenders.

21
Investment Properties

in € million	
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**
As of Jan. 1, 2014	10,266.4
Additions due to business combinations	2,049.3
Additions	13.0
Capitalized modernization costs	197.9
Grants received	-1.2
Transfer from property, plant and equipment	1.1
Transfer to property, plant and equipment	-1.2
Transfer from assets held for sale	1.3
Transfer to assets held for sale	-124.5
Disposals	-111.1
Net income from fair value adjustments of investment properties	371.1
Revaluation of assets held for sale	25.1
As of Dec. 31, 2014	**12,687.2**

In the amount of € 39.4 million (Dec. 31, 2014: € 34.6 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 € 1,414.6 million in the 2015 fiscal year (2014: € 789.3 million). Operating expenses directly relating to these properties amounted to € 226.4 million in the 2015 fiscal year (2014: € 123.3 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, 2015	Dec. 31, 2014
Total minimum lease payments	**42.9**	**25.7**
Due within 1 year	8.7	5.0
Due in 1 to 5 years	19.1	12.0
Due after 5 years	15.1	8.7

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 (e.g., IVD and IDN Immo-Daten GmbH), 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 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, 2015, in its in-house valuation department on the basis of the methodology described above. The market value set out in the independent report of the external property appraiser CBRE GmbH ultimately deviates from the internal valuation result by less than 0.1 %.

The following table gives an overview of the material valuation parameters and valuation results as of December 31, 2015:

Valuation parameters	Average	Min.*	Max.*
Management costs residential	€ 252 per residential unit p.a.	222	329
Ongoing maintenance costs residential	€ 10.11 per m² p.a.	5.98	12.58
Apartment improvement costs for reletting	€ 3.31 per m² p.a.	0.00	15.57
Maintenance costs total	€ 13.41 per m² p.a.	6.13	25.90
Cost increase/inflation	1.5 % p.a.		
Market rent	€ 6.28 per m² p.a.	2.44	13.15
Market rent increase	1.2 % p.a.	0.6 %	1.6 %
Stabilized vacancy rate	2.7 %	0.4 %	12.5 %
Discount rate	5.8 %	4.5 %	8.1 %
Capitalized interest rate	4.7 %	3.3 %	7.1 %

* Adjusted to reflect individual cases; range includes at least 98 % of all valuation units

Valuation Results

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 this real estate portfolio comprising residential buildings, commercial properties, garages and parking spaces as well as undeveloped land and any inheritable building rights granted was € 24,157.7 million as of December 31, 2015 (Dec. 31, 2014: € 12,759.1 million).

Valuation results	
Net initial yield	4.5 %
In-place-rent multiplier	15.4-fold
Fair value per m²	€ 1,054 per m² of lettable area

The fair values for each real estate portfolio segment are as follows:

	Units		Fair value (€ million)*	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Strategic	**300,343**	**172,546**	**21,110.0**	**10,867.2**
Operate	125,357	86,325	8,634.1	5,302.1
Upgrade Buildings	102,479	51,901	6,895.5	3,271.9
Optimize Apartments	72,507	34,320	5,580.4	2,293.2
Non-Strategic	**25,056**	**-**	**981.7**	**-**
Privatize	**19,582**	**21,530**	**1,573.4**	**1,493.8**
Non-Core	**12,136**	**8,952**	**422.1**	**348.4**
Total	**357,117**	**203,028**	**24,087.2**	**12,709.4**

* Fair value of the developed land excluding € 70.5 million (Dec. 31, 2014: € 49.7 million) for undeveloped land and inheritable building rights granted

This led overall to net income from fair value adjustments of € 1,323.5 million in the 2015 fiscal year (2014: € 371.1 million).

Sensitivity Analyses

Owing to the stable residential property market, the fair values of Vonovia's real estate portfolio only fluctuate to a comparatively minor extent. The main value drivers influenced by the market 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 in the following. Interactions between the parameters are possible but cannot be quantified owing to the complexity of the interrelationships.

		Impact on values	
Valuation parameters	Change in parameters	in € million	in %
Management costs residential	-10 %	192.3	0.8
	+10 %	-192.8	-0.8
Maintenance costs residential	-10 %	604.0	2.5
	+10 %	-598.9	-2.5
Cost increase/inflation	-0.5 percentage points	914.2	3.8
	+0.5 percentage points	-960.6	-4.0
Market rent	-2.0 %	-553.3	-2.3
	+2.0 %	547.0	2.3
Market rent increase	-0.2 percentage points	-1,284.8	-5.3
	+0.2 percentage points	1,431.0	5.9
Stabilized vacancy rate	-1 percentage points	379.2	1.6
	+1 percentage points	-441.9	-1.8
Discounting and capitalized interest rates	-0.25 percentage points	1,405.2	5.8
	+0.25 percentage points	-1,258.6	-5.2

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. 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, 2015, around 209,000 units in Vonovia's portfolio were subject to one or several contractual restrictions or other obligations.

> **Sale restrictions:** As of December 31, 2015, around 98,000 units were subject to sale restrictions (excl. occupancy rights). Around 75,000 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.

> **Preemptive rights on preferential terms:** Around 9,000 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 75,000 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 141,000 units are subject to a requirement to spend a weighted average of at least € 13.33 per square meter on maintenance and modernization every year. Furthermore, around 157,000 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 107,000 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.

22
Financial Assets

	Dec. 31, 2015		Dec. 31, 2014	
in € million	non-current	current	non-current	current
Joint venture investments at equity	3.9	–	–	–
Other investments	15.4	–	1.7	–
Loans to other investments	33.5	–	33.6	–
Securities	7.2	–	2.9	–
Other non-current loans	3.4	–	4.4	–
Derivatives	155.2	–	50.6	–
Long-term bank balances restricted with regard to their use	3.1	–	–	–
Dividends from other investments	–	2.0	–	2.0
	221.7	**2.0**	**93.2**	**2.0**

The carrying amount of financial assets corresponds to maximum risk of loss.

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 € 154.3 million (Dec. 31, 2014: € 50.6 million) are reported under derivatives.

23
Other Assets

	Dec. 31, 2015		Dec. 31, 2014	
in € million	non-current	current	non-current	current
Right to reimbursement for transferred pensions	7.6	–	8.3	–
Receivables from insurance claims	3.1	15.8	4.9	10.1
Miscellaneous other assets	147.8	97.6	33.8	67.4
	158.5	**113.4**	**47.0**	**77.5**

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 € 2.2 million (Dec. 31, 2014: € 4.2 million).

The miscellaneous other assets include € 132.7 million (Dec. 31, 2014: € 30.3 million) for advance payments made on acquisitions of companies and real estate.

Miscellaneous other assets contain a non-interest-bearing security in connection with an interest rate swap in the amount of € 9.9 million (fair value as of December 31, 2015: € -7.6 million). The net amount of the security and the swap comes to € 2.3 million. The security deposited has the same term as the swap up to its maturity in October 2021.

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	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**
Receivables from the sale of properties	3.5	-2.5	45.2	1.2	0.3	0.2	0.3	1.6	49.8
Receivables from property letting	32.1	-17.5	–	–	–	–	–	–	14.6
Other receivables	–	–	0.7	–	–	–	–	–	0.7
As of Dec. 31, 2014	**35.6**	**-20.0**	**45.9**	**1.2**	**0.3**	**0.2**	**0.3**	**1.6**	**65.1**

* 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, 2015	**20.0**
Addition	16.6
Utilization	-3.3
Reversal	-3.7
Impairment losses as of Dec. 31, 2015	**29.6**
Impairment losses as of Jan. 1, 2014	19.1
Addition	13.3
Utilization	-12.4
Reversal	–
Impairment losses as of Dec. 31, 2014	**20.0**

The following table shows the expenses for the full derecognition of receivables as well as income from the receipt of derecognized receivables:

in € million	2015	2014
Expenses for the derecognition of receivables	12.9	0.3
Income from the receipt of derecognized receivables	10.2	1.6

27
Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, checks and deposits at banking institutions totaling € 2,108.0 million (Dec. 31, 2014: € 714.8 million), as well as marketable current securities in the amount of € 999.9 million (Dec. 31, 2014: € 850.0 million) with an original term of up to three months. The liquidity inflows resulting from the placement of bonds to repay financial liabilities were invested in short-term standard market securities (commercial papers).

Of these bank balances, € 84.2 million (Dec. 31, 2014: € 32.8 million) are restricted with regard to their use.

28
Assets held for Sale

The assets held for sale include properties totaling € 678.1 million (Dec. 31, 2014: € 53.8 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 in the amount of € 466,000,624.00, split into 466,000,624 no-par value registered shares.

The shares are currently 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).

As a result of the entry in the Commercial Register made on March 6, 2015, the equity of Vonovia SE was increased by € 2,657,751,786.00 as a result of the mixed cash and non-cash capital increase as part of the completion of the voluntary public takeover offer made for all shares in GAGFAH S.A. In line with the number of newly created no-par value shares, € 82,483,803.00 of this amount was attributable to the share capital.

Out of the 82,483,803.00 no-par value shares from the capital increase, 4,423,413 shares were subscribed to in cash by J.P. Morgan Securities plc at a price of € 25.89. The remaining 78,060,390 shares were valued at an XETRA closing price of € 32.58 per share on March 6, 2015, as part of the non-cash capital increase.

Pursuant to Art. 16 in conjunction with Art. 15 of the Luxembourg law on public takeover offers dated May 19, 2006, 12,355,521 GAGFAH S.A. shares were tendered to Vonovia SE in the period leading up to May 10, 2015. 12,196,224 were attributable to the combined consideration and 159,297 to the cash consideration. This was a transaction that was linked to the actual share purchase. The 12,355,521 GAGFAH S.A. shares corresponded to 4,355,700 of the company's shares.

On the basis of the resolution passed by the Management Board of Vonovia SE on May 15, 2015, and the consent of the Supervisory Board's Finance Committee issued on May 18, 2015, the share capital of Vonovia SE was increased, as part of the extended tender under Luxembourg law, by € 4,355,790.00 from € 354,106,228.00 to € 358,462,018.00 as a result of the issue of 4,355,790 new shares from the 2013 authorized capital in return for contributions in kind. The new shares were issued at a price of € 1.00 per share and carry full dividend rights as of January 1, 2015. The capital increase was entered in the Commercial Register on May 22, 2015.

The share-based component relates to 4,355,790 no-par value shares in Vonovia SE, which were exchanged by Vonovia SE for the GAGFAH S.A. shares. The share-based component was valued at the XETRA closing price of € 29.45 per share on May 8, 2015. Since May 10, 2015 was a Sunday, the end of the tender period fell on May 8, 2015.

On June 14, 2015, the Management Board made the decision, following authorization by the Supervisory Board on June 12, 2015, to increase the company's registered share capital by € 107,538,606.00, from € 358,462,018.00 to € 466,000,624.00, in return for cash contributions. The capital increase was implemented using the 2015 authorized capital by issuing 107,538,606 new registered no-par value shares, each accounting for a pro rata amount of € 1.00 of the company's share capital and carrying full dividend rights as of January 1, 2015, as well as subscription rights for the existing shareholders. The subscription price was € 20.90 per share. 105,514,060 new shares were purchased for a price of € 20.90 per share. The 2,024,546 shares for which the subscription right has not been exercised were sold on the market at a price of € 25.80 per share. Of an issue price of € 2,257.5 million, € 107.5 million related to a resolved subscribed capital increase and € 2,149.9 million to a resolved addition to the capital reserves. The transaction costs were recognized in the capital reserves while allowing for deferred tax effects and without affecting net income. The capital increase was entered in the Commercial Register on July 3, 2015.

Development of the Subscribed Capital

in €	
As of Jan. 1, 2015	**271,622,425.00**
Capital increase against non-cash contributions on March 6, 2015	78,060,390.00
Capital increase against cash contributions on March 6, 2015	4,423,413.00
Capital increase against non-cash contributions on May 22, 2015	4,355,790.00
Capital increase against cash contributions on July 3, 2015	107,538,606.00
As of Dec. 31, 2015	**466,000,624.00**

Capital Increases That Have Been Resolved but not Completed as Part of the Voluntary Public Takeover Offer Made to the Shareholders of Deutsche Wohnen AG

At the extraordinary general shareholders' meeting held on November 30, 2015, in order to enable the combined cash and exchange offer for the conversion of the existing Deutsche Wohnen shares into Vonovia offer shares, Vonovia SE's shareholders passed a resolution on a non-cash capital increase and a cash capital increase, as well as on the creation of authorized capital.

The extraordinary general shareholders' meeting resolved that Vonovia SE's share capital, currently amounting, as entered in the Commercial Register, to € 466,000,624.00, split into 466,000,624 no-par value registered shares (shares with no nominal value) each accounting for a pro rata amount of € 1.00 of the company's share capital, be increased, in return for contributions in kind, by up to € 245,194,002.00 to up to € 711,194,626.00 by issuing up to 245,194,002 no-par value registered shares, each accounting for a pro rata amount of € 1.00 of the company's share capital.

Furthermore, in respect of the cash capital increase, the general shareholders' meeting resolved that Vonovia SE's share capital, currently amounting, as entered in the Commercial Register, to € 466,000,624.00, split into 466,000,624 no-par value registered shares (shares with no nominal value) each accounting for a pro rata amount of € 1.00 of the company's share capital, be increased, in return for cash contributions, from the future amount of the share capital as it will stand once the previously described non-cash capital increase has been conducted, by up to € 12,266,064.00 by issuing up to 12,266,064 no-par value registered shares, each accounting for a pro rata amount of € 1.00 of the company's share capital. The agreed subscription price of the new Vonovia shares is € 28.96 per share in Vonovia.

The issue price of the new Vonovia shares in connection with both the non-cash capital increase and the cash capital increase will be € 1.00. If the new Vonovia shares are issued before the Annual General Meeting that makes the decision on the appropriation of profit for the fiscal year ending on December 31, 2015, then the new Vonovia shares will first carry dividend rights for the fiscal year ending on December 31, 2015. Otherwise, they will carry dividend rights from the start of the fiscal year that is ongoing at the time they are issued. Subscription rights for Vonovia SE's shareholders are excluded.

The aforementioned resolutions regarding the increase of the share capital in return for non-cash and cash contributions become invalid if this capital increase is not conducted within three months following the entry of these resolutions in the Commercial Register or, at the latest, on July 15, 2016.

In addition, Vonovia SE's shareholders made the decision, at the extraordinary general shareholders' meeting held on November 30, 2015, to create authorized capital (2015/II authorized capital). The Management Board is authorized, with the consent of the Supervisory Board, to increase Vonovia SE's share capital by up to 12,266,064 no-par value registered shares in return for cash contributions and/or contributions in kind on or before November 30, 2016.

Development of the 2013 Authorized Capital

in €	
As of Jan. 1, 2015	**83,331,111.00**
Offer capital increase on March 6, 2015	-77,074,531.00
Offer capital increase on May 22, 2015	-4,355,790.00
As of Dec. 31, 2015	**1,900,790.00**

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 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.

Development and Cancellation of the 2014 Authorized Capital

in €	
As of Jan. 1, 2015	**5,410,101.00**
Offer capital increase on March 6, 2015	-5,409,272.00
As of April 30, 2015	829.00
Cancellation	-829.00
As of Dec. 31, 2015	**0.00**

The existing authorization for the 2014 authorized capital was canceled at the Annual General Meeting held on April 30, 2015.

Development of the 2015 Authorized Capital

in €	
As of May 1, 2015	**170,796,534.00**
Offer capital increase on July 3, 2015	-107,538,.606.00
As of Dec. 31, 2015	**63,257,928.00**

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 generally be granted 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.

2013 Conditional Capital

The existing authorization for the existing conditional capital (2013 conditional capital) was canceled at the Annual General Meeting held on April 30, 2015, and replaced by a new authorization and a new conditional capital (2015 conditional capital).

2015 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 April 30, 2015. The share capital is conditionally increased by up to € 177,053,114.00 through the issuance of up to 177,053,114 new no-par value registered shares with an entitlement to dividend (2015 conditional capital).

Based on the resolution passed by the company's Annual General Meeting on April 30, 2015, 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 April 29, 2020, with a par value of up to € 5,311,000,000.00 with or without definite maturity, and to grant the 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 € 177,053,114.00 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.

Capital Reserves

Capital reserves amounted to € 5,892.5 million (Dec. 31, 2014: € 2,076.0 million).

The capital reserves increased by a total of € 4,849.2 million in the fiscal year under review as a result of the premium on the issue of new shares. The capital procurement costs of € 48.6 million attributable to the company in connection with the issuing of the new shares were offset against the capital reserves allowing for deferred tax effects of € 15.3 million.

Development of Capital Reserves

in €	
As of Jan. 1, 2015	**2,075,982,333.34**
Capital increase on March 6, 2015	2,575,267,982.84
Capital increase on May 22, 2015	123,922,225.50
Capital increase on July 3, 2015	2,149,946,025.62
Transaction costs on the issue of new shares (after deferred taxes)	-33,260,358.25
Withdrawal from capital reserve	-1,000,000,000.00
Other changes not affecting net income	581,867.50
As of Dec. 31, 2015	**5,892,440,076.55**

Dividend

The Annual General Meeting held on April 30, 2015, in Düsseldorf resolved inter alia to pay a dividend for the 2014 fiscal year in the amount of 78 cents per share and subsequently distributed € 276.2 million.

Retained Earnings

Retained earnings of € 4,309.9 million (Dec. 31, 2014: € 2,643.4 million) were reported as of December 31, 2015. This figure includes actuarial gains and losses of € -45.9 million (Dec. 31, 2014: € -69.8 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 hedge-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.

The changes in the cash flow hedges and the cumulative net change in the fair value of available-for-sale financial assets, as well as actuarial gains and losses from pensions and similar obligations, lead to the other comprehensive income shown in the consolidated statement of comprehensive income.

Equity of 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.

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

	Dec. 31, 2015		Dec. 31, 2014	
in € million	non-current	current	non-current	current
Provisions for pensions and similar obligations	**495.2**	**–**	**360.9**	**–**
Provisions for taxes (current income taxes excl. deferred taxes)	**–**	**148.9**	**–**	**66.0**
Other provisions				
Environmental remediation	21.5	3.4	23.9	0.8
Personnel obligations	81.7	95.4	26.4	29.2
Outstanding trade invoices	–	83.1	–	50.7
Miscellaneous other provisions	14.5	98.7	10.9	64.6
	117.7	**280.6**	**61.2**	**145.3**
	612.9	**429.5**	**422.1**	**211.3**

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 4,320 eligible persons (Dec. 31, 2014: 2,479).

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 individual grouping
Remuneration in excess of state pension assessment limit	25 %	72 %	
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	351	380	505

	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	178	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. In the previous year, the fair value of the reinsurance policies was for individual persons 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, 2015	Dec. 31, 2014
Actuarial interest rate	2.15	1.90
Pension trend	1.75	2.00
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	2015	2014
Defined benefit obligation as of Jan. 1	**378.2**	**309.1**
Additions due to business combinations	178.9	12.3
Interest expense	9.4	10.0
Current service cost	6.2	3.3
Actuarial gains and losses:		
Changes in the biometric assumptions	1.3	-4.7
Changes in the financial assumptions	-35.6	62.4
Transfer from other provisions	0.9	0.1
Benefits paid	-24.7	-18.1
Past service cost	2.1	3.8
DBO as of Dec. 31	**516.7**	**378.2**

The present value of the defined benefit obligation is divided among the groups of eligible persons as follows:

in € million	Dec. 31, 2015	Dec. 31, 2014
Active employees	104.8	61.8
Former employees with vested pension rights	75.8	57.8
Pensioners	336.1	258.6
DBO as of Dec. 31	**516.7**	**378.2**

Plan assets comprise solely reinsurance contracts. The fair value of the plan assets has developed as follows:

in € million	2015	2014
Fair value of plan assets as of Jan. 1	**18.0**	**18.2**
Additions due to business combinations	4.6	–
Return calculated using the actuarial interest rate	0.4	0.6
Actuarial gains:		
Changes in the financial assumptions	0.5	0.2
Benefits paid	-1.0	-1.0
Fair value of plan assets as of Dec. 31	**22.5**	**18.0**

The actual return on plan assets amounted to € 0.9 million in 2015 (2014: € 0.8 million).

The following table shows a reconciliation of the defined benefit obligation to the provision for pensions recognized in the balance sheet:

in € million	Dec. 31, 2015	Dec. 31, 2014
Present value of funded obligations*	**31.0**	**27.1**
Present value of unfunded obligations	485.7	351.1
Total present value of defined benefit obligations	516.7	378.2
Fair value of plan assets*	-22.5	-18.0
Net liability recognized in the balance sheet	494.2	360.2
Other assets to be recognized	1.0	0.7
Provisions for pensions recognized in the balance sheet	**495.2**	**360.9**

* Attributable to the “Viterra Management Board commitment” and “GAGFAH Management Board commitment” pension plans

In 2015, actuarial gains of € 34.8 million (excluding deferred taxes) were recognized in other comprehensive income. Cumulative changes in equity not affecting net income of € 68.5 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 14.6 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
2016	26.5
2017	25.7
2018	25.3
2019	25.0
2020	24.8
2021–2025	120.5

Sensitivity Analyses

An increase or decrease in the material actuarial assumptions would have the following effects on the DBO as of December 31, 2015, providing the other assumptions did not change:

in € million		
Actuarial interest rate	Increase by 1 %	450.8
	Decrease by 1 %	600.5
Pension trend	Increase by 0.25 %	528.6
	Decrease by 0.25 %	504.4

An increase in life expectancy of 5.3 % would have resulted in an increase in the DBO of € 23.9 million as of December 31, 2015. 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 € 7.6 million (Dec. 31, 2014: € 8.3 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, 2015	Additions due to changes in scope of consolidation	Additions	Reversals	Interest accretion to provisions	Netting plan assets	Utilization	As of Dec. 31, 2015
Other provisions								
Environmental remediation	24.7	3.3	–	-0.6	–	–	-2.5	**24.9**
Personnel obligations	55.6	52.8	130.9	-10.4	0.3	2.6	-54.7	**177.1**
Outstanding trade invoices	50.7	40.5	56.7	-5.8	–	–	-59.0	**83.1**
Miscellaneous other provisions	75.5	25.0	56.4	-5.6	-0.6	–	-37.5	**113.2**
	206.5	**121.6**	**244.0**	**-22.4**	**-0.3**	**2.6**	**-153.7**	**398.3**

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 € 16.2 million (Dec. 31, 2014: € 13.6 million) determined in accordance with IFRS 2 (see note [45] Related Party Transactions).

The miscellaneous other provisions include, among others, future costs connected with heat contracting that cannot be passed on to tenants as well as costs for entering transfers of title, costs for legal disputes, restitution and onerous rental contracts.

31 Trade Payables

	Dec. 31, 2015		Dec. 31, 2014	
in € million	non-current	current	non-current	current
Liabilities				
from property letting	–	60.7	–	25.1
from other supplies and services	0.9	30.9	1.0	26.4
	0.9	**91.6**	**1.0**	**51.5**

32 Non-Derivative Financial Liabilities

	Dec. 31, 2015		Dec. 31, 2014	
in € million	non-current	current	non-current	current
Non-derivative financial liabilities				
Liabilities to banks	6,444.2	199.5	2,418.5	58.8
Liabilities to other creditors	7,507.1	711.9	4,121.0	10.5
Deferred interest from non-derivative financial liabilities	–	77.2	–	56.0
	13,951.3	**988.6**	**6,539.5**	**125.3**

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, € 67.2 million (Dec. 31, 2014: € 55.2 million) is from bonds reported under non-derivative financial liabilities to other creditors.

The US dollar bonds issued in 2013 are translated at the exchange rate prevailing on the reporting date in line with applicable IFRS provisions. Allowing for the hedging rate prescribed through the interest hedging transaction entered into, this financial liability would be € 179.4 million (Dec. 31, 2014: € 84.0 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:

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 dollar)*	554.9	2017	2.97 %	–	554.9	–	–	–	–
Bond (US dollar)*	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 Hypothekenbank (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 Hypothekenbank, 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 Hypothekenbank (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 fulfill certain financial covenants.

The loan repayments shown for the following years contain contractually fixed minimum repayment amounts.

Of the nominal obligations to creditors, € 6,955.5 million (Dec. 31, 2014: € 2,906.2 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 10.8 % (average approx. 2.6 %). 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 € 2,390.1 million were made (2014: € 1,525.9 million). This figure includes unscheduled repayments of € 1,338.4 million (2014: € 989.7 million). These are set against inflows of € 5,007.1 million arising from financing measures (2014: € 1,702.3 million). The unscheduled repayments include € 816.2 million of financial liabilities assumed and repaid on a short-term basis within the scope of the acquisition of the SÜDEWO Group.

As part of the acquisition of GAGFAH, securitized loans (CMBS), portfolio loans and mortgages with a nominal volume of € 4,614.8 million were acquired.

Issue of Bonds under the EMTN-Tap Issuance (European Medium Term Notes Program)

Based on the current tap issuance master agreement dated March 12, 2015 (€ 8,000,000,000 debt issuance program), Vonovia has issued bonds in two tranches of € 500 million each via its Dutch financing company. The bonds were placed on March 30, 2015, at an issue price of 99.263 %, a coupon of 0.875 % and with a maturity of five years for one tranche, and at an issue price of 98.455 %, a coupon of 1.50 % and with a maturity of ten years for the other. The fund inflows served to refinance a syndicated bridge facility as part of the acquisition of GAGFAH.

Further debentures were issued in December 2015: One debenture reaches maturity in 2017 with a nominal value of € 750 million and a coupon of 0.835 %. Another reaches maturity in 2020 with a nominal value of € 1,250.0 million and a coupon of 1.625 %. A further debenture reaches maturity in 2023 with a nominal value of € 1,000.0 million and a coupon of 2.25 %.

As part of the first-time consolidation of GAGFAH, the following major financing arrangements were incorporated in the consolidated financial statement of Vonovia:

GERMAN RESIDENTIAL FUNDING 2013-1 (CMBS GRF-1)

On June 19, 2013, GAGFAH concluded a loan agreement with a volume of € 1,998.1 million and a term of five years, which reaches maturity on August 20, 2018, with GERMAN RESIDENTIAL FUNDING 2013-1 Limited (GRF 2013-1). There is the option of extending the agreement for one year. The weighted average interest rate is 2.80 % as of December 31, 2015. The outstanding loan volume currently amounts to € 1,850.6 million. The loans underlying the loan agreement are fully secured by way of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged. The loans were refinanced as part of a commercial mortgage-backed securities (CMBS) structure. The corresponding debentures are variable-interest loans that are admitted to trading on the Irish Stock Exchange. In order to hedge the risk of changes in interest rates associated with the securitized loan (CMBS), the issuer executed a corresponding swap transaction. In accordance with IFRS 10, GRF 2013-1 is included by way of full consolidation in the consolidated financial statements of Vonovia.

GERMAN RESIDENTIAL FUNDING 2013-2 (CMBS GRF-2)

On October 17, 2013, GAGFAH concluded a loan agreement with a volume of € 699.7 million and a term of five years, which reaches maturity on November 20, 2018, with GERMAN RESIDENTIAL FUNDING 2013-2 Limited (GRF 2013-2). There is the option of extending the agreement for one year. The weighted average interest rate is 2.67 % as of December 31, 2015. The outstanding loan volume currently amounts to € 679.8 million. The loans underlying the loan agreement are fully secured by way of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged. The loans were refinanced as part of a commercial mortgage-backed securities (CMBS) structure. The corresponding debentures are variable-interest loans that are admitted to trading on the Irish Stock Exchange. In order to hedge the risk of changes in interest rates associated with the securitized loan (CMBS), the issuer executed corresponding swap transactions. In accordance with IFRS 10, GRF 2013-2 is included by way of full consolidation in the consolidated financial statements of Vonovia.

Taurus 2013 PLC

On February 20, 2013, a loan agreement with a volume of € 1,060.5 million was agreed between Taurus 2013 PLC and GAGFAH. On May 13, 2013, this agreement was increased by € 17.0 million to € 1,077.5 million. The outstanding loan volume currently amounts to € 1,032.3 million. This loan has a term of five years with an option to extend it for one year. As a result, the normal end of the loan's term is May 14, 2018. The loan is largely a fixed-rate loan with a variable component that currently accounts for less than 4 %. The weighted average interest rate is 3.35 % as of December 31, 2015. The loan is fully secured by way of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged.

HSH Nordbank AG

In connection with the acquisition of GAGFAH in March 2015, the following loans between GAGFAH and HSH Nordbank AG were assumed:

In September 2008, GAGFAH took out a loan of € 37.2 million with HSH Nordbank AG, which expired on August 31, 2015, as planned and was repaid in full.

In October 2013, GAGFAH took out another loan provided by HSH Nordbank AG with an initial volume of € 91.0 million and a final maturity date of October 21, 2020. The loan was repaid prematurely and in full on October 21, 2015.

In April 2014, GAGFAH concluded two loan agreements with a volume of € 176.4 million with HSH Nordbank AG. The first tranche with an original volume of € 133.8 million (€ 55.3 million syndicated to UniCredit Bank AG) that was originally scheduled to reach maturity on April 22, 2021, was repaid prematurely and in full on October 22, 2015. The second tranche, which has a current volume of € 22.6 million and reaches maturity on April 22, 2017, is a variable rate loan and is hedged in part by a CAP. Based on the current EURIBOR interest rate, the interest rate is 2.75 %. Securities were provided in the form of land charges, account pledge agreements and assignments.

Berlin Hyp AG

On September 29, 2014, GAGFAH concluded a loan agreement with Berlin-Hannoversche Hypothekenbank AG with a total volume of € 230 million that reaches maturity on October 20, 2021. The entire amount was drawn down on December 18, 2014. The loan is fully secured, largely by way of land charges, account pledge agreements and assignments. The loan is a variable rate loan with an interest rate that is based on the 3M EURIBOR. The loan has interest rate hedging in the form of a derivative financial instrument in an amount of € 160 million. Based on the financing structure, the outstanding loan amount of € 228.3 million is currently subject to a weighted average interest rate of around 2.03 % as of December 31, 2015.

Corealcredit Bank AG

The variable rate loan between GAGFAH and Corealcredit Bank AG amounts to € 94.1 million as of December 31, 2015. Based on the current interest rate hedging strategy and the current EURIBOR interest rate, the weighted average interest rate on the loan comes in at 2.95 % on the cut-off date. The normal maturity date of the three tranches is October 14, 2016, although there is an option to extend them by one year. Securities were provided in the form of land charges, account pledge agreements and assignments.

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Derivatives

	Dec. 31, 2015		Dec. 31, 2014	
in € million	non-current	current	non-current	current
Derivatives				
Purchase price liabilities from put options/rights to reimbursement	–	57.6	–	21.7
Cash flow hedges	43.7	–	54.5	–
Stand-alone derivatives	100.8	–	–	–
Deferred interest from cash flow hedges	–	1.2	–	0.2
	144.5	**58.8**	**54.5**	**21.9**

Regarding derivative financial liabilities please refer to notes [37] Additional Financial Instrument Disclosures and [40] Cash Flow Hedges and Stand-alone Interest Rate Swaps.

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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 € 93.1 million (Dec. 31, 2014: € 92.5 million) and the finance leases for heat generation plants in the amount of € 6.2 million (Dec. 31, 2014: € 0.00 million).

	Dec. 31, 2015			Dec. 31, 2014		
in € million	Total minimum lease payments	Interest portion	Present value	Total minimum lease payments	Interest portion	Present value
Due within 1 year	4.7	0.3	4.4	4.6	0.2	4.4
Due in 1 to 5 years	27.7	5.2	22.5	19.3	3.4	15.9
Due after 5 years	214.8	142.4	72.4	219.8	147.6	72.2
	247.2	**147.9**	**99.3**	**243.7**	**151.2**	**92.5**

As part of finance leases, expenses of € 5.2 million (2014: € 5.2 million) were recognized for the Spree-Bellevue property and expenses of € 0.6 million (2014: € 0.00 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.

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Liabilities to Non-Controlling Interests

The liabilities to non-controlling interests relate to the obligations to pay a guaranteed dividend under the valid profit-and-loss transfer agreements.

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Other Liabilities

	Dec. 31, 2015		Dec. 31, 2014	
in € million	non-current	current	non-current	current
Advance payments received	–	64.7	–	43.7
Miscellaneous other liabilities	25.9	39.8	8.6	38.5
	25.9	**104.5**	**8.6**	**82.2**

The advance payments received include on-account payments of € 60.0 million (Dec. 31, 2014: € 24.2 million) from tenants for ancillary costs after offsetting against the corresponding trade receivables.

Other Notes and Disclosures

37
Additional Financial Instrument Disclosures

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
Other receivables from trading	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		
Liabilities from property letting	FLAC	60.6
Other liabilities from trading	FLAC	31.9
Non-derivative financial liabilities		
Liabilities to banks	FLAC	6,643.7
Liabilities to other creditors	FLAC	8,219.0
Deferred interest from other non-derivative financial liabilities	FLAC	77.2
Derivative financial liabilities		
Purchase price liabilities from put options/rights to reimbursement	FLHfT	57.6
Stand-alone interest rate swaps	FLHfT	100.8
Cash flow hedges (interest rate swaps)	n.a.	43.7
Deferred interest from derivatives	n.a.	1.2
Liabilities from finance leases	n.a.	99.3
Liabilities to non-controlling interests	FLAC	56.1
Thereof aggregated by measurement categories in accordance with IAS39:		
Loans and receivables	LaR	3,502.1
Available-for-sale financial assets	AfS	22.6
Financial liabilities held for trading	FLHfT	159.3
Financial liabilities measured at amortized cost	FLAC	15,088.5
Financial assets and financial liabilities not covered by IAS 39		
Employee benefits in accordance with IAS 19		
Gross presentation of right to reimbursement arising from transferred pension obligations		7.6
Provisions for pensions and similar obligations		495.2

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 accordance 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
	60.6					60.6	2
	31.9					31.9	2
	6,643.7					6,831.1	2
	8,219.0					9,362.5	2
	77.2					77.2	2
			57.6			57.6	3
			-100.8			100.8	2
						43.7	2
						1.2	2
					99.3	160.5	2
	56.1					56.1	3
2,111.1	1,391.0					3,516.6	
		2.6		20.0		22.6	
			159.3			159.3	
	15,088.5					16,419.4	

Measurement categories and classes: in € million	Measurement category in acc. with IAS 39	Carrying amounts Dec. 31, 2014
Assets		
Cash and cash equivalents		
Cash on hand and deposits at banking institutions	LaR	714.8
Commercial papers	LaR	450.0
Money market funds	AfS	400.0
Trade receivables		
Receivables from the sale of properties	LaR	49.8
Receivables from property letting	LaR	14.6
Receivables from other management	LaR	0.7
Financial assets		
Loans to other investments	LaR	33.6
Other non-current loans	LaR	4.4
Dividends from other investments	LaR	2.0
Non-current securities	AfS	2.9
Other investments	AfS	1.7
Derivative financial assets		
Cash flow hedges (cross currency swaps)	n.a.	50.6
Liabilities		
Trade payables		
Liabilities from property letting	FLAC	25.1
Other liabilities from trading	FLAC	27.4
Non-derivative financial liabilities		
Liabilities to banks	FLAC	2,477.3
Liabilities to other creditors	FLAC	4,131.5
Deferred interest from other non-derivative financial liabilities	FLAC	56.0
Derivative financial liabilities		
Purchase price liabilities from put options/rights to reimbursement	FLHfT	21.7
Cash flow hedges (interest rate swaps)	n.a.	54.5
Deferred interest from cash flow hedges	n.a.	0.3
Liabilities from finance leases	n.a.	92.5
Liabilities to non-controlling interests	FLAC	53.7
Thereof aggregated by measurement categories in accordance with IAS 39:		
Loans and receivables	LaR	1,269.9
Available-for-sale financial assets	AfS	404.6
Financial liabilities held for trading	FLHfT	21.7
Financial liabilities measured at amortized cost	FLAC	6,771.0
Financial assets and financial liabilities not covered by IAS 39		
Employee benefits in accordance with IAS 19		
Gross presentation of right to reimbursement arising from transferred pension obligations		8.3
Provisions for pensions and similar obligations		360.9

	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 accordance with IAS 17/IAS 28	Fair value Dec. 31, 2014	Fair value hierarchy level
	714.8						714.8	1
		450.0					450.0	2
		400.0					400.0	2
		49.8					49.8	2
		14.6					14.6	2
		0.7					0.7	2
		33.6					55.3	2
		4.4					4.4	2
		2.0					2.0	2
					2.9		2.9	1
			1.7				1.7	n.a.
							50.6	2
		25.1					25.1	2
		27.4					27.4	2
		2,477.3					2,735.2	2
		4,131.5					4,446.0	2
		56.0					56.0	2
				21.7			21.7	3
							54.5	2
							0.3	2
						92.5	162.8	2
		53.7					53.7	3
	714.8	555.1					1,291.6	
		400.0	1.7		2.9		404.6	
				21.7			21.7	
		6,771.0					7,343.4	

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, 2015	Level 1	Level 2	Level 3
Assets				
Investment properties	**23,431.3**			23,431.3
Available-for-sale financial assets				
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)	**154.3**		154.3	
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	

in € million	Dec. 31, 2014	Level 1	Level 2	Level 3
Assets				
Investment properties	**12,687.2**			12,687.2
Available-for-sale financial assets				
Securities	**2.9**	2.9		
Assets held for sale				
Investment properties (contract closed)	**53.8**		53.8	
Derivative financial assets				
Cash flow hedges (cross currency swaps)	**50.6**		50.6	
Liabilities				
Derivative financial liabilities				
Purchase price liabilities from put options/rights to reimbursement	**21.7**			21.7
Cash flow hedges	**54.5**		54.5	

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. This note also includes a reconciliation from January 1 to December 31, 2015. Changes in the fair value are recognized with effect on net income in the income statement of € 1,323.5 million (2014: € 371.1 million). In the 2015 fiscal year, € 1,323.5 million (2014: € 370.7 million) of the net income from fair value adjustments of investment properties was attributable to properties still in the housing stocks at the end of the reporting period. In the previous year, € 0.4 million was already realized by sales during the year.

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). In the reporting period, investment properties totaling € 859.4 million (2014: € 124.5 million) (Level 3) were reclassified to assets held for sale (Level 2) while the disposals amounted to € 277.3 million (2014: € 174.0 million).

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 major risks from rates observable on the capital markets and ranges of between 74 and 160 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 34 and 85 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 options/rights to reimbursement granted to minority shareholders is gerenally 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 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 major valuation parameters. It was stated at fair value using the Black Scholes model (Level 2). For the current price, the NAV per share of the GAGFAH S.A. subgroup was taken into consideration for the first time (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 input factors which 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 NAV valuation and the uncertain term of the option. An increased level of volatility, a lower NAV valuation, a longer term and a lower interest rate reflect an increase in the value of the option, and vice versa.

The following table shows the development of the put options recognized at fair value:

in € million	As of Jan. 1	Change Scope of consolidation	Change Affecting net income	Change Cash effective	As of Dec. 31
2015					
Purchase price liabilities from put options/ rights to reimbursement	**21.7**	77.6	23.6	-65.3	57.6
2014					
Purchase price liabilities from put options/ rights to reimbursement	**7.4**	18.6	3.9	-8.2	21.7

The addition relating to changes in the scope of consolidation relates to put options in connection with the acquisitions of GAGFAH (€ 12.4 million) and SÜDEWO (€ 65.2 million) (in this respect, please refer to the comments made on the acquisitions in note [3]). In November 2015, the put option as part of the SÜDEWO transaction was tendered to Vonovia at a price of € 65.2 million (material cash-effective change).

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 € +5.4 million or € -5.4 million (Dec. 31, 2014: € +1.6 million or € -1.6 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 € 12.8 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:

2015 in € million	Measurement category in acc. with IAS 39	From interest	Income from other non-current loans	From subsequent measurement Impairment losses	From subsequent measurement Derecognized receivables	From subsequent measurement Derecognized liabilities	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**

2014 in € million	Measurement category in acc. with IAS 39	From interest	Income from other non-current loans	From subsequent measurement Impairment losses	From subsequent measurement Derecognized receivables	From subsequent measurement Derecognized liabilities	Dividends from other investments	Net results 2014
Loans and receivables	LaR	3.1	2.0	-13.3	1.3	–	–	-6.9
Available-for-sale financial assets	AfS	–	–	–	–	–	3.4	3.4
Financial liabilities held for trading	FLHfT	-3.9	–	–	–	–	–	-3.9
Financial liabilities measured at amortized cost	FLAC	-254.8	–	–	–	0.1	–	-254.7
		-255.6	**2.0**	**-13.3**	**1.3**	**0.1**	**3.4**	**-262.1**

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 € -350.5 million (2014: € -258.3 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.

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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 USD 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.

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. As part of risk management, the fulfillment of these financial covenants is continually monitored on the basis of current extrapolations 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:

in € million	Carrying amount as of Dec. 31, 2015	2016 Interest	2016 Repayment	2017 Interest	2017 Repayment	2018 to 2022 Interest	2018 to 2022 Repayment
Non-derivative financial liabilities							
Liabilities to banks	6,643.7	138.2	201.6	142.2	204.8	194.2	5,479.8
Liabilities to other creditors	8,219.0	131.4	710.8	183.0	1,431.0	526.5	4,300.8
Deferred interest from other non-derivative financial liabilities	77.2	77.2	–	–	–	–	–
Liabilities from finance leases	99.3	5.8	–	5.9	–	31.9	–
Derivative financial liabilities							
Purchase price liabilities from put options/ rights to reimbursement	57.6	–	36.8	–	2.8	–	18.0
Cash flow hedges (interest)	144.5	65.9	–	44.6	–	47.6	–
Cash flow hedges (cross currency swap) US-$ in €	-154.3	-33.4	–	-33.4	-669.6	-53.0	–
€		25.0	–	25.0	554.7	42.7	–
Deferred interest from swaps	1.2	1.2	–	–	–	–	–

In April 2014, Vonovia issued a subordinated hybrid bond with terms and conditions stating that the issuer shall not have its first special right of termination until a period of five years has passed. In line with the principle of prudence, the nominal value of these bonds has been recognized in the repayments from the 2018–2022 period, although the contractual term extends well beyond this period.

Working Capital Facility

In September 2015, Vonovia entered into an agreement with Commerzbank AG on a working capital facility of € 300 million. This unsecured credit line runs until September 2018 and is subject to interest on the basis of EURIBOR plus a mark-up. The working capital facility had not been utilized by December 31, 2015. There is also a framework guarantee facility of € 10 million in place between Vonovia and Commerzbank, around € 3.6 million of which had been utilized by the end of the fiscal year in the form of issued guarantees.

As part of the acquisition of GAGFAH, unused credit lines of € 64 million were assumed. These will be gradually reduced as of the respective interest payment dates. These relate to a liquidity line that currently totals € 45.3 million between Goldman Sachs Bank USA and GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED, as well as a liquidity line that currently totals € 16.8 million between Bank of America N.A., London branch, and GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED.

Vonovia had cash and cash equivalents totaling € 3,107.9 million as of the reporting date (Dec. 31, 2014: € 1,564.8 million); this includes cash on hand and deposits at banking institutions in the amount of € 2,108.0 million and commercial papers totaling € 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.

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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, 2015	Dec. 31, 2014
Total equity	11,866.9	5,962.2
Total assets	30,959.1	14,759.2
Equity ratio	38.3 %	40.4 %

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.

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Cash Flow Hedges and Stand-Alone Interest Rate Swaps

The nominal value of the interest rate swaps rose significantly in the reporting year due to the takeover of GAGFAH S.A. and the execution of interest rate hedging transactions for future refinancing, and came to € 6,653.2 million as of the reporting date (Dec. 31, 2014: € 734.1 million). Interest rates vary between 0.684 % and 4.470 % with original swap periods of between two and ten years.

In order to limit the risks associated with changes in interest rates, the company decided to secure necessary follow-on loans in 2016 due to the attractive interest rate environment in the reporting year. Since the hedged items with a total volume of € 2.7 billion are highly probable transactions, these derivatives were included in hedge relationships and hedge accounting was applied. This relates to five forward swaps that were designated in October 2015. The transactions will take effect in July, August and November 2016 and have terms of six to eight years. On the reporting date, these forward swaps were reported with fair values totaling € -20.1 million.

Furthermore, EUR interest rate swaps with a volume of € 750 million were concluded to secure the risk of changes in interest rates relating to the floating rate note issued in December 2015 (ISIN DE000A18V120). The derivatives have a maturity of two years commencing on December 15, 2015. The EURIBOR payments were limited to a maximum of 3M EURIBOR +0.95 % and 0 %. These conventions are consistent with the condition structure of the floater, which is why these derivatives were also included in hedge relationships and hedge accounting was applied. On the reporting date, these invest rate swaps were reported with fair values totaling € -0.4 million.

Based on a resolution passed by the Group's Management Board, the company will repay various mortgage-backed loans in advance in 2016. Within this context, the valuation units established with the corresponding hedging transactions had to be reassessed. The derivatives serve to secure future expected interest payment flows (cash flow hedge). Cash flows falling due after the advanced repayment date in 2016 are no longer expected, even if the loans have not yet been terminated. This reduces the residual term of the hedged items to the time of the planned repayment as part of hedge accounting. Furthermore, the previously expected hedged item in the form of interest payments after the repayment date in 2016 is no longer expected. This is why the valuation units stated for the seven interest rate swaps were ended. In this respect, the effective share of their negative market values, which were previously assigned to other reserves outside profit or loss, was reclassified as affecting net income. Until the hedged items are actually repaid, the stand-alone derivatives will reduce the risk of changes in interest rates resulting from the loans, despite the termination of the valuation units.

All derivatives are included in netting agreements with the issuing banks. Whereas the cross currency swaps were all recognized with positive market values, all interest rate swaps have a negative market value as of the reporting date. Since the instruments were concluded with different banks, neither economic nor accounting offsetting takes place.

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)
Prehedging	500.0	Aug. 29, 2016	Aug. 29, 2024	0.998 %
Prehedging	500.0	Aug. 29, 2016	Aug. 29, 2022	0.725 %
Prehedging	600.0	Nov. 28, 2016	Nov. 28, 2024	1.068 %
Prehedging	800.0	Aug. 29, 2016	Aug. 29, 2023	0.890 %
Prehedging	300.0	July 25, 2016	July 25, 2024	0.993 %
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 %
Portfolio loans				
Norddeutsche Landesbank (1)				
Hedged items	137.5	Mar. 30, 2012	Dec. 31, 2018	6M EURIBOR margin 1.04 %-2.19 %
Interest rate swaps	137.5	Mar. 30, 2012	Dec. 31, 2018	2.4 %
Corealcredit Bank AG				
Hedged items	154.0	Dec. 14, 2010	Dec. 31, 2018	3M EURIBOR margin 0.88 %
Interest rate swaps	169.9	Apr. 13, 2011	Apr. 13, 2018	3.335 %
AXA S.A. (Société Générale S.A.)				
Hedged items	155.4	Jun. 26, 2013	Jun. 29, 2018	3M EURIBOR margin 2.25 %
Interest rate swaps	144.3	Sep. 30, 2013	Jun. 26, 2018	1.360 %
Norddeutsche Landesbank (2)				
Hedged items	84.1	Jun. 28, 2013	Jun. 30, 2023	3M EURIBOR margin 1.47 %
Interest rate swaps	84.1	Jun. 28, 2013	Jun. 30, 2023	2.290 %
GAGFAH:				
GERMAN RESIDENTIAL FUNDING 2013-1 (CMBS GRF-1)				
Hedged items	1,850.6	Jun. 20, 2013	Aug. 27, 2018	3M EURIBOR margin 1.15 %-4.15 %
Interest rate swaps	1,850.6	Jun. 20, 2013	Aug. 27, 2018	1.058 %
GERMAN RESIDENTIAL FUNDING 2013-2 (CMBS GRF-2)				
Hedged items	679.8	Oct. 21, 2013	Nov. 27, 2018	3M EURIBOR margin 1.0 % - 4.75 %
Interest rate swaps	581.2	Oct. 21, 2013	Nov. 27, 2018	1.2195 %
Portfolio loans				
Corealcredit Bank AG (2)				
Hedged items	94.1	Nov. 14, 2013	Oct. 14, 2016	3M EURIBOR margin 2.4 %
Interest rate swaps	75.6	Nov. 14, 2013	Oct. 14, 2016	0.684 %
Berlin-Hannoversche Hypothekenbank (Landesbank Berlin) (2)				
Hedged items	228.3	Dec. 18, 2014	Oct. 19, 2021	3M EURIBOR margin 1.0 %-2.15 %
Deutsche Bank AG				
Interest rate swaps	160.0	Oct. 20, 2014	Oct. 20, 2021	1.153 %

In 2013, two cross currency swaps were contracted in equal amounts with each of JP 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 conditions are 2.97 % for four years and 4.58 % for ten years.

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, 2015, were shown at their negative clean present fair values totaling € -144.5 million (Dec. 31, 2014: € -54.5 million), whereas a positive clean present fair value of € 154.3 million (Dec. 31, 2014: € 50.6 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 € 0.9 million as of the reporting date.

The corresponding deferred interest was stated at € 1.2 million (Dec. 31, 2014: € 0.3 million).

As a result of the valuation, € 10.0 million was credited to other comprehensive income in 2015 (2014: deduction of € 31.1 million).

In the reporting year, after allowing for deferred taxes, positive cumulative ineffectiveness amounts to € 8.9 million (2014: € 1.0 million), improving net interest by € 7.9 million.

On the basis of the valuation as of December 31, 2015, 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
2015			
+50 basis points	72.8	28.9	101.7
-50 basis points	-75.8	-29.0	-104.8
2014			
+50 basis points	8.9	0.4	9.3
-50 basis points	-8.7	-0.4	-9.1

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 € -3.6 million (or € +4.1 million), while ineffectiveness affecting net income in the amount of € +3.4 million (or € -3.7 million) would result at the same time. In the previous year, a change in the other reserves not affecting net income of € -4.1 million (or € +4.3 million) was recognized in connection with ineffectiveness affecting net income in the amount of € +4.1 million (or € -2.2 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.

The changes in inventories due to ancillary costs to be billed are netted against the advance payments received and shown in the line "Changes in liabilities."

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 € 84.2 million (Dec. 31, 2014: € 32.8 million).

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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, 2015	Dec. 31, 2014
Property transfer obligations	0.6	1.7
Rent surety bonds	0.3	0.2
Other	6.3	5.7
	7.2	**7.6**

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.

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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, 2015					
Rents	2016–2022	6.6	13.9	–	20.5
Lease contracts	2016–2020	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**
Dec. 31, 2014					
Rents	2015–2020	5.1	15.4	1.0	21.5
Lease contracts	2015–2018	10.0	14.4	–	24.4
Leasehold contracts	2017–2109	6.0	23.9	237.1	267.0
		21.1	**53.7**	**238.1**	**312.9**

Payments of € -29.5 million (2014: € 19.1 million) under rental, tenancy and lease contracts were recognized as expenses in 2015.

The Vonovia leasehold contracts generally have a term of 99 years. The average remaining term of these contracts was approx. 45 years as of December 31, 2015. 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, 2015	Dec. 31, 2014
Other financial obligations		
Cable TV service contracts	373.7	193.6
Caretaker service contracts	23.5	44.7
IT service contracts	22.4	13.2
Surcharges under the German Condominium Act	5.1	2.4
	424.7	**253.9**

The obligations under cable TV service contracts are set against future income from the marketing of the cable TV service.

44
Segment Reporting

Vonovia is an integrated real estate company. Its policy focuses on sustainably increasing the value of the company. It steadily strives to grow its earnings through the value-enhancing management of its properties, through value-creating investments, active portfolio management and a property-related service business. Vonovia's housing stocks are located exclusively in Germany.

In the fourth quarter of 2015, Vonovia revamped its organizational and reporting structure. The new Extension segment has been created as an independent entity in addition to the Rental and Sales segments. The previous reportable Rental and Sales segments remain largely unchanged. The difference compared with the presentation of the Rental segment in the previous year relates to the exclusion of all matters that are relevant to the Extension segment, which have been reported accordingly under the Extension segment.

The Rental segment pools all business activities for active management as well as investments in the residential properties. The maintenance expenses shown include the services of the Group's own craftsmen's organization measured at the market price, among other things. 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 new Extension segment combines all business activities relating to the expansion of the core business to include additional property-related services. At present, these include the following business activities:

> Own craftsmen's organization

> Organization for the upkeep and maintenance of the residential environment

> Provision of cable television to tenants

> Condominium administration for own apartments and for third parties

> Metering services for measuring the consumption of water and heating (smart metering)

> 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 not related to the period, recurring irregularly and atypical for the business operation and excluding effects from revaluations in accordance with IAS 40.

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	-247.6	-391.1	-29.2	-224.6	–
Adjusted EBITDA	**924.8**	**37.6**	**71.1**	**-4.4**	**1,029.1**
Non-recurring items	–	–	–	–	-209.4
Period adjustments from assets held for sale	–	–	–	–	18.7
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.

in € million	Rental	Extension	Sales	Other*	Group
Jan. 1 – Dec. 31, 2014					
Segment income	**789.3**	**211.1**	**287.3**	**156.2**	**1,443.9**
thereof external income	789.3	28.9	287.3	338.4	1,443.9
thereof internal income	–	182.2	–	-182.2	–
Carrying amount of assets sold	–	–	-243.4	–	–
Revaluation from disposal of assets held for sale	–	–	24.8		–
Expenses for maintenance	-145.1	–	–	–	–
Operating expenses	-161.1	-187.5	-18.6	-159.0	–
Adjusted EBITDA	**483.1**	**23.6**	**50.1**	**-2.8**	**554.0**
Non-recurring items	–	–	–	–	-54.0
Period adjustments from assets held for sale	–	–	–	–	0.3
EBITDA IFRS	**–**	**–**	**–**	**–**	**500.3**
Net income from fair value adjustments of investment properties	–	–	–	–	371.1
Depreciation and amortization	–	–	–	–	-7.4
Income from other investments	–	–	–	–	-3.4
Financial income	–	–	–	–	8.8
Financial expenses	–	–	–	–	-280.3
EBT	**–**	**–**	**–**	**–**	**589.1**
Income taxes	–	–	–	–	-179.4
Profit for the period	**–**	**–**	**–**	**–**	**409.7**

* 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 € 349.1 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 from property management that is attributable to the Extension segment is now reported in the Extension segment.

Some business activities that serve to expand the value chain and relate to property-related services, which were reported under the Rental segment in 2014, are now reported in the Extension segment and have been excluded from the Rental segment accordingly. In the previous fiscal year of 2014, the earnings contribution made by these activities had been offset against other operating expenses in the Rental segment. Due to the separate reporting for the new Extension segment, the property management costs for 2014 were adjusted from the previous figure of € -140.3 million to € -161.1 million.

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.

The members of the Management Board and the Supervisory Board and members of their immediate families do not personally have any business relations with Vonovia Group companies other than in their capacity as members of the Management Board or Supervisory Board.

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 Payment

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 remuneration plan in accordance with IFRS 2.

The value of the total notional shares that had been granted but not paid out from the LTIP as of December 31, 2015, 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
2015	Feb. 28, 2016	2,302,870	–	–
2015	July 11, 2016	–	1,355,937	1,355,937
2016	Feb. 28, 2017	1,722,453	–	–
2016	July 11, 2017	–	1,045,798	1,045,798
2017	Feb. 28, 2018	1,358,497	–	–
2017	July 11, 2018	–	839,594	–

The LTIP program results in expense pursuant to IFRS 2 totaling € 5.7 million in 2015 (2014: € 10.9 million), with € 3.0 million attributable to Rolf Buch, € 1.8 million attributable to Klaus Freiberg and € 0.9 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).

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 remuneration 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, 2015, 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	–	–	146,037	146,037	89,613
2015–2018	Dec. 31, 2018	330,059	189,786	110,024	110,024	66,014

The LTIP program results in expenses pursuant to IFRS 2 totaling € 1.2 million in 2015 (2014: € - million), with € 0.3 million attributable to Rolf Buch, Klaus Freiberg and Dr. A. Stefan Kirsten, € 0.2 million to Thomas Zinnöcker and € 0.1 million to Gerald Klinck.

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, 2015, 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, 2015
2014	Dec. 31, 2016	620,814
2015	Dec. 31, 2017	250,964

The LTIP program results, in accordance with IFRS, in expenses of € 0.7 million in the reporting year 2015 (2014: € 0.4 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, 2015, 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, 2015
2014	Dec. 31, 2016	813,325
2015	Dec. 31, 2017	1,108,083

The LTIP program results, in accordance with IFRS, in total expenses of € 0.5 million in the reporting year 2015 (2014: € – 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 € 0.7 million in the reporting year 2015 (2014: € 0.5 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 € 1.6 million in 2015 (2014: € 1.1 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:

Total remuneration of the Management Board in €	Rolf Buch CEO 2014	Rolf Buch CEO 2015	Thomas Zinnöcker CRO since April 1, 2015 2014	Thomas Zinnöcker CRO since April 1, 2015 2015	Klaus Freiberg COO 2014	Klaus Freiberg COO 2015
Fixed remuneration	900,000	900,000	–	600,000	550,000	550,000
Cash remuneration/deferred compensation	180,000	180,000	–	112,500	110,000	110,000
Fringe benefits	38,545	38,702	–	19,713	30,032	22,813
Total	**1,118,545**	**1,118,702**	**–**	**732,213**	**690,032**	**682,813**
Annual variable remuneration (bonus)	700,000	693,000	–	1,284,600	440,000	434,808
Multi-year variable remuneration (LTIP plan)						
2015–2017	–	–	–	–	–	419,790
2015–2018	–	1,263,136	–	907,879	–	421,045
Total	**700,000**	**1,956,136**	**–**	**2,192,479**	**440,000**	**1,275,643**
Total remuneration	**1,818,545**	**3,074,838**	**–**	**2,924,692**	**1,130,032**	**1,958,456**

Total remuneration of the Management Board in €	Dr. A. Stefan Kirsten CFO 2014	Dr. A. Stefan Kirsten CFO 2015	Gerald Klinck CCO since April 1, 2015 2014	Gerald Klinck CCO since April 1, 2015 2015	Total remuneration 2014	Total remuneration 2015
Fixed remuneration	550,000	550,000	–	412,500	2,000,000	3,012,500
Cash remuneration/deferred compensation	109,600	109,600	–	82,500	399,600	594,600
Fringe benefits	36,525	36,665	–	15,300	105,102	133,193
Total	**696,125**	**696,265**	**–**	**510,300**	**2,504,702**	**3,740,293**
Annual variable remuneration (bonus)	440,000	434,500	–	330,000	1,580,000	3,176,908
Multi-year variable remuneration (LTIP plan)						
2015–2017	–	419,790	–	314,842	–	1,154,422
2015–2018	–	421,045	–	315,784	–	3,328,889
Total	**440,000**	**1,275,335**	**–**	**960,626**	**1,580,000**	**7,660,219**
Total remuneration	**1,136,125**	**1,971,600**	**–**	**1,470,926**	**4,084,702**	**11,400,512**

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 20 % contractual share of € 180,000 (Rolf Buch), € 109,600 (Dr. A. Stefan Kirsten) and € 82,500 (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 € 110,000 and € 112,500 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	
in €	2014	2015	2014	2015
Rolf Buch	180,000	180,000	852,454	1,324,821
Dr. A. Stefan Kirsten	109,600	109,600	1,024,355	1,255,072
Gerald Klinck	–	82,500	–	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 € 0.2 million for the 2015 fiscal year (2014: € 1.0 million). The pension obligations (DBO) to former members of the Management Board and their surviving dependents amount to € 13.2 million (Dec. 31, 2014: € 13.9 million).

48
Auditors' 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	2015	2014
Audits	3.1	2.1
Other confirmation services	2.0	0.8
Tax consultancy services	0.0	0.2
Other services	0.1	0.2
	5.2	**3.3**

The other confirmation services mainly comprise the issuing of comfort letters for acquisition projects and financing measures.

49
Subsequent Events

On October 14, 2015, the Management Board of Vonovia SE made the shareholders of Deutsche Wohnen AG a public takeover offer for their shares. On December 1, 2015, the German Federal Financial Supervisory Authority (BaFin) approved the offer documents for mandatory publication pursuant to Sections 34, 14 (2) and (3) of the German Securities and Takeover Act (WpÜG). The German Federal Cartel Office approved the planned transaction unconditionally on December 7, 2015.

The public takeover offer ended with the expiration of the acceptance deadline of February 9, 2016. At this time, fewer Deutsche Wohnen AG shareholders had voted in favor of the public takeover offer than would have been necessary in accordance with the takeover conditions. As a result, the offer will not be completed.

Vonovia acquired a real estate portfolio (approx. 2,400 units) by way of a purchase agreement dated November 18, 2015, and transfer of rights and obligations on January 1, 2016. The purchase price, taking the assumed liabilities into account, is € 124.0 million.

Vonovia took over IVV Immobiliengruppe as of January 1, 2016, as part of a share purchase agreement. The provisional consideration for the acquisition of the shares comes to € 6.8 million.

Thomas Zinnöcker resigned from his Management Board position by mutual agreement after the end of the fiscal year to assume a role outside of Vonovia following the conclusion of the integration of GAGFAH.

50
Declaration of Conformity with the German Corporate Governance Code

In February 2016, 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 of Shareholders that, of the profit of Vonovia SE for the 2015 fiscal year of € 746,467,287.47, an amount of € 438,040,586.56 on the 466,000,624 shares of the share capital as of December 31, 2015, be paid as a dividend (corresponding to € 0.94 per share) to the shareholders and the remaining amount of € 308,426,700.91 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, 2015.

The maximum number of possible additional shares carrying dividend rights is 65,158,718 in line with the non-drawn authorized capital of 65,158,718 shares. Therefore the maximum possible dividend increase totals € 61,249,194.92, resulting in a remaining amount of at least € 247,177,505.99 being carried forward to the new account.

That is a dividend distributon of € 0.94 per share.

The dividend will be distributed on the basis of the shares carrying dividend rights at the time of the Annual General Meeting at the banking day following the Annual General Meeting.

Düsseldorf, February 26, 2016

Rolf Buch	Klaus Freiberg	Dr. A. Stefan Kirsten	Gerald Klinck

Information

List of Vonovia Shareholdings

as at December 31, 2015 according to section 313 para. 2 HGB

Company	Company domicile	Interest %
Vonovia SE (former Deutsche Annington Immobilien 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 AcquiCo1 GmbH	Stuttgart	100.00
Carl Immo AcquiCo2 GmbH & Co. KG	Stuttgart	100.00
Carl Immo AcquiCo2 Verwaltungs GmbH	Stuttgart	100.00
CitCor Franconia Berlin II S.à r.l.	Luxembourg/L	94.90
CitCor Franconia Berlin III S.à r.l.	Luxembourg/L	94.90
CitCor Franconia Berlin IV S.à r.l.	Luxembourg/L	94.90
CitCor Franconia Berlin VI S.à r.l.	Luxembourg/L	94.90
CitCor Franconia Dresden I S.à r.l.	Luxembourg/L	94.90
CitCor Franconia Ost S.à r.l.	Luxembourg/L	94.90
CitCor Franconia Privatisierung S.à r.l.	Luxembourg/L	94.90
CitCor Wannsee I SARL	Luxembourg/L	94.90
DA DMB Netherlands B.V.	Eindhoven/NL	100.00
DA EB GmbH (former Monterey Capital I S.à r.l., Strassen/L)	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)]

Company	Company domicile	Interest %
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
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
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
Deutsche Annington Holdings Zwei GmbH	Düsseldorf	100.00
Deutsche Annington Immobilien-Dienstleistungen GmbH	Düsseldorf	100.00
Deutsche Annington Immobilienservice GmbH	Munich	100.00 1)
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
Deutsche Annington McKinley Eins Verwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington McKinley-Holding GmbH & Co. KG	Bochum	100.00
Deutsche Annington Parker GmbH	Mönchengladbach	100.00

Company	Company domicile	Interest %
Deutsche Annington Rheinland Immobiliengesellschaft mbH	Cologne	100.00
Deutsche Annington Rhein-Ruhr GmbH & Co. KG	Düsseldorf	100.00
Deutsche Annington Sechste Beteiligungs GmbH	Düsseldorf	100.00
Deutsche Annington WOGE Sechs Verwaltungs GmbH	Bochum	100.00
Deutsche Annington WOGE Sieben Verwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington WOGE Vier Bestands GmbH & Co. KG	Bochum	100.00
Deutsche Annington WOGE Vier GmbH & Co. KG	Bochum	100.00
Deutsche Annington Wohnungsgesellschaft I mbH	Essen	100.00
Deutsche Annington Wohnungsgesellschaft III mbH	Bochum	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)]
DW Management GmbH	Essen	100.00
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	Nuremburg	94.90
Franconia Invest 1 GmbH	Düsseldorf	94.90
Franconia Wohnen GmbH	Düsseldorf	94.90
Frankfurter Siedlungsgesellschaft mbH	Düsseldorf	100.00 [1)]
FSG Immobilien Verwaltungs GmbH	Düsseldorf	100.00
FSG-Holding GmbH	Düsseldorf	94.80
GAG ACQ Ireland Limited	Clonee/IRL	100.00
GAGFAH A Asset GmbH & Co. KG	Essen	100.00
GAGFAH Acquisition 1 GmbH	Essen	100.00
GAGFAH Acquisition 2 GmbH	Essen	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	Essen	100.00
GAGFAH Facility Management Dresden GmbH	Dresden	100.00
GAGFAH Facility Management GmbH	Essen	100.00
GAGFAH GmbH	Essen	100.00
GAGFAH Griffin GmbH	Essen	94.90
GAGFAH Griffin Holding GmbH (former VITU AcquiCo I GmbH)	Essen	100.00
GAGFAH Hausservice GmbH	Essen	100.00
GAGFAH Holding GmbH	Essen	100.00
GAGFAH I Invest GmbH & Co. KG	Essen	100.00
GAGFAH M Immobilien-Management GmbH	Essen	100.00
GAGFAH Operations Advisor GmbH	Essen	100.00
GAGFAH Property Management GmbH	Essen	100.00

Company	Company domicile	Interest %
GAGFAH S.A.	Luxembourg/L	93.84
GAGFAH Transaktionsmanagement GmbH	Essen	100.00
GAGFAH WEG Service GmbH	Essen	100.00
GAGFAH Zweite Grundbesitz GmbH	Essen	100.00
GBH Acquisition GmbH	Essen	100.00
GBH Heidenheim Verwaltung GmbH	Heidenheim an der Brenz	100.00
GBH Service GmbH	Heidenheim an der Brenz	100.00
GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED	Dublin/IRL	0.00 [2)]
GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED	Dublin/IRL	0.00 [2)]
HaBeGe Bau- und Projektentwicklungsgesellschaft mbH	Essen	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
IVS Immobilienversicherungsservice GmbH	Mülheim an der Ruhr	100.00
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
LEMONDAS Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
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
Neues Schweizer Viertel Betriebs + Service GmbH & Co. KG	Berlin	94.99
NILEG Commercial Asset GmbH & Co. KG	Hanover	100.00
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
Opera Co-Acquisition GmbH & Co. KG	Dresden	94.90
Opera Co-Acquisition GP GmbH	Dresden	94.80
Osnabrücker Wohnungsbaugesellschaft mit beschränkter Haftung	Osnabrück	100.00
Parkhaus Prohlis GmbH	Dresden	70.00
Prima Wohnbauten Privatisierungs-Management GmbH	Berlin	100.00 [1)]
Prince AcquiCo S.à r.l. (former PATRIZIA Acquihold S.à r.l.)	Luxembourg/L	100.00
RSTE Objektgesellschaft Wohnanlagen für Chemnitz mbH	Wuppertal	94.73
Schweizer Viertel Grundstücks GmbH	Berlin	100.00
"Siege" Siedlungsgesellschaft für das Verkehrspersonal mbH Mainz	Mainz	94.90

Company	Company domicile	Interest %
Süddeutsche Wohnen Gebäude GmbH	Stuttgart	100.00
Süddeutsche Wohnen GmbH	Stuttgart	94.33
Süddeutsche Wohnen Grundstücksgesellschaft mbH	Stuttgart	100.00
Süddeutsche Wohnen Management Holding GmbH & Co. KG	Stuttgart	100.00
Süddeutsche Wohnen Privatisierung Zwischenmiet GmbH & Co. KG	Stuttgart	100.00
Süddeutsche Wohnen Service Holding GmbH & Co. KG	Stuttgart	100.00
Süddeutsche Wohnen Zwischenmiet GmbH & Co. KG	Stuttgart	100.00
SÜDOST WOBA DRESDEN GMBH	Dresden	100.00
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 (former Deutsche Annington Eigentumsverwaltungs GmbH)	Bochum	100.00 [1]
Vonovia Elbe Wohnen GmbH (former Deutsche Annington Regenerative Energien GmbH)	Bochum	100.00
Vonovia Finance B.V. (former Deutsche Annington Finance B.V.)	Amsterdam/NL	100.00
Vonovia Immobilien Treuhand GmbH (former Deutsche Annington Service GmbH, Frankfurt/Main)	Bochum	100.00 [1]
Vonovia Immobilienmanagement GmbH (former Deutsche Annington Immobilienmanagement GmbH)	Bochum	100.00 [1]
Vonovia Kundenservice GmbH (former Deutsche Annington Kundenmanagement GmbH)	Bochum	100.00 [1]
Vonovia Mess Service GmbH (former GAGFAH Verwaltung GmbH)	Essen	100.00
Vonovia Modernisierungs GmbH (former Deutsche Annington WOGE Fünf Verwaltungs GmbH)	Düsseldorf	100.00
Vonovia Wohnumfeld Service GmbH (former Deutsche Annington Revisionsgesellschaft mbH)	Düsseldorf	100.00
WBN Asset GmbH & Co. KG	Hanover	100.00
WBN Beteiligungs GmbH	Hanover	100.00
WGNorden Asset GmbH & Co. KG	Hanover	100.00
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		
Grundstücksentwicklungsgesellschaft Oesselse “Langes Feld” GbR	Essen	50.00
Möser GbR	Essen	50.00
Objekt Dresden GbR	Hanover	50.00
Wolmirstedt GbR	Essen	50.00

Company	Company domicile	Interest %	Equity € k Dec. 31, 2014	Net income for the year € k Dec. 31, 2014
Hellerhof GmbH	Frankfurt/Main	13.17	61,202	7,194
VBW Bauen und Wohnen GmbH	Bochum	14.15	88,869	3,119

[1] Exemption according to section 264 para. 3 HGB
[2] Control on the basis of contractual and factual circumstances in accordance with IFRS 10

Further Information about the Bodies

Management Board

The Management Board of Vonovia SE consisted of five members as of December 31, 2015.

Rolf Buch, Chairman of the Management Board

Function: Chief Executive Officer
Responsibilities: General Counsel, HR Management – DA, Internal Audit, Corporate Communications and Corporate Strategy

Mandates:
> GSB Gesellschaft zur Sicherung von Bergmannswohnungen mbH (Member of the Supervisory Board)
> Woldemar-Winkler Stiftung of Sparkasse Gütersloh (Member of the Committee)

Klaus Freiberg, Member of the Management Board

Function: Chief Operating Officer
Responsibilities: Product Management, Portfolio-wide Property Management and in the North, East, West, Central, South and Southeast Regions, IT/Process Management and TGS

Mandate:
> VBW Bauen und Wohnen GmbH (Member of the Supervisory Board)

Dr. A. Stefan Kirsten, Member of the Management Board

Function: Chief Financial Officer
Responsibilities: Finance, Investor Relations, Accounting, Tax Affairs and Insurance
Mandates:
> AVW Versicherungsmakler GmbH (Member of the Supervisory Board)
> Jerónimo Martins SGPS, S.A. (Member of the Supervisory Board)
> SOCIEDADE Francisco Manuel dos Santos B. V. (Member of the Supervisory Board)

Gerald Klinck, Member of the Management Board (since April 1, 2015)

Function: Chief Controlling Officer
Responsibilities: Controlling, Portfolio Controlling, Valuation, Purchasing and Residential Property

Mandates:
> BeLouNa UG (haftungsbeschränkt) & Co. KG (Limited Partner)
> BeLouNa Beteiligungs UG (haftungsbeschränkt) (Partner)

Thomas Zinnöcker, Deputy Chairman of the Management Board (from April 1, 2015 to January 31, 2016)

Function: Chief Restructuring Officer
Responsibilities: Acquisition, Sales, Integration of Gagfah, HR Management – GAGFAH, New Construction/Land Management

Mandates:
> 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

In accordance with the resolution of the Annual General Meeting of April 30, 2015, the current Supervisory Board has been enlarged by three members, making the total number of members twelve (12). The Düsseldorf Local Court appointed a new member on October 22, 2015, following the resignation of a previous member.

Dr. Wulf H. Bernotat, Chairman

Former CEO of E.ON SE

Mandates:
> 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)
> Metro AG (Member of the Supervisory Board until September 4, 2015)

Burkhard Ulrich Drescher

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

Mandate:
> STEAG Fernwärme GmbH (Member of the Advisory Board)

Prof. Dr. Edgar Ernst

President of the German Financial Reporting Enforcement Panel

Mandates:
> 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 to January 25, 2016)

Dr. Florian Funck

Member of the Management Board of Franz Haniel & Cie. GmbH

Mandates:
> Metro AG (Member of the Supervisory Board)
> TAKKT AG (Member of the Supervisory Board)

Dr. Ute Geipel-Faber (since November 1, 2015)

Business consultant

Mandates:
> Bayerische Landesbank (Member of the Supervisory Board)
> Invesco Real Estate (Senior Advisor)

Hendrik Jellema (since June 2, 2015)

Chairman of Stiftung Berliner Leben

Daniel Just (since June 2, 2015)

Chairman of Bayerische Versorgungskammer

Mandates:
> RREEF Investment GmbH (Deputy Chairman of the Supervisory Board)
> Universal Investment GmbH (Member of the Supervisory Board since January 1, 2016)

Hildegard Müller

Former Chairwoman of the Executive Board of the German Association of Energy and Water Industries

Prof. Dr. Klaus Rauscher

Business Consultant

Mandates:
> Drägerwerk AG & Co. KGaA (Member of the Supervisory Board)
> Dräger Medical GmbH (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)

Clara-Christina Streit

Former Senior Partner with McKinsey & Company, Inc.

Mandates:
> 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
Chairman of the Management Board at Jones Lang LaSalle EMEA (Europe, Middle East and Africa) as well as Member of the Management Board at Jones Lang LaSalle Inc., which is listed on the New York Stock Exchange

Mandate:
> 38. VIGAVI Vermögensverwaltungsgesellschaft mbH (CEO)

Gerhard Zeiler (as of June 2, 2015)
President of Turner Broadcasting Systems International Inc.

Mandate:
> Central European Media Enterprises Ltd. (CME) (Member of the Board of Directors)

Members who left the Supervisory Board

Manuela Better (until May 31, 2015)
Former CEO of Hypo Real Estate Holding AG (HRE) and former Member of the Management Board of Deutsche Pfandbrief-bank AG (pbb)

Mandates:
> AXA Konzern AG, Cologne (Member of the Supervisory Board)
> Deutsche EuroShop AG, Hamburg (Member of the Supervisory Board)
> Dr. Ingrid Better Vermögensverwaltungs GmbH & Co. KG (CEO)

Independent Auditor's Report

To Vonovia SE, Düsseldorf (until August 18, 2015: Deutsche Annington Immobilien SE):

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Vonovia SE, Düsseldorf (until August 18, 2015: Deutsche Annington Immobilien SE), and its subsidiaries, which comprise the consolidated income statement, the consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, and consolidated statement of changes in equity, and notes to the consolidated financial statements for the business year from January 1 to December 31, 2015.

Executive Board's Responsibility for the Consolidated Financial Statements

The executive board of Vonovia SE, Düsseldorf (until August 18, 2015: Deutsche Annington Immobilien SE), is responsible for the preparation of these consolidated financial statements. This responsibility includes preparing these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and the supplementary requirements of German law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code], to give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The company's executive board is also responsible for the internal controls that management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW) as well as in supplementary compliance with International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

Pursuant to § 322 Abs.3 Satz 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply in all material respects with IFRSs as adopted by the EU and the supplementary requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2015 as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Combined Management Report

We have audited the accompanying combined management report of Vonovia SE, Düsseldorf (until August 18, 2015: Deutsche Annington Immobilien SE), for the business year from January 1, 2015 to December 31, 2015. The executive board of Vonovia SE is responsible for the preparation of the combined management report in compliance with the applicable requirements of German commercial law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]. We conducted our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of the combined management report promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Accordingly, we are required to plan and perform the audit of the combined management report to obtain reasonable assurance about whether the combined management report is consistent with the consolidated financial statements and the audit findings, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Pursuant to § 322 Abs.3 Satz 1 HGB, we state that our audit of the combined management report has not led to any reservations.

In our opinion, based on the findings of our audit of the consolidated financial statements and combined management report, the combined management report is consistent with the consolidated financial statements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Essen, February 29, 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr Hain	Rehnen
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 26, 2016

Rolf Buch
(CEO)

Klaus Freiberg
(COO)

Dr. A. Stefan Kirsten
(CFO)

Gerald Klinck
(CCO)

EPRA Reporting

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. Vonovia SE has been a member of EPRA since 2013. Rolf Buch was elected to the EPRA Board of Directors in Berlin on September 8, 2015.

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. The EPRA report below shows the key figures based on the EPRA Best Practice Recommendations (BPRs). Vonovia only uses some of these indicators as performance indicators and are thus partially discussed outside of the management report. They are non-GAAP measures. We would like to point out that the EPRA BPRs refer to both residential and commercial real estate companies.

in € million	2015	2014	Change in %
EPRA NAV	13,988.2	6,578.0	112.7
EPRA NNNAV	12,988.2	6,150.2	111.2
EPRA surplus	239.5	169.8	41.0
EPRA net initial yield in %	5.6	5.9	-0.3 pp
EPRA “topped-up” net initial yield in %	5.6	6.0	-0.4 pp
EPRA vacancy rate in %	2.5	3.0	-0.5 pp
EPRA cost ratio (incl. direct vacancy costs) in %	31.9	35.7	-3.8 pp
EPRA cost ratio (excl. direct vacancy costs) in %	30.1	34.0	-3.9 pp

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 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 EPRA NAV," which involves eliminating goodwill in full, is also reported.

Based on the EPRA NAV, adjustments are made to reflect the fair value of the financial liabilities and the deferred taxes attributable to these. Ultimately, the EPRA NNNAV is designed to show the fair value of a real estate company.

in € million	Dec. 31, 2015	Dec. 31, 2014	Change in %
Equity attributable to Vonovia's shareholders	**10,620.5**	**4,932.6**	**115.3**
Deferred taxes on investment properties/assets held for sale	3,241.2	1,581.0	105.0
Fair value of derivative financial instruments*	169.9	88.1	92.8
Deferred taxes on derivative financial instruments	-43.4	-23.7	83.1
EPRA NAV	**13,988.2**	**6,578.0**	**112.7**
Goodwill	-2,714.7	-106.0	2,461.0
Adjusted EPRA NAV	**11,273.5**	**6,472.0**	**74.2**
EPRA NAV per share in €**	**30.02**	**23.04**	**30.3**
Adjusted EPRA NAV per share in €**	**24.19**	**22.67**	**6.7**

in € million	Dec. 31, 2015	Dec. 31, 2014	Change in %
EPRA NAV	**13,988.2**	**6,578.0**	**112.7**
Fair value financial liabilities	-1,495.9	-634.7	135.7
Deferred taxes on fair value financial liabilities	495.9	206.9	139.7
EPRA NNNAV	**12,988.2**	**6,150.2**	**111.2**
EPRA NNNAV per share in €**	**27.87**	**21.54**	**29.4**

* Adjusted for effects from cross currency swaps
** Based on the shares carrying dividend rights on the reporting date Dec. 31, 2015: 466,000,624; Dec. 31, 2014: 271,622,425; Prior-year value TERP-adjusted

EPRA Surplus

The EPRA surplus shows the ability of a real estate company to pay dividends over the long term. Based on the profit for the period, adjustments are made to reflect changes in the value of assets and liabilities, and to reflect costs for acquisitions and their integration. As far as company-specific adjustments are concerned, prior-year and non-recurring interest expenses and taxes that do not correspond to current income taxes are eliminated.

in € million	2015	2014	Change in %
IFRS profit for the period	**994.7**	**409.7**	**142.8**
Revaluation of investment properties	-1,323.5	-371.1	256.6
Profit on disposal of properties	-119.0	-69.0	72.5
Taxes on property sales	17.0	6.4	165.6
Revaluation of financial instruments and associated transaction costs	51.8	28.8	79.9
Acquisition costs	179.8	44.0	308.6
Deferred taxes in relation to EPRA adjustments	438.7	121.0	262.6
EPRA surplus	**239.5**	**169.8**	**41.0**
EPRA surplus per share in €*	**0.51**	**0.59**	**-13.6**
Adjustment of prior-year/one-time interest expense	22.4	36.8	-39.1
Adjustment for other deferred/prior-year taxes	273.9	44.0	522.5
Adjusted EPRA surplus	**535.8**	**250.6**	**113.8**
Adjusted EPRA surplus per share in €*	**1.15**	**0.88**	**31.0**

* Based on the shares carrying dividend rights on the reporting date Dec. 31, 2015: 466,000,624; Dec. 31, 2014: 271,622,425; Prior-year value TERP-adjusted

EPRA Net Initial Yield

The EPRA net initial yield shows the ratio of the adjusted market values of the properties to the annualized rental income. The fair values are adjusted to reflect any incidental acquisition costs in this respect. The topped-up net initial yield is also adjusted to reflect the rental incentives.

in € million	2015	2014	Change in %
Investment properties	23,431.3	12,687.2	84.7
Assets held for sale	678.1	53.8	1,160.4
Fair value of the real estate portfolio (net)	**24,109.4**	**12,741.0**	**89.2**
Incidental acquisition costs	1,993.4	1,103.1	80.7
Fair value of the real estate portfolio (gross)	**26,102.8**	**13,844.1**	**88.5**
Annualized rental income	1,493.7	831.5	79.6
Property costs that cannot be passed on	-27.1	-10.9	148.6
Annualized net rental income	**1,466.6**	**820.6**	**78.7**
Adjustments for rental incentives	1.8	3.3	-45.5
Topped-up annualized rental income	**1,468.4**	**823.9**	**78.2**
EPRA net initial yield in %	**5.6**	**5.9**	**-0.3 pp**
Topped-up EPRA net initial yield in %	**5.6**	**6.0**	**-0.4 pp**

EPRA Vacancy Rate

The calculation of the EPRA vacancy rate is based on the ratio of the market rent for the vacant residential properties to the 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.

in € million	Dec. 31, 2015	Dec. 31, 2014	Change in %
Market rent of unoccupied apartments	42,3	28,9	46,4
Market rent of residential property portfolio	1.678,0	950,4	76,6
EPRA vacancy rate in %	**2,5**	**3,0**	**-0,5 pp**

EPRA Cost Ratio

As the ratio of EPRA costs to gross rental income, the EPRA cost ratio 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 the EPRA cost ratio expresses the same information as the EBITDA margin. In order to increase transparency, company-specific adjustments are made to reflect maintenance costs, as these depend on the accounting policies governing the capitalization of maintenance services and on the maintenance strategy of the company as such. This means that the adjusted EPRA cost ratio expresses the same information as the EBITDA margin, excluding maintenance.

in € million	2015	2014	Change in %
Adjusted EBITDA Rental/Extension/Other	-958.0	-503.9	90.1
Rental income	1,414.6	789.3	79.2
Expenses for maintenance	-242.2	-145.1	66.9
Property management costs	**214.4**	**140.3**	**52.8**
Expenses for maintenance	242.2	145.1	66.9
Ground rent	-8.2	-5.2	57.7
EPRA costs (incl. direct vacancy costs)	**448.4**	**280.2**	**60.0**
Direct vacancy costs	-24.5	-13.6	80.1
EPRA costs (excl. direct vacancy costs)	**423.9**	**266.6**	**59.0**
Rental income	1,414.6	789.3	79.2
Ground rent	-8.2	-5.2	57.7
Gross rental income	**1,406.4**	**784.1**	**79.4**
EPRA cost ratio (including direct vacancy costs) in %	**31.9**	**35.7**	**-3.8 pp**
EPRA cost ratio (excluding direct vacancy costs) in %	**30.1**	**34.0**	**-3.9 pp**
Maintenance adjustment	242.2	145.1	66.9
Adjusted EPRA costs (incl. direct vacancy costs)	**206.2**	**135.1**	**52.6**
Adjusted EPRA costs (excl. direct vacancy costs)	**181.7**	**121.5**	**49.5**
Adjusted EPRA cost ratio (including direct vacancy costs) in %	**14.7**	**17.2**	**-2.6 pp**
Adjusted EPRA cost ratio (excluding direct vacancy costs) in %	**12.9**	**15.5**	**-2.6 pp**

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 investments) adjusted for effects which do not relate to the period, are non-recurring or do not relate to the object of the company 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 Rental

The adjusted EBITDA Rental is calculated by deducting the operating expenses of the Rental segment and expenses for maintenance 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).

Core/Non-Core Properties

These are properties that are assigned to the company's Core or Non-Core real estate portfolios. Non-Core properties are less attractive management propositions because they are at odds with our processes due to their characteristics or location. Furthermore, significant numbers of these properties have below-average growth potential and will be sold in the medium term in line with the corporate strategy. Core properties are our properties in the Rental and Privatize portfolios.

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, commercial and technical support as well as maintenance and modernization management.

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 NAV/adjusted EPRA 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 the fair value of the financial instruments and deferred taxes. In order to boost transparency, an adjusted EPRA NAV, which involves eliminating goodwill in full, is also reported.

EPRA Key Figures
For information on the EPRA key figures, we refer to chapter EPRA Reporting, p. 237 et seq.

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 allows 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 pension provisions, 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 refers to the coverage ratio of financial liabilities. It shows the ratio of non-derivative financial liabilities pursuant to IFRS, less foreign exchange rate effects and cash and cash equivalents, to the total fair values of the real estate portfolio.

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 which 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 € per square meter) 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.

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 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.

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 3, 2016	Publication of 2015 Annual Report
May 12, 2016	Annual General Meeting
May 12, 2016	Publication of Interim Report Q1 2016
August 2, 2016	Publication of Interim Report H1 2016
November 3, 2016	Publication of Interim Report Q3 2016

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.

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 2015 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 security of Vonovia SE.

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