

# 06



## KEY FIGURES

	2006	2005
REVENUES AND EARNINGS	EUR'000	EUR'000
Revenues	237,611	99,508
Total operating performance	285,082	138,122
EBITDA	51,718	26,401
EBIT	51,274	25,498
Net profit	32,400	16,632

	2006	2005
STRUCTURE OF ASSETS AND CAPITAL	EUR'000	EUR'000
Non-current assets	3,541	5,012
Current assets	371,125	222,388
Equity	191,724	42,104
Equity ratio (in %)	51.2 %	18.5 %
Total assets	374,666	227,400

SHARE PERFORMANCE	
ISIN	DE000PAT1AG3
SIN (Security Identification Number)	PAT1AG
No. of shares in issue at December 31, 2006	47,400,000
Issue date	March 31, 2006
Issue price	18.50 Euro
2006 high <sup>1)</sup>	25.82 Euro
2006 low <sup>1)</sup>	18.15 Euro
Closing price on December 29, 2006	22.56 Euro
Indices	MDAX, EPRA, GEX, DIMAX

1) Closing prices at Frankfurt Stock Exchange Xetra Trading

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A. PREFACE AND REPORTS .....

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## LETTER TO THE SHAREHOLDERS

Dear Shareholders,  
Dear Ladies and Gentlemen,

2006 was not only an extremely successful year for PATRIZIA Immobilien AG, but also a year that brought far-reaching changes for the company. The aim was to provide even more growth for PATRIZIA and put in place the essential conditions for further expansion.

On March 31, 2006, the PATRIZIA share was listed in the Deutsche Börse Prime Standard at an issue price of EUR 18.50. By the end of the year, the share price had risen by 21.9 % to EUR 22.56. Other highly pleasing milestones in fiscal year 2006 were the inclusion of PATRIZIA Immobilien AG in the SDAX on June 19, 2006 and the MDAX on September 18, 2006.

Using the cash inflow from the IPO, we further expanded our Investments segment and strengthened our leading position as residential property resale specialists in Germany. The extension of operating activities is also impressively reflected by our figures. Revenues were up 138.8 % to EUR 237.6 million. EBIT rose from EUR 25.5 million to EUR 51.3 million in fiscal year 2006, an increase of 101.1 %. Net profit rose by 94.8 % year-on-year to EUR 32.4 million. A detailed presentation of the annual financial statements can be found in the Group management report and the notes.

We acquired around 11,000 residential units and 450 commercial units with a total net living and floor space of approx. 828,000 m<sup>2</sup> and a purchasing volume in the region of EUR 1.3 billion throughout Germany in fiscal year 2006. This also included the biggest individual transaction in PATRIZIA's history at the end of November: a commitment was received for 6,425 residential units and 380 commercial units with almost 500,000 m<sup>2</sup> net living and floor space from the portfolio of MEAG MUNICH ERGO Asset Management GmbH. Overall purchases in 2006 also included 2,667 residential units and 70 commercial units with 195,000 m<sup>2</sup> net living and floor space, which were acquired from HDI Gerling Lebensversicherung AG in December. Overall, fiscal year 2006 was the most successful in the company's history to date.

However, those who know and work with us will know that we put our visions into practice with due care and attention. That is why we only invest in real-estate portfolios that meet our high investment and profitability criteria.

Having worked in the real-estate sector for over 20 years, through our expertise and experience, we have established a unique selling point from which our business partners in the Services segment can benefit as well as the buyers of our real estate and our shareholders. We have first-hand experience right down to

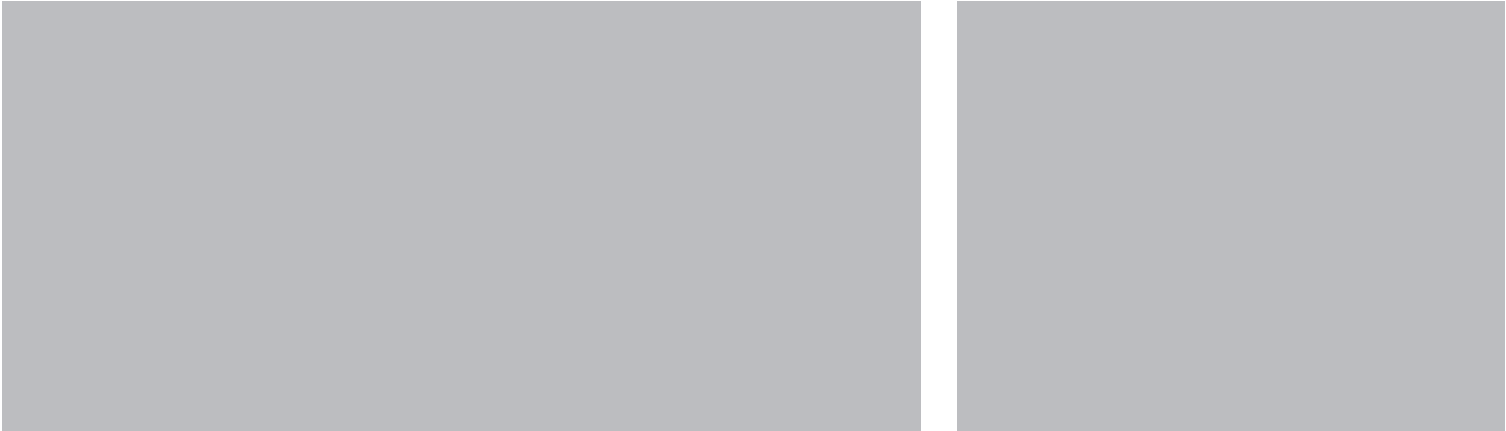


INCLUSION IN MDAX ON  
SEPTEMBER 18, 2006



REVENUES 237.6 MIO. EURO  
EBIT 51.3 MIO. EURO





the smallest practical detail of all tasks required of an owner in relation to an individual property or a complex real-estate portfolio. With our own network of specialists, we are able to provide the necessary value- and return-oriented solutions, including for third parties. The PATRIZIA Service Investment Management line takes into account the fast-growing interest of institutional investors in direct and indirect real-estate investments. This includes not only implementation and management of the investment process, but also asset management in line with customer requirements.

There was also a pleasing event last year for the work of the PATRIZIA Children's Home Foundation. At the end of July 2006, the PATRIZIA children's home built by our foundation was officially opened at the Third Order Children's Hospital in Munich Nymphenburg. Since

then, it has been providing urgently needed social and medical support for families with severely and chronically ill children as a unique after-treatment center in the region.

We have again set ourselves ambitious targets for fiscal year 2007. We intend to continue our profitable growth strategy and also maintain our focus on earnings rather than growth per se. To meet these targets, we will continue to purchase quality real estate, enhance it and then sell it. At Residential Property Resale, the emphasis is again on the tenants, whom we intend to give the opportunity to acquire their home in the context of socially compatible residential property resale. Furthermore, we will continue to expand our expertise network made up of professional, highly motivated employees as well as our nationwide platform in Germany. In

addition, we will extend our existing services to provide a holistic real-estate value-added chain in the Investment Management for Third Parties line by developing investment products for institutional investors. Overall, we are sure that with our in-depth real-estate expertise, our teams of experts operating throughout Germany and our twin-pillar business model, we are optimally equipped to meet the market requirements for 2007 and beyond.

At this point, we would like to express our thanks to our customers for putting their trust in us, our shareholders for showing their confidence in us and, in particular, our employees for their outstanding work in 2006. All this has enabled us to meet our ambitious targets in 2006 and far exceed them in terms of transactions carried out.

#### The Managing Board



Wolfgang Egger  
Chairman of the Board



Alfred Hoschek  
Member of the Board

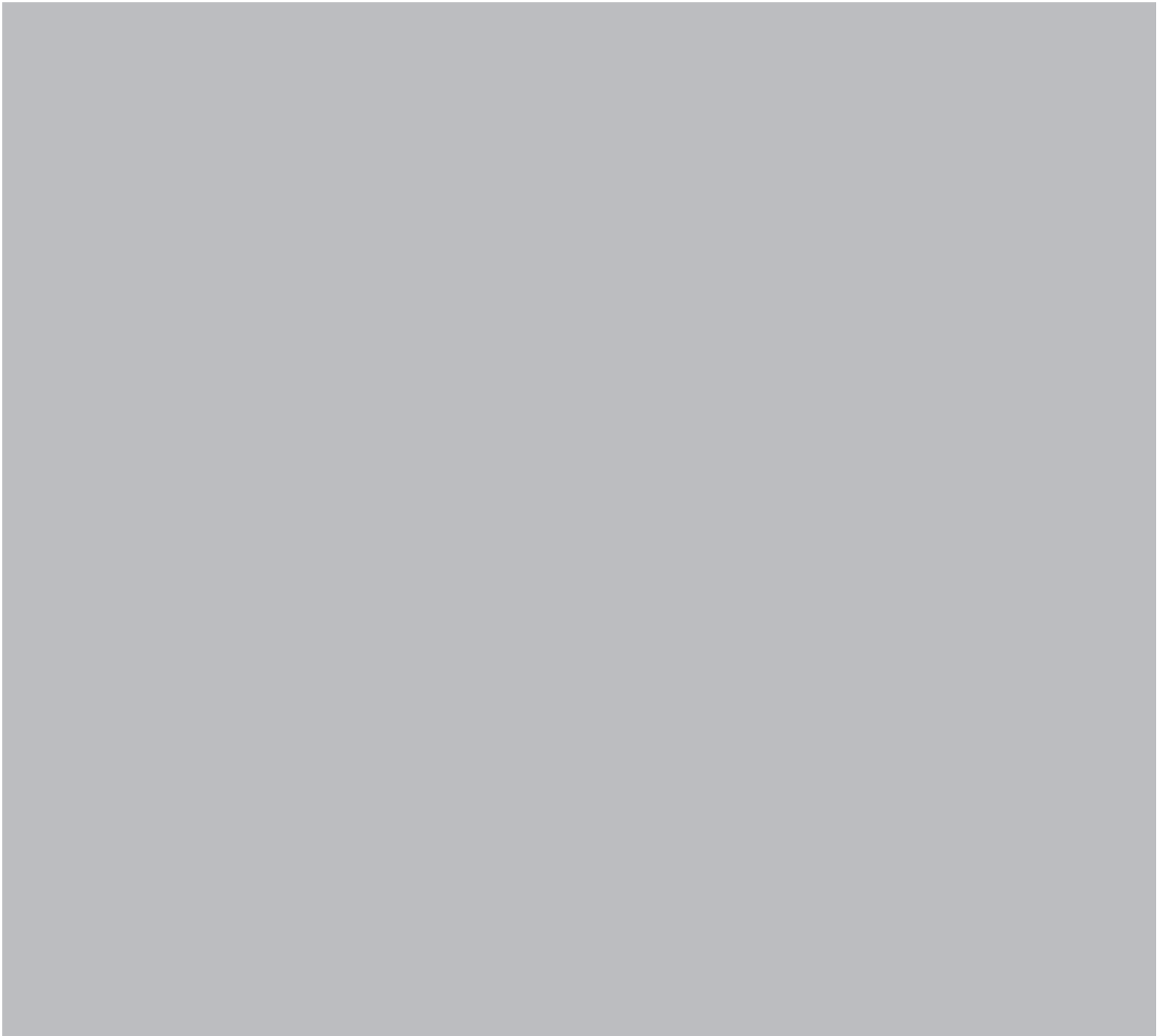


Klaus Schmitt  
Member of the Board



Dr. Georg Erdmann  
Member of the Board





## SUPERVISORY BOARD REPORT

Dear Shareholders,  
Dear Ladies and Gentlemen,

Fiscal year 2006 was characterized by several key strategic decisions for PATRIZIA Immobilien AG: the IPO on March 31, 2006 and the associated new requirements for the company as well as the acquisition of the two real estate portfolios with almost 10,000 units at the end of last year. The cash inflow from the IPO enabled the company to participate in larger-scale calls to tender for real estate than ever before and thus attain a new growth dimension.

### MONITORING OF MANAGEMENT AND COOPERATION WITH THE MANAGING BOARD

The Supervisory Board of PATRIZIA Immobilien AG assisted the Managing Board in these decisions in an advisory capacity and monitored the management of the company. All transactions of material significance to the company, including in strategic terms, were discussed in depth by the Supervisory Board and Managing Board. Regular, prompt and extensive reports were issued verbally and in writing with regard to key transactions and business plans, the financial and earnings situation, strategic measures and the strategic alignment of PATRIZIA Immobilien AG as well as the associated opportunities and threats. In addition to these reports, the Supervisory Board was thoroughly informed of matters relating to PATRIZIA Immobilien AG at its meetings and in separate discussions. The members of the Supervisory Board were also available to the Managing Board outside of the Supervisory Board meetings in an advisory capacity. Furthermore, talks were regularly held between the Managing Board and the Chairman of the Supervisory Board. As required, resolutions were also passed by circulation.

### SUPERVISORY BOARD MEETINGS

Four Supervisory Board meetings were held in fiscal year 2006. No members missed any meetings. In general, all members of the Managing Board attended the meetings. As the Supervisory Board only consists of three members, no committees were formed.

On February 6, 2006, the resolution of the Supervisory Board to propose Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, as the auditors for PATRIZIA Immobilien AG for fiscal year 2005, the auditors of the consolidated financial statements for 2005 and the auditors of the IFRS consolidated financial statements for fiscal years 2003 to 2005 was passed. The change of auditors was necessary because the consolidated financial statements for the previous fiscal years had to be converted to IFRS and audited again in line with capital market regulations as a result of the IPO of PATRIZIA Immobilien AG.

At the Supervisory Board meeting on February 20, 2006, after in-depth discussion and examination we approved the annual and consolidated financial statements for 2005 without objections and adopted the 2005 annual financial statements. The Supervisory Board examined the dependent company report of the Managing Board on relationships with affiliated companies and raised no objections. The auditor was present at the discussions. He reported on the key results of the audits and was available to the Supervisory Board for additional information. We aligned ourselves with the proposal of the Managing Board regarding utilization of retained earnings of fiscal year 2005. Due to the IPO of PATRIZIA Immobilien AG, the terms of reference for the

Managing Board had to be adapted to the new general conditions at the Supervisory Board meeting on February 20, 2006.

The Supervisory Board was involved in the preparations for the IPO and, on March 16, 2006, drew up the necessary resolutions for the IPO of PATRIZIA Immobilien AG.

At the Supervisory Board meeting on May 11, 2006, we were informed of the business development of the first few months as well as the key forthcoming business plans. In addition, Supervisory Board members Harald Boberg and Manfred J. Gottschaller were elected as the 1st and 2nd Deputy Chairman of the Supervisory Board respectively.

At the meetings on November 7 and 24, 2006, in addition to the business development of the first nine months, discussion particularly centered on the purchase of the upcoming real-estate portfolios. Furthermore, the Managing Board explained the expansion of the operating activities of PATRIZIA through the establishment of a separate investment company. The growth prospects for fiscal year 2007 were also discussed in detail. In addition, the Managing Board set out the options for raising further capital. The meeting on November 24,

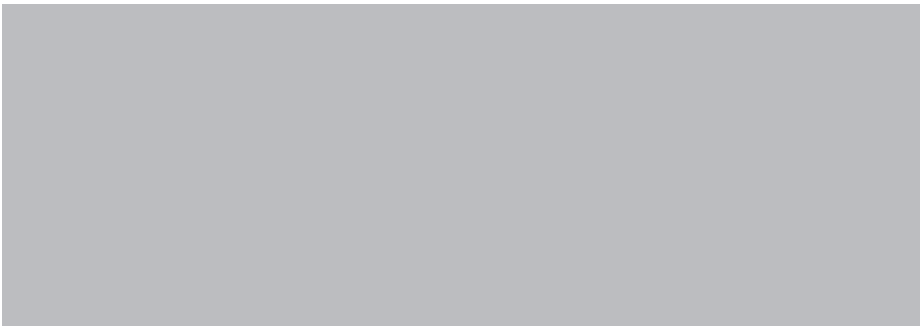
2006 was held in Dresden to enable the Supervisory Board to see for itself the progress of the “Dresden Altmarktkarree” project.

CAPITAL MEASURES

We approved the resolution by the Managing Board to utilize the existing authorized capital to the extent of EUR 4,730,000 with exclusion of the subscription right. The issue proceeds will be used to finance already acquired real-estate portfolios as well as future purchases. The new shares were issued to institutional investors.

CORPORATE GOVERNANCE

PATRIZIA Immobilien AG is a member of “Initiative Corporate Governance der deutschen Immobilienwirtschaft e. V”. The Supervisory Board also believes that sound corporate governance is a key foundation for the success of the company. In fiscal year 2006, the Supervisory Board therefore examined the issue of the German Corporate Governance Code and its implementation within the company. By circulation, the Supervisory



Board resolution regarding the declaration of conformity with the version of the German Corporate Governance Code dated June 12, 2006 was passed as required by section 161 of the German Stock Corporation Act. The declaration of conformity as required by section 161 of the German Stock Corporation Act was published for shareholders on the company's website. Apart from a few exceptions, the recommendations of the Code are met.

No members of the Supervisory Board were involved in any conflicts of interest as defined by section 5.5.3 of the German Corporate Governance Code in fiscal year 2006.

The auditor issued a statement of independence as per section 7.2.1 of the German Corporate Governance Code. The working relationship between the company and the Supervisory Board meets the requirements of section 7.2.3 of the Corporate Governance Code.

Further information on corporate governance at PATRIZIA Immobilien AG can be found in the report by the Managing Board and Supervisory Board in this annual report (Corporate Governance Report).

## ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS, AUDIT, DEPENDENT COMPANY REPORT

In the reporting year, the reporting of PATRIZIA Immobilien AG was audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich. The auditor examined the annual financial statements of PATRIZIA Immobilien AG and the consolidated financial statements to December 31, 2006 prepared in accordance with IFRS as well as the management report of the company and the Group, issuing an unqualified audit certificate. We also examined these documents ourselves.

Regarding the risk early detection system, the auditor found that the Managing Board had taken the measures required according to section 91 paragraph 2 of the German Stock Corporation Act and that the company's risk early detection system was suitable for early detection of developments that jeopardize the continued existence of the company.

For the balance sheet Supervisory Board meeting on March 12, 2007, the reports by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft regarding the audit of the annual financial statements, consolidated financial statements, management report of the company and the

Group were available to all Supervisory Board members in good time. They were discussed in detail at this meeting in the presence of the auditors. The auditors reported on the key results of the audit and were available for additional information. The Supervisory Board aligned itself with the results of the audit by the auditors and, in the context of its own examination, established that no objections were raised. It approved the annual financial statements and consolidated financial statements prepared by the Managing Board. The annual financial statements for fiscal year 2006 are therefore adopted in line with section 172 of the German Stock Corporation Act.

The report on relationships between PATRIZIA Immobilien AG and affiliated companies prepared by the Managing Board in line with section 312 of the German Stock Corporation Act was also examined by the auditor and given an unqualified audit certificate. We also examined the report. The auditor's report was available to all Supervisory Board members in good time. It was also discussed in depth with the auditors at the Supervisory Board meeting on March 12, 2007. After the final results of the examination by the Supervisory Board, no objections were raised against the report or the key declaration by the Managing Board contained therein. The Supervisory Board approved the results of the audit by the auditor.

#### **NOTES ON THE DISCLOSURES ACCORDING TO SECTION 289 PARAGRAPH 4 AND SECTION 315 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE IN THE MANAGEMENT REPORT**

The disclosures according to section 289 paragraph 4 and section 315 paragraph 4 of the German Commercial Code are contained in the management report. First Capital Partner GmbH is a major shareholder in the company. As at December 31, 2006 it held approx. 50.02 % of the shares in the company. In January 2007, EUR 4,730,000 of the existing authorized capital was utilized.

Since then, First Capital Partner GmbH has held approx. 45.48 % of the shares in the company.

#### **PERSONNEL CHANGES**

In fiscal year 2006, two additional members joined the Managing Board of PATRIZIA Immobilien AG. Klaus Schmitt was appointed as Chief Operating Officer of PATRIZIA Immobilien AG on January 1, 2006. He has been head of the Legal Affairs department at the company since 2003. Dr. Georg Erdmann was appointed as Chief Financial Officer of PATRIZIA Immobilien AG on October 1, 2006. He has worked for the company as head of finance for over seven years.

At present, the members of the Supervisory Board are Dr. Theodor Seitz, Harald Boberg and Manfred J. Gottschaller. There were no changes of personnel within the Supervisory Board in the reporting period. The term of office of Dr. Theodor Seitz ends after the ordinary Annual General Meeting on June 13, 2007. It is intended to put Dr. Theodor Seitz forward for re-election for only one year at first in order to harmonize the term of office of all Supervisory Board members.

We would like to thank the Managing Board, the managers of the operating companies and all employees of PATRIZIA for their outstanding commitment and successful work.

Augsburg, March 12, 2006  
For the Supervisory Board



Dr. Theodor Seitz  
Chairman

## CORPORATE GOVERNANCE REPORT

Corporate governance at PATRIZIA Immobilien AG covers not only the creation of structures and processes for corporate management and control, but also the responsible, added value-oriented implementation of these principles and guidelines. At PATRIZIA, corporate governance is aimed at boosting further the confidence of investors, employees, business partners and the public in the management and monitoring at the company. For this reason, PATRIZIA Immobilien AG has complied with the recommendations of the June 2005 and June 2006 versions of the German Corporate Governance Code ("the Code"), insofar as they are relevant to the company.

On the basis of the new requirements of the version of the Code dated June 12, 2006, the declaration of conformity has been approved. We have appropriately described and explained deviations from the recommendations of the Code. The declaration of conformity is also published on our website, [www.patrizia.ag](http://www.patrizia.ag).

## INFORMATION AND SERVICE FOR OUR SHAREHOLDERS

PATRIZIA Immobilien AG informs its shareholders about the business development four times a year by publishing interim and annual reports. In the context of our investor relations work, discussions are also held regularly with analysts and institutional investors. Interested members of the public are informed about all key dates in the form of the financial calendar. This is published in the company's annual report, interim reports and website. We also announce the date of the Annual General Meeting in good time via these media.

It is our aim to inform all shareholders extensively and effectively before, during and after the Annual General Meeting and help them to exercise their rights. Before the Annual General Meeting, the shareholders are informed about the past financial year through the annual report as well as the invitation and agenda for the Annual General Meeting. All reports and documents required for the Annual General Meeting are also published on the company's website.

If any shareholders are unable to attend the Annual General Meeting, their voting rights can be exercised in accordance with their instructions by a representative appointed by PATRIZIA Immobilien AG. This representative is also reachable during the Annual General Meeting. Extracts from the Annual General Meeting are also available for information to shareholders on our website after the event. The opportunity to follow the Annual General Meeting simultaneously on the internet is not provided by the company on cost grounds.

## COOPERATION BETWEEN MANAGING BOARD AND SUPERVISORY BOARD

The Managing Board and Supervisory Board of PATRIZIA Immobilien AG have been cooperating closely for many years. The Managing Board not only coordinates major decisions with the Supervisory Board, but also requires its approval in the event of transactions of fundamental importance in accordance with the statute and terms of reference for the Managing Board. Regardless of their significance, the Managing Board informs the Supervisory Board regularly, without delay and comprehensively of all relevant issues such as ongoing business development, the risk situation or deviations of the actual busi-

ness development. The Supervisory Board specifies the Managing Board's precise information and reporting duties in good time.

The Supervisory Board, made up of three members, holds at least four Supervisory Board meetings each fiscal year. These can also be held without attendance of the Managing Board if necessary. Furthermore, discussions regularly take place between the Managing Board and the Chairman of the Supervisory Board. In fiscal year 2006, four Supervisory Board meetings were held, on February 20, May 11, November 7 and November 24.

The company has taken out consequential loss and liability insurance (D&O insurance) for the Managing Board and Supervisory Board that does not provide for a deductible for the committee members. According to PATRIZIA Immobilien AG, a deductible does not affect the sense of responsibility and loyalty with which the committee members fulfill the duties and functions assigned to them.

## MANAGING BOARD

The Managing Board manages the transactions of PATRIZIA Immobilien AG in accordance with laws and the company's statutes as well as the terms of reference and allocation of areas of responsibility of the Managing Board. The Managing Board of PATRIZIA Immobilien AG is made up of four directors, one of whom also holds the position of Managing Board spokesman. The responsibilities of the individual Managing Board members are contained in the terms of reference and allocation of areas of responsibility of the Managing Board. Further information on the current Managing Board members as well as their present position and area of responsibility can be found on page 113 of this annual report.

The Supervisory Board specifies and regularly examines the structure and level of remuneration for the Managing Board members. The remit, the personal performance of individual Managing Board members, the performance of the entire Managing Board and the commercial success of PATRIZIA are criteria for the appropriateness of Managing Board remuneration. The overall remuneration of the Managing Board comprises fixed and variable monetary remuneration components as well as pension contributions and other agreed payments. In this respect, the variable remuneration elements include one-time and annually payable components linked to the business performance of PATRIZIA as well as components with a long-term incentive effect.

The fixed component of Managing Board remuneration is paid as a monthly salary. PATRIZIA has also taken out accident insurance with the customary extent of cover for all Managing Board members.

The variable component of Managing Board remuneration is paid as an annual bonus payment. The bonus depends on the consolidated net profit before taxes, calculated in accordance with IFRS, as well as the return on equity of the current fiscal year and the two previous fiscal years.

There are no other variable remuneration systems such as stock options or comparable instruments at present. To comply even more fully with the requirements for variable remuneration components with a long-term incentive effect and risk elements, calculation of variable Managing Board remuneration is to be changed. The Chairman of the Supervisory Board will explain the key features of the new variable remuneration system for the Managing Board to the Annual General Meeting on June 13, 2007.

In fiscal year 2006, the individual members of the Managing Board received the following amounts:

	Annual income		Pension contribution
	Salary	Bonus	
	EUR	EUR	EUR
Wolfgang Egger (Chairman)	260,000	259,732	12,000
Dr. Georg Erdmann (member of the Managing Board since October 1, 2006)	120,000	319,732	1,536
Alfred Hoschek	180,000	259,732	12,000
Klaus Schmitt	180,000	70,000	6,143

In addition, the Managing Board members receive fringe benefits in the form of payments in kind, which chiefly consist of the value of insurance premiums to be applied in accordance the tax guidelines as well as use of a company car. Each individual Managing Board member is to pay tax on these fringe benefits. No severance awards were made for PATRIZIA Managing Board members. Consequently, the total remuneration of the Managing Board amounted to EUR 1,680,875.

All transactions between the members of the Managing Board and persons or companies close to them comply with standards customary in the sector and are set out under item 9.3 of the notes to the consolidated financial statements. There were no conflicts of interest between members of the Managing Board or the company.

SUPERVISORY BOARD

The Supervisory Board of PATRIZIA Immobilien AG consists of three members. On the basis of its terms of reference, the Supervisory Board monitors and advises the Managing Board in terms of the management of the company. Furthermore, it appoints and dismisses the

members of the Managing Board. However, the maximum possible appointment period is not to be the rule for first-time appointments. Because of the long company service of the Managing Board members appointed in 2006, Mr. Klaus Schmitt and Dr. Georg Erdmann, this suggestion of the Code has not been adhered to. However, the maximum appointment period is to be taken into account for first-time appointments in future.

Due to the number of Supervisory Board members, the company does not deem it useful to establish committees. For the above-mentioned reasons, PATRIZIA cannot comply with the recommendation to set up committees.

In conjunction with the Managing Board, the Supervisory Board has set the age limit at 60 years for directors and 70 years for Supervisory Board members. None of the Supervisory Board members has business or personal relations with the company or members of the Managing Board that could cause a conflict of interest. Furthermore, none of the Supervisory Board members is a former member of the Managing Board of PATRIZIA Immobilien AG.



Remuneration of the members of the Supervisory Board is specified annually by resolution of the Annual General Meeting, which votes on the discharge of the Supervisory Board for the past fiscal year. Payments of a remuneration nature to Supervisory Board members are also decided on by the Annual General Meeting by means of a resolution. Before the IPO of PATRIZIA

on March 31, 2006, remuneration of the Supervisory Board only consisted of a fixed component. For fiscal year 2006, the Supervisory Board members received remuneration of EUR 35,000 in total.

In fiscal year 2006, the individual members of the Supervisory Board received the following amounts:

Fixed remuneration	
	EUR
Dr. Theodor Seitz (Chairman)	15,000
Harald Boberg	10,000
Manfred J. Gottschaller	10,000

The members of the Supervisory Board also receive reimbursement for all expenses as well as reimbursement for any value-added tax payable on their remuneration and expenses.

Furthermore, there is a consultancy relationship with the law firm Seitz, Weckbach, Fent & Fackler, Augsburg, under which PATRIZIA is advised on competition and employment law. The Chairman of the Supervisory Board, Dr. Theodor Seitz, is a partner in this law firm. The consultancy agreement was approved by means of a Supervisory Board resolution dated March 18, 2005. In fiscal year 2006, consultancy costs of EUR 22,000 were paid to the law firm Seitz, Weckbach, Fent & Fackler. Apart from this, no remuneration for services performed individually was paid to the members of the Supervisory Board.

To take into account the increased requirements of the Supervisory Board after IPO, it is planned to submit a resolution at the Annual General Meeting on June 13, 2007 to change Supervisory Board remuneration in the form of an amendment to the statute. According to this, remuneration of the Supervisory Board is to include a performance-related remuneration component in addition to a fixed component. The chair and membership are to be remunerated separately in accordance with the Code.

## TRANSPARENCY

Our corporate communication is aimed at informing all shareholders immediately and simultaneously about new facts as well as transactions of material significance.

This information and directors' dealings are announced via media including the internet. The following transactions were reported in fiscal year 2006:

Date/ designation of security	Name	Transaction type	Stock exchange	Quantity	Price (in EUR)	Total volume (in EUR)	Explanation
Dec. 24, 2006 SIN: PAT1 AG	Alfred Hoschek	Gift / donation	Off-market	500,000	not quantifiable	not quantifiable	Gift to nonprofit foundation
Apr. 4, 2006 SIN: PAT1AG	First Capital Partner GmbH	Sale	Frankfurt	2,650,000	18.50	49,025,000	Sale due to exercising greenshoe option
Mar. 31, 2006 SIN: PAT1AG	Alfred Hoschek	Loan	Off-market	150,000	not quantifiable	not quantifiable	Security loan as part of designated sponsor agreements
Mar. 30, 2006 SIN: PAT1AG	First Capital Partner GmbH	Sale	Frankfurt	11,296,488	18.50	208,985,028	Sale to syndicate banks as part of IPO
Mar. 30, 2006 SIN: PAT1AG	First Capital Partner GmbH	Loan	Off-market	2,650,000	not quantifiable	not quantifiable	Security loan to syndicate banks as part of greenshoe
Mar. 30, 2006 SIN: PAT1AG	Alfred Hoschek	Sale	Frankfurt	608,280	18.50	11,253,180	Sale to syndicate banks as part of IPO
Mar. 30, 2006 SIN: PAT1AG	Dr. Georg Erdmann	Sale	Frankfurt	29,676	18.50	549,006	Sale to syndicate banks as part of IPO
Mar. 30, 2006 WKN: PAT1AG	Klaus Schmitt	Sale	Frankfurt	29,676	18.50	549,006	Sale to syndicate banks as part of IPO

The current Managing Board members held a total of 24,616,380 shares as at December 31, 2006. On that date, this equated to around 51.93 % of shares issued. Following a capital increase with no subscription right

on January 12, 2007 involving 4,730,000 shares, the shareholding of the Managing Board was reduced to 47.22 %.

The breakdown of the Managing Board ownership of PATRIZIA shares as at December 31, 2006 is as follows:

	Numbers of shares
Wolfgang Egger indirectly via First Capital Partner GmbH	23,708,572
Dr. Georg Erdmann	69,244
Alfred Hoschek	769,320
Klaus Schmitt	69,244

The members of the Supervisory Board of PATRIZIA held no shares in the company as at December 31, 2006.

REPORTING AND AUDITING OF THE ANNUAL FINANCIAL STATEMENTS

In fiscal year 2006, reporting was carried out on the basis of the International Financial Reporting Standards (IFRS). The 2005 consolidated annual financial statements and the three published interim reports were prepared in line with IFRS standards in fiscal year 2006. The consolidated financial statements were examined by the Supervisory Board and the auditors Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft. The 2005 consolidated financial statements were made publicly accessible on time in the issue prospectus of PATRIZIA Immobilien AG on March 17, 2006.

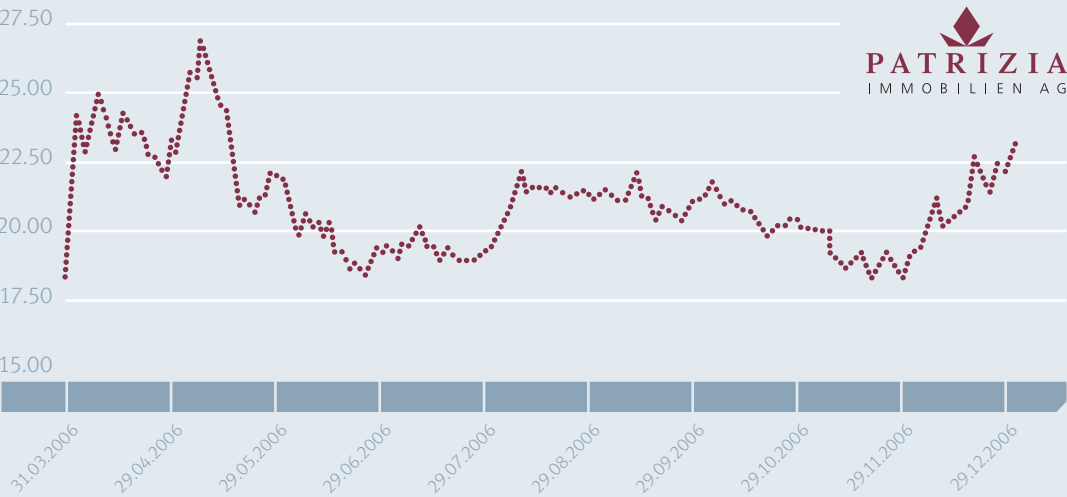
The Supervisory Board established the independence of the auditor. In fiscal year 2006, the auditors Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft performed no consultancy services for the company or one

of its executive bodies that could call its independence into question. The auditor shall immediately inform the Supervisory Board of any grounds for disqualification or impartiality occurring during the audit, unless such grounds are eliminated immediately. Furthermore, it has been arranged for the auditor to report to the Supervisory Board without delay on all facts and events of importance for the tasks of the Supervisory Board which arise during the performance of the audit. In addition, the auditor shall inform the Supervisory Board and/or note in the auditor's report if, during the performance of the audit, the auditor comes across facts which show a deviation from the declaration of conformity regarding the Code issued by the Managing Board and Supervisory Board of PATRIZIA Immobilien AG.

THE PATRIZIA SHARE

The IPO of PATRIZIA Immobilien AG on March 31, 2006 is a major milestone in the company's history, which stretches back more than 20 years. That day saw 21,770,000 shares placed on the Frankfurt Stock

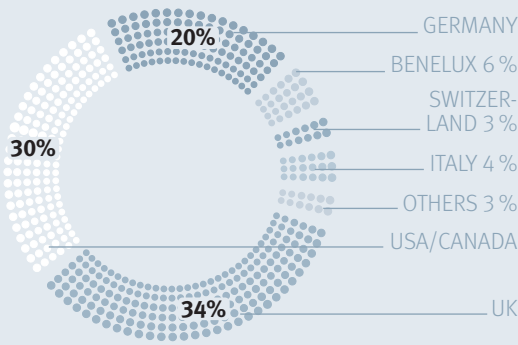
Exchange for official trading at an issue price of EUR 18.50. The Xetra closing price on December 29, 2006 was EUR 22.56, 21.9 % above the March 2006 issue price.



SHAREHOLDER STRUCTURE

We are delighted that our issue was not only massively oversubscribed, but also attracted a great deal of interest from German and foreign investors. The table below shows the breakdown of the placement volume of 21,770,000 shares by region.

Breakdown of issue volume by region as at March 31, 2006



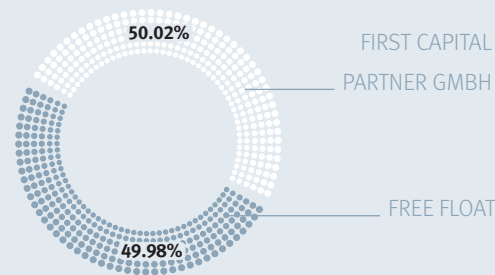
(Source: Estimation of the company)

As at December 31, 2006, the share capital amounted to 47,400,000 no-par-value bearer shares. As at December 31, 2006, around 49.98 % of the shares were in the free float. 23,708,572 shares, around 50.02 %, are held by First Capital Partner GmbH.

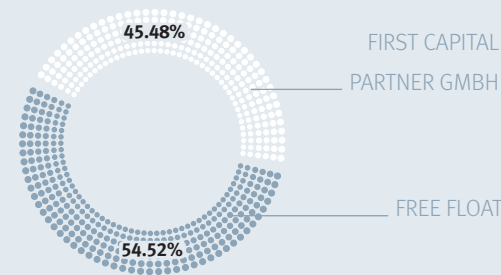
After the end of fiscal year 2006, the company placed 4,730,000 no-par-value bearer shares with institutional investors on January 12, 2007 in the context of a cash

capital increase with no subscription right. The price per share was EUR 22.00. Consequently, the share capital of PATRIZIA increased by EUR 4,730,000 to EUR 52,130,000. As a result of the capital increase, the free float of the company rose to 54.52 %. The shareholding of First Capital Partner GmbH was reduced to 45.48 %.

Shareholder structure as at December 31, 2006 and January 31, 2007 (after capital increase on January 12, 2007)



Shareholder structure as at December 31, 2006



Shareholder structure as at January 31, 2007

INTEREST IN THE PATRIZIA SHARE

The PATRIZIA share was included on the Deutsche Börse SDAX index on June 19, 2006, just 3 months after IPO. This was soon followed by inclusion in the MDAX index on September 18, 2006. The share has also been part of the EPRA (European Public Real Estate Association) sector index since December 18, 2006. As a result of PATRIZIA's shareholder structure, the company is also part of the GEX, the Deutsche Börse SME index.

Contact with analysts and investors, initiated during the IPO process, was stepped up significantly in subsequent months. In addition to an analysts' conference on the nine-month figures, various roadshows were held in Germany and abroad. PATRIZIA also presented itself to a wide investor base at national and international investors' conferences. In addition to the syndicate banks, during fiscal year 2006 other analysts prepared and published regular analyses on PATRIZIA. The high level of interest from analysts as well as national and

international investors demonstrates that the PATRIZIA share has become established as an attractive investment alternative in the German real-estate sector.

## DIVIDEND PROPOSAL TO THE ANNUAL GENERAL MEETING

PATRIZIA is a growth story. Even so, it is highly important for the committees of the company to let shareholders

participate directly in the success of PATRIZIA. The level of the dividend is also to be geared towards the development and earnings growth of PATRIZIA in future.

### The PATRIZIA Share at a Glance

ISIN	DE000PAT1AG3
SIN (Security Identification Number)	PAT1AG
Code	P1Z
Share capital as at December 31, 2006	47,400,000 EUR
No. of shares in issue as at December 31, 2006	47,400,000 Shares
Issue date	March 31, 2006
Issue price	18.50 EUR
2006 high <sup>1)</sup>	25.82 EUR
2006 low <sup>1)</sup>	18.15 EUR
Closing price on December 29, 2006 <sup>1)</sup>	22.56 EUR
Market capitalization as at December 29, 2006 <sup>1)</sup>	1,069.3 EUR million
EPS	0.71 EUR
Share turnover in Germany (average daily turnover)	3.48 EUR million
Share turnover in Germany (average daily turnover)	0.17 million shares

1) Closing prices at Frankfurt Stock Exchange Xetra trading

## SOCIAL RESPONSIBILITY

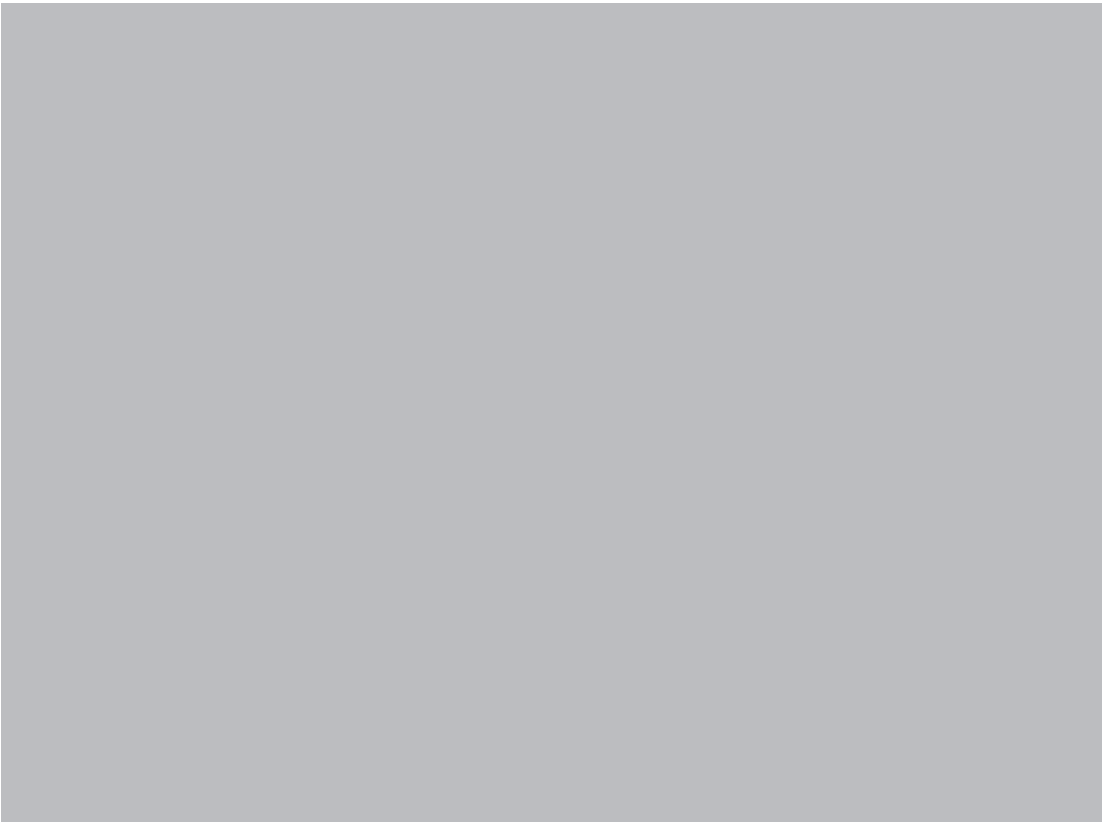
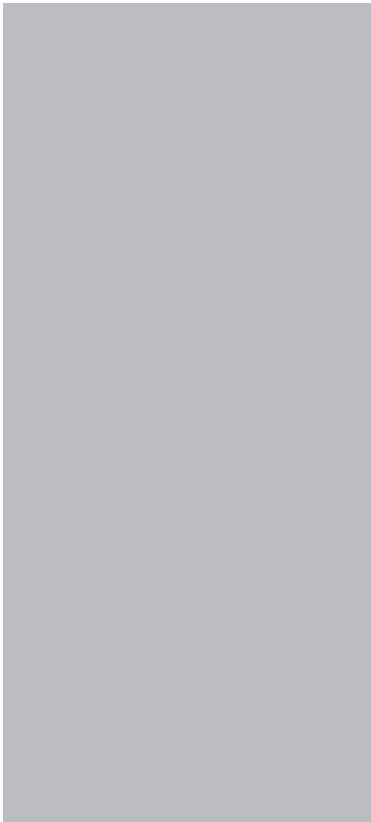
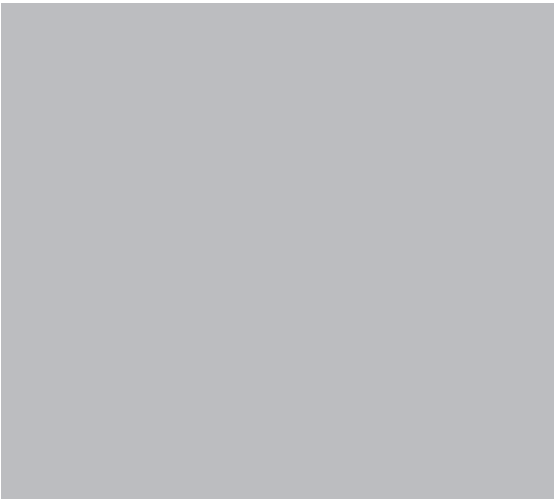
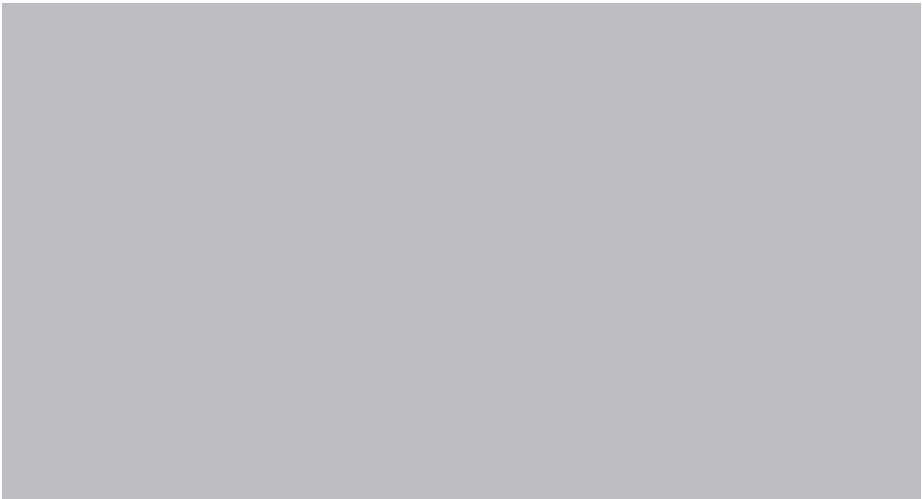
If business is to have a future, we must assume social responsibility. Even our ancestors knew this. Showing concern for those around us has always been a matter of course for our company, as is looking beyond the group of PATRIZIA stakeholders and doing everything in our power to assume responsibility for people who are unable to help themselves. We have been doing this in the form of donations to selected social or charitable facilities and organizations ever since the company was founded.

To bundle our commitment to people in need in a more targeted and effective manner and to be sure that our financial contributions really went straight to the aid projects without any deductions, the PATRIZIA KinderHaus Stiftung was initiated and founded as a non-profit, public foundation under civil law by our CEO Wolfgang Egger in 1999. Since then, our foundation has been fulfilling its social mission and also representing our belief that modern companies such as PATRIZIA Immobilien AG have a duty to get involved in the community.

Both employees and people who have links to PATRIZIA have subscribed to this view during the past few years and have actively supported the foundation's work. The

PATRIZIA KinderHaus-Stiftung uses the funds that it is entrusted for a single, personally-selected major project to help children at any one time. It continually focuses on creating living space for children and young people in need by constructing a new building designed to cater for their specific needs.

The foundation works exclusively with experienced partners that it has known personally for a long period of time and with widely recognized partners to implement its projects to help children. The urgently-required extension work needed for the treatment of children with life-threatening, infectious diseases in isolation at the missionary hospital in Peramiho was chosen to be the foundation's first project, as the founder had been a private supporter of this Benedictine mission hospital in Southern Tanzania for many years, with excellent experiences of its work.





The foundation has also developed a relationship with the “Bunter Kreis”, one of our partners in both our second and current project, over the years: PATRIZIA was one of the first sponsors of this after-care organization for families with children suffering from chronic and serious illnesses and cancer, which was established at the children's hospital in Augsburg over 10 years ago. Today, the “Bunter Kreis” has an excellent reputation throughout Germany and has even succeeded in getting its model of socio-medical after-care integrated into the German Health Modernization Act.

Working together with the “Bunter Kreis”, we developed a concept for a PATRIZIA KinderHaus as an after-care center for families with seriously and chronically-ill children. The aim is to provide these families with the help and support needed for them to be able to help themselves, which starts during the child's stay in hospital and extends to the child's bedroom at home. This kind of support was previously hard to come by in Germany. The first PATRIZIA KinderHaus was opened at the Kinderklinik Dritter Orden in Nymphenburg, Munich, at the end of July 2006. The PATRIZIA KinderHaus-Stiftung is currently building another PATRIZIA KinderHaus at the Katholische Kinderkrankenhaus Wilhelmstift in Rahlstedt, Hamburg.

Supporting a foundation and its projects is all about trust! The PATRIZIA KinderHaus-Stiftung thus does everything to prove that it is worthy of this trust. Working together with well-known partners and the guarantee that 100% of every donation goes into the project are all part and parcel of this. The PATRIZIA KinderHaus Stiftung was also awarded an official stamp of approval from an independent party on completion of a comprehensive auditing process: it is a member of the Paritätischer Wohlfahrtsverband.

## OUR PRINCIPLES

- 100 % efficiency
- No administrative costs
- A single, personally-managed new-build project at any one time
- PATRIZIA construction expertise provided free of charge
- Established partners with the highest possible level of acceptance
- On-site controlling
- Regular reports to donors



B. MANAGEMENT REPORT OF THE COMPANY AND THE GROUP .....

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## REPORT ON THE POSITION OF THE COMPANY AND THE GROUP

The Group management report was subsumed with the management report of PATRIZIA Immobilien AG in accordance with Section 315 paragraph 3 of the German Commercial Code in conjunction with Section 298 paragraph 3 of the German Commercial Code. The sub-

sumed management report contains a description of the net asset, financial and earnings situation of the company and the Group as well as other details that are required according to German commercial law. All monetary amounts are stated in euros.

### 1. BUSINESS SEGMENTS AND ENVIRONMENT

#### 1.1 GENERAL CONDITIONS AND THE MARKET

According to initial publications by the German Federal Statistical Office dated January 11, 2007, price-adjusted gross domestic product (GDP) in 2006 was up 2.5 % on the previous year. After adjustments for working-day variations, the increase was as much as 2.7 %. This rise reflects the strongest economic recovery since 2000. Key ratios such as national income (+ 3.1 % year-on-year) or disposable income of private households (+ 1.7 % year-on-year) also developed positively in 2006. In terms of the future outlook, although the global economic upturn is set to slow down in some regions, it will continue overall in 2007.

Like many experts, PATRIZIA expects the growth trend in Germany to continue in 2007. Although the economy is expected to weaken slightly for a while, it will still grow more strongly than in 2005. We believe that positive economic data, falling unemployment and rising disposable incomes will also continue to impact positively on the real-estate market in Germany.

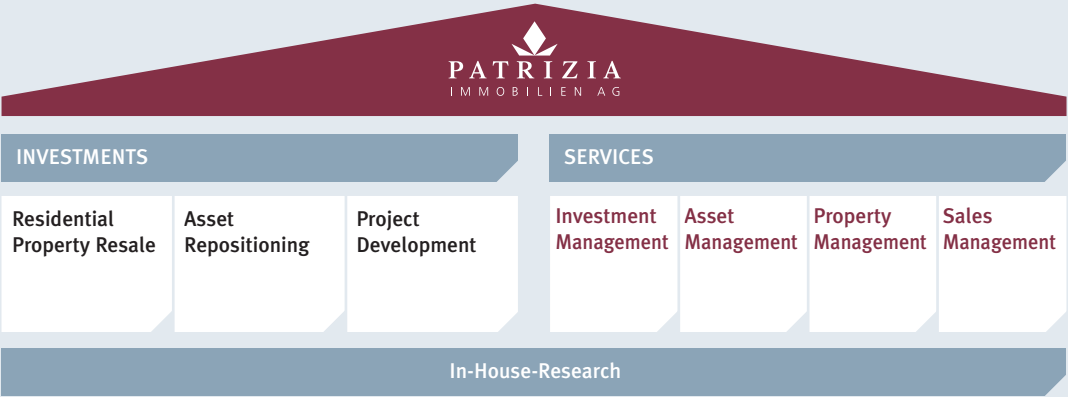
Key indicators for housing demand in Germany include the development of homes and demand for space. We expect rising figures for both factors. For our business model, this means that we also expect increased demand for home ownership in the next few years. A concentration of demand will mainly become noticeable in West German cities and conurbations as well as Berlin. Initial indicators of the rise in demand include the development of rents and purchase prices in these regions. We regard the growing attractiveness of home ownership as an investment category for private pension provision as a positive driver for our business model. On the seller side, we also expect rising supply in the context of continuous public-sector property resale initiatives and a growing interest in selling on the part of insurers and industrial companies. Overall, we see continuously positive trends for the development of the German residential real-estate market.

1.2 OPERATING ACTIVITIES AND STRUCTURE OF PATRIZIA

1.2.1 BUSINESS MODEL

PATRIZIA Immobilien AG is an integrated real-estate company that has been operating on the German real-estate market as an investor and service provider for over 20 years. Our business model is based on two

pillars, the Investments segment and the Services segment. Both segments are aligned towards the residential real-estate sector. We have offices throughout Germany and thus have a presence in the following regional markets: Augsburg (company head office), Berlin, Dresden, Frankfurt, Hamburg, Hanover, Cologne and Munich. With our professional network and experienced employees, we are able to carry out our operating activities throughout Germany.



The main activity of PATRIZIA in the **Investments segment** is the purchase, enhancement and optimization of real estate as well as its subsequent sale. In all three lines – Residential Property Resale, Asset Repositioning and Project Development – the focus is always on creating and implementing value-enhancing measures and ultimately the subsequent sale of the real estate.

In our core business of socially compatible **Residential Property Resale**, after being divided up in line with legal requirements, the individual residential units are sold to tenants, owner-occupiers and/or private investors after realization of corresponding upside value potential. The **Asset Repositioning** line concentrates on leveraging upside value potential. This is done by completing

renovation and modernization projects and by stabilizing and, ultimately, optimizing cash flow from ongoing rental revenues. Resale is carried out en bloc to institutional investors. Commercial and residential product development is the specialty of **Project Development**. At national level, it performs all services in the office and hotel sector from site acquisition and layout through concept development and operation to letting and sale to an investor.

In the **Services segment**, PATRIZIA performs all services relating to real estate for customers with a long-term investment horizon. The range of real-estate services available extends from transaction advice and due diligence when purchasing through asset management and real-estate management to sale of real estate. Investment management will be added to these services in future. Institutional customers with an interest in

long-term indirect real-estate investments can invest in real estate via PATRIZIA's own fund vehicles.

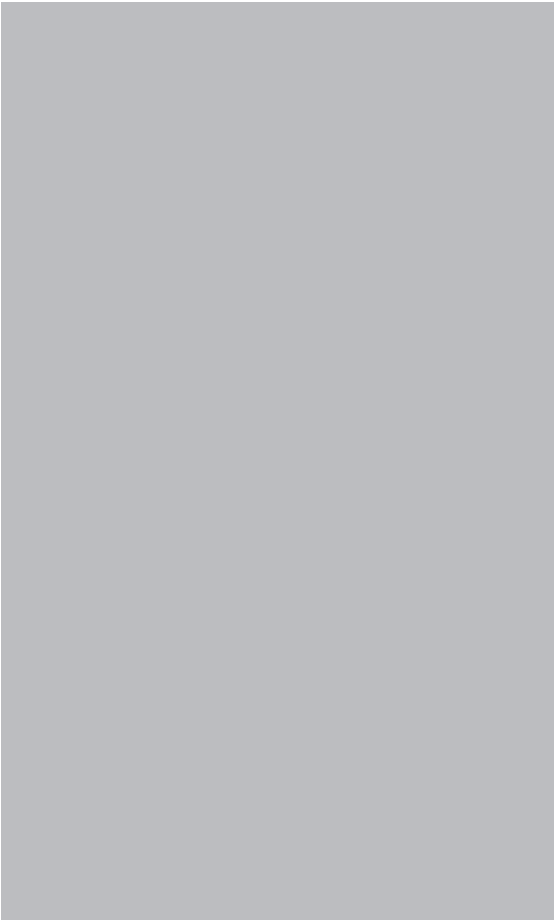
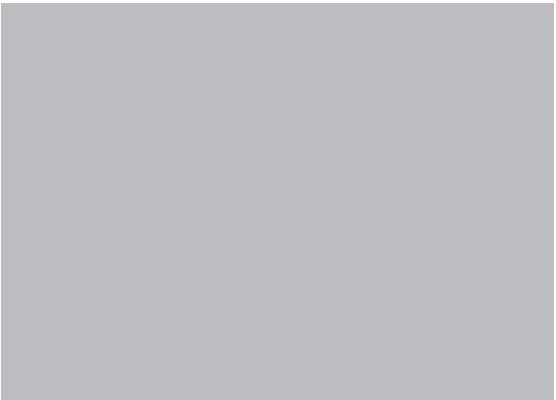
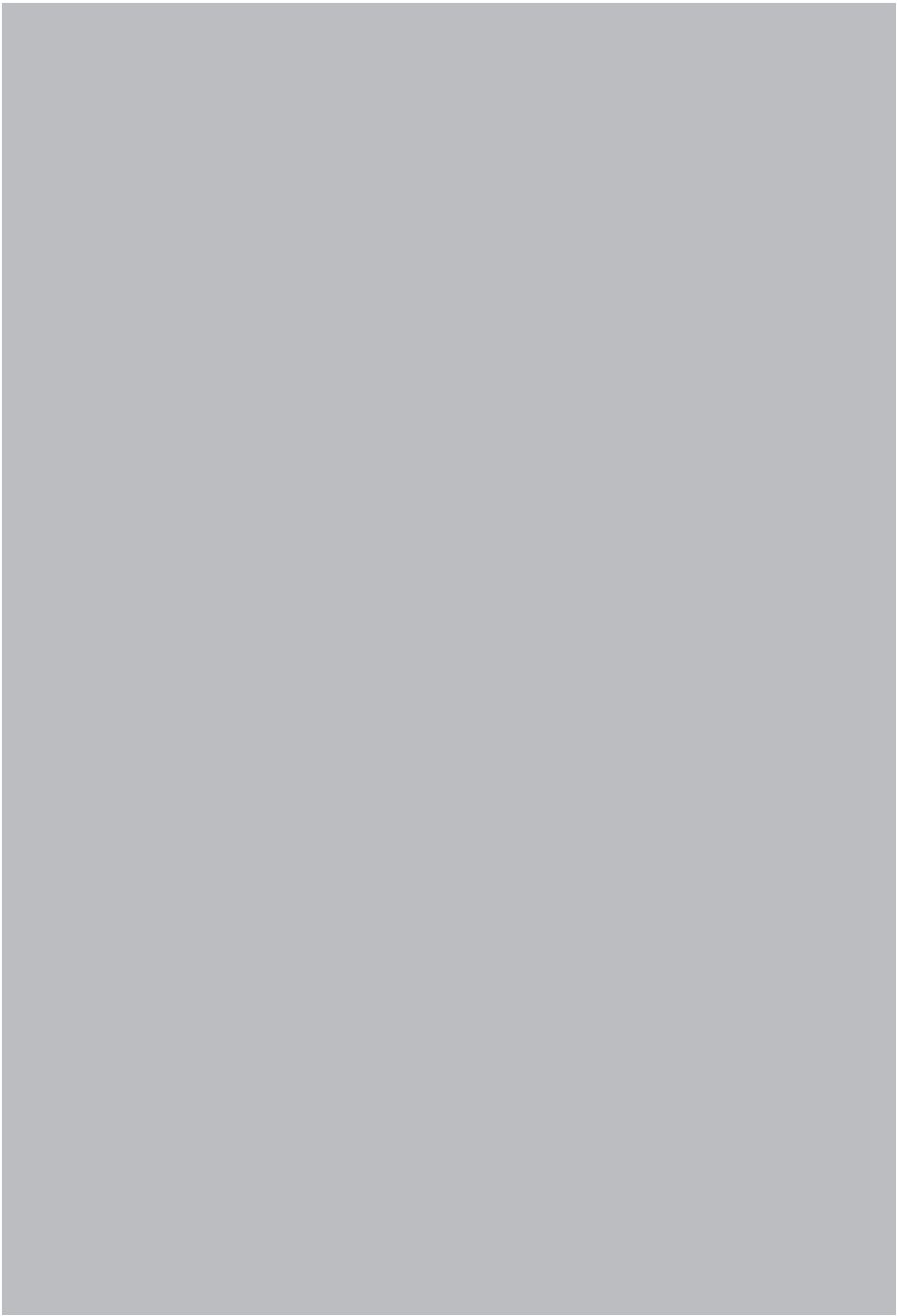
1.2.2 STRUCTURE AND DEVELOPMENT

PATRIZIA Immobilien AG is the parent company and management holding company of the PATRIZIA Group, and has been listed in the Deutsche Börse Prime Standard since March 31, 2006. The holding company covers seven operating subsidiaries, whose shares are fully held by PATRIZIA Immobilien AG. The real-estate portfolios are held via property companies and round off the Group. A precise overview of shareholdings can be found in the notes to the consolidated financial statements.



PATRIZIA Immobilien AG undertakes all across-the-board functions for its subsidiaries such as accounting, controlling, IT, human resources management, marketing, investor and public relations and legal support. The operating subsidiaries operate as standalone profit

centers and report direct to the Managing Board of PATRIZIA Immobilien AG. Profit and loss transfer agreements as well as control agreements exist between PATRIZIA Immobilien AG and the operating subsidiaries.



1.3 SEGMENTS

1.3.1 OPERATING ACTIVITIES OF THE INVESTMENTS SEGMENT

The Investments segment comprises three lines – Residential Property Resale, Asset Repositioning and Project Development – in all of which PATRIZIA operates for its own account. Operations here are focused on the purchase of real estate with upside value potential, implementation of measures to realize this upside value potential and the subsequent sale.

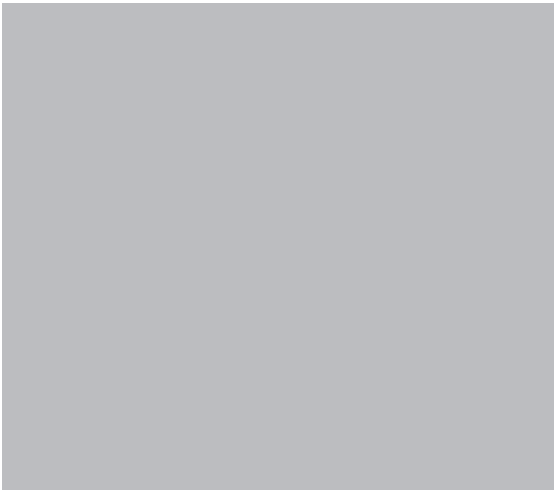
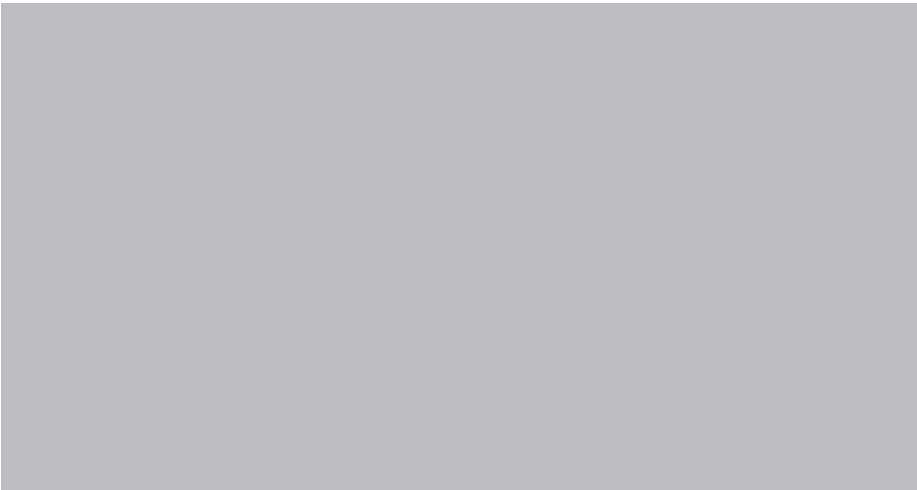
Residential Property Resale

For the Residential Property Resale line, each year several thousand apartments are examined to determine whether they meet the strict purchase criteria of PATRIZIA. These include analysis of the location, a precise structural examination and assessment of the property as

well as an estimate of possible sale prices. After the analyses are complete, the in-house experts decide whether the property meets the high requirements of PATRIZIA for property resale, what costs arise in the event of any essential renovation work and what the maximum purchase value of the property is.

Once a resellable property is purchased, various processes are initiated at the same time. For resale, the property is initially divided into individual units in line with legal requirements so that they can then be sold to tenants, owner-occupiers or private investors. In parallel with this, implementation of the value-enhancing projects such as modernization and renovation work is started.

Once the property has been divided into individual units, the employees of PATRIZIA Residential Property Resale advise each tenant individually with regard to purchasing their apartment. In the “tenant phase”, the



tenants have a purchase option on their apartment for a limited period. Only after this period is an apartment that the tenant does not want to buy offered for sale to interested third parties. The PATRIZIA sales employees are available on site, i.e. in the complex itself, for questions from tenants or interested buyers throughout the entire property resale phase.

All properties earmarked for resale are fully sold off within a period of two to five years, depending on the size of the portfolio. All the measures performed and upcoming activities are performed or monitored by PATRIZIA employees, thus enabling optimum support of tenants and owners as well as utilization of the property.

### **Asset Repositioning**

After the purchase of residential and/or commercial real estate, the Asset Repositioning line concentrates

on leveraging upside value potential. This is done by completing renovation and modernization projects and by stabilizing and, ultimately, optimizing cash flow from ongoing rental revenues. The real estate considered for asset repositioning consists of homogeneously developed building complexes that are particularly suitable for implementing renovation projects and resultant value enhancement.

First of all, an exhaustive business plan is prepared. This not only contains the development of strategies to optimize rental income and attract new tenants, but also comprises a detailed catalog of actions specifying exactly what renovation and other value-enhancing work is to take place.

As soon as a purchase has gone through, PATRIZIA starts work on the value-enhancing and portfolio-optimizing projects defined in advance. All modernization and renovation activities retain the original and





intended usage of each project and are monitored by us on site with our own employees. In addition, vacancy rates are reduced through new tenants and the tenant structure is strengthened. The overriding goal of all value-enhancing activities is always to optimize the portfolio and generate stable, higher rental cash flows.

Once all these value-enhancing steps have been taken and the yield has been optimized, the real estate is sold to institutional or private investors. At Asset Repositioning, the selling process therefore differs fundamentally from the process of individual unit sales operated by Residential Property Resale. Asset Repositioning aims instead to sell the property as a whole.

### **Project Development**

At national level, the Project Development line performs all services from site acquisition and layout through concept development and operation to letting and sale to investors and owner-occupiers primarily in the office and hotel sector. The entire value-added chain is always reproduced in order to highlight and realize the opportunities of residential and commercial real-estate projects in the best possible way.

In all three lines, PATRIZIA invests in real-estate portfolios with a focus on value enhancement and subsequent sale of the real estate to third parties. The real-estate retention period is between one and seven years.

## **1.3.2 BUSINESS DEVELOPMENT AND KEY TRANSACTIONS IN THE INVESTMENTS SEGMENT IN 2006**

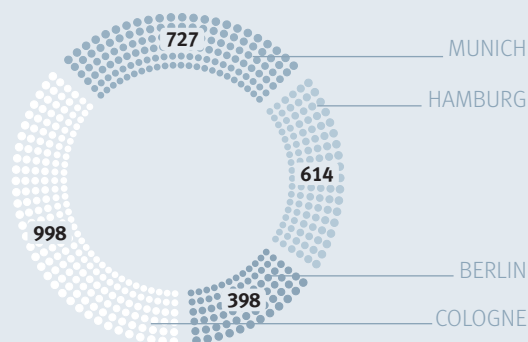
### **Purchases**

In the first nine months of fiscal year 2006, nine real-estate portfolios with a total of 1,925 residential units and net living and floor space of around 129,000 m<sup>2</sup> were purchased throughout Germany. The size of the acquired portfolios ranged from 50 to 900 units. The sellers were mainly industrial and insurance companies as well as private individuals.

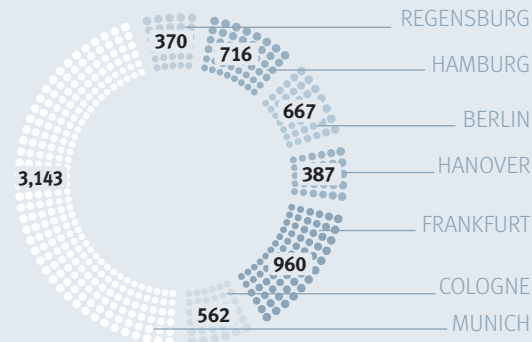
At the end of November 2006, a commitment was received from MEAG (MUNICH ERGO Asset Management GmbH) for 6,425 residential units and 380 commercial units. This purchase is the biggest individual transaction in PATRIZIA's history. PATRIZIA received the go-ahead for the portfolio, covering almost 500,000 m<sup>2</sup> net living and floor space, in the context of a structured bidding process in which the company beat other interested parties partly on the basis of its concept of socially compatible residential property resale. The individual sub-portfolios of this transaction are situated in prime locations in West German conurbations as well as Berlin. A precise regional breakdown of the MEAG portfolio is shown in the chart below.

Another residential real-estate portfolio was acquired from HDI Gerling Lebensversicherung AG at the beginning of December 2006. The 2,667 residential units and 70 commercial units with 195,000 m<sup>2</sup> net living and floor space are divided between various sub-portfolios, primarily in Munich, Hamburg, Berlin and Cologne.

## Regional breakdown of the HDI Gerling portfolio



## Regional breakdown of the MEAG portfolio



The purchase price payments for the MEAG and HDI Gerling portfolios are due in the 1<sup>st</sup> quarter of 2007. Transfer of ownership and therefore incorporation into our portfolios are also due in the 1<sup>st</sup> quarter of 2007.

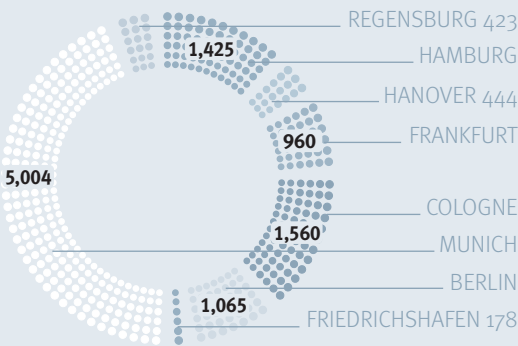
In November 2006, another property in Dresden was acquired in the Project Development line. The three buildings adjoining our existing “Dresden Altmarktkarree” ensemble were acquired from an insolvency case for around EUR 8.9 million. With a planned investment volume of no more than EUR 33.3 million, PATRIZIA

Project Development will start extensive renovation and construction work in mid-2007. The project development work will not be completed before 2010.

Overall, around 11,000 residential units and 450 commercial units throughout Germany were therefore purchased in fiscal year 2006. The net living and floor space of all purchased real estate amounts to around 828,000 m<sup>2</sup>. Overall, the total purchasing volume of all acquired units was around EUR 1.3 billion.

The main regional breakdown of investment is shown in the chart below.

Regional breakdown of residential real-estate portfolios after acquisition of MEAG and HDI Gerling portfolios:

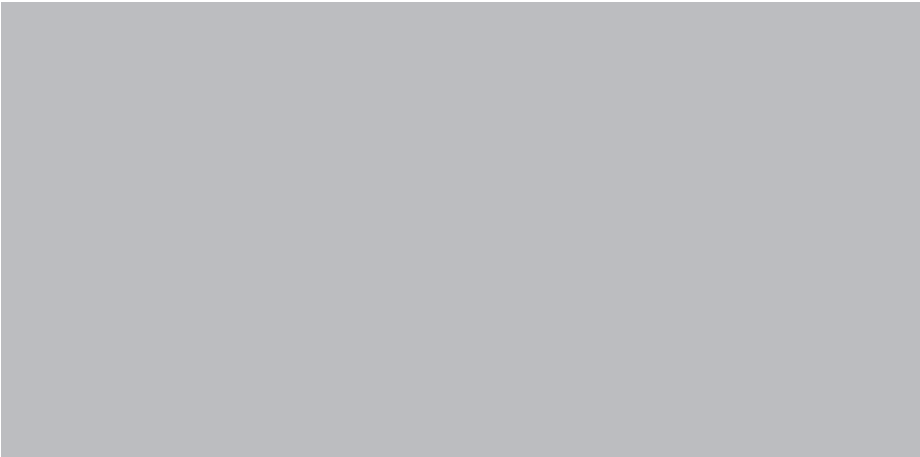
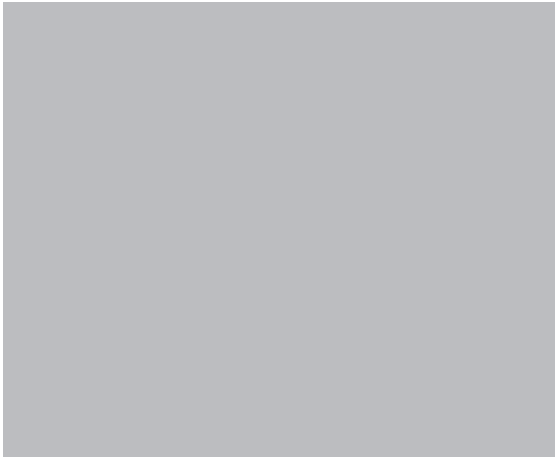
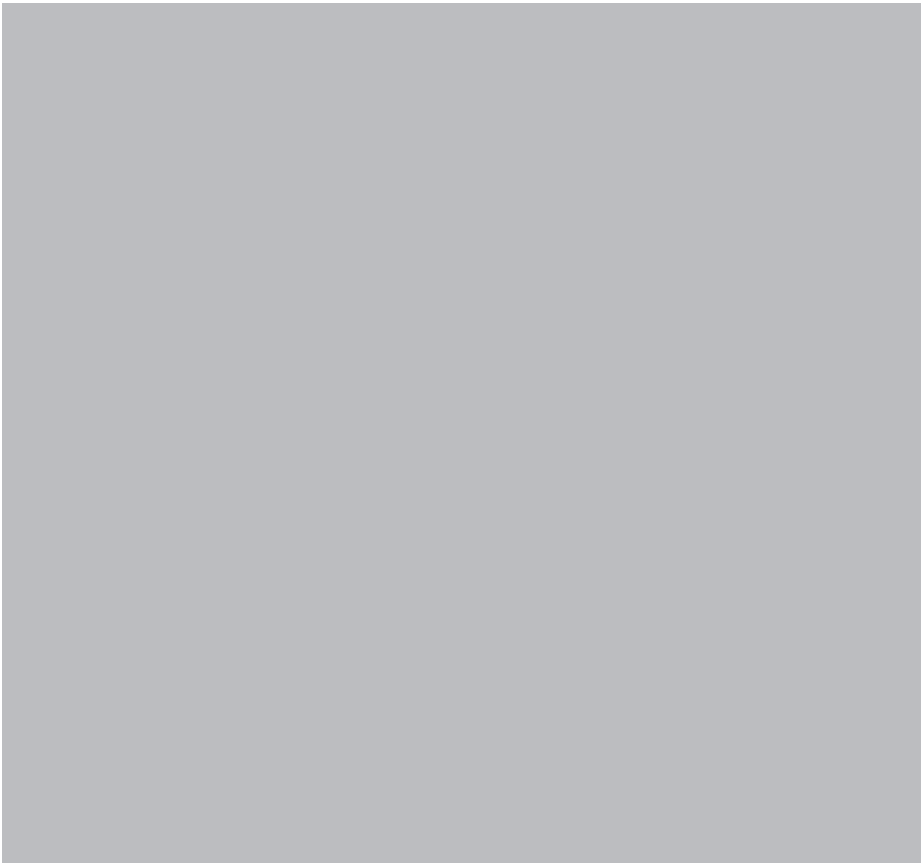


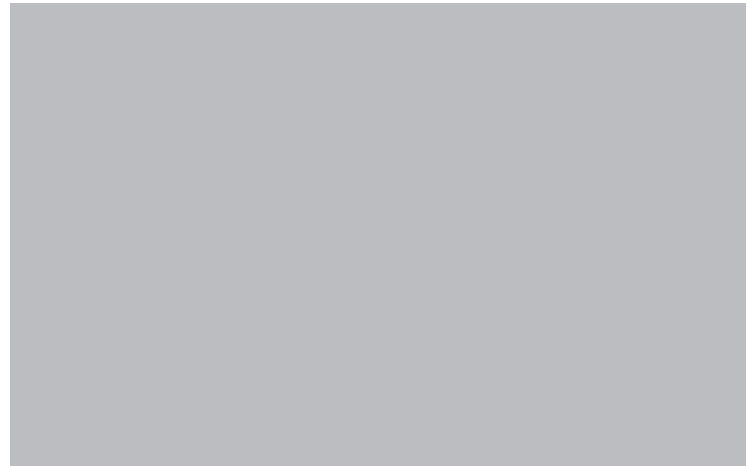
As it is appropriate for PATRIZIA's business operations not to keep real estate in the portfolio in the long term, 2,250 residential units with a sale volume of around EUR 211.0 million were sold to third parties in fiscal year 2006. In this context, 1,250 apartments were sold to private customers and institutional investors in the Residential Property Resale line, and 1,000 units were sold to institutional investors in the Asset Repositioning line.

A total of approx. EUR 1.1 million has been invested in the “Dresden Altmarktkarree” asset repositioning

project. “Altmarktkarree” in Dresden, purchased at the end of 2005, was built between 1954 and 1962 and comprises a total of around 38,000 m<sup>2</sup> net floor space, which breaks down into 318 residential units and 39 commercial units. At the time of acquisition, all the residential units and some of the commercial units were in the same condition as when they were built. The aim of our purchase was once again to revitalize and optimize this portfolio. Value-enhancing work began in April 2006. To begin with, all currently unlet apartments were thoroughly renovated. All baths, windows, doors and radiators were renewed. At the same time, technical facilities were modernized in line with the state of the art. While modernization was in progress, the now-renovated vacant apartments were already being re-let. It was also possible to re-let the first set of vacant commercial units with substantial upside rental potential. Right now, the facades and stairwells, which have hitherto only been partially renovated, are being thoroughly overhauled while preserving the substance of the buildings in compliance with a protection order.

The “Hamburg Wasserturm Hotel” project involves redesignating a water tower into an upmarket hotel. This type of real-estate development is the responsibility of the Project Development line. Mid-2006 saw completion of the structural work for the 226-room, 21-floor hotel to be run by Mövenpick Hotels & Resorts. In the 2<sup>nd</sup> half of 2006, further progress was made with the interior fittings of the tower, the renewal of the roof and the monitoring of construction measures. Consequently, the hotel is likely to be completed on schedule in the 2<sup>nd</sup> quarter of 2007.





### 1.3.3 OPERATING ACTIVITIES OF THE SERVICES SEGMENT

In the Services segment, PATRIZIA offers its customers a wide range of real-estate services. Interest from institutional investors in direct and indirect real-estate investments is growing strongly, as real estate is an investment category with good growth prospects and a favorable risk-return profile.

PATRIZIA investment management assists customers and investors in identifying, assessing and making direct and indirect real-estate investments. By doing this, PATRIZIA is able to develop and use investment products precisely tailored to customer requirements.

The Asset Management line is responsible for value-oriented management of property and entire portfolios with the aim of optimizing portfolio return. The core task is to maximize the performance of the real estate in every phase of use and to optimize its placement on the market. Asset Management serves as a central point of

contact for customers. It manages the individual service disciplines so that friction losses can be avoided and synergies can be optimally utilized.

PATRIZIA Real Estate Management specializes in professional management of residential and commercial real estate of all sizes. It offers its business partners, which include institutional investors, the public sector and private individuals, all services from conventional property management through to commercial real estate management (center management, high-rise building management and much more). In this line too, the aim is to increase return, secure rentals and reduce operating costs.

This range of services is supplemented by the Sales line. Its activities cover optimum placement of entire properties such as complete residential and commercial buildings, building plots and entire residential complexes on the market. All this is based on an active overall process, starting with the structuring of the sale property, through in-depth selection of and approach to parties

with a potential interest in buying to a professionally structured sale process. We also offer interested third parties our expertise in the residential property resale sector.

#### 1.3.4 BUSINESS DEVELOPMENT AND KEY TRANSACTIONS IN THE SERVICES SEGMENT IN 2006

In fiscal year 2006, the Investment Management for Third Parties line was restructured. The activities of investment products for institutional investors were added to it. In total, an investment volume of around EUR 980 million is now available to third parties for investments in real estate. PATRIZIA's task is to invest this investment volume in residential real estate via various investment products over the next three to four years in the context of investment management. The purchased real estate will subsequently be managed by PATRIZIA Asset Management to enhance value.

In the Asset Management line, assets under management for external third parties averaged around EUR 550 million in fiscal year 2006. In addition, acting as lead advisor to investment banks, the Asset Management line investigated non-performing loans with a cumulative value of over EUR 1 billion. This involved the detailed inspection and valuation of real estate which is used to securitize loans. Where our customers purchase such non-performing loans, PATRIZIA provides asset management services for the real estate collateral.

In fiscal year 2006, the Real Estate Management line further expanded its commercial real-estate management activities. An invitation to tender resulted in a contract to manage the famous Munich "Kaufinger Tor" shopping arcade. The property currently contains 15 specialist shops, various food establishments, offices and apartments on a total surface area of approx. 9,600 m<sup>2</sup>. PATRIZIA's responsibilities range from commercial, technical and infrastructure management through letting to location marketing.

In the Sales Management line, various properties were sold in fiscal year 2006 in the context of existing contractual relationships for pension funds, leading to a significant decline in rental revenues attributable to the segment. Overall, 925 residential units and 94 commercial units with a total surface area of 62,000 m<sup>2</sup> were sold on behalf of third parties. The sale volume was around EUR 61.3 million. Furthermore, 200 residential units were sold for third parties to tenants, owner-occupiers and private investors in the form of one-off property resale.

#### 1.4 OUR EMPLOYEES

The expansion of the transaction volume and the growth achieved in fiscal year 2006 would not have been possible without the commitment and dedication of our employees. On average for the year, the headcount rose from 228 to 247 employees, an increase of 8.3 %. Overall, PATRIZIA made 13 vacancies available to trainees. The Group also supports the further development and training of its staff by actively assisting employees as they pursue courses of study alongside their career (such as Bachelor of Arts degrees focused on the real-estate industry).

#### 1.5 ASSESSMENT OF BUSINESS DEVELOPMENT IN 2006

Although domestic and foreign investors alike are showing an increasingly keen interest in the German real-estate market, PATRIZIA further extended its leading position as a market expert in that field. The entire cash inflow from the IPO was invested in extremely attractive real-estate portfolios in fiscal year 2006 itself.

In terms of purchases, we acquired round about 11,500 residential and commercial units for the Residential Property Resale and Asset Repositioning lines, thus securing the future success of the company. Even so, the company will continue to invest selectively in high-yield real-estate portfolios and utilize the market opportunities that arise.

We carried out the planned restructuring measures in the Services segment. Extension of our range of services and expansion of the existing service business will also generate stable income for PATRIZIA in future.

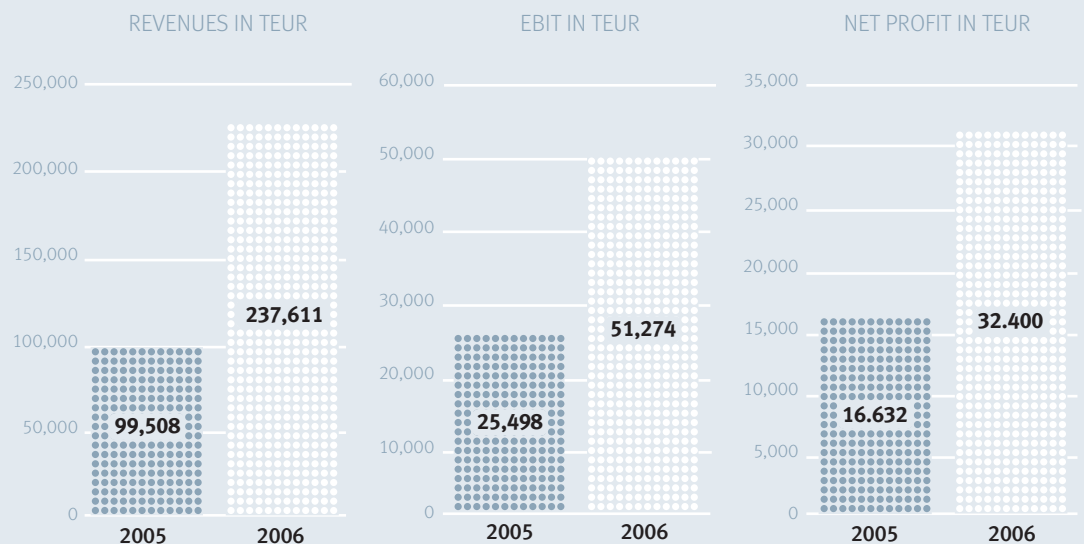
Overall, fiscal year 2006 was the most successful in the company's history, which stretches back over more than 20 years.

## 2. NET ASSET, FINANCIAL AND EARNINGS SITUATION

### 2.1 EARNINGS SITUATION OF THE PATRIZIA GROUP

Fiscal year 2006 was extremely successful for the PATRIZIA Group. Our aim was to increase significantly the strong

income of fiscal year 2005 by almost doubling it. EBIT moved up from EUR 25,5 million to EUR 51.3 million in fiscal year 2006, an increase of 101.1 %. Net profit rose by 94.8 % year-on-year to EUR 32.4 million.



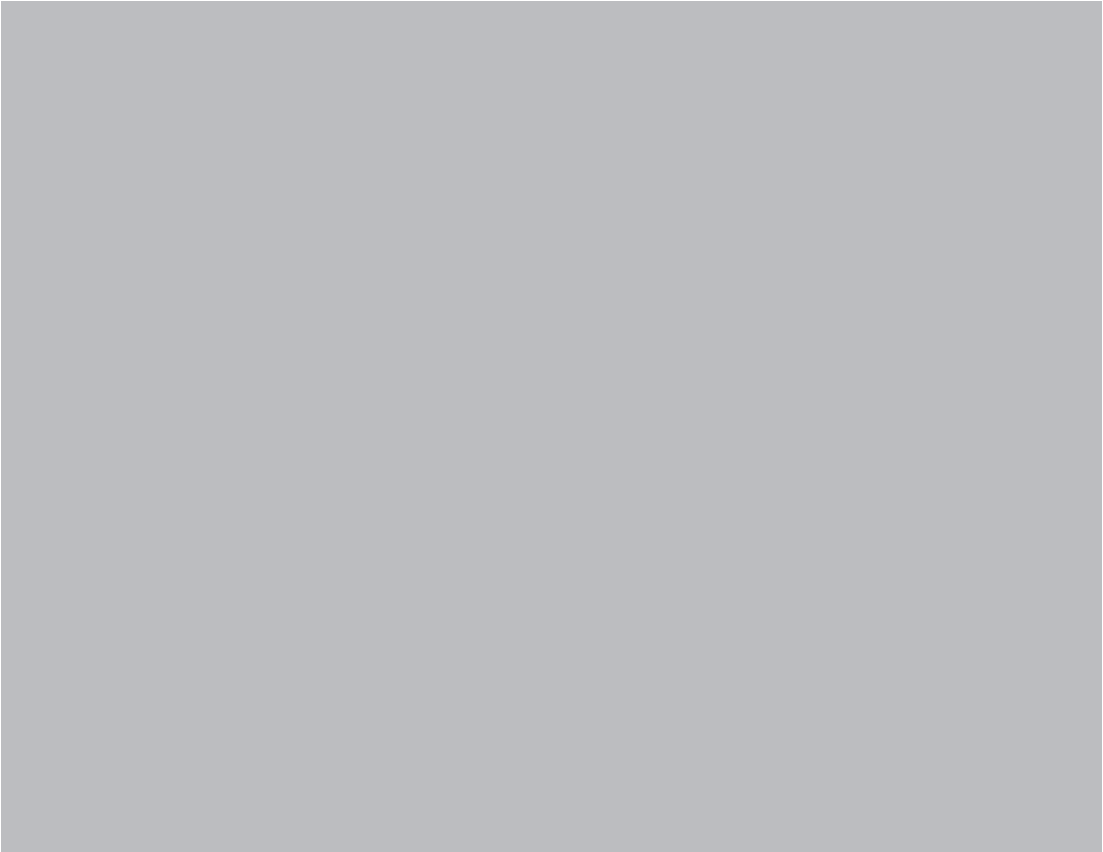
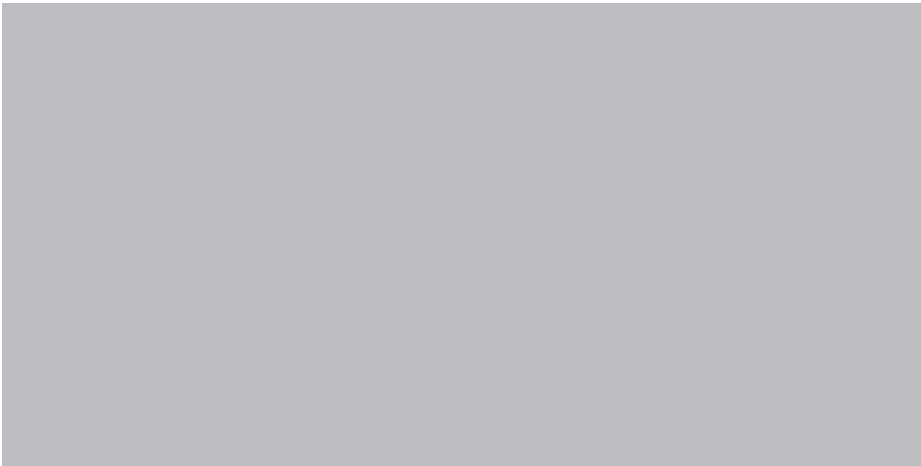
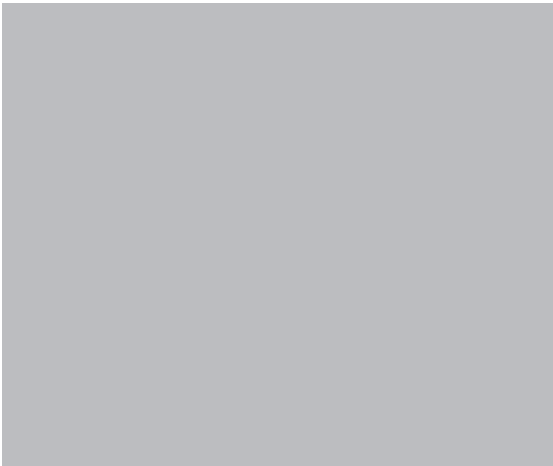
#### Development of Key P&L Items

In fiscal year 2006, consolidated revenues of PATRIZIA

were up EUR 99.5 million year-on-year to EUR 237.6 million. This equates to an increase of 138.8 %. The revenues breakdown is set out below:

	2006	2005	Change
	EUR'000	EUR'000	IN %
Purchase price revenues from property resale	152,158	57,757	163.4
Purchase price revenues from asset repositioning	58,864	15,034	291.5
Rental revenues	12,873	10,627	21.1
Service segment revenues	8,823	12,491	- 29.4
Other	4,893	3,599	36.0
<b>Consolidated revenues</b>	<b>237,611</b>	<b>99,508</b>	<b>138.8</b>





**Changes in inventories** totaled EUR 44.1 million in fiscal year 2006 (previous year: EUR 35.8 million). The volume of real-estate purchases in fiscal year 2006 was therefore greater than that of real-estate sales. It must be borne in mind here that the two large-scale portfolio purchases in November and December 2006 will not be entered until after the transfer of ownership in the 1<sup>st</sup> quarter of 2007. Taking into account other operating income of EUR 3.4 million, a total operating performance of EUR 285.1 million was attained (previous year: EUR 138.1 million).

The **cost of materials** in fiscal year 2006 totaled EUR 201.8 million (previous year: EUR 85.8 million), reflecting the increased purchasing activity and the resultant business growth of PATRIZIA.

**Staff costs** rose slightly in 2006 from EUR 12.4 million to EUR 14.9 million due to essential new recruitment. The headcount increased from 228 permanent employees to annual average for 2006 of 247.

There was a similar pattern for **other operating expenses**, which also rose to a lesser extent than revenues. Compared with 2005, other operating expenses increased by around 23.3 % to EUR 16.7 million. This item was also negatively impacted by the costs incurred as a result of the IPO, such as legal and tax consultancy costs as well as other consultancy costs.

	2006	2005	Change
	EUR'000	EUR'000	IN %
Administrative expenses	8,012	6,338	26.4
Selling expenses	6,902	5,843	18.1
Other expenses	1,792	1,366	31.2
<b>Other operating expenses</b>	<b>16,706</b>	<b>13,547</b>	<b>23.3</b>

The **financial result** improved compared with 2005 from EUR –5.4 million to EUR –4.1 million. This is chiefly attributable to interest income (EUR 2.1 million) as well as income from securities (EUR 0.5 million) arising from the temporary investment of the cash inflow from the IPO. In addition, revolving credit lines were occasionally reduced. Consequently, interest expenses increased only slightly to EUR –6.7 million (previous year: EUR –6.3 million) despite the expansion of business.

Due to the growth in revenues, **profit before income taxes** amounted to EUR 47.2 million, a year-on-year increase of 135.2 %. **Taxes on income** totaled EUR 14.8 million with an average tax rate of 31.4 %. The Group therefore generated a net profit of EUR 32.4 million in fiscal year 2006. This equates to an increase of 94.8 % compared with 2005.

As a result of the pleasing business development in 2006, the income key ratios rose strongly. EBIT as a key indicator in the Group increased from EUR 25.5 million to EUR 51.3 million in 2006. The breakdown of EBIT between the Investments, Services and Corporate

segments is set out in the segment reporting under item 7 of the notes to the consolidated financial statements.

The table below gives an overview of the key P&L items.

	2006	2005	Change
	EUR'000	EUR'000	IN %
Revenues	237,611	99,508	138.8
Total operating performance	285,082	138,122	106.4
EBITDA	51,718	26,401	95.9
EBIT	51,274	25,498	101.1
Profit before income taxes	47,200	20,064	135.2
Net profit	32,400	16,632	94.8

## 2.2 FINANCIAL SITUATION OF THE PATRIZIA GROUP

**Financing** of real-estate purchases is carried out at project level, and is under the responsibility and supervision of the Chief Investment Officer, who is a member of the Managing Board. As at December 31, 2006, liabilities to banks amounted to EUR 125.5 million, down around EUR 26.7 million year-on-year. The vast majority of bank loans are short-term and based on variable interest rates. In fiscal year 2006, the average interest rate was between 4.2 % and 5.2 %. Repayment is achieved through real-estate sales. A defined percentage of the sales proceeds is used to repay the loans. Interest rate risks are partially hedged by means of interest rate swaps. Interest rate swaps are valued at

market values, with valuation changes being treated with an impact on income unless these involve cash flow hedges that are directly recognized in equity. Further detailed explanations in this respect can be found in item 4.5 of the notes to the consolidated financial statements.

Liquidity management ensures that PATRIZIA is solvent at all times. The individual Group companies are directly linked to and monitored by the automatic cash pooling system of the Group. On a same-day basis, account surpluses are transferred to the parent company and account deficits are offset by it. To ensure the permanent solvency of the Group, a liquidity reserve is maintained in the form of credit lines and cash. As at December 31, 2006, cash and bank balances totaled EUR 83.2 million.

The higher liquidity holdings figure is chiefly attributable to the purchase price payments due in the 1<sup>st</sup> quarter of 2007 for the portfolios of MEAG and HDI Gerling for which commitments were received in November and December 2006.

In the **cash flow statement**, the payment flows are subdivided into cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

Summary of the 2006 Cash Flow Statement:

	2006	2005
	EUR'000	EUR'000
Consolidated profit after taxes	32,400	16,632
Cash outflow / inflow from operating activities	– 48,460	7,080
Cash outflow / inflow from investing activities	1,307	– 622
Cash outflow / inflow from financing activities	113,887	17
Change in operating activities of a cash nature	66,734	6,475
Cash and cash equivalents Jan. 1	16,477	10,002
<b>Cash and cash equivalents Dec. 31</b>	<b>83,211</b>	<b>16,477</b>

## 2.3 NET ASSET SITUATION OF THE PATRIZIA GROUP

The total assets of the Group rose by EUR 147.3 million to EUR 374.7 million in 2006. On the **assets side** of the balance sheet, inventories increased from EUR 189.5 million in 2005 to the current figure of EUR 228.4 million. Real estate that is held for the purpose of enhancement and sale in the context of ordinary activities is posted under inventories.

Other current assets increased by EUR 42.3 million to EUR 58.7 million. This chiefly includes the balance of an

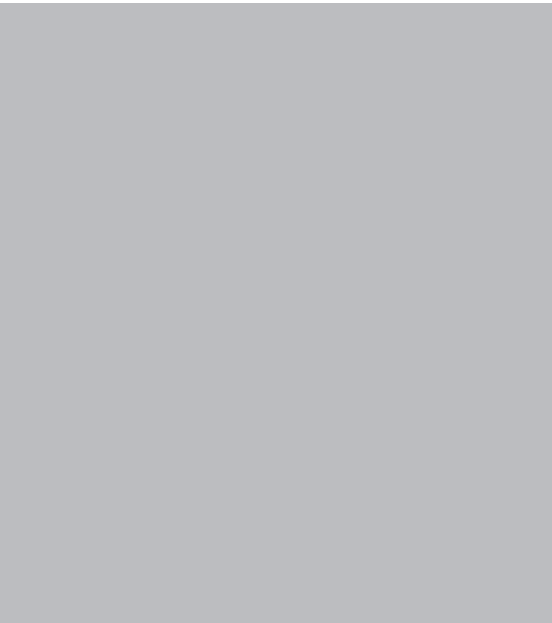
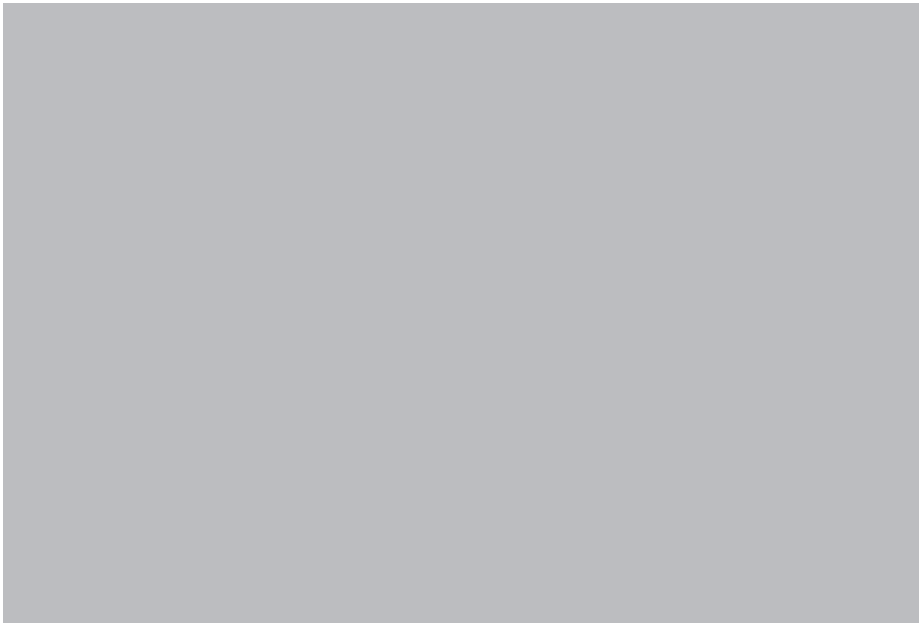
escrow account of EUR 25.0 million (previous year: EUR 0 million) in order to meet the contractual obligations in the context of a real-estate purchase for which the transfer of ownership, benefits and encumbrances is to take place no earlier than January 31, 2007.

As at December 31, 2006, cash and bank balances totaled EUR 83.2 million. The liquidity is partially provided for the purchase price payments due in the 1<sup>st</sup> quarter of 2007 for the portfolios of MEAG and HDI Gerling for which commitments were received in November and December 2006.

The increase in **liabilities** as at December 31, 2006 is chiefly attributable to the increase in equity following the IPO on March 31, 2006. Following a resolution of the Annual General Meeting on February 23, 2006, the share capital was first raised by means of a capital increase from shareholders' funds from EUR 5.05 million to EUR 40.4 million. Furthermore, following a resolution of the Extraordinary General Meeting on March 27, 2006, the share capital was increased by EUR 7.0 million to EUR 47.4 million by means of a capital increase in return for cash contributions. As at December 31, 2006, the share capital of the company consisted of 47,400,000 no-par-value bearer shares. The shares carry a full dividend entitlement as from January 1, 2006. There are no restrictions, special rights or similar agreements with regard to the shares.

EUR 117.8 million was allocated to the capital reserves of the Group as a result of the inflows from the IPO. Overall, equity increased year-on-year by EUR 149.6 million to the current figure of EUR 191.7 million. The equity ratio is therefore 51.2 %. In the long term, the Group is aiming for an equity ratio of approx. 25 %.

Group liabilities were reduced by 1.3 % to a total of EUR 182.9 million. This is mainly based on the full repayment of a long-term bank loan of EUR 2.9 million as well as the reduction of short-term bank loans to EUR 125.5 million (previous year: EUR 149.3 million).

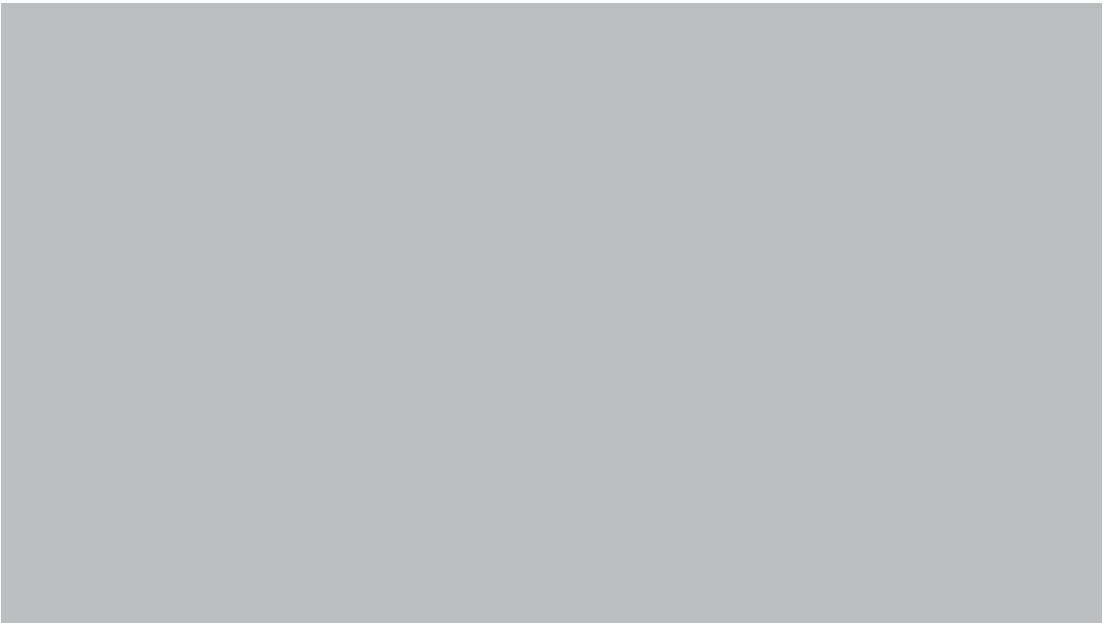
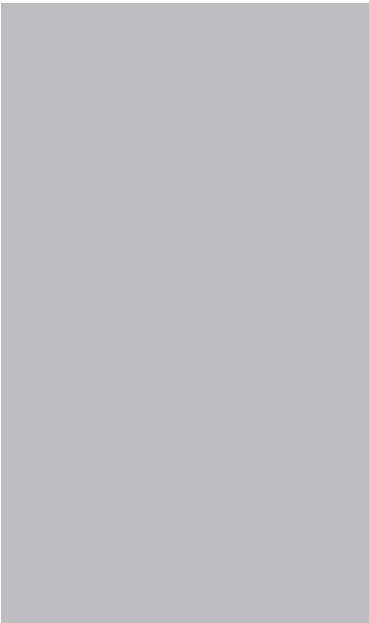


2.4. RELATED PARTY DISCLOSURES

The Managing Board has submitted a dependent company report to the Supervisory Board. The Managing Board has issued the following declaration regarding this report: “As the Managing Board of the company, we hereby declare that to the best of our knowledge at the time when the legal transactions listed in the report on relationships with affiliated companies were carried out and when measures were taken, the company received appropriate counterperformance and was not disadvantaged as a result of any action taken.”

2.5 FURTHER INFORMATION AFFECTING THE NET ASSET, FINANCIAL AND EARNINGS SITUATION

As at December 31, 2006, the share capital of the company consisted of 47,400,000 no-par-value bearer shares. All shares are admitted for trading on the official market in the Prime Standard of the Frankfurt Stock Exchange. As at December 31, 2006, First Capital Partner GmbH held 50.02 % of the shares. The Managing Board was not given the right to buy back shares in the company. With the consent of the Supervisory Board, the Managing Board is entitled to increase the share capital on one or more occasions by up to a total of EUR 20,200,000 in exchange for cash contributions or contributions in kind by issuing new no-par-value bearer shares (authorized capital) by February 23, 2011.



## 2.6 GENERAL STATEMENT ON THE NET ASSET, FINANCIAL AND EARNINGS SITUATION OF THE PATRIZIA GROUP AND THE PARENT COMPANY

The profit of the parent company PATRIZIA Immobilien AG consists of the operating profit of the company and income from participations as well as profits and losses of the subsidiaries with which a profit and loss transfer agreement exists. Revenues of EUR 8.1 million (previous year EUR 5.3 million) chiefly relate to management cost allocations. Net profit amounted to EUR 12.4 million (previous year EUR 3.0 million) and, in conjunction with the profit carryforward of EUR 0.3 million (previous year EUR 40.7 million), makes up the distributable profit of the company.

The posted consolidated equity figure is EUR 8.0 million more than the equity in the annual financial statements of the parent company mainly because of profits of Alte Haide Baugesellschaft mbH that are not intended for distribution (EUR 4.6 million). The posted capital reserve figure is EUR 4.7 million lower compared with the annual financial statements at the Group due to the offsetting of IPO costs with the capital reserve required by IFRS, whereas this is to be recognized as expenditure with a negative impact on income in the annual financial statements.

Overall, the highly positive business development of PATRIZIA is also reflected in the net asset, financial and earnings situation of the Group. The significant expansion of operating activities as well as the associated 138.8 % increase in revenues to EUR 237.6 million and the pleasing rise in net profit to EUR 32.4 million are indicators of the huge growth attained in fiscal year 2006.

The income from the IPO enables PATRIZIA to participate in larger-scale real-estate transactions. The commitment of some 9,092 residential units and 450 commercial units in the 4<sup>th</sup> quarter of 2006 clearly illustrates the potential of the Group for the forthcoming fiscal years.

## 3. RISK REPORT

### 3.1 RISK MANAGEMENT

For PATRIZIA Immobilien AG ("PATRIZIA"), risk management means the targeted securing of existing and future success potential as well as improving the quality of the planning processes within the company. The aim is to ensure sustainable growth and achieve an increase in enterprise value. Our risk management is based on a systematic process of early risk detection as well as risk assessment, analysis and control.

We believe in the importance of a balanced opportunity/risk ratio in all transactions, processes and activities of the company. Our method is to enter into appropriate risks if there is a strong likelihood of realizing the associated sustained value enhancement potential of PATRIZIA. We do not enter into risks with which we do not expect sustained value enhancement or which appear unlikely to result in value enhancement. If they are unavoidable, we hedge them via risk instruments.

The net asset, financial and earnings situation of the Group is secured by means of a structured risk management system. This enables the Group management to identify unfavorable developments at an early stage, i.e. early enough before a detrimental event to ensure that countermeasures can be taken.

The risk management system covers the holding company PATRIZIA Immobilien AG as well as all associated subsidiaries. Group-wide risk provisioning is centrally managed and monitored by the holding company. A risk management working group, which is organizationally assigned to the Controlling segment, regularly reports direct to the Managing Board on material developments in risk management. A risk report is prepared by the risk management working group on the basis of a risk inventory carried out each year throughout the Group. In addition, all management staff, including those from the operating companies, are informed of the results of the risk inventory. Furthermore, the appropriateness and efficiency of our risk management system is monitored, enhanced and, if applicable, adapted at regular intervals.

Individually, or in conjunction with other situations, entry into the individual risks described below can impair the operating activities of PATRIZIA and negatively impact the net asset, financial and earnings situation of the Group. The risks listed may not be the only risks to which PATRIZIA is exposed. Other risks of which the Group is not currently aware or risks that we regard as immaterial at present could also impair our operating activities.

### 3.2 MARKET-RELATED RISKS

#### Macroeconomic Development Risks

The operating activities of PATRIZIA are focused on the socially compatible resale of residential property, i.e. the sale of residential real estate to tenants, owner-occupiers and private investors. Another focal point is the sale, letting and extensive management of residential

and commercial real estate. PATRIZIA currently operates on the German real-estate market only. Even so, our market environment is influenced by national, European and/or global economic factors. Uncertainty due to negative economic trends, an increase in unemployment or other negative disposable income trends can reduce demand for apartments. Military or terrorist activity can cause a decline in demand for residential real estate in Germany or for real-estate management services in general.

An interest rate rise in Germany would make it harder to buy real estate due to a higher interest burden. This would negatively impact the financing costs of the Group. PATRIZIA would have to expect increased interest expenses for existing floating-rate loans as well as for future financing, which could have a sustained negative effect earnings situation of the Group.

#### Risks of the German Real-Estate Market

A decline in conditions on the German real-estate market and/or falling real-estate prices in Germany could also negatively impact the operating activities of PATRIZIA.

Growing competition as a result of new national and international demand for real estate could push up prices for portfolio acquisition candidates, which could cause a decline in the currently positive general conditions for purchasing such portfolios.

As well as, growing competition as a result of new national and international real-estate service providers could push down prices for such services. This could negatively impact the earnings situation of PATRIZIA's Services segment.



### 3.3 BUSINESS RISKS

Business risks are often also called operational risks. These include all business risks that can impact a company negatively. PATRIZIA divides business risks into risk fields, which are described in more detail below.

#### **Business Segment Risks**

PATRIZIA's business model in the Investments segment is dependent on buying real estate, implementing value-enhancing projects in this real estate and selling this real estate to private and institutional investors. Changes in the market, prices, competition and/or political influencing factors could make it harder for PATRIZIA to purchase real estate suitable for its business model at appropriate prices. Even if we succeed in purchasing real estate suitable for our business model, general conditions could decline. Assumptions made when purchasing the real estate could prove to be inaccurate due to the changed conditions and could delay or derail the resale of the real estate or individual apartments. This could also negatively impact the earnings situation of the Group.

As explained above, competition on the German real-estate market could grow further. Intensified competition could result in price falls, lower margins due to relatively higher purchase prices or losses of market share of PATRIZIA. These developments could have a negative effect on the earnings situation of the Investments segment as well as the Services segment.

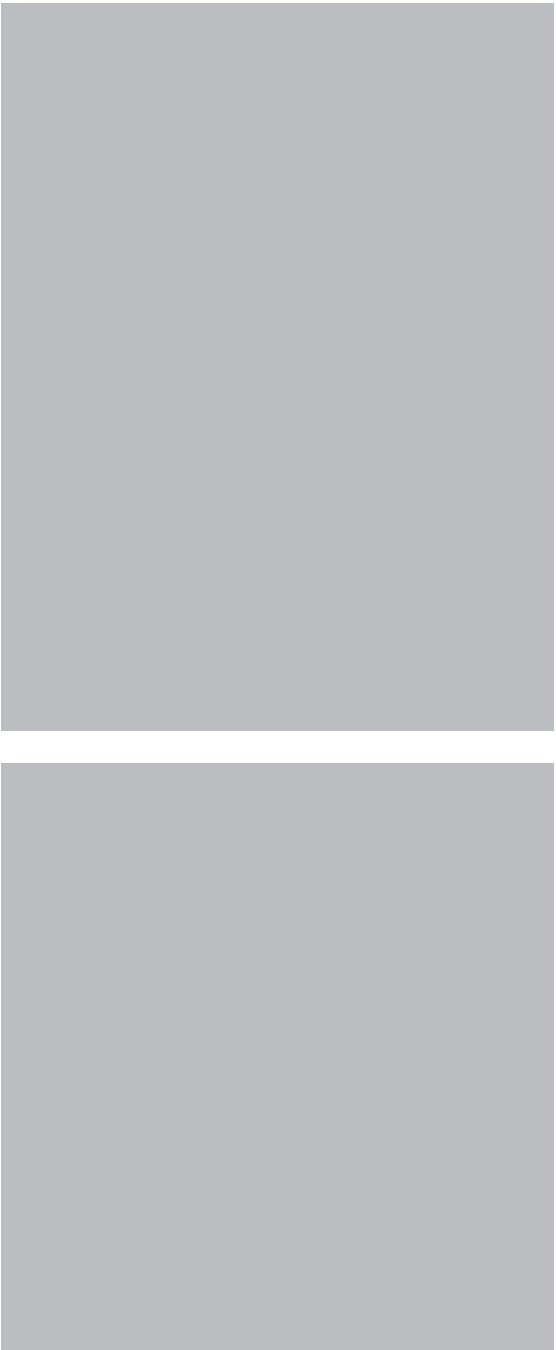
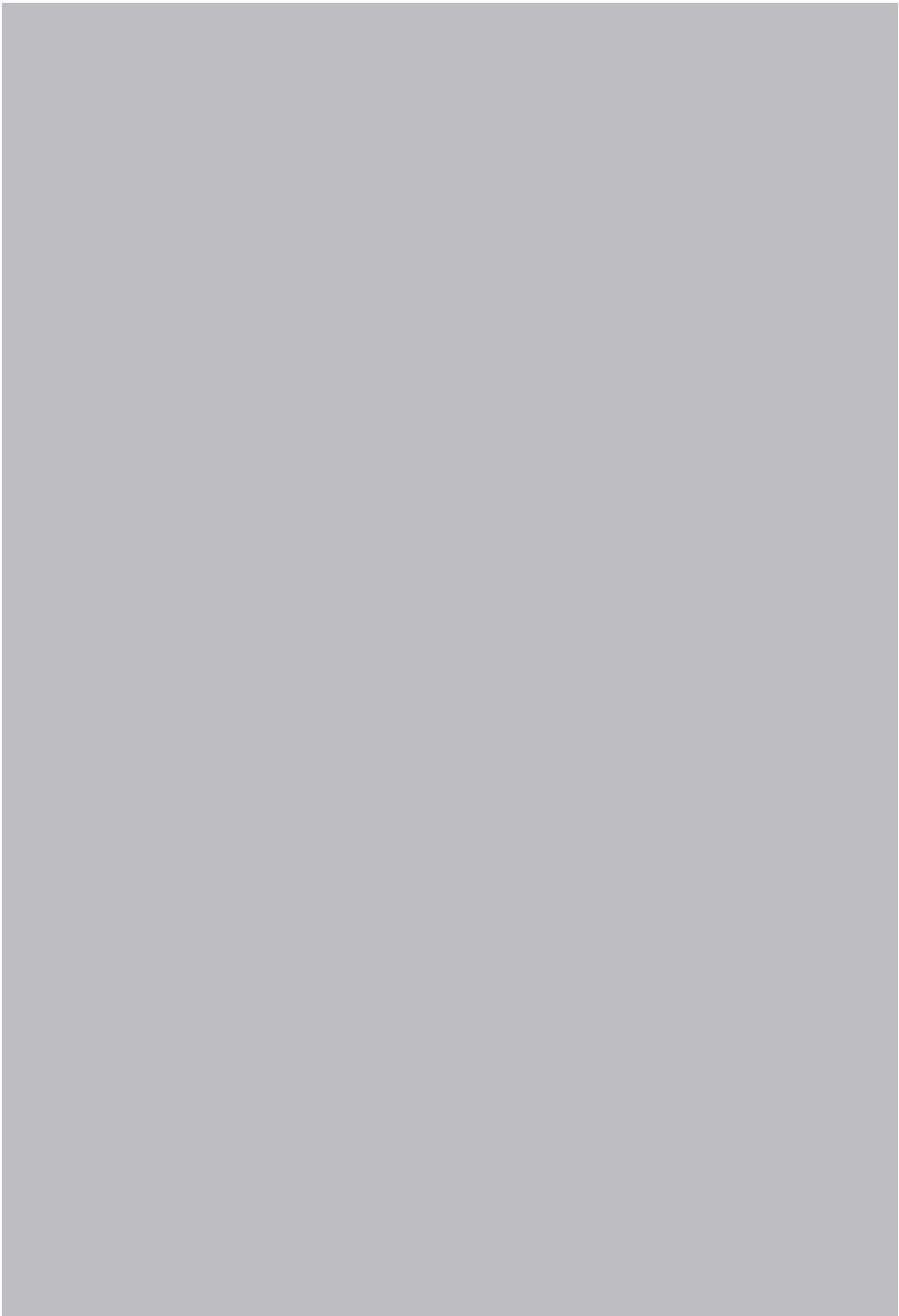
Delays of construction measures, overspends or failure to meet deadlines due to circumstances beyond PATRIZIA's control, such as weather damages, insolvency of contracting partners etc., could also have a negative effect on the earnings situation of the Group.

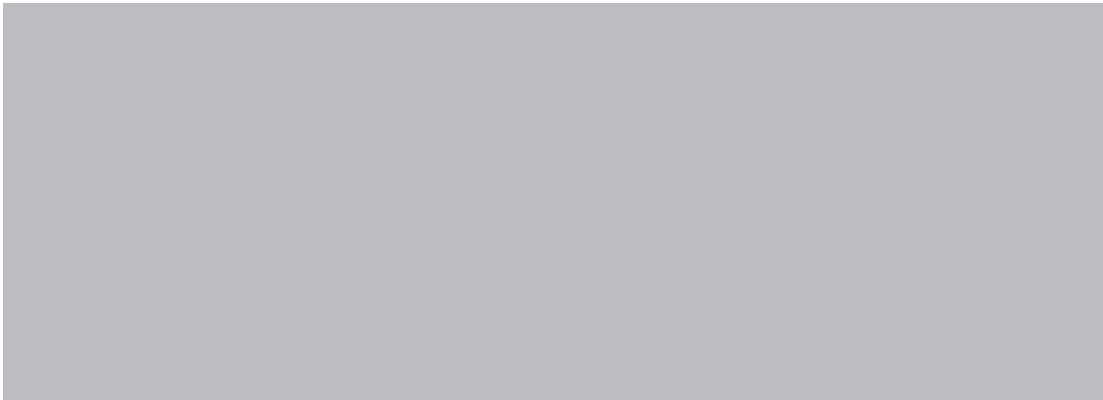
#### **Personnel Risks**

The commercial success of PATRIZIA crucially depends on the management and employees. The growth planned by PATRIZIA and the maintenance of our market position could be jeopardized if we had to get rid of individual managers or employees. Furthermore, we also need additional qualified employees in order to see through the expansion. If we fail to recruit the necessary employees, this could have a significant negative effect on our business development.

#### **IT Risks**

Any fault or impairment of the reliability or security of the IT system could lead to interruption of operating activities and thus to increased costs. To protect our IT-based business processes, the information technology deployed is constantly subject to examination, enhancement and adaptation.





**Financing Risks**

With regard to existing loans with which the current assets are financed in the short term and that are due for repayment, PATRIZIA is reliant on extension or re-financing of these loans. In the same way, the acquisition of further real-estate portfolios requires additional borrowing. In both the above cases, there is the risk that external capital may not be available to PATRIZIA at all times to the necessary extent on commercially attractive terms. If PATRIZIA cannot conclude extensions of existing liabilities, refinancing and acquisition financing to the desired extent or only on commercially unattractive terms, this could adversely affect PATRIZIA's competitiveness and its net asset, financial and earnings situation.

Interest rate analyses are regularly prepared and derivative financial instruments and the like are regularly used to optimize and control these risks.

**Regulatory and Legal Risks**

In the context of our operating activities, PATRIZIA could be involved in legal disputes. At present, there are no major legal disputes and/or claims for compensation that jeopardize the existence of the company or have significant negative effects on the earnings situation of PATRIZIA.

Changes to laws and regulatory requirements such as tenancy law or planning permission procedures etc. could negatively impact our business development in future.

**Partner Risks**

Partner risks are risks arising from business relationships with customers and suppliers. Precise observation of market conditions, an extensive supplier and customer base, regular checks and purchasing policy measures

are intended to minimize the risk in this area. Even so, non-adherence to supplier deadlines and/or insufficient quality of supplier services, for example, involve risks that could negatively impact the business development of PATRIZIA.

### 3.4 ASSESSMENT OF THE OVERALL RISK

As described above, PATRIZIA has taken the necessary measures and installed processes for detecting risks and negative developments at an early stage and countering them. Taking into account all relevant individual risks and a possible cumulative effect, the continued existence of PATRIZIA is not jeopardized. In addition, the Managing Board is not currently aware of any risks that may jeopardize the existence of the company in future.

## 4. SUPPLEMENTARY REPORT

After the end of fiscal year 2006, the company placed 4,730,000 no-par-value bearer shares with institutional investors on January 12, 2007 in the context of a cash capital increase with no subscription right. The price per share was EUR 22.00. The gross issue volume was therefore around EUR 104 million.

The cash inflow from the capital increase will partly be used to finance real-estate portfolios purchased in the fourth quarter of 2006 that will become due for payment in the first quarter of 2007. However, most of the income is earmarked for the future purchase of additional real-estate portfolios.

As a result of the capital increase, the share capital of PATRIZIA increased by EUR 4,730,000 to EUR 52,130,000, boosting the company's free float to 54.52 %. In contrast, the shareholding of First Capital Partner GmbH was reduced from 50.02 % to 45.48 %.

5. FORECAST REPORT

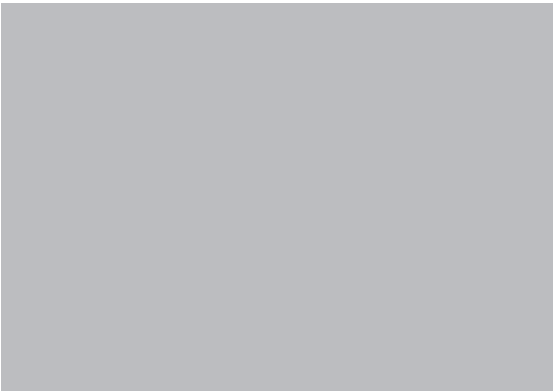
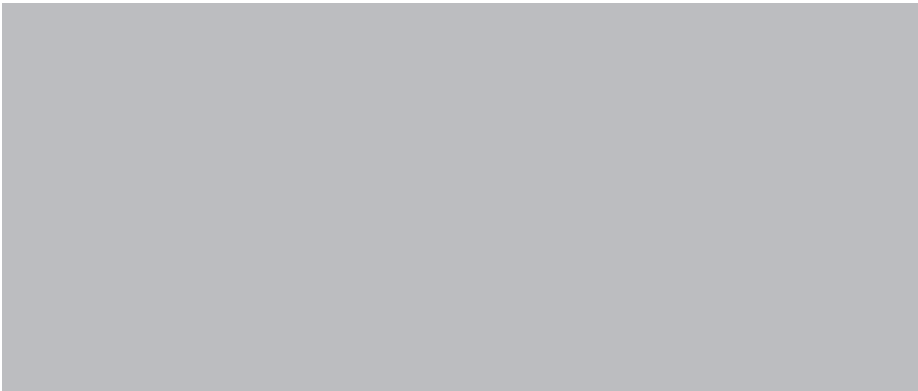
5.1 FOCUS OF  
PATRIZIA IMMOBILIEN AG

PATRIZIA will maintain its business model as an independent real-estate investor and service provider over the next 24 months. In our two segments, Investments and Services, we have outstanding expertise, long-standing experience and detailed market knowledge. Our employee team and our eight offices throughout Germany enable us to continuously expand our areas of activity with a focus on Germany.

In the Investments segment, PATRIZIA will continue to invest in selected real estate for the purpose of residential property resale and asset repositioning as well as for the project development sector. In the next two fiscal years, the focus will remain on the residential property resale sector in Germany. Furthermore, the sub-segments of Asset Repositioning and Project Development are likely to be expanded further. In the Services segment, we offer our real-estate expertise to external third parties who are interested in a long-term investment in real estate. The focus remains on investment manage-

ment and the asset management sector. As recently as the fourth quarter of 2006, we applied to the German Federal Office for Financial Services Supervision (BaFin) for the establishment and authorization of an investment company. We expect to receive authorization from BaFin in the 1<sup>st</sup> quarter of 2007.

With this step, PATRIZIA is extending its value-added chain in the Services segment. We are thus able to cover the entire range of real-estate services. The range of services extends from fund initiation – two open-ended residential real-estate funds as well as individual fund concepts for institutional investors are initially planned – through to handling the respective exit strategy. In addition, PATRIZIA will take responsibility for investment management in suitable real estate in accordance with the fund criteria. In line with PATRIZIA's approach as a full service provider, we will of course also take on the asset and property management for the above-mentioned open-ended funds or individual fund structures. Naturally, holders of real estate can also request bespoke individual services only.



The extension and expansion of both segments are intended to ensure the long-term profitable growth of PATRIZIA and further increase our market share.

## 5.2 THE GLOBAL ECONOMY AND THE MARKET

Although the global economic upturn is set to slow down in some regions, it will continue overall in 2007. In Germany in particular, the economy is therefore expected to weaken temporarily in the medium term.

Even so, we expect the real-estate market in Germany to continue its positive development. On the demand side, residential real estate as an investment category remains an attractive investment alternative for private investors in particular. With rising rents and falling vacancy rates in the major conurbations as well as moderate new construction activities, we believe that the trend for investment in residential real estate is continuing. We also continue to regard international demand for real estate in Germany as positive. On the

supply side, we expect sales in various size categories for the next 24 months, particularly in the residential real-estate sector. We are sure that we will identify the portfolios that meet our purchase criteria here.

## 5.3 EXPECTED EARNINGS SITUATION

If our economic assessments and market expectations prove correct, we expect further sustained growth of PATRIZIA in both segments, Investments and Services, for fiscal years 2007 and 2008.

Our target for fiscal year 2006 was to almost double the net profit of 2005. We achieved this with an increase of EUR 16.6 million to EUR 32.4 million. We have again set growth targets for the subsequent fiscal years. For fiscal year 2007, we aim to increase net profit by almost 50 % compared with the previous year. For fiscal year 2008, we also expect a significant increase in income compared with the previous year. Around 90 % of income is likely to be generated by the Investments segment and around 10 % by the Services segment.

Accordingly, for fiscal years 2007 and 2008, we expect expansion of revenues coupled with the generation of stable margins.

#### 5.4 DIVIDEND POLICY

PATRIZIA firmly believes in growth. Even so, it is highly important for the committees of the company to let the shareholders participate directly in the success of PATRIZIA. The level of the dividend is also to be geared towards the development and earnings growth of PATRIZIA in future.

#### 5.5 EXPECTED FINANCIAL SITUATION

We intend to finance the planned investment from the generated cash flow of PATRIZIA and by taking out loans. Existing financing plans relate to acquisition of the real-estate portfolios acquired in November and December 2006, which are to be externally financed in the usual way. If investment opportunities arise in the next 24 months for PATRIZIA that cannot be financed from the company's own cash flow or from external capital, we cannot rule out financing via the capital market.

#### 5.6 EMPLOYEES

The commercial success of PATRIZIA crucially depends on the management and employees. With regard to Management Board remuneration, please refer to the information in the notes. The management remuneration system currently consists of fixed and variable, performance-related components. PATRIZIA plans to introduce a new management investment model that meets the requirements of the capital market. To achieve the planned growth and maintain our market position, the company will continue to need qualified employees. As in previous years, the company plans to recruit around 15 – 20 % of new employees in all areas of the Group. We will maintain our strong belief in training and developing our employees. Our aim is still to be able to offer a training place to as many young people as possible, thus helping them to get on the career ladder. Overall, staff costs of the Group totaled EUR 14.9 million in fiscal year 2006. This figure is set to rise in the next few fiscal years, but at a slower pace than revenues and income, as scheduled.

Overall, we are confident of having put in place the essential conditions for attaining our growth targets taking into account the risk allocation and strict cost discipline. Our target is to ensure sustained growth and further increase the value of the company. On the basis of current expectations, economic trends and the essential conditions put in place at PATRIZIA, we believe that we can also continue the pleasing performance of fiscal year 2006 in the next few fiscal years.



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## IFRS – CONSOLIDATED BALANCE SHEET TO DECEMBER 31, 2006

### ASSETS

	Notes to consolidated financial statements	2006	2005
A. NON-CURRENT ASSETS		EUR'000	EUR'000
Software	4.1	237	234
Investment Property	4.1	0	1,700
Equipment	4.1	1,472	1,271
Securities	4.1	0	247
Participations	4.1	1	0
Tax assets	4.2	361	0
Deferred tax assets	4.3	1,470	1,560
<b>Total non-current assets</b>		<b>3,541</b>	<b>5,012</b>
B. CURRENT ASSETS			
Inventories	4.4	228,403	189,516
Interest-rate swaps	4.5	827	0
Current receivables and other current assets	4.6	58,684	16,395
Bank balances and cash	4.7	83,211	16,477
<b>Total current assets</b>		<b>371,125</b>	<b>222,388</b>
<b>TOTAL ASSETS</b>		<b>374,666</b>	<b>227,400</b>

## EQUITY AND LIABILITIES

	Notes to consolidated financial statements	2006	2005
A. EQUITY		EUR'000	EUR'000
Share capital	5.1.1	47,400	5,050
Capital reserves	5.1.2	118,398	573
Retained earnings			
- legal reserves	5.1.3	505	505
- other retained earnings		0	0
Valuation results from cash flow hedges	4.5	475	0
Consolidated net profit		24,946	35,976
<b>Total Equity</b>		<b>191,724</b>	<b>42,104</b>
B. LIABILITIES			
<b>NON-CURRENT LIABILITIES</b>			
Long-term bank loans	5.2	0	2,858
Interest-rate swaps	4.5	946	1,541
Retirement benefit obligations	5.3	306	285
<b>Total non-current liabilities</b>		<b>1,252</b>	<b>4,684</b>
<b>CURRENT LIABILITIES</b>			
Short-term bank loans	5.2	125,494	149,298
Other provisions	5.4	535	521
Current liabilities	5.5	44,489	23,560
Tax liabilities	5.6	10,810	6,295
Other current liabilities		362	938
<b>Total current liabilities</b>		<b>181,690</b>	<b>180,612</b>
<b>TOTAL ASSETS</b>		<b>374,666</b>	<b>227,400</b>

## IFRS – CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the period from January 1, 2006 to December 31, 2006

	Notes to consolidated financial statements	2006	2005
		EUR'000	EUR'000
1. Revenues	6.1	237,611	99,508
2. Changes in inventories	6.2	44,114	35,823
3. Other operating income	6.3	3,357	2,791
<b>4. Total operating performance</b>		<b>285,082</b>	<b>138,122</b>
5. Cost of material	6.4	– 201,777	– 85,815
6. Staff costs	6.5	– 14,882	– 12,359
7. Amortization of software and depreciation on equipment	6.6	– 593	– 603
8. Results from fair value adjustments to investment property	6.7	150	– 300
9. Other operating expenses	6.8	– 16,706	– 13,547
10. Finance income	6.9	2,645	829
11. Finance cost	6.9	– 6,719	– 6,263
<b>12. Profit before income taxes</b>		<b>47,200</b>	<b>20,064</b>
13. Income tax	6.10	– 14,800	– 3,432
<b>14. Net profit</b>		<b>32,400</b>	<b>16,632</b>
15. Profit carried forward		0	19,349
16. Allocation to retained earnings			
a) legal reserves		0	– 5
b) other retained earnings		– 7,454	0
<b>17. Consolidated net profit</b>		<b>24,946</b>	<b>35,976</b>
Earnings per share (undiluted)	6.11	€ 0.71	€ 0.41

**IFRS – CONSOLIDATED CASH FLOW STATEMENT**

for the period from January 1, 2006 to December 31, 2006

	2006	2005
	EUR'000	EUR'000
Consolidated profit after taxes	32,400	16,632
Amortization of intangible assets and depreciation on property, plant and equipment	593	603
Write-down of securities	0	8
Results from fair value adjustments to investment property	– 150	300
Loss from / gain on disposal of fixed assets	– 8	– 64
Change in deferred taxes	90	847
Non-cash item income and expenses that are not attributable to financing activities	– 947	0
Change in retirement benefit obligations	21	– 49
Changes in inventories, receivables and other assets that are not attributable to investing activities	– 81,537	– 42,933
Changes in liabilities that are not attributable to financing activities	1,078	31,736
<b>Cash outflow / inflow from operating activities</b>	<b>– 48,460</b>	<b>7,080</b>
Capital investments in intangible assets and property, plant and equipment	– 804	– 1,115
Cash receipts from disposal of intangible assets and property, plant and equipment	15	122
Cash receipts from disposal of investment property	1,850	0
Investments	– 1	0
Cash receipts from disposal of financial assets	247	371
<b>Cash outflow / inflow from investing activities</b>	<b>1,307</b>	<b>– 622</b>
Dividend of PATRIZIA Immobilien AG	– 8,080	– 555
Capital increase of PATRIZIA Immobilien AG	129,500	623
Repayment of long-term loans	– 2,858	– 51
Other cash inflows or outflows from financing activities	– 4,675	0
<b>Cash outflow / inflow from financing activities</b>	<b>113,887</b>	<b>17</b>
<b>Change in operating activities of a cash nature</b>	<b>66,734</b>	<b>6,475</b>
Cash January 1	16,477	10,002
Cash December 31	83,211	16,477

## IFRS – STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

for the period from January 1, 2006 to December 31, 2006

	Share capital	Capital reserves	Retained earnings (legal reserve)	Retained earnings (other)	Valuation results from cash flow hedges	Consolidated net profit	Minority interest	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>Balance January 1, 2006</b>	<b>5,050</b>	<b>573</b>	<b>505</b>	<b>0</b>	<b>0</b>	<b>35,976</b>	<b>0</b>	<b>42,104</b>
Capital increase out of retained earnings	35,350					–35,350	0	0
Capital increase (net receipts from IPO)	7,000	117,825						124,825
Dividend						–8,080	0	–8,080
Results from fair valuation adjustments cash flow hedges					475			475
Net income for the period						32,655	–255	32,400
Reclassification of minority interests						–255	255	0
<b>BALANCE</b>								
<b>DECEMBER 31, 2006</b>	<b>47,400</b>	<b>118,398</b>	<b>505</b>	<b>0</b>	<b>475</b>	<b>24,946</b>	<b>0</b>	<b>191,724</b>

## IFRS – STATEMENT OF CHANGES IN CONSOLIDATED EQUITY (REPORTING PERIOD PREVIOUS YEAR)

for the period from January 1, 2005 to December 31, 2005

	Share capital	Capital reserves	Retained earnings (legal reserve)	Retained earnings (other)	Valuation results from cash flow hedges	Consolidated net profit	Minority interest	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>Balance January 1, 2005</b>	<b>5,000</b>	<b>0</b>	<b>500</b>	<b>0</b>	<b>0</b>	<b>19,904</b>	<b>0</b>	<b>25,404</b>
Capital increase	50	573						623
Dividend						–555	0	–555
Net income for the period			5			16,900	–273	16,632
Reclassification of minority interests						–273	273	0
<b>BALANCE</b>								
<b>DECEMBER 31, 2005</b>	<b>5,050</b>	<b>573</b>	<b>505</b>	<b>0</b>	<b>0</b>	<b>35,976</b>	<b>0</b>	<b>42,104</b>

## IFRS – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS TO DECEMBER 31, 2006

### GENERAL INFORMATION

PATRIZIA Immobilien AG is a listed German joint stock corporation based in Augsburg. The business premises of the company are located at Fuggerstraße 26, 86150 Augsburg. The company operates on the German real-estate market and performs all services in the value-added chain in the real-estate sector.

### 1. PRINCIPLES FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of PATRIZIA Immobilien AG to December 31, 2006 were prepared in line with IFRS, as accepted in the EU, and in compliance with the provisions of German commercial law applicable as per section 315a paragraph 1 of the German Commercial Code. In this respect, the accounting standards applied are those adopted by the EU in the context of the endorsement process up to December 31, 2006, i.e. those published in the Official Journal of the EU. The consolidated financial statements of PATRIZIA Immobilien AG prepared on this basis conform to the original IFRS and therefore to the International Financial Reporting Standards (IFRS). All compulsory official announcements of the International Accounting Standards Board (IASB) have been applied. The following standards were taken into account in exercising of the options granted by the IASB in the applicable version dated 2006.

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 and Separate Financial Statements as per IFRS
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IFRS 3	Business Combinations

The rules for financial instruments applicable to fiscal years that begin after January 1, 2007 in line with IFRS 7 and IAS 1 have not yet been applied. We do not expect their future application to have any impact.

For the first-time preparation of the consolidated financial statements in line with the accounting standards adopted by the EU as at December 31, 2003, the following conveniences as per IFRS 1 were used:

- ▶ Business combinations (first-time application to business combinations from January 1, 2002)
- ▶ Employee benefits (the value of the pension provision as at January 1, 2002 includes the actuarial gains and losses from previous periods)

The balance sheet presentation is geared towards the maturity of the corresponding assets and liabilities. Assets and liabilities are regarded as short-term if their realization or repayment is expected within the normal course of the business cycle of the Group or, in relation to assets, if the latter are held for sale within this period. The nature of expense method was selected for the profit and loss account.

The fiscal year corresponds to the calendar year. The consolidated financial statements were prepared in euro. The amounts, including the previous year's figures, are stated in T€ (thousand euros).

Material differences of the accounting, valuation and consolidation methods compared with the German Commercial Code:

- ▶ Investment property valued at market value;
- ▶ Interest rate swaps valued at market value, with valuation changes being treated with an impact on income unless these involve cash flow hedges that are directly recognized in equity under a separate item;
- ▶ Deferred taxes.

As at December 31, 2006, the majority shareholder of PATRIZIA Immobilien AG, with a stake of 50.02 %, was First Capital Partner GmbH, of which WE Vermögensverwaltung GmbH & Co. KG is in turn the majority shareholder.

## 2. SCOPE OF CONSOLIDATION AND CONSOLIDATION METHODS

### 2.1 SCOPE OF CONSOLIDATION

All subsidiaries of PATRIZIA Immobilien AG are subsumed under the consolidated Group, which includes all companies controlled by PATRIZIA Immobilien AG. Control is regarded as the possibility of determining the business and financial policy of the subsidiary in order to benefit from its commercial activities.

Control is assumed if PATRIZIA Immobilien AG directly or indirectly holds the majority of voting rights in another company.

All the companies included in the consolidated financial statements of PATRIZIA Immobilien AG can be found in the list of shareholdings at the end of the notes to the consolidated financial statements.

Associated companies are companies that do not meet the criteria of a subsidiary or joint venture and whose business and financial policy can be significantly influenced by PATRIZIA Immobilien AG. A significant influence is assumed if a direct or indirect voting right share of at least 20 % is held in another company. Associated companies are included in the consolidated financial statements in line with the equity method.

A participation in an associated company was sold on December 29, 2005. The assets, liabilities and income attributable to the Group in the previous year are insignificant from a Group viewpoint.

In addition to the parent company, the scope of consolidation comprises 57 subsidiaries. They are included in the consolidated financial statements in line with the rules of full consolidation. There were no longer any associated companies as at the balance sheet date.

A proportion of the real estate in Munich Schwabing and Munich Allach/Untermenzing held by Alte Haide Baugesellschaft mbH does not satisfy the criteria for a business combination defined in IFRS 3. The corresponding figure is thus recognized in assets as a partial acquisition in the consolidated financial statements.

The financial statements of the subsidiaries included in the consolidated financial statements are prepared on the balance sheet date of the annual financial statements of PATRIZIA Immobilien AG. The annual financial statements of Wohnungsgesellschaft Olympia mbH, with a balance sheet date of November 30, are converted to the balance sheet date of the consolidated financial statements. The financial statements are prepared in line with uniform accounting and valuation principles.

## COMPANY ACQUISITIONS, SALES AND INTERCOMPANY RESTRUCTURING

Two subsidiaries, PATRIZIA Projekt 130 GmbH and PATRIZIA Projekt 210 GmbH & Co. KG, were sold in the reporting year. PATRIZIA Immobilien AG still holds a 5.2 % share in PATRIZIA Projekt 130 GmbH. The book value is T€ 1. There were no other business combinations as defined by IFRS 3 or company sales. In fiscal year 2006, in order to purchase real-estate portfolios, PATRIZIA Immobilien AG set up a total of 30 shell companies, of which 21 are based in Germany and 9 in Luxembourg.



The results of the subsidiaries established or sold during the year are included in the consolidated profit and loss account on or by the date when the acquisition or sale takes place, according to the effective date of establishment.

## 2.2 CAPITAL CONSOLIDATION THROUGH FULL CONSOLIDATION

All subsidiaries are included in the consolidated financial statements through full consolidation. Since January 1, 2002, accounting for acquired subsidiaries has been carried out in line with the acquisition method as per IFRS 3. Purchases of shares in companies before this date were still carried out on the basis of the book value method whilst using the facility options of IFRS 1.

The date of first-time consolidation is the date of acquisition and therefore the date on which control of the net worth and operating activities of the acquired company is actually transferred to the parent company. The acquisition costs consist of the cash used for the acquisition plus the ancillary acquisition costs directly attributable to the acquisition. The calculated acquisition costs are split between the identifiable assets and liabilities of the acquired company. If the acquisition costs exceed the share in the re-valued net worth of the acquired company apportionable to the parent company, goodwill is to be applied. In the reverse case, negative goodwill is to be recognized as income. The equity share held in the acquired company is the crucial factor in determining the net worth apportionable to the Group. The re-valued net worth must be applied in full. Shares allocated to minority shareholders are posted separately within the consolidated equity. If the loss of a period apportionable to the minority shareholders exceeds the minority interest to be posted in the consolidated balance sheet, this is offset against the majority share in the consolidated equity.

## 2.3 INCLUSION OF ASSOCIATED COMPANIES THROUGH THE EQUITY METHOD

There was no participation in an associated company in the reporting year.

## 2.4 CONSOLIDATION OF LIABILITIES, EXPENSES AND INCOME AND INTRA-GROUP RESULTS

Intercompany balances, transactions, profits and expenditure of the companies included in the consolidated financial statements by means of full consolidation are fully eliminated. Deferred taxes are stated for temporary differences arising from the elimination of profits and losses as a result of transactions within the Group.

## 2.5 CURRENCY TRANSLATION

The scope of consolidation is made up only of subsidiaries located in the European Currency Union. Consequently, there are no financial statements in a foreign a currency that would need to be translated.

## 3. SUMMARY OF KEY ACCOUNTING AND VALUATION POLICIES

The financial statements included in the consolidated financial statements are prepared in line with uniform accounting and valuation principles.

### 3.1 SOFTWARE AND EQUIPMENT

Software and equipment are recognized at cost at the date of addition. Subsequent valuation provides for the carrying out of scheduled and, if applicable, unscheduled amortization as well as appreciation taking into account the historical cost principle (= valuation at amortized cost).

Acquisition costs cover the directly attributable purchase and commitment costs. Borrowing costs are recorded as expenses in the period in which they were incurred.

Scheduled amortization is carried out using the straight-line method. It starts as soon as the asset can be used and ends with divestiture of the asset. The amortization period is geared towards the expected useful life. Acquired software is amortized over three to five years. Equipment is amortized over three to 14 years.

### 3.2 IMPAIRMENT OF ASSETS

Assets subject to scheduled depreciation are then checked for an amortization requirement if there is a starting point for impairment. Assets that are not subject to scheduled depreciation are checked at least annually for a value-adjustment requirement.

### 3.3 INVESTMENT PROPERTY

Investment property was sold in the fiscal year. Valuation was carried out at the fair value, and results from fair value adjustments up to the date of sale impacted on Group profit.

### 3.4 INVENTORIES

The inventories position contains real estate that is intended for sale in the context of ordinary activities or are intended for such sale in the context of the construction or development process, especially real estate that has been solely acquired for the purpose of resale in the near future or for development and resale. Development also covers modernization and renovation activities.

Inventories are valued at the lower of acquisition cost or manufacturing cost. If the net sale price is lower, this is applied. Acquisition costs comprise the directly attributable purchase and commitment costs, i.e. especially acquisition costs for real estate as well as ancillary acquisition costs (notary's fees etc.). Manufacturing costs comprise the costs directly attributable to the real-estate development process, i.e. especially renovation costs. Borrowing costs are recorded as expenses in the period in which they were incurred. The net sale price corresponds to the sale proceeds likely to be generated in the ordinary course of business less other incurred renovation or modernization and selling costs.

### 3.5 FINANCIAL ASSETS

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

- ▶ Held-to-maturity investments
- ▶ Loans and receivables
- ▶ Financial assets at fair value through profit or loss
- ▶ Available-for-sale financial assets

Financial assets are recognized in the balance sheet if the company is party to a contract for this asset. Customary purchases of financial assets for which there is only a short customary period between entry into and fulfillment of the obligation are generally accounted for on the trade date. In turn, this also applies to customary sales.

There were no **held-to-maturity investments** as at the balance sheet date.

**Financial assets at fair value through profit or loss** existed in the previous year in the form of bearer bonds, which were sold in the fiscal year.

There were no **available-for-sale financial assets** as at the balance sheet date.

**Receivables and other assets** include no interest and are recognized at present value or nominal value. In the event of doubt regarding the collectability of receivables, the latter are reduced by specific value adjustments and general value adjustments and recognized with the lowest realizable amount.

### 3.6 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognized at market value in line with IAS 39. Market values are calculated on the basis of market data and recognized valuation methods. In the event of market value changes of derivative financial instruments that qualify as cash flow hedges and are used to counter future cash flow risks arising from existing underlying transactions, the hedging portion of the market value change is initially recognized in equity with no impact on income. Reposting in the profit and loss account is carried out at the same time as the income impact of the secured underlying transaction. A non-hedging portion of the market valuation is directly recognized in earnings. If no hedge accounting is used, the market valuation of derivative financial instruments is recognized with an impact on income.

### 3.7 LIABILITIES

Liabilities, especially bank loans, are valued at amortized costs.

### 3.8 RETIREMENT BENEFIT OBLIGATIONS

Performance-related plans are valued using the “projected unit credit method” on the basis of a pension report. The interest share of pension expenses was not significant enough to be included in the financial result, and was instead included in staff costs.

### 3.9 OTHER PROVISIONS

Provisions are liabilities that are uncertain in terms of extent or maturity. Recognition of a provision cumulatively requires a current obligation arising from a past event from which an outflow of resources is likely and the value of which must be able to be estimated in a reliable manner. Provisions are valued using the optimum estimate of the extent of the obligation. In the event of material interest effects, the provisions are discounted.

### 3.10 INCOME TAXES

Income tax expenses are the sum total of actual taxes and deferred taxes incorporated in the calculation of net income for the period.

Actual tax expenses are calculated on the basis of taxable income at the level of the separate financial statements for the respective year. The currently applicable tax rates are used for this.

Deferred taxes are the expected tax charges or tax relief arising from temporary differences, i.e. as a result of differences between the book value of an asset or a liability in the IFRS consolidated balance sheet and a tax value. Deferred tax assets are also stated from carrying forward unused tax losses. The balance sheet-oriented liabilities method is applied. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets insofar as taxable income is likely to be available at the time of reversal of the temporary differences. Deferred tax assets are checked annually for an asset impairment requirement.

Deferred taxes are calculated on the basis of the expected tax rates that apply at the time of payment of the liability or realization of the asset. The currently applicable tax rates are recognized as the expected tax rates until amendments to taxation legislation are approved. Deferred taxes are generally recognized with an impact on income, except for items that are entered directly in equity.

### 3.11 BORROWING COSTS

Borrowing costs are recorded as expenses in the period in which they were incurred.

### 3.12 LEASING

Within the PATRIZIA Group, there are only an insignificant number of leases for which the Group is the lessee. All these are to be classified as operating leases.

### 3.13 INCOME REALIZATION

Essential conditions for profit realization in the Investments segment when selling real estate are the likelihood of economic benefits and the reliable quantification of revenues. In addition, there must be a transfer to the purchaser of the opportunities and threats associated with ownership of the assets, relinquishment of the legal or actual control of the assets and a reliable determinability of the expenses relating to the sale that have been or are still to be incurred.

In the Services segment, revenue realization is usually carried out after performance and invoicing.

### 3.14 ESTIMATES AND ASSESSMENTS IN ACCOUNTING

Due to the uncertainties associated with the operating activities, individual items of the consolidated financial statements can only be estimated rather than precisely valued. An estimate is made on the basis of the most

recently available reliable information. The assets, liabilities, income, expenses and contingent receivables and liabilities recognized on the basis of estimates may differ from the amounts to be realized in future. Changes are taken into account with an impact on income on the date when more precise information is obtained. Estimates are largely made for the following:

- ▶ Determining the recoverable amount to assess the necessity and extent of unscheduled amortization, especially on the real estate posted under the “Inventories” item
- ▶ Recognizing and valuing provisions
- ▶ Valuing receivables subject to risk
- ▶ Assessing whether deferred tax assets can be realized

The assumptions made when valuing the real-estate portfolios could subsequently prove to be partially or fully incorrect, or there could be unexpected problems or unidentified risks relating to real-estate portfolios. Such possible developments, even of a short-term nature, could cause a decline in the earnings situation, a decrease in the value of the purchased assets and reduction in the revenues generated from residential property resale and ongoing rentals.

In addition to the factors inherent in each property, the value retention of real-estate assets is chiefly determined according to the development of the real-estate market as well as the general economic situation. There is the risk that, in the event of a negative development of the real-estate market or the general economic situation, the valuation estimates made by the Group may have to be corrected. If unscheduled amortization of the real-estate assets of the Group were required, this would negatively impact on the net asset, financial and earnings situation of the Group.

When buying real estate or portfolios or for carrying out modernization projects, PATRIZIA is predominantly financed by loans. A significant rise in the currently low interest rate would significantly increase the financing costs of the Group when refinancing existing liabilities and when financing modernization projects in future, and could thus negatively impact on the earnings situation.

## 4. NOTES TO THE CONSOLIDATED BALANCE SHEET – ASSETS

### 4.1 NON-CURRENT ASSETS

The breakdown and development of non-current assets as well as the amortization of the fiscal year and previous year are set out below:

## DEVELOPMENT OF NON-CURRENT ASSETS

	Software	Equipment	Total
2006	EUR'000	EUR'000	EUR'000
<b>Acquisition costs</b>			
<b>As at Jan. 1, 2006</b>	<b>701</b>	<b>3,179</b>	<b>3,880</b>
Additions	109	695	804
Disposals	0	– 57	– 57
<b>As at Dec. 31, 2006</b>	<b>810</b>	<b>3,817</b>	<b>4,627</b>
<b>Amortization</b>			
<b>As at Jan. 1, 2006</b>	<b>467</b>	<b>1,908</b>	<b>2,375</b>
Additions	106	487	593
Disposals	0	– 50	– 50
<b>As at Dec. 31, 2006</b>	<b>573</b>	<b>2,345</b>	<b>2,918</b>
<b>BOOK VALUES JAN. 1, 2006</b>	<b>234</b>	<b>1,271</b>	<b>1,505</b>
<b>BOOK VALUES DEC. 31, 2006</b>	<b>237</b>	<b>1,472</b>	<b>1,709</b>

	Software	Equipment	Total
2005	EUR'000	EUR'000	EUR'000
<b>Acquisition costs</b>			
<b>As at Jan. 1, 2005</b>	<b>446</b>	<b>2,419</b>	<b>2,865</b>
Additions	203	873	1,076
Disposals	– 18	– 113	– 131
Correction from audit	70	0	70
<b>As at Dec. 31, 2005</b>	<b>701</b>	<b>3,179</b>	<b>3,880</b>
<b>Amortization</b>			
<b>As at Jan. 1, 2005</b>	<b>310</b>	<b>1,504</b>	<b>1,814</b>
Additions	153	450	603
Disposals	– 18	– 56	– 74
Correction from audit	22	10	32
<b>As at Dec. 31, 2005</b>	<b>467</b>	<b>1,908</b>	<b>2,375</b>
<b>BOOK VALUES JAN. 1, 2005</b>	<b>136</b>	<b>915</b>	<b>1,051</b>
<b>BOOK VALUES DEC. 31, 2005</b>	<b>234</b>	<b>1,271</b>	<b>1,505</b>

## DEVELOPMENT OF NON-CURRENT ASSETS

Investment Property

2006	EUR'000
<b>Fair value</b>	
<b>As at Jan. 1, 2006</b>	<b>1,700</b>
Fair value adjustments	150
Disposal of assets	–1,850
<b>AS AT DEC. 31, 2006</b>	<b>0</b>

Investment Property

2005	EUR'000
<b>Fair value</b>	
<b>As at Jan. 1, 2005</b>	<b>16,660</b>
Fair value adjustments	– 300
Reposting as inventories	–14,660
<b>AS AT DEC. 31, 2005</b>	<b>1,700</b>



## DEVELOPMENT OF NON-CURRENT ASSETS

	Securities	Shareholdings in associated companies valued at equity	Participations	Total
2006	EUR'000	EUR'000	EUR'000	EUR'000
<b>Acquisition costs</b>				
<b>As at Jan. 1, 2006</b>	<b>255</b>	<b>0</b>	<b>0</b>	<b>255</b>
Additions		0	1	1
Disposals	255	0	0	255
<b>As at Dec. 31, 2006</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>
<b>Amortization</b>				
<b>As at Jan. 1, 2006</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>8</b>
Additions	0	0	0	0
Disposals	8	0	0	8
<b>As at Dec. 31, 2006</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>BOOK VALUES JAN. 1, 2006</b>	<b>247</b>	<b>0</b>	<b>0</b>	<b>247</b>
<b>BOOK VALUES DEC. 31, 2006</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

	Securities	Shareholdings in associated companies valued at equity	Participations	Total
2005	EUR'000	EUR'000	EUR'000	EUR'000
<b>Acquisition costs</b>				
<b>As at Jan. 1, 2005</b>	<b>510</b>	<b>164</b>	<b>0</b>	<b>674</b>
Additions	0	0	0	0
Disposals	– 255	– 164	0	– 419
<b>As at Dec. 31, 2005</b>	<b>255</b>	<b>0</b>	<b>0</b>	<b>255</b>
<b>Abschreibungen</b>				
<b>As at Jan. 1, 2005</b>	<b>0</b>	<b>48</b>	<b>0</b>	<b>48</b>
Additions	8	0	0	8
Disposals	0	– 48	0	– 48
<b>As at Dec. 31, 2005</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>8</b>
<b>BOOK VALUES JAN. 1, 2005</b>	<b>510</b>	<b>116</b>	<b>0</b>	<b>626</b>
<b>BOOK VALUES DEC. 31, 2005</b>	<b>247</b>	<b>0</b>	<b>0</b>	<b>247</b>

Investment property was sold for T€ 1,850 in the fiscal year.

In the previous year, fixed-interest corporate bonds assigned to the category “financial assets at fair value through profit or loss” were posted as securities. This corporate bond was sold in fiscal year 2006.

The “participations” item includes a 5.2 % shareholding in Hyrebostädter i Norra Tyskland Verwaltungs GmbH (formerly PATRIZIA Projekt 130 GmbH).

## 4.2 TAX ASSETS

Corporation tax credits of T€ 361 that carry a right to payment from 2008 and will be paid by the fiscal authorities over a period of 10 years in equal annual amounts are treated as long-term tax assets. Valuation is carried out at present value.

## 4.3 DEFERRED TAX ASSETS / TAX LIABILITIES

The key deferred tax assets and tax liabilities and their development are set out below:

	31.12.2006 Assets side	31.12.2006 Liabilities side	31.12.2005 Assets side	31.12.2005 Liabilities side
	EUR'000	EUR'000	EUR'000	EUR'000
Inventories	834	0	625	0
Retirement Benefit Obligations	29	0	16	0
Interest rate swaps	296	317	617	
Tax loss carryforwards	628	0	302	0
	<b>1,787</b>	<b>317</b>	<b>1,560</b>	<b>0</b>
Balancing	– 317	– 317	0	0
	<b>1,470</b>	<b>0</b>	<b>1,560</b>	<b>0</b>

As at the balance sheet date, there were corporation tax loss carryforwards of T€ 1,162 (previous year T€ 606) and trade tax loss carryforwards of T€ 2,360 (previous year T€ 1,210), for which deferred tax assets of T€ 628 (previous year T€ 302) have been stated.

Due to the lack of foreseeability regarding dissolution of the tax group, no deferred tax assets have been stated for pre-consolidation losses of T€ 447 (previous year T€ 447). The loss carryforwards for which deferred tax assets have been capitalized will be used in line with expectations within the planning period (maximum 2 years). The losses can be carried forward for an indefinite period.

According to IAS 12.24(b), the Group has not stated any deferred tax assets for the temporary differences arising from the real estate of Alte Haide Baugesellschaft mbH.

In the same way, no deferred tax assets have been stated for existing loss carryforwards in this company of T€ 18,214 (previous year T€ 26,292) due to lack of foreseeability of their tax benefit. In the reporting year, profits arising from the portfolio sales were offset against loss carryforwards of T€ 8,078, leading to a corresponding tax reduction (cf. 6.10). Distributions of Alte Haide Baugesellschaft mbH within the transition period from the imputation system to the half-income system carry the risk of subsequent corporation tax payments. No such distributions are planned.

Deferred tax assets and deferred tax liabilities are balanced, as the Group has an enforceable right to offset actual tax refund claims against actual tax liabilities and the deferred tax assets and liabilities relate to income tax that is levied by the same tax office.

#### 4.4 INVENTORIES

A breakdown of inventories is shown below:

	2006	2005
	EUR'000	EUR'000
Real estate intended for sale	228,403	184,374
Advance payments	0	5,142
	<b>228,403</b>	<b>189,516</b>

Assets held for sale in the ordinary course of business are posted under "inventories".

Inventories to the value of T€ 162,557 were sold in the fiscal year.

In 2007, the Group plans to sell inventories to the amount of T€ 75,000 from the inventories included in the portfolio as at December 31, 2006.

As in the previous year, no value adjustments were to be carried out on inventories in the fiscal year.

The real estate in the inventories is negatively impacted by land charges of T€ 125,466 (previous year T€ 149,200) that serve as collateral for liabilities to banks. Furthermore, future revenues from the sale of real estate have been ceded to financing banks, also to secure bank loans of T€ 79,574 (previous year T€ 93,200).

#### 4.5 INTEREST RATE SWAPS

The Group uses various interest rate swaps for partial hedging of the interest rate risk arising from its bank loans. These partially qualify as cash flow hedges.

The changes to the fair value of the hedges that do not qualify as cash flow hedges are recognized with an impact on income in the profit and loss account. They totaled T€ 595 in the fiscal year.

As at December 31, 2006, the nominal volume of these interest rate swaps amounted to T€ 17,700 (previous year T€ 55,287); the corresponding market values were T€ -946 (previous year T€ -1,541). The associated interest payments were fixed at 5.25 % for the period up to August 2011 and 4.07 % for the period up to September 2008. These interest payments are countered by variable interest income on the basis of the 6-month Euribor and 3-month Euribor.

The changes to the fair values of the cash-flow hedges of T€ 792 are directly recognized in equity, taking deferred taxes into account.

As at December 31, 2006, the nominal volume of these derivatives classified as cash flow hedges totaled T€ 60,200 (previous year T€ 0); the corresponding market values were T€ 827 (previous year T€ 0). The associated interest payments were fixed at 4.75 % for the period up to December 2010, 3.33 % for the period up to September 2009, 3.24 % for the period up to December 2008 and 2.98 % for the period up to September 2008. These interest payments are countered by variable interest income on the basis of the 6-month Euribor and 3-month Euribor.

#### 4.6 CURRENT RECEIVABLES AND OTHER CURRENT ASSETS

A breakdown of receivables and other current assets is shown below:

	2006	2005
	EUR'000	EUR'000
Trade receivables	31,208	15,130
Other current assets	27,476	1,045
	<b>58,684</b>	<b>16,395</b>

Trade receivables and other current assets are reduced by specific value adjustments of T€ 175 (previous year T€ 833).

Other assets chiefly include the balance of an escrow account of T€ 25,047 (previous year T€ 0) in order to meet the contractual obligations in the context of a real-estate purchase for which the transfer of ownership, benefits and encumbrances is to take place no earlier than January 31, 2007.

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

The book value of the receivables corresponds to their fair value.

#### 4.7 BANK BALANCES AND CASH

The “bank balances and cash” item comprises cash and cash deposits held by the Group. The book value of these assets corresponds to their fair value.

#### 4.8 COUNTERPARTY RISK OF FINANCIAL ASSETS

The financial assets of the Group chiefly consist of the trade receivables, other assets and bank balances. In these categories, the Group is exposed to a counterparty risk. The counterparty risk of the Group primarily results from the trade receivables. Insofar as they are identifiable, these are reduced by specific value adjustments. For the trade receivables, in the event of sales as single assets, security exists in the form of a commercial retransfer right of the sold real estate in case of default by the customer. When selling individual apartments, ownership is not transferred until the purchase price is received in full. Consequently, there is no counterparty risk here.

The bank balances are held at banks with strong credit ratings.

### 5. NOTES TO THE CONSOLIDATED BALANCE SHEET – LIABILITIES

#### 5.1 EQUITY

Please refer to the statement of changes in equity for details including on the development of equity including minority interests.

##### 5.1.1 SHARE CAPITAL

As at the balance sheet date, the share capital of the company totaled T€ 47,400 (previous year T€ 5,050) and was divided into 47,400,000 no-par value shares. Two capital increases by a nominal total of T€ 42,350 were carried out in the reporting year. Of this amount, T€ 35,350 stemmed from shareholders' funds and T€ 7,000 stemmed from cash contributions.

The contingent capital of the previous year was converted to authorized capital of T€ 20,200 by means of an Annual General Meeting resolution dated February 23, 2006.

First Capital Partner GmbH is the majority shareholder of PATRIZIA Immobilien AG with 23,708,572 shares, which equates to a 50.02 % shareholding (previous year 93.96 %).

On January 12, 2007, the share capital was increased by T€ 4,730 to T€ 52,130. After this capital increase, the authorized capital now totals T€ 15,470.

As a result of the capital increase carried out in January 2007, First Capital Partner GmbH currently has a 45.48 % stake in PATRIZIA Immobilien AG.

### 5.1.2 CAPITAL RESERVES

The share premiums collected for the issue of new shares that occurred in the reporting year as part of the IPO of the company are posted in the capital reserve. T€ 122,500 was allocated to the capital reserve. Of this, T€ 7,791 in transaction costs, reduced by taxes of T€ 3,116, was deducted.

### 5.1.3 RETAINED EARNINGS

The legal reserve of T€ 505 is again posted under “retained earnings”.

### 5.1.4 MINORITY INTERESTS

The key minority interests relate to the 49 % minority interests in the equity of Wasserturm Bau GmbH & Co. KG, Augsburg, and Wasserturm Grundstück GmbH & Co. KG, Augsburg. The 5.1 % shareholding of Mr. Wolfgang Egger in Wasserturm Grundstück GmbH & Co. KG is assigned to the Group for capital consolidation purposes, but is posted as a minority interest.

Minority interests are not posted as they are absorbed by losses; the losses in excess of the shareholdings are included in the consolidated net profit.

## 5.2 BANK LOANS

A breakdown of bank loans is shown below:

	2006	2005
	EUR'000	EUR'000
Utilization of revolving lines of credit	28	56
Bank loans	125,466	152,100
	<b>125,494</b>	<b>152,156</b>

The residual terms of the loans are as follows:

	Total floating-rate financial liabilities	Total fixed- rate financial liabilities	Weighted interest rate in % (fixed- rate loans)	Total floating-rate financial liabilities	Total fixed- rate financial liabilities	Weighted interest rate in % (fixed- rate loans)
	2006			2005		
	EUR'000	EUR'000		EUR'000	EUR'000	
< 1 year	110,901	0	n.a.	149,200	42	6.0
1 – 2 years	247	0	n.a.	0	44	6.0
2 – 5 years	14,346	0	n.a.	0	149	6.0
> 5 years	0	0	n.a.	0	2,665	6.0
	<b>125,494</b>	<b>0</b>		<b>149,200</b>	<b>2,900</b>	

All loans are in euros. In the event of real-estate sales, financial liabilities are redeemed through repayment of a specific percentage of the sale proceeds.

The bank loans are based on variable interest rate and correspond to the market value. In this respect, the Group is exposed to an interest rate risk in terms of the cash flows.

For the bank loans, the owned real estate posted under "inventories" serves as security. The bank loans secured by real-estate liens amount to T€ 125,466 (previous year T€ 152,100). In the previous year, "investment property" accounted for T€ 2,900. In addition, financial liabilities of T€ 79,574 (T€ 93,200) are secured by ceding purchasing prices, and others of T€ 125,466 (previous year T€ 152,100) are secured by ceding future rental payments.

### 5.3 RETIREMENT BENEFIT OBLIGATIONS

There are no performance-related pension schemes at the Group. One exception to this is a scheme that was transferred in 2002 in conjunction with the acquisition of a subsidiary. As at the balance sheet date, five people therefore had a performance-related commitment. These people are retired persons who already receive ongoing pension payments. Taking this fact into account, the provisions calculated according to the German Commercial Code were increased by approx. 25 % on the basis of an actuarial report prepared in accordance with IAS 19. On December 31, 2006, an actuarial interest rate of 4.25 % and a projected pension increase of 1.9 % were applied to the reference report. The projected unit credit method was used as the calculation method. The calculations were based on Prof. Klaus Heubeck's biometric guidelines (probabilities of death and invalidity) (guideline RT 2005G). As at December 31, 2006, the pension provision was recognized at T€ 306 (previous year T€ 285). Due to the low level of the annual pension payments of T€ 32 and therefore also the low value of the pension provision, the pension provision in the consolidated financial statements was not regarded as significant. For this reason, there is no breakdown of the change to the pension provision. As at the balance sheet date, there were neither scheme assets nor unrecorded actuarial losses and/or unrecorded past service costs. The interest cost is also posted under "staff costs".

### 5.4 OTHER PROVISIONS

A breakdown of other provisions is shown below:

	01.01.2006	Allocation	Reversal	Utilization	31.12.2006
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Other provisions	521	535	1	520	535
	<b>521</b>	<b>535</b>	<b>1</b>	<b>520</b>	<b>535</b>

The other provisions chiefly consist of provisions for unused holiday entitlements, contributions to employee accident insurance and surcharges for not employing handicapped persons.

With regard to other provisions, it is to be assumed that the cash outflow will occur in the subsequent year.



## 5.5 CURRENT LIABILITIES

A breakdown of current liabilities is shown below:

	2006	2005
	EUR'000	EUR'000
Trade payables	32,659	8,988
Advance payments	2,507	8,439
Other liabilities	9,323	6,133
<b>CURRENT LIABILITIES</b>	<b>44,489</b>	<b>23,560</b>

Current liabilities have a residual term of less than 12 months. The fair value of the liabilities therefore corresponds to the book value. Other liabilities chiefly include accruals of bank interest and bank charges of T€ 1,620 (previous year T€ 1,112), follow-up costs of T€ 4,564 (previous year T€ 1,002), wage and church tax as well as social security contributions of T€ 311 (previous year T€ 456) and value-added tax of T€ 252 (previous year T€ 330).

## 5.6 TAX LIABILITIES

Tax liabilities of T€ 10,810 (previous year T€ 6,295) include the expected actual tax payments arising from the taxable income of the current year and from additional tax payments for previous years.

## 6. NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

The profit and loss account is prepared in line with the nature of expense method.

### 6.1 REVENUES

Please refer to the statements on segment reporting.

Revenues include rentals from investment property of T€ 110 (previous year T€ 102).

## 6.2 CHANGES IN INVENTORIES

The impact on the balance sheet of the, purchase, sale and renovation of the property intended for sale are posted under “changes in inventories” with an impact on income and are corrected accordingly in “cost of materials”. Consequently, the acquisition of property intended for sale leads to an inventory increase and the sale of the corresponding property leads to an inventory reduction.

## 6.3 OTHER OPERATING INCOME

Other operating income chiefly relates to income from payments of damages of T€ 900 (previous year T€ 0), reversal of provisions of T€ 1,176 (previous year T€ 608) as well as received discounts of T€ 245 (previous year T€ 294) and income from payments in kind of T€ 348 (previous year T€ 267).

## 6.4 COST OF MATERIALS

Cost of materials includes the direct costs incurred in conjunction with service performance. This chiefly involves the expenses from the purchase of properties, renovation and project planning costs, additional property expenses and lease expenses.

## 6.5 STAFF COSTS

A breakdown of staff costs is shown below:

	2006	2005
	EUR'000	EUR'000
Wages and salaries	12,853	10,632
Social insurance contributions	2,029	1,727
	<b>14,882</b>	<b>12,359</b>

## 6.6 AMORTIZATION

Scheduled amortization amounts to T€ 593 (previous year T€ 603). It relates to software and equipment.

## 6.7 RESULTS FROM FAIR VALUE ADJUSTMENTS TO INVESTMENT PROPERTY

Results from fair value adjustments to investment property amount to T€ 150 (previous year T€ – 300). Investment property was sold in the fiscal year.

## 6.8 OTHER OPERATING EXPENSES

A breakdown of other operating expenses is shown below:

	2006	2005
	EUR'000	EUR'000
Administrative expenses	8,012	6,338
Selling expenses	6,902	5,843
Other expenses	1,792	1,366
	<b>16,706</b>	<b>13,547</b>

These expenses include expenditure for the ongoing maintenance of investment property, totaling T€ 7 (previous year T€ 90).

## 6.9 FINANCIAL RESULT

	2006	2005
	EUR'000	EUR'000
Interest on bank deposits	2,163	829
Income from securities	482	0
Interest on revolving lines of credit and bank loans	– 6,719	– 6,063
Profit share of silent partners	0	– 200
	<b>– 4,074</b>	<b>– 5,434</b>

## 6.10 INCOME TAXES

A breakdown of income taxes is shown below:

	2006	2005
	EUR'000	EUR'000
Actual income taxes	– 15,027	– 2,585
Deferred taxes	2 27	– 847
	<b>– 14,800</b>	<b>– 3,432</b>

The deferred taxes in the profit and loss account chiefly result from loss carryforwards, the market valuation of the interest-rate swaps and the elimination of intra-Group results.

### Tax Reconciliation Statement

The tax reconciliation statement describes the ratio between effective tax expenses and expected tax expenses obtained from the IFRS consolidated net profit for the year (before income taxes) by applying the income tax rate of 40 % (previous year 40 %). The income tax rate consists of 25 % corporation tax, thereafter 5,5 % solidarity surcharge and 13.63 % trade tax:

	2006	2005
	EUR'000	EUR'000
IFRS consolidated net profit for the year before income tax	47,200	20,064
Expected actual income tax expenses	18,880	8,026
Non-deductible operating expenditure	166	24
Tax-free income	– 3,291	– 4,796
Utilization of non-capitalized loss carryforwards (net amount)	– 649	0
Effects outside the period	– 306	136
Other	0	42
<b>EFFECTIVE TAX EXPENSES</b>	<b>14,800</b>	<b>3,432</b>

## 6.11 EARNINGS PER SHARE

	2006	2005
Profit share of Group shareholders	€ 32,400,133	€ 16,631,894
Number of shares issued	47,400,000	40,400,000*
Weighted number of shares	45,673,973	40,226,848*
Earnings per share (undiluted)	€ 0.71	€ 0.41

\* Previous year's figure adjusted for capital increase from shareholders' funds of T€ 35,350

There were no diluted earnings per share in the reporting year or in the previous year. As at December 31, 2006 there was authorized capital of T€ 20,200. On January 12, 2007, the Managing Board exercised its authority to carry out capital increases from the authorized capital and issued 4,730,000 new shares, with exclusion of the subscription right.

## 7. SEGMENT REPORTING

The Group is divided into two segments, "Investments" and "Services". The Investments segment consists of the Residential Property Resale, Asset Repositioning and Project Development lines. The Services segment covers a wide range of real-estate services, in particular analysis and advice when purchasing individual residential and commercial properties or portfolios (investment management), value-oriented management of real-estate portfolios (asset management) and the management of real estate (real-estate management). In addition, the Group carries out residential property resale and sales of properties as single assets on behalf of customers (sales management).

The Group's activities extend across Germany. For this reason, no geographical segment is set out.

The individual segment figures are set out below:

	Investments	Services	Corporate	Total
2006	EUR'000	EUR'000	EUR'000	EUR'000
<b>External revenues</b>	228,704	8,823	84	<b>237,611</b>
<b>EBITDA</b>	54,186	1,297	– 3,765	<b>51,718</b>
<b>EBIT</b>	54,229	1,235	– 4,190	<b>51,274</b>
2005	EUR'000	EUR'000	EUR'000	EUR'000
<b>External revenues</b>	86,946	12,491	71	<b>99,508</b>
<b>EBITDA</b>	25,856	1,899	– 1,354	<b>26,401</b>
<b>EBIT</b>	25,547	1,877	– 1,926	<b>25,498</b>

The assets and liabilities in the Investments segment account for well over 90 % of the total assets and liabilities of the Group due to the capital intensity of this segment. For this reason, there is no breakdown of assets and liabilities by individual segment.

## 8. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement was prepared in line with the provisions of IAS 7.

In the cash flow statement, the payment flows are subdivided into cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. Effects of changes to the scope of consolidation are eliminated in the respective items. The cash flow from operating activities was calculated using the indirect method.

Cash and cash equivalents only contain the bank balances and cash posted in the balance sheet.

In the cash flow from operating activities, the non-cash item operating expenditure and income as well as the income from disposals of intangible assets, property, plant and equipment and participations are eliminated. Interest income of T€ 2,163 (previous year T€ 829), interest expenses of T€ 6,838 (previous year T€ 6,263) and paid income taxes of T€ 7,443 (previous year T€ 1,723) as well as borrowing and repayment of bank loans are assigned to operating activities due to the special nature of the real-estate sector.

Cash flow from investing activities contains the financial investments in and sales of property, plant and equipment, particularly investment property, intangible assets and securities reported under non-current assets as well as associated bank loans.

Cash flow from financing activities includes cash outflows for dividends and cash inflows from capital increases of PATRIZIA Immobilien AG as part of the IPO.

## 9. OTHER NOTES

### 9.1 POST-EMPLOYMENT EMPLOYEE BENEFITS

There are no performance-related pension schemes at the Group. One exception to this is a scheme that was transferred in 2002 in the context of an acquisition. As at the balance sheet date, five people therefore had a performance-related commitment. These people are retired persons who already receive ongoing pension commitments. In addition, there are performance-related pension schemes for the Managing Board in the context of a company provident fund. In this respect, the Group makes set contributions to a standalone entity (fund). This pension commitment gives rise to the risk of subsidiary liability for the Group if the fund does not have sufficient assets to pay all benefits relating to work performed by the employee in the reporting period and earlier periods. The provident fund commitment is reinsured. The commitment was granted in 2003. In 2006, a total of T€ 50 (previous year T€ 48) was paid in contributions to the provident fund.

The employees in the Group are largely compulsorily insured with the statutory annuity insurance and are thus covered by a contribution-oriented state scheme. As a result of this pension commitment, the Group is neither legally nor constructively obliged to pay contributions above and beyond this. Contributions in the context of contribution-oriented pension systems are paid in the year in which the employee performed the counterperformance for these contributions.

Since January 1, 2002, employees have had a statutory right to deferred compensation of up to 4 % of the contributions ceiling per year in the statutory annuity insurance. For this purpose, the Group has concluded a collective framework agreement with an external pension fund.

### 9.2 STOCK-BASED REMUNERATION

In 2005, PATRIZIA Immobilien AG introduced a management investment model aimed at giving the directors and managers of Group companies the opportunity to invest in PATRIZIA Immobilien AG. After the first stages of the investment model (stock or options granted through First Capital Partner GmbH and FCP Projekt A GmbH) were implemented, in the run-up to the IPO, in close cooperation with First Capital Partner GmbH, who initiated the

investment model, the Managing Board took the decision not to implement the third stage of the stock option model (granting of stock options through PATRIZIA Immobilien AG and conversion into stock via contingent capital). The corresponding authority of the Managing Board to grant stock options and the contingent capital established for this effect were therefore to be reversed. This was possible because the Managing Board had not yet exercised its authority to issue stock options.

With a resolution of the Annual General Meeting on February 23, 2006, the corresponding authority for the Managing Board and the contingent capital was therefore reversed.

PATRIZIA plans to introduce a new management investment model that meets the requirements of the capital market.

### 9.3 TRANSACTIONS WITH RELATED COMPANIES AND INDIVIDUALS

The individuals and companies related to the company include the members of the Managing Board and Supervisory Board as well as the directors of subsidiaries, in each case including their close relatives, as well as companies on which the Managing Board or Supervisory Board members or their close relatives can exert a significant influence or in which they hold a significant share of the voting rights. In addition, the related individuals include companies with which the company forms an affiliated group or in which it holds a participating interest that enables it to exert significant influence on the business policy of the associated company, as well as the main shareholders of the company including its affiliated companies.

The related companies of the Group are listed individually below:

- ▶ WE Verwaltungs GmbH, Augsburg
- ▶ WE Vermögensverwaltung GmbH & Co. KG, Augsburg (top controlling company)
- ▶ First Capital Partner GmbH, Gräfelfing
- ▶ FCP Projekt A GmbH, Augsburg
- ▶ FCP Anlage AG, Gräfelfing
- ▶ 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
- ▶ eurobilia AG, Cologne
- ▶ Hansa-Langenhorn-Immobilien GmbH, Hamburg
- ▶ Verwaltung EHG Erste Hanseatische Grundvermögen GmbH, Hamburg
- ▶ E.H.G. 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 KG, Augsburg
- ▶ PATRIZIA KinderHaus-Stiftung, Augsburg

The company maintains the following business relationships with related individuals.

### **Ownership of PATRIZIA Shares by Members of the Managing Board and Persons Related to Managing Board Members**

As at the balance sheet date, via First Capital Partner GmbH, in which he indirectly holds a 99.9 % stake via WE Vermögensverwaltung GmbH & Co. KG, Mr. Wolfgang Egger, Chairman of the Board of the Company, held a total stake of 50.02 % in the company.

Mr. Wolfgang Egger also has a 5.1 % stake in Projekt Wasserturm Grundstücks GmbH & Co. KG. A further 45.9 % is indirectly held by PATRIZIA Immobilien AG, and the remaining 49 % is held by Mr. Ernest-Joachim Storr.

Dr. Georg Erdmann, a member of the Managing Board of the company, holds a total stake of 0.15 % in PATRIZIA Immobilien AG.

Mr. Alfred Hoschek, a member of the Managing Board of the Company, holds a total stake of 1.62 % in the company. Via AHO Verwaltung GmbH, in which he owns a 100 % stake, he also holds 5.1 % of the shares in Alte Haide Bau-gesellschaft mbH. The remaining 94.9 % of the shares are indirectly held by PATRIZIA Immobilien AG via Stella Grundvermögen GmbH.

Mr. Klaus Schmitt, a member of the Managing Board of the company, holds a total stake of 0.15 % in PATRIZIA Immobilien AG.

### **Ownership of Shares by Other Members of the Management in Key Positions**

Furthermore, as members of the additional management levels of PATRIZIA, Messrs Eckhard Bolte, Gerhard Falter-meier, Werner Gorny, Jürgen Kolper, Klaus Kümmerle, Martin Lemke and Markus Scherl hold a total of 0.77 %.

## **Direct Contracts and Business Relationships Between the Managing Board Members and PATRIZIA**

### **Rental Agreements Between Managing Board Members and PATRIZIA**

Mr. Wolfgang Egger – as lessor – has concluded a rental agreement with the company – as tenant – relating to the building used by the company as its head office (Fuggerstraße 26 in Augsburg) with a current monthly rent of T€ 27.

### **Service and Support Contracts Between Persons and Companies Related to Managing Board Members and PATRIZIA**

PATRIZIA Immobilien AG has concluded service contracts with the above-mentioned persons, for which it performs some of the following services:

- ▶ Handling of financial accounting and preparation of annual financial statements
- ▶ Assistance with financing matters
- ▶ Assistance with preparing strategic concepts and corporate communication
- ▶ Assistance with image design and implementation of advertising measures
- ▶ Assistance with legal matters (no legal advice).

All contracts with a total volume of T€ 51 are on customary terms. There were no open balances as at the balance sheet date.

The following additional contracts are in place between Chairman of the Board Wolfgang Egger, Alfred Hoschek or persons related to them and PATRIZIA: A contract relating to supervision of the private real-estate portfolio, contracts for carrying out private accounting, a contract for managing the private real-estate portfolio and also contracts for main and general contractor activities in the private real-estate portfolio, which were also concluded on customary terms.

### **Rental Agreements Between Individuals Related to Managing Board Members and PATRIZIA**

Furthermore, Objektgesellschaft An der Alster 47 GmbH & Co. KG - as lessor - (Wolfgang Egger and Alfred Hoschek have indirect stakes of 95 % and 5 % respectively in this company) has concluded a rental agreement with the company for a floor of a building in Hamburg with monthly rent of T€ 6 plus statutory VAT.

### **Other Contracts Between Individuals Related to Managing Board Members and PATRIZIA**

Mrs. Edeltraud Egger, mother of Chairman of the Board of the company Wolfgang Egger, concluded a contract (as the customer) with PATRIZIA Hausverwaltung GmbH for caretaker activities for management of a building in Augsburg on December 1, 1993. The contract was extended for a further five years on December 1, 2003.

### **Activities of Managing Board Members Outside PATRIZIA**

Chairman of the Board Wolfgang Egger is a director of WE Verwaltungs GmbH (general partner of WE Vermögensverwaltung GmbH & Co. KG), as well as a director of First Capital Partner GmbH and FCP Projekt A GmbH.

Managing Board member Dr. Georg Erdmann is a director of WE Verwaltungs GmbH (general partner of WE Vermögensverwaltung GmbH & Co. KG), as well as a director of First Capital Partner GmbH and FCP Projekt A GmbH.

Managing Board member of the company Alfred Hoschek is a Managing Board member at eurobilka AG in Cologne, in which Wolfgang Egger holds an indirect 99.9 % stake via First Capital Partner GmbH. Furthermore, Alfred Hoschek is a director of Immobilienportfolio IPO Berlin GmbH, Wohnungsportfolio WPO Berlin GmbH, Wohnungsportfolio WPO Immobilienservice GmbH and Verwaltung EHG Erste Hanseatische Grundvermögen GmbH. Wolfgang Egger is the sole shareholder of all these companies. In addition, Alfred Hoschek is a director and sole shareholder of AHO Verwaltung GmbH.

Managing Board member Klaus Schmitt is a director of First Capital Partner GmbH.

### **Consultancy Agreement with the Law Firm Seitz, Weckbach, Fent & Fackler**

There is a consultancy relationship with the law firm Seitz, Weckbach, Fent & Fackler of Augsburg, under which the company is advised on competition and employment law. A partner in this law firm, Dr. Theodor Seitz, is also Chairman of the Supervisory Board of the company. The consultancy agreement was approved by means of a Supervisory Board resolution dated March 18, 2005. In 2006, consultancy costs of T€ 22 were incurred at the law firm Seitz, Weckbach, Fent & Fackler.

## 9.4 SUPERVISORY BOARD AND MANAGING BOARD

### Members of the Managing Board of the parent company

The following are members of the Managing Board:

Mr. Wolfgang Egger, businessman, Chief Executive Officer

Dr. Georg Erdmann, business studies graduate, Chief Financial Officer (from October 1, 2006)

Mr. Alfred Hoschek, graduate engineer, Chief Investment Officer

Mr. Klaus Schmitt, law graduate, Chief Operating Officer

In the fiscal year, the payments made to the Managing Board totaled T€ 1,681 (previous year T€ 370); details are set out in the list below:

	Annual income		Pension contribution
	Salary	Bonus	
	EUR	EUR	EUR
Wolfgang Egger (Chairman)	260,000	259,732	12,000
Dr. Georg Erdmann (member of the Managing Board since October 1, 2006)	120,000	319,732	1,536
Alfred Hoschek	180,000	259,732	12,000
Klaus Schmitt	180,000	70,000	6,143

### Members of the Supervisory Board of the Parent Company

The following are members of the Supervisory Board:

Dr. Theodor Seitz, Chairman, tax consultant, lawyer, Augsburg

Mr. Harald Boberg, Hamburg, representative of Bankhaus Lampe KG, (Bielefeld), Hamburg

Mr. Manfred J. Gottschaller, director of Bayerische Handelsbank AG i. R., Munich

In the fiscal year, the Supervisory Board received remuneration of T€ 35 (previous year T€ 35); details are set out in the list below:

	Fixed remuneration
	EUR
Dr. Theodor Seitz (Chairman)	15,000
Harald Boberg	10,000
Manfred J. Gottschaller	10,000

9.5 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

The obligations arising from existing rental and leasing agreements amount to:

	EUR'000
2007	1,087
2008 – 2011	1,478
2012 and beyond	0
	2,565

In conjunction with the erection of the “Wasserturm Sternschanze” hotel project, in relation to the buyer of the hotel, PATRIZIA Immobilien AG has assumed the unrestricted obligation to finance Projekt Wasserturm Grundstück GmbH & Co. KG in such a way that it is always in a position to fulfill all its obligations and liabilities arising from the purchase agreement in full and without restriction.

In the context of the acquisition of a real-estate portfolio, letters of comfort were issued as security for the purchases to a total of T€ 1,147,000. In this respect, €25 million was also deposited in an escrow account (cf. also the note on item 4.6 Other Current Assets). The transfer of ownership, benefits and encumbrances of this real-estate portfolio is to occur no earlier than January 31, 2007.

9.6 EMPLOYEES

The average headcount at the Group in 2006 (excluding directors) was 247 (previous year 228).

9.7 AUDITOR'S FEES

The expenses for the auditor recorded in fiscal year 2006 for auditing the financial statements amounted to T€ 370. In addition, T€ 300 was recorded for auditing services relating to the IPO, although this figure was offset against the capital reserve as IPO costs. (See also 9.8 IPO Costs)

## 9.8 IPO COSTS

In conjunction with the IPO, T€ 7,791 transaction costs were incurred. Reduced by the tax effect of T€ 3,116, these costs were recognized as a reduction of the capital reserve instead of as expenses.

## 9.9 GERMAN CORPORATE GOVERNANCE CODE

On February 23, 2007, the Managing Board and Supervisory Board issued a declaration of conformity in accordance with section 161 of the German Stock Corporation Act and published it on the company's homepage ([www.patrizia.ag](http://www.patrizia.ag)).

## 10. DECLARATION BY THE MANAGING BOARD

The Managing Board of PATRIZIA Immobilien AG is responsible for the preparation, completeness and accuracy of the consolidated financial statements and the report on the position of the company and the Group.

The consolidated financial statements were prepared in line with the International Financial Reporting Standards (IFRS).

The report on the position of the company and the Group contains analyses relating to the net asset, financial and earnings situation of the Group as well as other explanations as required by section 315 of the German Commercial Code.

Augsburg, February 26, 2007



Wolfgang Egger  
Chairman of the Board



Alfred Hoschek  
Member of the Board



Klaus Schmitt  
Member of the Board



Dr. Georg Erdmann  
Member of the Board

## LIST OF SHAREHOLDINGS

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

Direct participations:

Company	Head office	Share holding	Equity	Net Profit/ net loss of the last fiscal year
		%	EUR	EUR
PATRIZIA Acquisition & Consulting GmbH <sup>1)</sup>	Augsburg	100	25,000.00	0.00
PATRIZIA Advisory & Sales GmbH <sup>1)</sup>	Augsburg	100	35,102.02	0.00
PATRIZIA Asset Management GmbH <sup>1)</sup>	Augsburg	100	129,810.52	0.00
PATRIZIA Bautechnik GmbH <sup>1)</sup>	Augsburg	100	118,182.33	0.00
PATRIZIA Immobilienmanagement GmbH <sup>1)</sup>	Augsburg	100	16,881.05	0.00
PATRIZIA Projektentwicklung GmbH <sup>1)</sup>	Augsburg	100	250,000.00	0.00
PATRIZIA Wohnungsprivatisierung GmbH <sup>1)</sup>	Augsburg	100	10,656.343.99	0.00
Deutsche Wohnungsprivatisierungs GmbH <sup>1)</sup>	Augsburg	100	13,145.51	0.00
PATRIZIA Projekt 100 GmbH <sup>1)</sup>	Augsburg	100	23,004.93	0.00
PATRIZIA Projekt 110 GmbH <sup>1)</sup>	Augsburg	100	24,216.35	0.00
PATRIZIA Projekt 120 GmbH <sup>1)</sup>	Augsburg	100	22,280.88	0.00
PATRIZIA Projekt 140 GmbH <sup>1)</sup>	Augsburg	100	34,592.95	0.00
PATRIZIA Projekt 150 GmbH <sup>1)</sup>	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 160 GmbH <sup>1)</sup>	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 170 GmbH <sup>1)</sup>	Augsburg	100	54,125,000.00	0.00
PATRIZIA Projekt 180 GmbH	Augsburg	100	71,378.40	6,675,777.61
PATRIZIA Projekt 190 GmbH	Augsburg	100	488,776.67	– 85,151.73
PATRIZIA Projekt 200 GmbH <sup>1)</sup>	Augsburg	100	6,763.95	0.00
PATRIZIA Projekt 260 GmbH	Augsburg	100	24,040.80	– 959.20
PATRIZIA Projekt 270 Verwaltungs GmbH	Augsburg	100	24,040.80	– 959.20
PATRIZIA Projekt 280 Verwaltungs GmbH	Augsburg	100	24,040.80	– 959.20
PATRIZIA Projekt 290 Verwaltungs GmbH	Augsburg	100	24,040.80	– 959.20
PATRIZIA Projekt 300 Verwaltungs GmbH	Augsburg	100	24,040.80	– 959.20
PATRIZIA Projekt 310 Verwaltungs GmbH	Augsburg	100	24,052.40	– 947.60
Wohnungsgesellschaft Olympia mbH	Hamburg	100	546,683.68	352,866.35
Stella Grundvermögen GmbH <sup>1)</sup>	Munich	100	7,538,113.38	0.00
PATRIZIA Real Estate Corporate Finance GmbH	Munich	100	21,396.12	– 283.98

1) As a result of the existing control and profit transfer agreements, the results of the company in question are adopted.

## Indirect participations:

Company	Head office	Share holding	Equity	Net profit/ net loss of the last fiscal year
		%	EUR	EUR
PATRIZIA European Real Estate Management GmbH	Augsburg	100	24,599.80	– 400.20
Projekt Wasserturm Verwaltungs GmbH	Augsburg	51	4,110.42	– 4,639.81
Alte Haide Baugesellschaft mbH	Munich	94.9	19,922,957.32	4,626,388.36
PATRIZIA Luxembourg S.à.r.l.	Luxembourg	100	54,117,813.77	– 2,186.23
PATRIZIA Lux 10 S.à.r.l.	Luxembourg	100	12,043,101.44	– 1,898.56
PATRIZIA Lux 20 S.à.r.l.	Luxembourg	100	30,043,101.44	– 1,898.56
PATRIZIA Lux 50 S.à.r.l.	Luxembourg	100	9,043,161.41	– 1,838.59
PATRIZIA Lux 60 S.à.r.l.	Luxembourg	100	3,043,161.41	– 1,838.59
PATRIZIA Real Estate 10 S.à.r.l.	Luxembourg	100	12,053,105.67	8,105.67
PATRIZIA Real Estate 20 S.à.r.l.	Luxembourg	100	30,068,066.78	23,066.78
PATRIZIA Real Estate 50 S.à.r.l.	Luxembourg	100	9,050,869.10	5,869.10
PATRIZIA Real Estate 60 S.à.r.l.	Luxembourg	100	3,045,769.10	769.10
PATRIZIA Projekt 220 GmbH	Augsburg	100	27,530.80	2,530.80
PATRIZIA Projekt 230 GmbH	Augsburg	100	32,665.80	7,665.80
PATRIZIA Projekt 240 GmbH	Augsburg	100	26,628.30	1,628.30
PATRIZIA Projekt 250 GmbH	Augsburg	100	24,903.30	– 96.70
PATRIZIA Projekt 320 GmbH <sup>1)</sup>	Augsburg	100	25,000.00	0,00
PATRIZIA Projekt 330 GmbH <sup>1)</sup>	Augsburg	100	25,000.00	0,00
PATRIZIA Projekt 340 GmbH <sup>1)</sup>	Augsburg	100	25,000.00	0,00
PATRIZIA Projekt 350 GmbH <sup>1)</sup>	Augsburg	100	25,000.00	0,00
PATRIZIA Projekt 360 GmbH <sup>1)</sup>	Augsburg	100	25,000.00	0,00
Projekt Wasserturm Grundstücks GmbH & Co. KG	Augsburg	45.9	– 1,142,377.33	– 328,167.34
Projekt Wasserturm Bau GmbH & Co. KG	Augsburg	51	– 1,222,434.90	– 756,635.78

1) As a result of the existing control and profit transfer agreements, the results of the company in question are adopted.



Indirect and direct participations:

Company	Head office	Share holding	Equity	Net profit/ net loss of the last fiscal year
		%	EUR	EUR
PATRIZIA Projekt 270 A GmbH & Co. KG	Augsburg	100	443.90	– 556.10
PATRIZIA Projekt 280 B GmbH & Co. KG	Augsburg	100	443.90	– 556.10
PATRIZIA Projekt 290 C GmbH & Co. KG	Augsburg	100	443.90	– 556.10
PATRIZIA Projekt 300 D GmbH & Co. KG	Augsburg	100	443.90	– 556.10
PATRIZIA Projekt 310 E GmbH & Co. KG	Augsburg	100	443.90	– 556.10
Objekt Dresden Altmarkt SARI GmbH & Co. KG	Augsburg	100	– 1,068.36	– 1,168.36
PATRIZIA Vermögensverwaltungs GmbH <sup>1)</sup>	Augsburg	100	687,583.33	0.00

1) As a result of the existing control and profit transfer agreement, the results of the company in question are adopted.

AUDITOR’S CERTIFICATE

We have audited the consolidated financial statements prepared by PATRIZIA Immobilien AG, Augsburg – comprising the balance sheet, profit and loss account, statement of changes in equity, cash flow statement and notes – as well as the report on the position of the company and the Group (combined management report) for the fiscal year from January 1 to December 31. The preparation of the consolidated financial statements and combined management report in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and the requirements of German commercial law additionally applicable as per section 315a paragraph 1 of the German Commercial Code is the responsibility of the company's Managing Board. Our responsibility is to express an opinion on these consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (German Institute of Auditors). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net asset, financial and earnings situation in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to 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 combined management report 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 the consolidated financial state-

ments, the determination of the scope of consolidation, the accounting and consolidation principles used and the significant estimates made by the Managing Board, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of PATRIZIA Immobilien AG, Augsburg, comply with the IFRS as adopted by the EU and the additional requirements of German commercial law as per section 315a paragraph 1 of the German Commercial Code and give a true and fair view of the net asset, financial and earnings situation of the Group in accordance with these requirements. The report on the position of the company and the Group (combined management report) is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 2, 2007

Deloitte & Touche GmbH  
Wirtschaftsprüfungsgesellschaft

(Löffler)	(Stadter)
Auditor	Wirtschaftsprüfer

This annual report contains specific forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events. This applies, in particular, to statements relating to future financial earning capacity, plans and expectations with respect to the business and management of PATRIZIA, growth, profitability and the general economic and regulatory conditions and other factors to which PATRIZIA is exposed.

Forward-looking statements are based on current estimates and assumptions made by the company to the best of its knowledge. Such forward-looking statements are based on assumptions and are subject to risks, uncertainties and other factors that may cause the actual results including the net asset, financial and earnings situation of PATRIZIA to differ materially from or disappoint expectations expressed or implied by these statements. The operating activities of PATRIZIA are subject to a number of risks and uncertainties that may also cause a forward-looking statement, estimate or prediction to become inaccurate.



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## THREE-YEAR OVERVIEW OF KEY FIGURES

	2006	2005	2004
REVENUES AND EARNINGS	EUR'000	EUR'000	EUR'000
Revenues	237,611	99,508	74,727
Total operating performance	285,082	138,122	100,627
EBITDA	51,718	26,401	12,530
EBIT	51,274	25,498	12,012
Net profit	32,400	16,632	4,428

	2006	2005	2004
STRUCTURE OF ASSETS AND CAPITAL	EUR'000	EUR'000	EUR'000
Non-current assets	3,541	5,012	20,744
Current assets	371,125	222,388	158,320
Equity	191,724	42,104	25,404
Equity ratio (in %)	51.2 %	18.5 %	14.2 %
Total assets	374,666	227,400	179,064

SHARE PERFORMANCE	
ISIN	DE000PAT1AG3
SIN (Security Identification Number)	PAT1AG
No. of shares in issue at December 31, 2006	47,400,000
Issue date	March 31, 2006
Issue price	18.50 Euro
2006 high <sup>1)</sup>	25.82 Euro
2006 low <sup>1)</sup>	18.15 Euro
Closing price on December 29, 2006	22.56 Euro
Indices	MDAX, EPRA, GEX, DIMAX

1) Closing prices at Frankfurt Stock Exchange Xetra trading

## CONSOLIDATED PROFIT AND LOSS ACCOUNT IN ACCORDANCE WITH IFRS

### Three-year Overview

	2006	2005	2004
	EUR'000	EUR'000	EUR'000
1. Revenues	237,611	99,508	74,727
2. Changes in inventories	44,114	35,823	23,261
3. Other operating income	3,357	2,791	2,639
<b>4. Total operating performance</b>	<b>285,082</b>	<b>138,122</b>	<b>100,627</b>
5. Cost of materials	-201,777	-85,815	-68,683
6. Staff costs	-14,882	-12,359	-10,415
7. Amortization of software and depreciation on equipment	-593	-603	-518
8. Results from fair value adjustments to investment property	150	-300	0
9. Other operating expenses	-16,706	-13,547	-8,998
10. Income / loss from associated companies	0	0	-36
11. Finance income	2,645	829	308
12. Finance cost	-6,719	-6,263	-4,988
<b>13. Profit before income taxes</b>	<b>47,200</b>	<b>20,064</b>	<b>7,297</b>
14. Income tax	-14,800	-3,432	-2,869
<b>15. Net profit</b>	<b>32,400</b>	<b>16,632</b>	<b>4,428</b>
16. Profit carried forward	0	19,349	15,476
17. Allocation to retained earnings			
a) legal reserves	0	-5	0
b) other retained earnings	-7,454	0	0
<b>18. Consolidated net profit</b>	<b>24,946</b>	<b>35,976</b>	<b>19,904</b>

## THREE-YEAR OVERVIEW OF THE CONSOLIDATED BALANCE SHEET IN ACCORDANCE WITH IFRS

## ASSETS

	2006	2005	2004
	EUR'000	EUR'000	EUR'000
<b>A. NON-CURRENT ASSETS</b>			
Software	237	234	136
Investment property	0	1,700	16,660
Equipment	1,472	1,271	915
Securities	0	247	510
Shares in associated companies	0	0	116
Participations	1	0	0
Tax assets	361	0	0
Deferred tax assets	1,470	1,560	2,407
<b>Total non-current assets</b>	<b>3,541</b>	<b>5,012</b>	<b>20,744</b>
<b>B. CURRENT ASSETS</b>			
Inventories	228,403	189,516	134,243
Interest-rate swaps	827	0	0
Current receivables and other current assets	58,684	16,395	14,075
Bank balances and cash	83,211	16,477	10,002
<b>Total current assets</b>	<b>371,125</b>	<b>222,388</b>	<b>158,320</b>
<b>TOTAL ASSETS</b>	<b>374,666</b>	<b>227,400</b>	<b>179,064</b>

## EQUITY AND LIABILITIES

	2006	2005	2004
A. EQUITY	EUR'000	EUR'000	EUR'000
Share capital	47,400	5,050	5,000
Capital reserves	118,398	573	0
Retained earnings			
- legal reserves	505	505	500
- other retained earnings	0	0	0
Valuation results from financial instruments	475	0	0
Consolidated net profit	24,946	35,976	19,904
<b>Total equity</b>	<b>191,724</b>	<b>42,104</b>	<b>25,404</b>
B. LIABILITIES			
<b>NON-CURRENT LIABILITIES</b>			
Long-term bank loans	0	2,858	17,997
Interest-rate swaps	946	1,541	1,718
Retirement benefit obligations	306	285	334
<b>Total non-current liabilities</b>	<b>1,252</b>	<b>4,684</b>	<b>20,049</b>
<b>CURRENT LIABILITIES</b>			
Short-term bank loans	125,494	149,298	78,810
Other provisions	535	521	858
Current liabilities	44,489	23,560	49,281
Tax liabilities	10,810	6,295	4,586
Other current liabilities	362	938	76
<b>Total current liabilities</b>	<b>181,690</b>	<b>180,612</b>	<b>133,611</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>374,666</b>	<b>227,400</b>	<b>179,064</b>



## SUPERVISORY BOARD

**Dr. Theodor Seitz**

Chairman

Member of the Supervisory Board since 2002  
and chairman since 2003

Tax consultant, lawyer, Augsburg

**Notification of seats on other supervisory boards  
as per sec. 285 (10) of the German Commercial Code**

- ▶ Supervisory board chairman of CDH AG, Augsburg
- ▶ Supervisory board chairman of R&B  
Wirtschaftsprüfungsgesellschaft, Augsburg

**Harald Boberg**

1<sup>st</sup> Deputy Chairman

Member of the Supervisory Board since 2003

Representative of Bankhaus Lampe KG, (Bielefeld), Hamburg

**Notification of seats on other supervisory boards  
as per sec. 285 (10) of the German Commercial Code**

- ▶ Supervisory board member of HanseMerkur  
Lebensversicherung AG, Hamburg

**Manfred J. Gottschaller**

2<sup>nd</sup> Deputy Chairman

Member of the Supervisory Board since 2003

Director of Bayerische Handelsbank AG i. R., Munich

**Notification of seats on other supervisory boards  
as per sec. 285 (10) of the German Commercial Code**

- ▶ None

## MANAGEMENT BOARD

### Wolfgang Egger

Chief Executive Officer

First appointed on: August 21, 2002

Appointed until: November 6, 2007

#### Responsibilities:

Corporate development, marketing, communication, contact management, HR, acquisitions

**Notification of seats on other supervisory boards as per sec. 285 (10) of the German Commercial Code**

- Deputy Chairman of eurobilis AG, Cologne, until November 29, 2006

### Alfred Hoschek

Chief Investment Officer

First appointed on: August 21, 2002

Appointed until: November 6, 2007

#### Responsibilities:

Investments, tax and control concepts, project financing, purchase/investment management, control directors

**Notification of seats on other supervisory boards as per sec. 285 (10) of the German Commercial Code**

- None

### Klaus Schmitt

Chief Operating Officer

First appointed on: January 1<sup>st</sup>, 2006

Appointed until: December 31, 2010

#### Responsibilities:

Legal department, supervisory board, advisory board, strategic companies

**Notification of seats on other supervisory boards as per sec. 285 (10) of the German Commercial Code**

- None

### Dr. Georg Erdmann

Chief Financial Officer

First appointed on: October 1<sup>st</sup>, 2006

Appointed until: September 30, 2011

#### Responsibilities:

Accounting, taxes, group and investment controlling, risk management, IT, investor relations

**Notification of seats on other supervisory boards as per sec. 285 (10) of the German Commercial Code**

- None

## PATRIZIA STOCK-MARKET GLOSSARY

**Ad hoc publicity** The Securities Trading Law puts an obligation on the issuers to carry out ad hoc publicity, that is, to publicize immediately important news which directly concerns the company and might considerably influence the stock exchange price. This is to ensure that news which can affect the market price is not just known to “insiders” who could exploit this advance knowledge to their advantage. Before publication, the news must first of all be reported to the federal supervisory office for securities trading and the management bodies who are responsible for stock exchange dealings. These bodies will decide whether the share quotation needs to be suspended.

**Agio** Premium, the amount which exceeds the theoretical par value when the securities are reissued.

**BaFin** The Federal Financial Supervisory Authority (BaFin) combines the business areas of the former federal supervisory offices for banking (bank supervision), for insurance (insurance supervision) as well as for securities trading (securities supervision/asset management) and continues to manage these. Amongst other things, BaFin shall supervise the correct and proper implementation of securities trading. In particular, it is responsible for protection against prohibited insider dealing.

**Capital Stock** The capital which is stipulated in the joint stock company's Articles of Association. The Articles of Association also stipulate that the capital stock is to be divided up into x number of shares. The company issues shares which equate to the total of its capital stock.

**Cash flow** An indicator which is used in particular in Anglo-Saxon countries for the purposes of shares or company analyses. It means the receipt of liquid assets within a specific accounting period and is basically made up of the addition of net income, depreciation, changes to long-term provisions, taxes on income and earnings. Conclusions can be drawn regarding the company's financing potential from the amount of cash flow and its identifiable trend during the course of the year. In terms of a share (Cash flow: Number of shares) or in terms of the share price (Share price: Cash flow per share), one obtains important indicators which, within the framework of the shares analysis, allows the comparison with a company in the same line of business at national and international level.

**Corporate Governance** An instrument which is required by professional financial analysts and investors when performing modern company analysis. It can also redress current deficits in the traditional valuation processes particularly in respect of growth values. Competences, communications and control by the decision-making committees for companies quoted on the stock exchange are viewed and inspected. These supposed soft facts are of crucial importance when evaluating a company with increasingly non-material production processes.

**DAX** The German Share Index (DAX) reflects the value trend of the 30 most important German shares. In addition to the market prices, the dividend payments are also included here. DAX began at the end of 1987 with a value of 1000.

**Designated Sponsor** Formerly Account Manager; the Designated Sponsor advises the issuers before, during and after the IPO. Moreover, he takes care of additional liquidity in a security as he is obliged if asked to provide buying and selling rates. Research

reports and information on the company which he is looking after fill in the information gaps between the issuer and the investor.

**Dividend** Each shareholder is entitled to a share in the annual profit of his company which is paid out. This will correspond to the amount of his shareholding. This part of the profit is called a dividend.

**EBIT** Earnings before Interest and Taxes. A figure which provides in concrete terms information on the company's success and its income situation. By leaving out of account taxes, net interest income and extraordinary income when considering the annual surplus, EBIT allows you to have a comparable statement on the actual earning power of the company, regardless of the equity ratio.

**EBITDA** Earnings before Interests, Taxes, Depreciation and Amortization. A figure which provides in concrete terms information on the company's success and its income situation. With EBITDA, depreciation and amortization are also left out of account when considering the annual surplus. This takes into account the fact that companies which have a propensity to invest will show – as a result of high depreciation which reduces profit – a profit which is smaller than companies which have less of a propensity to invest.

**EPRA** European Public Real Estate Association. Based in Amsterdam, the EPRA is an organisation that represents the interests of the major European property management companies and supports the development and market presence of European public property companies. The well-known international index named after it, the EPRA index, tracks the performance of the largest European and North American listed property companies.

**EPS** Earning per share.

**IFRS** International Financial Reporting Standards (IFRS) is a world-wide accepted guideline for group accounting.

**Individual Share Certificate** The individual share certificate does not show a par value. Its share in the capital stock depends solely on the number of shares issued. All individual share certificates embody the same share in the company.

**Issue** Issue of securities by means of a public offer; usually happens as a result of a group of financial institutions acting as mediators (issuing syndicate).

**Issuer** As a rule, issuers are companies or authorities who issue securities.

**Listing** Listing/quoting a share on a stock exchange.

**MDAX** Midcap Index; The MDAX reflects the value trend of the 50 largest joint stock companies quoted on the stock exchange which follow on to the 30 DAX companies. In addition to dividend payments, subscription rights proceeds are also included in the calculation of the index which started in 1987 with a position of 1000 points.

<b>Par Value</b>	A specific amount in Euro or DM is printed on par value shares i.e. the par value. It shows what share the shareholder holds in the capital stock and thus in the total assets of his joint stock company. The smallest par value of a share is, in accordance with the Companies' Act, 1 Euro. All higher par values are made out as a multiple of 1 Euro. This is distinct from the market price.
<b>Registered Share</b>	A share which is made out in the name of the shareholder. Contrary to the bearer share, when issuing registered shares the company is obliged to keep a shares register. The shareholders' names and addresses are listed in this register. With regard to the company, a person is only deemed to be a shareholder if s/he is recorded in the register.
<b>SDAX</b>	Small Cap Index; it contains, with variable weighting, the prices of the 50 most important, in terms of market capitalization and turnover, German joint stock companies which are not included in DAX or MDAX. In addition to dividend payments, subscription right proceeds are also included when calculating the index.
<b>Share Buy Back</b>	A process whereby a joint stock company buys its own shares and thus allows capital to flow back to the shareholders. No rights are conceded to the company from these shares (voting right, dividend entitlement, subscription right etc.).
<b>Share index</b>	Share indexes group together the price or value trend of several shares. The shares included are weighted per index according to certain criteria. Price indexes (for example FAZ [Frankfurter Allgemeine Zeitung] share index) take into account only the price trend of the shares. Performance indexes (for example DAX) also take into account dividends and subscription rights in the event of capital increases. Performance indexes therefore cover the whole of the value trend of the shares contained in the index.
<b>Share Option Plans</b>	Joint stock companies set up option plans in order to grant employees and in particular executive personnel a remuneration which is dependent upon the share price instead of other bonuses. In the event of management decisions, this shall in particular contribute to a shareholder value orientation.
<b>Subscription Right</b>	The right of the shareholder to buy new (= "young") shares from his company in the event of a capital increase. The shareholders can waive their right to subscribe and they can sell the subscription rights to the stock exchange.
<b>Xetra</b>	The term Xetra stands for the electronic stock exchange trading system of Deutsche Börse AG (Exchange Electronic Trading System).

## FINANCIAL CALENDAR

Date	Events
March 21, 2007	Financial Statement of fiscal year 2006
March 21, 2007	Press Conference on Financial Statement 2006
May 9, 2007	Quarterly Report – 1 <sup>st</sup> Quarter 2007
June 13, 2007	Annual General Meeting
August 9, 2007	Quarterly Report – 2 <sup>nd</sup> Quarter 2007
October 25 and 26, 2007	Real Estate Share Initiative
November 7, 2007	Quarterly Report – 3 <sup>rd</sup> Quarter 2007

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