SUSTAINABLE CORPORATE GOVERNANCE

As a residential real estate company, Vonovia plays a central role in society. Our activities are never solely about economic issues, they also have social aspects – this is because housing is a special, sensitive and long-term product. The life cycle of buildings stretches over a number of decades, and the direction that Vonovia takes is also characterized by the long-term development of the portfolio. Our relationships with our customers – and their relationships with our offering – are therefore a vital element in the strategic orientation of our company.

In this context, trust, transparency and reliability are decisive criteria for the company's success. This means it is absolutely necessary to stick to the rules – from laws and directives to social norms and agreements. Good corporate governance also plays a part in this, as does open and transparent dialogue with our stakeholder groups. We will only be in a position to meet our customers' needs and wants with our apartments if our tenants feel they can rely on us. Sustainability is therefore a material aspect of our basic sense of identity as a company.

Our Approach Regarding Sustainable Corporate Governance

☒ 103-1, 103-2, 103-3

Management Approach 103-1

We continually develop our building stock and keep stock in the portfolio over the long term because long-term, stable growth forms the basis of Vonovia's business model. This is legitimized by our conduct and the presence of our employees – and is also reflected in customer demand and their flexibility within the applicable framework conditions. Transparent corporate governance, which includes taking responsibilities for people and the environment seriously, is indispensable. After all, residential real estate companies cannot easily move their "products" and employees. Residential real estate companies thrive through long-term customer relationships and the development of their physical portfolios (see chapter Long-term Growth → **p. 24 et seq.**).

As a residential real estate company that is aware of its relevance to society, we maintain close contact with various stakeholder groups from the worlds of politics, business, society and the scientific community. We take their views, concerns and ideas on board and include them in our work. This raises appreciation of our business operations markedly (see chapter Open Dialogue With Society → **p. 28 et seq.**).

Vonovia is a trustworthy and reliable partner. This is how we want to be seen by our customers, shareholders, business partners, employees, society and the wider public. Adhering to laws and directives is just as important as pursuing the good and sustainable guidelines laid out in our corporate code (see chapter Corporate Governance and Compliance/Anti-corruption → **p. 32 et seq.**).

In terms of sustainable corporate governance, we have identified the following material topics and integrated them into our materiality matrix:

> Long-term growth
> Open dialogue with society
> Corporate governance and compliance/anti-corruption

In the following chapter, we will cover these topics in detail and explain their relevance for Vonovia. The relevant challenges, opportunities and risks, and the objectives, measures and indicators are outlined for each topic.

Challenges, Opportunities and Risks 103-1

There is a strong public focus on the housing industry and – due to the current high demand for homes – it is currently an area of business that has a high emotional value attached to it. Vonovia's business model is influenced by current social and property management developments, which pose challenges for acquiring residential properties and their management. This is also shown by the partially controversial nature of the public discussions surrounding housing. It once more clearly shows that our long-term success is particularly dependent on the satisfaction of our tenants.

Moving our business is impossible due to the fixed nature of residential property. This means we can only react to unforeseeable developments with a limited amount of flexibility.

The internationalization of our activities and the strong growth of our companies bring their own challenges, such as the integration of different cultures, languages, data systems and processes. Language barriers pose particular problems in the area of compliance and in the communication of guidelines and rules that must be communicated in a way that prevents any misunderstanding even in another language.

The increase in our (new) construction activities also brings about challenges for our company – for instance, in the form of numerous regulations that apply to construction.

All of our activities carry the risk of losing the trust of our customers and the public. This is a loss that can only be remedied with great effort. Nevertheless, our activities also provide us with the opportunity to build up trust with our services and our reliability and to remain a good corporate citizen.

Details regarding the risks related to business can be found in the risk report in our 2018 annual report.
AR 2018, p. 131 et seq.

Objectives, Measures and Indicators

103-2, 103-3

Vonovia is obliged to carry out sustainable ongoing maintenance in the portfolio and to provide modern, affordable homes that meet society's needs. We aim to keep buildings in our portfolio long term and to develop them sustainably. In addition to providing homes, we offer housing-related services that generate added value for our customers.

In order to achieve our goals, we must establish trust: The trust of our customers, partners, service providers, employees and investors in Vonovia as a company and in our services. We must show that we are a reliable partner and employer that takes their concerns and needs seriously and understands them, and we must reflect this in our conduct. Only then can we build up the long-term and trusting relationships that we would like to have.

Vonovia's corporate governance is aimed at generating long-term growth and we include not only economic but also ecological and social aspects in our corporate decisions. It is based on good corporate governance, which we strengthen through our consistent adherence to applicable laws and regulations as part of our compliance management processes, as well as through voluntary obligations that often exceed international standards. Corporate governance at Vonovia involves good and open cooperation between the Supervisory Board and the Management Board and the deployment of effective control bodies.

As part of the internationalization of our business and in collaboration with our subsidiaries Victoria Park and BUWOG, we are currently adjusting the existing compliance rules to the new circumstances. This ensures compliance throughout the Group. Our Code of Conduct serves as an ethical and legal guideline for our conduct. It is closely related to our internal mission statement, which provides orientation for our everyday activities. We manage the cooperation with external partners and service providers in our supply chain through our Business Partner Code, our general terms and conditions of purchasing, and individual agreements.

We maintain close and ongoing contact with our stakeholder groups. This allows us to identify trends, developments, changes and, most importantly, their expectations, early on and integrate them into our business processes. This dialogue also helps us to create transparency with regard to our activities and to establish and strengthen stakeholders' – and the public's – trust in our company.

Outlook for 2019

We plan to review our risk reporting to include sustainability aspects in 2019, e.g., the financial consequences of climate change.

We are also aiming to gradually introduce the guiding principles for human rights laid out in the federal government's national action plan, and to publish a corresponding declaration. This gives the issue of human rights even more weight within the company. We will also expand dialogue with our stakeholders on this topic as a result.

We will expand our control processes in 2019 in order to ensure adherence to our Business Partner Code. We will, for instance, roll out a supplier management platform throughout the Group and derive early warning indicators to flag suspicious developments at supplier sites. We will also continue to take measures to increase sustainability in procurement, for example, as regards the construction materials we purchase.

Long-term Growth

☒ 102-15, 103-1, 103-2, 103-3, 201-2, 203-1

Management Approach 103-1

A home is a fundamental human need. It provides security and shelter and is an expression of a person's lifestyle. Housing has become a scarce resource for many people in Germany in recent years, however. Particularly in metropolises and conurbations, the pressure on the housing markets has increased dramatically.

Vonovia aims to contribute toward a long-term solution to the housing problem in metropolitan areas by providing modern and affordable homes. Developing our real estate portfolio through acquisitions and sales as well as densification and vertical expansion are important elements of our strategy.

Vonovia's business model is built on two pillars: renting out affordable homes and providing housing-related services at fair prices. These pillars are boosted by our construction and acquisition activities and the efficient management of the portfolio. This allows us to ensure that rents remain affordable and ancillary costs remain low in the long term. 203-1

Corporate Strategy

We have pursued a corporate strategy based on the 4+2 pillars since 2013. The sixth pillar, our internationalization strategy, was added in 2017.

1. **Property management:** Improving key operating figures through efficient property management and digitization, improving quality and efficiency in our customer services; efficiently managing maintenance and modernization measures.

2. **Financing:** Securing sufficient, optimized liquidity, a balanced structure and maturity of debt, and the optimization of financing costs with an internationally competitive financing structure and safeguarding ratings.

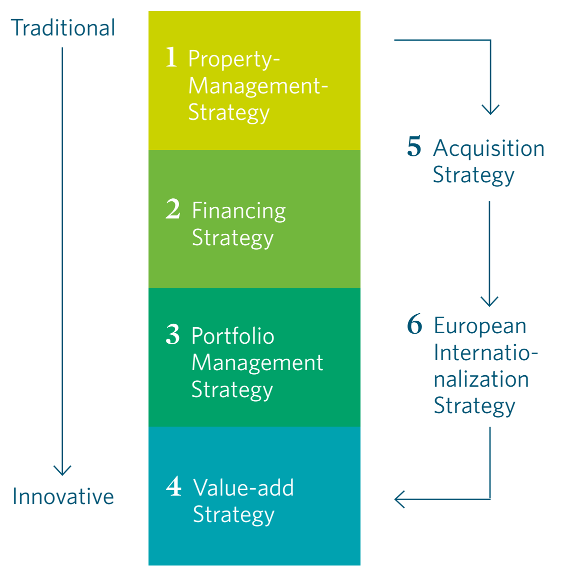
3. **Portfolio management:** Renting out properties in a manner that increases value by optimizing existing properties and investing in maintenance and modernization; improving energy efficiency in the portfolio; expanding the development business and the established new construction and vertical expansion activities; pooling capacities by focusing on strategic regions.

4. **Value-add:** Adding customer-oriented services with a close relationship to rental business (e.g., technical services, managing the residential environment, property management, multimedia services, metering services, decentralized energy supply, caretaker services, managing outdoor and green spaces) to the core business.

5. **Acquisition:** Boosting the effectiveness of the core strategies through continual checks and including suitable portfolios in the list of existing properties.

6. **Internationalization:** Transferring knowledge and analyzing potential target markets in Europe.

The 4+2 Pillars of our Strategy



Our annual report contains a detailed description of our 4+2 corporate strategy (see chapter Strategy **AR 2018, p. 66 et seq.**).

Corporate Governance

Vonovia's corporate governance is based on our corporate strategy and is aligned with our sustainable business activities. In the 2018 fiscal year, we expanded our business activities outside of Germany with the acquisition of BUWOG AG and Victoria Park AB. The acquisition of BUWOG also added development activities to the scope of our business. We adjusted our management system in the fourth quarter of 2018 and added the Development segment in the course of this business expansion. The segment formerly known as the Sales segment was renamed Recurring Sales, and the sale of buildings and properties is now shown as a separate business activity. We thus have four segments now: **Rental, Value-add, Recurring Sales** and **Development.**

> **Rental:** This segment covers all business activities related to the management of our portfolio in a way that increases value.
> **Value-add (formerly "Value-add Business"):** This segment pools all housing-related services performed by the craftsmen's and residential environment organization, the condominium administration business, the cable TV business, metering services, energy supplies and our insurance services.
> **Recurring Sales (formerly part of the "Sales" segment):** This segment covers all regular sales of individual condominiums and single family homes.
> **Development:** This segment covers project development in new residential buildings

We align our business activities effectively with the aim of sustainably increasing company value using an integrated planning and control system based on central performance indicators.

You can find out more about our corporate governance in our annual report. **AR 2018, p. 94 et seq.**

Challenges, Opportunities and Risks 103-1, 102-15

2018 was another year of growth for the German economy. This growth did slow toward the end of the year, however, and thus did not quite meet expectations. Home prices continued to rise during the year, but the increase in rent was somewhat more restrained than in the previous year. Despite the constant rise in demand for homes in metropolitan areas, the housing market is not strained everywhere – rural regions in particular are experiencing a decline in population. Nevertheless, demand for homes will continue to outstrip supply in future, which will keep rents at a high level and see them increase. These economic and social developments have a decisive impact on our business and our success – and bring about both risks and opportunities for Vonovia.

One example of an opportunity these developments present for Vonovia is that households in Germany are becoming smaller in general, while one and two-person households are on the increase. In light of this, demand and market opportunities for small and medium-sized apartments, which represent Vonovia's core product, should rise in future, improving rental yields further.

The current social trends and our 4+2 strategy (see chapter Corporate Strategy → **p. 25 et seq.**) also present us with the opportunity to grow throughout Europe with targeted acquisitions and by tapping into new business areas. This in turn gives us the opportunity to increase the share of services provided by our technical service.

Risk Management 102-15

Vonovia has a comprehensive risk management system in place that enables it to identify, measure and manage opportunities and risks relevant to the company. This:

> reduces potential threats,
> secures the future viability of the company,
> promotes strategic development, and
> supports sustainable conduct.

For transparency purposes, we explain Vonovia's risk situation in detail in our annual reporting and publish a qualified list of the "Top 10 Risks" on behalf of the Management Board (see chapter Risk Report **AR 2018, p. 131 et seq.**).

The Management Board bears full responsibility for risk management. A risk manager, who reports to the Chief Financial Officer (CFO), coordinates the risk management process and creates a ranking of the company's material risks twice a year as part of a risk analysis. He is supported by risk owners – managers at the level directly below the Management Board. The management is based on an integrated, five-pillar management approach:

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-based ICS	**Internal Audit** > Process-oriented audits > Risk-oriented audits
Operational Areas > Performance management > Technical integrity	**Operational Areas** > Ensuring compliance	**Operational Areas** > Risk identification and evaluation > Risk control	**Operational Areas** > Documentation of core processes > Control activities > Control Self Assessment	**Operational Areas** > Process improvements

In order to safeguard stability and long-term growth, Vonovia responds to individual risks with a comprehensive package of measures.

Vonovia monitors and evaluates any risks that may be caused by climate change. Our properties are not located in areas that are exposed to particular risks arising from the potential impact of climate change. We therefore believe there are currently no direct risks worth mentioning that could result from extreme weather conditions due to climate change such as strong rains and flooding. Vonovia nevertheless performs regular proactive checks to ensure building safety, taking into consideration all building regulations, and safeguards against any possible damage with extensive building insurance cover. 201-2

You can find detailed information on this in our annual report (see chapter Opportunities and Risks **AR 2018, p. 131 et seq.**).

Objectives, Measures and Indicators 103-2, 103-3

Our objective is to provide our customers with modern, comfortable and affordable homes and housing-related services. Vonovia creates attractive homes in numerous German cities and takes care of the building stock by investing in new construction, building and apartment optimization and holistic neighborhood development. We aim to provide important services ourselves rather than being dependent on external service providers. We are therefore focusing on our services in the following three areas.

> **Vonovia technical service (VTS):** The majority of construction work in our portfolio is performed by the VTS, which enables us to guarantee secure supply and a high level of service speed.

- > **Residential environment organization:** The residential environment organization performs gardening and landscaping work in the portfolio, such as creating new green spaces and playgrounds or creating communicative neighborhood centers outside of the buildings.
- > **Caretaker organization:** The caretakers from our caretaker organization support our tenants on site and respond to customer inquiries and requests that cannot be handled on the phone by the central customer service center.

Customer satisfaction is a non-financial performance indicator that is especially important to Vonovia since our economic success is directly linked to our tenants' satisfaction levels. Our central customer service center assists Vonovia tenants with issues such as queries relating to lease agreements and consumption bills and ancillary expense bills.

We expanded our range of housing-related services once more in 2018 and began looking into more services that we can offer our customers. These incude:

- > launching Vonovia Energie Service GmbH (VESG), which allows us to offer our customers electricity and gas at favorable conditions,
- > providing remote meter readings using smart-metering devices in 130,000 apartments,
- > continuing to pilot car sharing offers and expanding charging infrastructure,
- > harnessing further potential in decentralized energy generation and generating heat for potable water and heating systems using cogeneration units (CHP units), and
- > expanding senior-friendly apartment conversions and renovating bathrooms in response to tenant requests.

You can find out more about additional measures we have put in place to grow sustainably in the annual report (see chapter Our Service Promise **AR 2018, p. 88 et seq.**; chapter Report on Economic Position **AR 2018, p. 98 et seq.**).

Open Dialogue With Society

☒ 102-13, 102-40, 102-42, 102-43, 102-44, 103-1, 103-2, 103-3, 203-2, 415-1

Management Approach 103-1

Vonovia belongs to a network of various social players who have an influence on the company on a micro and macro level. We actively consider their views and concerns when deciding the direction our company takes and how our neighborhoods are developed. We value ongoing communication on an equal footing to find common solutions for a positive community spirit in the properties that make up our portfolios. We hear and evaluate the opinions of all stakeholders in our work. We then bundle a variety of views and include these results in our strategic decision-making process. Vonovia has a bridge-building role within the neighborhood. We therefore consider dialogue with stakeholders to be an opportunity for participation and a way to improve our reputation and increase acceptance for our actions.

Our main stakeholders include tenants, employees, shareholders, investors and analysts as well as policymakers at the municipal, state and federal levels in Germany, Austria and Sweden. Additional interest groups are tenants' associations, suppliers and service providers, the media and non-governmental organizations (NGOs). 102-40

Tenants: Direct contact with our tenants is the most important dialogue for us. They expect straightforward, service-oriented and rapid responses to their queries. A good level of availability, fast reaction times and, as far as possible, presence on site to personally hear and deal with our tenants' queries, worries and wants is decisive. We achieve this with the help of our caretakers at the portfolio properties, our rental offices, which serve as local points of contact, tenant assemblies and parties. Our customer portal and customer service hotline mean that we can be contacted around the clock. We also provide tenants with information on various subjects in our quarterly customer magazine and via our online communication channels (see chapter Society and Customers → **p. 37 et seq.** **AR 2018, p. 75 et seq.**). 102-43, 102-44

Employees: Our employees want an attractive job with an interesting remit, professional and personal development, and a reliable, fair working environment. Thanks to our diversified business approach, employees find numerous opportunities for professional and personal development in an industry offering future security. We offer training in 14 commercial and technical trade professions, impart knowledge via our academy, cooperate with EBZ Business School in Bochum, a university geared to the real estate industry, and conduct HR development activities customized to personal needs (see chapter Employees → **p. 72 et seq.** **AR 2018, p. 80 et seq.**). 102-43, 102-44

Shareholders, Investors and Analysts: Transparency about our business model and its successful implementation is a key issue for this stakeholder group. We mainly use face-to-face meetings, conference calls, presentations and road shows to maintain regular dialogue with shareholders, investors and analysts (see chapter Strategy **AR 2018, p. 66**). 102-43, 102-44

Public Policy: Public policy has made housing the number one issue of our time. This has created an expectation that requires us to be involved in discussions relating to neighborhood and city development in order to find solutions for the rising demand for homes, for example, but also to social issues such as demographic and climate change. We have regular and extensive contact with political and association representatives, conduct cross-party discussions with representatives, participate as an opinion leader in forums and events on real estate matters, and also initiate projects of social relevance. In our dialogue with policymakers, we refer to the effects of proposed legislation for our industry. Vonovia remains neutral in political matters, makes no political donations, and refuses to participate in parties or party-related networks or foundations. 102-43, 102-44, 415-1

Tenants' Associations and Initiatives: Dealing with tenant matters fairly and reliably, and identifying solutions quickly and in a constructive way, is particularly important when conflicts arise. We maintain close contact with local tenants' associations, organize tenant assemblies and are also available at short notice for representatives of interested parties. In order to avoid escalations, we thoroughly review the legitimacy of criticism directed at us if possible. In case of legitimate criticism, we attempt to eliminate the deficiencies quickly. 102-43, 102-44

Suppliers and Service Providers: Our collaboration with partners is based on a cooperative business relationship that takes the interests of both parties into account. We and our partners from all trades are bound together by the common interest to deliver very good services to Vonovia and our tenants. Our Business Partner Code and Code of Conduct ensure that we are on the same page in terms of the key cornerstones of our collaboration (See chapter Compliance Management and Anti-corruption → **p. 32 et seq.**). 102-44

Media/Public Relations: Journalists expect us to be willing to provide information and have an open communication policy, even and especially in dealing with difficult questions. We conduct comprehensive public relations and strive to provide information quickly. In order to prioritize our communication properly, we ensure we are always up-to-date on issues that influence our environment. We conduct regular press conferences and discussions and are available for interviews. We endeavor to provide journalists with information as soon as possible in the event of a crisis or disruptions. 102-43, 102-44

NGOs and the Corporate Environment: As a corporate citizen, Vonovia is directly involved in the lives of the communities. Vonovia makes both economic and operational contributions to social topics, fulfilling society's desire for the company to take its responsibilities seriously. We cooperate with numerous organizations such as welfare associations and church institutions. We participate in school projects, maintain playgrounds and support clubs, social and cultural institutions and disadvantaged individuals through our foundations. In addition, we involve public organizations in the development of new services (see chapter Neighborhood Development → **p. 50 et seq.**). 102-43, 102-44, 203-2

Establishment in the Organization 103-2

Dialogue with our stakeholders primarily takes place during day-to-day business and is dependent on existing networks. This means it is well established on several levels and in several areas of the business, for example, with the Management Board, regional managing directors and regional managers. Corporate communications, which ensure uniform internal and external communications, play a pivotal role. This also includes the public affairs department, which ensures two-way communication with political representatives.

Challenges, Opportunities and Risks 103-1

The size and presence of Vonovia in Germany (and in Austria) give rise to opportunities and risks that have an impact on stakeholder dialogue. Issues such as faulty heating systems, incorrect invoicing of ancillary costs and rent increases due to modernization allocations can impact tenants', and the wider public's, perception of Vonovia. In turn, the company's reputation can impact operations in local markets.

When developing existing neighborhoods and constructing new buildings, taking the needs, wants and concerns of the tenants and residents into account is indispensable to the success of the project. Dialogue is the most important tool for recognizing critical topics early on, dispelling negative impressions and finding common solutions. We also take care to take diverging stakeholder interests and expectations into consideration. Our communication style is open and we seek out direct contact in order to discuss issues such as affordable homes and new construction and modernization measures. We consider dialogue with our stakeholders to be a natural part of tenant participation. It boosts acceptance of our plans and our reputation.

Landlord-to-tenant electricity and car sharing are innovative products. An open communication style helps Vonovia to be seen as more than just a landlord, and provides the company with an opportunity to position itself as a driver of social development. 102-42, 103-1

Objectives, Measures and Indicators

103-2, 103-3

Vonovia provides homes for more than one million people. Early communication is particularly important in cities where we have a large portfolio of properties. Including stakeholders early on is especially relevant when it comes to larger projects, such as comprehensive modernization work. Direct communication with our customers is another of our most important tasks. By engaging in dialogue with tenants' associations, citizen forums, tenant discussions and assemblies, we include the residents of our neighborhoods in our planning and measures. Vonovia's aim is to maintain continuous and intensive dialogue with its stakeholder groups. Vonovia thus promotes and expects transparency beyond the individual corporate departments.

Amid the current discussions in society and the world of politics, we consider our commitments in the field of public affairs to be particularly important. Our approach involves establishing contacts and channels of communication. We are open for discussion with members of local political organizations (e.g., committee members, district mayors) and state and government representatives. In the future, we intend to increase our local representatives' qualifications to enable them to actively drive forward dialogue with political stakeholders. In the world of politics, Vonovia is involved in everyday discussions, attends events organized by political parties and groups and regularly communicates with the CDU's economic council, the SPD's economic forum, the Green Party's economic dialogue group and the FDP's economic forum. We do not aim to influence any specific planned legislation, but rather view ourselves as a player with practical experience, able to contribute our assessments of the potential consequences of (statutory) regulations to the discussions. Through our involvement, we also aim to recognize any changes to the legal framework early on in order to be able to plan and implement relevant measures within our company.

We are also active in a number of residential and property management associations, contributing to the strengthening of the property management sector in Germany. We are also involved with several initiatives aimed at protecting the climate.

Selected Memberships of Industry Associations and Initiatives 102-13

> AGV Arbeitgeberverband der Deutschen Immobilienwirtschaft e. V.
> AGW Arbeitsgemeinschaft Großer Wohnungsunternehmen
> Bundesverband Freier Immobilien- und Wohnungsunternehmen e. V.
> DDIV Dachverband Deutscher Immobilienverwalter e. V.
> DENEFF – Deutsche Unternehmensinitiative Energieeffizienz
> Deutscher Verband für Wohnungswesen, Städtebau und Raumordnung e. V.
> DIRK Deutscher Investor Relations Verband e. V.
> EPRA European Public Real Estate Association
> GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e. V.
> Initiativkreis Ruhrgebiet
> Institut für Corporate Governance in der deutschen Immobilienwirtschaft e. V.
> InWIS Forschung und Beratung – Förderverein e. V.
> KlimaDiskurs.NRW e. V.
> Open District Hub e. V.
> Verein der Freunde und Förderer der EBZ School e. V.
> vhw – Bundesverband für Wohnen und Stadtentwicklung e. V.
> ZIA (Zentraler Immobilienausschuss) e. V.

We maintain ongoing and effective dialogue with our investors and shareholders. We again made use of various channels to accomplish this in the 2018 reporting year, for example:

> Attending 18 investors' conference days,
> organizing 27 roadshows for the most important European, Asian and North American financial markets,
> attending numerous investor forums,
> numerous one-on-one discussions and conference calls with investors and analysts,
> various portfolio viewings for interested investors,
> organization of a Capital Markets Day (June 2018), at which Vonovia showed external participants under the motto "Unlocking Potential" the potential that can arise for the business from the topics of energy, neighbourhood development and project development.

In addition, the new Chairman of the Supervisory Board, Jürgen Fitschen, organized a corporate governance roadshow with 14 of our largest investors in fall 2018. The response to the transparent information on how corporate governance is put into practice at Vonovia was very positive, and we intend to continue to organize these events at regular intervals. We also participate in a whole range of sustainability benchmarks and ratings, for example, the EPRA Best Practices Recommendations on Sustainability Reporting (sBPR), for which we received a Gold Award in 2018 for our sustainability reporting in 2017. Participation in the CDP or the sector-specific GRESB rating also highlights our efforts to make our sustainability performance transparent.

Corporate Governance, Compliance and Anti-corruption

☒ 102-12 , 102-16, 102-18, 102-19, 102-22, 103-1, 103-2, 103-3, 205-2, 205-3, 206-1, 308-2, 405-1, 414-1, 414-2, 419-1

Management Approach 103-1

Corporate Governance

Corporate governance refers to the responsible management and monitoring of our company. The principles of corporate governance and the principles of the corporate governance institute in the German residential property sector, which the Management Board and Supervisory Board of Vonovia are committed to in their entirety, guide our conduct in the everyday management and operation of our company. Consistent adherence to these principles allows us to create the foundation for successful corporate governance and meet our responsibilities toward our stakeholders. This boosts our credibility and strengthens the trust our shareholders, business partners, employees, customers and the general public have in Vonovia and sustainably increases the value of our company. 102-12

You can find out more about corporate governance at Vonovia in our annual report (see chapter Corporate Governance Report **AR 2018, p. 44 et seq.** and chapter Non-financial Declaration **AR 2018, p. 70 et seq.**).

Compliance and Anti-corruption

Taking all applicable regulations and laws into account is an indispensable prerequisite for Vonovia to be able to act and be recognized as a reliable and trustworthy partner. By monitoring our compliance rules, we protect the integrity of employees, customers and business partners, and shield our company from negative influences. Good compliance management is therefore not just an important factor in sustainable development and value creation within the company, but also provides our customers with more security and reliability in their everyday home life. Overheated residential property markets are a breeding ground for misconduct due to the scarcity in supply and the fear of losing one's home. Vonovia is aware of this and thus places even more value on employees observing the applicable tenancy laws and regulations without exception. We also have the same requirements of our suppliers and service providers, as they play a central part in helping us to achieve our objectives. That is why we always aim for long-term partnerships with our suppliers.

Establishment in the Organization 103-2

Compliance management at Vonovia is the responsibility of the legal department, which monitors adherence to rules as part of our central compliance management system pursuant to IDW Standard PS 980 (see chapter Compliance Management **AR 2018, p. 132 et seq.**).

Committee work at Vonovia will be coordinated by a newly established Management Board and Supervisory Board office, which will also organize information flow and cooperation between the Management Board and the Supervisory Board.

Adherence to labor and social standards in the supply chain is managed by the procurement department through supplier selection and management.

Challenges, Opportunities and Risks 103-1

Corporate Governance

In light of both social and legal changes, Vonovia has established new business areas in recent years. Digitization is becoming an increasingly important aspect of our processes and offers, for instance. In the composition of the Supervisory Board this presents a challenge, but also an opportunity, to increase its expertise in areas that will be important in the future by bringing new members on board, thereby broadening Vonovia's range.

Vonovia is currently preparing for the upcoming changes to German stock corporation law resulting from the implementation of the second shareholders' rights directive (ARUG II), and the associated revision of the German Corporate Governance Code (GCGC). As significant changes in remuneration policy and the associated reporting including presentation to the shareholders is expected (known as "say on pay"), it is currently vital that Vonovia follows these developments closely. 102-12

Compliance and Anti-corruption

With the increase in construction activity, a supplementary field of activity has opened up for Vonovia in which we will face new challenges, opportunities and risks. Procuring subcontractor services that are performed outside of our processes is a particular challenge. The risks primarily relate to compliance with labor and social standards by construction companies and their subcontractors. We can reduce the majority of these risks in advance by fulfilling many of the technical construction work steps with our own technical service. This lessens Vonovia's dependency on external construction companies and can even exclude them if they do not comply with sustainability criteria. We can also better ensure our high quality standards by performing the majority of services ourselves across the Group.

We minimize risks by adhering to our general terms and conditions of purchasing and the Business Partner Code, and we also take additional measures, such as establishing a structured supplier management system to generate further security. The procurement department frequently updates the existing regulations in order to minimize these risks, and published the latest version in 2018. As part of this, we requested numerous documents and other forms of proof from our subcontractors, and we monitor their validity on an ongoing basis to reduce risks further. We developed and implemented a standard audited process for new construction procurement in the reporting year.

Objectives, Measures and Indicators

103-2, 103-3

Corporate Governance 102-18, 102-19, 102-24

Corporate governance, which means acting in accordance with the principles of responsible management with the aim of increasing the value of the business on a sustainable basis, is an essential requirement for Vonovia, and embraces all areas of the business.

The Code of Conduct provides the ethical and legal framework within which we act and want to stay on 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.

Vonovia's Management Board is solely responsible for managing business operations. The Management Board provides the Supervisory Board with regular information on business developments, the strategy and potential opportunities and risks. As the supervisory body, the Supervisory Board monitors the management of the company's business and supports the Management Board with decisions of fundamental importance.

Vonovia's Supervisory Board was newly appointed in the reporting year. For the first time, the skills profile for selection now also includes the category sustainability. **www.vonovia.de** We established the unit "Management Board and Supervisory Board office" in the same year.

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. The Audit Committee is specifically responsible for monitoring:

> the accounting process,
> the effectiveness of the internal control system, the risk management system and the internal audit system,
> the audit of financial statements, and
> compliance (if not assigned to another committee).

Since the act to strengthen the non-financial reporting aspects of companies in their management and Group management reports (CSR Directive Implementation Act) came into force in 2017, the Audit Committee has been responsible for monitoring Vonovia's sustainability reporting and in particular the Non-financial Declaration. 102-22

After a year, the Supervisory Board will now evaluate the quality of its work in its new composition. The newly elected Supervisory Board is currently focusing on identifying the potential need for adjustments in corporate governance at Vonovia due to possible changes in legal corporate governance framework conditions (ARUG II and GCGC).

Promoting diversity in Vonovia's management bodies remains a goal. Diversity criteria are applied when filling positions on both the Supervisory Board and the Management Board, and qualified women are included in the selection process. Gender should be irrelevant when it comes to filling positions. Vonovia's Supervisory Board should consist of at least 30% women and 30% men. The Supervisory Board has also decided that the share of women on the Management Board should be at least 20% by December 31, 2021. The target ratios were met in the reporting period. We also intend to have a share of 30% women in the first two management levels below the Management Board by the end of 2021. At the moment, the share of women in management positions in the first management level remains at 17.6%. At 33.9%, the targeted proportion of women at the second level of management below the Management Board has already been met.

You can find out more about our corporate governance in the annual report (see chapter Corporate Governance Report **AR 2018, p. 44 et seq.** and chapter Non-financial Declaration **AR 2018, p. 70 et seq.**).

Compliance and Anti-corruption

Through the corresponding monitoring of our compliance rules, we protect the integrity of employees, customers and business partners, and shield our company from negative consequences. We have established rules and Group guidelines internally – for example, to protect the capital market, ensure data protection, secure information, manage risks, fight corruption and set out guidelines on how to deal with donations and sponsorship – based on the relevant statutory requirements, the articles of association and the rules of procedure for the Supervisory Board and the Management Board. Our compliance principles are also detailed in our Code of Conduct which is binding for all employees under the Group works council agreement.

The Vonovia Compliance Committee, which is responsible for refining the compliance management system and adapting it to fulfil current requirements, meets several times a year. The members of this committee are the compliance officer, compliance managers, the ombudsperson, and representatives from the internal audit, risk management and HR management departments and the works council.

Members' tasks:

- **Compliance officer:** Central point of contact for compliance matters and potential cases, identification of compliance risks, derivation of measures for preventing and discovering risks.
- **Compliance managers and specialists:** Supporting the compliance officer from within the departments.
- **External ombudsperson:** Recording information regarding potential compliance cases – also anonymous, confidential contact for all employees and business partners.

Compliance Information and Training

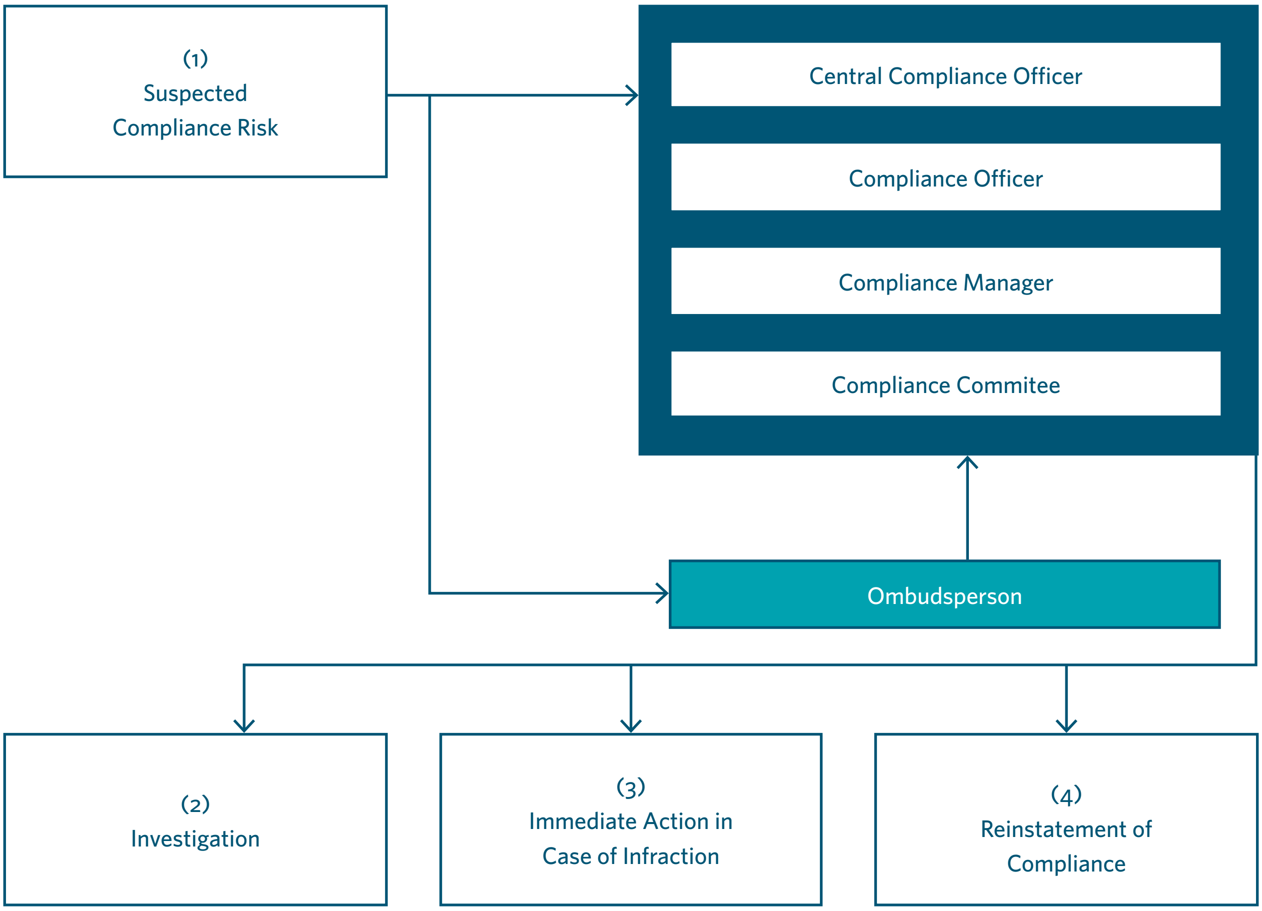
Vonovia's Supervisory Board regularly receives comprehensive information about compliance issues and corruption along with existing guidelines and processes. The compliance report, which is forwarded to the Audit Committee, provides information about potential breaches, measures and training relating to corruption. 205-2

Our employees receive regular training on compliance issues. For instance, the procurement department, for which the issue is particularly relevant, receives special training on corruption and criminal law pertaining to corruption. A particular focal point in 2018 was the implementation of the EU General Data Protection Regulation. We conducted comprehensive training on this topic.

In the 2018 fiscal year, there were isolated suspected cases of corruption, which we have since investigated diligently. None of the cases were confirmed. 205-3

There were several immaterial compliance violations or suspected cases in 2018. This clearly shows that the system we have put in place is proving effective. Cases were reported and addressed and corresponding consequences ensued. 419-1

Compliance-Management-System



Dealing with Antitrust Proceedings

One area in which antitrust law is of particular importance is company acquisitions. We inform the German Federal Cartel Office as soon as possible of any potential acquisitions and begin the integration of acquired companies or portfolios only following approval. There were no violations of competition law guidelines in 2018. 206-1

Adherence to Environmental, Labor and Social Standards in the Supply Chain

Vonovia's procurement processes primarily consist of construction services, construction material and material costs (indirect materials and services). We want long-term relationships with our business partners and are therefore setting up a structured supplier management system. The foundation of this system is the Business Partner Code and the general terms and conditions of purchasing along with individual contractual provisions. **www.vonovia.de/ihre-services** Our Business Partner Code for subcontractors and suppliers sets out clear expectations regarding integrity, legal compliance and ethical conduct. One important aspect from our perspective is that our suppliers and subcontractors not only accept our Business Partner Code as binding, but also put the principles set out in the Code into practice on a daily basis at Vonovia's construction sites. Among other things, the Code stipulates that illicit employment must be ruled out, that the legal minimum wage must be paid and that valid German regulations on occupational safety and human rights, and applicable environmental laws must be observed. In addition, we also ensure that demolition materials and rubble are disposed of in a professional and environmentally friendly manner and minimize the risk of hazardous or poisonous materials being used by processing the procurement of the majority of construction materials centrally through Vonovia. In order to protect our employees and tenants alike, we ensure material safety using the systematic TÜV Rhineland Toxic Materials Management System (TOGs®), in which all information is recorded, documented and evaluated centrally. This provides us with an ideal basis within the VTS for conducting risk assessments and developing operating and handling instructions.

By signing the code, our business partners – and their subcontractors – commit to acting in an economically and legally compliant manner and to adhering to our corruption prevention guidelines. Vonovia does not tolerate corruption under any circumstances. Violations of these rules may result in the business relationship being restricted or even completely terminated. 102-16, 205-2, 414-1

We promote transparency and security within the company by observing the compliance rules, Group procurement guidelines and our Code of Conduct. We currently do not conduct any systematic checks on site, but we do monitor risks using active documentation management as part of our supplier management system. Construction managers in Germany also maintain direct contact with subcontractors and have a clear picture of the people working on construction sites. Compliance with the Business Partner Code can thus be largely verified within the scope of this working relationship. In addition, our procurement department holds annual reviews with key subcontractors. No violations by suppliers or service provides against labor standards, human rights or corruption regulations were discovered by central purchasing in the reporting period. 414-2

A uniform supplier assessment system is currently being developed. The goal is for key suppliers to be evaluated by procurement as well as the Group's departments in order to achieve transparency and to obtain a systematic overview of the performance and development of suppliers. The aim is to develop a performance indicator as part of the supplier assessment system.

As Vonovia operates within a strictly regulated and controlled legal framework within the European Union, possible challenges relating to human rights are not considered to be material. There is therefore no explicit performance indicator for this group of issues. The procurement department, however, acts as a watchdog in this regard by selecting suppliers accordingly in order to ensure the protection of fundamental rights and adherence to the law. In the future, Vonovia will also be making a voluntary commitment to the Federal Government's national action plan and will be taking corresponding action.