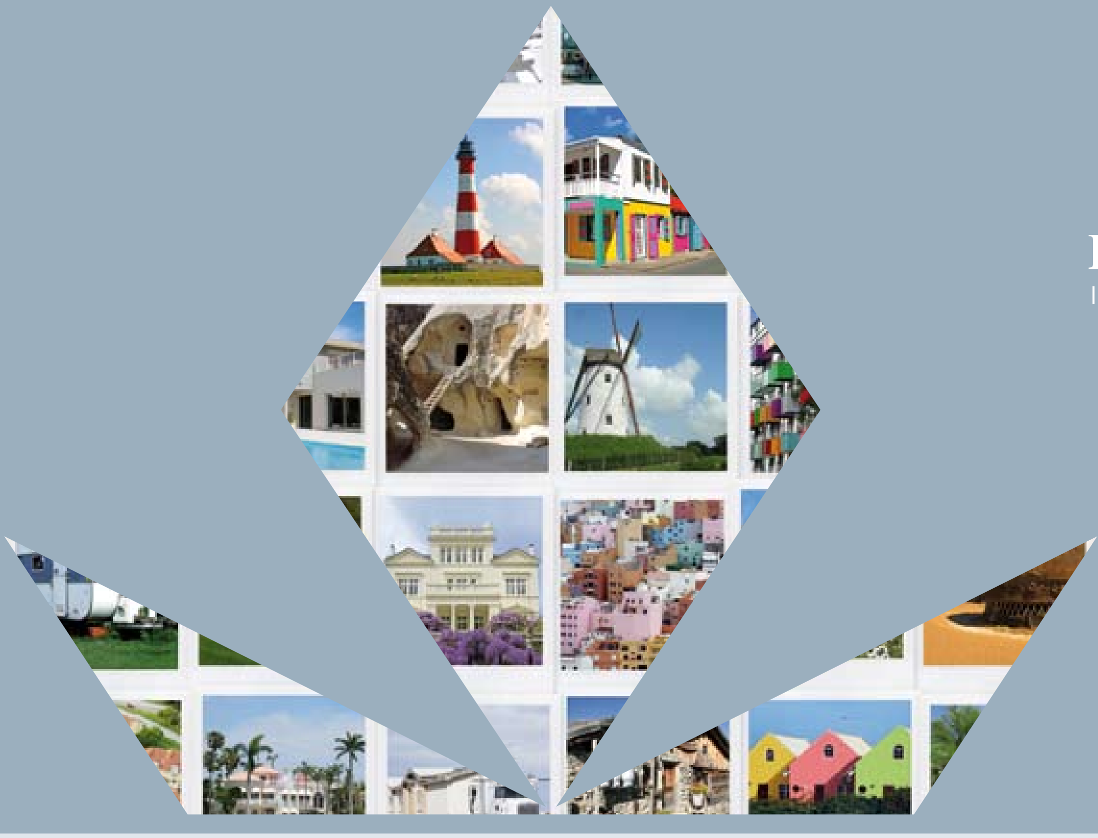

PATRIZIA
IMMOBILIEN AG

Home – part of what it means to be human.

ANNUAL REPORT 2008

KEY FIGURES

	2008	2007	Change
REVENUES AND EARNINGS	EUR'000	EUR'000	%
Revenues	221,325	193,253	14.5 %
Total operating performance	171,558	861,863	–80.1 %
EBITDA	64,910	111,817	–41.9 %
EBITDA (adjusted)	65,386	42,340	54.4 %
EBIT	64,064	111,045	–42.3 %
EBIT (adjusted)	64,540	41,568	55.3 %
EBT	–32,408	63,170	–151.3 %
EBT (adjusted)	842	–12,422	106.8 %
Net profit	–34,138	48,041	–171.1 %

	31.12.2008	31.12.2007	Change
STRUCTURE OF ASSETS AND CAPITAL	EUR'000	EUR'000	%
Non-current assets	683,180	750,235	–8.9 %
Current assets	833,973	892,957	–6.6 %
Equity	291,472	336,605	–13.4 %
Equity ratio (in %)	19.2 %	20.5 %	–1,3 %-points
Non-current liabilities	29,685	11,425	159.8 %
Current liabilities	1,195,996	1,295,162	–7.7 %
Total assets	1,517,153	1,643,192	–7.7 %

	2008	2007	Change
OTHER KEY FIGURES			%
Cash flow from operating activities (TEUR)	– 21,733	– 62,603	65.3 %
Cash flow from investing activities (TEUR)	78,184	– 604,212	112.9 %
Cash flow from financing activities (TEUR)	– 42,558	637,617	–106.7 %
Earnings per share (EUR)	– 0.65	0.92	–170.7 %
Dividend per share (EUR)	0.00*	0.00	0.0 %
Employees as at December 31	381	334	14.1 %
Numer of units in the portfolio as of December 31	12,076	13,127	–8.0 %

* Dividend proposal for PATRIZIA's 2008 fiscal year, subject to approval by the June 23, 2009, Annual General Meeting

SHARE	
ISIN	DE000PAT1AG3
SIN (Security Identification Number)	PAT1AG
Code	P1Z
Share capital as at December 31, 2008	EUR 52,130,000
No. of shares in issue at December 31, 2008	52,130,000
2008 high*	EUR 5.67
2008 low*	EUR 0.87
Closing price as at December 30, 2008	EUR 1.63
Market capitalization as at December 31, 2008	EUR 85.0 million
Indices	SDAX, EPRA, GEX, DIMAX

* Closing price at Frankfurt Stock Exchange Xetra trading

Home – part of what
it means to be human.

Home – part of what it means to be human.

Breathing and eating are basic human necessities. So is having somewhere to live. Who lives with whom, where, how and why? These are questions to which there are as many answers as individuals. At root, however, everyone's response involves staying in a certain place – a place called home.

Home is the centre of gravity for a person's life, the core around which the whole personal routine of life revolves. The way in which this basic human need is met goes a long way to determining how happy people are in life and how they judge their quality of life. Having a home meets people's need to feel safe and secure, to have something familiar they can rely on, a place of refuge where they can be undisturbed, be themselves. People can only live their daily lives if they have a place – a home – in which to do so.

HOME – AS OLD AS THE HUMAN RACE

Having just one place as the more or less permanent pivotal point of life is a phenomenon peculiar to the human race – a phenomenon closely intertwined with the way we have organized our social interaction since time immemorial. Home is the place from which we go out into the big, wide world. Yet it is also the place to which we return, again and again. It is the bedrock of life, a firm foundation, a place that is al-

ways there. Evidence of home-making in the human race goes back to the days of early man. Caves were probably our first homes, until huts took their place about 400,000 years ago. Around 40,000 years ago, man began to put up tent-like constructions. The first "beds" go back something like 15,000 years. We have always been "dwellers". Finding and/or making a home is intrinsically, essentially human.

HOME – A SPATIAL DIMENSION

A home presupposes a space, some form of objectively or physically delimited area. Only then can dwellers have "their own four walls"; only then is it fair to speak of having a home, a place in which people can build and fashion their lives. Boundaries are a sine qua non if private space – or, to be more precise, a living space defined and inhabited by people – is to take shape at all. Clearly delimited space provides protection from the outside world, shelter from wind and weather, a barrier to guard against intruders, dangers and even prying eyes. It is also a place where people can store their belongings great and small. Most importantly, it is a place where no-one else can enter unbidden. To satisfy these criteria, however, a home does not necessarily have to be immobile. Of course it can be a classical house or apartment. But it could just as well be a houseboat, an igloo, the tent of a Bedouin. All these variations on the same theme give man what a deep inner need craves and desires: a home.

HOME – AN ENDLESS VARIETY

Homes are as varied as the people who live in them. A home expresses the individuality, social status and cultural background of its inhabitant. Natural conditions and constraints likewise have a strong influence: Factors such as the climate and the availability of suitable materials determine how and where homes of what types are constructed. It is no coincidence that clay buildings are erected mostly in dry, southern regions where clay and sand are present in abundance. Clay's ability to store heat also helps regulate the temperature of the interior, even when outdoor temperatures are high. On the other hand, homes are built on stilts in places where the ground is wet and unsuitable to alternative structures, or where predators or other dangers pose an acute threat. The PATRIZIA Annual Report mirrors the kaleidoscopic variety of human homes on our planet. Some are exclusive, others merely functional. Some are bright and colourful. Some are mobile. Some are flexible enough to live and work in. Some stay close to nature while others reach for the skies. Yet all of them, without exception, have one thing in common: They meet our fundamental need for a place to call our own.

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A

PREFACE AND REPORTS

F.L.T.R.: KLAUS SCHMITT (COO), WOLFGANG EGGER (CEO), ARWED FISCHER (CFO)

LETTER TO OUR SHAREHOLDERS

Dear shareholders,
Dear ladies and gentlemen,

What began as a subprime crisis in the US, led to a crisis of unexpected magnitude on the world's financial markets in 2008. Throughout the year, the effects of this financial market crisis spread to the goods and services industry and will also negatively impact the global economic situation in 2009. For the companies, this meant that all positive expectations from the beginning of 2008 were derailed. Our Company was also unable to escape the effects of the financial market crisis.

In March 2008, we published a forecast of EUR 25 million to EUR 30 million in earnings before tax for the full year. Due to the intensification of the financial market crisis from September 2008 onward, we were forced to distance ourselves in November 2008 from achieving this target. Although we managed to generate a positive result in operations in the first nine months of the year, we did not achieve profits at the same level during the fourth quarter, which was strong in terms of the real estate market. Earnings before tax (EBT adjusted) now amounts to EUR 0.8 million for 2008. Non-cash effects from the market valuation of interest rate hedges (EUR -32.8 million) as well as one-time effects accrued in the period under review (EUR-0.5 million) were not taken into account when calculating this value. In light of the previously described trends and the resulting conditions for our business model, the operating profit (EBT adjusted) of EUR 0.8 million means that we did not achieve our earnings target for 2008. We are not satisfied with this result.

We did not reach our target of selling 1,400 to 1,500 residential units as we merely sold a total of 1,198 units in fiscal year 2008. A comparison of the adjusted key figures (EBT adjusted) for 2007 and 2008 shows that we increased our earning power in operating activities in the past fiscal year. Compared with the previous year, we grew operating profit (EBT adjusted) by EUR 13.3 million. A respectable success, but still far from satisfactory. This also applies to the share price performance which is relevant for you.

The significant deviation between earnings in line with IFRSs (EUR -32.4 million) and earnings as we have posted them, adjusted for all non-cash items (EUR 0.8 million), is chiefly due to the market valuation of interest rate hedges. Here, net income and expenses was close to zero after the first nine months of 2008. However, due to key interest rates being reduced several times, this turned in the fourth quarter, negatively impacting earnings 2008 in total by EUR 32.8 million.

A subject that dominated the real estate market in 2008 was the valuation of real estate portfolios and the potential impairment on the book value of the real estate. Our real estate was also revalued in terms of market value, generally by external appraisers. We are proud of the fact that the market value of our real estate was confirmed as part of the valuation and there were no impairment requirements for our portfolio. For us, this is a confirmation of our past statements that we hold high-quality real estate in attractive locations in our books.

A worry that was constantly communicated to us throughout 2008 by our shareholders and analysts related to our financing situation. As a Company with a high debt ratio and an equity ratio of almost 20%, our dependence on the interest rate level and the availability of credit financing cannot be denied. The share of our loans with a residual term of less than twelve months accounts for around 50% of the total financing volume. In this respect, we are currently in talks with our financing banks and are confident of receiving and/or extending sufficient financing at customary conditions on an ongoing basis in fiscal year 2009. Despite the difficult economic environment, we have proved that we can be depended on to show sufficient internal financing power for servicing bank loans and for debt redemption. The short term financing of our portfolios is in line with our real estate agent business model. In the course of the interest rate level being significantly reduced, we have come into a disadvantage in terms of interest rate hedging: with a hedged acquisition interest rate averaging 4.15%, we are at a far higher level than the ECB base interest rate, exposing ourselves to the negative effects of the market valuation of interest rate hedging. We are currently renegotiating part of the interest rate hedging with the banks due to the fact that we do not expect – in the medium term – that the general interest rate will approach to any significant degree the interest rate we have hedged.

But let's get back to operations. The residential property resale of 476 apartments to our tenants, to owner-occupiers and to private investors puts us slightly below the level of 2007. This represents a respectable result in view of the difficult market environment. However, it falls short of the residential property resale rate that we wanted to reach on a sustainable basis. The objective for the coming years is to stabilize sales figures at a higher level. This is no easy task in light of the economic downturn and the continued hesitant investment attitude of private households – even though the facts of the matter, as we understand them, highlight the advantages of anyone owning their own real estate. Residential property resale shows a very different picture for each individual city: the pattern of sales in Munich and Hamburg is more successful than in Berlin for example. In contrast, we are experiencing positive figures in block sales, which performed particularly well in 2008. As a reminder, we did not process any block sales in the previous year and in 2008 we achieved five transactions with a number of 722 units. The market shows us that the interest in the real estate investment class category still exists, although ongoing uncertainty is hampering investment decisions. Residential real estate in particular is viewed as less susceptible to economic conditions and is currently the preferred investment. Should doubts about market stability ease again, we anticipate that investment intentions will be converted into actual business transactions. Despite the financial market crisis, nothing has changed in terms of the positive fundamental data regarding the German residential real estate market.

What are PATRIZIA's targets and strategy for fiscal year 2009, you might rightly ask. In 2009, we will chiefly be operating as a seller. At present, we are fully invested and our portfolio contains high-quality real estate in attractive locations. The value retention of our real estate portfolios, confirmed by independent external experts, has affirmed our view that we are providing quality products to the market. As part of this, the 'block sale' sales channel will continue to gain importance in 2009. In project development, we will continue implementation of the existing projects and also intensify the focus on sales in 2009. In the Services segment, we intend to increase our efforts in establishing ourselves as an investment company and asset manager for real estate products. In fiscal year 2009, we will also be concentrating on co-investments, for which we are operating in both an investor and a service provider capacity.

As it is difficult to estimate the degree of the economic downward trend in 2009, a forecast on investors' attitudes toward investing is difficult to gauge. For this reason, we have decided not to publish a detailed quantitative earnings forecast for fiscal year 2009. However, we anticipate a positive operating result in fiscal year 2009. Based on the quality of our real estate portfolio, the expertise and the experience of our employees and based on our diversified business model, we believe that we are well prepared to meet successfully the challenges that 2009 sends our way.

The Managing Board

Wolfgang Egger
Chairman of the Board

Arwed Fischer
Member of the Board

Klaus Schmitt
Member of the Board

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,
Dear ladies and gentlemen,

The reporting year 2008 was shaped by a difficult and uncertain market environment. The second six months of 2008 in particular were heavily impacted by the financial market crisis and the resulting more wait-and-see attitude of private and institutional investors toward investments of any kind. Contrary to expectations at the beginning of fiscal year 2008, the market environment has still not improved. You, dear shareholders, were faced with a volatile share recording a declining share price, which even fell below EUR 1 for a period. Particularly in the current situation, the monitoring function of the Supervisory Board is essential. My Supervisory Board colleagues and I take our function as the supervisory body of PATRIZIA Immobilien AG very seriously and have also worked closely with the Managing Board in the past fiscal year.

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. We carefully examined and monitored the legality, propriety, expediency and efficiency of the Company's management and satisfied ourselves that the organization was effective. The Managing Board provided information to the Supervisory Board comprehensively and promptly both in writing and verbally. We were integrated directly and without delay in all decisions that were of fundamental importance to PATRIZIA. The central subject of discussion was the course of business in terms of the Company, the net asset, financial and earnings situation as well as risk management. The Managing Board fulfilled its reporting duties to the Supervisory Board as prescribed by law and the bylaws in full and comprehensively. The operating performance in the Group, all transactions of material significance as well as the Company's planning and the associated opportunities and risks were discussed in depth and the measures of the Managing Board closely assisted. Deviations from the planned course of business and the associated objectives were discussed with us in detail as well as being discussed and checked in plenary meetings.

The Supervisory Board came together in four ordinary meetings during the fiscal year. No member missed a meeting. In addition to its meetings, regular exchanges took place between the members of the Supervisory Board and the Managing Board to discuss significant matters. The Supervisory Board refrained from forming committees as it only comprises three members. Based on the reports and resolutions of the Managing Board, we passed resolutions on the measures that require approval of the Supervisory Board in accordance with the law, the Articles of Association and the bylaws of the Managing Board.

The Supervisory Board was also promptly informed of 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

In the Supervisory Board meetings, regular reports were submitted regarding the revenues and earnings situation of the Group and the individual segments as well as regarding significant projects. The financial situation of the Group as well as its subsidiaries was also discussed in the meetings. Attention was paid to the risk management system, implemented across the Group, in order to recognize opportunities and risks at an early stage and to deal with these appropriately.

During the Supervisory Board accounts meeting on March 25, 2008 and in the presence of the auditor, the Supervisory Board approved the annual financial statements for PATRIZIA Immobilien AG and the Group as well as the management report for PATRIZIA Immobilien AG and the Group. Furthermore, after separate examination, we also approved the dependent company report. Due to Arwed Fischer's appointment to CFO on March 1, 2008, the Supervisory Board resolved a new allocation of duties for the Managing Board. Additional topics discussed were Company and liquidity planning as well as the planned sales in fiscal year 2008, both in individual privatization as well as block sales. The agenda for the Annual General Meeting and the relevant resolution proposals were also discussed and resolved.

As part of the second Supervisory Board meeting on July 29, 2008, the Managing Board explained the business performance of PATRIZIA in the first six months of 2008. In particular, the sales situation both in the Residential Property Resale line and in block sales was discussed in great detail. In light of the expanding financial market crisis, the Managing Board reported extensively on ongoing financing and extending loans. In view of the share price performance, we remain thoroughly informed of capital market assessments and Investor Relations activities.

The premature termination of Alfred Hoschek's Managing Board contract in the third Supervisory Board meeting on November 10, 2008 was of particular importance. The Supervisory Board approved Alfred Hoschek's request to terminate prematurely his contract as Chief Investment Officer as of November 30, 2008. We greatly regret his departure. Alfred Hoschek is due our particular thanks and acknowledgement for his long-standing and very successful activity on behalf of PATRIZIA. No new appointment was made for his area of responsibility on the Managing Board. The responsibilities he had been charged with were transferred to members of the Managing Board Arwed Fischer, Chief Financial Officer, and Klaus Schmitt, Chief Operating Officer. Therefore, the financing remit was transferred to Arwed Fischer and the investments remit was transferred to Klaus Schmitt. The transfer and redistribution of responsibilities were agreed jointly by the Managing Board and the Supervisory Board. An additional item discussed in the meeting was the course of business in the third quarter of 2008. In the course of discussions on the quarterly figures and the quarterly report, particular attention was paid to outstanding receivables as part of receivables management.

In the Supervisory Board meeting on December 10, 2008, the Company's planning and the associated objectives for fiscal year 2009 were on the agenda. We dedicated a great deal of time to the planned resale figures in Residential Property Resale as well as to the area of block sales. The financing structure for the Group and its subsidiaries and liquidity planning for fiscal year 2009 were also discussed in the meeting. The contents of the German Corporate Governance Code were also examined intensively as part of the plenary session. The Managing Board and Supervisory Board then issued an updated declaration of conformity in accordance with Article 161 of the Aktiengesetz (AktG – The German Stock Corporation Act). Apart from a few exceptions, the recommendations of the Code are met. The declaration of conformity was permanently made available for shareholders and interested members of the public to view on the website of PATRIZIA Immobilien AG. Based on the Corporate Governance Code, we, the members of the Supervisory Board, carried out an efficiency examination. Results show that the efficiency of cooperation amongst ourselves as well as with the Managing Board can be categorized as very good.

ANNUAL GENERAL MEETING 2008

The Annual General Meeting on June 3, 2008, elected all former members of the Supervisory Board to retain their office on the Supervisory Board for a further three years. In the constituent meeting following the Annual General Meeting, Dr. Theodor Seitz was once again appointed to Chairman of the Supervisory Board. Harald Boberg was confirmed as the first deputy and Manfred Gottschaller as the second deputy. The term of office for all Supervisory Board members ends when the Annual General Meeting in 2011 draws to a close.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2008, 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 2008 as well as the combined 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 3, 2008 and commissioned with the audit by the Supervisory Board.

All relevant annual financial statement documents as well as the audit reports from Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft were available on time to the members of the Supervisory Board for the accounts meeting on March 24, 2009. The Managing Board and the responsible auditors explained the findings of the audit and were available to provide additional information. The Supervisory Board carefully examined the PATRIZIA Immobilien AG annual financial statements, the consolidated financial statements and the combined management report for PATRIZIA Immobilien AG and the Group and had no objections. We aligned ourselves with the findings of the audit by the auditors. We expressly approved the annual and consolidated financial statements prepared by the Managing Board. The annual financial statements for fiscal year 2008 have thus been adopted in accordance with Article 172 of the AktG. In respect of the Group's liquidity and finance and investment planning, the Supervisory Board examined the proposal by the Managing Board on the appropriation of net profit and approved the proposal to carry profits entirely forward to new account.

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 detection of developments in good time that jeopardize the continued existence of the Company.

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 issued 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 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."

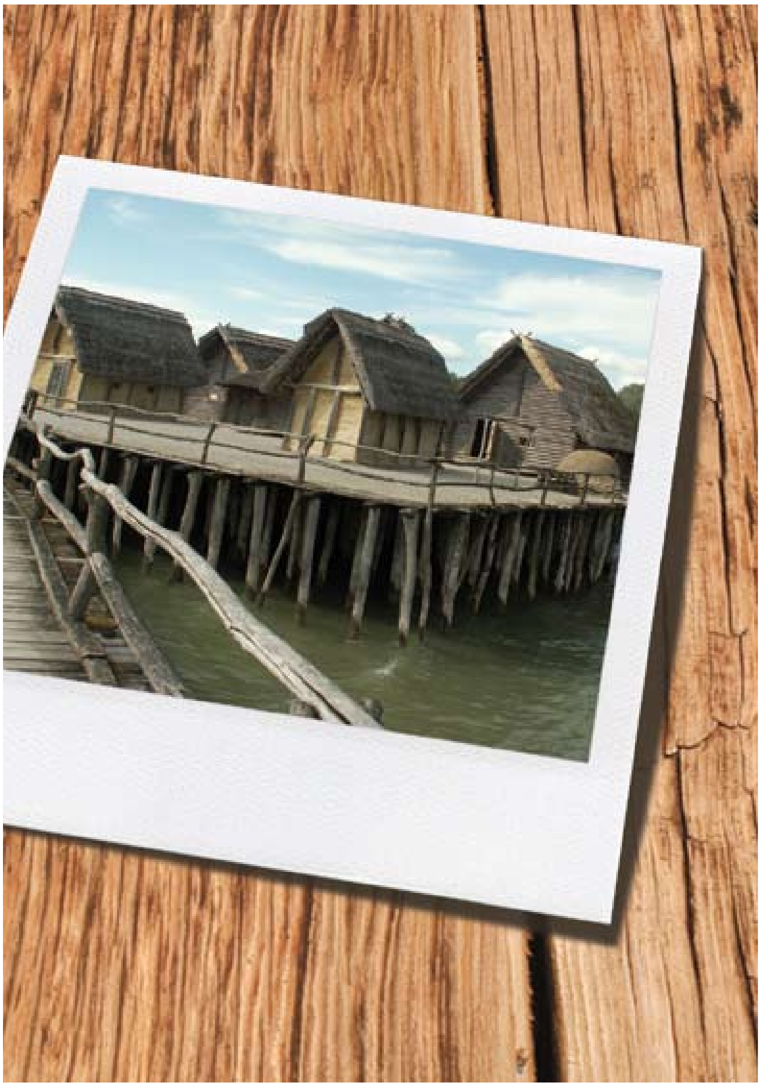
The auditor's report on the dependent company report was made available to all members of the Supervisory Board in good time before the accounts meeting and was examined thoroughly by us and discussed in detail with the auditors present. The Supervisory Board found that it has no objections to the report and the concluding declaration by the Managing Board contained therein.

We would like to thank the Managing Board, the directors of the operating companies and all employees for their dedication and fine work. It is only when each individual gives their personal best that a common success can be achieved.

Augsburg (Germany) – March 24, 2009

For the Supervisory Board

Dr. Theodor Seitz
Chairman

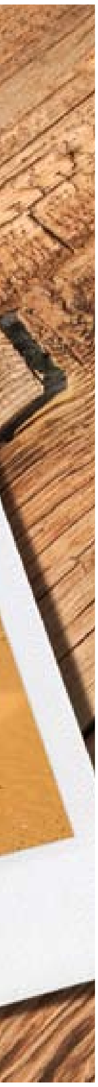


1 PILE DWELLINGS

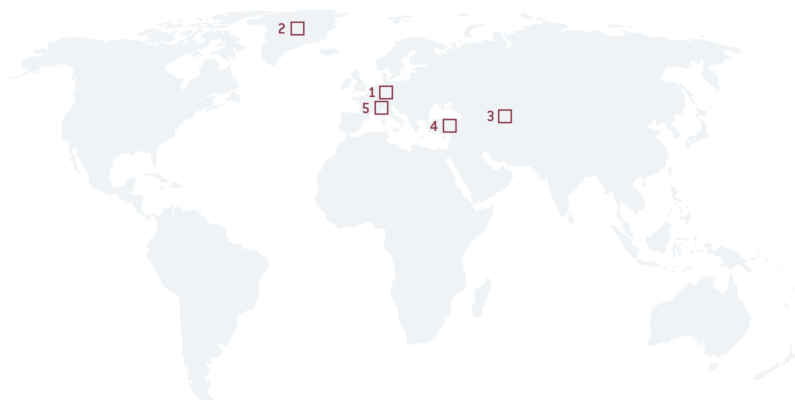
TOP: 2 IGLOO BELOW: 3 YURT

close to nature

Use what's there. Water, sand, stone, lime, wood, whatever. Nature is a smart supplier, providing just the right materials to build homes in every climate, every environment, letting people live in and harmonize with the world around them. Affording them safety, protection, well-being.



LEFT: **4** CLIFF-DWELLING RIGHT: **5** ALP COTTAGE



1 Unteruhldingen, Germany
2 Kinngait, Greenland (DK)
3 Kysylkum desert, Uzbekistan
4 Cappadocia, Turkey
5 Canton Valais, Switzerland

CORPORATE GOVERNANCE

Our good reputation is important to us, which is why a responsible corporate policy forms the basis of our business dealings. For the Managing Board and Supervisory Board of PATRIZIA Immobilien AG, integrity and long-term value enhancement are essential aspects of responsible corporate management. Particularly in turbulent economic times, good corporate governance is essential for conveying a sense of responsible company management. Our aim is to highlight the opportunities and risks for PATRIZIA through comprehensive and honest communication and thus to strengthen the confidence that shareholders, investors, business partners, customers and our own employees have in PATRIZIA. All areas of the Company and our subsidiaries are involved in implementing the guidelines that are in place for this purpose, as, for us, corporate governance is both an obligation and a challenge.

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

In the 2008 reporting year, the Managing Board and Supervisory Board again dealt extensively with implementation of the recommendations and suggestions in the Code. Based on the new requirements contained in the version of the Code dated June 6, 2008, the Managing Board and Supervisory Board of PATRIZIA Immobilien AG issued an updated declaration of conformity in accordance with Article 161 of the Aktiengesetz (AktG – German Stock Corporation Act) on December 10, 2008. This declaration and all the declarations preceding it are permanently available to our shareholders and interested members of the public on our website at www.patrizia.ag. It was not necessary to adapt PATRIZIA's internal standards in line with the amendments to the Code, as PATRIZIA already implements the recommendations concerned. However, it was not possible to implement the following recommendations of the Code in the 2008 fiscal year:

- The Company did not send notification of the convening of the 2008 Annual General Meeting together with the convening documents to all domestic and foreign financial services providers, shareholders and shareholders' associations by electronic means as it did not at that time have the Annual General Meeting resolution to amend the Articles of Association. The Annual General Meeting on June 3, 2008 approved the amendment of the Articles of Association with respect to electronic transmission of information to shareholders by way of remote data transmission, with the result that the Annual General Meeting could be convened by electronic means in the future.

- Contrary to the recommendations of the Code, the D&O insurance concluded by the Company 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. For this reason, a deductible is not needed and is not planned for the future.

- The Supervisory Board of PATRIZIA Immobilien AG comprises three members. Due to the number of Supervisory Board members, the Company believes that it is neither necessary, nor does it make sense, for the Supervisory Board to form committees. The recommendations relating to the forming of committees are therefore not of significance to PATRIZIA.

- Contrary to the recommendations of the Code, the compensation model for the Supervisory Board does not distinguish between chairman and deputy chairman of the Supervisory Board. Due to the Supervisory Board having three members, a distinction is only made between chairman and other members.

CONSIDERATION OF SHAREHOLDER INTERESTS

Particularly in a difficult market environment such as that experienced by PATRIZIA in the period under review, it is important to maintain the credibility of the Company. We inform our shareholders of significant events early, comprehensively and at the same time. This includes making all publications available on our website at www.patrizia.ag.

At the Annual General Meeting, every share is represented by one vote. To support shareholders in safeguarding their rights, PATRIZIA Immobilien AG offers the possibility of being represented at the Annual General Meeting by a proxy who is bound by instructions. The proxies are available at any time during the Annual General Meeting. Likewise, it is a matter of importance to us that we support our international investors in exercising their shareholders' rights. All the documents required for the Annual General Meeting are published on our website in good time and can be easily retrieved. As previously, the Annual General Meeting will not be transmitted on the Internet due to cost reasons. However, the main content, such as the CEO's speech, will be made available promptly. We also publish details of attendance and results of votes immediately after the Annual General Meeting.

In the context of our investor relations work, discussions with analysts and institutional investors were also held regularly. In the 2008 fiscal year, we conducted several roadshows in Germany and abroad and participated in various investor conferences and special events for private shareholders. Furthermore, our IR Team will be pleased to answer any questions from our shareholders.

TRANSPARENCY

All target groups – shareholders, analysts, the press and interested members of the public – are informed promptly and on an equal basis regarding current business developments to guarantee the highest possible level of transparency. All publications are simultaneously posted on our website at www.patrizia.ag. The main recurring fixtures, such as the publication dates of our Annual Report and interim reports and the date of the Annual General Meeting, are also published on our website in the form of a financial calendar.

In accordance with Article 26 (1) of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act), voting right notifications in fiscal year 2008, i.e. when the rights reach, exceed or fall below the legal reporting thresholds, were published immediately after they were announced to the Company. 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.

THE MANAGING BOARD

Although the Managing Board has sole responsibility for management of the PATRIZIA Group, it is bound by the interests of the Company and is obligated to increase the enterprise value sustainably.

By way of its resolution of January 21, 2008, the Supervisory Board appointed Arwed Fischer to the position of CFO of PATRIZIA Immobilien AG with effect from March 1, 2008. Arwed Fischer was most recently a member of the managing board of KarstadtQuelle AG. At PATRIZIA, he is responsible for the areas of Accounting and Tax, Controlling, Finance, IT, Investor Relations and Risk Management.

At the end of the 2008 fiscal year, the PATRIZIA Immobilien AG Managing Board comprised three members. With effect from November 30, 2008, Alfred Hoschek, Chief Investment Officer of PATRIZIA Immobilien AG, relinquished his position on the Managing Board at his own request. The Supervisory Board fulfilled his request to terminate his Managing Board contract ahead of time. Alfred Hoschek stepped down after 15 years of being with the Company, six of which were spent on the Managing Board. He remains with the Company in a consultant capacity and as a shareholder. No new appointment was made for the role of Chief Investment Officer; the responsibilities attached to this Managing Board position were integrated into the remits of the Chief Financial Officer, Arwed Fischer, and the Chief Operating Officer, Klaus Schmitt.

The securities transactions of PATRIZIA Immobilien AG's executive body members and of certain employees with management duties – known as Directors' Dealings – were immediately published in accordance with Article 15a of the WpHG and made accessible on the PATRIZIA website. The Company was notified of the following securities transactions in the 2008 fiscal year:

Date	Name	Reason for notification requirement/position	SIN (Security Identification Number)	Transaction type	Stock exchange	Price per share	Number of shares
Dec. 17, 2008	Wolfgang Egger via First Capital Partner GmbH	Company closely related to a person with management duties	PAT1AG	Security loan as part of designated sponsor agreements	Off-market	Not quantifiable	100,000

Following Alfred Hoschek's departure from the Managing Board of PATRIZIA Immobilien AG, the security loan agreements concluded as part of the designated sponsor agreements were terminated. The loaned shares were transferred back to him. In their place, Wolfgang Egger provided the shares required via First Capital Partner GmbH. New security loan agreements relating to a total of 100,000 shares were concluded between First Capital Partner GmbH, to which Wolfgang Egger can be assigned, and the designated sponsor banks. Wolfgang Egger's voting rights share thus decreased from 50.16% to 49.97%.

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, 2008 can be broken down as follows:

	Number of shares	Percentage of share capital
Wolfgang Egger directly and indirectly via First Capital Partner GmbH	26,047,572	49.97 %
Arwed Fischer (since March 1, 2008)	0	0.00 %
Klaus Schmitt	80,000	0.15 %
TOTAL	**26,127,572**	**50.12 %**

Overall, the members of the Managing Board held 26,127,572 shares at the end of the fiscal year, corresponding to 50.12% of share capital. The members of the Supervisory Board held no shares in the Company as of December 31, 2008.

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.

The performance-related, variable compensation components are calculated based on predetermined targets, which are divided into three categories: Company targets, business line targets and individual targets. The targets are further subdivided into quantitative and qualitative targets. The amount of variable compensation is thus dependent on the degree to which the agreed targets are achieved.

One criterion for achievement of Company targets is consolidated profit before tax for the reporting period, as calculated in accordance with IFRSs. Every year, depending on the Company's planning, a target figure that exactly specifies the amount of consolidated profit before tax to be achieved in accordance with IFRSs is defined. If consolidated profit before tax in accordance with IFRSs is less than 67% of the defined target figure (so called hurdle), the variable compensation of the Managing Board is omitted completely, irrespective of which other target figures – Company, business line or individual targets – were achieved. A further Company target is based on the return on equity in the period under review and the two previous fiscal years. Target figures are also defined in this context. An additional criterion for calculating the variable compensation is the performance of PATRIZIA's shares over two years in relation to the DIMAX reference indices and the Deutsche Börse index applicable at the end of the year – in this case the SDAX.

The target figures defined for each target correspond to a degree of achievement of 100%. If the actual value determined corresponds to more than 120% of the defined target value, 150% of the variable compensation is paid; this is also the upper limit that has been defined for the maximum amount of variable compensation that can be achieved. If 80% of the target is achieved, 50% of the variable compensation is granted.

For each target, a variable compensation amount is calculated depending on the degree to which the target is achieved. The total of all the amounts is paid out in two components. Two-thirds of the amount is paid out in the form of a cash payment, which is designated as a short-term component. The remaining third of the variable compensation is granted in the form of performing share units, i.e. it is not paid out directly in cash. This third is intended as a component with a long-term incentive effect. 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 performing share units do not carry any voting or dividend rights. As explained above, the variable compensation components with a long-term incentive effect are first translated into performing share units; this is done by dividing the relevant third of the variable compensation calculated by the share price of PATRIZIA Immobilien AG at the end of the respective fiscal year. 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.

Minimum variable compensation of EUR 240,000 per year in excess of the existing compensation model was agreed with Managing Board member Arwed Fischer. This will be granted in the form of a cash payment. There are no agreements in place in the case of a change of control. The Managing Board's total compensation in fiscal year 2008 amounted to EUR 1.1 million, of which EUR 0.9 million was from fixed components and EUR 0.2 million from variable components.

More specifically, the following amounts were granted:

Compensation of the Managing Board in 2008 (EUR)	Annual income			Long-term variable compensation**	Contribution to retirement pension
	Fixed compensation	Short-term variable compensation	Payments in kind and other payments*		
	EUR	EUR	EUR	EUR	EUR
Wolfgang Egger	260,000	0	21,963	0	12,000
Arwed Fischer (since March 1, 2008)	200,000	200,000	26,160	0	10,000
Alfred Hoschek (until November 30, 2008)	165,000	0	9,471	0	11,000
Klaus Schmitt	180,000	0	29,389	0	12,000
TOTAL	**805,000**	**200,000**	**86,983**	**0**	**45,000**

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

** Conversion into performing share units with a two-year waiting period; to be paid out at the Xetra closing price on the last trading day of 2010. No performing share units were granted for the 2008 fiscal year, as the defined target hurdles were not achieved.

The members of the Managing Board or related parties also effected transactions with PATRIZIA Immobilien AG in 2008. A list of transactions complying with standards customary in the sector can be found in the notes under item 9.3. No members of the Managing Board, Supervisory Board or Company were involved in any conflicts of interest.

COMPENSATION OF THE SUPERVISORY BOARD

The Supervisory Board advises and monitors the Managing Board with regard to managing the businesses. The Supervisory Board of PATRIZIA Immobilien AG comprises three members. Due to its size, the Supervisory Board refrained from forming committees.

In line with the recommendations of the German Corporate Governance Code, the compensation of the Supervisory Board is made up of a fixed and a variable component. The fixed compensation is paid to the Supervisory Board members 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 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. In 2008, no variable compensation was paid out as no dividends were distributed for the 2007 fiscal year.

The Chairman of the Supervisory Board receives 1.33-times the fixed and variable compensation respectively. 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 2008 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 2009 has approved the proposal on the appropriation of net profit by the Managing and Supervisory Boards. The proposal provides that retained earnings for the 2008 reporting period are fully carried forward to new account. This would mean that – as in the previous year – the Supervisory Board would not receive any variable compensation.

In 2008, the following amounts were granted to the Supervisory Board:

	Fixed compensation	Variable compensation
	EUR	EUR
Dr. Theodor Seitz, Chairman	24,937.50	0
Harald Boberg	18,750.00	0
Manfred J. Gottschaller	18,750.00	0
TOTAL	**62,437.50**	**0**

There is a consultancy agreement in place between PATRIZIA Immobilien AG and the law firm Seitz, Weckbach, Fackler, Augsburg, for advice on competition and employment law matters. The Chairman of PATRIZIA Immobilien AG's Supervisory Board, Dr. Theodor Seitz, is a partner of this law firm. The consultancy agreement was approved by the resolutions of the Supervisory Board from November 29, 2007 as well as from February 23, 2009. Consultancy costs of EUR 8,847.65 VAT included were incurred. No compensation was paid to members of the Supervisory Board for personally provided services. 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.

COOPERATION BETWEEN THE MANAGING BOARD AND THE SUPERVISORY BOARD

The Managing and Supervisory Boards work closely together to increase the value of the enterprise in a sustainable manner. In this process, the Managing Board regularly consults with and reports to the Supervisory Board on the course of the business. Transactions of fundamental importance require the approval of the Supervisory Board and are defined in both the Company's statutes and the bylaws for the Managing Board.

REPORTING AND AUDITING

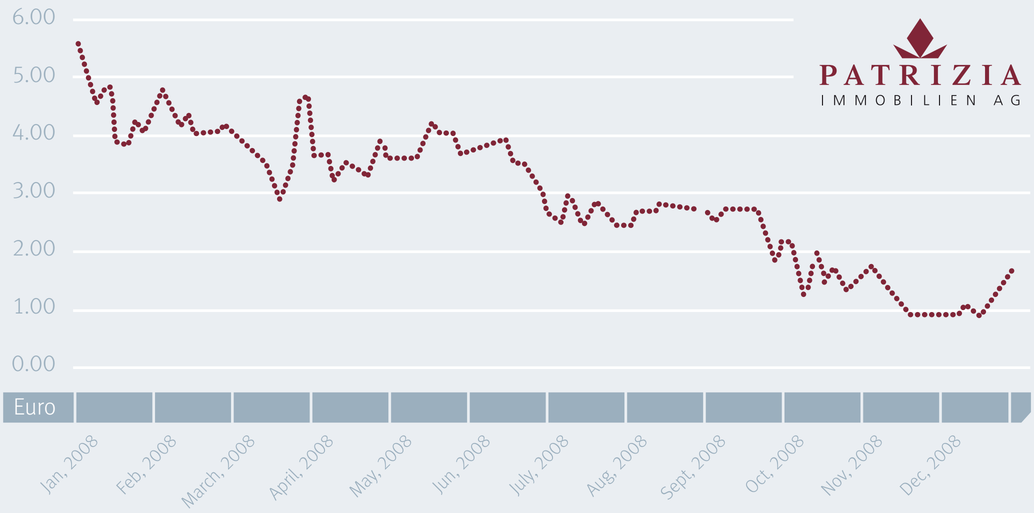
The consolidated financial statements and interim reports for 2008 were prepared in accordance with the International Financial Reporting Standards (IFRSs). The consolidated financial statements were examined by the Supervisory Board and the auditors Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich. The auditors 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 Corporate Governance Code issued by the Managing Board and Supervisory Board. The Managing Board discusses quarterly and semi-annual reports with the Supervisory Board prior to publication.

THE PATRIZIA SHARE

In 2008, the stock exchange was impacted by the increased gravity of the global financial market crisis with significant price losses and a high level of volatility – something that left its mark across all industries and indices. At the beginning of January, the DAX – at 8,100 points – needed only an additional 50 points to reach its record level of July 2007. Not even three weeks later, fears of a recession triggered the first fall in prices of the year. The sub-prime crisis, which began in the USA, continued and escalated to a global bank crisis. The situation deteriorated as the US investment bank Lehman Brothers entered into insolvency in September following failed rescue negotiations. Revived economic fears as well as the fear of shortages in credit financing on both sides of the Atlantic generated panic-driven sales of shares on the stock exchanges. On October 24, the DAX – at 4,015 points – reached its lowest level since November 2004. It ended the full year at 4,810 points, a drop of 40.4%. The reference index SDAX, relevant for PATRIZIA, fell by 46.1% to 2,801 points in the same period; the share index for German real estate companies, the DIMAX, fell by 49.7%.

The threatening effects of the financial market crisis also carried across to the goods and services industry. The forecast global economic downturn impacted sentiment on the stock exchange noticeably. In addition to financial stocks, real estate stocks suffered particularly from the lack of confidence shown by investors. Real estate shares are often associated with shares of financial companies and, in particular, banks due to the fact that in the real estate industry the debt ratio is normally higher than in other industries. More restrictive new bank lending has also made it more difficult for real estate companies to finance additional acquisitions. The consequence of this is that many market participants considered the chances of growth within these companies as limited and distanced themselves from an investment. As a result of reduced demand, share prices fell drastically.

PATRIZIA share performance 2008



PATRIZIA shares began 2008 with a share price of EUR 5.16. On December 2, the share price reached its year-low/all-time-low of EUR 0.87. At the end of the year, the share price experienced a slight increase and finished trading on December 30 at EUR 1.63. Viewing the year as a whole, the PATRIZIA share price recorded a loss of 68.4%. As a result of the continued share price decrease, PATRIZIA dropped even further in the total market value ranking of listed stocks. However, the Company retained its position on the SDAX based on the high trading volume. At the end of the fiscal year, market capitalization amounted to EUR 85.0 million.

PATRIZIA's trading volume on all German stock exchanges amounted to an average of around 311,700 shares per day. Compared with the previous year, this represents an increase of 9.5% (previous year: average of 284,700 shares per day). Based on PATRIZIA Immobilien AG's total number of shares (52.13 million), the 79.2 million PATRIZIA shares traded during the reporting year represent a turnover of 1.52 (previous year: 1.38).

In the reporting year, four analyst companies took up coverage of the PATRIZIA share. As a result of restructuring within the banking industry, three of the analyst companies have discontinued respectively suspended their coverage. The upshot is that, at present, eleven analysts are assessing PATRIZIA. We publish the latest consensus overview on the PATRIZIA website.

At the end of 2008, approximately 76% 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, 2008	EUR 52,130,000
No. of shares in issue as at December 31, 2008	Shares 52,130,000
Share prices in 2008*	
High	EUR 5.67
Low	EUR 0.87
Closing price on December 30	EUR 1.63
Share price performance	– 68.4 %
Market capitalization as at December 31, 2008*	EUR million 85.0
Average trading volume per day**	EUR 739,900
Average trading volume per day**	Shares 311,700
Earnings per share (EPS)	EUR – 0.65

* Closing prices in Xetra trading

** All German stock exchanges

TOP: **1** SATELLITE TOWN BELOW: **2** SKYSCRAPER **3** TREE HOUSE

sky-high

The stairway to the heavens never ends. Up, up into the deep blue yonder, reaching for the clouds, the moon, the very stars. Higher, ever higher – at least until the lift shudders to a halt. Home in a "world between" on the 48th floor: far removed from the Earth, reaching for the skies.

1 Bratislava, Slovakia
2 Tokyo, Japan
3 Somewhere, Germany

B

MANAGEMENT REPORT OF THE COMPANY AND THE GROUP

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 Article 315 (3) of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with Article 298 (3) of the HGB. The subsumed management report contains all presentations of the net asset, financial and earnings situation of the Company and the Group as well as other details that are required according to German commercial law. All monetary amounts are stated in EURO.

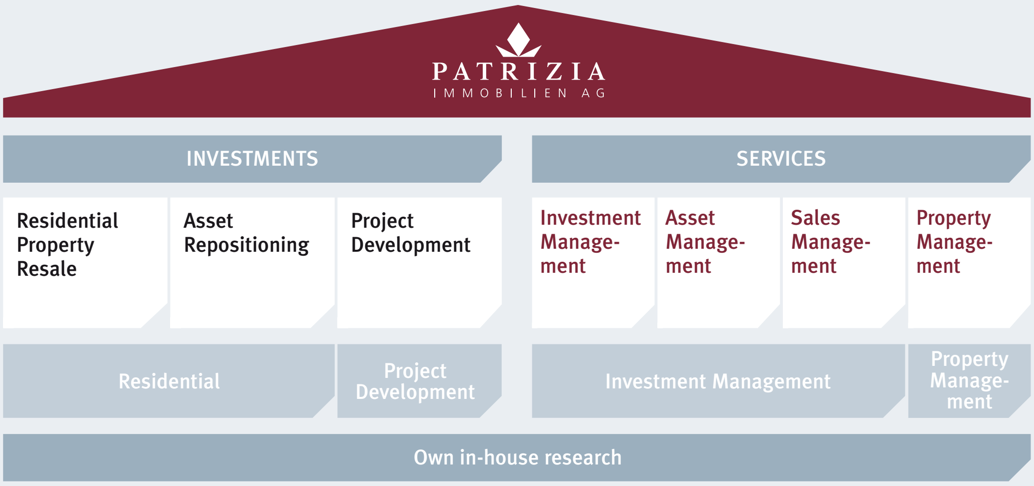
1. BUSINESS SEGMENTS AND ENVIRONMENT

1.1 BUSINESS ACTIVITIES AND STRUCTURE OF PATRIZIA

OUR BUSINESS MODEL IS BASED ON INCREASING VALUE AND PROMPT PLACING OF REAL ESTATE.

PATRIZIA Immobilien AG, along with its subsidiaries (hereafter referred to as PATRIZIA), is a real estate agent and investment house. It specializes in buying high-quality residential real estate at commercially attractive locations in Germany with the aim of increasing their value and subsequent reselling the real estate.

The Group's structure comprises four lines: Residential, Project Development, Investment Management and Property Management. These lines, which are closely linked in both a strategic and an economic sense, are composed of various business units and together form the Investments and Services segments. All the business lines have access to PATRIZIA's own Research department.



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 generally works on its own account or via joint ventures in project development.

PATRIZIA IS ONE OF THE MARKET-LEADING REAL ESTATE COMPANIES IN GERMANY.

In the **Services segment**, PATRIZIA performs all services relating to real estate. The service range thus covers advice on purchase, asset management and property management and the sale of real estate. Through PATRIZIA Immobilien Kapitalanlagegesellschaft mbH we offer institutional investors the opportunity to invest indirectly in German and European residential real estate. As a full service provider we are able to offer our customers tailored solutions for individual investor requirements.

PATRIZIA has been active on the German real estate market as both an investor and a service provider for 25 years. With its headquarters in Augsburg and branches in Berlin, Cologne, Dresden, Frankfurt am Main, Hamburg, Hanover and Munich, PATRIZIA serves the residential real estate sector throughout Germany. Our regional orientation ensures that we have direct contact to our customers.

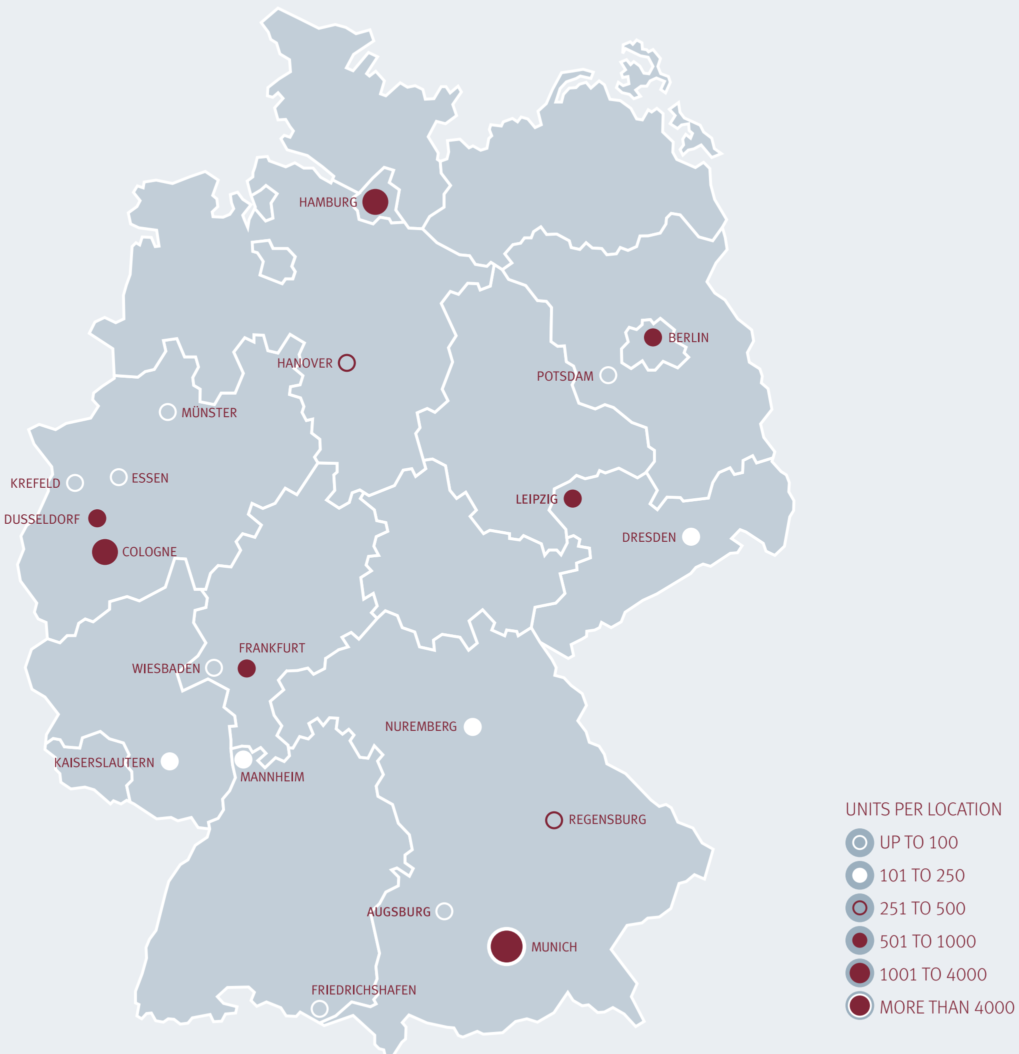
PATRIZIA REGARDS ITSELF AS “REAL ESTATE INDUSTRY”

INVEST. OPTIMIZE. REALIZE.

Our aim as an investor and service provider is to create end-to-end solutions for return-oriented optimization of real estate portfolios. The real estate is resold after a short to medium-term holding period. PATRIZIA invests only in economically appealing locations in Germany – and only in high-quality properties and properties with significant value-added potential. Approximately 80% of the around 12,000 residential and commercial units in our portfolio are located in the top five locations in Germany: in Berlin, Cologne/Dusseldorf, Frankfurt am Main, Hamburg and Munich. PATRIZIA achieves its value-enhancement aims through professional management and property-improvement measures. In this process we service the entire real estate value-added chain using our own employees. We generate the best possible returns through selecting the most suitable sales channels. Although real estate is, and remains, the basis of our activities, our options for the structuring and placement of the “real estate product” are becoming increasingly varied. This forms the basis of how we regard ourselves – namely as real estate industry.

We also act as a representative for owners in the Services segment. We manage and optimize real estate portfolios of external third parties as though they were our own portfolios. Through PATRIZIA Immobilien Kapitalanlagegesellschaft mbH, we also establish theme funds, for which the PATRIZIA Group assumes all services. We also act as a representative of the fund owners in this context, investing, optimizing and realizing real estate stocks.

Locations covered by the PATRIZIA portfolio



IN 2008 PATRIZIA OPTIMIZED ITS INTERNAL STRUCTURE, ADAPTING IT TO ITS NEW SIZE.

STRUCTURE

PATRIZIA Immobilien AG is the PATRIZIA Group's holding company and performs central management and service functions. To accelerate and simplify internal processes, in the reporting year we merged business segments whose responsibilities in operating business show numerous overlaps. In March 2008, we merged the, previously individual, companies PATRIZIA Wohnungsprivatisierung GmbH, PATRIZIA Bautechnik GmbH and the area of PATRIZIA Asset Management GmbH, responsible for our own portfolios, into PATRIZIA Wohnen GmbH. We also bundled the former PATRIZIA Advisory & Sales GmbH and the part of PATRIZIA Asset Management GmbH acting as asset manager for third party real estate into PATRIZIA Investmentmanagement GmbH. The other PATRIZIA operating companies remained unchanged. The reorganization has no influence on business activities, the service package or the segment reporting of the PATRIZIA Group.

The holding company now covers six subsidiaries that are active on the market and 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) and round off the Group. A detailed list of shareholdings can be found in the notes to the consolidated financial statements.

PATRIZIA Acquisition & Consulting GmbH is responsible for purchasing residential 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 external customers.

PATRIZIA Immobilien Kapitalanlagegesellschaft mbH establishes special real estate funds for domestic and international institutional investors and is responsible for the entire fund management. The funds invest in German and European residential real estate. In this process, PATRIZIA Immobilien Kapitalanlagegesellschaft mbH has access to all the services of the PATRIZIA Group: real estate research, acquisition of suitable properties, financing at fund level, asset management and property and risk management.

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. It currently manages around 19,500 units, 7,500 of which are owned by third parties and supplement its own portfolios.

PATRIZIA Investmentmanagement GmbH manages the real estate assets of institutional and private investors, assuming the value-oriented asset management of the real estate and supervising all areas associated with the optimization process. It assists clients in the purchase of real estate and offers them a wide range of possible investment vehicles, which are individually tailored to investors' personal requirements. The company markets individual properties and real estate portfolios from its own portfolio or provides sales consultation for transactions of third parties. Furthermore, our commercial real estate team is integrated here, which implements all services from purchase consultation and processing through asset management to resale of a commercial property.

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 Wohnen GmbH is responsible for asset management, structural engineering and residential property resale. Asset management is responsible for generating the best possible added-value for our own residential real estate in every phase of use. The structural engineering area devises solutions relating to the structural substance of buildings and implements these solutions cost-effectively. Residential Property Resale manages individual sales of residential real estate to tenants, owner-occupiers and private investors. Its clear objective is to provide tenants and other interested parties with comprehensive advice on tailored residential ownership options.

1.2 GENERAL CONDITIONS AND THE MARKET

In 2008, growth in the German economy was considerably weaker than in the two previous years. Growth of GDP almost halved in real terms to 1.3% (2007: 2.5%; 2006: 3.0%); after adjustments for working-day variations, it only increased by 1.0%. Private consumption did not provide any positive impetus either, although the number of people in work rose by 1.5% in comparison with the previous year and, at 40.4 million, employment reached its highest level since reunification. The 2.6% climb in the disposable income of private households was almost entirely offset by an annual inflation rate in the same amount. Consumption expenditure rose less than disposable income, leading to an 11.4% increase in the savings ratio. Furthermore, as the German Federal Statistical Office announced, investments in construction grew by 2.7% in 2008. While investments in construction of residential property developed only modestly (+0.7%), investments in non-residential buildings were up by 5.6%. However, the rate of change in GDP for the year as a whole masks the downturn that intensified over the course of the year due to the financial market crisis and led to a dramatic slump in the fourth quarter of 2008 compared with the previous period.

Since October 2008, the European Central Bank (ECB) has lowered the base rate of interest from 4.25% to 2.0% in four steps. This decrease in interest rates is intended to reduce the cost of financing for necessary investments and thus boost the goods and services industry. The lowering of interest rates had become necessary due to banks' moves toward restrictive lending which accelerated over the course of the year, as well as signs of the onset of a recession.

The inflation rate in Germany was at its highest at 3.3% in June and July 2008. By the end of the year, the rate of inflation had dropped to 1.1%; for the year as a whole it amounted to 2.6% overall. According to the "ifs" (Institut für Städtebau, Wohnungswirtschaft und Bausparwesen – Institute for City Planning, the Housing Industry and Building Society Savings) in Berlin, basic residential rents (excluding utilities and other service charges) across Germany climbed by just 1.3% in the same period. However, it should be noted in this regard that rents increased considerably more in many regions and in the main economic centers in particular.

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. In contrast to other European countries such as Ireland, Great Britain, France and Spain, house and apartment prices in Germany have remained more or less unchanged in past years, although in the last few years in particular apartment prices in West Germany have shown a slight upward trend. Due to rising ancillary costs and higher inflation, only limited rent increases were observed. However, surveys confirm enormous regional differences in prices and rents. Prices are chiefly driven by intensified demand for residential space in metropolitan areas, combined with the low vacancy rate in these regions. It is increasingly the case that the location of real estate determines its value to a significant degree.

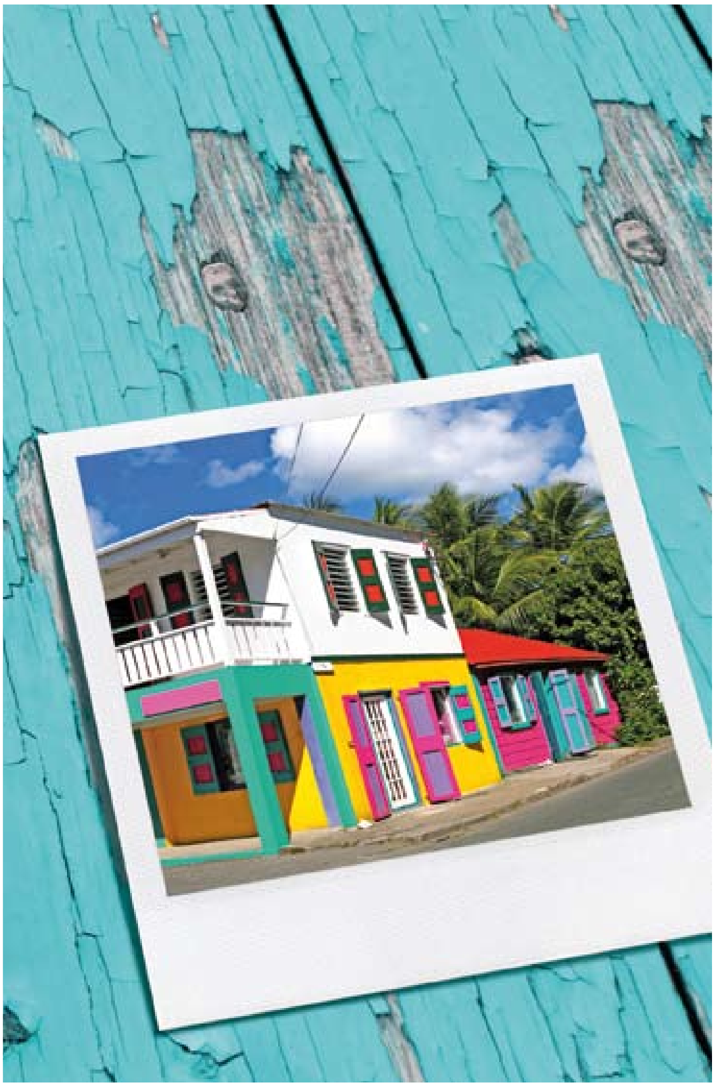
LEFT: **1** TERRACED HOUSES RIGHT: **2** HAPPY RIZZI HOUSE

TOP: **3** DETACHED HOUSES BELOW: **4** RESIDENTIAL DEVELOPMENT

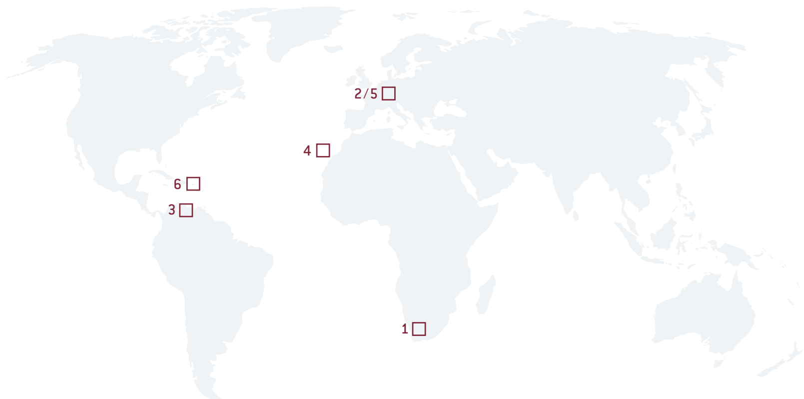
colourful

Colours are fun. Colours get noticed. Colours are different. Colours make you smile. Colours drive away worries and cares. Colours are not drab and boring. Colours are trendy. Colours are decorative. Colours need room. Colours are healthy. Colours are lively. Colours make a house a home.

RIGHT: **5** DORMITORY



6 COUNTRY HOUSE



1 Cape Town, South Africa
2 Braunschweig, Germany
3 Curaçao, The Netherlands Antilles
4 Las Palmas / Gran Canaria, Spain
5 Tübingen, Germany
6 Tortola, Virgin Islands (GB)

1.3 KEY EVENTS IN THE INVESTMENTS SEGMENT

In the 2007 fiscal year, around 12,000 residential and commercial units were transferred into our ownership. Thus our investment limit was fully reached at the start of the 2008 fiscal year, with the result that we did not make any purchases in the 2008 reporting period. In addition to the continued optimization of individual properties, the focus in the Investments segment for 2008 was primarily on the sale of residential units via all the sales channels available to us. We sold 1,198 apartments in total, corresponding to around 9.1% of our entire portfolio as at January 1, 2008.

The PATRIZIA portfolio – breakdown by region:

Region/city	Number of units (Dec. 31, 2008)	in % of the portfolio	Area in sqm (Dec. 31, 2008)	in % of the portfolio
Munich	5.141	42.6 %	353.551	42.0 %
Cologne/Dusseldorf	1,565	13.0 %	136,025	16.2 %
Hamburg	1,350	11.2 %	89,608	10.6 %
Leipzig	981	8.1 %	64,391	7.6 %
Berlin	957	7.9 %	61,619	7.3 %
Frankfurt am Main	946	7.8 %	59,597	7.1 %
Regensburg	457	3.8 %	31,282	3.7 %
Hanover	437	3.6 %	30,167	3.6 %
Dresden	152	1.3 %	10,284	1.2 %
Friedrichshafen	90	0.7 %	5,800	0.7 %
TOTAL	**12,076**	**100 %**	**842,324**	**100 %**

RESIDENTIAL PROPERTY RESALE

AROUND 40% OF ALL UNITS SOLD IN THE 2008 FISCAL YEAR WERE ATTRIBUTABLE TO RESIDENTIAL PROPERTY RESALE.

Residential Property Resale picked up considerably at the start of 2008, boosted by notarizations from the fourth quarter of 2007. Following a significant decline mid-year, resale figures rose again slightly in the fourth quarter. Although we generated respectable earnings from resales in the fourth quarter of 2008, we noted a more wait-and-see attitude among private investors toward all types of investment. A total of 476 individual apartments were sold to tenants, owner-occupiers and private investors. Despite the difficult market environment, which worsened over the course of the year, this figure was only 2.3 % lower than the previous year's figure of 487 units. Of the 476 residential units, 19.4 % were sold to tenants and 43.3 % to owner-occupiers. The remaining 37.3 % was attributable to sales to private investors.

Residential property resales in 2008 by quarter:

	1st quarter 2008	2nd quarter 2008	3rd quarter 2008	4th quarter 2008	2008	2007
Privatized units	144	103	83	146	476	487
Average sales price	EUR 2,398 per sqm	EUR 2,213 per sqm	EUR 2,230 per sqm	EUR 2,371 per sqm	EUR 2,322 per sqm	EUR 1,990 per sqm

THE 'BLOCK SALE' SALES CHANNEL IS GAINING IN IMPORTANCE.

IN 2008, 722 UNITS WERE SOLD EN BLOC IN FIVE TRANSACTIONS.

ASSET REPOSITIONING

Block sales developed positively: 722 residential and commercial units were successfully placed on the market, demonstrating that block sales are becoming increasingly important for the PATRIZIA business model. 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. through rent increases. The resale of this real estate, primarily to institutional investors, mostly takes place en bloc following implementation of all measures to increase value. Not only wide-ranging expertise on the real estate and its location is necessary for the modernization of portfolio real estate, but also expertise on the optimum interplay of various disciplines. We are able to offer nearly all of these skills within PATRIZIA with our own employees across Germany. This enables us to achieve the optimum ratio of costs to performance and thus to optimize income from the real estate.

Four of the five block sales concluded in 2008 related to Munich real estate. In March, the sale of 79 residential and 6 commercial units in the suburb of Thalkirchen was notarized. The properties, which were built in 1927 and 1947, were sold to a private investor with a factor of around 23 of the net actual rent for EUR 14.85 million. A further 46 residential units and 6 commercial units with floor space of around 4,050 sqm were sold in the second quarter of 2008. This led to a purchase price of around EUR 8.9 million or EUR 2,195 per sqm. Our Prinzregentenstrasse property in the center of Munich comprising 24 units was sold to a Spanish family office for EUR 8.5 million. In addition, several properties located in Munich containing a total of 199 residential and 5 commercial units, which had partly been transferred in our books due to a reverse transaction in the first quarter, were sold to the PATRIZIA German Residential Fund I in December.

Following completion of the renovation work in September 2008, the "Dresden Altmarktkarree I" asset repositioning property with a total of 318 residential units and 39 commercial units was sold for EUR 70.0 million. The successful bidder for the acquisition of the ensemble was PATRoffice GmbH & Co. KG, in which PATRIZIA Immobilien AG holds an interest of 6.25% alongside two European investors. PATRIZIA acquired the large ensemble of around 38,000 sqm in Dresden's best central location from the city of Dresden at the end of 2005. At the time of the acquisition, the three buildings, dating from the years 1954 to 1963, were in a mediocre state of repair and had significantly high levels of vacancy. To begin with, all unleased apartments and communal areas were thoroughly renovated from April 2006 onward. While this was in progress, the renovated vacant apartments and commercial units with upside rental potential were released. Thanks to this optimization, the portfolio today generates stable cash returns and has potential for further capital growth. PATRIZIA will continue to assume the real estate management and asset management for the three buildings.

In the 2008 fiscal year, a total of 722 apartments were successfully placed en bloc in five transactions.

Bloc sales (from asset repositioning properties) in 2008 by quarter:

	1st quarter 2008	2nd quarter 2008	3rd quarter 2008	4th quarter 2008	2008	2007
Units in block sales	85	52	357	228	722	0
Number of transactions	1	1	1	2	5	0
Average sales price	EUR 1,900 per sqm	EUR 2,195 per sqm	EUR 1,846 per sqm	EUR 2,001 per sqm	EUR 1,912 per sqm	
City/Location	Munich	Munich	Dresden	Munich	Dresden, Munich	

THE WATER TOWER HOTEL DESIGNED AND CONVERTED BY PATRIZIA RECEIVED THE MIPIM AWARD 2008.

THE “DRESDEN ALTMARKTKARREE II” PROJECT DEVELOPMENT WAS SOLD FOR EUR 14.0 MILLION PRIOR TO IMPLEMENTATION OF THE DEVELOPMENT MEASURES.

PROJECT DEVELOPMENT

Concluded projects

PATRIZIA was awarded the MIPIM Award 2008 at the MIPIM, the largest international real estate fair in Cannes for its project development of the Hamburg water tower project. The award was given for the conversion of the listed and derelict water tower into a 4-star hotel. PATRIZIA is thus the only German company to have received one of the most prized awards, with which projects around the world are distinguished and presented to a wide audience.

In June 2008, the “Dresden Altmarktkarree II” property was sold as part of Project Development for EUR 14.0 million. PATRIZIA refrained from implementing its originally planned utilization concept due to the fact that an existing local shopping center operator purchasing neighboring land presented new marketing opportunities. The purchaser has announced plans to expand the existing shopping center. This expansion and the planned construction will continue to increase the value of the Altmarktkarree environs, making this area even more attractive for visitors and tenants.

Ongoing projects

Thirty exclusive apartments are to be created in two houses in Augsburg, where PATRIZIA is headquartered. The total investment volume of the new centrally located residential area “Am Schwalbeneck”, which has been planned to incorporate geomancy and Feng Shui aspects, amounts to EUR 10 million, including the purchase price. There has been a slight delay to the start of construction, which was planned for 2008, due to extensive archaeological excavations, with the result that the foundations was only secured in the fourth quarter of 2008. The first purchase agreements were also notarized in 2008. Construction will start in spring 2009 and we are estimating that the building work will be completed in 2010 or in 2011 at the latest.

PATRIZIA is planning the new construction of an office building and residential quarters with owner-occupied apartments in the premium segment in a prime central location in Frankfurt am Main – on Feuerbachstrasse in the Westend district. The project is a joint venture with LBBW Immobilien Development Beteiligungen GmbH, a subsidiary of the Landesbank Baden-Württemberg. More specifically, six city villas and a residential building with a total of 64 apartments and total living space of around 16,350 sqm will be built here, together with a ten-story office building with approximately 5,500 sqm of office space. Deconstruction of the existing buildings is to commence in 2009, with completion of the final construction phase planned for early 2012.

PATRIZIA will also build a new construction of mixed use in a premium inner-city location in close proximity to Munich’s Viktualienmarkt. The project contains around 470 sqm of retail space, 1,400 sqm of office space and 15 residential units with between 50 sqm and 260 sqm of living space. The ratio of commercial to residential space was optimized during planning and the realizable gross floor space increased by around 12%. Construction at the site in Zwingerstrasse is scheduled to begin in the first quarter of 2009.

PATRIZIA IS IMPLEMENTING ITS OWN PROJECT DEVELOPMENT PLANS WITH A TOTAL INVESTMENT VOLUME OF AROUND EUR 190 MILLION WITH A FOCUS ON NEW CONSTRUCTIONS IN THE PREMIUM SEGMENT.

PATRIZIA Immobilien AG’s own project developments:

City, project	Size of site	Gross floor space planned	Investment volume planned	Start of construction	Planned completion
Augsburg, Am Schwalbeneck	2,800 sqm	3,300 sqm	EUR 10 million	Q1 2009	2010 – 2011
Frankfurt/Main, Feuerbachstrasse	8,000 sqm	29,500 sqm	EUR 150 million	Q2 2009	2011 – 2012
Munich, Zwingerstrasse	900 sqm	4,200 sqm	EUR 25-30 million	Q1 2009	2010 – 2011

PATRIZIA Projektentwicklung GmbH is managing two further projects as a service provider for external clients: Firstly the extension to the Company’s headquarters in Augsburg, incorporating a public underground garage, and secondly the HanseCube in Hamburg. Wolfgang Egger or companies indirectly or directly attributable to him have commissioned the project development measures in both projects. The Augsburg project involves an investment volume of around EUR 15 million, with PATRIZIA assuming responsibility for the entire project development and the related project management. Upon completion, PATRIZIA Group will be one of the principal tenants of the office space. Following the conclusion of extensive archaeological investigations that took place from late 2007 to mid-2008, excavation and securing of the foundations has begun. In the second service provider project, the HHC HanseCube, an office complex with gross floor space of around 18,000 sqm, retail space of around 2,000 sqm and an underground garage with approximately 230 parking spaces is to be constructed by the end of 2010. In this project, too, PATRIZIA is assuming responsibility for project development and managing and supervising the project on behalf of the client.

1.4 KEY TRANSACTIONS IN THE SERVICES SEGMENT

Our aim for 2008 in expanding the Services segment was to generate a 10% contribution to earnings before tax from this segment. However, the segment did not meet these expectations in the reporting year. This is chiefly attributable to the weak transaction market, which led to low demand for our Services segment's services in the area of purchasing and sales consultancy. The situation was also impacted by the delayed and only modest acquisitions of our capital investment company, resulting in a significant reduction in service fees for PATRIZIA in 2008. In the medium term, we are retaining our target of a 10% contribution to earnings before tax.

PATRoffice Real Estate GmbH & Co. KG

PATROFFICE INVESTED THE FIRST TRANCHE AHEAD OF SCHEDULE.

The performance of our co-investment with pension funds ABP of the Netherlands and ATP Real Estate of Denmark, PATRoffice Real Estate GmbH & Co. KG, has been very encouraging. EUR 355 million of the investment volume of EUR 700 million, planned in two tranches, has now been invested in German commercial real estate. The first tranche of capital has thus already been fully drawn down. In addition to the purchase of the "Dresden Altmarktkarree I" ensemble – a description of the property can be found above in the Asset Repositioning section – further purchases were made in Hamburg and Hanover in 2008. This means that the co-investment is ahead of schedule in fully investing the volume of the first tranche by the end of 2009. PATRIZIA has an equity interest of 6.25% and is responsible for the entire purchase process and the return-oriented asset management. With this co-investment, PATRIZIA is able to demonstrate its competence in the commercial real estate sector.

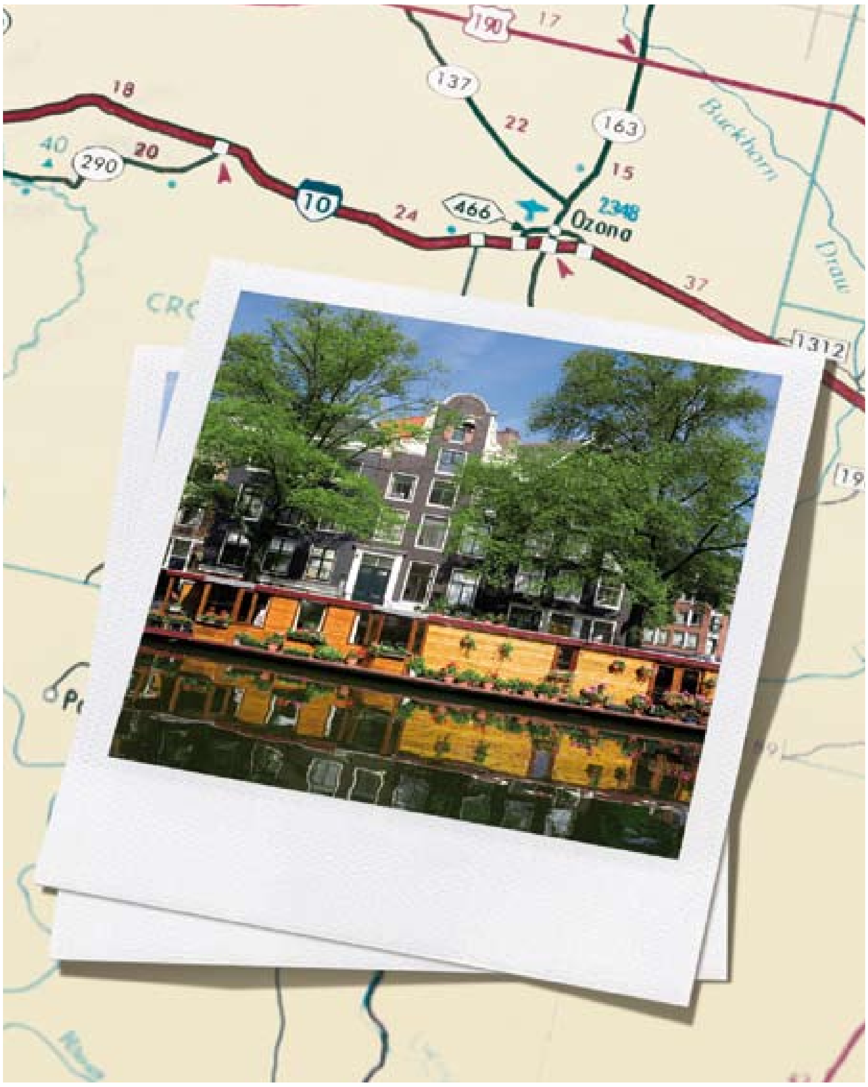
PATRIZIA Immobilien Kapitalanlagegesellschaft mbH

By establishing the subsidiary PATRIZIA Immobilien Kapitalanlagegesellschaft mbH in 2007, PATRIZIA Immobilien AG added special real estate funds to its range of services for institutional real estate investors. Two funds have been established to date: the PATRIZIA German Residential Fund I and PATRIZIA Euro City Residential Fund I. Each fund has a total investment volume of EUR 400 million. The equity share is already fully subscribed at PATRIZIA Euro City Residential Fund I and over half subscribed at PATRIZIA German Residential Fund I.

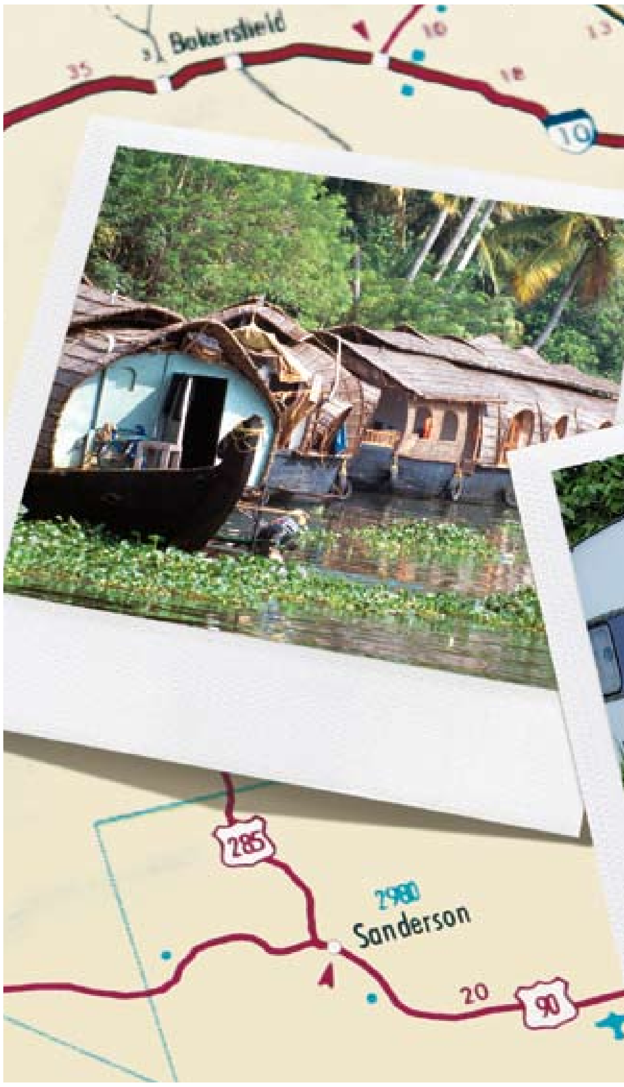
The main focus of the PATRIZIA German Residential Fund I is purchasing and maintaining high-return residential real estate in Germany. In 2008, the fund notarized several properties located in Munich comprising a total of 199 residential and 5 commercial units. Investments were made in 94 units in the Hamburg area. The total floor space of the residential real estate acquired amounts to approximately 19,000 sqm.

The PATRIZIA Euro City Residential Fund I invests in European portfolio real estate. In addition to Germany, this fund is aimed amongst others at Sweden, Finland, France, the Czech Republic and the Netherlands. In 2008, an initial purchase of 1,018 residential units with total floor space of around 94,000 sqm was concluded in the Greater Stockholm conurbation in Sweden. It is expected that the target volume will be reached by the end of 2010.

The individual PATRIZIA Group companies act as service providers for the investment company's special funds, thus generating fees. There are no conflicts of interest between purchases for the funds and proprietary purchases by PATRIZIA, since the purchase criteria for the real estate are very different from one another. In most cases, the portfolio real estate purchased for the funds is already fully developed and is intended to be held as fund assets over a long period. We will also avoid conflicts of interest when initiating future fund products.



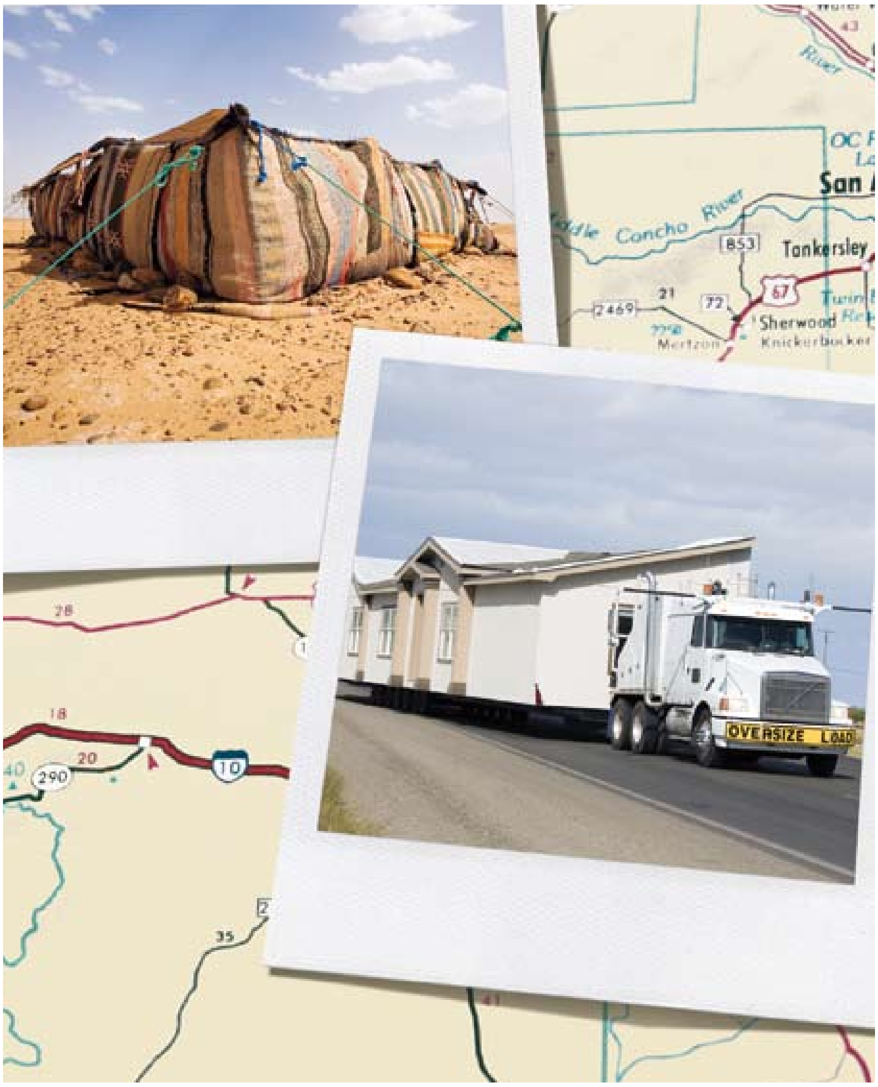
⇢ **1** BUNGALOW BOAT



⇢ LEFT: **2** HOUSEBOAT

mobile

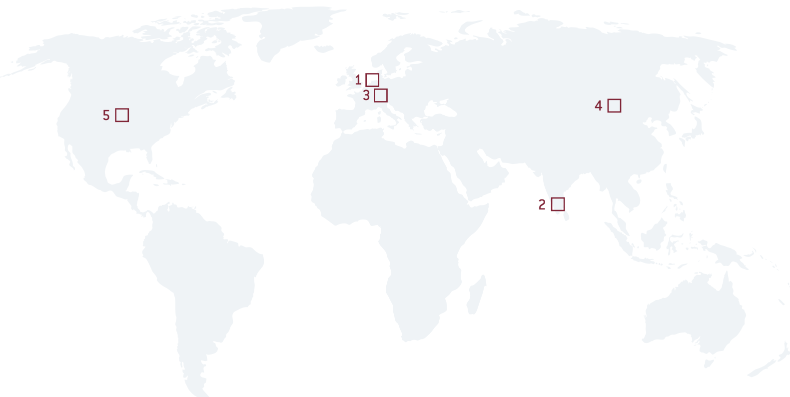
⇢ Truckers do it. Globetrotters do it too, and so do barge owners. Actors are no different. Not to mention nomadic peoples – and all the others too numerous to mention. What do they do? They all live on the move. Each one's "permanent dwelling" gets around in the world. As soon as it stops, however, it is a real home. Just a little more mobile than others.



RIGHT: **3** RETIRED CARAVAN

TOP: **4** NOMADIC TENT

BELOW: **5** HOUSE-ON-TRUCK

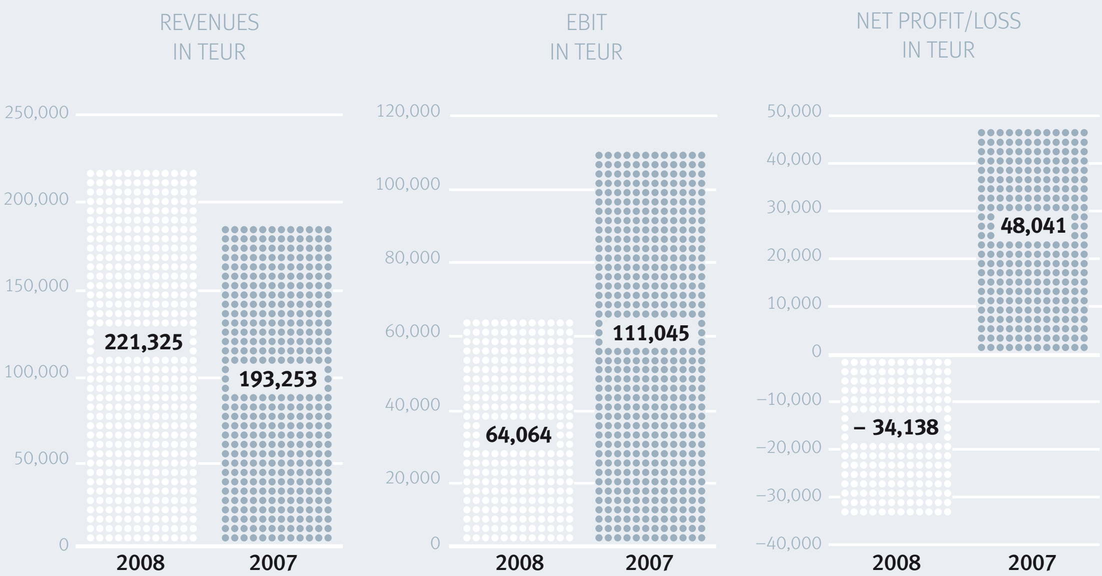


1 Amsterdam, Netherlands
2 Kerala, India
3 Güstrow, Germany
4 Gobi Desert, Mongolia
5 Route 66, USA

2. NET ASSET, FINANCIAL AND EARNINGS SITUATION

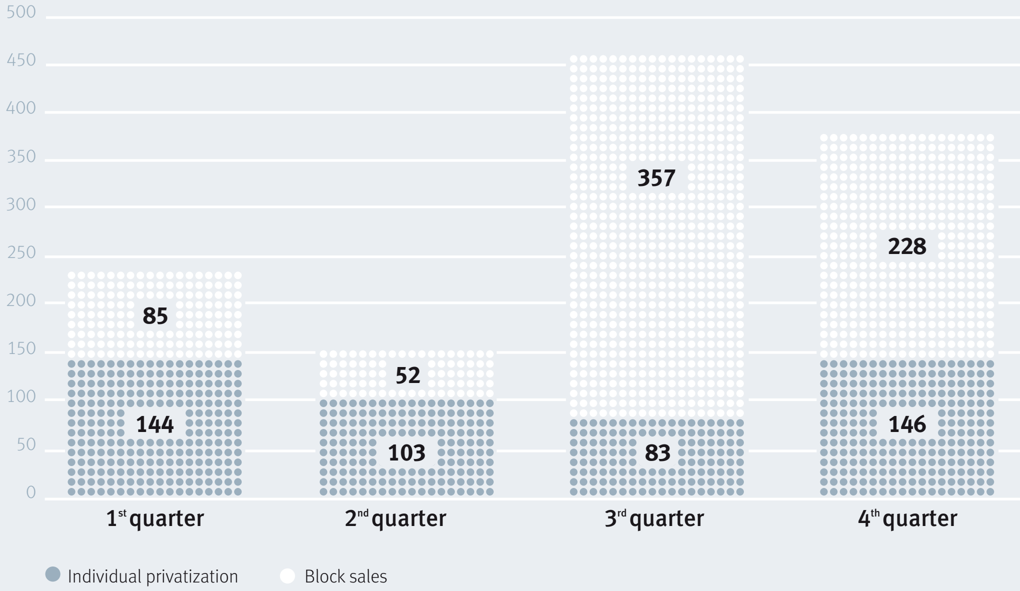
2.1 EARNINGS SITUATION OF THE GROUP

Development of key items in the consolidated profit and loss account:



In 2008 PATRIZIA generated consolidated revenues of EUR 221.3 million. Thus in 2008 consolidated revenues were up 14.5% or EUR 28.0 million on the previous year (2007: EUR 193.3 million). This rise in revenues is chiefly due to higher sales figures, particularly in block sales. In spite of the difficult market environment, 476 units were sold individually in the Residential Property Resale line alone. This is only slightly below the previous year's figure of 487 units sold (–2.3%). A further 722 units were placed in the form of block sales to institutional buyers; no block sales were concluded in the previous year. This represents a 146.0% increase in the number of units sold to 1,198, up from 487 in 2007.

Apartment sales by quarter



A breakdown of consolidated revenues is shown below:

	2008	Proportion of consolidated revenues in 2008	2007	Change
	EUR'000	%	EUR'000	%
Purchase price revenues from residential property resale	73,906	33.4 %	64,507	14.6 %
Purchase price revenues from asset repositioning	40,605	18.4 %	0	100 %
Purchase price revenues from project development	0	0 %	34,414	– 100 %
Rental revenues	73,011	33.0 %	62,524	16.8 %
Revenues from the Services segment	6,249	2.8 %	8,998	– 30.6 %
Other	27,554	12.4 %	22,810	20.8 %
Consolidated revenues	**221,325**	**100 %**	**193,253**	**14.5** %

REVENUES WERE UP 14.5% TO EUR 221.3 MILLION. INCOME FROM THE SALE OF INVESTMENT PROPERTY AMOUNTING TO EUR 21.7 MILLION ALSO CONTRIBUTED TO THE TOTAL OPERATING PERFORMANCE.

Revenues amounting to EUR 73.9 million were generated from residential property resale. Distributed across the space sold, this corresponds to an average price per square meter of EUR 2,322 (previous year: EUR 1,990 per sqm). The sale of asset repositioning properties en bloc generated revenues of EUR 40.6 million. The average price, calculated based on all block sales taken together, was EUR 1,912 per sqm. These revenues do not include the purchase price of the "Dresden Altmarktkarree I and II" properties, as these sales are reported under the Income from the sale of investment property item.

The sale of "Dresden Altmarktkarree I" led to purchase price revenues of EUR 70.0 million and "Dresden Altmarktkarree II" to EUR 14.0 million. Due to the fact that these projects were reported as non-current assets under the Investment property or Investment property under construction item, the purchase price revenues were not posted as revenues but rather as profits from the disposal of assets in the amount of EUR 21.7 million under the Income from the sale of investment property item. In addition, we sold a plot of land in Munich for EUR 1.4 million.

Rental income developed very positively, contributing EUR 73.0 million (33.0%) to consolidated revenues. Viewing the portfolio as a whole, average rent per square meter rose by 3.54% and amounted to EUR 7.31 as at December 31, 2008 (December 31, 2007: EUR 7.06 per sqm). At EUR 6.2 million, the Services segment remained –30.6% below the previous year (2007: EUR 9.0 million) and thus also below our expectations, with the low number of transactions to be supported taking its toll in the form of an absence of service fees.

Other revenues chiefly comprise rental ancillary costs.

Changes in inventories totaled EUR –75.6 million in the reporting year. In 2008, these related exclusively to decreases in the book values of real estate held in inventories and capitalized renovation services, due to acquisitions that were not made. The reason for this marked difference compared with the previous year (2007: EUR 666.7 million) is the acquisition of around 12,000 residential units that were transferred into our ownership during the course of the extension of our real estate portfolio in 2007.

CAPITAL EXPENDITURE IN MAINTENANCE AMOUNTED TO EUR 34.4 MILLION.

The fact that no real estate was acquired in the reporting year is also reflected in the cost of materials, which decreased significantly compared with the previous year by 91.5% to EUR 66.0 million (2007: EUR 778.8 million). Besides renovation and maintenance costs, this includes rental ancillary costs for which we posted cost transfer to tenants under the Other revenues item. In 2008, the posted maintenance costs for our residential real estate portfolio alone amounted to a total of EUR 34.4 million, of which only EUR 17.1 million was capitalized. Non-capitalizable maintenance expenses totaled EUR 17.3 million and were thus around EUR 9.6 million higher than in the previous year. Construction as part of project development was not taken into account.

The recruitment of new employees – as at December 31, 2008, 47 more staff members were employed at PATRIZIA than at the end of the previous year – led to a rise in staff costs, which weighed in at EUR 22.4 million, thus growing by EUR 2.5 million (12.7%) compared with the previous year. Of this, EUR 19.2 million was attributable to salaries and wages and a further EUR 3.2 million was attributable to social security contributions. On average during 2008, PATRIZIA employed 374 staff throughout the Group.

The remuneration of the Managing Board, which is also 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 compensation components include one-time as well as annually payable components linked to the performance of the Company and its shares. The total remuneration of the Managing Board was EUR 1.1 million in the reporting year. The Supervisory Board's remuneration is reported under other operating expenses and also comprises fixed and variable components. Detailed information on the remuneration structure for the Managing Board and the Supervisory Board can be found in the Corporate Governance Report and the notes to the consolidated financial statements.

Other operating expenses decreased from EUR 20.5 million to EUR 17.2 million, due primarily to lower outsourcing costs, tax consultancy costs and legal consultancy costs.

	2008	2007	Change
	EUR'000	EUR'000	%
Administrative expenses	10,538	11,748	–10.3 %
Selling expenses	5,454	5,397	1.1 %
Other expenses	1,207	3,398	–64.5 %
Other operating expenses	**17,199**	**20,543**	**–16.3** %

KEY EARNINGS FIGURES WERE DOWN COMPARED WITH THE PREVIOUS YEAR, AS IN 2007 THESE FIGURES WERE POSITIVELY IMPACTED BY THE RESULTS OF FAIR VALUE ADJUSTMENTS TO INVESTMENT PROPERTY. DEDUCTING KEY NON-CASH EFFECTS AND ONE-TIME ITEMS ADJUSTED EBIT IMPROVED FROM EUR 41.6 MILLION TO EUR 64.5 MILLION.

THE FINANCIAL RESULT WAS DECISIVELY INFLUENCED BY THE MARKET VALUATION OF INTEREST RATE HEDGES. THE PREDOMINANTLY LOW INTEREST RATES OVER THE COURSE OF THE YEAR RESULTED IN AN EXPENSE NOT IMPACTING LIQUIDITY OF EUR 32.8 MILLION IN 2008.

PATRIZIA Immobilien AG has a stake in a joint venture, F 40 GmbH, in the form of a jointly managed company. This relates to our ongoing Frankfurt Feuerbachstrasse project development. The start-up costs for preparing for construction of this project development, which were assumed by PATRIZIA, are presented under the profit and loss account item Earnings from companies accounted for using the equity method in the amount of EUR –1.0 million.

The key earnings figures decreased noticeably compared with the previous year. It must be borne in mind that results from fair value adjustments to investment property of EUR 69.5 million had a positive effect on the key earnings figures for the 2007 fiscal year. In view of the effects of valuation results from interest rate hedges and/or results from fair value adjustments to our real estate portfolios on the earnings figures calculated in accordance with IFRSs, we decided as early as the beginning of 2008 to define operating earnings figures. These key earnings figures thus reflect the operating earnings power of PATRIZIA, without being influenced by valuation-related, non-cash effects. We manage the Group using these key figures, among other things.

Based on earnings before taxes calculated in accordance with IFRSs, all significant effects not impacting liquidity and one-time items not accrued in the period under review are eliminated in order to obtain the earnings before taxes from operations. This is termed adjusted EBT. Thus the following effects are eliminated:

- Loss from/gain on the market valuation of interest rate hedges,
- Results from the fair market value adjustment of our real estate portfolios,
- Results not attributable to the period under review and thus defined as one-time items.

To enable better comparison of PATRIZIA's operating earnings power in fiscal years 2008 and 2007, we present these key earnings figures, which are adjusted for all significant non-cash effects and one-time items, separately, marking them "adjusted".

EBITDA calculated in accordance with IFRSs dropped from EUR 111.8 million to EUR 64.9 million (–41.9%), while EBIT fell from EUR 111.0 million to EUR 64.1 million (–42.3%). After adjustment for all significant non-cash effects and one-time items, in 2008 adjusted EBIT totaled EUR 64.5 million – a clear increase of 55.3%, since in the previous year adjusted EBIT was still EUR 41.6 million. The Investments segment made a substantial contribution of EUR 73.0 million to EBIT. Further information on the earnings contributions of the Investments and Services segments can be found in Segment Reporting in the notes to the financial statements.

The financial result declined by EUR 48.6 million to EUR –96.5 million and was primarily influenced by the market valuation of interest rate hedges. A look at the market valuation of interest rate hedges over the course of the year clearly shows the large fluctuation range of this impact, depending on whether the assessment led to expense or income. Over the year as a whole, the market valuation of interest rate hedges negatively impacted the financial result by EUR 32.8 million (2007: income of EUR 6.1 million). In 2008, financial expenses of EUR 126.4 million included EUR 53.9 million from the market valuation of interest rate hedges and EUR 72.5 million in expenses for bank loans. The financial income of EUR 30.0 million comprised EUR 21.1 million from the market valuation of interest rate hedges and EUR 8.9 million in interest income.

Market valuation of interest rate hedges over the course of 2008 (hedged interest rate 4.15%):

	1st quarter Mar. 31, 2008	2nd quarter Jun. 30, 2008	3rd quarter Sep. 30, 2008	4th quarter Dec. 31, 2008	2008
Updated market valuation of interest rate hedges	EUR –10.3 million	EUR 21.1 million	EUR –10.0 million	EUR –33.5 million	EUR –32.8 million

ADJUSTED EBT OF EUR 0.8 MILLION IMPLIED A POSITIVE RESULT FROM OPERATIONS.

PATRIZIA generated earnings before income taxes (EBT) of EUR –32.4 million (2007: EUR 63.2 million) calculated in accordance with IFRSs. Significant causes of the marked difference in earnings were the write-up to fair value of investment property in the amount of EUR 69.5 million posted in 2007, as already explained, and the considerably higher financial expenses of EUR 126.4 million in 2008, arising in particular from the valuation of financial derivatives (2007: EUR 68.2 million). Adjusted EBT, i.e. earnings before taxes from operations, calculated in line with the above definition, totaled EUR 0.8 million – a result we do not consider satisfactory.

ALTHOUGH PATRIZIA GAINED IN OPERATING STRENGTH IN COMPARISON WITH THE PREVIOUS YEAR, IT DID NOT GENERATE SATISFACTORY EARNINGS FROM OPERATIONS.

Overview of EBT (adjusted) by quarter (in EUR million)

Calculation of EBT (adjusted) following elimination of all one-time effects:

	1st quarter 2008 01.01. – 31.03.2008	2nd quarter 2008 01.04. – 30.06.2008	3rd quarter 2008 01.07. – 30.09.2008	4th quarter 2008 01.10. – 31.12.2008	2008 01.01. – 31.12.2008
	EUR MILLION	EUR MILLION	EUR MILLION	EUR MILLION	EUR MILLION
EBT posted in accordance with IFRSs	–18.6	21.3	–0.8	–34.3	–32.4
Elimination of effects from reversal of 165 residential units	0.5	0.0	0.0	0.0	0.5
Elimination of effects from market valuation of interest rate hedges	10.3	–21.1	10.0	33.5	32.8
Adjusted EBT (excluding one-time items)	**–7.8**	**0.2**	**9.2**	**–0.8**	**0.8**

The elimination of effects from the reversal of a sales transaction presented in the quarterly report for the first three months of 2008 was almost completely reversed, as the 165 residential units were resold over the course of the 2008 fiscal year. A negative one-time effect of EUR 0.5 million from this reversal not accrued in the period under review remains. The remaining eliminations result exclusively from market valuation of interest rate hedges not impacting liquidity.

	1st quarter 2007 01.01. bis 31.03.2007	2nd quarter 2007 01.04. bis 30.06.2007	3rd quarter 2007 01.07. bis 30.09.2007	4th quarter 2007 01.10. bis 31.12.2007	2007 01.01. bis 31.12.2007
	EUR MILLION	EUR MILLION	EUR MILLION	EUR MILLION	EUR MILLION
EBT posted in accordance with IFRSs	4.2	10.9	54.0	–5.9	63.2
Elimination of effects from fair value adjustments to investment property	–3.2	0.0	–66.3	0.0	–69.5
Elimination of effects from market valuation of interest rate hedges	–1.5	–12.5	6.5	1.5	–6.1
Taking into account of proportional annual bonuses	–0.3	–0.2	–0.7	1.2	0
Adjusted EBT (excluding one-time items)	**–0.8**	**–1.8**	**–6.6**	**–3.2**	**–12.4**

After tax, there was a consolidated net loss for the year of EUR –34.1 million (previous year: consolidated net profit of EUR 48.0 million). The corresponding earnings per share fell from EUR 0.92 to EUR –0.65.

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

	2008	2007	Change
	EUR'000	EUR'000	%
Revenues	221,325	193,253	14.5 %
Total operating performance	171,558	861,863	–80.1 %
EBITDA	64,910	111,817	–41.9 %
EBIT	64,064	111,045	–42.3 %
EBT	–32,408	63,170	–151.3 %
Consolidated net loss/profit for the year	–34,138	48,041	–171.1 %

Taking into account all one-time items, profit/loss from interest rate hedges in 2007 and 2008 not impacting liquidity as well as fair value adjustments to investment property in 2007, the following overview of key adjusted consolidated profit and loss account items emerges:

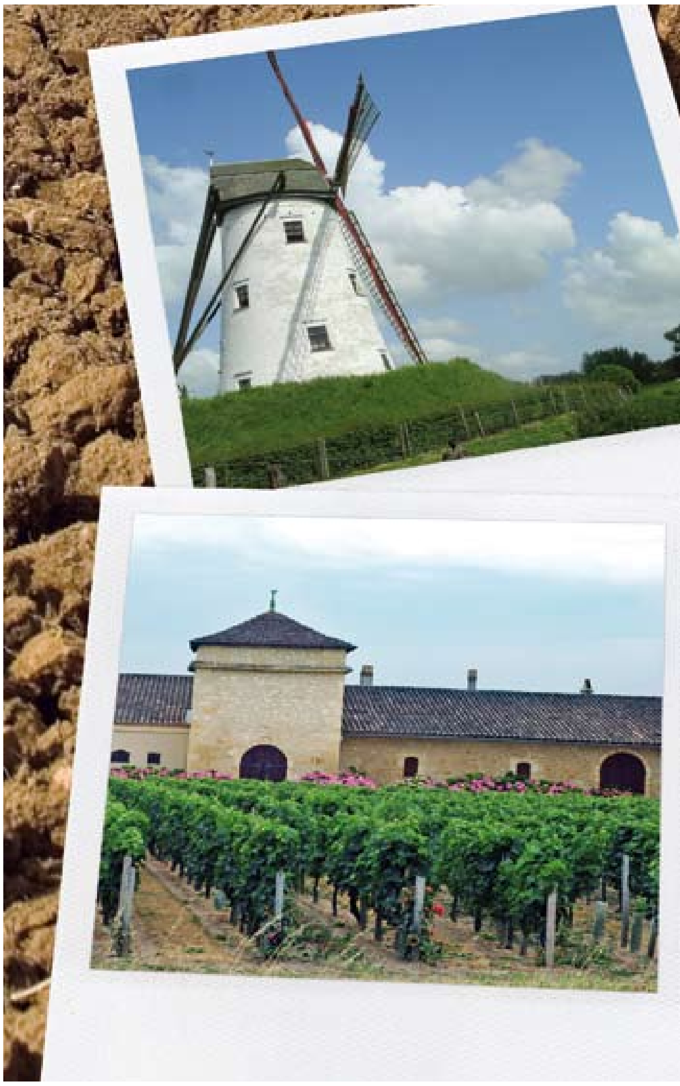
	2008	2007	Change
	EUR'000	EUR'000	%
Revenues	221,325	193,253	14.5 %
Total operating performance	171,558	861,863	–80.1 %
EBITDA (adjusted)	65,386	42,340	54.4 %
EBIT (adjusted)	64,540	41,568	55.3 %
EBT (adjusted)	842	–12,422	106.8 %

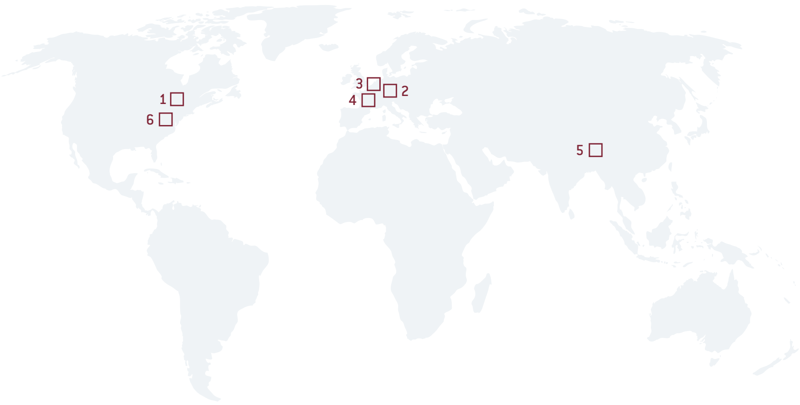
private business

It is fashionable to live and work under the same roof. A trend that, on closer observation, isn't really a trend at all. The principle is as old as, well, any home truth. There have always been people whose home was where they worked, whose workplace was where they lived. Modern teleworkers were by no means the pioneers ...

LEFT: **1** FARM RIGHT: **2** LIGHTHOUSE

TOP: **3** WINDMILL BELOW: **4** VINEYARD





1 State of New York, USA
2 Westerhever, Germany
3 Bruges, Belgium
4 Bordeaux, France
5 Punakha, Bhutan
6 Washington D.C., USA

LEFT: **5** MONASTERY RIGHT: **6** WHITE HOUSE

2.2 NET ASSET AND FINANCIAL SITUATION OF THE GROUP

The development of our consolidated balance sheet was shaped by the sale of real estate assets and the reduction of bank liabilities. Both processes were contributing factors in the reduction of total assets from EUR 1,643.2 million to EUR 1,517.2 million by the end of the year.

As a result of the sales concluded, our real estate assets, which comprise investment property, investment property under construction and inventories, decreased from EUR 1,525.2 million to EUR 1,388.9 million. PATRIZIA holds selected properties for a longer time to generate stable rental income. This investment property is recognized at fair value in profit or loss in accordance with IAS 40 and amounted to EUR 660.0 million as at December 31, 2008. No value adjustments were made to investment property. The Investment property under construction item, which amounts to EUR 11.2 million, contains the Munich-Ludwigsfeld asset repositioning property. In the previous year (2007: EUR 20.2 million), this item also included the successful sale of the "Dresden Altmarktkarree II" property.

OUR REAL ESTATE ASSETS DECREASED TO EUR 1,388.9 MILLION OWING TO SUCCESSFUL SALES.

As at December 31, 2008, PATRIZIA's participations amounted to around EUR 3.1 million (previous year: EUR 2.0 million). The stake in PATRoffice Real Estate GmbH & Co. KG, our co-investment 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 2008 fiscal year, this amounted to EUR 6.0 million (previous year: EUR 5.1 million).

IN 2008 WE REDUCED BANK LOANS BY EUR 100.3 MILLION TO EUR 1,161.7 MILLION.

The real estate intended for sale as part of ordinary business operations is reported in the inventories. This is measured at amortized cost. Owing to the sales concluded, inventories decreased by EUR 75.6 million to EUR 717.8 million.

Current receivables and other current assets rose to EUR 41.6 million (previous year: EUR 37.9 million). Bank balances and cash climbed from EUR 54.0 million to EUR 67.9 million (+25.7%).

On the liabilities side of the balance sheet, the Company's equity had decreased by EUR 45.1 million to EUR 291.5 million by the end of the 2008 fiscal year. In the process, valuation results from existing cash flow hedges reduced equity by EUR 8.1 million. Due to the consolidated net loss for the year of EUR –34.1 million calculated in accordance with IFRSs, consolidated net profit fell to EUR 31.0 million as at December 31, 2008. Equity per share thus amounted to EUR 5.59. The equity ratio fell to 19.2% (previous year: 20.5%).

Since a large part of cash inflows from real estate sales was used to repay loans, our liabilities toward banks dropped EUR 100.3 million to EUR 1,161.7 million over the course of the year. Regardless of the actual terms, loans which serve to finance the inventories are reported as short-term bank loans in the balance sheet in accordance with IFRSs. Bank loans due in less than 12 months amounted to EUR 597.9 million (51.5%) of all bank liabilities as of the reporting date of December 31, 2008. These were extended by around EUR 530 million to March 31, 2009. A second tranche was then extended by around EUR 50 million to June 30, 2009. The terms of our bank loans were thus structured as follows as of December 31, 2008.

Residual term	Total floating-rate financial liabilities as of December 31, 2008		Total floating-rate financial liabilities as of December 31, 2007	
	EUR'000	%	EUR'000	%
Less than 1 year	597,884	51.5 %	655,593	51.9 %
1 to 2 years	117,673	10.1 %	13,347	1.1 %
2 to 5 years	269,753	23.2 %	121,484	9.6 %
More than 5 years	176,425	15.2 %	471,573	37.4 %
TOTAL	**1,161,735**	**100 %**	**1,261,997**	**100 %**

CASH INFLOWS OF EUR 13.9 MILLION WERE GENERATED IN THE 2008 FISCAL YEAR.

As at December 31, 2008, there were loan agreements with seven different German banks, concluded exclusively in euro. 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 4.4 and 5.8 of the notes to the consolidated financial statements. The credit terms are presented in the Risk Report.

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 posted cash outflow of EUR 21.7 million, which is 65.3% less than in the previous year (EUR –62.6 million). We generated cash inflows of EUR 78.2 million from investing activities and from the sales of investment property in particular. In the previous year, cash flow from investing activities amounted to EUR –604.2 million due to extensive real estate acquisitions for investment purposes. There were also marked differences in cash flow from financing activities as compared with the previous year. This amounted to EUR –42.6 million in the 2008 fiscal year. By contrast, borrowing of loans and a capital increase led to cash inflows of EUR 637.6 million in the previous year. The change in cash thus amounted to EUR 13.9 million (previous year: EUR –29.2 million), with the result that cash, which totaled EUR 54.0 million at the end of 2007, increased to EUR 67.9 million as of December 31, 2008.

Summary of the 2008 Cash Flow Statement:

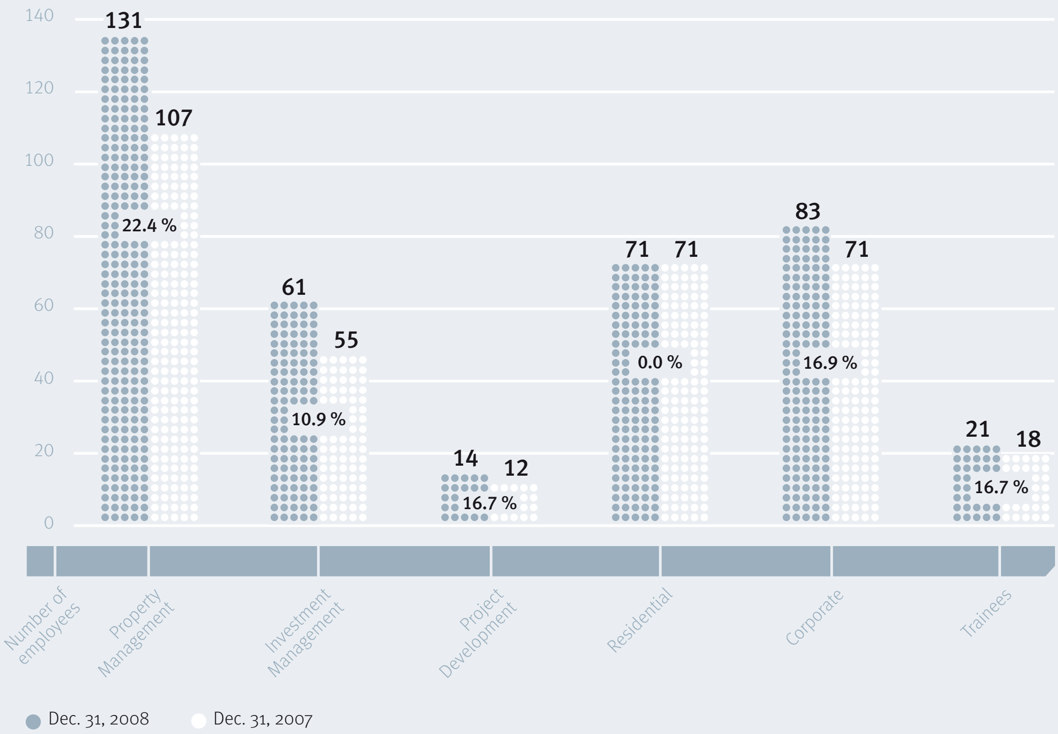
	2008	2007	Change
	EUR’000	EUR’000	%
Cash outflow from operating activities	–21,733	– 62,603	65.3 %
Cash inflow/ outflow from investing activities	78,184	– 604,212	112.9 %
Cash inflow/ outflow from financing activities	–42,558	637,617	–106.7 %
Changes in cash	13,892	– 29,198	147.6 %
Cash and cash equivalents (Jan. 1)	54,013	83,211	–35.1 %
Cash and cash equivalents (Dec. 31)	**67,905**	**54,013**	**25.7 %**

2.3 EMPLOYEES

The PATRIZIA Group had 381 permanent employees as of December 31, 2008, including 21 trainees. Compared with the end of 2007 (334 employees), the number of staff rose by 47 employees (14.1%).

In the course of the restructuring with the Group mentioned before, the former PATRIZIA Asset Management GmbH was absorbed into the Investment Management and Residential company. We therefore no longer present the Asset Management business line separately and have adjusted the previous year's figures accordingly.

Staff changes by business lines



2.4 NON-RELEVANT SUB-AREAS

The PATRIZIA Immobilien AG Group Management Report does not contain any information on certain sub-areas, as these are not relevant for the Company. This includes statements on research and development, as this is not carried out within the Group. We have included statements on comparable activities, such as our research. Furthermore, we do not include any statements on the subject of environmental protection, since the operating activities of PATRIZIA do not pose any threat to the environment. We nevertheless endeavor to optimize energy standards as part of the construction measures we undertake to enhance the value of our real estate and thus to contribute to the protection of the environment over the long term.

Procurement and production, in the conventional sense, do not apply to PATRIZIA's operating activities as an investor and service provider either. Real estate intended for resale in the short term is reported under inventories. Purchasing due diligence and the implementation of value-enhancing measures take place on an individual basis according to the property concerned, as this is the only way we can offer tailored solutions.

2.5 NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF PATRIZIA IMMOBILIEN AG

The annual financial statements of PATRIZIA Immobilien AG which are prepared in accordance with the Handelsgesetzbuch (HGB – German Commercial Code) for fiscal year 2008 are published in the electronic Federal Gazette.

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 these companies, PATRIZIA Immobilien AG generated revenues of EUR 9.6 million, generated mostly from management cost allocations of the subsidiaries. The staff costs amounted to EUR 5.7 million (previous year: EUR 5.6 million), an increase of 1.3%. This was attributable to an increase in staff numbers of almost 17%. Other operating expenses more than halved from EUR 10.9 million in the previous year to EUR 5.0 million. The parent company's profit/loss consists of the operating profit/loss of the Company itself and income from participations as well as profits and losses of the subsidiaries with which profit and loss transfer agreements exist. The earnings from profit transfers totaled EUR 6.6 million (previous year: EUR 22.2 million). PATRIZIA Immobilien AG's net profit for the year calculated in accordance with HGB was EUR 11.6 million in the 2008 fiscal year (previous year: EUR 14.6 million). In addition to the profit carried forward of EUR 19.5 million, the net profit for the year comprises the Company's distributable profit. This unappropriated profit amounted to EUR 31.1 million, a rise of 59.2% in comparison with the previous year. Retained earnings for the 2007 fiscal year, which was carried forward fully to new account, contributed to this.

Summary of the PATRIZIA Immobilien AG balance sheet:

	31.12.2008	31.12.2007
	EUR'000	EUR'000
Non-current assets	152,281	151,890
Current assets	161,827	147,817
Prepaid expenses	95	154
Total assets	**314,203**	**299,861**
Equity	306,102	294,549
Provisions	2,103	1,566
Liabilities	5,998	3,746
Total equity and liabilities	**314,203**	**299,861**

Summary of the profit and loss account of PATRIZIA Immobilien AG:

	2008	2007
	EUR'000	EUR'000
Revenues	9,605	6,707
Income and expenses	–2,571	281
Net interest income	7,328	6,227
Net earnings before taxes	**14,362**	**13,215**
Taxes	–2,809	1,409
Net profit	**11,553**	**14,624**
Profit carried forward	19,511	4,887
Unappropriated profit	**31,064**	**19,511**

DISCLOSURES IN ACCORDANCE WITH ARTICLE 289 (4) AND ARTICLE 315 (4) HGB (GERMAN COMMERCIAL CODE)

As at December 31, 2008, the share capital of the Company consisted of 52,130,000 no-par-value registered shares. There are no restrictions, special rights or similar agreements with regard to the shares. All shares are admitted for trading in the Prime Standard of the Frankfurt Stock Exchange.

As at the balance sheet date, Wolfgang Egger, Chairman of the Managing Board, holds a total stake of 49.97% 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.

The appointment and dismissal of the members of the Managing Board conforms to Article 84 f. of the Aktiengesetz (AktG – German Stock Corporation Act); changes to the Articles of Association take place in accordance with Article 179 ff. of the AktG in connection with Article 16 of the Articles of Association of PATRIZIA Immobilien AG.

The Managing Board was authorized by resolution of the Annual General Meeting on June 3, 2008 to acquire shares in the Company valued at up to 10% of share capital by December 2, 2009. The authorization may be exercised in whole or in partial amounts, on one or more occasions and in pursuit of one or more objectives by the Company and also by its Group companies or implemented for its or their account by third parties. At the option of the Managing Board, the acquisition will be made via the stock exchange, by way of a public purchase offer aimed at the shareholders of the Company, through the use of derivatives or through individually negotiated reacquisition. The acquired shares may subsequently be used for any legally permissible purpose; in particular, they may be redeemed, sold in exchange for non-cash contributions or to the shareholders or used to comply with subscription and conversion rights.

With the consent of the Supervisory Board, the Managing Board is also 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.

No agreements contingent upon a change in control subsequent to a takeover bid or compensation agreements made with the members of the Managing Board or employees for the event of a takeover bid exist.

2.6 TRANSACTIONS WITH RELATED COMPANIES AND INDIVIDUALS

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

3. OPPORTUNITY AND RISK REPORT

3.1 CHANGES IN OPPORTUNITIES AND RISKS

Risk policy principles

The risk policy principles of PATRIZIA are oriented toward safeguarding the continued existence and growth of the Group. To ensure that these objectives are attained, we have implemented a unified risk management system throughout the Company that is defined and monitored by the Managing Board. This enables the Managing Board to secure existing and future success potential in a targeted manner and to counteract any unfavorable developments at an early stage. Our systematic risk management process ensures that risks are identified and recorded, assessed, controlled and monitored at an early stage. Opportunities are also analyzed at the same time in order to identify and utilize their associated potential. Our risk strategy is thus based on an assessment of risks and the opportunities associated with them. In our business activities we place great importance on a balanced ratio of opportunity to risk. The business model and strategy of PATRIZIA significantly determine the manner in which opportunities and risks are handled. Thus, risk oriented goals are derived from the economic performance factors and financial and societal objectives set by the Group.

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 and appropriate countermeasures.

The risk management organization

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. It designs the identification process and allocates responsibilities for the individual risks. 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. Risks are quantified according to their probability of occurrence and the magnitude of potential damage. 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.

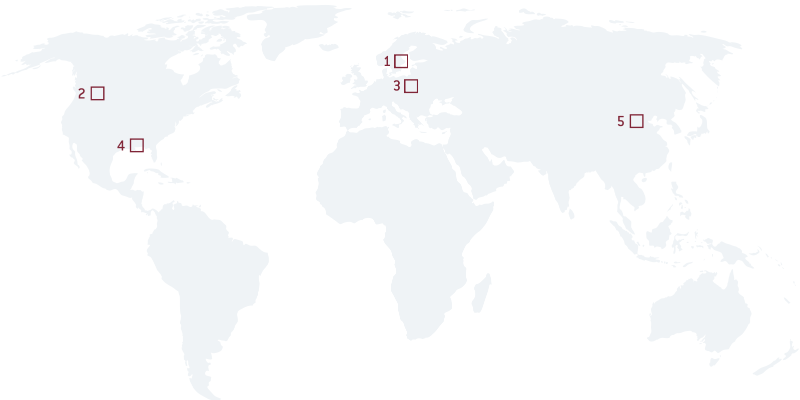
Opportunity management

Particularly for the purpose of identifying market opportunities at an early stage, PATRIZIA has its own Research team, which comprehensively analyzes market and competitive data and produces forecasts with regard to the German residential and commercial real estate market. Our Research team also prepares analyses on defined locations across Europe. Opportunities relevant to corporate strategy arise from the acquisition of selected real estate in the recommended micro locations.

functional

Home architecture is infinitely variable. Its form, colours and materials always adapt to the wider context of social and cultural circumstances. In all its countless shades and nuances, however, this architecture always fulfils one very specific function: It puts a roof over people's heads and gives them four walls within which to live.

LEFT: **1** TERRACED HOUSE SETTLEMENT RIGHT: **2** HOUSEBOAT



1 Uppsala, Sweden
2 Okanagan Lake, Canada
3 Warsaw, Poland
4 Biloxi, USA
5 Taiyuan, China

TOP: **3** MOBILE HOME BELOW: **4** TRAILER PARK

5 MULTI-STOREY BUILDING

3.2 INDIVIDUAL OPPORTUNITIES AND 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 OPPORTUNITIES AND RISKS

Macroeconomic development

Although PATRIZIA only operates within the German real estate market in respect of its own investments, pan-European and/or global economic developments could impact the Company's performance in a positive as well as a negative manner. The growth of the world economy will slow considerably owing to the impact of the financial market crisis on the goods and services industry in 2009. We also expect a significant slowdown in economic growth in the German economic area in 2009. The threat of a longer recession could increase further if economic and financial measures are not effective or are not sufficiently effective. The continuing liquidity squeeze on the financial markets and the resulting restricted lending policies of the banks could hinder necessary investments. The consequence of this would be a rise in unemployment and restrained consumption and investment behavior in Germany. Any reluctance of private households to make investments could result in lower demand for private residential real estate. An increase in outstanding rental income would also be conceivable. Both reduced demand for private residential real estate and higher amounts of uncollected rent can negatively impact the net asset, financial and earnings situation of PATRIZIA. By contrast, the volatility on the stock markets and lower financing interest rates for private investors could strengthen investment in tangible assets such as residential real estate.

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 developments

According to forecasts by the Statistisches Bundesamt (German Federal Statistical Office), 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 levels of vacancy and a lower demand for residential real estate. However, research data revises this assumption: despite the decline in population, demand for housing will rise by 2020 since the number of households will grow by 1.1 million to 40.5 million. The reason for this is firstly the rising number of single people in the aging society and secondly the current trend toward growing living-space requirements per capita from the current figure of 42 sqm to 45 sqm. The low level of new construction and the necessity of demolishing old buildings will also put pressure on supply. Strong waves of internal migration, particularly to regions undergoing strong growth in and around the cities, contribute to the rising demand for housing in these locations.

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 and avoid realization of real estate fair values shown in the balance sheet. We constantly analyze price levels and integrate these into our planning. We limit the risk of declining market attractiveness by purchasing only high-quality properties in economically appealing locations with significant population influx and good prospects for the future.

Experts anticipate that the requirement for new housing will reach between 360,000 and 400,000 units per year. However, according to current expectations, only around 200,000 units will be completed. This will lead to further shortages in residential space, particularly in economically appealing metropolitan areas where demand is high. Thus we currently anticipate that prices within our portfolio will remain stable or increase and that rents will climb more than in past years.

As residential real estate prices in Germany have not risen to the same degree as in other European countries, it is possible that institutional investors will show greater interest in acquiring German residential real estate. 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.

Investors with strong equity such as pension funds and family offices continue to show heightened interest. In this case, however, a distinction must be made in respect to the portfolio size potential competitors are interested in. 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 sector encompassing real estate. To strengthen its competitive position, PATRIZIA Immobilienmanagement GmbH obtained certification according to ISO 9001:2000 in 2007. Competitive risks could have a negative impact on the earnings position of both the Investment and Services segments.

OPERATING OPPORTUNITIES AND 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.

Investments

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 Group's earnings position. Furthermore, risks exist due to conditions upon which PATRIZIA has no influence, such as weather damages.

Interest rates and financing

In the 2008 fiscal year, the financial and capital market environment in particular has seen developments that could influence PATRIZIA's financing situation, including in the near future. The extensive use of external financing in connection with our acquisitions of real estate means that we are exposed to interest rate fluctuations and refinancing risks. Besides the external components of market interest rate volatility, assessments of PATRIZIA's credit standing also influence financing options.

Our continuous planning takes account of rises in financing costs. The risks arising from this are to be assessed as higher based on our current loan volume. Increased expenses for existing variable-rate loans and non-capped 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 Group. Owing to current developments in the financial markets and the interest rate forecasts for the next few months, we estimate the risk of interest rates rising to be rather low. However, in spite of falling interest rates we do not expect overall financing costs to decrease significantly on account of the shortage of financial resources.

We employ interest rate derivatives in order to reduce risk. We have entered into interest rate hedges for around 80% of our bank loans, more than 80% of which have a term in excess of four years or more. The reviewed fair value assessment of interest rate hedges as of the reporting date can exert a considerable influence on net profit in accordance with IFRSs due to the underlying financing volume with greater interest rate fluctuations – even if these effects do not constitute income or expenses that impact liquidity. The hedged acquisition interest rate was on average 4.15 % at the end of 2008. However, particularly with the low interest rates we are currently observing, the assessment yields not inconsiderable finance costs, which negatively impact net profit in accordance with IFRSs. 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.

Depending on the loan agreement, there is a risk that PATRIZIA will no longer be able to comply with the underlying loan terms (covenants). As a result, the banks could terminate such loans or call in parts of them. The covenants generally relate to the rental basis, i.e. a portfolio must generate a certain percentage of the interest expenses via the net rental income. There are also loan agreements that are linked to the ratio of the loan proceeds to the fair value of the financed property. The loan to value (LTV) sets the loan proceeds in proportion to the fair value of the real estate, which is calculated on agreed valuation dates. Shares of PATRIZIA Immobilien AG do not serve as security or an indicator in any of our loan agreements, thus the price of PATRIZIA shares is not relevant for either the calling in of loans or margins. Furthermore, the loans are always concluded at real estate company level, i.e. the real estate contained within them serves as security.

The continuing liquidity squeeze experienced by some banks could result in further financial risks for the Group: With regard to its financing from short-term loans, PATRIZIA will need to extend or refinance these loans. In the same way, the acquisition of further real estate portfolios would be linked to additional borrowing. Due to restricted lending by the banks, financing options could 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 net asset, financial and earnings situation and liquidity.

Increasing interest rates could also negatively impact individual privatization sales since the interest burden would rise for interested purchasers and our customers could find themselves in financing difficulties. However, the current market environment is characterized by low interest rates, which in turn benefit real estate investments.

In order to further diversify risks, we have expanded our Services segment so as to be less dependent on transaction business in the future due to stable, recurrent service fees.

Liquidity

As of December 31, 2008, bank balances and cash posted amounting to EUR 67.9 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. We assess the risk of insufficient internal financing power and debt retirement capability to be very low.

At present, a credit check in the sense of a rating by an external rating agency does not exist with regard to PATRIZIA on account of the associated costs. Our stable financing structure has benefited from long-term, trustworthy cooperation with exclusively German banks.

Characteristics of 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 Group's financial and earnings situation. As the real estate is retained for future transactions, the potential level of damage can be classified as low over the long term, although there may be negative budget variances in the short term. Residential units suitable for individual sales and 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 adversely impact the financial and earnings situation.

Continuity in sales

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 circumvent the risk of poor marketability of properties to be marketed.

Creditworthiness of business partners

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. Active receivables management ensures that defaults on payments are kept to a minimum. Impairments are thus unlikely. A default on the part of business and joint venture partners or problems with acquiring new business and joint venture partners could jeopardize implementation of the respective joint projects.

IT security

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

Employees

The competence of our employees is a decisive factor in the development of PATRIZIA. A risk of knowledge loss exists resulting from staff fluctuations as well as due to vacancies of qualified experts who have not been sufficiently recruited for the Group. In both cases, we would thus sacrifice competitive advantages on the market. We minimize these risks by means of qualified promotion of junior staff and implement focused employee-retention measures, primarily with respect to key positions.

Regulatory and legal proceedings

In the context of our operating activities, PATRIZIA could become involved in legal disputes, particularly with tenants. 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. PATRIZIA Immobilien AG is affected by the interest barrier (Zinsschranke) introduced as part of the corporate taxation reform on January 1, 2008, but was able to avoid negative effects from the interest barrier (Zinsschranke) in the 2008 fiscal year by using a so called escape clause. At present, it cannot be assessed conclusively with regard to the 2009 fiscal year if the utilization of an escape clause will be possible as well.

3.3 OVERALL ASSESSMENT OF OPPORTUNITIES AND RISKS

Risk management at PATRIZIA is a continuous process which adapts relevant factors with respect to identified changes in risk to prevailing circumstances. In 2008, as in previous years, PATRIZIA examined the evaluation categories for the potential magnitude of damage and increased or reduced them as necessary. The risk management system illustrated here enables PATRIZIA to counteract the specified risks and to exploit the opportunities that present themselves. Under consideration of all relevant individual risks and a possible cumulative effect, PATRIZIA's overall risk is limited at present. Based on our current knowledge and medium-term planning, no significant risks to the future development and continued existence of the Company and the Group have been identified.

4. SUPPLEMENTARY REPORT

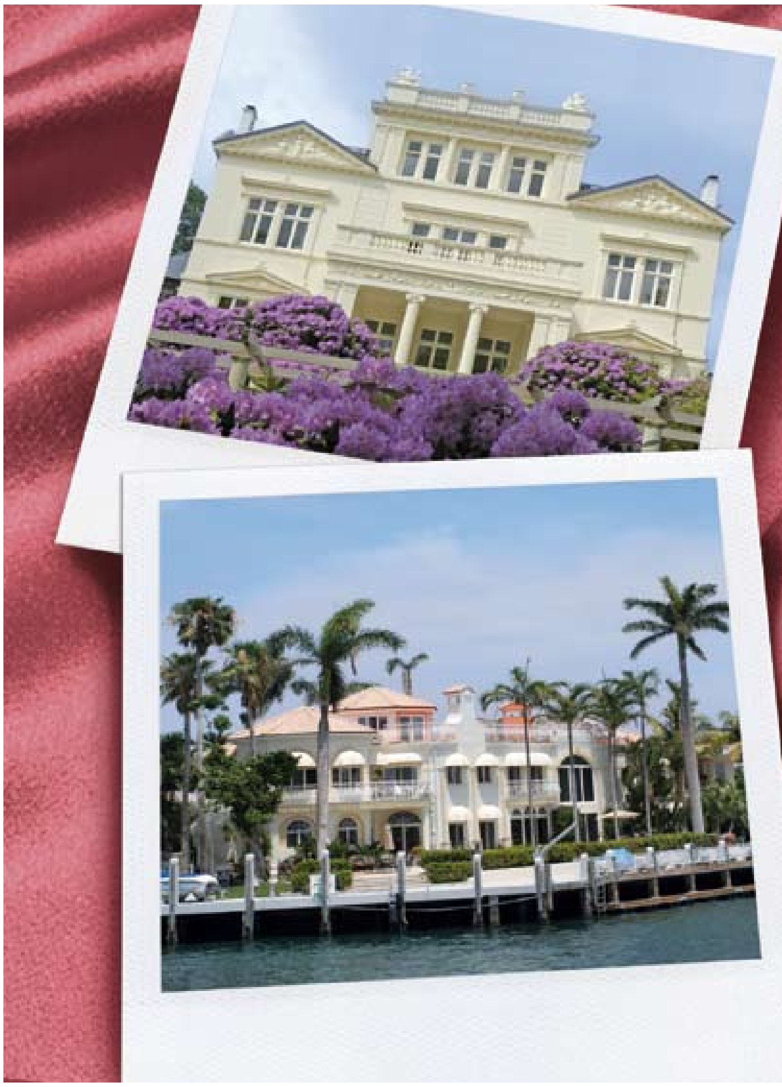
No transactions or events occurred after the end of the reporting period with significant consequences for the course of business.

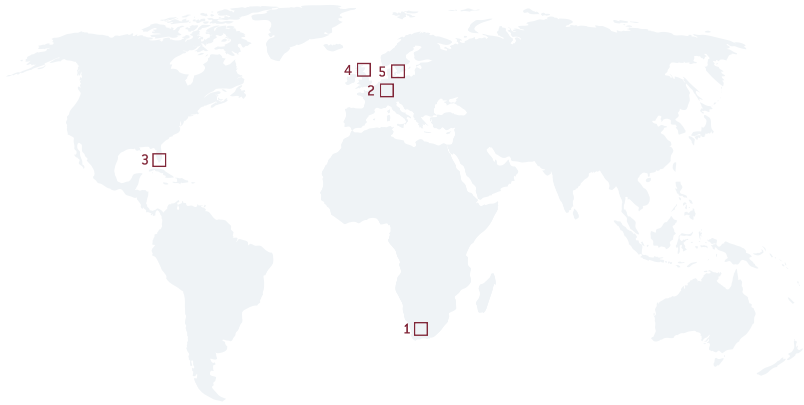
exclusive

But what exactly is “exclusive”? Attractive? Beautiful? Breathtaking? Celestial? Charming? Dazzling? Enchanting? Exciting? Extravagant? Fantastic? Fascinating? Glamorous? Imposing? Impressive? Indescribable? Magical? Magnificent? Opulent? Out of the ordinary? Picturesque? Sensational? Unique? Wonderful?

1 MANSION

TOP: **2** TOWN HOUSE BELOW: **3** BEACH HOUSE





1 Cape Town, South Africa
2 Hamburg, Germany
3 Miami, USA
4 Aberdeenshire, Scotland
5 Malmö, Sweden

LEFT: **4** BALMORAL CASTLE   RIGHT: **5** TURNING TORSO

5. REPORT ABOUT EXPECTED DEVELOPMENTS

BLOCK SALES HAVE BECOME ESTABLISHED AS A SALES CHANNEL AND UNDERLINE OUR TRADING ROLE.

PATRIZIA Immobilien AG's roots lie in managing and privatizing residential real estate. Although this remains an important business line for our Company, we have developed further. We have responded to the requirements of the market and exploited the opportunities that presented themselves. Today, PATRIZIA is a trader in real estate with a focus on residential real estate. In addition to individual sales of residential units to private investors, developing and bundling individual residential properties into portfolios and subsequently selling them to institutional investors has gained in significance as a further business focus. In the 2008 fiscal year, around 60% of all units sold were attributable to block sales, proving the continuation of our transaction-oriented PATRIZIA investment strategy of acquiring high-quality properties in attractive locations, optimizing the real estate by means of value-enhancing measures and subsequently selling it for a profit through the best sales channel.

However, we continue to develop. Based on the expertise and experience acquired from 25 years as an investor on the German real estate market, a further focus of our operating activities is offering specialized real estate products. We offer investors the opportunity to invest in real estate indirectly through fund products or other tailored investment products. The required administration and management expertise is therefore fully covered by our subsidiaries. We have thus developed into an investment house and asset manager for the real estate investment category. Our investment management line is to be expanded further and will constitute a second focal area of our business model in the future.

Future general economic situation in Germany

WANING ECONOMIC STRENGTH IS EXPECTED FOR 2009.

Short-term growth prospects are hindered by the worsening of the crisis in the financial markets. The EU Commission forecasts that Germany's GDP will shrink by 2.3% in the current year, while economic researchers at "ifo" (Institut für Wirtschaftsforschung – German Institute for Economic Research) predict a decline of 2.2%. Although the percentages given in forecasts of individual research companies differ, there is consensus regarding negative performance trends and their impact on the German economy. The ECB may further reduce interest rates in 2009 to counteract the economic downswing. If there are no signs of the economy stabilizing, a new base rate low could be reached. Deutsche Bundesbank is predicting an inflation rate of 0.8% for 2009; according to the "ifo" forecast it will fall to 0.9% and the ECB also anticipates inflation of less than 1%. In view of the crisis on the financial markets and its effects on the goods and services industry, companies are largely pessimistic with regard to 2009. From a statistical point of view, the Statistisches Bundesamt (German Federal Statistical Office) anticipates a braking effect, which started in the German economy in 2008, of around 1.5 percentage points. The general uncertainty of economic forecasts and the process of putting figures on the effects of the financial market crisis on the economy will continue to be dominated by specific downward risks arising from the financial market crisis.

Ongoing restrictive lending behavior of the banks with regard to financing investments will have a negative impact on the real estate market. We anticipate that financing options will be hampered and subject to higher bank margins, particularly with regard to new financing of larger volumes. The equity interest necessary for procuring loans will increase further. The financing of private residential units presents a different picture: we do not expect the conditions for financing private homes to deteriorate as a result of the financial market crisis, as private customer business enables the banks to generate stable margins, as well as to diversify risk. The prevailing low interest rates should also move private investors to make investment decisions in favor of acquiring residential real estate. By contrast, it should be taken into account that private investors may refrain from making investments due to increasing uncertainty regarding their future income situation.

Future situation in the German residential real estate market

Depending on the region, growth in the German residential market exhibits sharply divergent trends. Demand for residential real estate in the main economic centers is characterized by immigration from economically weaker regions and a rising trend toward city living, due to good infrastructure and shorter commuting distances. On the supply side, the continuing trend toward a lower number of building permits will also lead to rent and price increase in the future – a development that is already clearly demonstrated by rent increases in metropolitan areas such as Munich. On the other hand, rural regions are characterized by a trend toward outward migration, which has a corresponding effect on demand and therefore also the rent and ultimately the price level.

Various studies have forecast total demand for new construction in Germany of between 330,000 and 400,000 residential units per year for the next years. However, it is a fact that the level of new construction is continually falling. According to the Statistisches Bundesamt, in 2007 the construction of around 182,300 apartments was approved, of which around 157,100 were in the form of new buildings. From January to November 2008, the number of permits for new buildings declined even further to around 140,000 – almost 5% less than in the previous year's period (January to November 2007: 147,000 apartments). In addition to the growth in the number of households due to demographic trends, the rising number of apartments that are not suitable for renovation will increasingly contribute to the shortage of living space in the main economic centers in the future. A quarter of existing German apartments are over 60 years old; approximately 44% were built between the end of World War II and the late 1970s, with only 3% having been built after 2000. The trend toward living alone with a higher number of square meters per capita will further strengthen demand for living space in metropolitan areas and thus cause rents and prices to rise.

WIDENING REGIONAL PRICE DIFFERENCES CHARACTERIZE THE GERMAN RESIDENTIAL MARKET. LOCATION AND QUALITY OF REAL ESTATE ARE BECOMING MORE DECISIVE THAN EVER IN TERMS OF MARKETABILITY. THE CONTINUING TREND TOWARD A LOWER NUMBER OF BUILDING PERMITS WILL BOOST PRICES.

Expected development of the earnings and financial situation

In the future, PATRIZIA's earnings situation will continue to depend on the amount of rental income and the number of units sold. Based on the quality and location of our real estate, we are confident that we can increase rental income slightly, even in the coming months. We also anticipate a higher proportion of stable income from our Services business in 2009. However, PATRIZIA's performance will be significantly influenced by income from the sale of residential real estate. As explained in detail, several factors support investment in residential real estate: low interest rates, high volatility on the capital markets and the value stability of real estate of our quality. On the other hand, the investment behavior of private and institutional investors will be significantly shaped by further economic development in Germany and worldwide. As it is difficult to estimate the degree of the economic downward trend in 2009, a forecast on investors' attitudes toward investing is also difficult to gauge. For this reason, we have decided not to publish a detailed earnings forecast for fiscal year 2009. Based on the quality of our real estate portfolio, the expertise and the experience of our employees and based on our diversified business model, we believe that we are well prepared to meet successfully the challenges that 2009 sends our way. We therefore anticipate operating profit in fiscal year 2009.

As of January 1, 2009, the PATRIZIA portfolio comprised around 12,000 units, of which at present approximately 4,000, i.e. around one third, are intended for individual privatization. Taking into account the wait-and-see attitude toward investments on the part of private households that we observed as early as the start of 2008, we currently do not expect transaction volumes in privatization to pick up, although the fundamental data indicates good reasons for investing in tangible assets. In the Asset Repositioning line, i.e. block sales, we can offer our customers tailored portfolios of many different sizes. In this connection, institutional investors' readiness to invest will be decisively influenced by their individual liquidity situations and access to financial resources. The capital available for Project Development is fully tied up at present, with the result that no new projects in this business line are planned prior to completion of one of the projects in 2010. The Services segment will also fall short of its target earnings contribution of 10% in 2009 if the number of transactions to be managed remains at the low level of the previous year.

The conclusion of upcoming credit extensions will be of major significance to PATRIZIA's earnings and financial situation. As mentioned in the Management Report, a financing volume of around EUR 530 million is due for extension at the end of March and a further EUR 50 million is due for extension at the end of June 2009. To the best of our present knowledge and based on current market conditions we are confident that we will be able to extend existing loans in line with market conditions as we have done in the past.

As regards presentation of our income, in 2009, as previously, we will continue to differentiate between calculation of earnings in accordance with IFRS and operating profit/loss. We define operating profit/loss as adjusted EBT, i.e. EBT adjusted for all non-cash items.

Appropriation of net profits

To strengthen of the Company's equity in a market environment that continues to be unpredictable, the Managing Board will propose to the Supervisory Board that the net profit of PATRIZIA Immobilien AG for 2008 be entirely carried forward.

Number of employees

We expect only minor changes to the number of staff in the current fiscal year, as personnel-related adjustments in line with the current size of the Company have been concluded. In view of the uncertain performance of the business, PATRIZIA will refrain from recruiting new staff.

Opportunities

The basis for a meaningful and reliable assessment of the real estate markets is gathering, evaluating and interpreting market data. Our excellent and highly experienced Research department, which identifies opportunities and risks, is essential for our investment decisions and the development of our real estate products. 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.

DESPITE WANING ECONOMIC GROWTH, WE EXPECT RENTS AND PRICES IN THE MAIN ECONOMIC CENTERS TO CLIMB. WE REGARD THE PRICE ADVANTAGE OF EXISTING REAL ESTATE TO BE AN ARGUMENT IN FAVOR OF A PURCHASE DECISION.

Real estate prices are heavily influenced by expectations of the economy and the rental market, as well as by lending and financing costs and yields from government bonds and risk premiums. We anticipate that as soon as the current negative economic trend turns around, rents and transaction volumes will follow suit. Regardless of general economic developments, we are expecting rent increases in the main economic centers. Impetus from the financing side is to be expected if banks extend their lending and interest rates remain low. Overall, low interest rates and the trend toward tangible assets should lead to a rise in demand for real estate. Owing to the significant price increase for new buildings, we regard the price advantages of existing real estate as an argument supporting a purchasing decision. The low home ownership rate of 43% – of which 19% are households with an owner-occupied apartment – provides both a large group of potential tenants and privatization opportunities.

General statement

The 2009 fiscal year will be a difficult year for all German businesses. The further development of the financial market crisis and the degree to which it spreads to the goods and services industry will be of decisive significance. In spite of the uncertain economic situation, we do not see any risk of our real estate portfolios devaluing or our rental income decreasing. Demand for residential space is affected more by quality and location of the real estate and demographic developments than by economic cycles. The high-quality PATRIZIA real estate portfolio is located exclusively in attractive situations in German cities. In our view, this asset class will gain further significance in light of the uncertain capital market environment. We therefore remain confident that, despite the difficult conditions, we can successfully meet the challenges that 2009 presents. We therefore anticipate operating profit in fiscal year 2009.

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.

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES AS AT DECEMBER 31, 2008

C

CONSOLIDATED BALANCE SHEET IN ACCORDANCE WITH IFRS AS OF DECEMBER 31, 2008

ASSETS

	Notes to consolidated financial statements	31.12.2008	31.12.2007
A. NON-CURRENT ASSETS		EUR'000	EUR'000
Software	4.1	579	196
Investment property	4.1	660,000	711,558
Investment property under construction	4.1	11,162	20,205
Equipment	4.1	2,005	2,087
Investments in joint ventures	4.1	6,033	5,067
Participations	4.1	3,090	2,043
Long-term financial derivatives	4.4	0	8,704
Long-term tax assets	4.2	311	375
Deferred tax assets	5.3	0	0
Total non-current assets		**683,180**	**750,235**
B. CURRENT ASSETS			
Inventories	4.3	717,772	793,395
Short-term financial derivatives	4.4	0	4,546
Short-term tax assets	4.2	6,685	3,144
Current receivables and other current assets	4.5	41,611	37,859
Bank balances and cash	4.6	67,905	54,013
Total current assets		**833,973**	**892,957**
TOTAL ASSETS		**1,517,153**	**1,643,192**

EQUITY AND LIABILITIES

	Notes to consolidated financial statements	31.12.2008	31.12.2007
A. EQUITY		TEUR	TEUR
Share capital	5.1.1	52,130	52,130
Capital reserves	5.1.2	215,862	215,862
Retained earnings			
- legal reserves	5.1.3	505	505
Valuation results from cash flow hedges	4.4	–8,054	2,941
Consolidated net profit		31,029	65,167
Total equity		**291,472**	**336,605**
B. LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred tax liabilities	5.3	4,769	9,914
Long-term financial derivatives	4.4	24,551	1,142
Retirement benefit obligations	5.4	365	369
Total non-current liabilities		**29,685**	**11,425**
CURRENT LIABILITIES			
Short-term bank loans	5.2	1,161,735	1,261,997
Short-term financial derivatives	4.4	10,238	235
Other provisions	5.5	616	594
Current liabilities	5.6	12,556	32,171
Tax liabilities	5.7	9,847	165
Other current liabilities		1,004	0
Total current liabilities		**1,195,996**	**1,295,162**
TOTAL EQUITY AND LIABILITIES		**1,517,153**	**1,643,192**

CONSOLIDATED PROFIT AND LOSS ACCOUNT IN ACCORDANCE WITH IFRS
for the period from January 1, 2008 to December 31, 2008

	Notes to consolidated financial statements	2008	2007
		EUR'000	EUR'000
1. Revenues	6.1	221,325	193,253
2. Income from the sale of investment property		21,747	0
3. Changes in inventories	6.2	–75,623	666,705
4. Other operating income	6.3	4,109	1,905
5. Total operating performance		**171,558**	**861,863**
6. Cost of materials	6.4	– 66,000	– 778,775
7. Staff costs	6.5	– 22,445	– 19,908
8. Amortization of software and depreciation on equipment	6.6	–846	– 771
9. Results from fair value adjustments to investment property	6.7	0	69,477
10. Other operating expenses	6.8	– 17,199	– 20,543
11. Earnings from companies accounted for using the equity method		– 1,004	– 298
12. Finance income	6.9	29,972	20,371
13. Finance cost	6.9	– 126,444	– 68,246
14. Profit / loss before income taxes		**–32,408**	**63,170**
15. Income tax	6.10	– 1,730	– 15,129
16. Net profit / loss		**–34,138**	**48,041**
17. Profit carried forward		65,167	17,126
18. Allocation to retained earnings			
a) legal reserves		0	0
b) other retained earnings		0	0
19. Consolidated net profit		**31,029**	**65,167**
Earnings per share (undiluted), in EUR	6.11	–0,65	0,92

CONSOLIDATED CASH FLOW STATEMENT
for the period from January 1, 2008 to December 31, 2008

	2008	2007
	EUR'000	EUR'000
Consolidated profit / loss after taxes	–34,138	48,041
Amortization of intangible assets and depreciation on property, plant and equipment	846	771
Results from fair value adjustments to investment property	0	–69,477
Loss from / gain on disposal of investment properties (under construction)	–21,747	0
Loss from / gain on disposal of fixed assets	0	419
Change in deferred taxes	–5,144	11,384
Change in retirement benefit obligations	–4	63
Non-cash item income and expenses that are not attributable to financing activities	29,339	–22,619
Changes in inventories, receivables and other assets that are not attributable to investing activities	68,394	–614,570
Changes in liabilities that are not attributable to financing activities	–59,279	583,385
Cash outflow from operating activities	**–21,733**	**–62,603**
Capital investments in intangible assets and property, plant and equipment	–1,205	–1,845
Cash receipts from disposal of intangible assets and property, plant and equipment	58	81
Cash receipts from disposal of investment property	84,000	0
Payments for development or acquisition of investment property	–1,652	–595,041
Investments	–3,017	–7,407
Cash receipts from disposal of financial assets	0	0
Cash inflow / outflow from investing activities	**78,184**	**–604,212**
Dividend of PATRIZIA Immobilien AG	0	–7,820
Capital increase of PATRIZIA Immobilien AG	0	104,060
Borrowing of loans	1,331	543,243
Repayment of loans	–43,889	0
Other cash inflows or outflows from financing activities	0	–1,866
Cash inflow from financing activities	**–42,558**	**637,617**
Changes in cash	**13,892**	**–29,198**
Cash January 1	54,013	83,211
Cash December 31	67,905	54,013

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY IN ACCORDANCE WITH IFRS
for the period from January 1, 2008 to December 31, 2008

	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, 2008	**52,130**	**215,862**	**505**	**2,941**	**65,167**	**336,605**
Results from fair valuation adjust-ments cash flow hedges				–10,995		**–10,995**
Net loss for the period					–34,138	**–34,138**
BALANCE DECEMBER 31, 2008	**52,130**	**215,862**	**505**	**–8,054**	**31,029**	**291,472**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY IN ACCORDANCE WITH IFRS (REPORTING PERIOD PREVIOUS YEAR)
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 adjust-ments 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**

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2008

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, 2008 were prepared in line with IFRS and in compliance with the provisions of German commercial law additionally applicable as per Article 315a (1) of the German Commercial Code. All compulsory official announcements of the International Accounting Standards Board (IASB) have been applied, i.e. those adopted by the EU in the context of the endorsement process and published in the Official Journal of the EU.

The International Financial Reporting Interpretations Committee (IFRIC) has published two interpretations that are to be adopted in the current fiscal year. These are:

- IFRIC 12 – "Service Concessions Arrangements" (this interpretation has not yet been adopted by the EU)
- IFRIC 14 – "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

Adoption of these interpretations did not affect the consolidated financial statements.

Although the following standards and interpretations had already been published at the time of preparing the consolidated financial statements, their adoption was not compulsory at that time:

- IFRS 8 – "Operating Segments" (to be adopted for fiscal years commencing on or after January 1, 2009)
- IFRIC 13 – "Customer Loyalty Programs" (to be adopted for fiscal years commencing on or after July 1, 2008)
- IFRIC 15 – "Agreements for the Construction of Real Estate" (to be adopted for fiscal years commencing on or after January 1, 2009; this interpretation has not yet been adopted by the EU)
- IFRIC 16 – "Hedges of a Net Investment in a Foreign Operation" (to be adopted for fiscal years commencing on or after October 1, 2008; this interpretation has not yet been adopted by the EU)
- IFRIC 17 – "Distributions of Non-cash Assets to Owners" (to be adopted for fiscal years commencing on or after July 1, 2009; this interpretation has not yet been adopted by the EU)
- IFRIC 18 – "Transfers of Assets from Customers" (to be adopted for fiscal years commencing on or after July 1, 2009; this interpretation has not yet been adopted by the EU)

These standards and interpretations have not been adopted early.

IFRIC 15 standardizes accounting practice across jurisdictions for the recognition of revenue among real estate developers for sales of units, such as apartments or houses, 'off plan', i.e. before construction is complete. Adoption of the interpretation is not expected to have any effect on the consolidated financial statements of PATRIZIA Immobilien AG, neither do we expect IFRS 8 or the other IFRICs to affect the consolidated financial statements.

Although the following amendments to standards had already been published at the time of preparing the consolidated financial statements, their adoption was not compulsory at that time:

- Amendment to IFRS 1 – "First-time Adoption of International Financial Reporting Standards" (amendment relating to determining cost of subsidiaries in separate financial statements of a parent, to be adopted for fiscal years commencing on or after January 1, 2009)

- Amendment to IFRS 2 – "Share-based Payment" (amendment relating to vesting conditions and cancellations, to be adopted for fiscal years commencing on or after January 1, 2009)
- Amendment to IFRS 3 – "Business Combinations" (comprehensive revision relating in particular to application of the acquisition method, to be adopted for fiscal years commencing on or after July 1, 2009; these amendments have not yet been adopted by the EU)
- Amendment to IFRS 7 – "Financial Instruments: Disclosures" (amendment relating to reclassification of certain financial assets, to be adopted for fiscal years commencing on or after November 1, 2008)
- Amendment to IAS 1 – "Presentation of Financial Statements" (comprehensive revision including the requirement to present comprehensive income and amendments relating to disclosures about callable financial instruments and obligations arising on liquidation, to be adopted for fiscal years commencing on or after January 1, 2009)
- Amendment to IAS 23 – "Borrowing Costs" (comprehensive revision removing the option of immediately recognizing borrowing costs as an expense, to be adopted for fiscal years commencing on or after January 1, 2009)
- Amendment to IAS 27 – "Consolidated and Separate Financial Statements" (amendments resulting from the amendments to IFRS 3, to be adopted for fiscal years commencing on or after July 1, 2009; these amendments have not yet been adopted by the EU)
- Amendment to IAS 32 – "Financial Instruments: Specifications and Presentation" (amendments relating to disclosures about callable financial instruments and obligations arising on liquidation, to be adopted for fiscal years commencing on or after January 1, 2009)
- Amendment to IAS 39 – "Financial Instruments: Recognition and Measurement" (amendments relating to the reclassification of certain financial assets, to be adopted for fiscal years commencing on or after November 1, 2008, and amendments relating to risk positions qualifying for hedge accounting, to be adopted for fiscal years commencing on or after January 1, 2009; the latter amendments have not yet been adopted by the EU)
- Amendments arising from the annual improvements to the IFRSs dating from May 2008

Apart from the following exceptions, we do not expect adoption of the amended standards to affect the consolidated financial statements:

Previously under IAS 23 – "Borrowing Costs", 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 adoption, borrowing costs relating to the production of a qualifying asset must be capitalized.

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 EUR thousand (TEUR).

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 and various share purchases during the course of 2007, First Capital Partner GmbH was indirectly and directly a shareholder in PATRIZIA Immobilien AG with 50.16%. As part of existing designated sponsor agreements, First Capital Partner GmbH loaned a total of 100,000 shares to two designated sponsor banks. As at December 31, 2008, First Capital Partner GmbH was thus indirectly and directly a shareholder in PATRIZIA Immobilien AG with 49.97%.

2. SCOPE OF CONSOLIDATION AND CONSOLIDATION METHODS

2.1 SCOPE OF CONSOLIDATION

All of the Company's subsidiaries are consolidated in the consolidated financial statements of PATRIZIA Immobilien AG. The Group 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 Article 264 (3) of the German Commercial Code. The partnerships also found in the list of shareholdings make use of the relief provided for in Article 264b of the German Commercial Code.

Joint ventures are companies that 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 accounted for at equity within the Group.

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 accounted for at equity in the consolidated financial statements.

In addition to the parent company, the scope of consolidation comprises 70 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 accounted for at equity in the consolidated financial statements.

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

With effect from January 1, 2008, PATRIZIA Immobilien AG merged PATRIZIA Bautechnik GmbH with PATRIZIA Wohnungspriviatisierung GmbH. The company trades under the name of PATRIZIA Wohnen GmbH.

Also with effect from January 1, 2008, PATRIZIA Advisory & Sales GmbH was merged with PATRIZIA Asset Management GmbH. This company trades under the name of PATRIZIA Investmentmanagement GmbH.

By way of an agreement dated December 18, 2008, PATRIZIA Immobilien AG sold its participation in PATRIZIA Projekt 200 GmbH to Alte Haide Baugesellschaft mbH. PATRIZIA Projekt 200 GmbH was merged with Alte Haide Baugesellschaft mbH with retroactive effect as of May 31, 2008.

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 book value of the participation 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 book value of the participation is developed in line with the proportionate changes in equity at associated companies.

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 a 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 and/or for capital appreciation. The share 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 income.

Investment property is measured at fair value on the basis of external appraisals carried out by independent experts using current market prices or customary valuation methods with the aid of the current and long-term rental situation. The fair value is equivalent to the market 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 investment property is successful, the difference between the book value and the fair value is recognized in the results as 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 at equity. The Group includes its share in the joint venture in which the book value of the participation 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 carried at 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 book value 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 book value 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 book value 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 book values 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 contains the determination of the hedging instrument when compensating for risks arising from changes to the fair value or 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 as to 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 book value 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 book value 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 were 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 rental.

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
2008	EUR'000	EUR'000	EUR'000
Acquisition costs			
Balance as at January 1, 2008	**304**	**4,026**	**4,330**
Additions	641	564	1,205
Disposals	0	–319	–319
Balance as at December 31, 2008	**945**	**4,271**	**5,216**
Amortization			
Balance as at January 1, 2008	**108**	**1,939**	**2,047**
Additions	258	588	846
Disposals	0	–262	–262
Balance as at December 31, 2008	**366**	**2,265**	**2,631**
BOOK VALUES AS AT JANUARY 1, 2008	**196**	**2,087**	**2,283**
BOOK VALUES AS AT DECEMBER 31, 2008	**579**	**2,005**	**2,584**

	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**

DEVELOPMENT OF NON-CURRENT ASSETS

2008	Investment Property EUR'000
Fair Value	
Balance as at January 1, 2008	**711,558**
Additions – assets	1,385
Disposal of assets	– 52,943
BALANCE AS AT DECEMBER 31, 2008	**660,000**

2007	Investment Property 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**

DEVELOPMENT OF NON-CURRENT ASSETS

2008	Investment Property under construction EUR'000
Acquisition costs	
Balance as at January 1, 2008	**20,205**
Additions – assets	267
Disposal of assets	–9,310
BALANCE AS AT DECEMBER 31, 2008	**11,162**

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

DEVELOPMENT OF NON-CURRENT ASSETS

2008	Participations in joint ventures EUR'000	Participations EUR'000	Total EUR'000
Acquisition costs			
Balance as at January 1, 2008	**5,365**	**2,043**	**7,408**
Additions	1,970	1,047	3,017
Disposals	0	0	0
Balance December 31, 2008	**7,335**	**3,090**	**10,425**
Adjustment at equity / amortization			
Balance as at January 1, 2008	**–298**	**0**	**–298**
Additions	–1,004	0	–1,004
Disposals	0	0	0
Balance as at December 31, 2008	**–1,302**	**0**	**–1,302**
BOOK VALUES AS AT JANUARY 1, 2008	**5,067**	**2,043**	**7,110**
BOOK VALUES AS AT DECEMBER 31, 2008	**6,033**	**3,090**	**9,123**

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

Investment property is property that is held for generating rental income and/or for capital appreciation. The investment property is recognized at fair value in profit or loss in accordance with IAS 40. The investment property in Dresden was sold in the fiscal year.

The fair value was calculated by an independent expert using a discounted cash flow procedure and based on the property rents at that time. The valuation model makes adjustments to market rents taking general legal conditions into account. Cash flow was discounted at an average of 5.7% p.a. over the detailed planning period of 10 years and subsequently at an average of 4.9% p.a.

Investment property under construction involves properties which are being constructed or developed for future investment purposes. Recognition is carried out in line with IAS 16 at amortized cost. The investment property under construction in Dresden was sold in the fiscal year.

The 50% share in F 40 GmbH is accounted for under the Participations in joint ventures item.

The Participations item includes the 5.1% share in Hyrebostädter i Norra Tyskland Verwaltungs GmbH and the 6.25% share in PATRoffice Real Estate GmbH & Co. KG.

The book values of the financial assets fall in the individual categories as follows:

	2008	2007
	EUR'000	EUR'000
Loans and receivables	41,611	41,378
Available-for-sale financial assets	3,090	2,043
Financial assets which are valued at fair value through profit or loss and are held for trading in accordance with IAS 39	0	8,225
Derivative financial instruments which are designated as hedging instruments and are effective as such	0	5,025
Bank balances and cash	67,905	54,013

The book values of the financial liabilities fall in the individual categories as follows:

	2008	2007
	EUR'000	EUR'000
Financial liabilities which are measured at fair value through profit or loss and are held for trading in accordance with IAS 39	24,340	1,142
Financial liabilities which are measured at residual value through profit or loss	1,175,295	1,305,210
Derivative financial instruments which are designated as hedging instruments and are effective as such	10,449	235

Other liabilities are measured entirely at amortized cost.

4.2 TAX ASSETS

Corporation tax credits of 311 TEUR (previous year: 375 TEUR) with a right to payment from 2008 and to 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:

	2008	2007
	EUR'000	EUR'000
Real estate intended for sale	717,772	793,395
	717,772	**793,395**

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

Inventories to the value of 97,205 TEUR (previous year: 84,572 TEUR) were sold in the fiscal year.

The book value of the inventories which are pledged as security totals 628,121 TEUR (previous year: 680,846 TEUR).

4.4 FINANCIAL DERIVATIVES

The Group uses various interest rate swaps, interest rate collars and interest rate caps 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 –31,998 TEUR (previous year: 5,969 TEUR).

As at December 31, 2008, the nominal volume of the derivatives classified as not effective totaled 514,325 TEUR (previous year: 505,779 TEUR); the corresponding fair values were –24,340 TEUR (previous year: 7,083 TEUR).

The changes to the fair values of the hedging derivatives of –15,114 TEUR (previous year: 2,808 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 –776 TEUR (previous year: 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, 2008, the nominal volume of these hedging derivatives totaled 398,650 TEUR (previous year: 530,800 TEUR); the corresponding fair values were –10,449 TEUR (previous year: 4,790 TEUR).

As at December 31, 2008, the entire amount of unrealized loss (previous year: 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 –8,054 TEUR (previous year: 2,941 TEUR). It is expected that the interest rate hedges will be concluded in line with contractual conditions at 3% in 2009, at 13% in 2010, at 1% in 2011 and at 84% in 2012 and 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:

	2008 EUR'000	2007 EUR'000
Trade receivables	31,667	27,128
Other current assets	9,944	10,731
	41,611	**37,859**

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

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

	2008 EUR'000	2007 EUR'000
Rent receivables	**2,980**	**3,399**
Of which ‹ 60 days	1,290	1,578
Of which › 60 days and ‹ 180 days	215	1,821
Of which › 180 days	1,475	0

Of these, rent receivables are secured with rental deposits amounting to 616 TEUR (previous year: 769 TEUR).

Trade receivables and other current assets are decreased by specific value adjustments of 342 TEUR (previous year: 488 TEUR).

Changes in the value adjustment account for receivables:

	2008 EUR'000	2007 EUR'000
Balance as at January 1	488	175
Additions	67	341
Outflows due to derecognitions	–19	–19
Outflows due to payments received	–194	–9
BALANCE AS AT DECEMBER 31	**342**	**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 book 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: 52,130 TEUR) and was divided into 52,130,000 no-par value shares.

With the consent of the Supervisory Board, the Managing Board was 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 indirectly and directly shareholder of PATRIZIA Immobilien AG with 26,047,572 no-par value shares, which equates to a 49.97% shareholding (previous year: 50.16%).

5.1.2 CAPITAL RESERVES

The share premiums collected for the issue of new shares that occurred in the past as part of the company's capital increase are posted unchanged in the capital reserve.

5.1.3 RETAINED EARNINGS

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

5.2 BANK LOANS

The residual terms of the bank loans are as follows:

	Total floating-rate financial liabilities 2008	Total floating-rate financial liabilities 2007
	EUR'000	EUR'000
‹ 1 year	597,884	655,593
1 – 2 years	117,673	13,347
2 – 5 years	269,753	121,484
› 5 years	176,425	471,573
	1,161,735	**1,261,997**

All loans are in euro. 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 are posted as bank loans due in less than one year, whose term ends within the 12 months following the reporting date as well as revolving lines of credit taken out.

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

The 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.

The Group's own real estate serves as security for the bank loans. The bank loans secured by real estate liens amount to 1,161,161 TEUR (previous year: 1,260,635 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, 2008 Assets side	Dec. 31, 2008 Liabilities side	Dec. 31, 2007 Assets side	Dec. 31, 2007 Liabilities side
	EUR'000	EUR'000	EUR'000	EUR'000
Investment property	0	13,358	0	12,912
Inventories	1,160	0	1,459	0
Derivatives	5,884	0	332	1,675
Tax loss carryforwards	1,764	0	2,860	0
Various	22	241	22	0
	8,830	**13,599**	**4,673**	**14,587**
Netting	–8,830	–8,830	–4,673	–4,673
	0	**4,769**	**0**	**9,914**

As at the balance sheet date, there were corporation tax loss carryforwards of 11,131 TEUR (previous year: 7,158 TEUR) and trade tax loss carryforwards of 0 TEUR (previous year: 6,835 TEUR), for which deferred tax assets of 1,764 TEUR (previous year: 2,860 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 5,978 TEUR (previous year: 18,214 TEUR) due to lack of predictability of their tax benefit. In the reporting year, loss carryforwards of 12,236 TEUR were used as part of the PATRIZIA Projekt 200 GmbH merger (cf. 2.1 Scope of Consolidation).

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, 2008, an actuarial interest rate of 5.5% 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, 2008, the pension provision was recognized at 365 TEUR (previous year 369 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. 1, 2008	Allocation	Reversal	Utilization	Dec. 31, 2008
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Other provisions	594	616	18	576	616
	594	**616**	**18**	**576**	**616**

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:

	2008 EUR'000	2007 EUR'000
Trade payables	1,608	16,681
Advance payments	507	837
Other liabilities	10,441	14,653
CURRENT LIABILITIES	**12,556**	**32,171**

The current liabilities have a residual term of less than 12 months. The fair value of the liabilities therefore corresponds to the book value. Other liabilities chiefly include liabilities for acquisition and manufacturing costs arising after the balance sheet date of 7,665 TEUR (previous year: 10,665 TEUR).

5.7 TAX LIABILITIES

The tax liabilities concern subsequent taxation of the former Equity 02 portfolios amounting to 3,760 TEUR, corporation tax and trade tax on profits of domestic subsidiaries amounting to 5,290 TEUR and taxes in Luxembourg of 370 TEUR (previous year: 165 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, interest rate collars and interest rate caps. 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, 2008, approximately 79% (2007: 82%) of the Group's external funds was fixed interest bearing taking into account existing financial derivatives.

Overview of the interest rate risk

The PATRIZIA 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, 2008 this would have an effect without tax regards of +23,657 TEUR on the consolidated profit (previous year: +21,024 TEUR) and +9,322 TEUR on consolidated equity (previous year: +12,245 TEUR). Taking deferred taxes into account, an increase of 100 basis points would have an effect of +17,556 TEUR on the consolidated profit and +7,655 TEUR on consolidated equity. In determining the effect, 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 22,500 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 book value 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.

	2008 EUR'000	2007 EUR'000
Interest-bearing loans	1,161,735	1,261,997
Trade payables and other liabilities	24,023	32,930
Less cash and short-term deposits	– 67,905	– 54,013
Net financial liabilities	**1,117,853**	**1,240,914**
Equity	291,472	336,605
Unrealized losses (previous year: profits)	8,054	– 2,941
Total modified equity	**299,526**	**333,664**
Modified equity and net financial liabilities	1,417,379	1,574,578
Gearing ratio	79 %	79 %

6. NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

6.1 REVENUES

Please refer to the statements on segment reporting.

Revenues include rental income from investment property of 43,447 TEUR (previous year: 36,948 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 discontinued obligations (1,147 TEUR), received discounts of 382 TEUR (previous year: 425 TEUR), and income from payments in kind of 477 TEUR (previous year: 402 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 8,579 TEUR (previous year: 2,901 TEUR) expenses for maintenance of investment property.

6.5 STAFF COSTS

A breakdown of staff costs is shown below:

	2008	2007
	EUR'000	EUR'000
Wages and salaries	19,245	17,193
Social insurance contributions	3,200	2,715
	22,445	**19,908**

6.6 AMORTIZATION

Scheduled amortization amounts to 846 TEUR (previous year: 771 TEUR). It relates to software and equipment.

6.7 RESULTS FROM FAIR VALUE ADJUSTMENTS TO INVESTMENT PROPERTY

Results from fair value adjustments to investment property amount to 0 TEUR (previous year: 69,477 TEUR).

6.8 OTHER OPERATING EXPENSES

A breakdown of other operating expenses is shown below:

	2008	2007
	EUR'000	EUR'000
Administrative expenses	10,538	11,748
Selling expenses	5,454	5,397
Other expenses	1,207	3,398
	17,199	**20,543**

6.9 FINANCIAL RESULT

	2008	2007
	EUR'000	EUR'000
Interest on bank deposits	1,366	2,589
Income from interest hedges	6,703	1,901
Changes in value of the derivatives	21,097	14,825
Income from securities	0	364
Other interests	806	692
	29,972	**20,371**
Interest on revolving lines of credit and bank loans	–71,515	–57,910
Expenses from interest hedges	–823	–1,372
Changes in value of the derivatives	–53,871	–8,711
Other finance cost	–235	–253
	–126,444	**–68,246**
	–96,472	**–47,875**

Interest income of 0 TEUR (previous year: 635 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:

	2008	2007
	EUR'000	EUR'000
Current taxes	–4,516	–3,634
Deferred taxes	2,786	–11,495
	–1,730	**–15,129**

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 30.825% (previous year 40%). The income tax rate consists of 15% corporation tax, and on this a 5.5% solidarity surcharge and 15% trade tax:

	2008	2007
	EUR'000	EUR'000
IFRS consolidated profit/loss for the period before income tax	–32,408	63,170
Expected actual income tax expenses	9,990	–25,268
Non-deductible operating expenditure	–568	–572
Tax-free income	0	944
Utilization of non-capitalized loss carryforwards	3,957	0
Non recognition of loss carryforwards	–6,827	–3,253
Trade tax effects from limited taxable income	–7,308	8,787
Special effect of the Equity 02 taxation	–118	–3,954
Effect of tax rate changes	0	6,222
Effects outside the period	–1,219	1,305
Other	363	660
EFFECTIVE TAX EXPENSE	**–1,730**	**–15,129**

6.11 EARNINGS PER SHARE

	2008	2007
Profit share of Group shareholders	EUR –34,137,630	EUR 48,040,655
Number of shares issued	52,130,000	52,130,000
Weighted number of shares	52,130,000	51,987,452
Earnings per share (undiluted)	EUR –0.65	EUR 0.92

There were no diluted earnings per share in the reporting year or in the previous year. As at December 31, 2008 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:

2008	Investments EUR'000	Services EUR'000	Corporate EUR'000	Total EUR'000
External revenues	215,071	6,249	5	**221,325**
EBITDA [1]	73,284	–592	– 7,782	**64,910**
EBIT [1]	73,025	–621	– 8,340	**64,064**

2007	Investments EUR'000	Services EUR'000	Corporate EUR'000	Total EUR'000
External revenues	184,225	8,998	30	**193,253**
EBITDA [1]	117,476	1,234	– 6,893	**111,817**
EBIT [1]	117,215	1,138	– 7,308	**111,045**

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 8,875 TEUR (previous year 5,182 TEUR), interest expenses of 79,905 TEUR (previous year: 45,821 TEUR) and reimbursed income taxes of 2,269 TEUR (previous year: 14,097 TEUR) as well as borrowing and repayment of bank loans to finance current assets are assigned to current 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.

No dividend 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 employees in the reporting period and earlier periods. The provident fund commitment is reinsured. The commitment was granted in 2003. In 2008, a total of 56 TEUR (previous year: 56 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 counterperformance for these contributions.

Since January 1, 2002, employees have had a statutory right to deferred compensation of up to 4% of the contributions ceiling per year in the 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 Managing Board to grant stock options and for the contingent capital established to this effect was reversed.

In the consolidated annual financial statements for fiscal year 2006 PATRIZIA announced 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, business line 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 before taxes and Group return on equity as well as absolute share price performance and performance in relation to reference indices.

On a business line 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 are 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.

The management participation model became effective for Managing Board members on January 1, 2008.

PATRIZIA extended the new management participation model to the second management level in 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
- First Capital Partner GmbH, Gräfelfing
- FCP Service 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 49.97% 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.

Alfred Hoschek, a member of the Managing Board of the Company until November 30, 2008, 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

Johannes Altmayr, Eckhard Bolte, Dr. Bernhard Engelbrecht, Gerhard Faltermeier, Werner Gorny, Jürgen Kolper, Klaus Kümmerle, Dr. Wolfgang Lange, Martin Lemke and Markus Scherl also hold a total of 1.28% as members of the additional management levels of PATRIZIA.

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

PATRIZIA Immobilien AG and the subsidiaries of PATRIZIA Immobilien AG perform various services for Wolfgang Egger and for companies controlled indirectly or directly by Wolfgang Egger. In particular, these services relate to management of real-estate portfolios and construction projects. The scope of services to be performed by PATRIZIA Immobilien AG and/or its subsidiaries is precisely defined in the framework agreement of February 12, 2008. The remuneration for services performed agreed in the contract is in line with current market conditions. In the 2008 fiscal year, PATRIZIA performed services to the value of 569 TEUR.

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 (who left the Company on November 30, 2008) is a director and sole shareholder of AHO Verwaltung GmbH.

Consultancy Agreement with the Law Firm Seitz, Weckbach, Fackler

There is a consultancy relationship with the law firm Seitz, Weckbach, 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 2008, consultancy costs of 9 TEUR were incurred at the law firm Seitz, Weckbach, 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
Arwed Fischer, business studies graduate (univ.), 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 (until November 30, 2008)
Klaus Schmitt, law graduate, Chief Operating Officer

In the fiscal year, the payments made to the Managing Board totaled 1,137 TEUR (previous year: 1,911 TEUR); details are included in the following table:

Compensation of the Managing Board in 2008 (EUR)	Annual income			Long-term variable compensation**	Contribution to retirement pension
	Fixed compensation	Short-term variable compensation	Payments in kind and other payments*		
	EUR	EUR	EUR	EUR	EUR
Wolfgang Egger	260,000	0	21,963	0	12,000
Arwed Fischer (since March 1, 2008)	200,000	200,000	26,160	0	10,000
Alfred Hoschek (until November 30, 2008)	165,000	0	9,471	0	11,000
Klaus Schmitt	180,000	0	29,389	0	12,000
TOTAL	**805,000**	**200,000**	**86,983**	**0**	**45,000**

* The item primarily includes non-cash benefits from the provision of company cars and insurance premiums.
** Conversion into performing share units with a two-year waiting period; to be paid out at the Xetra closing price on the last trading day of 2010. No performing share units were granted for the 2008 fiscal year, as the defined target hurdles were not achieved.

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 remuneration of 62 TEUR (previous year: 62 TEUR); details can be found in the following table:

	Fixed compensation	Variable compensation
	EUR	EUR
Dr. Theodor Seitz, Chairman	24,937.50	0
Harald Boberg	18,750.00	0
Manfred J. Gottschaller	18,750.00	0
TOTAL	**62,437.50**	**0**

9.5 OTHER FINANCIAL OBLIGATIONS AND CONTINGENT LIABILITIES

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

	EUR'000
2009	711
2010 – 2013	676
2014 and later	0
	1,387

Subsidiaries of PATRIZIA Immobilien AG have issued rental guarantees totaling 546 TEUR as part of real estate sales. These guarantees are only called on in the event that an agreed minimum amount of rent is not reached.

9.6 EMPLOYEES

The average headcount at the Group in 2008 (excluding directors) was 374 (previous year 287).

9.7 AUDITOR'S FEES

The expenses for the auditor recorded in fiscal year 2008 for auditing the financial statements amounted to 379 TEUR (previous year: 410 TEUR) and 0 TEUR (previous year: 191 TEUR) for other consultancy services.

9.8 GERMAN CORPORATE GOVERNANCE CODE

On December 10, 2008, the Managing Board and Supervisory Board issued a declaration of conformity in accordance with Article 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 (IFRSs).

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 Article 315 of the German Commercial Code.

Augsburg, February 16, 2009

Wolfgang Egger	Arwed Fischer	Klaus Schmitt
Chairman of the Board	Member of the Board	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 for the last fiscal year
2008		%	EUR	EUR
PATRIZIA Acquisition & Consulting GmbH [1]	Augsburg	100	25,000.00	0.00
PATRIZIA Investmentmanagement GmbH [1]	Augsburg	100	164,912.54	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 Wohnen GmbH [1]	Augsburg	100	618,682.33	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	10,072,450.00	0.00
PATRIZIA Immobilien Kapitalanlagegesell-schaft mbH [1]	Augsburg	100	2,963,776.67	0.00
PATRIZIA Projekt 260 GmbH [1]	Augsburg	100	24,040.80	0.00
PATRIZIA Projekt 270 Verwaltungs GmbH	Augsburg	100	24,866.57	1,356.59
PATRIZIA Projekt 280 Verwaltungs GmbH	Augsburg	100	22,374.46	– 1,132.85
PATRIZIA Projekt 290 Verwaltungs GmbH	Augsburg	100	22,637.52	– 872.62
PATRIZIA Projekt 300 Verwaltungs GmbH	Augsburg	100	22,552.02	– 958.47
PATRIZIA Projekt 310 Verwaltungs GmbH	Augsburg	100	22,582.97	– 936.47
Wohnungsgesellschaft Olympia mbH	Hamburg	100	530,151.77	–336,601.74
Stella Grundvermögen GmbH [1]	Munich	100	7,538,113.38	0.00
PATRIZIA Real Estate Corporate Finance GmbH	Munich	100	19,148.65	– 1,348.41
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 were adopted by the reporting company.

PATRIZIA Immobilien AG participates indirectly in the following companies:

Name	Head office	Share holding	Equity	Net profit/net loss for the last fiscal year
2008		%	EUR	EUR
PATRIZIA European Real Estate Management GmbH	Augsburg	100	303,368.41	272,858.58
Projekt Wasserturm Verwaltungs GmbH	Augsburg	51	27.26	–1,110.94
Alte Haide Baugesellschaft mbH	Munich	94.9	2,496,722.36	353,493.10
PATRIZIA Luxembourg S.à.r.l.	Luxembourg	100	136,801,405.64	865,684.99
PATRIZIA Lux 10 S.à.r.l.	Luxembourg	100	12,063,643.75	49,077.64
PATRIZIA Lux 20 S.à.r.l.	Luxembourg	100	30,038,770.62	124,576.77
PATRIZIA Lux 30 N S.à.r.l.	Luxembourg	100	14,377.88	– 3,711.20
PATRIZIA Lux 50 S.à.r.l.	Luxembourg	100	9,077,954.06	61,579.21
PATRIZIA Lux 60 S.à.r.l.	Luxembourg	100	3,038,351.73	34,036.78
PATRIZIA Real Estate 10 S.à.r.l.	Luxembourg	100	7,395,534.80	– 1,826,321.28
PATRIZIA Real Estate 20 S.à.r.l.	Luxembourg	100	–31,561,410.92	–44,618,314.59
PATRIZIA Real Estate 30 S.à.r.l.	Luxembourg	100	17,395.67	–612.58
PATRIZIA Real Estate 50 S.à.r.l.	Luxembourg	100	3,634,782.86	– 2,953,542.38
PATRIZIA Real Estate 60 S.à.r.l.	Luxembourg	100	–3,666,563.88	– 6,307,459.84
PATRIZIA Projekt 220 GmbH	Augsburg	100	23,592.74	– 2,354.74
PATRIZIA Projekt 230 GmbH	Augsburg	100	27,285.79	– 1,795.63
PATRIZIA Projekt 240 GmbH	Augsburg	100	23,809.08	– 1,574.96
PATRIZIA Projekt 250 GmbH	Augsburg	100	22,812.90	– 1,477.63
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	Stuttgart	50	11,575,156.28	– 2,903,735.93
PATRIZIA Projekt 380 GmbH	Augsburg	100	23,148.28	– 1,000.04
PATRIZIA Projekt 390 GmbH	Augsburg	100	23,959.10	– 189.22
PATRIZIA Projekt 400 GmbH	Augsburg	100	24,065.89	– 90.41
PATRIZIA Projekt 410 GmbH	Augsburg	100	23,800.61	– 347.71
Projekt Wasserturm Grundstücks GmbH & Co. KG	Augsburg	45.9	– 201,907.97	160,402.31
Projekt Wasserturm Bau GmbH & Co. KG	Augsburg	51	– 252,816.22	278,395.64

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

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

Name	Head office	Share holding	Equity	Net profit/net loss for the last fiscal year
2008		%	EUR	EUR
PATRIZIA Projekt A 270 GmbH & Co. KG	Augsburg	100	600.19	– 1,607.00
PATRIZIA Projekt B 280 GmbH & Co. KG	Augsburg	100	647.85	– 1,559.34
PATRIZIA Projekt C 290 GmbH & Co. KG	Augsburg	100	863.51	– 1,348.92
PATRIZIA Projekt D 300 GmbH & Co. KG	Augsburg	100	887.73	– 1,319.07
PATRIZIA Projekt E 310 GmbH & Co. KG	Augsburg	100	804.21	–1,402.59
Objekt Dresden Altmarkt SARI GmbH & Co. KG	Augsburg	100	– 3,747.96	– 2,146.16
PATRIZIA Vermögensverwaltungs GmbH[1]	Augsburg	100	687,583.35	0.00

1) As a result of the existing control and profit transfer agreement, the results were adopted by the stockholder PATRIZIA Projekt 180 GmbH.

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, 2008. 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 Article 315a (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 Article 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 Article 315a (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, February 26, 2009

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Löffler)	(Stadter)
German Public Auditor	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	Arwed Fischer	Klaus Schmitt
Chairman of the Board	Member of the Board	Member of the Board

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FURTHER INFORMATION

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

ASSETS

	31.12.2008	31.12.2007	31.12.2006	31.12.2005	31.12.2004
A. NON-CURRENT ASSETS	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Software	579	196	237	234	136
Investment property	660,000	711,558	0	1,700	16,660
Investment property under construction	11,162	20,205	0	0	0
Equipment	2,005	2,087	1,472	1,271	915
Securities	0	0	0	247	510
Investments in joint ventures	6,033	5,067	0	0	0
Participations	3,090	2,043	1	0	116
Long-term financial derivatives	0	8,704	0	0	0
Long-term tax assets	311	375	361	0	0
Deferred tax assets	0	0	1,470	1,560	2,407
Total non-current assets	**683,180**	**750,235**	**3,541**	**5,012**	**20,744**
B. CURRENT ASSETS					
Inventories	717,772	793,395	228,403	189,516	134,243
Short-term financial derivatives	0	4,546	827	0	0
Short-term tax assets	6,685	3,144	0	0	0
Current receivables and other current assets	41,611	37,859	58,684	16,395	14,075
Bank balances and cash	67,905	54,013	83,211	16,477	10,002
Total current assets	**833,973**	**892,957**	**371,125**	**222,388**	**158,320**
TOTAL ASSETS	**1,517,153**	**1,643,192**	**374,666**	**227,400**	**179,064**

EQUITY AND LIABILITIES

	31.12.2008	31.12.2007	31.12.2006	31.12.2005	31.12.2004
A. EQUITY	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Share capital	52,130	52,130	47,400	5,050	5,000
Capital reserves	215,862	215,862	118,398	573	0
Retained earnings					
- legal reserves	505	505	505	505	500
Valuation results from cash flow hedges	–8,054	2,941	475	0	0
Consolidated net profit	31,029	65,167	24,946	35,976	19,904
Total equity	**291,472**	**336,605**	**191,724**	**42,104**	**25,404**
B. LIABILITIES					
NON-CURRENT LIABILITIES					
Long-term bank loans	0	0	0	2,858	17,997
Deferred tax liabilities	4,769	9,914	0	0	0
Long-term financial derivatives	24,551	1,142	946	1,541	1,718
Retirement benefit obligations	365	369	306	285	334
Total non-current liabilities	**29,685**	**11,425**	**1,252**	**4,684**	**20,049**
CURRENT LIABILITIES					
Short-term bank loans	1,161,735	1,261,997	125,494	149,298	78,810
Short-term financial derivatives	10,238	235	0	0	0
Other provisions	616	594	535	521	858
Current liabilities	12,556	32,171	44,489	23,560	49,281
Tax liabilities	9,847	165	10,810	6,295	4,586
Other current liabilities	1,004	0	362	938	76
Total current liabilities	**1,195,996**	**1,295,162**	**181,690**	**180,612**	**133,611**
TOTAL EQUITY AND LIABILITIES	**1,517,153**	**1,643,192**	**374,666**	**227,400**	**179,064**

FIVE-YEAR OVERVIEW OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNT IN ACCORDANCE WITH IFRS

	2008	2007	2006	2005	2004
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
1. Revenues	221,325	193,253	237,611	99,508	74,727
2. Income from the sale of investment property	21,747	0	0	0	0
3. Changes in inventories	–75,623	666,705	44,114	35,823	23,261
4. Other operating income	4,109	1,905	3,357	2,791	2,639
5. Total operating performance	**171,558**	**861,863**	**285,082**	**138,122**	**100,627**
6. Cost of materials	–66,000	–778,775	–201,777	–85,815	–68,683
7. Staff costs	–22,445	–19,908	–14,882	–12,359	–10,415
8. Amortization of software and depreciation on equipment	–846	–771	–593	–603	–518
9. Results from fair value adjustments to investment property	0	69,477	150	–300	0
10. Other operating expenses	–17,199	–20,543	–16,706	–13,547	–8,998
11. Earnings from companies accounted for using the equity method	–1,004	–298	0	0	–36
12. Finance income	29,972	20,371	2,645	829	308
13. Finance cost	–126,444	–68,246	–6,719	–6,263	–4,988
14. Profit / loss before income taxes	**–32,408**	**63,170**	**47,200**	**20,064**	**7,297**
15. Income tax	–1,730	–15,129	–14,800	–3,432	–2,869
16. Net profit / loss	**–34,138**	**48,041**	**32,400**	**16,632**	**4,428**
17. Profit carried forward	65,167	17,126	0	19,349	15,476
18. Allocation to retained earnings					
a) legal reserves	0	0	0	–5	0
b) other retained earnings	0	0	–7,454	0	0
19. Consolidated net profit	**31,029**	**65,167**	**24,946**	**35,976**	**19,904**
Earnings per share in line with IFRSs, in EUR	–0.65	0.92	0.71	0.41	0.89

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 pursuant to Article 285 No. 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 pursuant to Article 285 No. 10 of the German Commercial Code
- Supervisory board member of HanseMerkur Lebensversicherung AG, Hamburg
- Supervisory board member of Flughafen Hamburg GmbH, 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 pursuant to Article 285 No. 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, research
Notification of seats on other supervisory boards as per Article 285 No. 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; since December 1, 2008 also financing
Notification of seats on other supervisory boards as per Article 285 No. 10 of the German Commercial Code
- None

Alfred Hoschek (until November 30, 2008)
Chief Investment Officer

First appointed on: August 21, 2002
Responsibilities:
Financing, investments
Notification of seats on other supervisory boards pursuant to Article 285 No. 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; since December 1, 2008 also investments
Notification of seats on other supervisory boards pursuant to Article 285 No. 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).

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

Listing Listing/quoting a share on a stock exchange.

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.

SDAX Small Cap Index. The SDAX comprises the next 50 issues from the traditional ("Classic") sectors within the Prime Standard Segment that are ranked below the MDAX.

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
March 25, 2009	Financial Statements of fiscal year 2008
March 25, 2009	Press Conference on Financial Statements 2008
May 7, 2009	Interim Report – 1st Quarter 2009
June 23, 2009	Annual General Meeting, Augsburg
August 11, 2009	Interim Report – 2nd Quarter 2009
October 20, 2009	Real Estate Share Initiative, Frankfurt/Main
November 10, 2009	Interim Report – 3rd Quarter 2009

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