



ANNUAL REPORT

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KEY FIGURES

	2007	2006
REVENUES AND EARNINGS	EUR'000	EUR'000
Revenues	193,253	237,611
Total operating performance	861,863	285,082
EBITDA	111,817	51,718
EBIT	111,045	51,274
EBT	63,170	47,200
Net profit	48,041	32,400

	2007	2006
STRUCTURE OF ASSETS AND CAPITAL	EUR'000	EUR'000
Non-current assets	750,235	3,541
Current assets	892,957	371,125
Equity	336,605	191,724
Equity ratio (in %)	20.5 %	51.2 %
Non-current liabilities	11,425	1,252
Current liabilities	1,295,162	181,690
Total assets	1,643,192	374,666

	2007	2006
OTHER KEY FIGURES		
Cash flow from operating activities (TEUR)	- 62,603	- 48,460
Cash flow from investing activities (TEUR)	- 604,212	1,307
Cash flow from financing activities (TEUR)	637,617	113,887
Earnings per share (EUR)	0.92	0.71
Annual average number of employees	287	247

SHARE	
ISIN	DE000PAT1AG3
SIN (Security Identification Number)	PAT1AG
Code	P1Z
Share capital as at December 31, 2007	EUR 52,130,000
No. of shares in issue at December 31, 2007	52,130,000
2007 high*	EUR 23.35
2007 low*	EUR 4.82
Closing price as at December 28, 2007*	EUR 5.16
Market capitalization as at December 31, 2007	EUR 269.0 million
Indices	SDAX, EPRA, GEX, DIMAX

* Closing price at Frankfurt Stock Exchange Xetra trading

PATRIZIA PREMIUM-PORTFOLIO



UNITS PER LOCATION

- UP TO 100
- 101 TO 250
- 251 TO 500
- 501 TO 900
- 901 TO 4000
- MORE THAN 4000

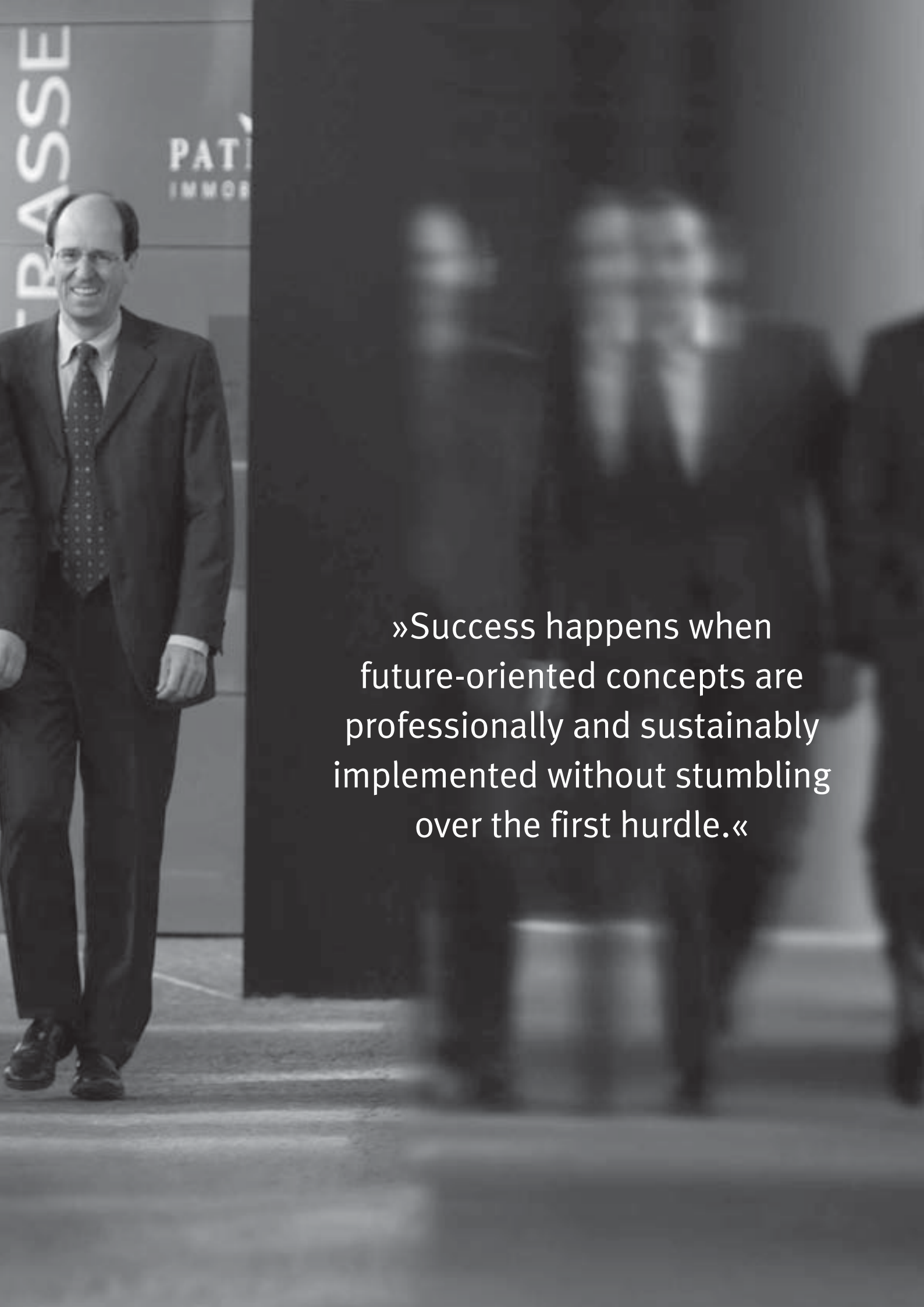
Invest.

Optimize.

Realize.



Klaus Schmitt | COO **Wolfgang Egger** | CEO **Alfred Hoschek** | CIO **Arwed Fischer** | CFO



»Success happens when
future-oriented concepts are
professionally and sustainably
implemented without stumbling
over the first hurdle.«



10 Questions to the Managing Board

01 Invest. Optimize. Realize. – what do you mean by these terms?

These three terms essentially encompass PATRIZIA's areas of activity. For over 20 years, we have applied enthusiasm and know-how to our work in and on residential real estate. This is how we earned public recognition, and these are our origins. From this basis, we have developed into a company which covers the entire range of real estate business. Today, we invest in residential and commercial real estate, that means that based on thorough analyses and valuations we purchase objects with value enhancement potential – for our own portfolio or for third parties. We optimize these objects by refurbishing residential and commercial space and professionally manage these portfolios, thereby significantly enhancing the value of the assets. In the end, we achieve an increase in value by selecting an optimum sales channel, whether by means of residential property resale, the sale of entire portfolios en bloc, the structuring of portfolio sales or the initiation of fund products.

02 That sounds like a successful business model. How is this implemented?

PATRIZIA has its' roots in residential property resale and in the future, this line of business will continue to be a focus of our activities – one focus amongst others. Due to our going public and the consequently improved equity situation, we are now in a position to enter into more capital-inten-

sive business ventures. This means that refurbishing entire areas or development projects have become significantly more important to us. As a result, we are extending our offering of services. Nowadays, everyone is concentrating on their core competencies. Many industrial or insurance companies do not regard real estate as part of their core business, which means that indirect investment in real estate will play a more and more important role. Thus, one needs experienced business partners. And this is where PATRIZIA plays a leading role.

03 What did you learn in the past year? And what do you wish to improve in 2008?

First of all, we learned that growth-related tasks are not to be underestimated. We have to do our homework and stick to what we promise. An essential factor for implementation is to shift into a higher gear when it comes to structures, staff size and processes which have been adapted to our new size over the last year. Secondly, we learned that due to our new size we are increasingly in the focus of the public – that of tenants, as well as that of the media and investors – and it is important to live up to what this attention demands, that means that we have to be available and accessible. And thirdly, we recognize that



we must improve the synchronization of the different velocities in the capital and the real estate markets – short-term, mid-term and long-term. For this reason, we have a clear focus in 2008: resell successfully and regain confidence!

04 How come you are so confident of a successful future?

PATRIZIA is distinguished by its longstanding experience and expertise, its successful network of contacts and a profound knowledge of the residential and commercial real estate market. Particularly in those locations with positive future economic prospects and high population growth, real estate and rental prices will continue to rise. And we have a portfolio with high-quality real estate in attractive locations. For this reason, we can confidently look toward the company's future.

05 Aren't your estimations a little too optimistic when you consider Germany's diminishing population figures?

The German population is expected to decrease, while the number of households will increase. On the one hand, this is due to a lower number of persons per household and on the other, due to the fact that demand for living space per capita is rising. Various regions will benefit from this trend in different ways; the urban areas with a stronger economy will attract more people. Frequently, pre-owned real estate is preferred, partly because it is usually more centrally located than new structures and partly because it is less expensive. Rising construction costs associated with declining building permits mean that portfolio optimization is becoming increasingly important. The refurbishment of real estate is just at the beginning and will develop into a dynamically growing line of business.

In addition to this, the population is slowly but surely becoming more aware of the fact that it has to provide for its financial security in pension time. Real estate is the kind of investment that is protected from inflation and therefore represents an attractive option. Germany's politicians are also recognizing this more and more, not least with integration of the home-ownership aspect into the country's Riester retirement plan. The fact of the matter is that German real estate is an assured investment for the future whether as a retirement provision as well as a general investment which is protected from inflation, and it will therefore maintain a stable value.





06 From where do you obtain your exact market knowledge?

We have been observing the market for over 20 years, and the facts and figures speak for themselves. Our own highly professional inhouse research department evaluates and documents projects as of an investment volume of EUR 1 million. At the moment, our database comprises more than 2.5 million units, and we have a team of experts who, based on their longtime experience, know what projects in which locality are suitable for residential property resale, investment management or asset repositioning. The value retention of our premium portfolio reveals the extent of our knowledge. It is up to us to link real estate operations and harmonize them in the best possible way with each other. This is where a large part of our experience lies and where we can implement this knowledge.





07 Has PATRIZIA reached a size where it can successfully position itself on the market in the long term?

Both, going public in 2006 and the capital increase in 2007 led PATRIZIA in a new dimension. These funds enabled us to expand our real estate portfolio by a factor of almost 10 and to continue extending the high-yield business segments such as Asset Repositioning and Project Development. The growth also has helped us to enter into the focus of institutional real estate investors. For this reason, there is an increasing demand for our expertise and our real estate products. This puts us into a position of being able to have a share in active transfers or even to initiate them in the future. However, increasing quantity should not imply a decrease in quality. When assessing real estate, the location is as important as the quality of the construction – there is a reason for us emphasizing “location, location, location”. Location is – and will always be – the most important criterion. This is why we are ideally positioned with our premium portfolio and will achieve sustainable profits through this portfolio.

08 Nevertheless, large, financially strong investors have bought into the German real estate market. What impact does this have?

We view this as very positive, since the interest of foreign investors confirms the attractiveness of the German real estate market. At the same time, international investment has also led to a serious increase of professionalism in the real estate sector, to a sort of new self-image for competitors in the market. The German real estate market always has been and will continue to be attractive. In contrast to other European countries, prices have not increased in the last 10 years. We have an enormous level of suppressed demand here. In addition to this, for PATRIZIA, the international interest provides an ideal opportunity to position us firmly in the very first row. The demand shows that there is a large market for products where the capital market and the real estate market meet. It is possible for us to cover this market because PATRIZIA emanated from the world of real estate, knows properties, markets and players in the market, and at the same time, due to our going public, now has access to potential real estate investors whose requirements for future needs are already recognized by us today.



09 So you are the interface between the traditional real estate market and modern real estate investment?

One could say so. More so, our aim is to abolish the distance between the two markets, to completely merge them. Smooth transitions will become the norm. There was a time when the construction industry only thought in terms of cubic meters, the investor only thought in terms of performance and returns, and the architect was only concerned with creating his art, a beautiful building that would last forever. However, we bring all these demands and considerations together in our business model – we then tailor these so that they meet the respective requirements. For example, if there is anyone who avoids buying real estate because they view the product as too static or they believe the handling is too complex, they can still profit from real estate as a stable form of investment. In its Services segment, PATRIZIA offers various types of investment models. Our range of services varies from fund initiation to co-investments. As a full-service provider and experienced real estate expert, we of course also cover asset and property management.

10 Where will PATRIZIA be in five years?

We are a profitable real estate company and provide prospects – for tenants, local authorities and investors. We know the path that we must follow: Based on our longstanding experience and our market knowledge, we will continue to develop our triad of “Invest. Optimize. Realize.” in terms of offering a selection and implementation for new customers and markets.





Dr. Theodor Seitz | Chairman of the Supervisory Board

»The demands on the company have changed enormously in the last few years. It's good to know that the company's values have stayed the same.«



We

are

PATRIZIA.

.....
INVEST. OPTIMIZE. REALIZE.
.....



Eckhard Bolte | Managing Director

»A company that wants to
achieve sustainable returns
must know today what
the world of tomorrow will
look like.«



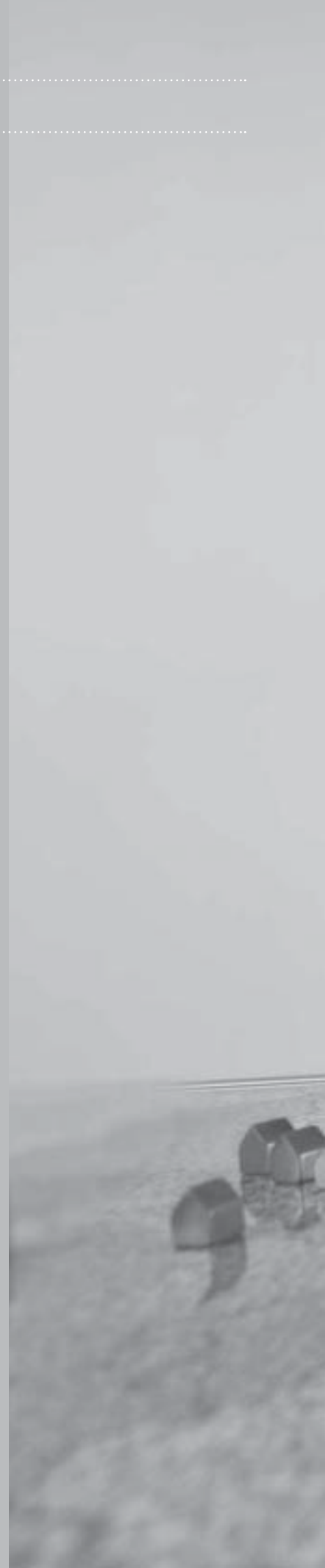
We invest in residential and commercial real estate, for our own investments and as a service provider for third parties, for funds and in the form of joint-venture partnerships. In order to invest successfully, we have to have a comprehensive perspective when making an acquisition.

Hannes Eckstein | Head of Commercial Real Estate Acquisition

»Our customers expect an optimum real estate portfolio. We have the comprehensive perspective and know when, where and how we can achieve the best results for their needs.«



In 2007, we founded PATRoffice, a co-investment with two international partners. This enables us to underline our real estate competence, once more in the commercial sector now: familiar territory but with completely new perspectives.



INVEST. OPTIMIZE. REALIZE.



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INVEST. OPTIMIZE. REALIZE.
.....



Mary McGauley | Receptionist

»Sometimes we can help
straightaway, sometimes
we request a little patience.
However, one thing is for
sure: Everyone will always
get an answer.«



There is hardly anything more exciting than personally experiencing the company's growth and actively helping to shape it. Only within recent months, our real estate portfolio has grown almost tenfold and the number of colleagues by around 50 %. When looking at internal and external coordination planning, this brings along completely new challenges. We encounter these challenges every day with the clear intention of always becoming a little bit better.

Team Asset Management

»Real estate is more mobile
than people think. Our
know-how and verve allow us
to achieve the optimum
portfolio performance.«



Each single real estate object has its own life cycle. Through integral planning and professional management, we optimize this process. This means we can improve the property's quality of use and its return on investment.



INVEST. OPTIMIZE. REALIZE.



.....
INVEST. OPTIMIZE. REALIZE.
.....



Timo Oberbossel | Project Manager

»Location seeks idea!
We make visions real and
create real estate projects
for the future.«



The requirements placed on real estate are changing radically. Offices are becoming living space, apartments are becoming temporary homes, hotels are becoming sensory environments. The fact that we always manage to harmonize the customers' return-oriented demands with the continual influences of socio-demographic changes makes me a little proud.

Werner Lustig | Regional Sales Director

»Purchasing a condominium
is one of the most important
decisions made in life.

We accompany our customers
from tenant to owner with
competence, sensitivity and
responsibility.«



Existential security in the form of a private retirement plan is an important topic, constantly gaining significance. For this reason, the “from tenant to owner” concept, developed many years ago by PATRIZIA, is now more important than ever. Our contribution consists of an individual consultation and attractive objects with a secure future situated in prosperous urban locations.



INVEST. OPTIMIZE. REALIZE.



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LETTER TO OUR SHAREHOLDERS

**Dear Ladies and Gentlemen,
Dear Shareholders and Business partners,**

If we take a look back at fiscal year 2007 we can see that this was a year with highs and lows for PATRIZIA Immobilien AG. On the one hand it was a year of growth for the Company and on the other there are some goals that we did not achieve to the extent that we had assumed at the beginning of 2007. The environment that we work in deteriorated massively during the year, particularly due to the US real estate crisis and its effects on the entire real estate market.

The first quarter of 2007 was affected most notably by the acquisition of the large portfolios into our holdings, as notarized in November and December 2006. These acquisitions enabled us to increase our existing portfolio from around 1,200 residential units at around 9,500 residential units. We began with the integration and processing of the new portfolios directly following the ownership transfer. The integration process, however, took more time than we had originally planned. It was only in September 2007 that we were able to put the first larger portfolio items from the newly purchased real estate holdings onto the market. Up to this point we could only privatize using the so-called old portfolio. Of these 1,200 apartments, we sold around 25 % during fiscal year 2007. Despite the difficult market environment, this is equal to the average selling-off percentage of previous years.

Based on the delayed sales start, we sold only 487 individual residential units to tenants, owner-occupiers and private investors in 2007. This figure lagged behind our own expectations and those of the market. We established that the economic recovery in Germany had not yet reached the end customer, meaning that confidence in investments was quite reserved. Neither were we able to realize the planned

block sales of approximately 1,000 units. Consolidated revenues amounted to EUR 193.3 million in fiscal year 2007 (previous year: EUR 237.6 million). Lower sell-offs in privatization as well as a lack of block sales lead to a year-on-year decline in revenues and liquid earnings. We did not match either our expectations or those of the market or the shareholders with regards to quality of earnings. This led to a distinct decline in our share price. Even if the negative market environment played a role in the price performance of our shares, we are aware that the disappointing development of our operating business also had an impact on the price downturn. For this reason, the utmost priority for fiscal year 2008 is to win back the confidence of the shareholders. We will show that we can sell off our projects on schedule, thereby generating liquid earnings.

Therefore, realizing liquid earnings is the Company's main focus. In addition to the segments to date, we further extended our business model, introduced new structures and developed innovative products for our customers. By founding our PATRIZIA Immobilien Kapitalanlagegesellschaft mbH in Spring 2007, we can now provide tailored solutions for institutional investors who wish to invest indirectly in real estate through fund products. For this, we have already launched two funds – the German Residential Fund 1 which invests exclusively in residential real estate in Germany as well as the Euro City Residential Fund 1 which conducts residential real estate investments in selected European locations. Our own employees assume all services with regard to funds, from purchasing due diligence, fund management through to asset management. This is how we achieve the best performance for our customers.

We also demonstrated our position in the commercial real estate sector. We launched a co-investment together with two prestigious European pension funds in April 2007 which is to invest around EUR 700 million in German commercial real estate. By the end of 2007, we had already invested EUR 261 million in our co-investment. PATRIZIA holds an equity interest of 6.25 % on this joint venture. In addition, we also took on all services for the commercial real estate portfolio. Service fees coming from fund products as well as from the co-investment ensure regular income for the PATRIZIA Group. This not only secures the further expansion of the Investments segment but also simultaneous development of the Services segment in which we will have an increased focus on the business units Investment and Asset Management in the coming years. The objective is to continually develop the volume of assets under management, therefore generating recurring income for the Company.

Overall we have achieved a broader positioning for the PATRIZIA Group. The two Company pillars, Investments and Services, were strengthened further in 2007. In fiscal year 2007, around 11,700 residential and commercial units were transferred to our ownership in the Investments segment. With the current level of approximately 13,120 units, we have built a good basis for ourselves which we can continue to operate. As part of the Residential Property Resale business line, a portion of the residential units is to be sold to tenants, owner-occupiers and private investors in the future. However, Residential Property

Resale only represents one distribution channel for us. Around fifty percent of our current portfolio has been allocated to the Asset Repositioning business line and is to be sold in the form of block sales. Attractive projects were also acquired for PATRIZIA Project Development in fiscal year 2007. An example of one of these projects is the "Frankfurt am Main Feuerbachstrasse" project that we will be developing as part of a joint venture together with our partner, a subsidiary of the Landesbank Baden-Württemberg. Our objective for the future of the Project Development business line is to develop further projects, also as joint venture partnerships.

The PATRIZIA Immobilien AG business model covers the purchase, the development and the sale of real estate, in a nutshell: Invest. Optimize. Realize. Following increased purchases in 2007, the focus for fiscal year 2008 is the implementation of measures to increase the value of our real estate as well as selling off this real estate to private or institutional investors. The objective for the Management and the entire PATRIZIA team is to win back the confidence in our Company and our business model through the generation of liquid earnings.

Looking back at 2007 but also looking forward to the future, we wish to thank our business partners for their trusted cooperation and we also wish to thank our employees for the efforts they have made and their untiring dedication to PATRIZIA.

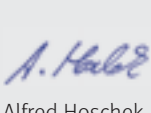
The Managing Board




Wolfgang Egger
Chairman of the Board



Arwed Fischer
Member of the Board



Alfred Hoschek
Member of the Board



Klaus Schmitt
Member of the Board

REPORT OF THE SUPERVISORY BOARD

**Dear Shareholders,
Dear Ladies and Gentlemen,**

Especially in times associated with greater challenges, in which the market environment becomes ever-more difficult, the advisory and particularly the monitoring function of the Supervisory Board is more important than ever. My Supervisory Board colleagues and I take our function as the supervisory body of PATRIZIA Immobilien AG very seriously and also worked closely with the Managing Board in fiscal year 2007.

The Supervisory Board of PATRIZIA Immobilien AG performed all the duties incumbent upon it in accordance with the law and the Articles of Association with great care. The Supervisory Board carefully examined and monitored the legality, propriety, expediency and efficiency of the Company's management. It was kept informed extensively and promptly as well as verbally and in writing on the Company's business performance, its profitability and its financial and earnings position by the Managing Board and regularly advised the Managing Board on managing the Company. The Managing Board fulfilled its reporting duties to the Supervisory Board as prescribed by law and the by-laws in full and on time. The operating performance in the Group, all transactions of material significance and the further development of the strategy, the Company's planning and the associated opportunities and threats were discussed in depth and the measures of the Managing Board closely assisted.

The Supervisory Board came together in four ordinary meetings during the fiscal year. All Supervisory Board members attended every meeting. The Supervisory Board refrained from forming committees as it only comprises three members. Based on the reports and the resolutions of the Managing Board, the Supervisory Board passed resolutions on measures which require its approval in accordance with the law, the Articles of Association and the bylaws of the Managing Board.

The Supervisory Board was also promptly informed of projects and processes of particular relevance to PATRIZIA's position and performance between meetings. When necessary, decisions of the Supervisory Board were also passed by circulation. Furthermore, the Supervisory Board also stood by the Managing Board in an advisory capacity, regularly meeting personally. No Supervisory Board or Managing Board

members were involved in any conflicts of interest which must be disclosed to the Supervisory Board.

TOPICS OF THE SUPERVISORY BOARD

The Supervisory Board continued to pay particular attention to strategy and investments in the past fiscal year. The purchases of the various portfolios were examined by the Supervisory Board, each with regard to the acquisition criteria. In the past fiscal year, PATRIZIA has increasingly freed itself from its strict focus on residential real estate for privatization. Alongside residential real estate for individual sale, more and more properties were acquired for asset re-positioning. The services area was also expanded further. In particular, conclusion of the first co-investment agreement in commercial real estate was intensively discussed. The Supervisory Board welcomed this strategic further development, even in view of the risk distribution. The Company's stronger commitment in project development, such as the purchase of the development site in Frankfurt's Westend, thus met with our approval.

The Supervisory Board's advice also focused on the risk management system in place at PATRIZIA. The Supervisory Board enquired about the risk situation in the Group and particularly about recording individual operating risks. The Supervisory Board satisfied itself that the standard risk management system implemented throughout the PATRIZIA Group is suitable for identifying opportunities and risks in good time and appropriately responding to them.

Advice regularly centered on the net assets, financial position and result of operations of the Group and its subsidiaries. In this context, PATRIZIA's share price performance on the capital market and its effects on the communication requirements expected of the Company as well as the potential consequences for the operating business and access to market potential were discussed in detail at the meetings on September 20, 2007 and November 30, 2007. Likewise, the Supervisory Board subjected the hedging instruments applied for refinancing expiring loans to its own examination and assured itself that the financing of further real estate purchases is not impaired. The

Supervisory Board was informed in good time of the current trends in each business line. The Managing Board fully explained the causes for variances and the steps to be initiated. In addition, the Managing Board provided information on the effects of the interest limitations as a result of the 2008 German corporate taxation reform and the measures taken by PATRIZIA.

Beyond this, the Supervisory Board monitored the propriety and expediency of the Managing Board's management. In this respect, the Supervisory Board discussed the organization of the Company and the Group with the Managing Board and satisfied itself that this organization was effective.

The Managing Board also informed the Supervisory Board about compliance measures on a regular basis.

CORPORATE GOVERNANCE

The Supervisory Board has extensively informed itself of changes to the German Corporate Governance Code. Based on the Code, the Supervisory Board adopted new bylaws for the Managing Board which specifically assigns the individual business areas to the individual Managing Board members through the allocation of duties. This operating optimization ensures that decisions are taken faster and more efficiently. New bylaws were also adapted for the Supervisory Board. Furthermore, a new regulation about the variable compensation of the Supervisory Board as stipulated by the Code was discussed at the Supervisory Board Meeting of March 12, 2007. The compensation system for Supervisory Board members was presented to the Annual General Meeting for resolution and, following its approval, came into effect on July 1, 2007.

The Managing Board and Supervisory Board issued an updated declaration of conformity on March 3, 2008 in accordance with Article 161 of the Aktiengesetz (AktG – German Stock Corporation Act). Apart from a few exceptions, the recommendations of the Code are met. This was permanently made available for shareholders and interested members of the public to view on the website of PATRIZIA Immobilien AG.

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 2007. Further information on corporate governance can be found in the Corporate Governance Report in this Annual Report.

ANNUAL GENERAL MEETING FOR 2007

The Supervisory Board dedicated its meetings of March 12, 2007 and April 14, 2007 to drawing up an agenda for the Annual General Meeting and resolution proposals for the individual items on the agenda. The Annual General Meeting on June 13, 2007 was also PATRIZIA Immobilien AG's first Annual General Meeting as a listed company. In the preparations, the Supervisory Board primarily attended to the introduction of a management participation model in line with the market. This program was presented to the Annual General Meeting.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2007, AUDIT AND DEPENDENT COMPANY REPORT

The annual financial statements of PATRIZIA Immobilien AG which are prepared in accordance with the Handelsgesetzbuch (HGB – German Commercial Code) and the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRSs) for fiscal year 2007 as well as the management report for PATRIZIA Immobilien AG and the Group were examined by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, together with the bookkeeping, and each issued with an unqualified audit opinion. The auditor was chosen by the Annual General Meeting on June 13, 2007 and commissioned with the audit by the Supervisory Board.

As regards the Company's risk management system, the auditor found that the Managing Board of PATRIZIA Immobilien AG had taken the measures required by Article 91 (2) of the AktG and that the Company's early risk detection system was suitable for early detection of developments that jeopardize the continued existence of the company.

All documents relevant to the annual financial statements and the audit reports of Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft were supplied to the Supervisory Board in good time. The Supervisory Board examined the annual financial statements, consolidated financial statements, management report and Group management report. While doing this, the Supervisory Board carefully studied the reports of the auditor, consulted them when examining the annual financial statements, consolidated financial statements, management report and Group management report and compared the reports of the auditor

with the documents for the annual financial statements. The auditor's report did not find any violations of the law or the Articles of Association.

The Supervisory Board also examined the completeness and accuracy of the management report and Group management report. The statements made in the management report are consistent with the reports of the Managing Board to the Supervisory Board during the year. They also comply with the Supervisory Board's own opinions of the Company and the Group's position.

The Managing Board and the responsible auditors explained the findings of the audit and were available to provide additional information in the accounts meeting of the Supervisory Board on March 25, 2008. The information in the annual financial statements, consolidated financial statements, management report and Group management report were examined with regard to their legality, propriety and expediency on this basis.

Following the final findings of its examination, the Supervisory Board has no objections against the annual financial statements, consolidated financial statements, the management report of PATRIZIA Immobilien AG and of the Group or the findings of the examination by the auditor. The annual and consolidated financial statements prepared by the Managing Board were expressly approved. The annual financial statements of PATRIZIA Immobilien AG for fiscal year 2007 have thus been adopted in accordance with Article 172 of the AktG.

The dependent company report on relationships between PATRIZIA Immobilien AG and affiliated companies prepared by the Managing Board in line with Article 312 of the AktG was examined by the auditor. The auditor has provided the following audit opinion:

Following our mandatory audit and assessment, we hereby confirm that:

1. The information given in the report is correct
2. With regard to the any legal transactions listed in the report, the Company's performance was not unduly high
3. No circumstances arise from the measures listed in the report which necessitate any significant change to the assessment made by the Managing Board.

The report of the auditor on the dependent company report was available to all Supervisory Board members in good time and was thoroughly examined by the Supervisory Board. The dependent company report and the auditor's report were the subject of the meeting on March 25, 2008 and were extensively discussed with the auditors present. In its examination, the Supervisory Board also found, following the findings of its examination, that it had no objections against the report and the concluding declaration by the Managing Board contained therein.

The proposal on the appropriation of net profit by the Managing Board was also the subject of consultation in the Supervisory Board meeting on March 25, 2008.



The Supervisory Board examined the proposal considering the Group's accounts structure, liquidity, finance and investment planning and agreed to the Managing Board's proposal on the appropriation of net profit.

PERSONNEL CHANGES

The Annual General Meeting on June 13, 2007 re-elected Dr. Theodor Seitz to the Supervisory Board. In the constituent meeting that followed he was confirmed in office as Chairman, Harald Boberg was confirmed as the first deputy and Manfred Gottschaller as the second deputy.

In the meeting on April 12, 2007 we decided to extend the expiring terms of office of CEO Wolfgang Egger and Chief Investment Officer Alfred Hoschek early by an additional five years. Messieurs Egger and Hoschek have thus been appointed as members of PATRIZIA Immobilien AG's Managing Board until end of April 2012.

CFO Dr. Georg Erdmann left the Company by mutual agreement for family reasons on December 31, 2007. The Supervisory Board very much regrets this decision and thanks Dr. Erdmann for his long-standing, successful commitment and his services for the benefit of PATRIZIA. Alfred Hoschek additionally assumed responsibility for this area from Dr. Erdmann for two months until Arwed Fischer was appointed as the new

Chief Financial Officer of PATRIZIA Immobilien AG on March 1, 2008. Arwed Fischer has been responsible for accounting/taxes, controlling, investor relations, IT and risk management since March 1, 2008. The transfer and redistribution of responsibilities until the new CFO was appointed was agreed with the Supervisory Board.

The term of office for all Supervisory Board members ends when the Annual General Meeting for 2008 draws to a close. In its meeting, the Supervisory Board decided to propose that all the current Supervisory Board members be reelected.

We would like to thank the Managing Board, the directors of the operating companies and all employees for their work in the last fiscal year. They made a decisive contribution to PATRIZIA's further development through their assiduousness, reliability and competence. We would also like to thank the shareholders that placed their confidence in PATRIZIA in 2007, which was a difficult year on the stock exchange for the Company

Augsburg (Germany) – March 25, 2008

For the Supervisory Board

Dr. Theodor Seitz
Chairman



CORPORATE GOVERNANCE REPORT

For PATRIZIA Immobilien AG, responsible corporate management is inevitably associated with transparent processes and structures aimed at long-term value enhancement. We believe that good corporate governance primarily involves efficient cooperation between the Managing Board and Supervisory Board for the benefit of the company, the trusting cooperation of all employees, consideration for the interests of investors, customers and business partners as well as open and honest communication.

PATRIZIA welcomes the recommendations and suggestions of the German Corporate Governance Code and acts in line with the recognized principles of good corporate management. The Code encourages the principles long practiced by PATRIZIA while stimulating the active further development of the corporate culture at the same time. The amendments to the Code resolved by the Government Commission of the German Corporate Governance Code on June 14, 2007 entered into force on July 20, 2007 when they were published in the official section of the electronic Bundesanzeiger (Federal Gazette). The Managing Board and Supervisory Board of PATRIZIA Immobilien AG adopted the Declaration of Conformity adapted to this in accordance with Article 161 of the Aktiengesetz (AktG – German Stock Corporation Act) on March 3, 2008. PATRIZIA complies with and will continue to comply with the recommendations of the German Corporate Governance Code with the exceptions below.

→ The Company did not send notification of the convening of the General Meeting together with the convening documents to all domestic and foreign financial services providers, shareholders and shareholders' associations by electronic means as it does not yet have the Annual General Meeting resolution to amend the Articles of Association. However the Company does plan to present a proposal for resolution to this effect to the next Annual General Meeting in 2008.

→ Contrary to 3.8 of the German Corporate Governance Code, the D&O insurance policy concluded by PATRIZIA for the Managing Board and Supervisory Board does not provide for a deductible. The Managing Board and Supervisory Board of the Company do not believe that a deductible affects the sense of responsibility and loyalty with which the committee members fulfill the duties and functions assigned to them. In our opinion, a deductible is not needed for this reason and is not planned for the near future.

→ The compensation of the Managing Board should also include components with a long-term incentive effect and risk elements. In particular, company stocks with a multi-year blocking period, stock options or comparable instruments (e.g. phantom stocks) serve as variable compensation components with a long-term incentive effect and risk elements. The total compensation of PATRIZIA Immobilien AG's Managing Board currently includes fixed and variable components but no compensation components with a long-term incentive effect and risk elements. Therefore the Company does not comply with the corresponding recommendations of the German Corporate Governance Code. The Annual General Meeting on June 13, 2007 was presented with a concept to create a variable compensation component with a long-term incentive effect and risk elements, which is comparable to a stock option program in terms of its form and corresponds to the requirements of the German Corporate Governance Code. The Managing Board's new compensation model entered into effect at the beginning of fiscal year 2008.

→ Furthermore, the Corporate Governance Code recommends forming committees on the Supervisory Board. Since it is composed of three members, the Supervisory Board of PATRIZIA Immobilien AG believes that it is neither necessary, nor does it make sense, for it to form committees. The Supervisory Board in particular is of the opinion that forming committees would not increase the efficiency of its supervisory board activities.

→ The new regulation resolved by the Annual General Meeting in fiscal year 2007 about compensation of PATRIZIA Immobilien AG's Supervisory Board takes the chair of the Supervisory Board into account but does not distinguish between deputy chairman on the Supervisory Board or a simple member as the Board comprises only three members.

The current version and previous versions of the declaration of conformity can be found on the Investor Relations pages of the PATRIZIA website at www.investor.patrizia.ag, where we also provide you with detailed information on all topics of relevance for the Annual General Meeting. Shareholders can easily retrieve all the documents and information for the Annual General Meeting, including our interim reports for the year, on our website. Details of the presence and results of the votes are also published here immediately after the Annual General Meeting.



Corporate governance is both motivation and responsibility for us and encompasses all areas of the Company. It is our aim to confirm and further strengthen the confidence placed in PATRIZIA by investors, customers and business partners as well as employees and the public. As a continuous process, we will optimize our corporate governance on an ongoing basis and also adapt it to the amendments of the Code in the future.

CONSIDERATION OF SHAREHOLDER INTERESTS

We seek to communicate actively and contribute towards PATRIZIA's credibility by communicating openly. Our aim is to bind shareholders to us in the long term. We provide information on key events in the Company at an early stage. The main recurring fixtures, such as the date of the Annual General Meeting, are published in the form of a financial calendar. In the context of our investor relations work, discussions are also held regularly with analysts and institutional investors. In fiscal year 2007, PATRIZIA participated in ten investor conferences. We take suggestions from investors and analysts as suggestions to continuously improve our work. The Company made new facts that were communicated to financial analysts and comparable addressees available to shareholders contemporaneously.

As in the previous year, we informed our shareholders and the interested members of the public about PATRIZIA's developments by means of detailed reporting in the Annual Report and also in the interim reports. In the year under review, we again expanded the basis of information by introducing different forms of media: our in-house Research department produces the PATRIZIA Residential Property Investment Compass every quarter, for instance, which takes a position on the selected target markets in Germany and the rest of Europe. In it, relevant microeconomic key figures and real estate indicators are examined and commented on. Our "news & trends" newsletter also enables us to report on current trends in the German residential real estate market several times a year. The focus here is on individual cities. PATRIZIA's presentations can be found on the Investor Relations pages at www.investor.patrizia.ag.

COOPERATION BETWEEN THE MANAGING BOARD AND THE SUPERVISORY BOARD

The joint aim of the Managing Board and the Supervisory Board is to sustainably increase the enterprise value. Both executive bodies work together closely to achieve this goal. The Managing Board informs the three-member Supervisory Board regularly, promptly and extensively about the Company's business performance, risk situation, risk management and all planning-related issues in at least four Supervisory Board meetings and at additional meetings, if required. Deviations in the actual course of business are discussed at length and reasons for these are provided. The Managing Board also provides the Supervisory Board with comprehensive information about the measures taken to observe legislation, corporate guidelines and to uphold the values of PATRIZIA (known as compliance).

THE MANAGING BOARD

The Managing Board manages the transactions of PATRIZIA Immobilien AG in accordance with the law, the Articles of Association, the bylaws for the Managing Board and the allocation of duties. The Managing Board of PATRIZIA Immobilien AG comprised four members as at December 31, 2007. The bylaws and allocation of duties govern the precise areas of responsibility of the individual Managing Board members, the matters reserved for the Managing Board as a whole and the required majorities for Managing Board resolutions. The bylaws also include a precise definition of the transactions that may only be conducted with the approval of the Supervisory Board. Dr. Georg Erdmann resigned from his position as Chief Financial Officer (CFO) by mutual agreement with effect from December 31, 2007 for family and private reasons. Alfred Hosc hek has temporarily assumed Dr. Erdmann's duties until a new CFO was appointed. Some of Alfred Hosc hek's duties were transferred to the Chief Operating Officer Klaus Schmitt. The transfer and redistribution of responsibilities until a new CFO was appointed was agreed with the Supervisory Board. A detailed description of the areas of responsibility on the Managing Board can be found in the section "Further Information" at the end of this Annual Report.

THE SUPERVISORY BOARD

The Supervisory Board of PATRIZIA Immobilien AG comprises three members and does not believe that it makes sense for it to form committees since it is composed of only three members. PATRIZIA does not follow the recommendation of the German Corporate Governance Code regarding the formation of committees for the reasons mentioned.

On the basis of its bylaws, the Supervisory Board monitors and advises the Managing Board on managing the Company. Furthermore, it appoints and dismisses the members of the Managing Board. In fiscal year 2007, the Supervisory Board extended the term of office for the Chairman of the Managing Board (CEO) Wolfgang Egger and the Chief Investment Officer (CIO) Alfred Hoschek by an additional five years until end of April 2012.

TRANSPARENCY

The securities transactions of PATRIZIA Immobilien AG's executive body members and of other reportable persons with management duties within the PATRIZIA Group – known as Directors' Dealings – were immediately published in accordance with Article 15a of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) and made accessible on the PATRIZIA website at www.investor.patrizia.ag. In 2007, the following transactions in shares of the Company or financial instruments related to them were communicated in accordance with Article 15a of the WpHG:

Date	Name	Reason for notification requirement/position	SIN (Security Identification Number)	Type of transaction (purchase/sale)	Stock exchange	Price per share	Number of shares
February 15, 2007	Gerhard Faltermeier	Person with management duties	PAT1AG	Sale	Frankfurt, Stuttgart	23.15 Euro	5,002
February 19, 2007	Gerhard Faltermeier	Person with management duties	PAT1AG	Sale	Xetra, Frankfurt	23.12 Euro	5,000
April 3, 2007	Klaus Schmitt	Managing body (Managing Board)	PAT1AG	Purchase	Xetra, Frankfurt, Stuttgart	16.87 Euro	10,756
April 12, 2007	Gerhard Faltermeier	Person with management duties	PAT1AG	Purchase	Xetra	15.35 Euro	3,000
November 1, 2007	Wolfgang Egger via Immobilienportfolio IPO Berlin GmbH	Company closely related to a person with management duties	PAT1AG	Purchase	Xetra, Frankfurt	8.28 Euro	1,509,000
November 2, 2007	Wolfgang Egger via Immobilienportfolio IPO Berlin GmbH	Company closely related to a person with management duties	PAT1AG	Purchase	Xetra, Frankfurt	8.162 Euro	930,000
December 27, 2007	Alfred Hoschek	Managing body (Managing Board)	PAT1AG	Security loan	Off-market	Not quantifiable	500,000

Shares held directly and indirectly by the Managing Board members of PATRIZIA Immobilien AG exceed 1 % of the shares issued, with the result the total ownership as of December 31, 2007 can be broken down as follows:

	Number of shares	Percentage of share capital
Wolfgang Egger indirectly via First Capital Partner GmbH	26,147,572	50.16 %
Dr. Georg Erdmann (CFO until December 31, 2007)	69,244	0.13 %
Alfred Hoschek	769,320	1.48 %
Klaus Schmitt	80,000	0.15 %
TOTAL	27,066,136	51.92 %

Overall, the members of the Managing Board held 27,066,136 shares as of December 31, 2007, corresponding to 51.92 % of the Company's share capital. The members of the Supervisory Board of PATRIZIA held no shares in the company as of December 31, 2007.

In accordance with Article 26 (1) of the WpHG, voting right notifications in fiscal year 2007, i.e. when the rights reach, exceed or fall below the legal reporting thresholds, were published immediately after they were announced to the Company. On November 6, 2007, Wolfgang Egger informed the Company that the voting rights attributable to him had exceeded the threshold of 50 % of the voting rights in PATRIZIA Immobilien AG. All relevant information was made available promptly and at the same time to all shareholders and interested members of the public through various communication media, such as the Internet.

COMPENSATION REPORT

In accordance with the Code recommendations, we include the compensation report for the Managing Board and Supervisory Board of PATRIZIA Immobilien AG in the Corporate Governance Report. At the same time, the management report and the notes to the consolidated financial statements also include relevant information.

COMPENSATION OF THE MANAGING BOARD

The amount and structure of the compensation paid to the Managing Board members are determined and regularly reviewed by the Supervisory Board. In addition to the financial position and success of PATRIZIA, the remit, the personal performance of individual Managing Board members and the performance of the entire Managing Board are criteria for the appropriateness of Managing Board compensation. The compensation of the Managing Board members is made up of non-performance-related and performance-related components. The non-performance-related components comprise fixed basic compensation that is paid as a monthly salary, pension contributions and other agreed payments. In addition, the compensation of the Managing Board members includes payments in kind and other payments which chiefly consist of the values to be applied in accordance with tax guidelines for use of a company car and insurance premiums. PATRIZIA has also taken out accident insurance with the customary extent of cover for all Managing Board members.

Performance-related, variable compensation components include one-time and annually payable components as well as components linked to the performance of the Company. The variable compensation is paid in the form of an annual bonus payment. The amount of the bonus depends on the consolidated net profit before taxes, calculated in accordance with IFRSs, as well as the return on equity of the current fiscal year and the two previous fiscal years. The bonus is contractually limited to a maximum of EUR 250,000.

There were no other variable compensation components such as stock options or comparable instruments in fiscal year 2007. In order to fully meet the requirements of the German Corporate Governance Code, calculation of the variable Managing Board compensation was changed at the beginning of fiscal year 2008. As presented to the shareholders at the Annual General Meeting on June 13, 2007, an additional criterion for calculating the variable compensation is the performance of PATRIZIA's shares over three years in relation to the DIMAX reference indices and an index applicable at the end of the year, such as the SDAX. The variable compensation, which is oriented towards the short-term target figures, is paid after the valuation period has ended.

The portion of the variable compensation components with a long-term incentive effect is granted to the Managing Board members in the form of performing share units, i.e. they are not paid out directly in cash. Performing share units are virtual shares which grant the legitimate claimant the right to receive a monetary amount after a performance period of two years has passed. The performance shares do not carry any

voting or dividend rights. After the valuation period, the variable compensation components with a long-term incentive effect are first translated into performing share units by dividing the variable compensation components with a long-term incentive effect by the share price of PATRIZIA Immobilien AG. After the performance period of two years has ended, the performing share units calculated in this way are multiplied by the current share price of PATRIZIA Immobilien AG. The resulting product determines the monetary amount to be paid out in the form of variable compensation components with a long-term incentive effect. The variable compensation components with a long-term incentive effect are thus dependent on the Company's share price performance.

There are no agreements in place in the case of a change of control. The Managing Board's total compensation in fiscal year 2007 amounted to EUR 1.9 million, of which EUR 0.9 million was from fixed components and EUR 1.0 million from variable components.

More specifically, the following amounts were granted:

	Annual income			Pension contribution
	Fixed compensation	Variable compensation	Payments in kind and other payments*	
	EUR	EUR	EUR	EUR
Wolfgang Egger	260,000	250,000	20,637	12,000
Dr. Georg Erdmann (CFO until December 31, 2007)	180,000	250,000	11,749	6,269
Alfred Hoschek	180,000	250,000	11,222	12,000
Klaus Schmitt	180,000	250,000	25,568	12,000
TOTAL	800,000	1,000,000	69,176	42,269

* The item primarily includes non-cash benefits from the provision of company cars and insurance premiums

All transactions between the members of the Managing Board and related parties comply with standards customary in the sector and are set out on page 9.3 of the notes to the consolidated financial statements. No conflicts of interest arose between members of the Managing Board and the Company.



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COMPENSATION OF THE SUPERVISORY BOARD

The Annual General Meeting of PATRIZIA Immobilien AG on June 13, 2007 passed a resolution to amend the compensation rules for the Supervisory Board. In line with the recommendations of the German Corporate Governance Code, the compensation of the Supervisory Board will be made up of a fixed and a variable component, starting from fiscal year 2007. The fixed compensation of the simple Supervisory Board members and the Deputy Chairman of the Supervisory Board of EUR 18,750.00 was paid out in three installments in fiscal year 2007: the first installment of EUR 9,375.00 was payable on June 30, 2007 and the next two installments of EUR 4,687.50 respectively were each payable three months after the previous installment was due. From fiscal year 2008 and for the first time, the Supervisory Board members will be paid the annual fixed compensation in the current fiscal year in four identical installments, in each case at the end of a quarter. The variable components are based on the dividend that is distributed to shareholders for the previous fiscal year. Each Supervisory Board member receives EUR 675 for each dividend of EUR 0.01 per share that exceeds a dividend of EUR 0.05 per share but does not exceed a dividend amount of EUR 0.50 per share. Each Supervisory Board member receives an additional EUR 375 for each dividend of EUR 0.01 per share that exceeds a dividend of EUR 0.50 per

share but does not exceed a dividend amount of EUR 0.75 per share. Each Supervisory Board member receives an additional EUR 225 for each dividend of EUR 0.01 per share that exceeds a dividend of EUR 0.75 per share but does not exceed a dividend amount of EUR 1.00 per share. The variable compensation is payable upon the close of the Annual General Meeting which decides on the appropriation of profit for the previous fiscal year in each case.

The Chairman of the Supervisory Board receives 1.33-times the fixed and variable compensation respectively. The fixed compensation of EUR 24,937.50 was paid in three installments in fiscal year 2007: the first installment of EUR 12,468.50 was payable on June 30, 2007 and the next two installments of EUR 6,234.50 respectively were each payable three months after the previous installment was due. From fiscal year 2008 and for the first time, the Chairman of the Supervisory Board will be paid the annual fixed compensation in the current fiscal year in four identical installments, in each case at the end of a quarter



If a Supervisory Board member was not a member for the entire fiscal year, he/she only receives the fixed and variable compensation pro rata temporis. The members of the Supervisory Board also receive reimbursement for all expenses as well as reimbursement for any value-added tax payable on their compensation and expenses.

The fixed components of the Supervisory Board compensation for fiscal year 2007 amounted to EUR 62,437.50, plus reimbursement for expenses. The variable compensation cannot be calculated and paid out until the Annual General Meeting of 2008 has approved the proposal on the appropriation of net profit by the Managing and Supervisory Boards

	Fixed compensation
	EUR
Dr. Theodor Seitz, Chairman	24,937.50
Harald Boberg	18,750
Manfred J. Gottschaller	18,750
TOTAL	62,437.50

In the fiscal year, PATRIZIA Immobilien AG was in a consultancy relationship with the law firm Seitz, Weckbach, Fent & Fackler of Augsburg, whose partner is Dr. Theodor Seitz, the Chairman of PATRIZIA Immobilien AG's Supervisory Board. The consultancy agreement was approved by the resolution of the Supervisory Board from November, 29, 2007. This law firm was paid EUR 8,290 plus VAT for the services provided in competition and employment law consultation in the

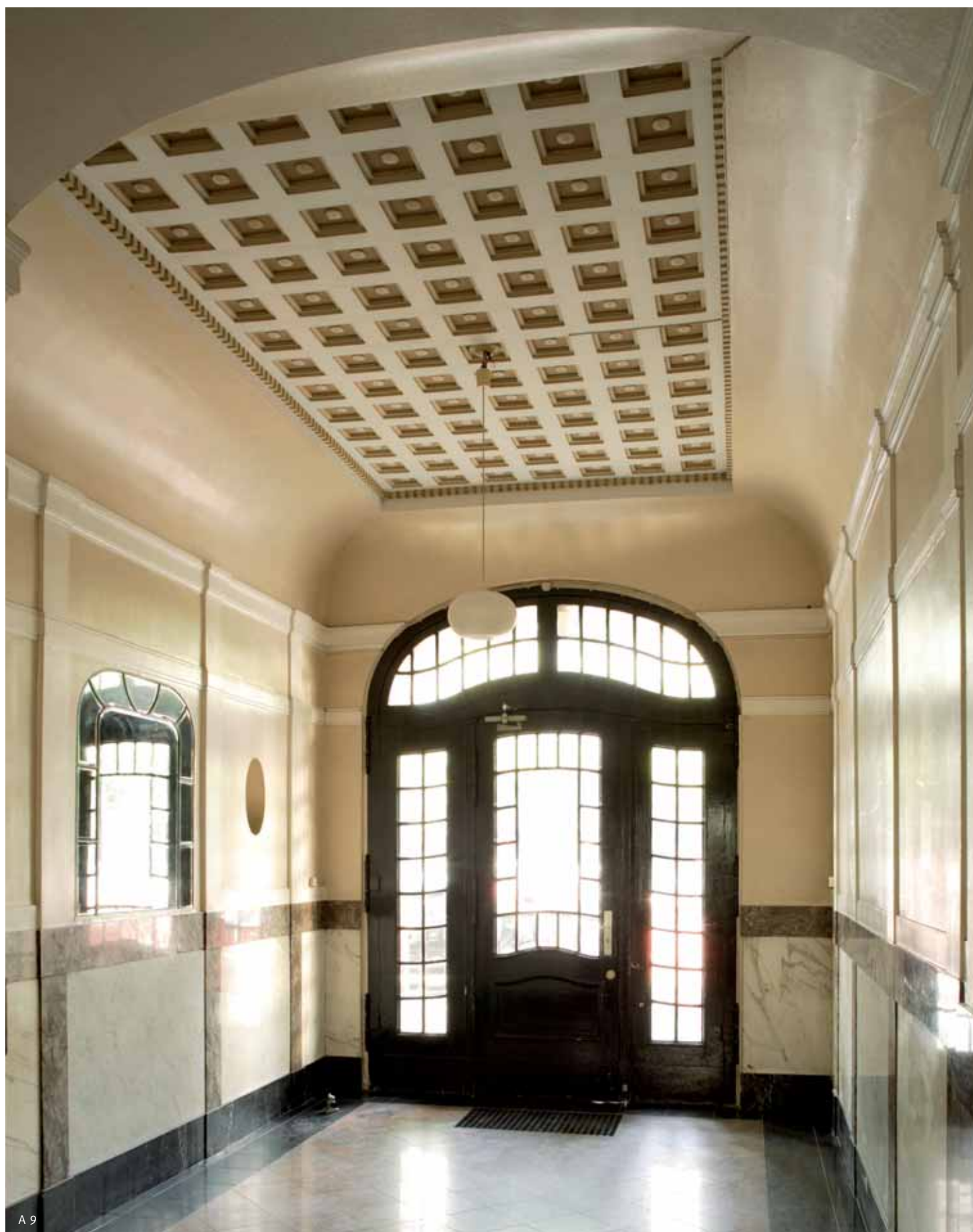
fiscal year. No compensation was paid for services personally provided to members of the Supervisory Board either. In addition, none of the Supervisory Board members has business or personal relations with the Company or members of the Managing Board that could cause a conflict of interest. Furthermore, none of the Supervisory Board members is a former member of the Managing Board of PATRIZIA Immobilien AG.

REPORTING AND AUDITING

PATRIZIA regularly provides its shareholders and interested members of the public with information by publishing the Annual Report including the consolidated annual financial statements and Group management report and by means of three interim reports. As in fiscal year 2006, reporting was carried out on the basis of the International Financial Reporting Standards (IFRSs). The consolidated financial statements were examined by the Supervisory Board and the auditors Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft.

The Annual Report for fiscal year 2006 and the interim reports for fiscal year 2007 were published within the periods recommended by the German Corporate Governance Code. The Company will not publish the Annual Report on fiscal year 2007 within the recommended 90-day period after the end of the fiscal year. The consolidated financial statements will be published on April 2, 2008, which means that the legal publication period of 120 days will be observed. Arwed Fischer – the newly appointed CFO as of March 1, 2008 – is to have the time necessary to familiarize himself with the reporting for fiscal year 2007.

The Supervisory Board has checked the independence of the auditor and found that there are no legal obstacles to appointing the firm. The Supervisory Board and the auditor have agreed between them that the auditor shall 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 the auditor comes across facts which show a deviation from the declaration of conformity with the Code issued by the Managing Board and Supervisory Board.



THE PATRIZIA SHARE

For real estate stocks in 2007, the year on the stock exchange was dominated by high volatility and hefty price losses. While real estate shares were still spurred on at the beginning of the year by hopes riding on the introduction of G-REITs, the second quarter led to substantial price adjustments in the sector. The mortgage crisis in the USA and increases in interest rates provided for additional pressure, especially in the second half of the year. Investor fears of the crisis on the US mortgage market spreading to the entire financial sector and other industries had negatively impacted the stock markets worldwide. Defaults on poorly secured loans made the global capital markets insecure and make it more difficult for all banks to refinance. The resulting higher cost and shortage of debt primarily led to high uncertainty in the case of real estate stocks, in addition to financial stocks – also as a result of falling real estate prices in the USA. PATRIZIA was not the only company with shares experiencing high volatility due to the troubled market environment as all German real estate shares saw the same, suffering from markdowns that continue to this day. Discussions about the effects of corporation taxation, which will be changing from 2008, and taxation of the “EK 02” (previously untaxed earnings classified as EK 02 under the former corporation tax credit system) served to unsettle investors further.

PATRIZIA's shares lost 77.1 % in 2007, starting trading at EUR 22.56 and closing at EUR 5.16 on December 28, 2007.

A cash capital increase (without rights) of 4,730,000 no-par value registered shares was placed with institutional investors on January 12, 2007 to partially finance already notarized residential real estate portfolios (around 9,500 residential units) and also to secure further growth. Since then, the number of shares totals 52,130,000.

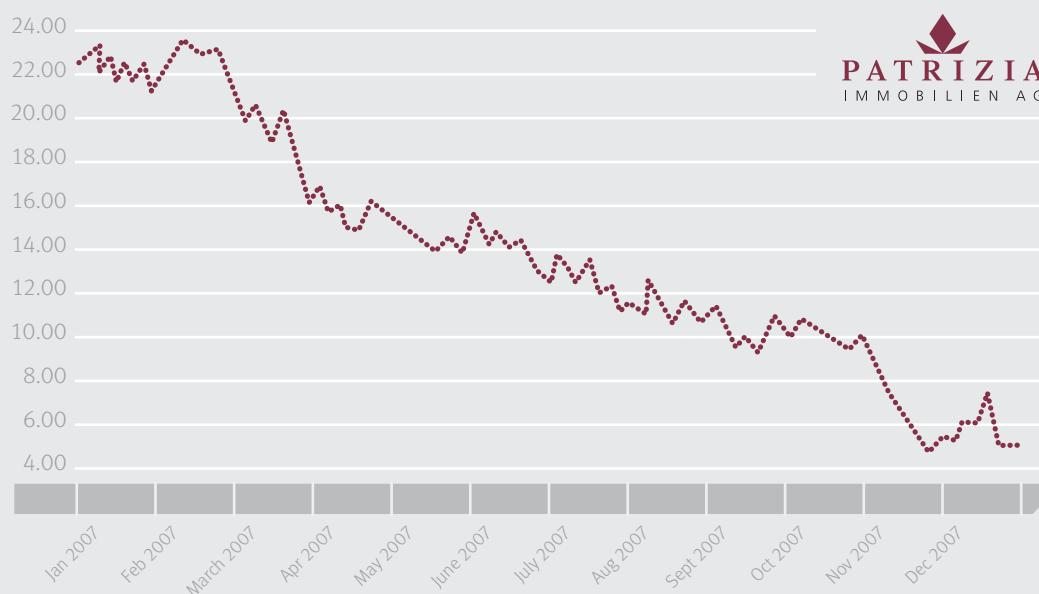
Following the promising start to the year, March saw the upward trend in the share price set in. This was due to confirmation of the decrease to our earnings forecast – already communicated in December 2006

– when the annual financial statements for 2006 were published. The adjustment was triggered by the holding period granted until April 2008 on parts of the portfolio which we had already notarized in December 2006 but did not apply to our portfolios until March 2007. The result of the sales ban agreed with the seller is a shift of the revenues and earnings projected for 2007 to subsequent years. Instead of the profit growth announced for 2007 of almost 50 % compared with the previous year, the aim was now to boost net profit by around 39 % to EUR 45 million. At this time, there were also general market fears of a rising number of defaults on payments for mortgage loans on the US real estate market. In March alone, PATRIZIA's shares lost almost 20.7 % of their value. Over the course of the year, the sub-prime crisis and its consequences remained the dominant topic on the stock markets, especially for financial stocks and real estate shares.

In November, the share price fell sharply once again when our nine-month figures were published. Due to the published number of residential units sold, which remained below our own expectations and those of the market. Following its low of EUR 4.82 in 2007 on November 21, the share price recovered again slightly, only to reach a new all-time low at the beginning of the fiscal year 2008.

As a result of its share price loss, PATRIZIA fell back in the total market value ranking of listed stocks. Coupled with significant new issues in fiscal year 2007, this led to the shares being reclassified from the MDAX to the SDAX on September 24, 2007.

PATRIZIA's trading volume on all German stock exchanges amounted to an average of around 284,700 shares per day. Compared with the previous year, this represents an increase of 71.5 % (previous year: average of 166,000 shares per day).



At the start of November 2007, First Capital Partner GmbH, whose majority shareholder is CEO of PATRIZIA Immobilien AG Wolfgang Egger, raised its 45.48 % interest in PATRIZIA to 50.16 %. At the end of 2007,

approximately 90 % of all PATRIZIA shares were held by institutional investors, including the interest of First Capital Partner GmbH.

The PATRIZIA Share at a Glance

ISIN	DE000PAT1AG3
SIN (Security Identification Number)	PAT1AG
Code	P1Z
Indices	SDAX, EPRA, GEX, DIMAX
Issue date	March 31, 2006
Share capital as at December 31, 2007	EUR 52,130,000
No. of shares as at December 31, 2007	52,130,000
Share prices in 2007*	
High	EUR 23.35
Low	EUR 4.82
Closing price on December 28	EUR 5.16
Share price performance	- 77.1 %
Market capitalization as at December 31, 2007*	EUR 269.0 million
Average trading volume per day**	EUR 3.56 million
Average number of shares traded per day**	284,713
Earnings per share (EPS)	EUR 0.92

* Closing prices in Xetra trading

** All German stock exchanges

PURPOSEFUL AND SUSTAINABLE OUT OF PRINCIPLE – THE PATRIZIA KINDERHAUS FOUNDATION AID PROJECTS



“WE BELIEVE THAT ACTIVELY WORKING TOGETHER IS THE ONLY PRODUCTIVE BASIS FOR DIALOGUE AND THEREFORE THE ONLY EFFECTIVE STEP TOWARDS THE FUTURE.”

DR. RUPERT NEUDECK

Responsibility to our society is a topic that is always being discussed. Sometimes more, sometimes less controversially; sometimes more, sometimes less emotionally. The following has emerged as an expert opinion from all the diverse discussions taking place: the aid provided through individually selected projects for which the proper measures are clearly identified beforehand and are appropriately implemented can be classified as positive whereas aid that tries to encompass all areas of society at once generally cannot.

For this reason, success stories are to be found on a more local basis. In addition to a general willingness to take responsibility for society, some of the key requirements for aid projects are close cooperation with specialists in the respective subject area as well as the clear objective of helping others to help themselves. This also includes staying in contact with partners and those affected even after a project has successfully been completed. These all build the principles of the PATRIZIA KinderHaus Foundation.

The PATRIZIA KinderHaus Foundation has committed itself to the careful selection of individual projects that focus on helping others to help themselves through new developments designed for the exact needs of each project. Each project is carried out in cooperation with partners who are equally experienced and renowned and to whom we maintain constant contact. To date, this has led to the establishment of two PATRIZIA KinderHaus facilities for critically ill children: an isolation ward in the

Mission Hospital in Peramiho, Tanzania and an after-care center in the Kinderklinik Dritter Orden (the Dritter Orden children's clinic) in Munich, Germany. The third facility of this kind, a unique aftercare center for Northern Germany in the Hamburg Children's Hospital Wilhelmstift, that supports the parents of critically and chronically ill children until they succeed in living with the illness, is due for completion in Fall 2008.

The Foundation initiated a fourth aid project in February 2008 in cooperation with Dr. Rupert Neudeck and the peace corps that he founded, “Grünhelme e. V.” (“Green Helmets”): the future PATRIZIA KinderHaus – a desperately needed residential establishment – will complement a professional training center for technical professions in Rwanda which was recently completed by the Green Helmets and will make this a facility that offers young people the chance for a future that they have previously never experienced. In Dr. Rupert Neudeck, made famous in 1979 by his refugee rescue ship “Cap Anamur”, the Foundation has once again found an equally ranked partner. The objective for Dr. Rupert Neudeck and the Green Helmets is to build a fairer world through practical local work, unbureaucratically and as quickly as possible. This takes place in regions destroyed by war and violence, where the Green Helmets, together with the native peoples, are working on rebuilding a vital infrastructure which also encompasses schools. In 2008, the fourth PATRIZIA KinderHaus will also be handed over for its intended use.

Pictures A

A1, A2 Regensburg, Käthe-Kollwitz-Strasse | A3 Regensburg, Franz-von-Taxis-Ring | A4 Berlin, Clausewitzstrasse | A5 – A7, Kolbermoor, Bodenseestrasse | A8 Kolbermoor, Walchenseestrasse | A9 Berlin, Bismarckstrasse |

A	 	PREFACE AND REPORTS
B	 	MANAGEMENT REPORT OF THE COMPANY AND THE GROUP
C	 	CONSOLIDATED FINANCIAL STATEMENTS AND NOTES AS AT DECEMBER 31, 2007
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MANAGEMENT REPORT OF THE COMPANY AND THE GROUP

The Group management report was subsumed into the management report of PATRIZIA Immobilien AG in accordance with Section 315 paragraph 3 of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with Section 298 paragraph 3 of the HGB. The subsumed management report contains all

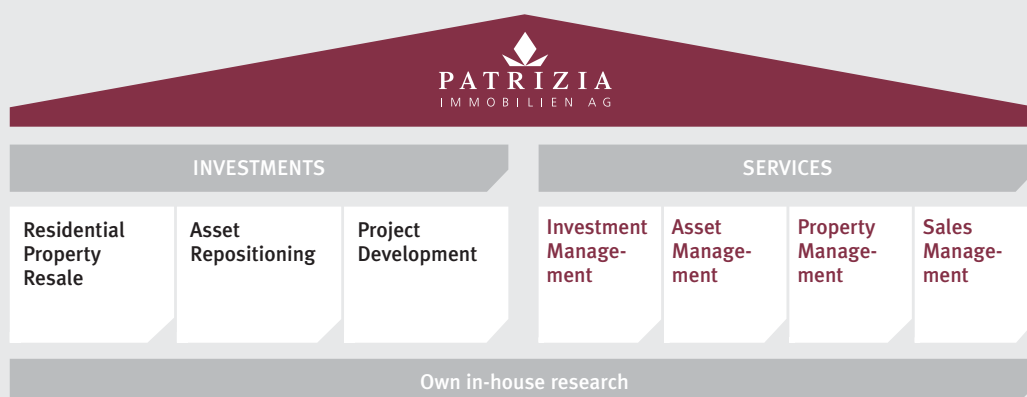
presentations of the earnings, net asset, and financial situation of the Company and the Group as well as other details that are required according to German commercial law. All monetary amounts are stated in EURO.

1. BUSINESS SEGMENTS AND ENVIRONMENT

1.1 BUSINESS ACTIVITIES AND STRUCTURE OF PATRIZIA

PATRIZIA Immobilien AG specializes in buying high-quality real estate at commercially attractive locations in Germany with the aim of increasing their value and subsequent reselling of the real estate. We thus cover the entire real estate value-added chain. Our business model is oriented to increasing value and prompt placing of real estate.

With over 20 years' experience and over 330 employees, PATRIZIA Immobilien AG is one of the market-leading real estate companies in Germany. PATRIZIA is active on the German real estate market both as investor and service provider with headquarter in Augsburg and branches in Berlin, Cologne, Dresden, Frankfurt/Main, Hamburg, Hanover and Munich. These form the two business segments of Investments and Services.





In the Investments segment, PATRIZIA buys real estate resources, raises their value itself by working on the real estate – e.g. by implementing construction projects or by reducing vacancy – and sells the improved real estate. Comprising the lines of Residential Property Resale, Asset Repositioning and Project Development, PATRIZIA thus always works on its own account or via joint ventures in project development.

In the Services segment, PATRIZIA offers long-term oriented investors all services associated with real estate. The service range thus covers advice on purchase, asset management and property management and the sale of real estate. The service package for institutional investors was supplemented by the initiation of fund products with the establishment of PATRIZIA Immobilien Kapitalanlagegesellschaft mbH in April of 2007. We are therefore able to offer tailored solutions for individual investor requirements.

INVEST. OPTIMIZE. REALIZE.



Eight subsidiaries are active on the market and are responsible for the operating business of PATRIZIA. They are wholly-owned subsidiaries of PATRIZIA Immobilien AG. The real estate portfolios are managed via special purpose vehicles (real estate companies).

PATRIZIA Acquisition & Consulting GmbH is responsible for purchasing real estate including the necessary research for our own investments, the review of the fund products for purchase and also acts as a service provider for third parties.

PATRIZIA Advisory & Sales GmbH is the sales company for individual properties or real estate portfolios with the aim of placing the real estate in the best possible way on the market. It conducts both the transactions for its own real estate as well as the sales consultation for third parties. Furthermore, our commercial real estate team is headquartered here, which implements all services from purchase consultation and processing through asset management to resale of a property.

PATRIZIA Asset Management GmbH assumes the value-oriented management of the real estate, both for its own investments as well as owner representation for third parties, and manages all areas associated with the optimization process.

PATRIZIA Bautechnik GmbH evaluates the technical substance of the buildings, develops property-specific solutions and manages the construction projects to be implemented.

PATRIZIA Immobilienmanagement GmbH specializes in professional property management of residential and commercial real estate of all sizes of its own or in third-party ownership.

PATRIZIA Immobilien Kapitalanlagegesellschaft mbH establishes special real estate funds for institutional investors and is responsible for the entire fund management.

PATRIZIA Projektentwicklung GmbH provides all services involved in commercial and residential project development, from conception through purchase of suitable plots or property to the resale of the developed property.

PATRIZIA Wohnungsprivatisierung GmbH is the sales company for the individual sale of apartments to tenants, owner-occupiers and private investors.



1.2 COMPANY GOALS AND STRATEGY

PATRIZIA is one of the pioneers of tenant-oriented Residential Property Resale. In the past, our business focus was on privatization, i.e. on the purchase of real estate and its split into individual residential units and subsequent resale to tenants, owner-occupiers and private investors. The cash inflows from the IPO of the 2006 fiscal year and the capital increase of January 2007 have provided PATRIZIA with new growth opportunities, such as the participation in larger portfolio bids. The Company has also developed signi-

ficantly with an almost seven-fold increase in the real estate volume and respectively an almost ten-fold increase in number of units within just one year.

Residential Property Resale is, and will remain, a very important sales opportunity and will stay in our focus; other opportunities arise for us however in the placement of real estate portfolios on the market. As a result of the Company's improved equity situation, we have extended other high-earning business segments. Firstly, we are strengthening both of the other business segments of Investments, Asset Reposition-

ing and Project Development. The associated process of increasing the value of real estate portfolios already forms the basis of all our activities. Secondly, we have developed our services segment during the 2007 fiscal year and will in future be concentrating on Investment and Asset Management. The establishment of PATRIZIA Immobilien Kapitalanlagegesellschaft mbH and the setting up of two open-ended funds means we offer institutional investors further investment options in German and European residential real estate. Furthermore, co-investment with two long-term oriented pension funds in German commercial real estate enables us to further expand our Investment and Asset Management in the commercial sector. This will generate regular, recurrent and stable earnings for PATRIZIA. The basis is, and remains, the real estate; however, our options for product design and placement are becoming more varied.

INVEST. OPTIMIZE. REALIZE.

Today, we regard ourselves more than 'real estate industry': Our focus lies on the greatest increase in value of acquired real estate and its most favorable and prompt resale. The corresponding transaction types – which may take the form of private resale, global sales as part of asset repositioning or another sales strategy – primarily depend on the target return. We are able to manage all tasks arising during this process due to our comprehensive expertise in the value-added chain for real estate investment with our own staff. They operate within a network as established industry experts and engage their combined knowledge for the benefit of our own projects as well as those of our clients. Our regional orientation via our branches across Germany enables us to have direct contact to our customers.



1.3 BUSINESS DEVELOPMENT AND SIGNIFICANT TRANSACTIONS

1.3.1 GENERAL CONDITIONS AND THE MARKET

In 2007, German GDP grew in real terms by 2.5 %; after adjustments for working-day variations, this figure was 2.6 %. The German economy has therefore grown significantly for the second successive year, despite a lower growth rate than in 2006 (+2.9 %). The positive economic trend also led to an upswing on the labor market with sinking unemployment figures.

National income climbed during 2007 by 4.2 %, although private households' disposable incomes in-

creased by just 1.6 %. In contrast, private consumption expenditure developed negatively, decreasing by 0.3 % in real terms. It should be noted in this regard that significant pull-forward effects came about as a result of the value added tax increase as of January 1, 2007. At the end of 2007, momentum reduced as a result of turbulence on the international financial markets and economic activity noticeably slowed. The higher costs of energy and food, as well as increasing inflation rates, have squeezed purchasing power in general, reducing consumers' readiness to make larger purchases. Accordingly, private households increased savings over the year as a whole to 10.8 %, equivalent to a rise of 0.3 percentage points against the previous year.

According to the Federal Statistical Office, investments in construction rose in 2007 by 2.0 %, although this rise is almost exclusively due to investments in non-residential buildings. Investments in residential construction in real terms increased by only 0.3 % and remained clearly below the growth rate of the previous year (+4.3 %). After residential construction investments recorded negative rates of change for six consecutive years from 2000, more was invested in residential construction for the first time in 2006 than in the previous year.

The German real estate market differs from other European residential markets both with regard to ownership structure and price development. With a share of house and apartment ownership of 43 %, Germany occupies one of the lowest ranks in a European comparison. Real estate prices are significantly more stable than in other European countries, although there are strong regional differences. Prices, particularly for residential real estate, have remained almost constant over the past 10 years in contrast to other European countries.

1.3.2 KEY TRANSACTIONS IN THE INVESTMENTS SEGMENT

An important event during the 2007 fiscal year was certainly the transfer of ownership of around 9,000 residential and 500 commercial units which had already been notarized in November and December of 2006. The approximate 9,500 high-quality units with a residential and floor space of around 695,000 sqm are all at attractive locations in metropolitan areas of western Germany. As soon as they were purchased, the individual properties were allocated to the Residential Property Resale and Asset Repositioning business units according to utilization options.

PRIVATIZATION OF RESIDENTIAL PROPERTY

In the 2007 fiscal year, a portfolio of 66 residential units in Berlin Charlottenburg-Wilmersdorf was acquired for Residential Property Resale, characterized by its low vacancy rate of 1.5 % and its excellent location. The property was constructed in 1976 and offers total living space of more than 4,500 sqm.



As at December 31, 2007, around 3,000 of the 13,127 residential and commercial units held by us were in the sales process of individual privatization. At the comparable time of the previous year (December 31, 2006), around 1,200 residential units were in the privatization process. Of these 1,200 residential units the majority of the 487 units sold in 2007 were sold individually to tenants, owner-occupiers and private investors. The lower resale figures arose predominantly from delays in sales, meaning that individual sales of a large part of the approximate 2,000 apartments made available for the privatization process in 2007 could only be begun in September. The delay in the sales start was not only due to delays in the legal separation of the properties into individual residential units, but primarily to the adaptation of internal processes and structures which have become essential as a result of the growth.

ASSET REPOSITIONING

Asset repositioning is becoming ever more important for the PATRIZIA business model, a fact reflected in increased numbers of purchases of asset repositioning portfolios in 2007. In most cases, asset repositioning properties require higher investment in construction measures or a longer timeline for the optimum added-value as privatization properties e.g. with reduction of vacancy. The acquisition of properties for

asset repositioning is reflected clearly in the Group's balance sheet. As at December 31, 2007, the investment property recognized under non-current assets on the asset side of the balance sheet and the investment property under construction amounted to around EUR 731.8 million.

The resale of this real estate, mostly to institutional investors, takes place following implementation of all measures to increase value en bloc. The asset repositioning enables us therefore to make use of additional sales strategies with comparable margins (EBT). In asset repositioning, we see great potential and significant competitive advantage, since we can manage the entire optimization and realization process with our own employees' expertise.

2,020 residential units and 80 commercial units were acquired during the last fiscal year for asset repositioning. The individual portfolios in overview according to regional distribution:

Munich – total acquisition of 932 residential units

The portfolio located in the suburb of Ludwigsfeld comprises 679 residential units and 17 commercial units with a residential and a total commercial floor space of approximately 30,000 sqm and a vacancy rate of less than 5 %. The buildings in need of resto-



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ration are being modernized with large-scale construction projects with an investment volume of around EUR 18 million. The average rent is currently EUR 2.61 per sqm. In addition to the structural development potential, the portfolio also has viable upside rental potential. PATRIZIA has given its agreement to the vendor of the portfolio, the Federal Agency for Real Property, not to split up the residential facility for the next 15 years and to individually privatize it as residential units. Furthermore, the tenants with existing tenancy agreements were granted life-long protection from eviction. The large-scale renovations by PATRIZIA comprise in particular the installation of an insulation system on the facades and insulation of the lowest and highest floor ceilings and the fitting of modern insulating windows, the strengthening of the electro-risers and installation of a central heating system. PATRIZIA aims not only to increase the value of the property, but also to significantly improve living comfort for residents.

A further 174 residential units have been purchased in Sendling Westpark. The buildings, which date back to the early 1950s and offer total living space of around 9,600 sqm, are in a good state of construction and maintenance. Following realization of this value-increasing potential of the rent inflows, the almost completely rented property is resold.

A residential facility in the suburb of Thalkirchen of 79 residential units and 6 commercial units let in its entirety has been acquired, which is primarily characterized by its potential for rent review. The average rent of the approximately 7,800 sqm property dating back to 1927 and 1947 is currently EUR 6.28, thus below the market average.

Leipzig – total acquisition of 907 units

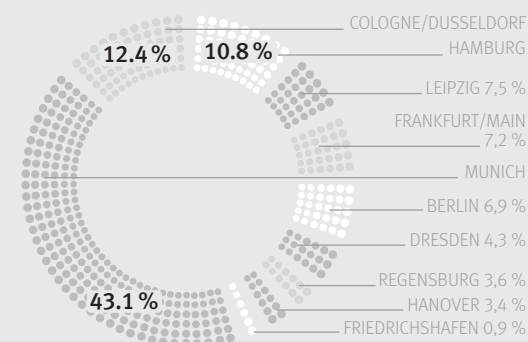
The properties acquired comprise 782 residential units and 53 commercial units dating from 1925 to 1933, more than 80 % of which are fully modernized, some of which are of an equivalent quality to new buildings. For PATRIZIA, the crucial factor in deciding in favor of purchase was the attractive location of the real estate in addition to the good condition of the building. The properties acquired as part of an in-

solveny process had a vacancy rate of 22 %. There is significant value-added potential by means of intensified re-letting due to stable rental income. We will also be carrying out value-enhancing measures in the units that have been modernized partially or not at all, whilst around 2,000 sqm of extra space can still be developed in the upper floors of the buildings. With the portfolio in Leipzig another 70 residential units and 4 commercial units in the Ruhr region dating back to 1957 and in need of renovation were transferred into our ownership.

Another 72 residential units with around 5,700 sqm residential space in primarily listed buildings were purchased also in Leipzig. The properties, which were completely renovated at the end of the 1990s are therefore in a very good condition, were up to 60 % vacant due to restructuring at the vendor's. In reducing the vacancy, we see far-reaching potential for the optimization of income from the portfolio.

Furthermore, 59 residential units with a total floor space of around 5,600 sqm were acquired in **Münster** as well as 105 residential units in the immediate vicinity of **Nuremberg** with a total floor space of 6,800 sqm. In both asset repositioning portfolios, the implementation of comprehensive value-enhancing measures has begun.

PATRIZIA Premium Portfolio – breakdown according to region



As at December 31, 2007

The PATRIZIA portfolio in detail

Region/city	Number of units (Dec. 31, 2007)	Area in sqm (Dec. 31, 2007)
Munich	5,652	387,144
Cologne/Dusseldorf	1,627	140,894
Hamburg	1,418	94,940
Leipzig	981	64,391
Frankfurt/Main	951	60,047
Berlin	903	58,166
Dresden	561	48,190
Regensburg	473	32,387
Hanover	444	30,494
Friedrichshafen	117	7,548
TOTAL	13,127	924,201

PROJECT DEVELOPMENT

Conversion of the historic water tower in Hamburg completed

With PATRIZIA Projektentwicklung GmbH taking the lead role, PATRIZIA has built a 4-star hotel with 226 rooms in the listed water tower in Hamburg, constructed in 1910. After two and a half years of construction, the hotel was transferred to the leaseholder, Mövenpick Hotels & Resorts, in June 2007. The investment volume, including acquisition costs, totaled around EUR 30 million. The water tower was sold to a German special real estate fund. PATRIZIA generated revenues of EUR 34.4 million from this project.

The conversion of the derelict water tower, not used since 1961, into a high-category hotel with 21 floors was a complex architectural task. The renovation of the octagonal listed industrial building won recognition in Cannes at the largest international real estate trade fair, the MIPIM (Marché international des professionnels de l'immobilier). The property was nominated for the 2008 MIPIM award in the hotels and leisure facilities category.

Land purchases in Frankfurt/Main, Munich and Augsburg

PATRIZIA has acquired a development plot covering 8,000 sqm in a premium central location in Frankfurt/Main – on Feuerbachstrasse in the Westend district. The purchase price was EUR 41 million, with further investment of EUR 60-80 million planned for the construction of a mixed-use residential and commercial development with gross floor space of around 27,000 sqm. Approximately 70 % of the usable space created as part of the project will be used for residential units, with office premises accounting for the remaining 30 %. The rebuilding of the site, which is currently primarily covered with commercial properties dating back to the 1960s, is scheduled to start in early 2008. The planned project development, which is expected to be completed in four to five years, is characterized by its significant value enhancement potential and the anticipated high level of demand among commercial and private users.

In September 2007, PATRIZIA Immobilien AG also entered into a strategic cooperation with Landesbank Baden-Württemberg for selected projects in its Project Development business line. Under the terms of this arrangement, PATRIZIA sold a 50 % interest in the aforementioned site to LBBW Immobilien Develop-



ment Beteiligungen GmbH, a subsidiary of Landesbank Baden-Württemberg. The Feuerbachstrasse project is thus regarded as a common joint venture. It is thus recognized as an investment at equity in accounting. The Company plans to expand this cooperation on a project-specific basis to include other selected locations in future.

PATRIZIA has also acquired an undeveloped site of around 900 sqm space for a new construction of mixed use, also in a premium inner-city location in close proximity to Munich's Viktualienmarkt. With a total investment volume including the purchase price between EUR 25-30 million, half of the approximate 3,700 sqm will be used for apartments in addition to

shop space and high-quality office space. Construction at the site in Zwingerstrasse is scheduled to begin in the third quarter of 2008, meaning that the project should be completed at the earliest in 2010.

A site of around 2,800 sqm was purchased in the city center of Augsburg, where PATRIZIA is headquartered. The planned new construction with gross floor space of 3,300 sqm will be used exclusively for residential units. The Am Schwalbeneck development project has a total investment volume between EUR 9-10 million, including the purchase price. Construction is expected to begin in the first half of 2008, with the project scheduled for completion at the earliest in 2010.

City	Size of site	Gross floor space planned	Investment volume planned	Planned completion
Augsburg	2,800 sqm	3,300 sqm	EUR 9–10 million	2010
Frankfurt/Main	8,000 sqm	27,000 sqm	EUR 100 – 120 million	2011 – 2012
Munich	900 sqm	3,700 sqm	EUR 25–30 million	2010

1.3.3 KEY TRANSACTIONS IN THE SERVICES SEGMENT

Over the course of the 2007 fiscal year, we developed our Services business segment. Firstly, the two large portfolio transfers made it necessary to recruit more personnel for the property management area. Secondly, we supplemented our service range with the investment management area. We support our customers in identifying, valuing and investing in direct and indirect real estate.

First fund of PATRIZIA Immobilien Kapitalanlagegesellschaft mbH

By establishing the subsidiary PATRIZIA Immobilien Kapitalanlagegesellschaft mbH, PATRIZIA Immobilien AG has added special real estate funds to its range of services for institutional real estate investors. Establishment of the company was approved back in April 2007 by the German Federal Office for Financial Services Supervision (BaFin), and the first fund, the PATRIZIA German Residential Fund 1, was launched in June 2007. Residential real estate worth around EUR 30 million has already been acquired for the special

fund, which operates solely as a letting agent. It invests in German real estate and has a total investment volume of EUR 400 million. Another EUR 400 million is to be invested in PATRIZIA Euro City Residential Fund 1, which will comprise European residential real estate. In addition to Germany, this fund is aimed at Sweden, Finland, France, the Czech Republic and the Netherlands. PATRIZIA is still currently identifying suitable properties; no specific real estate has yet been selected or acquired. There are no conflicts of interest between the purchasing for either the German, or the Euro City Residential Fund 1, and the proprietary purchase by PATRIZIA, since the purchase criteria for the real estate are very different from one another. We will also ensure that conflicts of interest are avoided in the case of initiation of future fund products.

By initiating fund products, PATRIZIA can make tailored real estate products available to its customers. The PATRIZIA Group assumes the entire service spectrum for the fund, from acquisition appraisal, through fund management to asset management. Due to the service commission generated as a result, stable and recurring income is created for the Services segment.

Co-investment with two international pension funds

Furthermore, we have concluded a co-investment with Stichting Pensionsfonds ABP from the Netherlands and ATP Real Estate from Denmark. PATRIZIA has an equity interest of 6.25 % in the co-investment and is responsible for the entire purchase process and the return-oriented asset management via the common investment vehicle, PATROffice Real Estate GmbH & Co. KG. PATROffice Real Estate GmbH & Co. KG's total investment volume should comprise EUR 700 million and be primarily invested in German commercial real estate, allowing no conflict of interest with the original investment activities of PATRIZIA Immobilien AG. By the end of 2007, EUR 261 million had already been invested, including in commercial real estate in Essen, Frankfurt/Main, Hanover, Karlsruhe, Munich and Saarbrücken. The co-investment should be fully invested by early 2009.

As well as participating in this co-investment with its share in the equity, PATRIZIA Immobilien AG will also take on the purchasing of commercial real estate and asset management for the entire portfolio. This joint co-investment with prestigious international, long term-oriented partners enables PATRIZIA to further expand its Asset Management line in the commercial sector.

1.3.4 OTHER SIGNIFICANT EVENTS

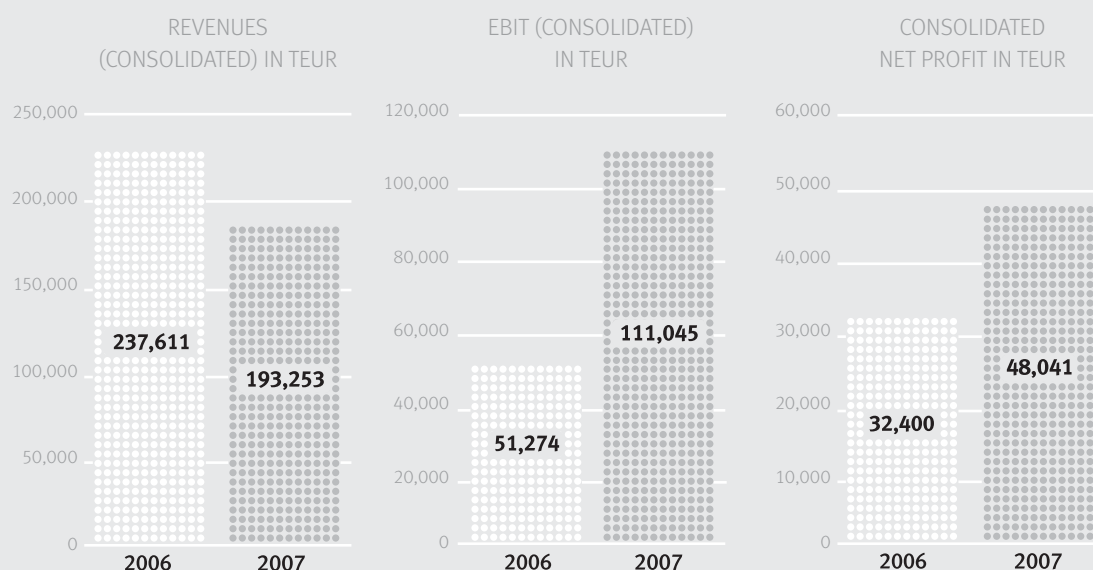
Changes to the Managing Board of PATRIZIA Immobilien AG

The Supervisory Board of PATRIZIA Immobilien AG has extended the Managing Board contracts of Chairman of the Board Wolfgang Egger and Chief Investment Officer Alfred Hoschek by another 5 years. Egger and Hoschek have thus been appointed as the Managing Board until the end of April 2012.

2. 2. NET ASSET, FINANCIAL AND EARNINGS SITUATION

2.1 EARNINGS SITUATION OF THE GROUP

Development of significant items in the Group's profit and loss account



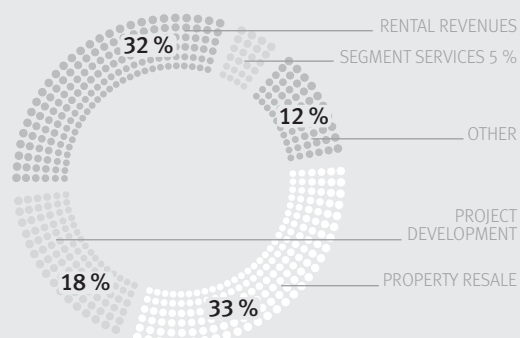
During the 2007 fiscal year, PATRIZIA generated consolidated revenues of EUR 193.3 million (previous year: EUR 237.6 million). The decline of 18.7 % is mainly the result of the lower resale figures for apartments. We posted a block sale of 1,000 apartments in the 2006 fiscal year, which could not be realized in 2007. Even in privatization, the resale of 487 individual residential units did not meet our expectations. Overall, purchase price revenues of EUR 64.5 million resulted from residential property resale; these contrast with a decrease in inventories of EUR 49.5 million. For the apartments sold in the 2007 fiscal year, there was an average resale price of around EUR 132,500, equivalent to an average price per square meter of EUR 1,990. In this regard it must be noted that to a large extent apartments were sold at much more favorable prices, for example in Friedrichshafen. The higher priced apartments, for example in Munich and Cologne, were put on the market at the end of September 2007, so we are expecting initial revenues as a result in the current fiscal year 2008.

The wide extension of our real estate portfolio, together with the first realized rental growth following ownership transfer, led to significantly higher rental income. Significant potential has already been raised in the property at Dresden Altmarktkarree in particular: since acquiring the property, rental increases of up to 50 % have been realized for renovated apartments, meaning that up to EUR 7 per sqm were generated on new lettings. Overall, looking at the entire portfolio, PATRIZIA generated funds from letting of EUR 62.5 million (previous year: EUR 12.9 million).

In Project Development the purchase price revenues of the Hamburg water tower could be booked in December. PATRIZIA has been receiving the lease income from the hotel leaseholder since its transfer in June. At EUR 9.0 million, the revenues from the Services segment are within our expectations.

	2007	2006	Change
	EUR'000	EUR'000	%
Purchase price revenues from property resale	64,507	152,158	- 57.6
Purchase price revenues from asset repositioning	0	58,864	- 100
Purchase price revenues from project development	34,414	0	+ 100
Rental revenues	62,524	12,873	+ 385.7
Services segment revenues	8,998	8,823	+ 2.0
Other	22,810	4,893	+ 366.2
Consolidated revenues	193,253	237,611	- 18.7

Revenues breakdown



The portfolio changes in the fiscal year amounted to EUR 666.7 million. These comprise the decrease in inventories and increases from real estate purchases classified as inventories and capitalized renovation services. This includes parts of the large portfolios already notarized in 2006, which only transferred to our ownership in the first quarter of 2007. The surplus purchases in relation to PATRIZIA's sales are an indication of the further expansion of our real estate portfolio.



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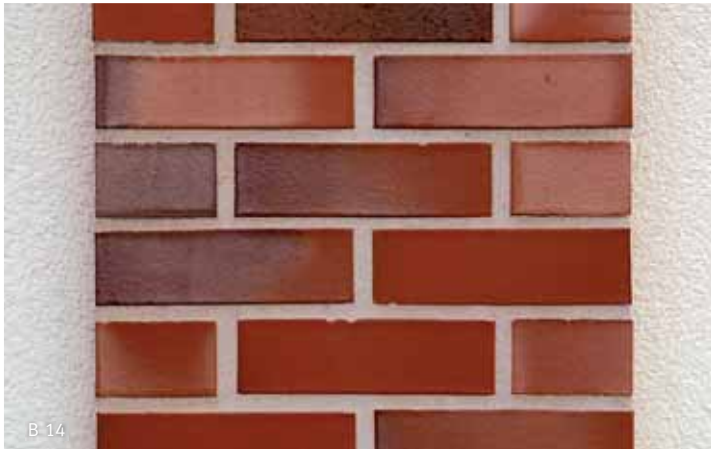
An increase in material costs of EUR 201.8 million to EUR 778.8 million also arises from the increased purchases. In addition to the expenses for the purchase of properties, including ancillary procurement costs, these include expenses for renovation and project planning costs, as well as rental ancillary costs and lease expenses.

As a result of the increased number of staff over the course of the fiscal year, personnel expenses rose from EUR 14.9 million to EUR 19.9 million, equivalent to an increase of 33.8 %. Of this, EUR 17.2 million was attributable to salaries and wages and EUR 2.7 million was attributable to welfare contributions. The number of employees on a fixed contractual basis, plus trainees, grew in the same period by 49.8 % from 223 employees to 334 by the end of the year. On average during 2007, PATRIZIA employed 287 staff.

The remuneration of the Managing Board included in the personnel costs comprises performance-related and non-performance-related components. The non-performance-related components comprise fixed basic compensation that is paid as a monthly salary, pension contributions and other agreed payments. Performance-related, variable compensation com-

ponents include one-time and annually payable components linked to the performance of the Company. The total remuneration of the Managing Board was EUR 1.9 million in the 2007 fiscal year. The Supervisory Board's remuneration also comprises fixed and variable components. Detailed information on the remuneration structure of the Managing Board and the Supervisory Board can be found in the notes to the consolidated financial statements and the corporate governance report.

Results from fair value adjustments to investment property amounted to EUR 69.5 million in the 2007 fiscal year. This includes EUR 3.2 million attributable to the Dresden Altmarktkarree 1 property, whose market value has increased due to rental increases implemented and the associated higher revenues. Furthermore, a write-up to fair value of EUR 66.3 million was made in the third quarter of 2007, which relates to parts of the portfolios transferred to our ownership in February and March 2007. This was based on an external expert report generated upon the request of one of the financing banks by a neutral, internationally recognized appraiser and which arrived at a higher value for the property.

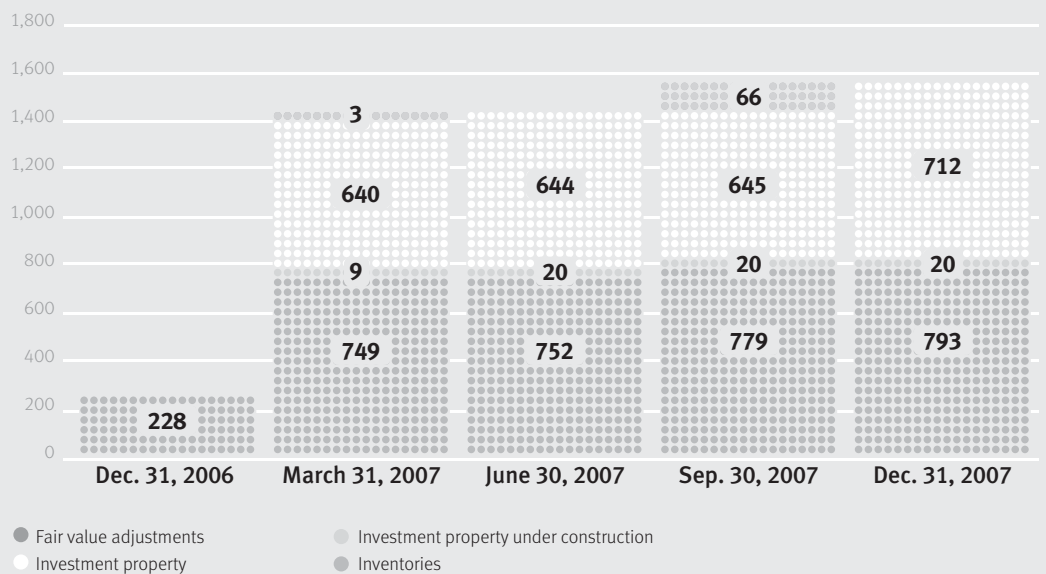


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Balance sheet value of the portfolio 2007 in EUR million



Other operating expenses rose by EUR 3.8 million, or 23.0 %, and at EUR 20.5 million were significantly higher than in the previous year (2006: EUR 16.7 million). This item was extraordinarily impacted, in particular by tax and legal consulting costs of EUR 2.5 million and expenses of EUR 1.2 million which arose in connection with the purchase and integration of the large portfolios into our holdings.

	2007	2006	Change
	EUR'000	EUR'000	%
Administrative expenses	11,748	8,012	+ 46.6
Selling expenses	5,397	6,902	- 21.8
Other expenses	3,398	1,792	+ 89.6
Other operating expenses	20,543	16,706	+ 23.0

The income ratios improved despite lower revenues in comparison with the previous year, since in these items the changes in the fair value adjustments to investment property are taking effect. EBITDA rose to EUR 111.8 million due to the changes in the fair value adjustments to investment property in the amount of EUR 69.5 million; EBIT – a key management parameter in the Group – climbed to EUR 111.0 million, which is equivalent to a doubling in comparison with 2006. The Investments segment contributed to EBIT with EUR 117.2 million, the Services segment with EUR 1.1 million, equivalent to a percentage share of 1 %. The Corporates segment by contrast, in which predominately the earnings and expenses of PATRIZIA Immobilien AG are presented, reduced EBIT by EUR 7.3 million. Without the value adjustments to investment property, EBITDA of EUR 42.3 million and EBIT of EUR 41.6 million would have arisen.

The financial result amounted to EUR –47.9 million and is not comparable with the previous year's value (EUR –4.1 million) due to the massive extension of our

real estate portfolio. It was primarily the extension of our borrowing volume as part of the large-scale real estate purchases which came into effect. The financial expenses of EUR 68.2 million include interest costs for the servicing of bank loans in the amount of EUR 59.5 million and expenses due to the market valuation of the interest rate hedging instruments in the amount of EUR –8.7 million. The financial income of EUR 20.4 million also includes income from the market valuation of interest rate hedging instruments of EUR 14.8 million.

This results in earnings before taxes (EBT) of EUR 63.2 million. Compared with last year, this is an increase of EUR 16.0 million, or 33.8 %. Our tax rate amounts to around 24 %. After tax, PATRIZIA closed the 2007 fiscal year with consolidated net profit for the year of EUR 48.0 million (previous year: EUR 32.4 million). We have therefore achieved our forecast of EUR 48 million and realized an increase over the previous year of 48.3 %. The corresponding earnings per share rose from EUR 0.71 to EUR 0.92.

An overview of the key items in the profit and loss account

	2007	2006	Change
	EUR'000	EUR'000	%
Revenues	193,253	237,611	– 18.7
Total operating performance	861,863	285,082	+ 202.3
EBITDA	111,817	51,718	+ 116.2
EBIT	111,045	51,274	+ 116.6
EBT	63,170	47,200	+ 33.8
Net profit	48,041	32,400	+ 48.3



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2.2 NET ASSET AND FINANCIAL SITUATION OF THE GROUP

Changes in our balance sheet were strongly characterized in 2007 by the portfolio purchases of around 11,700 units. As at December 31, 2007, PATRIZIA recorded total assets of EUR 1,643.2 million, thus quadrupling its total assets (previous year: EUR 374.7 million).

On the **assets side of the balance sheet**, real estate assets, composed of investment property, investment property under construction and inventories, grew from EUR 228.4 million to EUR 1,525.2 million. As already described in the Asset Repositioning business line, PATRIZIA also holds selected properties for a longer time to generate stable rental income and to more fully participate in its further development. The investment property is recognized at fair value in profit or loss in accordance with IAS 40. As already explained elsewhere, changes to fair value of EUR 69.5 million took place on the fair market value of the investment property as a result of submission of external expert reports during the fiscal year for a part of our real estate portfolio. In total, the Investment property item amounted to EUR 711.6 million. In addition to partial portfolios from the inventories notarized at the end of 2006, the Dresden Altmarktkarree 1 asset repositioning project is also recognized under this item.

The future utilization of the Dresden Altmarktkarree 2 project development property and the Munich-Ludwigsfeld asset repositioning project is oriented toward achieving sustainable rental income and increasing value. It is therefore carried at amortized

cost in accordance with IAS 16 in the Investment property under construction item. At the end of 2007, this amounted to EUR 20.2 million. Both properties were only acquired in 2007, meaning there are no grounds for comparison with the previous year.

As at December 31, 2007, the Company's participations amounted to around EUR 2.0 million. PATRIZIA Immobilien AG's interest in PATRoffice Real Estate GmbH & Co. KG, our joint venture with both pension funds ABP and ATP, which was entered into in 2007 is also primarily accounted for under this item. Furthermore, we are reporting our 50 % share in the Frankfurt Feuerbachstrasse project development site under the Investments in joint ventures balance sheet item. At the end of the 2007 fiscal year, this amounted to EUR 5.1 million.

The real estate intended for sale as part of ordinary business operations, are reported in the inventories and exceeded the value of the previous year more than 3 times over: inventories increased from EUR 228.4 million to EUR 793.4 million. In addition to the properties acquired during the current fiscal year, the strong rise of 247.4 % or EUR 565.0 million is also associated with the ownership transfer of the portfolios notarized at the end of 2006 with an approximate total of around 9,500 units in February and March 2007.

Bank balances and cash reduced as at December 31, 2007 from EUR 83.2 million to EUR 54.0 million. It must be taken into account that in the previous year the cash inflows from the IPO in March 2006 were, for the most part, not yet invested and were therefore still available as bank balances.



On the **liabilities side of the balance sheet**, PATRIZIA's shareholders' equity rose from EUR 191.7 million to EUR 336.6 million, particularly due to the increase in capital in January 2007 and the consolidated profit. The capital ratio is currently at 20.5 %. At group level, we are striving at least a capital ratio between 25-30 %.

The financing of the real estate purchases takes place at the project level. Our equity interest is between 10 % and 30 %. The duration of the loan agreements conforms to the duration of utilization and the underlying business plan. As at December 31, 2007, the non-current and current liabilities toward banks totaled EUR 1,262.0 million (previous year: EUR 125.5 million). This is due to the wide extension of our business activities and the more comprehensive investment and financing volume associated with this. The composition and residual terms of our bank loans are broken down under point 5.2 in the notes to the consolidated financial statements. As at December 31, 2007, there were 18 loan agreements with various banks, concluded exclusively in euro. The qualification of loans as short-term also takes place for long-term loans in the case of financing of current assets. Around 47.0 % of our loans have a term of 2 years or longer, equivalent to loans with a volume of EUR 593.1 million as at December 31, 2007. In accordance with the loan agreements with the lending banks and our business model, we are permitted in the case of some agreements to reduce the loan during the project – according to the sales status. When selling the real estate or individual units, between 85-90 % of the sales proceeds flow into repayment. Interest rate change risks are in large parts hedged using interest swaps and collars. Detailed explanations in this respect can be found in points 4.5 and 5.8 of the notes to the consolidated financial statements.

Liquidity management ensures that PATRIZIA is solvent at all times. Most of 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 solvency of the Group, a liquidity reserve is maintained in the form of credit lines and cash.

From the current business activities, we are posting cash outflow of EUR 62.6 million, since more cash has flowed into the purchase of real estate portfolios and value-enhancing measures implemented, than was recognized from the operating business. A cash outflow also arises from the difference between outgoing payments for investments, in particular for the development of and from the purchase of investment property (EUR 595.0 million), and incoming payments from raising long-term loans. This proves that significantly more real estate was acquired than resold. The cash inflows from the financing activities comprise for the most part the assumption of long-term loans (EUR 543.2 million) and the inflows from the capital increase implemented in January 2007 (EUR 104.1 million). Overall, cash amounted to EUR 54.0 million as at December 31, 2007, equivalent to a reduction of EUR 29.2 million or 35.1 % in comparison with 2006.

Summary of the 2007 Cash Flow Statement

	2007	2006
	EUR'000	EUR'000
Consolidated profit after taxes	48,041	32,400
Cash outflow from operating activities	- 62,603	- 48,460
Cash outflow / inflow from investing activities	- 604,212	1,307
Cash inflow from financing activities	637,617	113,887
Change in operating activities of a cash nature	- 29,198	66,734
Cash and cash equivalents (Jan. 1)	83,211	16,477
Cash and cash equivalents (Dec. 31)	54,013	83,211

2.3 GENERAL STATEMENT ON THE EARNINGS, NET ASSETS AND FINANCIAL SITUATION OF THE PATRIZIA GROUP AND THE PARENT COMPANY

General statement on the Group

The 2007 fiscal year was a year of growth for the Group in the operating business. The large portfolio purchases are to be integrated into the organization and structures and processes adapted to this growth. The results nevertheless remain qualitatively below our expectations. After just nine months, we exceeded the consolidated net profit for the year of EUR 45 million forecast at the beginning of the year and have achieved the subsequently adopted forecast of EUR 48 million. However, we are not satisfied with the quality of the earnings. At 487 residential units, the resale figures in residential property resale are significantly below our expectations. Planned block sales of around 1,000 units could also not be realized during the past fiscal year. Conversely, under consideration of the market environment as a whole, the real estate purchases were pleasing with a total of 2,166 notarized units.

The Services segment only generated another positive result from the third quarter of 2007 by means of increased investment in the extension of this area, connected with start-up costs for PATRIZIA Immobilien Kapitalanlagegesellschaft mbH. The strengthening of the Investment Management was an important step in serving the rising needs of our institutional customers. We are now in a position to generate more stable, recurring revenues and earnings.

We believe that we are well equipped for future projects in both segments. In the Investment segment, we hold around 13,000 high-quality units on which we can work and which we can put on the market in agreement with the respective utilization plan. In the Services segment, we can fall back on our many years of experience as owner and our expertise to offer our customers the best possible real estate investment type.

General statement on PATRIZIA Immobilien AG

The position of the parent company PATRIZIA Immobilien AG is essentially determined by the activities of the operating companies of the Group.

As a purely holding and service company for the Group companies, PATRIZIA Immobilien AG generated revenues of EUR 6.7 million, composed mostly of management cost allocations of the subsidiaries. The staff costs amounted to EUR 4.9 million (previous year: EUR 4.8 million), an increase of 2 %. Other operating expenses decreased by 17.4 % to EUR 10.9 million, due primarily to lower consulting costs, which arose in 2006 in connection with the IPO. The parent company's profit consists of the operating profit of the Company itself and income from participations as well as profits and losses of the subsidiaries with which a profit and loss transfer agreement exists. Start-up losses of PATRIZIA Immobilien Kapitalanlagegesellschaft mbH, which arose in connection with establishment, have negatively impacted the parent company's results in the amount of around EUR 1.0 million. The earnings from profit transfers, in particular the wholly owned subsidiary Stella Grundvermögen GmbH, totaled EUR 22.2 million (previous year: EUR 16.7 million) including profit distribution of EUR 12.9 million. PATRIZIA Immobilien AG's net profit for the year was EUR 14.6 million in the 2007 fiscal year (previous year: EUR 12.4 million). In addition to the profit carried forward of EUR 4.9 million, the net profit for the year comprises the Company's distributable profit. These retained earnings amounted to EUR 19.5 million, a rise of 53.5 % in comparison with the previous year.

2.4 TRANSACTIONS WITH RELATED COMPANIES AND INDIVIDUALS

The Managing Board submitted a dependent company report to the Supervisory Board, to which it adds the following statement:

"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 consideration and was not disadvantaged as a result of any action taken."

Detailed information on business relationships with related companies and persons can be found in the notes to the consolidated financial statements under point 9.3.



2.5 DISCLOSURES IN ACCORDANCE WITH SECTION 289 PARAGRAPH 4 AND SECTION 315 PARAGRAPH 4 HGB (GERMAN COMMERCIAL CODE)

As at December 31, 2007, the share capital of the company consisted of 52,130,000 no-par-value registered shares. Further rights and duties conform to the Aktiengesetz (AktG – German Stock Corporation Act). All shares are admitted for trading on the official market in the Prime Standard of the Frankfurt Stock Exchange.

First Capital Partner GmbH notified us in accordance with the legal regulations in November 2007 that it holds directly and indirectly 50.16 % of the shares issued by the company.

The appointment and dismissal of the members of the Managing Board conforms to section 84 f. of the AktG in connection with section 31 of the MitbestG (German Co-Determination Act). Changes to the articles of association take place in accordance with section 179 ff. of the AktG in connection with Article 16 of the Articles of Association of PATRIZIA Immobilien AG.

As at December 31, 2007, the Managing Board did not have 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 26,065,000 in exchange for cash contributions or contributions in kind by issuing new no-par-value

registered shares (Authorized Capital) until June 12, 2012. In certain cases, the Managing Board is authorized, with the approval of the Supervisory Board, to exclude the legal subscription rights of the shareholders.

Furthermore, the Managing Board is authorized on one or more occasions, with the approval of the Supervisory Board to grant until June 12, 2012, in accordance with strict conditions of the bonds, convertible bonds, and/or bonds with warrant, made out to the bearer or registered and/or participatory rights with or without conversion privileges or option right or conversion obligation (referred to together in the following as the 'bonds') in the aggregate principal amount of up to EUR 750,000,000 with a term of up to 20 years and to grant the bearer or the creditor of bonds, conversion privileges or option rights to new, registered no-par-value registered shares of the Company with a pro rata amount of the share capital of up to EUR 26,065,000.

2.6 EMPLOYEES

Due to the extension of our real estate portfolio, the number of employees grew at an above average rate in 2007. As at December 31, 2007, PATRIZIA employed 334 staff, including 18 trainees – 49.8 % more than at the end of 2006 (223 staff). Because of the rapid growth of our real estate portfolio, we have created new jobs in the area of Property Management. Additional personnel requirements arose with the estab-

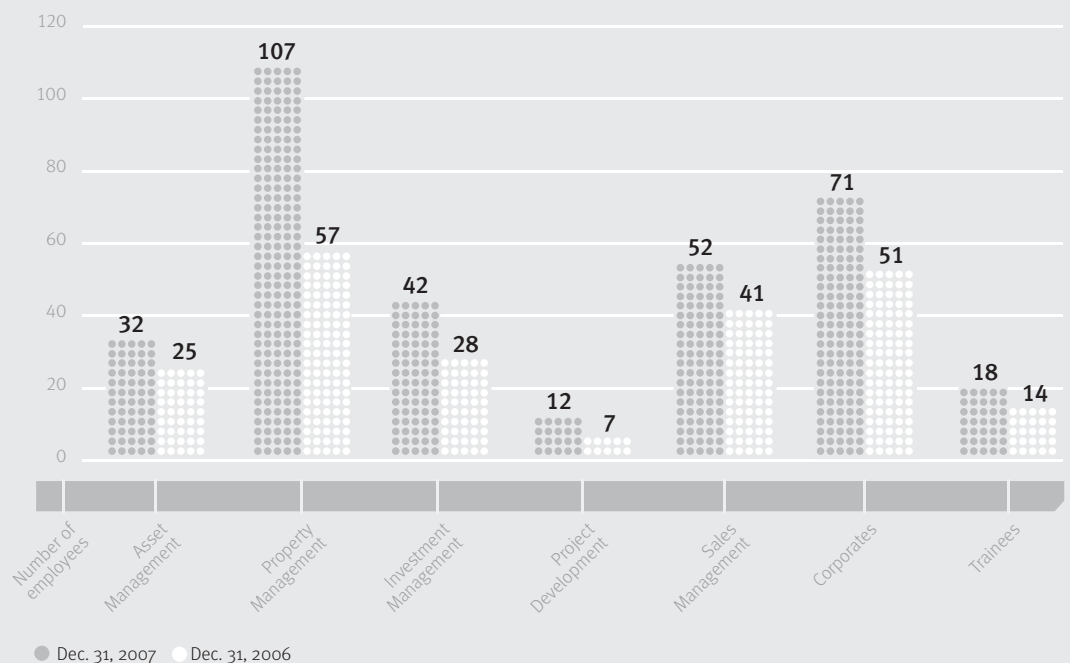


lishment of PATRIZIA Immobilien Kapitalanlagegesellschaft mbH and the extension of our business operations, for example in project development. Wherever possible, it is our aim to fill these further positions with personnel we already employ. To this end, we are investing in the development of, and advanced training for, our employees, both internally and externally.

PATRIZIA remains on a course of growth. For the purposes of getting qualified new personnel, we increased the number of trainees during the 2007 fiscal year.

At the beginning of the new training year, 18 young people learned a profession at PATRIZIA. The training PATRIZIA offers covers the following professional fields: real estate purchaser, office clerk, trained clerk for office communication, and IT specialist. Furthermore, there has been long-standing cooperation with the Faculty of Real Estate Management at the Stuttgart Berufsakademie (University of Cooperative Education), for whose students 5 training placements are available at PATRIZIA.

Staff development by functions



3. RISK REPORT

Risk policy principles

For 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. Our target is to ensure sustained growth and further increase the value of the Company. With this in mind, PATRIZIA has implemented a unified risk management system throughout the Company. Our risk management is based on a systematic process of early risk detection as well as risk ascertainment, analysis, control and monitoring. Opportunities are also analyzed at the same time in order to identify and utilize their associated potential.

Our business activities are based on the premise of a balanced ratio of opportunity and risk. Without the willingness to take risks, we would pass up potential opportunities as well. 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 risk management organization

The strategic alignment defined by a set of corporate objectives significantly determines the manner in which we handle risks within our Group. Thus, risk-oriented goals are derived from the economic performance factors and financial and societal objectives set by the Company. Thus, propositions are made with regard to the general orientation toward risk and/or the specific risk strategy.

The task of Group-wide risk management and its uniform representation for all affiliated entities is assigned to the PATRIZIA Immobilien AG as the holding company. A risk management working group which is organizationally assigned to the Controlling department is responsible for implementation and reports directly to the Managing Board. This group is accountable for the conceptional structure of the identifying process as well as the allocation of risk-related responsibilities. Risks which are attributable solely to individual subsidiaries are also compiled within

PATRIZIA Immobilien AG's central risk management system. Each employee of PATRIZIA Immobilien AG and its subsidiaries is obliged to be mindful of potential risk in the course of his or her dealings. The direct responsibility for early detection of risks and for reporting these to the next level of management is assigned to the operating supervisors and managing directors of the relevant entities. Within PATRIZIA Immobilien AG's Managing Board, the chief financial officer is responsible for the risk management process.

The risk management process

Both the efficiency and effectiveness of the PATRIZIA risk management system are assessed twice a year by means of an internal risk audit. The results appear in a risk report which presents the organizational measures and regulations that are to be observed regarding risk recognition, quantification, communication, supervision and control. At the same time, the comprehensive documentation of this report ensures an orderly assessment which is conducted by the responsible departments as well as by the Supervisory Board. In addition to the Managing Board, all management-level individuals from operating companies as well are informed of the risk inventory's results.

All employees are instructed to report risks to risk management department. Risks are assessed according to their probability of occurrence and their magnitude. Overall risk is calculated and updated over a specific period of time by linking the various parameters. By monitoring our risk management system, we are able to continually advance and adapt its structures and processes.

Individual risks

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



MARKET-RELATED RISKS

Macroeconomic development risks

Although PATRIZIA only operates within the German real estate market, pan-European and/or global economic developments could impact the Company's performance in a positive as well as a negative manner. We continue to expect positive economic growth in Germany. However, another expansion of the liquidity squeeze on the financial markets caused by the U.S. real estate crisis could threaten this growth. A worsening of economic prospects in Germany could negatively impact consumer and investment behavior. A decrease of demand for residential real estate could be the result.

We can rule out any direct impact from foreign-exchange fluctuations through our domestic focus in the operating segment as well as in financing. All subsidiaries and property development companies are located within the European Monetary Union (Germany or Luxembourg) so that no foreign-exchange risks currently exist.

Demographic risk

According to forecasts by Germany's Federal Office for Building and Regional Planning, the country's population figure will decrease to 80 million from its current level of 82 million by the year 2020. In the long term, the reduction in population could result in a risk of higher vacancy rates and a lower demand for residential real estate. In contrast, opportunities can be recognized in the current trend toward growing living-space requirements per capita from the current figure of 41 sqm to 45 sqm and a lower number of persons per household. This will lead to an increase in the number of households from a current figure of 39.4 million to 40.5 million. Over the long term, a decline in construction of new buildings and required demolitions will far outweigh the risks arising from the lapse in population figures. Even within individual German states (Länder), strong waves of internal migration due primarily to searches for employment contribute to regionally characterized shifts in the composition of households.

Risks of the German real estate market

A decline in conditions on the German real estate market, such as a fall in real estate prices, could also negatively impact PATRIZIA's operating activities. We constantly analyze price levels and integrate these into our planning. We limit the risk of declining market



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attractiveness by purchasing only high-quality properties in economically appealing locations with significant population influx and good prospects for the future.

Increasing competition regarding demand for real estate could raise prices for portfolio acquisition candidates. Lower margins or the loss of market shares for PATRIZIA could be the result. We estimate market entry barriers for new domestic and international demand to be low. We currently observe increased involvement of equity-strong investors. In this case, however, a distinction must be made between the various magnitudes of portfolios and the potential competitors showing interest. Thanks to our nationwide network of branch offices, we not only have market access, but also the local know-how to acquire both smaller portfolios of 50 units and more as well as large portfolios. Increased competition could lower prices for services provided in the service segment encompassing real estate. In order to strengthen its competitive position, for example, PATRIZIA Immobilienmanagement GmbH has submitted its quality management for clients to certification according to ISO 9001:2000 with a view to sustained assurance and continued optimization of the quality of its products and services. Competitive risks could have a negative impact on the earnings position of both the Investments and Services segments.

BUSINESS RISKS

Due to the risks already illustrated which could arise from shifts in the market or in prices, from competition and/or political-influence factors, we are exposed to internal and external risks in every segment of the value-added chain. We limit business risks by means of insurance to the extent that this is economically reasonable.

Investment risk

Shifting general conditions could hamper PATRIZIA's acquisition of suitable real estate at reasonable prices and lead to lower margins subsequent to relatively higher purchase prices. Assumptions made upon the purchase of real estate could prove inaccurate due to various overall economic, political or market-related developments and could delay or derail the resale of the real estate or individual residential units. Delays in construction, failure to meet deadlines or cost overruns could burden the Company's earnings position. Furthermore, risks exist due to conditions upon which PATRIZIA has no influence, such as weather damages.



Financial risks

The extensive use of external financing in connection with our business activities means that we are exposed to interest rate fluctuations and refinancing risks. Besides the external components of market interest rate volatility, PATRIZIA's own credit standing also influences financing options. Increased expenses for existing variable-rate loans as well as for future financing would have to be reckoned with if a rise in the interest rate level in Germany were to occur. This would negatively impact the financing costs of the Company. We employ interest rate hedges in order to reduce risk. We have entered into interest rate hedges for over 80 % of our bank loans, more than 90 % of which have a term in excess of five years. Derivative financial instruments are employed only in the hedging of risks from operating business activities. Dealings for the purpose of trade or speculation are not conducted. Our stable financing structure has benefited from long-term, trustworthy cooperation with exclusively German banks.

Furthermore, with regard to the maturity of existing loans, PATRIZIA relies on an extension or refinancing of these loans. In the same way, the acquisition of further real estate portfolios requires additional borrowing. Due to the U.S. real estate crisis and its impact on the entire capital market, financing options can be hampered in light of the increasing size of the volume to be financed. In both of the previously cited cases, there is a risk that external capital may not be available to PATRIZIA at all times to the necessary extent and at financially attractive conditions or that the equity required for financing increases significantly. This could adversely affect PATRIZIA's competitiveness as well as its earnings, financial, liquidity and net asset position. At the present time, the Company cannot foretell how future financing will transpire, due to the ongoing sub-prime crisis.

Likewise, higher interest rates can hamper individual private resales since the interest burden would rise for interested purchasers. We have countered this risk by expanding our business activities so that privatization as a marketing channel is only one of our real estate's placement forms.

For the purpose of further diversifying risks, we have expanded our business activities in order to generate stable, recurrent earnings in the service sector.

As of December 31, 2007, bank balances and cash posted amounting to EUR 54.0 million were available to PATRIZIA in order to cover its refinancing and liquidity requirements. In order to minimize refinancing and liquidity risks, PATRIZIA optimizes and supervises the Company's liquidity centrally in the form of a cash pool by means of its holding. A credit check in the sense of a rating does not exist with regard to PATRIZIA.

Dependence upon a few large-scale projects

Global sales of comprehensive real estate portfolios comprise a marketing strategy which is embedded in PATRIZIA's business model. If a global sale does not succeed or is delayed, this can have an impact on the Company's financial and earnings situation. Our ventures in the Project Development business area are also among large-scale projects, each of which is subject to its own stringent time schedule. Delays in drawing up and accepting construction projects can also adversely impact the financial and earnings situation.

Marketing risks

Due to the timely placement of properties on the market, PATRIZIA is subject to marketing risks. For the most part, PATRIZIA's stringent acquisition criteria reduce the risk of poor marketability of properties to be marketed. Rising marketing costs are regarded in the planning stage.

Partner risks

Partner risks are those arising from business relationships with customers and suppliers. In order to diversify risks, we maintain a comprehensive stock of clients and suppliers. Monitoring on a regular basis as well as purchasing-policy measures are intended to minimize risk in this area. In this respect, we highly value the creditworthiness and reliability of our business partners. Even so, non-adherence to supplier deadlines and/or insufficient quality of supplier services, for example, pose risks that could negatively impact PATRIZIA's business development. Loss of rent and subsequent bad-debt losses can negatively impact PATRIZIA's revenues and earnings as well. As a consequence, the position of a receivables department has been established.

IT risks

Any fault or impairment of the reliability or security of the IT system could lead to an 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.

Personnel risks

The knowledge and competence of our employees are a decisive factor in the development of our Company. A risk of knowledge loss exists resulting from staff fluctuations as well as due to vacancies of qualified experts which have not been sufficiently recruited for the Company. In both cases, we would thus sacrifice competitive advantages on the market. On the one hand, we minimize these risks by means of qualified promotion of junior staff development. Thus, we have increased the number of trainees in the course of the financial year. On the other hand, we implement focused employee-retention measures, primarily with respect to key positions.

Regulatory and legal risks

In the context of our operating activities, PATRIZIA could become involved in legal disputes. At present, there are no major legal disputes and/or claims for compensation so that we do not expect any significant negative effects on PATRIZIA's economic or financial position.

Amendments to laws and regulatory requirements such as tenancy law or construction permit procedures could negatively impact our business development in the future. The effects and the related opportunities and risks of the interest limitations introduced as part of the corporate taxation reform are presented in the Report on Expected Developments.

CONSIDERATION OF OVERALL RISK

Risk management at PATRIZIA is a continuous process which adapts relevant factors with respect to identified changes in risk to prevailing circumstances. In 2007, PATRIZIA expanded the circle of staff engaged in the semi-annual risk audit. Representatives from specific business areas are invited to every meeting in order to incorporate new recommendations and recognition of specific needs into the risk management system as well as to strengthen the risk awareness of each individual employee. Likewise, evaluation categories for the potential magnitude of damage were increased in 2007. It was necessary to redefine the assessment of risks due to the Company's growth, particularly with respect to the emergence of new requirements resulting from PATRIZIA's IPO.

As already explained above, PATRIZIA has taken all necessary measures and established processes for detecting known risks as well as countering and minimizing negative developments. Under consideration of all relevant individual risks and a possible cumulative effect, it can be said that assumptions always applicable in the past indicate that PATRIZIA's overall risk is limited and manageable and currently does not threaten the existence of the Company. Furthermore, after taking the applicable assumptions into account, the Managing Board is not currently aware of any risks that may jeopardize the existence of the Company in the future. At the same time, the Managing Board of PATRIZIA is organizationally well structured in order to recognize and advantageously seize opportunities.

4. SUPPLEMENTARY REPORT

PERSONNEL CHANGES TO THE MANAGING BOARD OF PATRIZIA IMMOBILIEN AG

The Supervisory Board of PATRIZIA Immobilien AG has appointed Arwed Fischer to the position of CFO of PATRIZIA with effect from March 1, 2008. Arwed Fischer therefore succeeds Dr. Georg Erdmann, who left the Company for family reasons on December 31, 2007 upon mutual agreement. Alfred Hoschek was temporarily responsible for financial affairs during the interim. Arwed Fischer was most recently a member of the management board of KarstadtQuelle AG. At PATRIZIA, he is now responsible for the areas of Controlling, IT, Accounting and Tax, Risk Management and Investor Relations.

5. REPORT ON EXPECTED DEVELOPMENTS

5.1 FUTURE ORIENTATION

As already explained in the strategy part of this management report, PATRIZIA has further extended its business model: using the cash inflows from the IPO and the capital increase, PATRIZIA has again strengthened other high-return areas such as asset repositioning and project development. The focus of business operations is therefore no longer exclusively on residential property resale, although it remains an essential business area. The real estate acquired in 2007 indicates sufficient portfolios suitable for individual sale to tenants, owner-occupiers and private investors to be able to continue privatizing these in the coming years. Our strengthened commitment in asset repositioning has its roots in the increasing importance of portfolio optimization, which is derived from rising building costs associated with declining building permits. We currently see positive future opportunities for PATRIZIA particularly in the area of asset repositioning of real estate. Not only wide-ranging expertise on the real estate and its location is necessary for the modernization of portfolio real estate, but also the optimum interplay of various disciplines. We are able to offer nearly all these skills within PATRIZIA with our own employees across Germany.

As a transaction-oriented company, it is our aim to execute purchases and sales in a balanced relationship. However, in the light of the above-average portfolio development during the 2007 fiscal year, the focus in the current fiscal year 2008 is on the resale of real estate.

We take on individual, selected projects in project development where our high investment and return criteria are met. All decisions are based on the optimum balance between risk, capital employed and the timing of the realization of income. In project development, we are striving towards completing at least one project each year.

The Services segment will become ever more important, something which will be reflected in rising earnings contributions. We are anticipating a medium-term share of the segment of 10 % of the net profit for the year. At the same time, the Investment Management and Asset Management business lines should contribute to a greater degree to the service result. We are able to offer our customers tailored real estate products as a service provider for third parties. This

should not just involve the further development of our range of fund products. Particularly in the area of co-investments with reputable partners we see significant growth potential for the PATRIZIA Group.

The forecasts are subject to the high risk of the US mortgage crisis worsening further. Particularly the further devaluation of the US dollar against the euro could also significantly cloud economic prospects in Germany.

5.2 FUTURE ECONOMIC CONDITIONS

Economic forecast

Economic research institutes are predicting a slackening of economic momentum in Germany in 2008 and have amended their original growth forecasts downwards. The continued crisis on the financial markets is likely to remain a burden on economic development and restrain investment confidence in Germany. However, the upward trend remains intact. The ifo (Institut für Wirtschaftsforschung – German Institute for Economic Research) is expecting real GDP growth of 1.8 % for the current year, while the IfW (Institut für Weltwirtschaft – Kiel Institute for the World Economy) predicts growth of 1.9 %. Positive influences are expected from higher employment rates and the associated improved purchasing power among private households. By contrast, stricter financing conditions and associated possible higher financing expenses will become apparent and will have a dampening effect. The experts expect a rise in the inflation rate of 2.3 % following 2.1 % in 2007.

Price trend on the German real estate market

The German real estate market will develop with strong price differentiation according to region. We have already been able to post attractive rental prices at attractive locations with increasing population figures and positive economic prospects. Experience shows that sales prices will follow this development with a certain delay. The expected average increases in rents and sales prices per year until 2010 are included in the following table. It should be noted that this represents expected developments for properties of average quality in average locations. Higher increase rates can also be achieved for real estate of good or very good structural quality in above-average locations in these regions.

Region / city	Number of units (Dec. 31, 2007)	Population growth till 2020	Residential real estate vacancy rate	Expected average rental growth p.a. till 2010	Expected average growth in selling prices p.a. till 2010
Munich	5,652	7.8 %	up to 2 %	2.75 %	2.75 %
Cologne	1,627	–1.3 %	up to 2 %	2.25 %	2.25 %
Hamburg	1,418	2.8 %	up to 2 %	2.25 %	2.25 %
Leipzig	981	1.8 %	6 % and over	2.25 %	1.75 %
Frankfurt/Main	951	–3.0 %	2 to 3 %	2.25 %	2.00 %
Berlin	903	–0.5 %	5 to 6 %	2.00 %	2.00 %
Dresden	561	3.1 %	6 % and over	2.75 %	2.00 %
Regensburg	473	4.3 %	2 to 3 %	2.25 %	2.25 %
Hanover	444	–1.8 %	5 to 6 %	1.75 %	1.75 %
Friedrichshafen	117	0.3 %	up to 2 %	2.25 %	2.25 %

Source: PATRIZIA Immobilien AG (Bertelsmann Stiftung, Empirica, Feri)

The frequent scarcity of apartments will lead to higher prices in the medium term, especially since new construction is also likely to be in decline in 2008. As the Statistisches Bundesamt (German Federal Statistical Office) announced, the construction of around 155,000 apartments had been approved by November 2007, while significantly less than 200,000 are expected for 2008 as a whole. The number of approvals granted for construction therefore falls below the requirement for an estimated 336,000 new residential units per year until 2010. It can therefore be

assumed that there will be a clear correction to average house prices in Germany. In the economic centers of the south and west of the country, this trend can already be felt. If employment prospects continue to improve, this trend may also be seen in other locations.

Rising inflation rates in Germany are also likely to spur demand for sound investment vehicles such as real estate.

Construction activities since 1997



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Intense competition can already be felt for the acquisition of high-quality portfolios in commercially attractive locations. Equity-strong investors in particular continue to demonstrate great interest in acquiring German real estate. On the other hand, an increase in the interest rate level ensures that financing-driven investments which primarily exploit the difference between real estate return and interest on debt capital are becoming less attractive. The number of opportunistic investors has fallen as a result.

5.3 EXPECTED EARNINGS SITUATION

As at January 1, 2008, around 3,000 residential units were in the sales process of privatization and another 1,400 residential units are due to be added from the third quarter of 2008. Compared with January 2007, we are therefore able to sell the apartments individually on a significantly wider basis. An increase in the resale figures in privatization for 2008 is thus expected. The aim is to sell at least 20 % to 25 % of the units available for privatization. Furthermore, we are intending to place entire sub-portfolios in the form of block sales to institutional investors. In turn, we want to extend our portfolio only on a selective basis. Due to our current portfolio volume, we are not forced to acquire other portfolios at short notice. Resale of real estate will be in the foreground in 2008.

None of the projects currently being implemented in the project development area will be completed in the

2008 fiscal year. If everything goes to schedule, the properties in Munich and Augsburg should be concluded in year 2010 and the joint venture property in Frankfurt/Main will be concluded by 2012. Our aim is to be able to conclude at least one project per year in future. Joint ventures for project development measures within Europe are conceivable in this regard.

Our business activity remains clearly earnings oriented. Given a constant and steady market environment, we are expecting consolidated profit before income taxes for the 2008 fiscal year of between EUR 25 million and EUR 30 million. According to our current estimates, we also expect an earnings contribution of around 10 % from the Services segment.

The forecast provided for 2008 of between EUR 25 million and EUR 30 million profit before income taxes is below the consolidated profit before tax for 2007, but does not include effects from the revaluation of real estate portfolios or from interest hedging transactions. Due to the continuing US mortgage crisis and its much stronger effect on the German real estate market than was recognizable in the fall of 2007, we have reduced our 2008 forecast given in March 2007. For the 2008 fiscal year, our forecast solely covers the result from rental income, the resale of real estate portfolios and fees from the Services segment.

Because of our already acquired portfolios, the growth in the Services segment and the planned purchases in



B 31



B 32



B 33



B 34



B 35

2008, we believe we are well-equipped for the future. For the 2009 fiscal year, we therefore expect rising income in comparison with 2008 given non-worsening market conditions and constant macroeconomic influence factors.

5.4 EXPECTED FINANCIAL SITUATION

Maturity of outside capital

The above-average growth rate of our real estate portfolios in the last two years was possible by optimum financing. Due to the high quality of our real estate and the good and long-term business relationship with our principal banks, we have financed some the real estate purchases by up to 90 % with outside capital. Our bank liabilities of EUR 1,262.0 million are offset by real estate with a carrying amount of EUR 1,525.2 million.

Of our current bank liabilities of EUR 1,262.0 million reported as at December 31, 2007, 48.1 % or EUR 606.4 million have a residual term of one year or longer. We are currently working with only inter-regional banks operating across Germany. At the end of 2007, there were 18 loan arrangements for real estate financing, in which a total of 9 banks were participating. The composition and residual terms of our bank loans are broken down under point 5.2 in the notes to the financial statements.

Due to the effects of the US real estate crisis and the associated cash flow scarcity, we are currently expecting a general rise in financing costs and increased capital requirements for new financing in 2008.

Effects of the interest limitations

On January 1, 2008, the corporate tax reform came into force in Germany. This provides amongst others for a reduction in corporation tax from 25 % to 15 %. At the same time, a claim for a tax deduction for net interest expenses can only be made up to 30 % of EBITDA. Interest limitations are not applicable in the case of a fiscal unit for corporation tax purposes. PATRIZIA Immobilien AG forms such a fiscal unit for corporation tax purposes with its German subsidiaries, with which a profit and loss transfer agreement was concluded. This is not legally possible for our real estate companies based in Luxembourg, meaning that the interest limitation is applied here. As a consequence, we will not be able to benefit from the cor-

poration tax reform in 2008. We are therefore expecting a corporation tax rate of around 35 % for 2008.

5.5 APPROPRIATION OF NET PROFITS

With regard to the results source and strengthening of the Company's equity in a currently unpredictable market environment, the Managing Board will make the proposal to the Supervisory Board that the net profit of the year be entirely reconsidered.

5.6 NUMBER OF EMPLOYEES

Sufficient staff was hired during the 2007 fiscal year for the current financial volume, for us to be able to deal with the requirements we face. Only a lower number of persons can therefore be expected to be hired for the current fiscal year. As a result of the numerous new employees hired necessary due to the growth, we believe we are now well positioned to develop our market position. We believe that number of trainees will remain at the current level.

5.7 OPPORTUNITIES

Of particular importance for our investment decisions is our experienced and excellent research, which identifies opportunities and minimizes risks. We are very clear about which portfolios we want to use to develop our position on the German real estate market and we subject every acquisition to strict real estate and location-specific criteria.

The German real estate market, on which we are focusing, also remains viable in the future at selected locations. Total population will decline, but the number of households will increase. This is due on the one hand to lower numbers of persons per household and on the other, due to the fact that the living space for each person is rising. Frequently, used real estate is preferred, partly because it is usually more central than new buildings and partly because it is cheaper. Rising construction costs associated with declining building permits mean that portfolio optimization is becoming increasingly important. This is also the reason for our increased commitment to asset repositioning. Significant price increases in rents and residential ownership are expected in attractive economic areas with high population influx. These kinds of properties, with long-term value-added potential, are included in our portfolio.

We regard the increasing interest in residential real estate as an investment category for private pension provision as a driver for our Residential Property Resale business line. Positive impulses could arise from the involvement of owner-occupied residential real estate in state-sponsored pension provision. According to a cornerstone agreement for the introduction of the so called Wohn-Riester (subsidy instrument containing a state subsidy for the purchase of a property), up to 75 % of the state-sponsored private pension provision should be used for purchase and Riester contributions can be used in repayment of the loan. The final version of the law should be passed mid-2008.

There are currently positive conditions for real estate financing for private individuals. We believe this is partly due to a risk diversification of the banks within the framework of their lending.

A decisive factor in real estate companies' success will be the intensive management and return-oriented asset management. Companies which operate on the market as we do both as investor and as service provider have various options for capitalizing real estate and the essential resources to offer the customer a comprehensive service. The development of our Services segment means we are raising the share of stable and recurring earnings.

5.8 GENERAL STATEMENT

We regard it as a clear competitive advantage to be able to offer all services along a property's value-added chain and to concentrate on our strengths: our emphasis is on the active work on real estate, since the largest contribution to the return comes from the property itself.

In addition to Residential Property Resale, we have also developed the other business lines during the 2007 fiscal year, meaning that possible risks could be diversified. We are now better positioned to exploit opportunities on the real estate market. It is our aim to generate continuous income for PATRIZIA in the Services segment.

Due to our high-quality real estate portfolio in attractive locations throughout Germany, our wide ranging knowledge of real estate, our track record, and our experienced asset and property management, we believe we are well positioned beyond the current fiscal year.

This report contains specific forward-looking statements that relate in particular to the business development of PATRIZIA and the general economic and regulatory environment and other factors to which PATRIZIA is exposed. These forward-looking statements are based on current estimates and assumptions by the Company made

in good faith, and are subject to various risks and uncertainties that could render a forward-looking estimate or statement inaccurate or cause actual results to differ from the results currently expected.

Pictures B

B1 – B4 Hamburg, Water Tower Hotel | B5, B6 Berlin, Schwaebische Strasse/Starnberger Strasse | B7, B8 Berlin, Bayerischer Platz | B9, B10 Munich, Zwingenstrasse | B11 Dresden, Altmarktkarree | B12, B15 Schwielowsee, Tonio-Boediker-Strasse | B13, B14 Schwielowsee, Am Feldgraben | B16, B17 Neubrandenburg, Ziegelbergerstrasse | B18 Neubrandenburg, Molkereistrasse | B19 Neubrandenburg, Katharinenstrasse | B20 – B23 Cologne, Niehlerstrasse | B24 Leipzig, Hinrichsenstrasse | B25 – B28 Munich, Alte Haide | B29 – B32 Berlin, Helmstedterstrasse | B33 – B35 Muenster, Regina-Protmann-Strasse |

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B | MANAGEMENT REPORT OF
THE COMPANY AND THE GROUP

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CONSOLIDATED BALANCE SHEET IN ACCORDANCE WITH IFRS AS OF DECEMBER 31, 2007

ASSETS

	Notes to consolidated financial statements	31.12.2007	31.12.2006
A. NON-CURRENT ASSETS		EUR'000	EUR'000
Software	4.1	196	237
Investment property	4.1	711,558	0
Investment property under construction	4.1	20,205	0
Equipment	4.1	2,087	1,472
Investments in joint ventures	4.1	5,067	0
Participations	4.1	2,043	1
Long-term financial derivatives	4.4	8,704	0
Long-term tax assets	4.2	375	361
Deferred tax assets	5.3	0	1,470
Total non-current assets		750,235	3,541
B. CURRENT ASSETS			
Inventories	4.3	793,395	228,403
Short-term financial derivatives	4.4	4,546	827
Short-term tax assets	4.2	3,144	0
Current receivables and other current assets	4.5	37,859	58,684
Bank balances and cash	4.6	54,013	83,211
Total current assets		892,957	371,125
TOTAL ASSETS		1,643,192	374,666

EQUITY AND LIABILITIES

	Notes to consolidated financial statements	31.12.2007	31.12.2006
A. EQUITY		EUR'000	EUR'000
Share capital	5.1.1	52,130	47,400
Capital reserves	5.1.2	215,862	118,398
Retained earnings			
- legal reserves	5.1.3	505	505
Valuation results from cash flow hedges	4.4	2,941	475
Consolidated net profit		65,167	24,946
Total equity		336,605	191,724
B. LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred tax liabilities	5.3	9,914	0
Long-term financial derivatives	4.4	1,142	946
Retirement benefit obligations	5.4	369	306
Total non-current liabilities		11,425	1,252
CURRENT LIABILITIES			
Short-term bank loans	5.2	1,261,997	125,494
Short-term financial derivatives	4.4	235	0
Other provisions	5.5	594	535
Current liabilities	5.6	32,171	44,489
Tax liabilities	5.7	165	10,810
Other current liabilities		0	362
Total current liabilities		1,295,162	181,690
TOTAL EQUITY AND LIABILITIES		1,643,192	374,666

CONSOLIDATED PROFIT AND LOSS ACCOUNT IN ACCORDANCE WITH IFRS
for the period from January 1, 2007 to December 31, 2007

	Notes to consolidated financial statements	2007	2006
		EUR'000	EUR'000
1. Revenues	6.1	193,253	237,611
2. Changes in inventories	6.2	666,705	44,114
3. Other operating income	6.3	1,905	3,357
4. Total operating performance		861,863	285,082
5. Cost of materials	6.4	– 778,775	– 201,777
6. Staff costs	6.5	– 19,908	– 14,882
7. Amortization of software and depreciation on equipment	6.6	– 771	– 593
8. Results from fair value adjustments to investment property	6.7	69,477	150
9. Other operating expenses	6.8	– 20,543	– 16,706
10. Earnings from companies accounted for using the equity method		– 298	0
11. Finance income	6.9	20,371	2,645
12. Finance cost	6.9	– 68,246	– 6,719
13. Profit before income taxes		63,170	47,200
14. Income tax	6.10	– 15,129	– 14,800
15. Net profit		48,041	32,400
16. Profit carried forward		17,126	0
17. Allocation to retained earnings			
a) legal reserves		0	0
b) other retained earnings		0	– 7,454
18. Consolidated net profit		65,167	24,946
Earnings per share (undiluted), in EUR	6.11	0.92	0.71

CONSOLIDATED CASH FLOW STATEMENT

for the period from January 1, 2007 to December 31, 2007

	2007	2006
	EUR'000	EUR'000
Consolidated profit after taxes	48,041	32,400
Amortization of intangible assets and depreciation on property, plant and equipment	771	593
Results from fair value adjustments to investment property	-69,477	-150
Loss from / gain on disposal of fixed assets	419	-8
Change in deferred taxes	11,384	90
Change in retirement benefit obligations	63	21
Non-cash item income and expenses that are not attributable to financing activities	-22,619	-947
Changes in inventories, receivables and other assets that are not attributable to investing activities	-614,570	-81,537
Changes in liabilities that are not attributable to financing activities	583,385	1,078
Cash outflow from operating activities	-62,603	-48,460
Capital investments in intangible assets and property, plant and equipment	-1,845	-804
Cash receipts from disposal of intangible assets and property, plant and equipment	81	15
Cash receipts from disposal of investment property	0	1,850
Payments for development or acquisition of investment property	-595,041	0
Investments	-7,407	-1
Cash receipts from disposal of financial assets	0	247
Cash outflow / inflow from investing activities	-604,212	1,307
Dividend of PATRIZIA Immobilien AG	-7,820	-8,080
Capital increase of PATRIZIA Immobilien AG	104,060	129,500
Borrowing of loans	543,243	0
Repayment of loans	0	-2,858
Other cash inflows or outflows from financing activities	-1,866	-4,675
Cash inflow from financing activities	637,617	113,887
Change in operating activities of a cash nature	-29,198	66,734
Cash January 1	83,211	16,477
Cash December 31	54,013	83,211

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY IN ACCORDANCE WITH IFRS
for the period from January 1, 2007 to December 31, 2007

	Share capital	Capital reserves	Retained earnings (legal reserve)	Valuation results from cash flow hedges	Consoli- dated net profit	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance January 1, 2007	47,400	118,398	505	475	24,946	191,724
Capital increase (net receipts)	4,730	97,464				102,194
Dividend					- 7,820	- 7,820
Results from fair valuation adjustments cash flow hedges				2,466		2,466
Net income for the period					48,041	48,041
BALANCE DECEMBER 31, 2007	52,130	215,862	505	2,941	65,167	336,605

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY IN ACCORDANCE WITH IFRS
(REPORTING PERIOD PREVIOUS YEAR)
for the period from January 1, 2006 to December 31, 2006

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

GENERAL DISCLOSURES

PATRIZIA Immobilien AG is a listed German stock corporation based in Augsburg. The Company's headquarters are located at Fuggerstrasse 26, 86150 Augsburg. The Company operates on the German real estate market and performs all services along the value-added chain in the real estate sector.

1. PRINCIPLES APPLIED IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of PATRIZIA Immobilien AG to December 31, 2007 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, 2007, 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 standards were taken into account in exercising of the options granted by the IASB in the applicable version dated 2007.

The regulations in accordance with IAS 23 (Borrowing costs) for fiscal years which begin on or after January 1, 2009, applicable to financing costs are not deployed early. Previously, in exercising the option granted, borrowing costs were recorded as expenses in the period in which they were incurred. This option will no longer exist in the new version of IAS 23. From the point in time of its application, borrowing costs must be capitalized. IAS 23 has already been passed by the IASB. The endorsement process in the EU is ongoing.

The regulations in accordance with IFRS 8 (Operating segments) valid for fiscal years which begin on or after January 1, 2008 are not applied early for the 2007 fiscal year. We do not expect future application to affect the consolidated financial statements significantly. This standard has already run through the endorsement process of the EU.

We are also not expecting any significant effects as a result of the changes in the revised IAS 1, which come into force for fiscal years from January 1, 2009 and have not yet been approved by the EU. We have not applied the revised standard early.

IFRIC 11 (IFRS 2 – Group and Treasury Share Transactions), IFRIC 12 (Service Concession Arrangements), IFRIC 13 (Customer Loyalty Programs) and IFRIC 14 (IAS 19 – Defined Benefit Assets and Minimum Funding Requirements) have not yet been applied. We do not expect their future application to have any material impact.

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 TEUR (thousand euros).

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

- ▶ Investment property valued at fair value;
- ▶ Financial derivatives valued at fair value, with valuation changes being treated with an impact on income unless these involve hedges that are directly recognized in equity under a separate item;
- ▶ Deferred taxes.

Before the IPO, First Capital Partner GmbH had a stake in PATRIZIA Immobilien AG of 93.21 % following first listing of the shares on March 31, 2006 with 50.02 %. Following the capital increase carried out in January 2007, First Capital Partner GmbH had a 45.48 % stake in PATRIZIA Immobilien AG. As a result of transactions of November 1 and November 2, 2007, First Capital Partner GmbH also acquired a 4.68 % stake in PATRIZIA Immobilien AG via its wholly-owned subsidiary, IPO Berlin GmbH, and is now indirectly and directly a shareholder in PATRIZIA Immobilien AG with 50.16 %.

2. SCOPE OF CONSOLIDATION AND CONSOLIDATION METHODS

2.1 SCOPE OF CONSOLIDATION

The consolidated financial statements of PATRIZIA Immobilien AG contain all of the Company's subsidiaries. This 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 PATRIZIA Immobilien AG's consolidated financial statements can be found in the list of shareholdings at the end of the Notes to the Consolidated Financial Statements. The subsidiaries listed and bound by a profit and loss transfer agreement each make use of the relief provided for in section 264 paragraph 3 Handelsgesetzbuch (HGB – German Commercial Code) with regard to disclosure.

Joint ventures are companies which do not meet the criteria to be classified as subsidiaries since with regard to their business and financial policies two or more partner companies are bound to common management via contractual agreement. Joint ventures are presented in the Group according to the equity method.

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 recognized in the consolidated financial statements in line with the equity method.

In addition to the parent company, the scope of consolidation comprises 73 subsidiaries. They are recognized 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. In addition, one joint venture is presented in the consolidated financial statements in accordance with the equity method.

The financial statements of the subsidiaries recognized 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

In fiscal year 2007, in order to purchase real estate portfolios, PATRIZIA Immobilien AG set up a total of 17 shell companies, 15 of which are based in Germany and 2 in Luxemburg. 50 % of the shares in a newly established subsidiary, PATRIZIA Projekt 370 GmbH, were sold in the reporting year. PATRIZIA Immobilien AG still holds a stake of 50 % in PATRIZIA Projekt 370 GmbH, whose name was changed to F 40 GmbH. Its carrying value is 5,067 TEUR. PATRIZIA Immobilien AG retains a stake of 6.25 % in PATROffice Real Estate GmbH & Co. KG. Its carrying value is 2,042 TEUR. There were no other share acquisitions or disposals.

The results of the subsidiaries established or sold during the year are recognized 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 VIA FULL CONSOLIDATION

All subsidiaries are recognized in the consolidated financial statements via 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 carrying value method, in accordance with the German Commercial Code, whilst using the relief options of IFRS 1.

The date of initial 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 recognized. 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 recognized 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 CONSOLIDATION OF JOINT VENTURES USING THE EQUITY METHOD

The equity method is applied to the presentation of joint ventures in the consolidated financial statements. In contrast to full consolidation, no assets and liabilities or expenses and income of the company valued at equity (proportionately) are recognized in the Consolidated Financial Statements in the equity method. Instead, the carrying value of the investment is updated annually according to the development of the proportionate equity of the associated company.

The initial application of the equity method takes place from the time at which the associated company is to be classified as a joint venture. Within the scope of initial consolidation, the acquisition costs for the shares acquired are netted against the equity attributable to them. Any difference is reviewed in accordance with the rules for full consolidation for hidden reserves or charges and any difference is treated as goodwill. Within the scope of subsequent consolidation, the carrying value of the investment is developed in line with the proportionate changes in equity at associated companies.

A participation in a joint venture was established 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 recognized in the consolidated financial statements by means of full consolidation are fully eliminated. Deferred taxes are recognized 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 Monetary Union. Consequently, there are no financial statements in a foreign currency that would need to be translated, neither were there assets or liabilities in foreign currencies on the reporting date.

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 amortization 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 3 to 5 years. Equipment is amortized over 3 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 on each balance sheet date for a value-adjustment requirement.

3.3 INVESTMENT PROPERTY

Investment property is property that is held for generating rental income or for capital appreciation or both. The proportion of owner-occupier use does not exceed 10 % of the rental space. Investment property is carried at fair value, with changes in value recognized in Group profit.

Investment property is valued at fair value on the basis of external appraisals of independent experts with reference to current market prices or using customary valuation methods with the aid of current and long-term rental situation. The fair value is equivalent to the fair value. According to IAS 40, this is defined as the value which can be reasonably generated subject to a hypothetical buyer-purchaser situation. It is reported at this fictitious market value without deduction of transaction costs.

All investment property held by the Group is let. The resultant rental income and the expenses directly associated with it are recognized in the profit and loss account.

Investment property under construction is posted at cost. If the development is concluded and if the transfer to property investment is successful, the difference between the carrying value and the fair value is recognized in the results as is a change in value in investment property.

3.4 INVESTMENTS IN JOINT VENTURES

The Group has a stake in a joint venture, F 40 GmbH, in the form of a jointly managed company. Accordingly, there is a contractual agreement between the partner companies on the joint control over the economic activities of the entity. The Group accounts for its share in the joint venture using the equity method. The Group includes its share in the joint venture in which the carrying value of the investment is updated annually according to the development of the proportionate equity of the associated company. The joint venture's financial statements are prepared to the same balance sheet day as are the parent company's financial statements. If necessary, adjustments are made to bring them in line with the accounting policies uniform across the Group.

3.5 INVENTORIES

The Inventories item contains real estate that is intended for sale in the context of ordinary activities or is 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 acquisition or manufacturing cost. If the net sale price is lower, this is recognized. 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.

3.6 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 trading date. In turn, this also applies to customary sales.

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

Derivatives which are not designated as hedging instruments or are not effective as such within the meaning of IAS 39 are classified as **financial assets at fair value through profit or loss**. The fair values of the derivatives are determined by external banks.

Investments which have been entered with the intention to hold are categorized as **available-for-sale financial assets**. These are valued at acquisition cost since a fair value can only be determined on the basis of specific sale negotiations due to the absence of an active market. There are currently no plans to sell these instruments. They are reviewed at every balance sheet date for indications of impairment.

Loans and receivables are non-derivative financial assets with fixed or definable payments which are not listed in an active market. Following initial recognition, the loans and receivables are measured at amortized cost using the effective interest method less any impairment.

If there are any objective indications that **impairment of financial assets which have been accounted for at amortized cost** has taken place, the amount of impairment loss is equivalent to the difference between the carrying amount of the asset and the present value of the expected cash flow (with the exception of expected, though not yet occurred, loan losses), discounted with the original effective interest rate of the financial asset, i.e. at the effective interest rate determined at initial recognition. The carrying amount of the asset is decreased using a value adjustment account. The impairment loss is recognized in income.

If the amount of impairment write-downs decreases in the subsequent reporting periods and if this decrease can be objectively attributable to a circumstance occurring subsequent to impairment loss, the previous impairment loss is reversed. However, the new carrying amount of the asset may not exceed the acquisition costs at the time of the reversal of the impairment. The reversal of the impairment is recognized in income.

If there are objective indications in the case of trade receivables that not all amounts due will be received in accordance with the originally agreed invoice conditions (such as probability of insolvency or significant financial difficulties on the part of the debtor), impairment is recognized using a value adjustment account. Derecognition of receivables take place if they are classified as uncollectible.

3.7 CASH AND CASH EQUIVALENTS

Cash and cash deposits shown in the balance sheet comprise cash, bank balances and cash deposits with an original term of less than three months.

The cash in the consolidated cash flow statement is delimited according to the above definition and also covers the revolving lines of credit utilized.

3.8 FINANCIAL LIABILITIES

Upon initial recognition, **interest-bearing loans** are measured at fair value less the transaction costs directly associated with the borrowing. They are not recognized in income at fair value. Following initial recognition, the interest-bearing loans are measured at amortized cost using the effective interest method.

3.9 DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A **financial asset** (i.e. a part of a financial asset or a group of similar financial assets) is derecognized if the preconditions of IAS 39 are met.

A **financial liability** is derecognized if the obligation upon which this liability is based is fulfilled, reversed or dissolved.

If an existing financial liability is exchanged for another financial liability of the same lender at substantially different contractual conditions or if the conditions of an existing liability are significantly changed, such an exchange or change is treated as a reversal of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognized in income.

3.10 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses the derivative financial instruments interest swaps, collars and caps to protect itself against interest risks. These derivative financial instruments are measured at fair value. Derivative financial instruments are recognized as assets if their fair value is positive, and as liabilities if their fair value is negative.

Profit or losses resulting from changes to the fair value of derivative financial instruments which do not meet the criteria for accounting as hedges are recognized in income immediately.

The PATRIZIA Group's hedging instruments are classified as cash flow hedges for accounting purposes, since it involves hedging against the risk of fluctuations in the cash flow, which can be allocated to the risk associated with a recognized asset or with the recognized liability.

At the start of the hedging, both the hedges and the Group's risk management objectives and strategies regarding hedging are formally specified and documented. The documentation includes the determination of the hedging instrument, the underlying transaction or the hedged transaction and the type of hedged risk and a description of how the company determines the effectiveness of the hedging instrument in compensating for risks resulting from changes to fair value or to the cash flow of the hedged underlying transaction. These types of hedges are considered highly effective in compensating for changes to fair value or cash flow. They are assessed on an ongoing basis whether they were actually highly effective during the reporting period for which the hedge was defined.

Cash flow hedges, which meet the strict criteria for accounting of hedges, are accounted for as follows:

The effective part of the profit or loss from a hedging instrument is taken directly to equity, while the ineffective part is immediately recognized in income.

The amounts taken directly to equity are transferred to the profit and loss account during the period in which the hedged transaction influences the result, e.g. if hedged financial income or expenses are recognized or if an expected sale is executed.

If the scheduled transaction or the fixed obligation is no longer expected, the amounts previously recognized in equity are transferred to the profit and loss account. If the hedging instrument expires or is sold, terminated or exercised without substitution by a roll over of the hedging instrument into another hedging instrument, the amounts previously recognized in equity remain as separate items in equity until the scheduled transaction or fixed obligation has occurred.

3.11 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 recognized in the financial result, and was instead recognized in staff costs.

3.12 OTHER PROVISIONS

Provisions are liabilities of uncertain timing or amount. 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 measured in a reliable manner. Provisions are measured using the best possible estimate of the extent of the obligation. In the event of material interest effects, the provisions are discounted.

3.13 LEASES

The determination of whether an agreement includes a lease is made on the basis of the economic substance of the agreement at the time of the conclusion of this agreement and requires an estimate as to whether the fulfillment of the contractual agreement is dependent upon the utilization of a certain asset or certain assets and whether the agreement grants a right to the utilization of the asset

The Group as Lessor

Leases where all opportunities and risks of the Group associated with the ownership are not passed to the lessee to a significant degree are classified as operating leases. Initial direct costs which arise in the negotiations and conclusion of an operating leasing contract are added to the carrying amount of the leasing object and are recognized as expenses corresponding to the rental income over the term of the lease. Contingent rent is recognized as income during the period in which it is generated.

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.

3.14 TAXES

Current Taxes

Current tax assets and liabilities for current and previous periods are measured at the amount expected to be paid to or recovered from the tax authorities. The calculation of the amount is based on the tax rate and the tax laws which apply at the balance sheet date.

Actual taxes which refer to items which are directly recognized in equity are not recognized in the profit and loss account, but rather in equity.

Deferred Taxes

The recognition of deferred taxes takes place using the liability method on temporary differences existing on the balance sheet date between the recognition of amounts of an asset or a liability in the balance sheet and the tax base.

Deferred tax assets are recognized for all deductible temporary differences, tax loss carryforwards not yet utilized and tax credits not yet utilized in the probable scope that taxable income will be available against which the deductible temporary differences and the tax loss carryforwards and tax credits not yet utilized can be recognized.

The carrying amount of deferred tax assets is reviewed on every balance sheet date and decreased to the extent that it is no longer probable that a sufficient taxable result will be available against which the deferred tax asset can at least be partly recognized. Deferred tax assets not recognized are reviewed on every balance sheet date and recognized in the amount in which it has become probable that a future taxable result allows realization of the deferred tax asset.

Deferred tax assets and liabilities are measured using the tax rate which will probably become effective in the period in which an asset is realized or a liability is settled. It will be based on the tax rates and laws applicable on the balance sheet date. Future tax rate changes are to be taken into account on the balance sheet date if significant effectiveness preconditions are met within the scope of pending legislation.

Deferred taxes which relate to items which are directly recognized in equity are not recognized in the profit and loss account, but also in equity.

Deferred tax assets and deferred tax liabilities are set off against one another if the Group has an enforceable right to offset actual tax refund claims against actual tax liabilities and these refer to income taxes of the same taxable entity and are levied by the same taxation authority.

3.15 BORROWING COSTS

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

3.16 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.

3.17 ESTIMATES AND ASSESSMENTS IN ACCOUNTING

Due to the uncertainties associated with the operating activities, individual items of the consolidated financial statements cannot be measured with precision, but can only be estimated. 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 measuring 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 was required, this would negatively impact 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 current 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 THE CONSOLIDATED BALANCE SHEET – ASSETS

4.1 NON-CURRENT ASSETS

The breakdown and changes 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
2007	EUR'000	EUR'000	EUR'000
Acquisition costs			
Balance as at January 1, 2007	810	3,817	4,627
Additions	284	1,561	1,845
Disposals	– 790	– 1,352	– 2,142
Balance as at December 31, 2007	304	4,026	4,330
Amortization			
Balance as at January 1, 2007	573	2,345	2,918
Additions	126	645	771
Disposals	– 591	– 1,051	– 1,642
Balance as at December 31, 2007	108	1,939	2,047
BOOK VALUES AS AT JANUARY 1, 2007	237	1,472	1,709
BOOK VALUES AS AT DECEMBER 31, 2007	196	2,087	2,283

	Software	Equipment	Total
2006	EUR'000	EUR'000	EUR'000
Acquisition costs			
Balance as at January 1, 2006	701	3,179	3,880
Additions	109	695	804
Disposals	0	– 57	– 57
Balance as at December 31, 2006	810	3,817	4,627
Amortization			
Balance as at January 1, 2006	467	1,908	2,375
Additions	106	487	593
Disposals	0	– 50	– 50
Balance as at December 31, 2006	573	2,345	2,918
BOOK VALUES AS AT JANUARY 1, 2006	234	1,271	1,505
BOOK VALUES AS AT DECEMBER 31, 2006	237	1,472	1,709

DEVELOPMENT OF NON-CURRENT ASSETS

	Investment Property
2007	EUR'000
Fair value	
Balance as at January 1, 2007	0
Reclassification from inventories	57,739
Additions – assets	584,342
Fair value adjustments	69,477
BALANCE AS AT DECEMBER 31, 2007	711,558

	Investment Property
2006	EUR'000
Fair value	
Balance as at January 1, 2006	1,700
Fair value adjustments	150
Disposal of assets	–1,850
BALANCE AS AT DECEMBER 31, 2006	0

DEVELOPMENT OF NON-CURRENT ASSETS

	Investment Property under construction
2007	EUR'000
Fair value	
Balance as at January 1, 2007	0
Reclassification from inventories	9,182
Additions – assets	11,023
Fair value adjustments	0
BALANCE AS AT DECEMBER 31, 2007	20,205

	Investment Property under construction
2006	EUR'000
Fair value	
Balance as at January 1, 2006	0
Fair value adjustments	0
Disposal of assets	0
BALANCE AS AT DECEMBER 31, 2006	0

DEVELOPMENT OF NON-CURRENT ASSETS

	Investments in joint ventures	Participations	Securities	Total
2007	EUR'000	EUR'000	EUR'000	EUR'000
Acquisition costs				
Balance as at January 1, 2007	0	1	0	1
Additions	5,365	2,042	0	7,407
Disposals	0	0	0	0
Balance as at December 31, 2007	5,365	2,043	0	7,408
Amortization				
Balance as at January 1, 2007	0	0	0	0
Additions	298	0	0	298
Disposals	0	0	0	0
Balance as at December 31, 2007	298	0	0	298
BOOK VALUES AS AT JANUARY 1, 2007	0	1	0	1
BOOK VALUES AS AT DECEMBER 31, 2007	5,067	2,043	0	7,110

	Investments in joint ventures	Participations	Securities	Total
2006	EUR'000	EUR'000	EUR'000	EUR'000
Acquisition costs				
Balance as at January 1, 2006	0	0	255	255
Additions	0	1	0	1
Disposals	0	0	– 255	– 255
Balance as at December 31, 2006	0	1	0	1
Amortization				
Balance as at January 1, 2006	0	0	8	8
Additions	0	0	0	0
Disposals	0	0	8	8
Balance as at December 31, 2006	0	0	0	0
BOOK VALUES AS AT JANUARY 1, 2006	0	0	247	247
BOOK VALUES AS AT DECEMBER 31, 2006	0	1	0	1

Investment property is property that is held for generating rental income or for capital appreciation or both. The investment property is recognized at fair value in profit or loss in accordance with IAS 40.

Investment property under construction involves two properties which are being constructed or developed for future investment purposes. Recognition is carried out in line with IAS 16 at amortized cost.

The 50 % share in F 40 GmbH (formerly PATRIZIA Projekt 370 GmbH) is accounted for under the Investments in joint ventures item.

The Participations item includes the 5.1 % share in Hyrebostädter i Norra Tyskland Verwaltungs GmbH (formerly PATRIZIA Projekt 130 GmbH) and the 6.25 % share in PATROffice Real Estate GmbH & Co. KG.

The carrying amounts of the financial assets are in the individual categories as follows:

▶ Loans and receivables	41,378 TEUR
▶ Available-for-sale financial assets	2,043 TEUR
▶ Financial assets which are valued at fair value through profit or loss and are held for trading in accordance with IAS 39	8,225 TEUR
▶ Derivative financial instruments which are designated as hedging instruments and are effective as such	5,025 TEUR
▶ Bank balances and cash	54,013 TEUR

The carrying amounts of the financial liabilities fall in the individual categories as follows:

▶ Financial liabilities which are measured at fair value through profit or loss and are held for trading in accordance with IAS 39	1,142 TEUR
▶ Financial liabilities which are measured at residual value through profit or loss	1,305,210 TEUR
▶ Derivative financial instruments which are designated as hedging instruments and are effective as such	235 TEUR

Other liabilities are measured entirely at amortized cost.

4.2. TAX ASSETS

Corporation tax credits of 375 TEUR with a right to payment from 2008 and will be paid by the tax authorities over a period of 10 years in equal annual amounts are treated as long-term tax assets. Measurement is at present value.

Allowable credit and tax prepayments reimbursed by the tax authorities are reported as current tax assets. These tax assets have a residual term of less than 1 year.

4.3 INVENTORIES

A breakdown of inventories is shown below:

	2007	2006
	EUR'000	EUR'000
Real estate intended for sale	793,395	228,403
	793,395	228,403

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

Inventories to the value of 84,572 TEUR (previous year: 162,557 TEUR) were sold in the fiscal year.

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

The carrying amount of the inventories which are pledged as security totals 680,846 TEUR (previous year: 125,466 TEUR).

4.4 FINANCIAL DERIVATIVES

The Group uses various interest rate swaps, interest rate collars and a cap for the partial hedging of the interest rate risk from its bank loans. These are cash flow hedges where a hedging relationship to the respective underlying transaction could be demonstrated.

The changes to the fair value of the derivatives not classified as effective are recognized with an impact on income in the profit and loss account. In the fiscal year, they amounted to 5,969 TEUR (previous year: 595 TEUR).

As at December 31, 2007, the nominal volume of the derivatives classified as not effective totaled 505,779 TEUR (previous year: 17,700 TEUR); the corresponding fair values were 7,083 TEUR (previous year: – 946 TEUR).

The changes to the fair values of the hedging derivatives of 2,808 TEUR (previous year: 792 TEUR) are directly recognized in equity, taking deferred taxes into account.

No changes in value of cash flow hedges recognized in equity were realized through profit or loss and transferred into the financial result.

Fair value changes of 146 TEUR were taken into account during the reporting year as ineffective part of hedging derivatives in the profit and loss account.

As at December 31, 2007, the nominal volume of these hedging derivatives totaled 530,800 TEUR (previous year: 60,200 TEUR); the corresponding fair values were 4,790 TEUR (previous year: 827 TEUR).

As at December 31, 2007, the entire amount of unrealized profit from interest hedging transactions which was transferred to the provisions related to these future transactions for hedging transactions taking into account deferred tax effects was 2,941 TEUR (previous year: 475 TEUR). It is expected that the interest hedging transactions will be concluded in accordance with contractual conditions by 20 % in 2008, by 20 % in 2009, by 30 % in 2012 and by 30 % in 2013. For payment flows recognized in income cf. item 5.2.

4.5 CURRENT RECEIVABLES AND OTHER CURRENT ASSETS

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

	2007	2006
	EUR'000	EUR'000
Trade receivables	27,128	31,208
Other current assets	10,731	27,476
	37,859	58,684

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

As at the balance sheet date, the following receivables were overdue, but not impaired:

	< 60 days	> 60 days, but < 180 days	> 180 days
	EUR'000	EUR'000	EUR'000
Rent receivables	1,578	1,821	0

Of these, rent receivables are secured with rental deposits amounting to 769 TEUR.

Trade receivables and other current assets are decreased by specific value adjustments of 488 TEUR (previous year: 175 TEUR).

Changes in the value adjustment account for receivables:

	EUR'000
Balance as at December 31, 2006	175
Additions	341
Outflows due to derecognitions	- 19
Outflows due to payments received	- 9
BALANCE AS AT DECEMBER 31, 2007	488

Trade receivables are impaired via a value adjustment account.

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

4.6 BANK BALANCES AND CASH

The Bank balances and cash item comprises cash and cash deposits held by the Group. The carrying value of these assets corresponds to their fair value.

5. NOTES THE CONSOLIDATED BALANCE SHEET – LIABILITIES

5.1 EQUITY

For the development of equity, please see the statement of changes in equity.

5.1.1 SHARE CAPITAL

As at the balance sheet date, the share capital of the company totaled 52,130 TEUR (previous year: 47,400 TEUR) and was divided into 52,130,000 no-par value shares.

On January 12, 2007, the share capital was increased using authorized capital by 4,730 TEUR, divided into 4,730,000 no-par value shares, to 52,130 TEUR. The shareholders' subscription right was excluded for this capital increase.

With the consent of the Supervisory Board, the Managing Board was also authorized by the Annual General Meeting on June 13, 2007 to increase the share capital on one or more occasions by up to a total of 26,065 TEUR in exchange for cash contributions and/or contributions in kind by issuing new no-par value bearer shares (authorized capital) by June 12, 2012.

Furthermore, the share capital was contingently increased (contingent capital) by resolution of the Annual General Meeting of June 13, 2007 by up to 26,065 TEUR by issuing up to 26,065,000 new, registered no-par value shares.

First Capital Partner GmbH is the majority shareholder of PATRIZIA Immobilien AG with 26,147,572 no-par value shares. First Capital Partner GmbH is therefore indirectly and directly a shareholder in PATRIZIA Immobilien AG with 50.16 %.

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 company's capital increase are posted in the capital reserve. 97,465 TEUR was allocated to the capital reserve. Of this, 2,697 TEUR in transaction costs, decreased by taxes of 832 TEUR, was deducted.

5.1.3 RETAINED EARNINGS

The legal reserve of 505 TEUR is again posted under Retained earnings.

5.2 BANK LOANS

A breakdown of bank loans is shown below:

	2007	2006
	EUR'000	EUR'000
Utilization of revolving lines of credit	1,362	28
Other bank loans	1,260,635	125,466
	1,261,997	125,494

The residual terms of the bank loans are as follows:

	Total floating-rate financial liabilities 2007	Total floating-rate financial liabilities 2006
	EUR'000	EUR'000
< 1 year	655,593	110,901
1 – 2 years	13,347	247
2 – 5 years	121,484	14,346
> 5 years	471,573	0
	1,261,997	125,494

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

Accordingly, the loan proceeds in the above table existing on the balance sheet date are allocated without taking into account repayments from resales in accordance with the contractually agreed terms of the loan agreements.

Such loans as those mentioned above are posted as bank loans with a residual term of up to 1 year, whose term ends within the 12 months following the balance sheet date.

Regardless of the maturities presented above, loans which serve to finance the inventories are reported in the balance sheet as short-term bank loans (see Section 1 Principles Applied in Preparing the Consolidated Financial Statements).

Other bank loans are based on variable interest rates and are measured at amortized cost. In this respect, the Group is exposed to an interest rate risk in terms of the cash flows. To limit the risk, the Group has concluded interest hedging transactions for the majority of the loans.

For the other bank loans, the Group's own real estate serves as security. The bank loans secured by real estate liens amount to 1,260,635 TEUR (previous year: 125,466 TEUR). In addition, financial liabilities are secured by assigning purchasing prices, and others are secured by assigning future rental payments.

5.3 DEFERRED TAX ASSETS / DEFERRED TAX LIABILITIES

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

	Dec. 31, 2007 Assets side	Dec. 31, 2007 Liabilities side	Dec. 31, 2006 Assets side	Dec. 31, 2006 Liabilities side
	EUR'000	EUR'000	EUR'000	EUR'000
Investment property	0	12,912	0	0
Inventories	1,459	0	834	0
Retirement benefit obligations	22	0	29	0
Derivatives	332	1,675	296	317
Tax loss carryforwards	2,860	0	628	0
	4,673	14,587	1,787	317
Netting	- 4,673	- 4,673	- 317	- 317
	0	9,914	1,470	0

As at the balance sheet date, there were corporation tax loss carryforwards of 7,158 TEUR (previous year: 1,162 TEUR) and trade tax loss carryforwards of 6,835 TEUR (previous year: 2,360 TEUR), for which deferred tax assets of 2,860 TEUR (previous year: 628 TEUR) were recognized.

Due to the lack of predictability regarding dissolution of the tax group, no deferred tax assets have been recognized for pre-consolidation losses of 447 TEUR (previous year: 447 TEUR). 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 recognized 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 recognized for existing loss carryforwards in this company of 18,214 TEUR (previous year: 18,214 TEUR) due to lack of predictability of their tax benefit.

Deferred tax assets and deferred tax liabilities are set off against one another, 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 authority.

5.4 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 an acquisition and a plan which was assumed in 2007 in connection with the acquisition of a real estate portfolio. As at the balance sheet date, a total of 7 people therefore had a performance-related commitment. 5 of 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 approximately 25 % on the basis of an actuarial report prepared in accordance with IAS 19. On December 31, 2007, 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, 2007, the pension provision was recognized at 369 TEUR (previous year: 306 TEUR). Due to the low level of the annual pension payments of 32 TEUR and therefore also the low value of the pension provision, the pension provision in the Consolidated Financial Statements was not regarded as material. For this reason, there is no breakdown of the change to the pension provision. As at the balance sheet date, there were neither plan assets nor non-recognized actuarial losses and/or past service costs. The interest cost is also posted under Staff costs.

5.5 OTHER PROVISIONS

A breakdown of other provisions is shown below:

	Jan. 01, 2007	Allocation	Reversal	Utilization	Dec. 31, 2007
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Other provisions	535	594	4	531	594
	535	594	4	531	594

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 outflow of funds will occur in the subsequent year.

5.6 CURRENT LIABILITIES

A breakdown of current liabilities is shown below:

	2007	2006
	EUR'000	EUR'000
Trade payables	16,681	32,659
Advance payments	837	2,507
Other liabilities	14,653	9,323
CURRENT LIABILITIES	32,171	44,489

The current liabilities have a residual term of less than 12 months. The fair value of the liabilities therefore corresponds to the carrying amount. Other liabilities chiefly include liabilities for acquisition and manufacturing costs arising after the balance sheet date of 10,665 TEUR (previous year: 4,564 TEUR).

5.7 TAX LIABILITIES

The tax liabilities concern taxes in Luxemburg of 165 TEUR (previous year: 0 TEUR).

5.8 OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

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 credit risk. The Group's credit risk primarily results from trade receivables. Insofar as they are identifiable, these are decreased 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 credit risk here.

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

The financial liabilities essentially used by the Group – with the exception of derivative financial instruments – comprise bank loans and revolving lines of credit, trade payables and secured loans. The main objective of these financial liabilities is financing the business activities of the Group.

Furthermore, the Group has other derivative financial instruments. These comprise interest rate swaps and interest rate collars and a cap. The aim of these derivative financial instruments is hedging against interest risks which result from the business activities of the Group and its financing sources.

Significant risks for the Group arising from the financial instruments comprise interest-related cash flow risks and liquidity and credit risks. The Management has agreed upon strategies and procedures for the control of individual risk types, which are presented in the following.

Interest Rate Risk

The risk from fluctuations in the market interest rate to which the Group is exposed results primarily from those financial liabilities with a variable interest rate.

For managing and smoothing the Group's interest expense, the Group has concluded interest hedging transactions. At specified intervals the Group exchanges with the contractual partner the difference between fixed-interest and variable-interest amounts for a previously agreed nominal amount or set a maximum rate. The underlying obligation is hedged with these interest hedging transactions. As at December 31, 2006, approximately 82 % (2006: 62 %) of the Group's external funds was fixed interest bearing taking into account existing financial derivatives.

Overview of the interest rate risk

The PATRIZIA Immobilien Group concludes only variable interest rate loans. The Group is therefore subject to an interest rate risk on financial liabilities. This risk is reduced by using derivative financial instruments whereby variable interest rates are exchanged for fixed interest rates (swap) or a fixed upper ceiling is agreed for variable interest (collar or cap).

The Group measures the interest rate risk with the help of the cash flow sensitivity in the case of an assumed parallel shift in the interest curve of 100 basis points. If a rise in the interest rates of 100 basis points is assumed, as at December 31, 2007 this would have an effect without tax regards of 21,024 TEUR on the consolidated profit (previous year: 300 TEUR) and 12,245 TEUR on consolidated equity (previous year: 307 TEUR). In determining the effect on consolidated profit and consolidated equity, existing accounting hedges were included with their characteristics as they appeared on the balance sheet date.

Credit Risk

Due to a wide and uncorrelated counterparty structure there is no concentration of risks in our group of companies. A receivable against a land purchaser of 16,900 TEUR is an exception. However, this has been secured since in the case of default the land will be reconveyed. As a result, no significant risk arises for the Group.

In the case of other financial assets of the Group, such as cash and cash equivalents, and financial investments available for sale the maximum credit risk corresponds to the carrying amount of these instruments in the case of default on the part of the counterparty.

Liquidity Risk

The Group continually monitors the risk of a liquidity bottleneck using liquidity planning. This liquidity planning takes into account the durations of the financial liabilities and expected cash flows from the operating activities.

The Group's objective is to ensure cash requirements are met on an ongoing basis by using overdrafts and loans.

The maturity of financial liabilities can be found in item 5.2 of the notes to the consolidated financial statements.

Capital Management

The Group monitors its capital with the help of a gearing ratio which corresponds to the ratio of net financial liabilities to the sum of modified equity and net financial liabilities. Net financial liabilities comprise interest-bearing loans, trade payables and other liabilities less cash and short-term deposits. Modified equity comprises the equity attributable to the shareholders of the parent company less the unrealized profit.

	2007	2006
	EUR'000	EUR'000
Interest-bearing loans	1,261,997	125,494
Trade payables and other liabilities	32,930	56,196
Less cash and short-term deposits	– 54,013	– 83,211
Net financial liabilities	1,240,914	98,479
Equity	336,605	191,724
Unrealized profits	– 2,941	– 475
Total modified equity	333,664	191,249
Modified equity and net financial liabilities	1,574,578	289,728
Gearing ratio	79 %	34 %

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 rental income from investment property of 36,948 TEUR (previous year: 110 TEUR).

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 in income under Changes in inventories 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 received discounts of 425 TEUR (previous year: 245 TEUR), and income from payments in kind of 402 TEUR (previous year: 348 TEUR).

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. This includes 2,901 TEUR (previous year: 0 TEUR) expenses for maintenance of investment property.

6.5 STAFF COSTS

A breakdown of staff costs is shown below:

	2007	2006
	EUR'000	EUR'000
Wages and salaries	17,193	12,853
Social insurance contributions	2,715	2,029
	19,908	14,882

6.6 AMORTIZATION

Scheduled amortization amounts to 771 TEUR (previous year: 593 TEUR). It relates to software and equipment.

6.7 FAIR VALUE ADJUSTMENTS TO INVESTMENT PROPERTY

Fair value adjustments to investment property amount to 69,477 TEUR (previous year: 150 TEUR).

6.8 OTHER OPERATING EXPENSES

A breakdown of other operating expenses is shown below:

	2007	2006
	EUR'000	EUR'000
Administrative expenses	11,748	8,012
Selling expenses	5,397	6,902
Other expenses	3,398	1,792
	20,543	16,706

6.9 FINANCIAL RESULT

	2007	2006
	EUR'000	EUR'000
Interest on bank deposits	2,589	1,252
Income from interest hedges	1,901	0
Changes in value of the derivatives	14,825	807
Income from securities	364	482
Other interests	692	104
	20,371	2,645
Interest on revolving lines of credit and bank loans	– 57,910	– 6,464
Expenses from interest hedges	– 1,372	0
Changes in value of the derivatives	– 8,711	0
Other finance cost	– 253	– 255
	– 68,246	– 6,719
	– 47,875	– 4,074

Interest income of 635 TEUR (previous year: 0 TEUR), which was recognized at the effective interest rate, is attributable to credit and receivables. Pure measurement effects did not occur for instruments of this category. The amount of the impairment on receivables can be seen under text number 4.5.

6.10 INCOME TAX

A breakdown of income taxes is shown below:

	2007	2006
	EUR'000	EUR'000
Actual income taxes	– 3,634	– 15,027
Deferred taxes	– 11,495	227
	– 15,129	– 14,800

The deferred taxes in the profit and loss account chiefly result from loss carryforwards, the fair value measurement of interest rate hedging instruments and the investment property 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 based on 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, and on this a 5,5 % solidarity surcharge and 13.63 % trade tax:

	2007	2006
	EUR'000	EUR'000
IFRS consolidated profit for the period before income tax	63,170	47,200
Expected actual income tax expenses	25,268	18,880
Non-deductible operating expenditure	572	166
Tax-free income	- 944	- 3,291
Non recognition of loss carryforwards	3,253	- 649
Trade tax savings from limited taxable income	- 8,787	0
Special effect of the Equity 02 taxation	3,954	0
Effect of tax rate changes	- 6,222	0
Effects outside the period	- 1,305	- 306
Other	- 660	0
EFFECTIVE TAX EXPENSE	15,129	14,800

6.11 EARNINGS PER SHARE

	2007	2006
Profit share of Group shareholders	EUR 48,040,655	EUR 32,400,133
Number of shares issued	52,130,000	47,400,000
Weighted number of shares	51,987,452	45,673,973
Earnings per share (undiluted)	EUR 0.92	EUR 0.71

There were no diluted earnings per share in the reporting year or in the previous year. As at December 31, 2007 there was authorized capital of 26,065 TEUR.

7. SEGMENT REPORTING

The Group is divided into two segments, that of Investments and that of 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 (property 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
2007	EUR'000	EUR'000	EUR'000	EUR'000
External revenues	184,225	8,998	30	193,253
EBITDA¹⁾	117,476	1,234	– 6,893	111,817
EBIT¹⁾	117,215	1,138	– 7,308	111,045
2006	EUR'000	EUR'000	EUR'000	EUR'000
External revenues	228,704	8,823	84	237,611
EBITDA¹⁾	54,186	1,297	– 3,765	51,718
EBIT¹⁾	54,229	1,235	– 4,190	51,274

1) EBIT and EBITDA are not fixed parameters defined by IFRS

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 current operating activities was calculated using the indirect method.

Cash and cash equivalents contain the bank balances and cash posted in the balance sheet as well as short-term deposits and revolving lines of credit.

In the cash flow from current 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 5,182 TEUR (previous year: 2,163 TEUR), interest expenses of 45,821 TEUR (previous year: 6,838 TEUR) and paid income taxes of 14,097 TEUR (previous year: 7,443 TEUR) 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, particularly investment property, and investments in and sales of property, plant and equipment.

Cash flow from financing activities includes cash outflows for dividends and cash inflows from capital increases of PATRIZIA Immobilien AG as part of the capital increase as well as payments and redemptions of loans.

A dividend of 0.15 EUR per share was distributed during the reporting year.

9. OTHER NOTES

9.1 POST-EMPLOYMENT EMPLOYEE BENEFITS

There are no performance-related pension schemes at the Group. An exception to this is a scheme that was transferred in 2002 within the scope of an acquisition and a plan which was assumed in 2007 in connection with the acquisition of a real estate portfolio. As at the balance sheet date, a total of 7 people therefore had a performance-related commitment. 5 of 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 an independent 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 2007, a total of 56 TEUR (previous year: 50 TEUR) was paid in contributions to the provident fund.

The employees in the Group are largely compulsorily insured with the state pension insurance and are thus covered by a state defined contribution 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 counter-performance 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 state pension insurance. For this purpose, the Group has concluded a collective framework agreement with an external pension fund.

9.2 MANAGEMENT PARTICIPATION MODEL

In 2005, PATRIZIA Immobilien AG introduced a management participation model aimed at giving the directors and managers of Group companies the opportunity of participation in PATRIZIA Immobilien AG.

In the run-up to the IPO, the decision was made not to implement the third stage of the stock option model. With a resolution of the Annual General Meeting on February 23, 2006 the authority for the Management Board to grant stock options and for the contingent capital established to this effect was reversed.

It was announced in the consolidated annual financial statements for fiscal year 2006 that, in future, a new management participation model was to be launched which meets the requirements of the capital market.

The new management participation model focuses on the aspects market conformity, performance and sustainability. The model was developed taking into account the requirements of the German Corporate Governance Code.

The fundamental requirement of the PATRIZIA management participation model is a consistent target system that supports the corporate strategy. It is developed for the long-term to be multidimensional and neutral. The system sets directors and managers of Group companies quantitative and qualitative Company, segment and individual goals. The amount to which quantitative goals can be achieved is based on projected figures according to the Company's planning. Key objectives here are above all consolidated profit after taxes and Group return on equity as well as absolute share price performance and performance in relation to reference indices.

On a segment level, the basic structure of the PATRIZIA provision of services is mapped in the form of value contributions to processes and the performance relationships interdependence among those involved in the process. The directors and managers of Group companies involved in the provision of services or in qualitative projects will be bound to common goals.

On an individual basis, the quantitative results or qualitative project results for which the directors and managers of Group companies are responsible will be taken into account.

The level at which the individual goals is achieved determines the amount of the variable share of remuneration. There is a cap to the variable compensation component. If less than two thirds of the forecast consolidated profit is not reached, directors and managers of Group companies lose the entire variable share of remuneration.

The variable share of remuneration is divided into a long-term and a short-term incentive component. The short-term incentive will be paid directly after it has been established that the goals have been achieved. The long-term incentive is a salary commitment with a virtual link to the PATRIZIA share price. It is paid two years following confirmation that the targets have been achieved.

Within this vesting period, the cash commitment is tied to allocation conditions. These regulate the consequences regarding allocation of the long-term incentive to the individual director or manager of a Group company should they leave the Group. Upon leaving the Group, a member may receive complete, part or none of the committed and as yet undistributed claims, depending on the reason for leaving.

It became effective for Management Board members on January 1, 2008.

PATRIZIA intends to extend the new management participation model to the second management level in the second half of fiscal year 2008.

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, 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, Gräfelfing
- ▶ FCP Anlage AG, Gräfelfing
- ▶ Wohnungsportfolio WPO Berlin GmbH, Berlin
- ▶ Wohnungsportfolio WPO Immobilienservice GmbH, Berlin
- ▶ Immobilienportfolio IPO Berlin GmbH, Berlin

- ▶ AHO Verwaltung GmbH, Augsburg
- ▶ Eurobilia AG, Gräfelfing
- ▶ Hansa-Langenhorn-Immobilien GmbH, Hamburg
- ▶ Verwaltung EHG Erste Hanseatische Grundvermögen GmbH, Hamburg
- ▶ E.H.G. Erste Hanseatische Grundvermögen GmbH & Co. KG, Hamburg
- ▶ Wolfgang Egger Verwaltungs-GmbH, Gräfelfing
- ▶ Wolfgang Egger GmbH & Co. KG, Gräfelfing
- ▶ Objektgesellschaft An der Alster 47 GmbH & Co. KG, Augsburg
- ▶ Stadtresidenz Friedrich-List Vermögensverwaltungs KG, 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, Wolfgang Egger, Chairman of the Managing Board, holds a total stake of 50.16 % indirectly and directly in the Company via First Capital Partner GmbH, in which he indirectly holds a 99.99 % stake via WE Vermögensverwaltung GmbH & Co. KG.

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 Ernest-Joachim Storr.

Dr. Georg Erdmann, a member of the Managing Board of the Company until December 31, 2007, holds a total stake of 0.13 % in PATRIZIA Immobilien AG.

Alfred Hoschek, a member of the Managing Board of the Company, holds a total stake of 1.48 % 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 Baugesellschaft mbH. The remaining 94.9 % of the shares are indirectly held by PATRIZIA Immobilien AG via Stella Grundvermögen GmbH.

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

Messrs Eckhard Bolte, Gerhard Faltermeier, Werner Gorny, Jürgen Kolper, Martin Lemke, Peter Schatz und Markus Scherl also hold a total of 0.51 % as members of the additional management levels of PATRIZIA.

Direct Contracts and Business Relationships between the Managing Board Members and PATRIZIA

Rental Agreements between Managing Board Members and PATRIZIA

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) at a current monthly rent of 20 TEUR.

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 6 TEUR plus statutory VAT.

On March 1, 2007, Friedrich-List Vermögensverwaltungs KG concluded a rental agreement for office space at Bavariaring 6, Munich, Germany with PATRIZIA Wohnungsprivatisierung GmbH. The monthly rental interest amounts to 2 TEUR.

Activities of Managing Board Members outside PATRIZIA

Chairman of the Board Wolfgang Egger is a director of Wolfgang Egger Verwaltungs GmbH (general partner of Wolfgang Egger Vermögensverwaltung GmbH & Co. KG), as well as general partner of Friedrich-List Vermögensverwaltungs KG.

The Managing Board member, Alfred Hoschek, is a director and sole shareholder of AHO Verwaltung 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 November 29, 2007. In 2007, consultancy costs of 9 TEUR including VAT 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:

Wolfgang Egger, businessman, Chief Executive Officer

Dr. Georg Erdmann, business studies graduate, Chief Financial Officer (until December 31, 2007)

Arwed Fischer, business studies graduate, Chief Financial Officer (since March 1, 2008)

Alfred Hoschek, graduate engineer, Chief Investment Officer and Chief Financial Officer from January 1, 2008 through February 29, 2008

Klaus Schmitt, law graduate, Chief Operating Officer

In the fiscal year, the payments made to the Managing Board totaled 1,911 TEUR (previous year: 1,681 TEUR); details are included in the following table:

	Annual income			Contribution to retirement pension
	Salary	Bonus	Payments in kind and other payments	
	EUR	EUR	EUR	EUR
Wolfgang Egger (Chairman)	260,000	250,000	20,637	12,000
Dr. Georg Erdmann (Managing Board member until December 31, 2007)	180,000	250,000	11,749	6,269
Alfred Hoschek	180,000	250,000	11,222	12,000
Klaus Schmitt	180,000	250,000	25,568	12,000

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
 Harald Boberg, representative of Bankhaus Lampe KG, (Bielefeld), Hamburg
 Manfred J. Gottschaller, director of Bayerische Handelsbank AG i. R., Munich

The Supervisory Board received fixed remuneration of 62 TEUR (previous year: 35 TEUR); details can be found in the following table:

	Fixed remuneration
	EUR
Dr. Theodor Seitz (Chairman)	24,938
Harald Boberg	18,750
Manfred J. Gottschaller	18,750

9.5 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

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

	EUR'000
2008	1,775
2009 – 2012	1,901
2013 and later	0
	3,676

In conjunction with the completion 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. Since the hotel was transferred to the purchaser on December 28, 2007, the management does not foresee utilization of this obligation.

9.6 EMPLOYEES

The average headcount at the Group in 2007 (excluding directors) was 287 (previous year: 247).

9.7 AUDITOR'S FEES

The expenses for the auditor recorded in fiscal year 2007 for auditing the financial statements amounted to 410 TEUR (previous year: 370 TEUR) and 191 TEUR (previous year: 300 TEUR) for other consultancy services.

9.8 COSTS OF THE CAPITAL INCREASE

In conjunction with the capital increase (previous year: IPO), 2,697 TEUR (previous year: 7,791 TEUR) transaction costs were incurred, decreased by the tax effect of 832 TEUR (previous year: 3,116 TEUR), these costs were recognized as a reduction of the capital reserve instead of as expenses.

9.9 GERMAN CORPORATE GOVERNANCE CODE

On March 3, 2008, 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).

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, March 10, 2008




Wolfgang Egger
Chairman of the Board



Arwed Fischer
Member of the Board



Alfred Hoschek
Member of the Board



Klaus Schmitt
Member of the Board

LIST OF SHAREHOLDINGS

PATRIZIA Immobilien AG participates directly in the following companies:

Name	Head office	Share holding	Equity	Net profit/net loss of the last fiscal year
2007		%	EUR	EUR
PATRIZIA Acquisition & Consulting GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Advisory & Sales GmbH ¹⁾	Augsburg	100	35,102.02	0.00
PATRIZIA Asset Management GmbH ¹⁾	Augsburg	100	129,810.52	0.00
PATRIZIA Bautechnik GmbH ¹⁾	Augsburg	100	118,182.33	0.00
PATRIZIA Immobilienmanagement GmbH ¹⁾	Augsburg	100	16,881.05	0.00
PATRIZIA Projektentwicklung GmbH ¹⁾	Augsburg	100	250,000.00	0.00
PATRIZIA Wohnungsprivatisierung GmbH ¹⁾	Augsburg	100	500,500.00	0.00
Deutsche Wohnungsprivatisierungs GmbH ¹⁾	Augsburg	100	13,145.51	0.00
PATRIZIA Projekt 100 GmbH ¹⁾	Augsburg	100	23,004.93	0.00
PATRIZIA Projekt 110 GmbH ¹⁾	Augsburg	100	24,216.35	0.00
PATRIZIA Projekt 120 GmbH ¹⁾	Augsburg	100	22,280.88	0.00
PATRIZIA Projekt 140 GmbH ¹⁾	Augsburg	100	34,592.95	0.00
PATRIZIA Projekt 150 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 160 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 170 GmbH ¹⁾	Augsburg	100	135,245,000.00	0.00
PATRIZIA Projekt 180 GmbH	Augsburg	100	11,186,378.03	1,113,928.03
PATRIZIA Immobilien Kapitalanlagegesellschaft mbH (formerly PATRIZIA Projekt 190 GmbH) ¹⁾	Augsburg	100	2,963,776.67	0.00
PATRIZIA Projekt 200 GmbH ¹⁾	Augsburg	100	6,763.95	0.00
PATRIZIA Projekt 260 GmbH ¹⁾	Augsburg	100	24,040.80	0.00
PATRIZIA Projekt 270 Verwaltungs GmbH	Augsburg	100	23,509.98	– 530.82
PATRIZIA Projekt 280 Verwaltungs GmbH	Augsburg	100	23,507.31	– 533.49
PATRIZIA Projekt 290 Verwaltungs GmbH	Augsburg	100	23,510.14	– 530.66
PATRIZIA Projekt 300 Verwaltungs GmbH	Augsburg	100	23,510.49	– 530.31
PATRIZIA Projekt 310 Verwaltungs GmbH	Augsburg	100	23,519.44	– 532.96
Wohnungsgesellschaft Olympia mbH	Hamburg	100	866,753.51	9,464.55
Stella Grundvermögen GmbH ¹⁾	Munich	100	7,538,113.38	0.00
PATRIZIA Real Estate Corporate Finance GmbH	Munich	100	20,497.06	– 899.06

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

PATRIZIA Immobilien AG participates directly in the following companies:

Name	Head office	Share holding	Equity	Net profit/net loss of the last fiscal year
2007		%	EUR	EUR
PATRIZIA Projekt 420 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 430 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 440 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 450 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 460 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 470 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 480 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 490 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 500 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 510 GmbH ¹⁾	Augsburg	100	25,000.00	0.00

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

PATRIZIA Immobilien AG participates indirectly in the following companies:

Name	Head office	Share holding	Equity	Net profit/net loss of the last fiscal year
2007		%	EUR	EUR
PATRIZIA European Real Estate Management GmbH	Augsburg	100	30,509.83	5,910.03
Projekt Wasserturm Verwaltungs GmbH	Augsburg	51	1,138.20	– 2,972.22
Alte Haide Baugesellschaft mbH	Munich	94.9	1,879,828.06	– 5,660,171.94
PATRIZIA Luxembourg S.à.r.l.	Luxemburg	100	135,935,720.65	697,906.88
PATRIZIA Lux 10 S.à.r.l.	Luxemburg	100	12,014,566.11	– 28,535.33
PATRIZIA Lux 20 S.à.r.l.	Luxemburg	100	29,914,193.85	– 128,907.59
PATRIZIA Lux 30 N S.à.r.l.	Luxemburg	100	18,089.08	– 1,910.92
PATRIZIA Lux 50 S.à.r.l.	Luxemburg	100	9,016,374.85	– 26,786.56
PATRIZIA Lux 60 S.à.r.l.	Luxemburg	100	3,004,314.95	– 38,846.46
PATRIZIA Real Estate 10 S.à.r.l.	Luxemburg	100	9,221,856.08	– 2,831,249.59
PATRIZIA Real Estate 20 S.à.r.l.	Luxemburg	100	13,056,903.67	– 17,011,163.11
PATRIZIA Real Estate 30 S.à.r.l.	Luxemburg	100	18,008.25	– 1,991.75
PATRIZIA Real Estate 50 S.à.r.l.	Luxemburg	100	6,588,325.24	– 2,462,543.86
PATRIZIA Real Estate 60 S.à.r.l.	Luxemburg	100	2,640,895.96	– 404,873.14
PATRIZIA Projekt 220 GmbH	Augsburg	100	25,947.08	– 1,583.32
PATRIZIA Projekt 230 GmbH	Augsburg	100	29,081.42	– 3,584.38
PATRIZIA Projekt 240 GmbH	Augsburg	100	25,384.04	– 1,244.26
PATRIZIA Projekt 250 GmbH	Augsburg	100	24,290.53	– 612.77
PATRIZIA Projekt 320 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 330 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 340 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 350 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 360 GmbH ¹⁾	Augsburg	100	25,000.00	0.00
F 40 GmbH (formerly PATRIZIA Projekt 370 GmbH)	Stuttgart	50	10,025,000.00	– 46,107.79
PATRIZIA Projekt 380 GmbH	Augsburg	100	24,148.32	– 851.68
PATRIZIA Projekt 390 GmbH	Augsburg	100	24,148.32	– 851.68
PATRIZIA Projekt 400 GmbH	Augsburg	100	24,156.30	– 843.70
PATRIZIA Projekt 410 GmbH	Augsburg	100	24,148.32	– 851.68
Projekt Wasserturm Grundstücks GmbH & Co. KG	Augsburg	45.9	– 362,310.28	780,067.05
Projekt Wasserturm Bau GmbH & Co. KG	Augsburg	51	– 531,211.86	691,223.04

1) As a result of the existing control and profit transfer agreements, the results of the stockholder PATRIZIA Projekt 180 GmbH have been adopted.

PATRIZIA Immobilien AG participates indirectly and directly in the following companies:

Name	Head office	Share holding	Equity	Net profit/net loss of the last fiscal year
2007		%	EUR	EUR
PATRIZIA Projekt A 270 GmbH & Co. KG	Augsburg	100	– 292,81	– 736,71
PATRIZIA Projekt B 280 GmbH & Co. KG	Augsburg	100	– 292,81	– 736,71
PATRIZIA Projekt C 290 GmbH & Co. KG	Augsburg	100	– 287,57	– 731,47
PATRIZIA Projekt D 300 GmbH & Co. KG	Augsburg	100	– 293,20	– 737,10
PATRIZIA Projekt E 310 GmbH & Co. KG	Augsburg	100	– 293,20	– 737,10
Objekt Dresden Altmarkt SARI GmbH & Co. KG	Augsburg	100	– 2.101,80	– 1.033,44
PATRIZIA Vermögensverwaltungs GmbH ¹⁾	Augsburg	100	687.583,35	0,00

1) As a result of the existing control and profit transfer agreements, the results of the stockholder PATRIZIA Projekt 180 GmbH have been 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, 2007. 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 statements, 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 14, 2008

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Löffler)
German Public Auditor

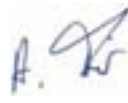
(Stadter)
German Public Auditor

RESPONSIBILITY STATEMENT BY THE LEGAL REPRESENTATIVES OF PATRIZIA IMMOBILIEN AG

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.



Wolfgang Egger
Chairman of the Board



Arwed Fischer
Member of the Board



Alfred Hoschek
Member of the Board



Klaus Schmitt
Member of the Board



A	 	PREFACE AND REPORTS
B	 	MANAGEMENT REPORT OF THE COMPANY AND THE GROUP
C	 	CONSOLIDATED FINANCIAL STATEMENTS AND NOTES AS AT DECEMBER 31, 2007
D	 	FURTHER INFORMATION

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

ASSETS

	2007	2006	2005
	EUR'000	EUR'000	EUR'000
A. NON-CURRENT ASSETS			
Software	196	237	234
Investment property	711,558	0	1,700
Investment property under construction	20,205	0	0
Equipment	2,087	1,472	1,271
Securities	0	0	247
Investments in joint ventures	5,067	0	0
Participations	2,043	1	0
Long-term financial derivatives	8,704	0	0
Long-term tax assets	375	361	0
Deferred tax assets	0	1,470	1,560
Total non-current assets	750,235	3,541	5,012
B. CURRENT ASSETS			
Inventories	793,395	228,403	189,516
Short-term financial derivatives	4,546	827	0
Short-term tax assets	3,144	0	0
Current receivables and other current assets	37,859	58,684	16,395
Bank balances and cash	54,013	83,211	16,477
Total current assets	892,957	371,125	222,388
TOTAL ASSETS	1,643,192	374,666	227,400

EQUITY AND LIABILITIES

	2007	2006	2005
A. EQUITY	EUR'000	EUR'000	EUR'000
Share capital	52,130	47,400	5,050
Capital reserves	215,862	118,398	573
Retained earnings			
- legal reserves	505	505	505
Valuation results from cash flow hedges	2,941	475	0
Consolidated net profit	65,167	24,946	35,976
Total equity	336,605	191,724	42,104
B. LIABILITIES			
NON-CURRENT LIABILITIES			
Long-term bank loans	0	0	2,858
Deferred tax liabilities	9,914	0	0
Long-term financial derivatives	1,142	946	1,541
Retirement benefit obligations	369	306	285
Total non-current liabilities	11,425	1,252	4,684
CURRENT LIABILITIES			
Short-term bank loans	1,261,997	125,494	149,298
Short-term financial derivatives	235	0	0
Other provisions	594	535	521
Current liabilities	32,171	44,489	23,560
Tax liabilities	165	10,810	6,295
Other current liabilities	0	362	938
Total current liabilities	1,295,162	181,690	180,612
TOTAL EQUITY AND LIABILITIES	1,643,192	374,666	227,400

CONSOLIDATED PROFIT AND LOSS ACCOUNT IN ACCORDANCE WITH IFRS

Three-year Overview

	2007	2006	2005
	EUR'000	EUR'000	EUR'000
1. Revenues	193,253	237,611	99,508
2. Changes in inventories	666,705	44,114	35,823
3. Other operating income	1,905	3,357	2,791
4. Total operating performance	861,863	285,082	138,122
5. Cost of materials	- 778,775	- 201,777	- 85,815
6. Staff costs	- 19,908	- 14,882	- 12,359
7. Amortization of software and depreciation on equipment	- 771	- 593	- 603
8. Results from fair value adjustments to investment property	69,477	150	- 300
9. Other operating expenses	- 20,543	- 16,706	- 13,547
10. Earnings from companies accounted for using the equity method	- 298	0	0
11. Finance income	20,371	2,645	829
12. Finance cost	- 68,246	- 6,719	- 6,263
13. Profit before income taxes	63,170	47,200	20,064
14. Income tax	- 15,129	- 14,800	- 3,432
15. Net profit	48,041	32,400	16,632
16. Profit carried forward	17,126	0	19,349
17. Allocation to retained earnings			
a) legal reserves	0	0	- 5
b) other retained earnings	0	- 7,454	0
18. Consolidated net profit	65,167	24,946	35,976

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
1st 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
2nd 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

MANAGING BOARD

Wolfgang Egger

Chief Executive Officer

First appointed on: August 21, 2002

Appointed until: April 30, 2012

Responsibilities:

Communications, corporate strategy, human resources, marketing

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

► None

Dr. Georg Erdmann (until December 31, 2007)

Chief Financial Officer

First appointed on: October 1, 2006

Responsibilities:

Accounting/tax, controlling, investor relations, IT, risk management

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

► None

Arwed Fischer (since March 1, 2008)

Chief Financial Officer

First appointed on: March 1, 2008

Appointed until: February 28, 2011

Responsibilities:

Accounting/tax, controlling, investor relations, IT, risk management

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

► None

Alfred Hoschek

Chief Investment Officer

First appointed on: August 21, 2002

Appointed until: April 30, 2012

Responsibilities:

Financing, investments

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, 2006

Appointed until: December 31, 2010

Responsibilities:

Board affairs, legal department, management of the operational business lines Investments and Services

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

► None

PATRIZIA STOCK MARKET GLOSSARY

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 1,000.
DIMAX	DIMAX is the German Real Estate Share Index which was first established by the Ellwanger & Geiger Bank in 1995. At present, the shares of 76 listed German companies are registered, all of which generate more than 75 % of their income from the real estate business.
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 interests 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 organization 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	Earnings per share

GEX The German Entrepreneurial Index. This is the index of small and medium-sized enterprises on the Deutsche Börse. The index contains all “owner-dominated” companies listed on the Prime Standard segment of the Frankfurt Stock Exchange who have gone public within the past ten years. “Owner-dominated” means a company where managing board members, members of the supervisory board or their families hold between 25 % and 75 % of voting rights.

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).

Listing Listing/quoting a share on a stock exchange.

MDAX Mid cap 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 1,000 points.

Par Value A specific amount in Euro 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.

Registered Share 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.

Share Buy Back 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.).

Share index 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.

Share Option Plans 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.

Subscription Right 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.

XETRA The term XETRA stands for the electronic stock exchange trading system of Deutsche Börse AG (Exchange Electronic Trading System).

FINANCIAL CALENDAR

Date	Events
April 2, 2008	Financial Statement of fiscal year 2007
April 2, 2008	Press Conference on Financial Statement 2007
May 7, 2008	Quarterly Report – 1 st Quarter 2008
June 3, 2008	Annual General Meeting
August 12, 2008	Quarterly Report – 2 nd Quarter 2008
October 20 and 21, 2008	Real Estate Share Initiative
November 11, 2008	Quarterly Report – 3 rd Quarter 2008

PATRIZIA Immobilien AG
PATRIZIA Bürohaus
Fuggerstrasse 26
D-86150 Augsburg
Phone +49 / 8 21 / 5 09 10-0 00
Fax +49 / 8 21 / 5 09 10-9 99
immobilien@patrizia.ag
www.patrizia.ag

Contact

Investor Relations
Claudia Kellert
Phone +49 / 8 21 / 5 09 10-3 60
Fax +49 / 8 21 / 5 09 10-3 99
investor.relations@patrizia.ag

Press
Andreas Menke
Phone +49 / 8 21 / 5 09 10-6 55
Fax +49 / 8 21 / 5 09 10-6 95
presse@patrizia.ag

