



**Audited Consolidated Financial Statements
as at 31 December 2006 in accordance with IFRS**

PATRIZIA Immobilien AG

General Information on our Group and our Business Activities

We are an integrated real estate company whose business is divided into two segments: Investments and Services. Through our Investments segment, we undertake real estate related projects for our own account, and through our Services segment, we undertake real estate related services for clients. Our Investments segment is subdivided into the sub-segments Residential Privatization, Asset Repositioning, and Project Development. Our Residential Privatization sub-segment comprises the identification and purchasing of real estate with potential for growth and the execution of value enhancing measures to realize this potential, with the goal of selling the individual residential units to tenants, owner occupants and investors, although in certain cases the property or portfolio may be sold to an institutional investor or wealthy individual. Through our Asset Repositioning sub-segment, we focus, after the purchase of residential and commercial properties, on exploitation of opportunities for value enhancement, related renovation and modernization measures and optimizing cash flow, and generally, we ultimately sell the properties as part of a package. Through our Project Development sub-segment, we develop concepts for renovating and managing properties, including the creation of additional structural (*Baufläche*) or useable (*Nutzfläche*) space, and manage operating activities to implement these concepts. Our Service segment covers a wide variety of real estate related services for clients from an owner-oriented perspective.

The close interconnection between our two business segments has given us comprehensive expertise in enhancing the value of our own and our customers' and clients' real estate investments and enables us to exploit synergies to a large extent. We provide services in our individual areas of activity both for properties owned by us and those owned by third parties. Most of our employees work in both segments. The collective skills of our Services segment are based on the experience that we have gained in connection with developing and managing our own real estate holdings, and these skills are equally available to clients of our Services segment.

In 2005, our total revenues amounted to €99.5 million. Revenues in our Investments segment in 2005 amounted to €86.9 million. Revenues in our Services segment in 2005 amounted to €12.5 million. Our total EBITDA in 2005 amounted to €26.4 million. EBITDA in our Investments segment amounted to €25.9 million, and EBITDA in our Services segment amounted to €0.9 million. The portion of total overhead not assigned to our business segments (consolidation items and other costs not attributable to the segments) amounted to negative €1.4 million.

Consolidated Balance Sheet as at 31 December 2005 in accordance with IFRS

		<u>31 Dec. 2005</u>	<u>31 Dec. 2004</u>
		EUR'000	EUR'000
Assets			
A. Non-current assets			
Software	4.1	234	136
Investment property	4.1	1,700	16,660
Equipment.....	4.1	1,271	915
Securities.....	4.1	247	510
Investments in associated companies.....	4.1	0	116
Deferred tax assets.....	4.2	1,560	2,407
Total non-current assets		5,012	20,744
B. Current assets			
Inventories	4.3	189,516	134,243
Current receivables and other current assets	4.4	16,395	14,075
Bank balances and cash	4.5	16,477	10,002
Total current assets.....		222,388	158,320
		<u>227,400</u>	<u>179,064</u>
Equity and Liabilities			
A. Equity			
Share capital.....	5.1	5,050	5,000
Capital reserves.....		573	0
Retained earnings.....	5.1		
— Legal reserve.....		505	500
Consolidated net profit.....		35,976	19,904
Total equity.....		42,104	25,404
B. Liabilities			
Non-current liabilities			
Long-term bank loans	5.2	2,858	17,997
Interest rate swaps.....	5.3	1,541	1,718
Retirement benefit obligations.....	5.4	285	334
Total non-current liabilities		4,684	20,049
Current liabilities			
Short-term bank loans	5.2	149,298	78,810
Other provisions.....	5.5	521	858
Current liabilities	5.6	23,560	49,281
Tax liabilities	5.7	6,295	4,586
Other current liabilities		938	76
Total current liabilities.....		180,612	133,611
		<u>227,400</u>	<u>179,064</u>

**Consolidated Income Statement in accordance with IFRS
for the Period from 1 January 2005 through 31 December 2005**

		<u>2005</u> EUR'000	<u>2004</u> EUR'000
1. Revenues	6.1	99,508	74,727
2. Changes in inventories	6.2	35,823	23,261
3. Other operating income.....	6.3	2,791	2,639
4. Total operating performance		138,122	100,627
5. Cost of materials	6.4	(85,815)	(68,683)
6. Staff costs.....	6.5	(12,359)	(10,415)
7. Amortisation of software and depreciation on equipment.....	6.6	(603)	(518)
8. Net losses from fair value adjustments to investment property	6.7	(300)	0
9. Other operating expenses	6.8	(13,547)	(8,998)
10. Income/loss from associated companies		0	(36)
11. Finance income	6.9	829	308
12. Finance cost	6.9	(6,263)	(4,988)
13. Profit before income taxes		20,064	7,297
14. Income taxes	6.10	(3,432)	(2,869)
15. Net profit for the year		16,632	4,428
16. Retained profits brought forward.....		19,349	15,476
17. Allocated to retained earnings — Legal reserve		(5)	0
18. Consolidated net profit		35,976	19,904

Statement of Changes in Consolidated Equity in accordance with IFRS

	<u>Share capital</u>	<u>Capital reserves</u>	<u>Retained earnings (legal reserve)</u>	<u>Consolidated net profit</u>	<u>Minority interest</u>	<u>Total</u>
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance 1 Jan. 2004	5,000	0	500	16,255	0	21,755
Dividend				(779)	0	(779)
Net profit for the year				4,720	(292)	4,428
Reclassification of minority interests				(292)	292	0
Balance 31 Dec. 2004	5,000	0	500	19,904	0	25,404
Capital increase	50	573				623
Dividend				(555)	0	(555)
Net profit for the year			5	16,900	(273)	16,632
Reclassification of minority interests				(273)	273	0
Balance 31 Dec. 2005	5,050	573	505	35,976	0	42,104

Consolidated Statement of Cash Flows
for the Period from 1 January 2005 through 31 December 2005

	<u>2005</u> EUR'000	<u>2004</u> EUR'000
Net profit for the year.....	16,632	4,428
Amortisation of intangible assets and depreciation on property, plant and equipment.....	603	518
Write down of securities	8	0
Net losses from fair value adjustments to investment property.....	300	0
Loss from/gain on disposal of fixed assets.....	(64)	14
Change in deferred tax	847	(1,143)
Change in retirement benefit obligation.....	(49)	(11)
Non-distributed income from associated companies.....	0	48
Changes in inventories, receivables and other assets that are not attributable to investing activities.....	(42,933)	(19,634)
Changes in liabilities that are not attributable to financing activities	31,736	7,744
Cash inflow from operating activities.....	7,080	(8,036)
Capital investments in intangible assets and property, plant and equipment	(1,115)	(510)
Cash receipts from disposal of intangible assets and property, plant and equipment.....	122	19
Investments	0	(510)
Cash receipts from disposal of financial assets	371	0
Cash outflow/inflow from investing activities.....	(622)	(1,001)
Dividend of PATRIZIA Immobilien AG	(555)	(779)
Capital increase of PATRIZIA Immobilien AG	623	0
Borrowing of long-term loans	0	5,000
Repayment of long-term loans	(51)	(277)
Other cash inflows or outflows from financing activities	0	0
Cash outflow/inflow from financing activities	17	3,944
Change in operating activities of a cash nature.....	6,475	(5,093)
Cash 1 January	<u>10,002</u>	<u>15,095</u>
Cash 31 December	<u>16,477</u>	<u>10,002</u>

Notes to Consolidated Financial Statements **as at 31 December 2005 under IFRS**

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General Information

PATRIZIA Immobilien AG is a non-listed stock corporation with registered office in Augsburg. The Company's premises are located in Fuggerstrasse 26 in 86150 Augsburg. The Company operates in the German real property market and provides all services of the value added chain in the real property sector.

1. Bases for Preparing the Consolidated Financial Statements

The consolidated financial statements as at 31 December 2005 of PATRIZIA Immobilien AG have been prepared in compliance with the IFRS as adopted by the EU, with the accounting standards which were implemented into EU law within the framework of the so-called Endorsement Process, i.e. publicised in the Official Gazette of the EU, until 31 December 2005 being taken into account. The consolidated financial statements of PATRIZIA Immobilien AG prepared on this basis comply with the original IFRS and, hence, the International Financial Reporting Standards (IFRS). All official communications of the International Accounting Standards Board (IASB) that are required to be applied have been applied. The following Standards were applied by exercising the options granted by the IASB in the version applicable from 2005.

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 10	Events After the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 24	Related Party Disclosures
IAS 27	Consolidated Financial Statements and Separate Financial Statements under IFRS
IAS 28	Investments in Associated Companies
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings Per Share
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IFRS 2	Share-based Compensation
IFRS 3	Business Combinations

The following simplifications under IFRS 1 were taken advantage of in preparing initial consolidated financial statements as at 31 December 2003 according to the accounting standards implemented into EU law:

- Business combinations (initial application to business combinations from 1 January 2002);
- Employee benefits (the value of the pension provision as at 1 January 2002 includes the actuarial gains and losses of prior periods).

The balance sheet disclosure is in order of liquidity of the corresponding assets and liabilities, with assets and liabilities being deemed to be of a current nature if they are expected to be realised or repaid within the normal course of the Group's business cycle or, in relation to assets, if these are held for sale within this period. The nature of expense method has been applied to the income statement.

The business year corresponds to the calendar year. The consolidated financial statements have been prepared in euro. The amounts including the prior year's figures have been stated in €000 (thousands of euros).

Material deviations of accounting, measurement and consolidation methods from the German Commercial Code (HGB):

- Measurement of investment property at market values;
- Measurement of the interest rate swap at market value, with changes in the measurement being recognised in income;
- Deferred tax.

Since 28 January 2004, the majority shareholder of PATRIZIA Immobilien AG holding an interest of 93.96% (prior year: 94.9%) has been First Capital Partner GmbH, whose interests are in turn held by WE Vermögensverwaltung GmbH & Co. KG.

2. Group of Consolidated Entities and Consolidation Methods

2.1 Group of Consolidated Entities

The consolidated financial statements of PATRIZIA Immobilien AG include all subsidiaries. The group of subsidiaries includes all enterprises that are controlled by PATRIZIA Immobilien AG, with control being deemed to be the possibility to determine the business and finance policies of the subsidiary in order to benefit from its business activity.

An enterprise is, as a general rule, assumed to be controlled if PATRIZIA Immobilien AG holds, directly or indirectly, the majority of the voting rights in this other enterprise.

All enterprises that are included in the consolidated financial statements of PATRIZIA Immobilien AG are included in the list of investment holdings presented at the end of the notes to the consolidated financial statements.

Associated companies are enterprises that fail to meet the criteria of a subsidiary or of a joint venture and whose business and finance policies can be significantly influenced by PATRIZIA Immobilien AG. A significant influence is assumed, as a general rule, if a direct or indirect voting right share of at least 20% is held in another enterprise. Associated companies have been included in the consolidated financial statements according to the equity method.

The assets, liabilities and earnings of the sole associate attributable to the Group are immaterial from the Group's point of view.

The group of consolidated entities covers 29 subsidiaries. They have been included in the consolidated financial statements according to full consolidation rules. There were no associated companies as of 31 December 2005.

Since the acquisition of the real properties held at the level of Alte Haide Baugesellschaft mbH does not constitute a business within the meaning of IFRS 3, the Group's cost of Alte Haide Baugesellschaft mbH have been allocated between their assets and liabilities based on their relative fair value at the acquisition date.

The sets of financial statements of the subsidiaries that have been included in the consolidated financial statements have, as a general rule, been prepared as at the balance sheet date of the annual financial statements prepared by PATRIZIA Immobilien AG. The annual financial statements as at 30 November of Wohnungsgesellschaft Olympia mbH are reconciled to the balance sheet date of the consolidated financial statements. The sets of financial statements have been prepared according to uniform accounting and measurement rules.

Acquisitions, Disposals and Intragroup Restructuring

In the reporting year, there were no business combinations within the meaning of IFRS 3 nor disposals of enterprises.

2.2 Capital Consolidation by Means of Full Consolidation

As a general rule, all subsidiaries have been included in the consolidated financial statements through full consolidation. Since 1 January 2002, acquired subsidiaries have been accounted for according to the purchase method under IFRS 3. Acquisitions prior to this date continue to be accounted for according to the book value method under the German Commercial Code (HGB), taking advantage of the simplifications under IFRS 1.

The time of initial consolidation is the time of acquisition and, hence, the day when control of the net assets and of the business activity of the acquired enterprise actually pass to the parent company. The acquisition costs are comprised of the cash appropriated for the acquisition plus incidental acquisition cost directly attributable to the acquisition. The acquisition costs determined are apportioned to the identified assets and liabilities of the acquired enterprise. If the acquisition costs exceed the proportionate remeasured net assets of the acquired enterprise that relates to the parent company, goodwill has to be recognised. If they fall short of these proportionate net assets, a negative difference has to be recognised in income as incurred. The net assets attributable to the Group are determined on the basis of the capital share held in the acquired enterprise. The remeasured net assets have, as a general rule, to be fully recognised. Minority interest is disclosed separately within consolidated equity. If the loss of a period that relates to the minority shareholders exceeds the minority interest to be disclosed in the consolidated balance sheet, this loss is offset against the majority interest in consolidated equity.

2.3 Including Associated Companies According to the Equity Method

The equity method is applied in order to reflect associated companies in the consolidated balance sheet. As opposed to full consolidation, no assets and liabilities and no income and expenses of the enterprise measured at equity (proportionately) are included in the consolidated financial statements. Instead, the carrying amount of the investment is adjusted annually in line with the movements in the investee's proportionate equity.

The equity method is applied from the time when the investee has to be classified as an associated enterprise. Within the scope of initial consolidation, the acquisition cost of the acquired interests is compared with the attributable proportionate equity. Any difference arising is examined for existence of hidden reserves or hidden charges according to full consolidation rules and any residual difference is treated as goodwill. Within the scope of subsequent consolidation, the carrying amount of the investment is adjusted by the proportionate equity change at the level of the associated enterprise.

2.4 Consolidating Liabilities, Expenses and Income and Elimination of Intragroup Transactions

Intragroup balances, transactions, profits and expenses of the enterprises included in the consolidated financial statements through full consolidation are fully eliminated. Deferred taxes are recognised for temporary differences on account of eliminated profits and losses of intragroup transactions.

2.5 Foreign Currency Translation

The group of consolidated enterprises includes only domestic subsidiaries so that there are no sets of financial statements in foreign currencies that would have to be translated.

3 Major Accounting and Measurement Methods

The sets of financial statements included in the consolidated financial statements have been prepared according to uniform accounting and measurement principles.

3.1 Software and Equipment

Software and equipment are recognised at cost at the time of acquisition. Subsequent measurement provides for scheduled amortisation and depreciation and the ability to write it up to the extent of previous impairments in compliance with the acquisition value principle (= measurement at amortised/depreciated cost).

Acquisition costs include directly allocable acquisition costs and commitment fees. Borrowing costs are recognised as an expense as incurred.

The assets are amortised or depreciated according to the straight-line method. Amortisation or depreciation starts as soon as the asset can be used and ends upon disposal of the asset. The amortisation/depreciation period depends on the estimated useful life. Acquired software is amortised over three to five years. Equipment is depreciated over three to 14 years.

3.2 Impairment of Assets

Assets that are amortised or depreciated on a scheduled basis are examined for amortisation/depreciation requirement if there is an indication of impairment. Assets that are not amortised or depreciated on a scheduled basis are examined for an allowance requirement at least once a year.

3.3 Investment Property

Investment property is held for realising rental income and/or for the purpose of appreciation. The owner-occupied property does not exceed 10% of the rented floor space. The assets are measured at fair value; changes in their values influence the result of the Group.

Investment property is measured at market value on the basis of expert opinions and current rent, or according to arm's-length measurement methods, taking into account the current and sustained rental situation.

In the financial year, the Cologne property, Venloer Strasse, (carrying amount as at 31 December 2005: €14,660 thousand) was reclassified from "investment property" to "inventories". This reclassification was made according to IAS 40.57b on account of start of development with the intention to dispose of the real property.

3.4 Inventories

The item inventories includes real property held for sale within the scope of ordinary business activities or within the scope of the preparatory or development process for such a disposal, particularly properties that were acquired exclusively for the purpose of resale in the near future or for development and resale. Development costs include mere modernisation and renovation activities.

Inventories are measured at cost. If the net realisable value is lower, this value is recognised. The acquisition costs include directly allocable acquisition cost and commitment fees, i.e. especially acquisition cost of real properties and incidental acquisition cost (notary public fees, etc.). Production costs cover the costs that are directly allocable to the real property development process, i.e. especially renovation costs. Borrowing costs are recognised as an expense as incurred. The net realisable value corresponds to the sale proceeds expected to be realisable in the normal course of business less further renovation or modernisation and distribution costs.

3.5 Financial Assets

IAS 39 differentiates between the following four categories of financial assets:

- Financial assets held to maturity;
- Loans and receivables;

- Financial assets to be measured at fair value through profit or loss;
- Available-for-sale financial assets.

Financial assets are disclosed in the balance sheet if the enterprise is party to an agreement on this asset. Arm's-length acquisitions of financial assets are generally recognised as at the trading day where there is only a short arm's-length period between entering into, and meeting, the commitment. This applies analogously also to arm's-length disposals.

Financial assets held to maturity did not exist as at the balance sheet date.

The **financial assets to be measured at fair value through profit or loss** are bearer bonds.

Available-for-sale financial assets exist as at the balance sheet date.

The **receivables and other assets** do not include any interest and have been recognised at nominal value. In case there are doubts as to the recoverability of receivables, these are reduced by specific allowance and general specific allowances and recognised at the lower realisable amount.

3.6 Liabilities

Liabilities, especially bank loans, are measured at depreciated cost.

3.7 Retirement Benefit Obligation

Defined benefit pension plans are measured according to the projected unit credit method (benefit/years of service method) on the basis of an expert opinion on pensions. Due to lack of materiality, the interest portion included in pension cost is shown in staff costs rather than in finance profit or loss.

3.8 Other Provisions

Provisions are liabilities where estimates are used to determine amount or maturity. Recognising a provision requires, as a general rule, a cumulative present commitment on account of a past event whose cash outflow is probable and whose value must be capable of being reliably estimated. Provisions are measured according to the best estimate of the scope of commitments. The provisions are discounted for material interest effects.

3.9 Income Taxes

The income tax expenditure is the aggregate of actual taxes and deferred taxes that are taken into account in establishing the net profit or loss for the period.

The actual tax expenditure is determined on the basis of the taxable income at the level of the individual financial statements for the respective year, using current tax rates.

Deferred taxes are the anticipated tax expenditures or reliefs that result from temporary differences, i.e. differences between the carrying amount of an asset or of a liability in the IFRS consolidated balance sheet and its tax base. Deferred tax assets are recognised also on account of a carryforward of tax losses not yet utilised. These assets are measured according to the balance sheet liability method. Deferred tax liabilities are generally recognised for all temporary differences liable to taxation and for deferred tax assets to the extent that sufficient taxable income is likely to be available when the temporary differences are reversed. Deferred tax assets are examined for potential valuation allowances at annual intervals.

Deferred taxes are determined on the basis of the enacted or substantially enacted tax rates at the time the liability is settled or the

asset is realised. Until new tax legislation is adopted, the tax rates recognised are the current tax rates. Deferred tax is generally recognised as incurred, except for such items that are directly booked to equity.

3.10 Borrowing Cost

Borrowing cost is recognised as an expense as incurred.

3.11 Leasing

There are only an immaterial scope of leases within PATRIZIA Group where the Group is the lessee. These are to be classified exclusively as operating leases.

3.12 Revenue Recognition

A precondition for realising profits in the investment segment upon sale of real properties is the probability of receipt of a benefit and reliable quantification of revenues. In addition, the material risks and opportunities related to the title to the goods must pass to the acquirer, the legal or actual right of disposal of the goods must be waived and the expenses incurred due to the sale or the costs to make the sale must be capable of being reliably determined.

In the service segment, revenue is regularly recognised after provision of services and invoicing.

3.13 Accounting-related Estimates and Assessments

Due to the uncertainties inherent in the business activities, some items of the consolidated financial statements can not be precisely measured but can only be estimated. An estimate is based on the latest available, reliable information. The assets, liabilities, income, expenses and contingent assets and liabilities recognised on account of estimates can differ from future realisable amounts. Changes are recognised at the time better findings are available. Estimates are basically made for the following items:

- Determining the realisable amount for assessing the necessity and amount of write-downs, especially of the real properties disclosed under the items inventories and investment property;
- Recognition and measurement of provisions;
- Measurement of high-risk receivables;
- Realisability of deferred tax assets.

The assumptions made in valuing the real property portfolios could, partly or fully, turn out subsequently to be inaccurate or unforeseeable difficulties or non-identified risks associated with real property portfolios could arise. Due to such developments, which could be also of a current nature, the results of operations could deteriorate, the value of the acquired assets could decrease and the revenues realised from residential property privatisation and from current rent could be reduced considerably.

The recoverability of real property assets depends, besides the factors inherent in any real property, primarily on the trend in the real property market and the general economic activity. There is a risk that the values recognised by the Group have to be adjusted should the real property market or the general economic activity be affected by a negative development. Should the real property assets of the Group have to be written down, this would have an adverse effect on the Group's results of operations and financial position.

The real properties or portfolios acquired, or modernisation measures taken, by PATRIZIA are financed predominantly through loans. A considerable increase in the current low interest level would significantly increase the finance cost incurred by the Group for refinancing existing liabilities and for financing future modernisation measures and could, hence, have an adverse effect on the results of operations.

4. Notes to Consolidated Balance Sheet — Assets

4.1 Non-current Assets

The classification of, and the movements in, non-current assets and the amortisation/depreciation of the financial year and of the prior year are shown below:

Movements in Non-current Assets

2005

	<u>Software</u> €000	<u>Equipment</u> €000	<u>Total</u> €000
Cost			
Balance 1 Jan. 2005.....	446	2,419	2,865
Additions.....	203	873	1,076
Disposals.....	(18)	(113)	(131)
Tax-audit-related adjustment	70	0	70
Balance 31 Dec. 2005.....	701	3,179	3,880
Amortisation/depreciation			
Balance 1 Jan. 2005.....	310	1,504	1,814
Additions.....	153	450	603
Disposals.....	(18)	(56)	(74)
Tax-audit-related adjustment	22	10	32
Balance 31 Dec. 2005.....	467	1,908	2,375
Carrying amounts 1 Jan. 2005	136	915	1,051
Carrying amounts 31 Dec. 2005	234	1,271	1,505

2004

	<u>Software</u> €000	<u>Equipment</u> €000	<u>Total</u> €000
Cost			
Balance 1 Jan. 2004.....	402	2,033	2,435
Additions.....	50	460	510
Disposals.....	(6)	(74)	(80)
Balance 31 Dec. 2004.....	446	2,419	2,865
Amortisation/depreciation			
Balance 1 Jan. 2004.....	227	1,116	1,343
Additions.....	89	430	519
Disposals.....	(6)	(42)	(48)
Balance 31 Dec. 2004.....	310	1,504	1,814
Carrying amounts 1 Jan. 2004	175	917	1,092
Carrying amounts 31 Dec. 2004.....	136	915	1,051

Movements in Non-current Assets

2005

	<u>Investment property</u>
	€000
Fair value	
Balance 1 Jan. 2005.....	16,660
Fair value adjustments	(300)
Reclassified to inventories ...	(14,660)
Balance 31 Dec. 2005	1,700

2004

	<u>Investment property</u>
	€000
Fair value	
Balance 1 Jan. 2004	16,660
Fair value adjustments.....	0
Balance 31 Dec. 2004	16,660

Movements in Non-current Assets

2005

	<u>Securities</u>	<u>Investments in associated companies measured at equity</u>	<u>Total</u>
	€000	€000	€000
Cost			
Balance 1 Jan. 2005.....	510	164	674
Additions.....	0	0	0
Disposals	(255)	(164)	(419)
Balance 31 Dec. 2005.....	255	0	255
Amortisation/depreciation			
Balance 1 Jan. 2005.....	0	48	48
Additions.....	8	0	8
Disposals	0	(48)	(48)
Balance 31 Dec. 2005.....	8	0	8
Carrying amounts 1 Jan. 2005	510	116	626
Carrying amounts 31 Dec. 2005.....	247	0	247

	<u>Securities</u>	<u>Investments in associated companies measured at equity</u>	<u>Total</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>
Cost			
Balance 1 Jan. 2004	0	164	164
Additions	510	0	510
Disposals	0	0	0
Balance 31 Dec. 2004	510	164	674
Amortisation/depreciation			
Balance 1 Jan. 2004	0	0	0
Additions	0	48	48
Disposals	0	0	0
Balance 31 Dec. 2004	0	48	48
Carrying amounts 1 Jan. 2004	0	164	164
Carrying amounts 31 Dec. 2004	510	116	626

Investment property is measured at fair value on the basis of expert opinions and current rent.

In the financial year 2005, one of the two real properties that had been disclosed under "investment property" in the prior year was reclassified to inventories at an amount of EUR 14,660 thousand.

The item securities relates to fixed rate corporate bonds which are classified as "financial assets to be measured at fair value". They are disclosed at fair value. A second corporate bond was sold in the financial year 2005.

In the prior year, the item "investments in associated companies measured at equity" had included an investment of around 33% in Eurobilia AG. These interests were sold in the financial year 2005.

4.2 Deferred Tax Assets/Liabilities

The following table shows the material deferred tax assets and liabilities and their changes:

	<u>31 Dec. 2005</u>	<u>31 Dec. 2005</u>	<u>31 Dec. 2004</u>	<u>31 Dec. 2004</u>
	<u>Asset</u>	<u>Liability</u>	<u>Asset</u>	<u>Liability</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>
Inventories	625	0	647	0
Retirement benefit obligation....	16	0	19	0
Investment property	0	0	427	0
Interest rate swap	617		687	
Tax loss carryforwards.....	302	0	627	0
	1,560	0	2,407	0

The corporate income tax and trade tax loss carryforwards as at the balance sheet date amount to €606 thousand (prior year: €1,362 thousand) and €1,210 thousand (prior year: €1,966 thousand), respectively. The related deferred tax assets that were recognised amount

to €302 thousand (prior year: €27 thousand). No deferred tax assets have been recognised for losses incurred prior to establishing the tax group (steuerliche Organschaft), which amount to €447 thousand (prior year: €447 thousand), because it is not sufficiently foreseeable whether the tax group will be terminated. The loss carryforwards for which deferred tax assets have been capitalised will be utilised as expected within the planning period. The losses can be carried forward for an indefinite period.

In accordance with IAS 12.24(b), The Group did not recognise deferred tax assets for temporary differences that relate to real properties of Alte Haide Baugesellschaft mbH.

Deferred tax assets and deferred tax liabilities are, as a general rule, netted with each other because the Group has an enforceable claim to netting of actual tax refund claims with actual tax liabilities and the deferred tax assets and liabilities refer to income taxes that are levied by the same fiscal authority.

4.3 Inventories

The inventories can be analysed as follows:

	<u>2005</u> €000	<u>2004</u> €000
Available-for-sale properties....	184,374	133,638
Advances.....	5,142	605
	189,516	134,243

The inventories include the assets that are held for sale in the normal course of business. According to the Group's planning, the inventories as at 31 December 2005 include inventories of approximately €72,289 thousand that are estimated to be sold in 2006.

Like in the prior year, no allowances were made on inventories in the financial year.

Mortgages, which serve for collateralising liabilities to banks, have been created for property inventories in the amount of €49,200 thousand (prior year: €81,762 thousand). Furthermore, future gains on disposal of real properties have been assigned to financing banks also for collateralising bank loans (€3,200 thousand; prior year: €81,773 thousand).

4.4 Current Receivables and Other Current Assets

The receivables and other current assets can be analysed as follows:

	<u>2005</u> €000	<u>2004</u> €000
Trade receivables.....	15,130	11,586
Other current assets ...	1,265	2,489
	16,395	14,075

Specific allowances of EUR 833 thousand (prior year: EUR 132 thousand) have been made on trade receivables and other current assets.

The other assets include basically tax refund claims in the amount of €269 thousand (prior year: €142 thousand) and input tax on payments made on account in the amount of €238 thousand (prior year: €1 thousand). In the prior year, this item had also included receivables from related parties in the amount of €1,659 thousand.

The receivables and other assets have a residual term of less than one year.

The carrying amount of the receivables corresponds to their fair value.

4.5 Bank Balances and Cash

The item bank balances and cash covers cash and short-term deposits which are held by the Group. The carrying amount of these assets corresponds to their fair value.

4.6 Risk of Loss of Financial Assets

The financial assets of the Group cover basically trade receivables, other assets, securities and bank balances. In these categories, the Group is exposed to a risk of loss. This risk results mainly from trade receivables, on which specific allowances have been made. Trade receivables sold under a master sale arrangement have been collateralised in the form of an economic retransfer right of the properties sold in the event of customer default. If individual flats are sold, the title passes only after receipt of the full purchase consideration so that there is no risk of loss of the related receivables outstanding. The material other assets refer to related parties and to fiscal authorities.

The bank balances relate to banks with high credit rating. Investment securities relate to fixed rate debentures.

5. Notes to Consolidated Balance Sheet — Equity and Liabilities

5.1 Equity

For details on the changes in equity including minority interest, we refer to the statement of changes in equity.

5.1.1 Share Capital

The Company's share capital as at the balance sheet date amounted to €5,050 thousand (prior year: €5,000 thousand) and is divided in 5,050,000 individual share certificates (no-par shares). In the reporting year, the share capital was increased by €50 thousand (50 000 individual share certificates).

The authorised but unissued capital as at 31 December 2005 amounted to €500 thousand. The increase in the share capital by up to 500,000 individual share certificates is carried out only to the extent that the stock options that will be granted until 31 December 2009 on account of the authorisation of the General Meeting of Shareholders held on 20 July 2005 and of a resolution still to be passed by the Board of Directors or the Supervisory Board are exercised.

Holding an investment of 4,745,000 individual share certificates (i.e. an interest of 93.96% (prior year: 94.9%)), First Capital Partner GmbH is the majority shareholder of PATRIZIA Immobilien AG.

5.1.2 Capital Reserves

The share premium realised for the new shares issued in the reporting year is disclosed in the capital reserves in the amount of €73 thousand.

5.1.3 Retained Earnings

The retained earnings relate exclusively to the legal reserve, which was increased to €505 thousand in the financial year.

5.1.4 Minority Interest

The material minority interests relate to the 49% interest held by third parties in the equity of Wasserturm Bau KG, Augsburg, and of Wasserturm Grundstück KG, Augsburg. The 5.1% interest held by Mr Wolfgang Egger in Wasserturm Grundstück KG is attributed to the Group for capital consolidation purposes, though disclosed as minority interest.

No minority interests are disclosed because they have been consumed through losses; any losses exceeding the interests are included in consolidated net profit.

5.2 Bank Loans

The bank loans can be analysed as follows:

	<u>2005</u>	<u>2004</u>
	€000	€000
Drawings on overdraft facilities.....	56	14
Bank loans	152,100	96,793
	152,156	98,807

The residual terms of the loans are as follows:

	<u>2005</u>			<u>2004</u>		
	<u>Total variable rate financial liabilities</u>	<u>Total fixed rate financial liabilities</u>	<u>Weighted interest rate in % (fixed rate loans)</u>	<u>Total variable rate financial liabilities</u>	<u>Total fixed rate financial liabilities</u>	<u>Weighted interest rate in % (fixed rate loans)</u>
	€000	€000		€000	€000	
< 1 year	149,200	42	6.0	78,753	44	6.0
1 — 2 years	0	44	6.0	247	44	6.0
2 — 5 years	0	149	6.0	742	134	6.0
> 5 years	0	2,665	6.0	14,098	2,731	6.0
	149,200	2,900		93,840	2,953	

All loans are denominated in euro. Financial liabilities that relate to property disposals are, as a general rule, repaid by repaying a given percentage of the gains on disposal.

The majority of the bank loans is based on variable interest rates. The Group's cash flows are exposed to a related interest rate risk. An interest rate risk regarding the fair value exists only for fixed rate loans. The market values are slightly lower than the carrying amounts disclosed.

The bank loans have been collateralised by owner-occupied property, which is disclosed both under inventories and under investment property. The bank loans that have been secured by mortgages amount to €152,100 thousand (prior year: €96,793 thousand). The amount that relates to investment property is €2,900 thousand (prior year: €18,299 thousand). In addition, there are financial liabilities that have been collateralised by assigning purchase considerations and by assigning future rental payments in the amount of €93,200 thousand (€81,773 thousand) and €152,100 thousand (prior year: €96,793 thousand), respectively.

5.3 Interest rate swap

The Group uses two interest rate swaps to manage the interest rate risk arising from its bank loans. The nominal volume of these two interest rate swaps as at 31 December 2005 amounted to €55,287 thousand (prior year: €15,335 thousand); the corresponding market values amounted to €—1,541 thousand (prior year: €—1,718 thousand). The related interest payments are fixed at 5.25% and at 4.07% for the periods until August 2011 and until September 2008, respectively. These interest payments are matched by variable interest received on the basis of the 6-month Euribor and the 3-month Euribor, respectively.

The changes in the fair values of the interest rate swaps are recognised in the income statement.

5.4 Retirement Benefit Obligation

The Group has generally no defined benefit pension plans, except for a plan which was taken over within the scope of the acquisition of a subsidiary in 2002. The defined benefit obligation as at the balance sheet relates, hence, to six persons. These persons are pensioners who receive already current benefits. In view of this fact, the provisions determined under the German Commercial Code (HGB) were increased by around 20% on the basis of an actuarial expert opinion which was prepared under IAS 19. The reference opinion was based on an interest factor as at 31 December 2003 of 5.25% and a pension trend of 1.5%. The computation was made according to the projected unit credit method. The computations were based on Prof Dr Klaus Heubeck's biometric standard tables (probabilities of death and disablement; RT 2005G Standard Tables). As at 31 December 2005, the pension provision was recognised at €285 thousand (prior year: €334 thousand). On account of the minor amount of annual pension payments of €37 thousand and the resulting low value of the pension provision, the pension provision was deemed to be immaterial at group level. For this reason, the change in the pension provision is not analysed separately. As at the balance sheet date, there were neither plan assets nor unrecognised actuarial losses and/or unrecognised past service cost. Interest cost is disclosed under staff costs.

5.5 Other Provisions

The other provisions can be analysed as follows:

	<u>1 Jan. 2005</u>	<u>Addition</u>	<u>Release</u>	<u>Utilisation</u>	<u>31 Dec. 2005</u>
	€000	€000	€000	€000	€000
Warranty provisions ...	500	0	(500)	0	0
Other provisions	358	551	(108)	(280)	521
	858	551	(608)	(280)	521

The warranty provisions have been estimated on the basis of historically incurred warranty costs.

The cash outflow that relates to the respective provisions is generally assumed to occur in the following year.

5.6 Current Liabilities

The current liabilities can be analysed as follows:

	<u>2005</u> €000	<u>2004</u> €000
Trade payables	8,988	33,934
Advances.....	8,439	641
Other liabilities.....	6,133	14,706
Current liabilities ...	23,560	49,281

The current liabilities have a residual term of less than 12 months. The fair value of the liabilities corresponds, hence, to their carrying amount. The other liabilities include basically deferred interest and bank charges in the amount of €1,112 thousand (prior year basically payables to related parties: €1,593 thousand), wage and church tax as well as social security contributions and value added tax in the amount of €456 thousand (prior year: €498 thousand) and €330 thousand (prior year: €232 thousand), respectively.

5.7 Tax Liabilities

The tax liabilities, which amount to €6,295 thousand (prior year: €4,586 thousand), include the anticipated actual tax payments that relate to the taxable income of the current year and payment of taxes for prior years.

6. Notes to Consolidated Income Statement

The income statement has been prepared according to the nature of expense method.

6.1 Revenue

We refer to the statements regarding segment reporting.

The sales revenues include rental income from investment property in the amount of €102 thousand (prior year: €1,712 thousand).

The Group anticipates that rental income of €9,068 thousand will be realised in 2006. The computation is, on the one hand, based on the classification by allocation of the objects within the segment. On the other hand, the sale scenario underlying the computation for the privatisation segment takes into account the reduction of rental income on account of disposal of objects according to the weighted average cost formula.

A classification is as follows:

<u>Segment</u>	<u>Anticipated 2006 rental income in</u> €000	<u>Of which secured until 31 Dec. 2010 in</u> €000
Investment property ...	103	0
Revitalisation	3,771	625 p.a.
Privatisation	5,193	N/A

The Company uses standard tenancy agreements. These are concluded for an indefinite period and provide for the usual legal periods of notice.

6.2 Changes in inventories

The balance sheet effects of acquisition and sale as well as renovation of available-for-sale property are recognised under changes in inventories and adjusted accordingly in cost of materials. Consequently, the acquisition of available-for-sale property and the sale of the corresponding real properties leads to an increase and a decrease in inventories, respectively.

6.3 Other Operating Income

The other operating income relates basically to income from implementation of financial guarantees (€1,050 thousand), reversal of provisions (€608 thousand; prior year: €20 thousand), trade discounts received (€294 thousand; prior year: €170 thousand) and income from remuneration in kind (€267 thousand; prior year: €111 thousand).

6.4 Cost of Materials

The cost of materials includes direct cost incurred in connection with services provided. This includes basically cost of objects acquired, renovation and project costs, incidental rental expenses and leasehold expenses.

6.5 Staff Costs

Staff costs can be analysed as follows:

	<u>2005</u> €000	<u>2004</u> €000
Wages and salaries.....	10,632	8,937
Social security contributions....	1,727	1,478
	12,359	10,415

6.6 Amortisation/Depreciation

Scheduled amortisation/depreciation amounts to €603 thousand (prior year: €518 thousand).

6.7 Net losses from fair value adjustments to Investment Property

The Net losses from fair value adjustments to investment property amounts to €300 thousand (prior year: €0).

6.8 Other Operating Expenses

The other operating expenses can be analysed as follows:

	<u>2005</u> €000	<u>2004</u> €000
Administrative expenses ..	6,338	5,047
Distribution costs	5,843	2,853
Sundry expenses.....	1,366	1,098
	13,547	8,998

These expenses include expenses for current maintenance of investment property totalling of €90 thousand (prior year: €903 thousand).

6.9 Finance Loss

	<u>2005</u> €000	<u>2004</u> €000
Interest on bank deposits.....	829	282
Sundry	0	26
Interest on bank overdrafts and bank loans	(6,063)	(4,988)
Dormant partners' interest	(200)	0
	(5,434)	(4,680)

6.10 Income Taxes

The income taxes can be analysed as follows:

	<u>2005</u> €000	<u>2004</u> €000
Actual income taxes...	(2,585)	(4,013)
Deferred tax	(847)	1,144
	(3,432)	(2,869)

The deferred tax disclosed in the income statement results basically from loss carryforwards and the change of timing differences in real estates and interest rate swaps.

Tax Reconciliation

The tax reconciliation explains the relation between effective tax expense (tax income) and the anticipated tax expense which results from the consolidated profit before income taxes under IFRS due to application of an income tax rate of 40% (prior year: 40%). The income tax rate is composed of 25% corporate income tax, 5.5% solidarity surcharge and 13.63% municipal trade tax:

	<u>2005</u> €000	<u>2004</u> €000
Consolidated profit before income taxes under IFRS	20,064	7,297
Anticipated actual income tax expense	8,026	2,919
Non-deductible operating expenses	24	174
Tax exempt income	(4,796)	(1,873)
Effects of prior periods	136	1,779
Other	42	(130)
Effective tax expense	3,432	2,869

6.11 Earnings per Share

	<u>2005</u> €	<u>2004</u> €
Interest of Group's shareholders	16,631,894	4,427,823
Number of issued shares	5,050,000	5,000,000
Weighted number of shares	5,028,356	5,000,000
Earnings per share (basic)	3.31	0.89
Earnings per share (diluted)	3.31	0.89

As at 31 December 2005, the authorised but unissued capital for issuing options amounted to €500 thousand. As at 31 December 2005, the Board of Directors did not take advantage of the authorisation to issue options. In the future, the authorised but unissued capital may lead to dilution of earnings per share.

7. Segment Reporting

The Group is divided into the two business segments "investments" and "services". The investments segment covers the business segments privatisation of residential property, revitalisation and project development. The services segment covers a broad range of property-related services, especially analyses and consultancy associated with purchase of individual residential and commercial properties or portfolios, asset management and property management. Furthermore, the Group operates in the sector of privatisation of residential property and global sale of objects at customers' request.

The Group's activities are performed in the domestic market. Therefore, the geographical segment is not presented. An analysis of the different business segments is as follows:

<u>2005</u>	<u>Investments</u>	<u>Services</u>	<u>Overhead</u>	<u>Consolidation</u>	<u>Total</u>
External revenues	86,946	12,491	71		99,508
Recharged to other segments	0	0	5,187	(5,187)	0
Revenue including internal recharges	86,946	12,491	5,258		104,695

<u>2005</u>	<u>Investments</u>	<u>Services</u>	<u>Overhead</u>	<u>Total</u>
EBIT	<u>25,547</u>	<u>1,877</u>	<u>(1,926)</u>	<u>25,498</u>
Depreciation/impairment ...	(309)	(22)	(572)	(903)
EBITDA	25,856	1,899	(1,354)	26,401

<u>2004</u>	<u>Investments</u>	<u>Services</u>	<u>Overhead</u>	<u>Consolidation</u>	<u>Total</u>
External revenues	56,702	17,940	85		74,727
Recharged to other segments	0	0	3,734	(3,734)	0
Revenue including internal recharges	56,702	17,940	3,819		78,461

<u>2004</u>	<u>Investments</u>	<u>Services</u>	<u>Overhead</u>	<u>Total</u>
EBIT	<u>12,470</u>	<u>1,994</u>	<u>(2,452)</u>	<u>12,012</u>
Depreciation/impairment ...	(2)	(22)	(494)	(518)
EBITDA	12,472	2,016	(1,958)	12,530

The Group uses EBIT (earnings before interest and taxes) and EBITDA (earnings before interest, taxes, depreciation and amortisation) as key performance measures to manage the business. EBIT and EBITDA are not defined under IFRS and PATRIZIA's definition may not be comparable to similarly titled measures reported by other companies.

On account of the capital intensity of the investments segment, the assets and liabilities of this business segment account for far more than 90% of the total assets and total liabilities to the Group. For this reason, the assets and liabilities are not classified by segments.

8. Notes to Consolidated Cash Flow Statement

The cash flow statement has been prepared in compliance with the provisions under IAS 7.

In the cash flow statement, the cash flows are divided into cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. Effects of changes in the group of consolidated entities have been eliminated in the respective items. The cash flows from operating activities are determined according to the indirect method.

Cash includes only the bank balances and cash disclosed in the balance sheet.

Non-cash operative income and expenses and the net gain on disposal of intangible assets, property, plant and equipment and investments have been eliminated from the cash flows from operating activities. Interest income in the amount of €829 thousand (prior year: €308 thousand), interest expense in the amount of €6,263 thousand (prior year: €4,988 thousand) and income tax payments of €1,723 thousand (prior year: tax refund of €1,155 thousand) have been allocated to operating activities.

The cash flows from investing activities include capital expenditures on property, plant and equipment, capital investments in intangibles and in securities classified as non-current assets of a cash nature.

The cash flows from financing activities include dividends paid and cash receipts from capital increases of PATRIZIA Immobilien AG and bank loans raised and repaid.

9. Other Notes

9.1 Post-employment Benefits

The Group has generally no defined benefit pension plans, except for a plan which was taken over within the scope of an acquisition in 2002. The defined benefit obligation as at the balance sheet relates, hence, to six persons. These persons are pensioners who receive already current benefits. In addition, there are defined benefit plans for the Board of Directors within the scope of an employer's pension scheme. In this respect, the Group pays defined contributions to an independent unit (fund). The related pension commitment involves the risk of subsidiary liability of the Group if the fund assets are insufficient to cover all benefits with respect to services rendered by employees during the reporting period and during prior periods. The obligation of the pension scheme has been reinsured. The obligation was entered into in 2003. In 2005, the total amount of contributions to the pension scheme was €48 thousand (prior year: €48 thousand).

The employees of the Group are mostly compulsorily pension insured and are, hence, subject to a public defined contribution plan. The related pension obligation is not associated with any legal or factual obligation of the Group to pay any further contributions. Contributions to defined contribution plans are made in the year when the employee has rendered the service corresponding to these contributions.

Since 1 January 2002, employees have had a legal claim to deferred compensation of up to 4% annually of the income limit for assessment of contributions to the legal pension fund. For this purpose, the Group has entered into a collective framework agreement with an external pension fund.

9.2 Share-based Compensation

Through the resolution of the General Meeting of Shareholders held on 20 July 2005, the Board of Directors have been authorised, with the approval of the Supervisory Board, once or repeatedly, to grant until 31 December 2009 share options to a maximum number of 500,000 individual share certificates to Directors of PATRIZIA Immobilien AG and/or to the Board of Directors or the management of enterprises in which PATRIZIA Immobilien AG, directly or indirectly holds a majority interest. These share options can be granted to the beneficiaries for the first time until the end of February 2006 and every 6 months after the respective Ordinary General Meeting of Shareholders of PATRIZIA Immobilien AG thereafter. The option rights can be exercised only if the Company's consolidated net profit or loss for the year before income taxes exceeds a defined basic amount by at least €1 million. The maximum number of option rights that can be converted into shares per full million of the profit goal reached is 620, the maximum number of option rights per financial year 3,100. The basic amount is computed on the basis of interest on the respective consolidated accounting equity as at 31 December of the financial year preceding the exercise in the amount of 8% plus a basic amount of €3 million. The share options can be exercised only after a qualifying period of at least 2 years from the time the respective option has been granted. The share options have a term of up to 15 years. For this purpose, it was resolved to create authorised but unissued capital of up to €500,000. As at 31 December 2005, the Board of Directors have not taken advantage of the authorisation to issue option rights. The option terms, which remain to be drawn up, can provide for deviations from the above-mentioned key values. Presently, the Group considers to modify or to cancel this share option program within the scope of preparing potential going public.

9.3 Related Party Transactions

The related parties of the Company include the members of its Board of Directors and of the Supervisory Board as well as members of the company bodies of subsidiaries, including their respective close relatives, as well as those enterprises on which the Company's Directors or Supervisory Board members or their close relatives can exert a significant influence or in which they hold a material share of voting rights. In addition, the related parties include those enterprises with which the Company forms a group or in which it holds an investment that enables the Company to exert a significant influence on the investee's business policy, as well as the Company's major shareholders including their affiliated enterprises.

The related parties of the Group are listed below:

- WE Verwaltungs GmbH, Augsburg;
- WE Vermögensverwaltung GmbH & Co. KG, Augsburg (ultimate controlling enterprise);

- First Capital Partner GmbH, Gräfelfing (parent company);
- FCP Projekt A GmbH, Augsburg;
- Wohnungsportfolio WPO Berlin GmbH, Berlin;
- Wohnungsportfolio WPO Immobilienservice GmbH, Berlin;
- Immobilienportfolio IPO Berlin GmbH, Berlin;
- AHO Verwaltung GmbH, Augsburg (formerly: PATRIZIA Grundbesitz Beteiligungs GmbH, Augsburg);
- AHO Grundbesitz GmbH & Co. KG, Augsburg;
- Hansa-Langenhorn-Immobilien GmbH, Hamburg;
- Verwaltung EHG Erste Hanseatische Grundvermögen GmbH, Hamburg;
- E.HG. Erste Hanseatische Grundvermögen GmbH & Co. KG, Hamburg;
- Objektgesellschaft An der Alster 47 GmbH & Co. KG, Augsburg;
- Z.H.G Zweite Hanseatische Grundvermögen GmbH & Co. KG, Hamburg;
- Stadtresidenz Friedrich-List Vermögensverwaltungs GbR, Augsburg;
- Eurobilis AG, Cologne;
- PATRIZIA Kinderhaus Stiftung, Augsburg.

The Company maintains a variety of business relationships with related parties.

Shareholdings of Directors and of Parties Related to Directors in PATRIZIA

Mr Wolfgang Egger, Chairman of the Company's Board of Directors, holds, via First Capital Partner GmbH, in which he indirectly holds a 100% interest via WE Vermögensverwaltung GmbH & Co. KG, and via FCP Projekt A GmbH, in which he indirectly holds a 100% interest, a total interest of 94.00% in the Company.

Furthermore, Mr Wolfgang Egger holds an interest of 5.1% in Projekt Wasserturm Grundstücks GmbH & Co. KG. Another 45.9% are held indirectly by PATRIZIA Immobilien AG, with the remaining 49% being held by Mr Ernest-Joachim Storr.

Mr Alfred Hoschek, Director of PATRIZIA Immobilien AG, holds a total interest of 5.04% in the Company. Furthermore, he holds, via AHO Verwaltung GmbH, in which he holds a 100% interest, a 5.1% interest in Alte Haide Baugesellschaft mbH. The remaining 94.9% interest is held indirectly by PATRIZIA Immobilien AG via Stella Grundvermögen GmbH.

Mr Klaus Schmitt, Director of the Company, holds a total interest of 0.16% in PATRIZIA Immobilien AG.

Shareholdings of Members of Company Bodies in the Company

In addition, Dr Georg Erdmann, Mr Gerhard Faltermeier, Mr Jürgen Kolper, Mr Martin Lemke and Mr Markus Scherl hold, in their capacity as members of the further management level of PATRIZIA, a respective 0.16% interest in the Company, i.e., in the aggregate, 0.80%.

Right to Appoint a Supervisory Board Member

According to the Company's Statutes, First Capital Partner GmbH, in which Mr Wolfgang Egger holds an indirect 100% interest, is entitled to appoint a member of the Supervisory Board of PATRIZIA Immobilien AG.

Contracts and Business Relationships Maintained Directly Between Directors and PATRIZIA

Tenancy Agreements Between Directors and PATRIZIA

Mr Wolfgang Egger, in his capacity as the landlord, entered into a tenancy agreement with the Company, in its capacity as the tenant, on the building used by the Company as its headquarters (Fuggerstrasse 26 in Augsburg), which provided for a monthly rent of currently EUR 20 thousand plus legal value added tax.

Agreements on Acquisition of Shares Between Directors and PATRIZIA

Under an agreement dated 14 December 2004, which was authenticated by a notary public, PATRIZIA Immobilien AG acquired all shares in ZHG Zweite Hanseatische Grundvermögen Verwaltungs GmbH, which was renamed PATRIZIA Projekt 140 GmbH on 18 January 2005, from Mr Wolfgang Egger at a purchase consideration in the amount of the value of the accounting equity of the Company as at 31 December 2004. The purchase consideration was paid on 3 May 2005.

Contracts and Business Relationships Maintained Between Related Parties of Directors and PATRIZIA

Service and Support Agreements Between Related Parties of Directors and PATRIZIA

PATRIZIA Immobilien AG has entered into service agreements with a large number of the above-mentioned related parties, for which it partly provides the following services:

- Financial accounting and preparation of annual financial statements;
- Assistance in finance issues;
- Assistance in preparing strategic concepts and internal communication;
- Assistance in developing the appearance and performing advertising campaigns;
- Assistance in legal issues (no legal advice).

All agreements with a total volume of EUR 54 thousand were concluded under arm's-length conditions.

Between the Directors Mr Wolfgang Egger, Mr Alfred Hoschek or persons related with these gentlemen and PATRIZIA, there are the following further agreements: An agreement on management of the private property portfolio, agreements on private accounting activities, an agreement on management of the private property portfolio and furthermore agreements on general agency and general contractor activities regarding the private property portfolio, which have also all been concluded under arm's-length conditions.

Tenancy Agreements between Parties Related to Directors and PATRIZIA

In addition, Objektgesellschaft An der Alster 47 GmbH & Co. KG, in its capacity as the landlord, (Mr Wolfgang Egger and Mr Alfred Hoschek hold indirect interests of 95% and 5%, respectively, in this company) entered into a tenancy agreement with the Company on one floor of a building in Hamburg for a monthly rent of EUR 6 thousand, which was concluded under arm's-length conditions.

Other Agreements between Parties Related to Directors and PATRIZIA

On 1 December 1993, Ms Edeltraud Egger, the mother of the Chairman of the Company's Board of Directors Mr Wolfgang Egger, entered, in her capacity as the principal, into a property management agreement with PATRIZIA Hausverwaltung GmbH, as the contractor, on management of a building in Augsburg. This agreement was extended by another five years on 1 December 2003.

Under notarial deed dated 16 August 2005, PATRIZIA Immobilien AG acquired all interests in quarantasette GmbH, which was renamed PATRIZIA Projekt 200 GmbH on 24 August 2005, from WE Vermögensverwaltung GmbH & Co. KG, which is directly wholly-owned by Mr Wolfgang Egger, against payment of a purchase consideration of EUR 1.

Directors' Activities at Companies Unrelated to PATRIZIA

The Chairman of the Board, Mr Wolfgang Egger, is the managing director of WE Verwaltungs GmbH (general partner limited liability company of WE Vermögensverwaltung GmbH & Co. KG), via which he holds an indirect interest in PATRIZIA Immobilien AG, and the managing director of First Capital Partner GmbH and of FCP Projekt A GmbH, which hold respective direct interests in PATRIZIA Immobilien AG.

The Company's Director Mr Alfred Hoschek is a Director of Eurobilis AG in Cologne, in which Mr Wolfgang Egger holds an indirect interest of 100% via First Capital Partner GmbH. Furthermore, Mr Alfred Hoschek is the managing director of Immobilienportfolio IPO Berlin GmbH, of Wohnungsportfolio WPO Berlin GmbH, of Wohnungsportfolio WPO Immobilienservice GmbH and of Verwaltung EHG Erste Hanseatische Grundvermögen GmbH. Mr Wolfgang Egger is the sole shareholder of these companies. In addition, Mr Alfred Hoschek is the managing director and sole shareholder of AHO Verwaltung GmbH.

The Director Mr Klaus Schmitt is the managing director of First Capital Partner GmbH, which is indirectly wholly-owned by Mr Wolfgang Egger.

Emoluments Paid to Members of Management in Key Positions

In the reporting year, the gross emoluments paid to members of management in key positions amounted to EUR 1,635 thousand and fully related to services to be rendered shortly.

Consulting Agreement with the Law Firm Seitz, Weckbach, Fent & Fackler

Under a consulting agreement concluded with the law firm Seitz, Weckbach, Fent & Fackler in Augsburg, the Company receives advice in issues regarding competition law and labour law. One of the partners of this law firm, Dr Theodor Seitz, is also the Chairman of the Company's Supervisory Board. The consulting agreement was approved through resolution of the Supervisory Board dated 18 March 2005. In 2005, the consulting costs charged by the law firm Seitz, Weckbach, Fent & Fackler amounted to EUR 7 thousand.

9.4 Supervisory Board/Advisory Board and Board of Directors

Members of the Parent Company's Board of Directors

The members of the Board of Directors are:

Mr Wolfgang Egger;

Mr Alfred Hoschek, Dipl.-Ing. (master's degree in engineering).

In the financial year, the emoluments of the Board of Directors amounted to €370 thousand (prior year: €339 thousand).

Members of the Parent Company's Supervisory Board and Advisory Board

The members of the Supervisory Board are:

Dr Theodor Seitz, Chairman, tax adviser, lawyer, Augsburg;

Mr Harald Boberg, personally liable partner of M. M. Warburg & Co. KGaA, Hamburg;

Mr Manfred J Gottschaller, Director of Bayerische Handelsbank AG retld., Munich.

In the financial year, the emoluments of the Supervisory Board amounted to €35 thousand.

The members of the Advisory Board are:

Mr Albert P Behler, Paramount Group Inc., New York, CEO;

Mr Michael A Kremer, DB Real Estate, CEO (from 18 October 2004);

Dr Bernd Kottmann, IVG Immobilien AG, Bonn, Director;

Mr Gerd Matthiesen, former Director delta lloyd Versicherungen, Wiesbaden (from 16 January 2004);

Dr Jochen Scharpe, GSW — Gemeinnützige Siedlungs- und Wohnungsbaugesellschaft Berlin mbH, Berlin, Chairman of the Supervisory Board;

Mr Thomas von Tucher, Deutsche Hypothekenbank AG, Hanover, Director.

In the financial year, the emoluments of the Advisory Board amounted to €8 thousand.

Responsibilities of the Advisory Board:

According to the Statutes of PATRIZIA Immobilien AG, an advisory board can be established for advising the Company's Board of Directors within the scope of their specific expertise and supporting the Board of Directors in performing its tasks. Furthermore, the purpose of the Advisory Board is to intensify contacts within the real property trade and in related sectors of the economy and in the real property management research sector and to ensure a regular exchange of information and ideas.

9.5 Contingent Liabilities and Other Financial Commitments

The commitments under existing tenancy agreements and leases amount to:

	<u>€000</u>
2006.....	1,083
2007-2010	2,021
2011 and thereafter....	—
	<hr/>
	3,106
	<hr/>

In connection with realising the Hotel Project Wasserturm Sternschanze, PATRIZIA Immobilien AG undertakes without any restrictions towards the acquirer of the Hotel to provide Projekt Wasserturm Grundstück GmbH & Co. KG with funds in such a way that it will always be able to fulfil, fully and without any restrictions, all its commitments and liabilities under the purchase agreement.

9.6 Staff

In 2005, the annual average number of employees at group level (excluding Directors) was 228 (prior year: 206).

10. Representation of Board of Directors

The Board of Directors of PATRIZIA Immobilien AG is responsible for the preparation, completeness and accuracy of the consolidated financial statements and of the discussion and analysis by the Group's management.

The consolidated financial statements have been prepared under International Financial Reporting Standards (IFRS).

The discussion and analysis by the Group's management includes analyses of the Group's results of operations and financial position as well as further explanations that are required to be disclosed under § 315 German Commercial Code (HGB).

Augsburg, 9 February 2006

Wolfgang Egger

Dipl.-Ing. Alfred Hoschek

Ass. Jur. Klaus Schmitt

List of Investment Holdings

The following companies have been included as subsidiaries in the consolidated financial statements of PATRIZIA Immobilien AG:

Name	Registered office	Interest held by the Group	Equity	Net profit/loss for last financial year
		%	€	€
PATRIZIA Projekt 100 GmbH(1).....	Augsburg	100	23,004.93	0.00
PATRIZIA Projekt 110 GmbH(1).....	Augsburg	100	24,216.35	0.00
PATRIZIA Projekt 120 GmbH(1).....	Augsburg	100	22,280.88	0.00
PATRIZIA Projekt 130 GmbH(1).....	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 140 GmbH	Augsburg	100	34,592.95	(101,059.50)
PATRIZIA Projekt 150 GmbH(1).....	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 160 GmbH(1).....	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 170 GmbH(1).....	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 180 GmbH	Augsburg	100	71,378.40	(1,071.60)
PATRIZIA Projekt 190 GmbH	Augsburg	100	23,928.40	(1,071.60)
PATRIZIA Projekt 200 GmbH(1).....	Augsburg	100	6,763.95	0.00
PATRIZIA Wohnungsprivatisierung GmbH(1)	Augsburg	100	10,656,343.99	0.00
PATRIZIA Sales GmbH(1).....	Augsburg	100	35,102.02	0.00
PATRIZIA Immobilienmanagement GmbH(1)	Augsburg	100	16,881.05	0.00
PATRIZIA Bautechnik GmbH(1)	Augsburg	100	118,182.33	0.00
PATRIZIA Asset Management GmbH(1).....	Augsburg	100	129,810.52	0.00
PATRIZIA Projektentwicklung GmbH(1)	Augsburg	100	250,000.00	0.00
Deutsche Wohnungsprivatisierungs GmbH(1)	Augsburg	100	13,145.51	0.00
Stella Grundvermögen GmbH(1)	Munich	100	7,538,113.38	0.00
Wohnungsgesellschaft Olympia mbH.....	Hamburg	100	193,997.33	13,375.58
PATRIZIA Acquisition & Consulting GmbH(1)	Augsburg	100	25,000.00	0.00
PATRIZIA Real Estate Corporate Finance GmbH.....	Munich	100	21,680.10	299.97
SARI GmbH & Co. KG	Augsburg	100	100.00	(443.19)
PATRIZIA Vermögensverwaltungs AG	Munich	100	687,583.35	1,623,925.70
Projekt Wasserturm Grundstücks GmbH & Co. KG	Augsburg	45.9	(814,209.99)	(429,169.58)
Projekt Wasserturm Bau GmbH & Co. KG	Augsburg	51	(465,799.12)	(78,233.31)
Projekt Wasserturm Verwaltungs GmbH.....	Augsburg	51	8,750.23	(4,955.29)
Alte Haide Baugesellschaft mbH	Munich	94.9	15,296,569.96	8,276,587.29
PATRIZIA Projekt 210 GmbH & Co. KG.....	Augsburg	100	23,883.88	(1,116.12)

1) On account of the existing control and profit and loss transfer agreements, the results are transferred to the reporting company.

The following independent auditors' report (Bestätigungsvermerk) was issued in the German language in accordance with § 322 HGB (German Commercial Code) on the IFRS Consolidated Financial Statements 2005 and the relevant discussion and analysis by the Group's management for the financial year 2005 (Konzernlagebericht), all of which were prepared in the German language.

Note Regarding the Auditors' Opinion:

The following auditors' opinion, which was given in compliance with § 322 German Commercial Code (HGB), refers to the consolidated financial statements for the financial year 2005 of PATRIZIA Immobilien AG, Augsburg, and to the discussion and analysis by the Group's management for the financial year 2005 of PATRIZIA Immobilien AG, Augsburg. The discussion and analysis by the Group's management is not presented in the printout included in these listing particulars.

Independent Auditors' Report

We have audited the consolidated financial statements — comprising balance sheet, income statement, statement of changes in equity, statement of cash flows and notes to the financial statements, prepared by PATRIZIA Immobilien AG, Augsburg, as well as the discussion and analysis by the Group's management for the business year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and the discussion and analysis by the Group's management in accordance with International Financial Reporting Standards (IFRS), as applicable in the EU, and the regulations under [German] commercial law as complementarily applicable under § 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] is the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements and the discussion and analysis by the Group's management based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB ["Handelsgesetzbuch": "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with applicable accounting regulations and in the discussion and analysis by the Group's management are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the discussion and analysis by the Group's management are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements and the discussion and analysis by the Group's management. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on the results of our audit, the consolidated financial statements of PATRIZIA Immobilien AG, Augsburg, comply with the IFRS, as applicable in the EU, and the regulations under [German] commercial law as complementarily applicable under § 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] and convey a true and fair view of the Group's net assets, financial position and results of operations in accordance with these regulations. The discussion and analysis by the Group's management is consistent with the consolidated financial statements, conveys, in the aggregate, a true and fair view of the Group's position and suitably presents the risks and opportunities of future development.

Munich, 17 February 2006

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Löffler
Wirtschaftsprüfer
[German Public Auditor]

Signed: p.p. Stadter
Wirtschaftsprüfer
[German Public Auditor]



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