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# Key Figures

## KEY FIGURES

EUR '000	2010	2009	Change %
<b>Revenues and earnings</b>			
Revenues	339,593	250,888	35.4
Total operating performance	179,856	159,253	12.9
EBITDA	62,148	56,934	9.2
EBIT	61,244	56,110	9.1
EBIT adjusted <sup>1</sup>	60,919	56,110	8.6
EBT (earnings before taxes)	11,488	-7,961	244.3
EBT adjusted <sup>1</sup>	12,789	2,419	428.7
Net profit /loss	6,201	-9,500	165.3
<b>Structure of assets and capital</b>			
Non-current assets	623,028	662,925	-6.0
Current assets	591,520	763,498	-22.5
Equity	294,732	284,824	3.5
Equity ratio (%)	24.3	20.0	4.3 % points
Non-current liabilities	50,986	40,322	26.4
Current liabilities	868,830	1,101,277	-21.1
Total assets	1,214,548	1,426,423	-14.9
<b>Other key figures</b>			
Cash flow from operating activities	205,795	101,805	102.1
Cash flow from investing activities	40,523	-171	>1,000
Cash flow from financing activities	-231,964	-113,356	-104.6
Earnings per share (EUR)	0.12	-0.18	166.7
Dividend per share (EUR)	0.00 <sup>2</sup>	0.00	0.0
Employees at December 31	370	349	6.0
Number of units in the portfolio at December 31	9,305	11,120	-16.3

<sup>1</sup> Adjusted for profit/loss from non-cash market valuations

<sup>2</sup> Dividend proposal for PATRIZIA Immobilien AG 2010 fiscal year, subject to approval by the June 29, 2011, Annual General Meeting

## SHARE

ISIN	DE000PAT1AG3
SIN (Security Identification Number)	PAT1AG
Code	P1Z
Share capital at December 31, 2010	EUR 52,130,000
No. of shares in issue at December 31, 2010	52,130,000
2010 high*	EUR 3.85
2010 low*	EUR 2.59
Closing price at December 31, 2010	EUR 3.84
Market capitalization at December 31, 2010	EUR 200.2 million
Indices	SDAX, EPRA, GEX, DIMAX

\* Closing price in Frankfurt Stock Exchange Xetra trading

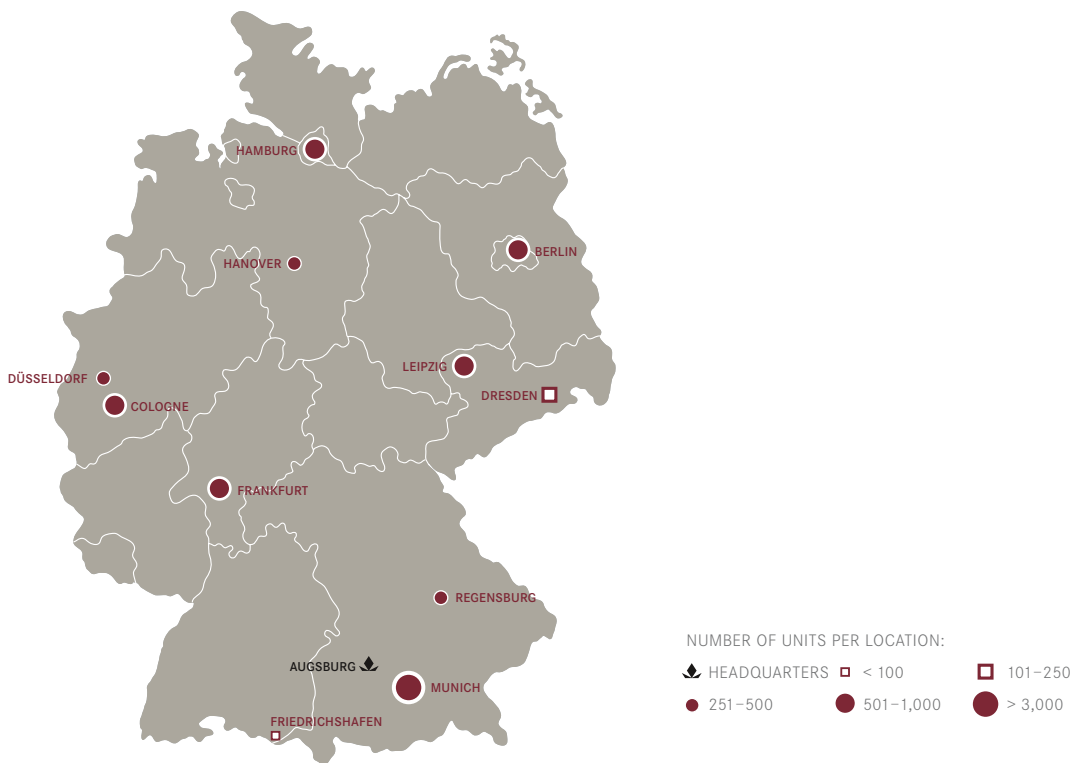
## COMPANY PROFILE

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PATRIZIA Immobilien AG has been active as an investor and service provider on the real-estate market for 27 years. With a focus on residential property, PATRIZIA has grown continuously and has been listed in the Prime Standard of the Deutsche Börse and member of the SDAX since 2006. Its business activities include the purchase of residential and commercial properties, value enhancement and subsequent placement. As a recognized business partner of large institutional investors and public authorities, the company operates all over Germany and covers the entire value chain relating to all fields of real estate. PATRIZIA's current portfolio of managed real estate comprises 25,000 residential and commercial units. The company also launches special real-estate funds in accordance with investment law via its subsidiaries PATRIZIA Immobilien Kapitalanlagegesellschaft mbH and LB Immo Invest GmbH. The PATRIZIA Group is one of the leading companies in the German specialist fund market. Today PATRIZIA manages real estate assets totaling more than EUR 5 billion.

## LOCATIONS OF PATRIZIA'S PORTFOLIO

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# Values matter

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Values provide guidance for people and companies in a changing society.

There are three core values that guide us: real estate value enhancement, the principle of sustainability and respect for customers, partners and employees.

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EXPERIENCE WHAT VALUES MEAN FOR US.

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► **ISARTOR-PALAIS, MUNICH**

With its flexible utilization concept, this exclusive property meets the highest expectations regarding modern living and working. Its powerful architecture is imbued with tradition, creating a new identity for this premium downtown district.



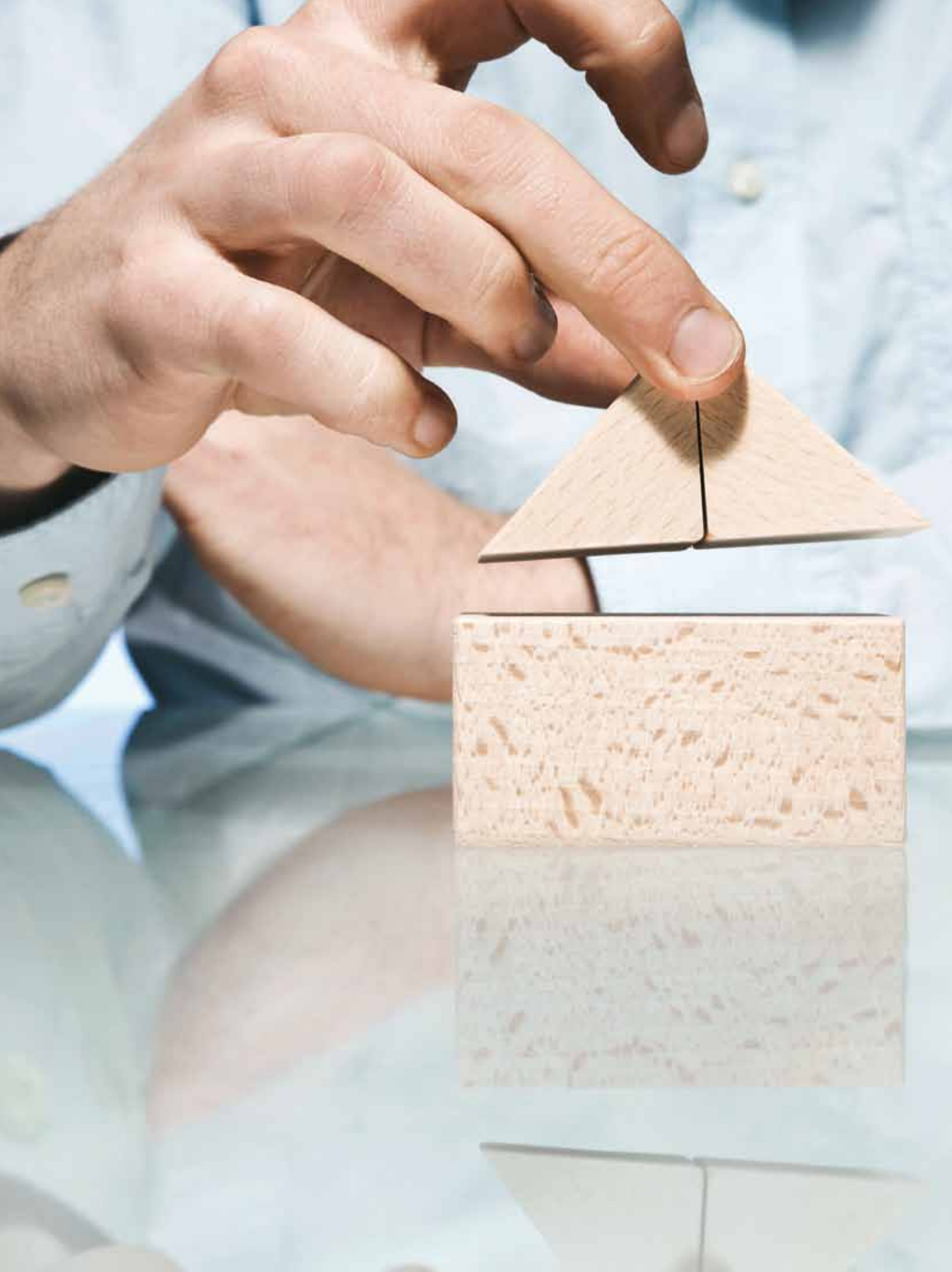
# Expertise

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We have been operating successfully in real estate industry since 1984 and have established a unique capital base of knowledge and experience in all segments of the market, from which our customers benefit in all of their property-related decisions.

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EXPERTISE – ONE ASPECT OF VALUE ENHANCEMENT.



# Creativity

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In order to exploit the full potential of a property you need to understand the markets, develop ideas and have the desire to shape the future. For these complex requirements we can draw on valuable synergies from our comprehensive range of services.



# Problem-solving competencies

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Every property offers a spectrum of possibilities, which we view through the eyes of our customers and their customers in order to provide customized solutions. This will enable us to become one of Europe's leading real estate investment companies.

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# Letter to Our Shareholders

**Dear shareholders,  
Dear ladies and gentlemen,**

we can look back on the 2010 fiscal year with a great sense of pride. We achieved a number of operational and strategic successes and met our forecasts. Besides producing very good sales figures, we completed project developments and continued to reduce our debts. Our acquisition of LB Immo Invest GmbH gives us a leading position in the German specialist investment fund market and sets the course for sustained growth.

## What Did We Achieve in Operational Terms in 2010?

We succeeded in increasing sales figures for residential property resales by 22 %. 801 individual units sold demonstrate that residential property ownership is once again highly valued. Interest in real estate as a capital investment remains high, and around two thirds of these units were purchased by individuals as buy-to-let. There was also activity in the transaction market for larger properties. We more than tripled global sales, from 289 units in the previous year to 1,002, with all purchasers still coming from Germany. 2010 saw three development projects completed to plan and sold at the end of the year. New projects are at the planning stage. Two plots of land with a total area of 7,500 sqm were purchased on the site of the former rail freight terminal in Oberkassel, Düsseldorf. PATRIZIA will build 140 premium-segment apartments in Belsenpark – one of the city's most important development projects. Other investment opportunities for project development are currently being examined.

We have used a major share of cash inflows from sales to repay liabilities. In the course of the year we were able to pay off loans totaling around EUR 230 million and reduce indebtedness by more than 20 %. This improved our equity ratio, which just about reached our target of 25 %.

## Continuing Development into a Real Estate Investment Company

With the acquisition of the profitable LB Immo Invest GmbH – the first company purchase in PATRIZIA's 27-year history – we have taken an important strategic step towards becoming an investment company for the asset category of real estate. While our focus up until now has been on residential property in Germany, we already ventured into other European countries with the PATRIZIA EuroCity Residential Fund I. Through LB Immo Invest we will in future not just also serve the commercial sector, we will also act increasingly on an international scale. Our new subsidiary will give us access to new markets and customers, securing us future growth potential. What seems important in this context is that we remove volatility from earnings – a development that has repeatedly been brought up with us by capital market players. PATRIZIA's success is currently determined to a large degree by property trading. By integrating a second asset management company we will be able to generate higher regular service fees that will contribute to reducing the fluctuations in income.

## A new Focus on Residential and Commercial Real Estate

The 2011 fiscal year will be marked by PATRIZIA's new strategic direction. We have used the last few months to take a close look at our current business model of real estate agent and service provider and at the strategy of our investments. After the difficult years of the crisis we are once again demonstrating operational strength and now wish to bring about fresh momentum, always with the aim of creating long-term value. We recognized the potential of indirect investment back in 2007 when we founded our own asset management company. We now intend exploiting these opportunities in the commercial real estate market, too. With LB Immo Invest, commercial real estate will have even greater significance for us. We have been deeply rooted in asset and real estate management in the commercial sector for a long time, to a large degree providing services for third parties. From now on we will expand this sector as

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an additional, stable component in our business model. We wish to position ourselves in future not just as a service provider but increasingly as a strategic partner, too. The more we succeed in undertaking investment with other investors the more we will be able to diversify our portfolio. We see the key for further profitable growth in focused customer orientation and collaboration with co-investors.

### Challenging Goals

PATRIZIA today stands on strong and solid foundations. Provided that business performance remains positive we intend allowing our shareholders to participate directly in our operational success again. We will also rely on the skill and commitment of our employees in 2011 and expect to at least again equal the operating profit of EUR 12.8 million achieved in 2010 – excluding the contribution to operating income from LB Immo Invest. We intend achieving this, first, through increased sales. We will benefit from the transformation in the image of residential property, since it is considered to be a secure investment now more than ever. Besides a stable contribution from the resale of residential property we consider that it will again be possible to achieve an increasing number of block sales, also with greater volumes. Second, the trend towards investment in residential property is also accompanied by a trend towards indirect investment. The main reason in favor of indirect investment in a specialist real estate investment fund is the necessary professional management of the properties. As managed assets grow, we will also increasingly benefit from ongoing income from services. And finally, we will increase our commitment in the commercial sector. This is where the integration of LB Immo Invest will first play a role, since we expect an additional contribution to earnings of EUR 3.5 million for the current year after transaction-related financing costs have been deducted.

All this will only be possible through the tireless dedication of our employees, to whom we would like to express our heartfelt thanks. We would also like to thank our business partners and shareholders, whose trust we will strive to earn in future, too. We realize that we have set ourselves ambitious goals for 2011 but the chances are highly promising.

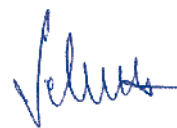
#### The Managing Board



**Wolfgang Egger**  
Chairman of the Board



**Arwed Fischer**  
Member of the Board



**Klaus Schmitt**  
Member of the Board



f.l.t.r.:

Arwed Fischer (CFO), Wolfgang Egger (CEO), Klaus Schmitt (COO)



# Report of the Supervisory Board

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**Dear shareholders,  
Dear ladies and gentlemen,**

the Supervisory Board of PATRIZIA Immobilien AG performed all the duties incumbent upon it in accordance with the law, the Articles of Association and the bylaws with great care in fiscal year 2010. We regularly advised the Managing Board on corporate management issues and monitored management measures. The Supervisory Board was at all times appropriately and directly involved in all decisions and projects that were of key importance to the Company and the Group. The Managing Board fulfilled its reporting duties as prescribed by law and the bylaws in full and provided us with comprehensive information on a regular and prompt basis regarding key aspects of the Company's and Group's business performance and current earnings situation including their risk position and risk management system. The Company's planning and associated opportunities and risks as well as deviations from plans and objectives previously made were explained and justified in detail. We were also informed about important business transactions and projects at an early stage outside of our regular meetings.

### Ordinary Meetings and Topics of the Supervisory Board

The Supervisory Board came together in four ordinary meetings during the reporting year, and each meeting was attended by all members in person. Regular exchanges between the Supervisory Board and the Managing Board also took place outside of these meetings in personal discussions. We treated all measures that, according to the law, the Articles of Association or the bylaws of the Managing Board, require the approval of the Supervisory Board in accordance with the reports and resolutions of the Managing Board. When necessary, resolutions of the Supervisory Board were also passed by circulation. Contrary to the recommendations of the German Corporate Governance Code we refrained from forming committees owing to the number of three Supervisory Board members. We consciously took the decision to base the size of the Supervisory Board of PATRIZIA on the minimum number of members to enable us to work efficiently and to allow an intensive exchange of ideas.

During the meeting on March 24, 2010, the Supervisory Board approved the 2009 annual financial statements for PATRIZIA Immobilien AG and the Group as well as the summary management report for PATRIZIA Immobilien AG and the Group. Following a separate examination the Supervisory Board also approved the dependent company report for the 2009 fiscal year. The resolutions for the agenda of the Annual General Meeting on June 23, 2010, were also approved. In the meeting on March 24, 2010, we also dealt with the compensation system for members of the Managing Board and in this context approved the target agreement for the 2010 fiscal year, which represents a significant component of variable compensation of the Managing Board. A further topic on the agenda was the rental agreement between PATRIZIA Immobilien AG as lessee and Wolfgang Egger as lessor for additional space for the Group's headquarters in the new adjacent building in Augsburg. After a close examination of the conditions, my Supervisory Board colleagues and I unanimously approved the rental agreement. The rent per square meter that PATRIZIA will pay for office space in the new building does not exceed the rent per square meter that other tenants will be paying for office space in the same building. The conditions for previously rented spaces in a public car park were adopted for the parking spaces.

Following the Annual General Meeting on June 23, 2010, the Supervisory Board met for their second meeting in the 2010 fiscal year. Topics on the agenda included D&O insurance for members of the Managing Board, for whom a deductible was agreed in accordance with legal stipulations. After close examination and discussions with the Managing Board we unanimously approved an extension to the rental agreement between Wolfgang Egger and PATRIZIA Immobilien AG regarding the rental of additional space in the extension housing the Group's headquarters.



Dr. Theodor Seitz (Chairman of the Supervisory Board)

The focus of the Supervisory Board meeting on September 20, 2010 was PATRIZIA's economic performance. We discussed topics concerning the operational areas and dealt with the Group's financial position and earnings situation, the status of financing and liquidity within the Group. The new allocation of responsibilities within the Managing Board was subsequently agreed.

Special attention in the Supervisory Board meeting of December 13, 2010, was devoted to planning for the coming fiscal year and the acquisition of LB Immo Invest GmbH. The plenary meeting also discussed amendments to the German Corporate Governance Code. The Managing Board and Supervisory Board then issued a Declaration of Conformity in accordance with Article 161 of the Aktiengesetz (AktG – German Stock Corporation Act). Apart from a few exceptions, the recommendations and suggestions of the Code are met. This as well as all previous declarations of conformity are permanently available for viewing on the website of PATRIZIA Immobilien AG. This year my Supervisory Board colleagues and I again subjected the efficiency of our work to close scrutiny on the basis of the Corporate Governance Code and discussed the results. The efficiency of our collaboration with each other and with the Managing Board was found to be very good.

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**Further Supervisory Board Resolutions**

The Supervisory Board of PATRIZIA Immobilien AG have extended the Managing Board contracts of CFO Arwed Fischer and COO Klaus Schmitt by resolutions passed by circulation by five years in each case. Arwed Fischer is appointed as Managing Board member until February 29, 2016, and Klaus Schmitt until December 31, 2015.

We have given our express support for the plan to acquire LB Immo Invest GmbH. We passed the resolution relating to this matter by circulation. In this context it seems important to us that by integrating LB Immo Invest PATRIZIA will become more independent of the contribution made to earnings by the sale of real estate and thus less dependent on fluctuations in demand. The expansion of activities in commercial real estate will go hand in hand with a sustained consolidation of the services area. The course was set in 2007 with the establishment of PATRIZIA's own asset management company and is being continued with the purchase of an established specialist investment company. Over the past few years PATRIZIA has demonstrably built up a level of competence in the field of commercial real estate via direct mandates and co-investments, and national and international pension funds and insurance companies have been placing their trust in the Company for some time. We are convinced that the acquisition of LB Immo Invest provides PATRIZIA with excellent long-term perspectives and will drive the successful growth of the Company.

**Examination of the Annual and Consolidated Financial Statements for 2010 and the 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 the International Financial Reporting Standards (IFRS) for fiscal year 2010 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.

All relevant annual and consolidated 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 21, 2011. 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 raised no objections. We agreed with the findings of the audit by the auditors and approved the annual and consolidated financial statements prepared by the Managing Board. The annual financial statements for fiscal year 2010 have thus been adopted pursuant to Article 172 of AktG. The Supervisory Board agrees with the proposal on the appropriation of net profit whereby a dividend for the 2010 fiscal year will not be paid out; it will instead be used to strengthen the Group's equity.

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 detecting developments in good time that jeopardize the continued existence of the Company and for adequately confronting these developments. No risks are known at present that could jeopardize the continued existence of the PATRIZIA Group either by themselves or in combination with other risks.

All legal and business relationships with related parties were submitted to the Supervisory Board, which carried out an in-depth review of market conformity on the basis of relevant documents. These contractual relationships with related parties were also checked by the auditors and are in line with current market conditions also applicable to such relationships concluded between the PATRIZIA Group and third parties.

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 sum paid by the Company 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.

The Supervisory Board would like to express its sincere thanks to all who have contributed to the wellbeing of PATRIZIA. We wish to thank the employees, the Managing Board and the directors of the operating companies for their commitment and their loyalty to the Company. The motivation and determination of each and every one will again contribute to the success of PATRIZIA in 2011. We would also like to thank our shareholders for placing their confidence in PATRIZIA.

Augsburg, March 21, 2011

For the Supervisory Board



**Dr. Theodor Seitz**  
Chairman

# Corporate Governance

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For PATRIZIA a responsible corporate policy based on sustainable value creation forms the basis of our business dealings and has established itself as the norm in our dealings with one another. The corporate governance principles of PATRIZIA Immobilien AG are essentially incorporated in the Company's Articles of Association as well as the bylaws of the Managing Board and Supervisory Board. The rules of conduct that apply throughout the Group reflect further aspects of this.

In addition to changing regulations, we see lasting principles expressing our moral values and placing on us a responsibility for our actions. We consider it the first and foremost duty of the Company and its representatives to develop and enhance confidence in sustained and value-based corporate governance. We see good corporate governance expressing our managerial responsibility as an opportunity to strengthen the trust of shareholders, investors, business partners, customers and our own employees in PATRIZIA. We attach great importance to representing the performance of our business and the associated opportunities and risks in an honest and transparent manner.

## Implementation of the Code

The Managing Board and Supervisory Board again dealt extensively with implementation of the recommendations and suggestions of the German Corporate Governance Code in 2010 and in particular with the changes contained in the version of the Code dated May 26, 2010, published in the electronic Federal Gazette on July 2, 2010. The adjustments concern, among other things, having to take changes in general legal conditions into account, in particular the provisions of the Management Remuneration Act (VorstAG) and the Act Implementing the Guidelines on Shareholders' Rights (ARUG). PATRIZIA largely follows the updates to the Code. The declaration of conformity in accordance with Article 161 of the AktG was passed by the Managing Board and Supervisory Board of PATRIZIA Immobilien AG on January 26, 2011. This and all preceding declarations of conformity are permanently available for access on our website [www.patrizia.ag](http://www.patrizia.ag). The following recommendations of the Code could not be complied with in the 2010 fiscal year and will also not be complied with in the future:

- The Company did not send notification of convening the 2010 Annual General Meeting together with the convening documents to all domestic and foreign financial services providers, shareholders and shareholders' associations by electronic means for reasons of cost and practicability.
- 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 forming committees are therefore not of significance to PATRIZIA.
- Contrary to the recommendations of the Code, the professional liability insurance or so-called D&O insurance concluded by the Company for the Supervisory Board does not provide for a deductible. The committee does not believe that a deductible for the Supervisory Board affects the sense of responsibility and loyalty with which the members of the Supervisory Board fulfill the duties and functions assigned to them. A deductible is not planned for the future.
- 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. Committee remuneration is irrelevant since no committees have been established.

- The Supervisory Board and the Managing Board expressly welcome all efforts aimed at preventing any sexual or other form of discrimination and promoting diversity. However, when considering applications for positions on the Managing Board and proposals for election to the Supervisory Board, the Supervisory Board attaches sole importance to professional competence and experience. Other factors such as gender or nationality have always been and will continue to be irrelevant for such decisions. Accordingly, the Supervisory Board of PATRIZIA Immobilien AG will not provide any concrete targets for the composition of the Supervisory Board in accordance with Section 5.4.1 Paragraph 2 of the Code nor report on this in the Corporate Governance Report.

In order to enhance transparency and underline the importance of the Corporate Governance Code for PATRIZIA Immobilien AG in a comprehensive manner, our current declaration of conformity also makes reference to compliance with the recommendations of the Code. With the exception of the following recommendations, all recommendations of the version of the Code dated May 26, 2010, were complied with in the 2010 fiscal year or are to be complied with in 2011:

- The 2010 Annual General Meeting was not broadcast on the Internet for cost reasons. There are likewise no plans to broadcast the 2011 Annual General Meeting on the Internet due to cost reasons, too.
- The Code recommends gearing the performance-related compensation of the Supervisory Board to the long-term performance of the enterprise. The variable compensation of the Supervisory Board of PATRIZIA depends on the amount of the dividend for the respective fiscal year and therefore contains no components geared towards the long-term performance of the enterprise.

### Transparency in Transactions of the Managing Board and possible Conflicts of Interest

Executive body members of PATRIZIA Immobilien AG as well as parties related to them are obliged to disclose the acquisition and disposal of equities of PATRIZIA Immobilien AG, so-called directors' dealings. No such reportable transactions were carried out in the reporting year. Shares held directly and indirectly by the Managing Board members of PATRIZIA Immobilien AG exceed 1 % of the shares issued so that the total ownership as of December 31, 2010 can be broken down as follows:

#### **SHARES HELD BY THE MANAGING BOARD**

	Number of shares	Percentage of share capital
Wolfgang Egger, indirectly and directly via First Capital Partner GmbH	26,047,572	49.97
Arwed Fischer	0	0.00
Klaus Schmitt	80,000	0.15
<b>Total</b>	<b>26,127,572</b>	<b>50.12</b>

The members of the Supervisory Board held no shares in the Company as of December 31, 2010.

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## Compensation Report

### Compensation of the Managing Board

The Management Remuneration Act, which came into force on August 5, 2009, has not resulted in any need for amendment to the compensation system of the Managing Board of PATRIZIA Immobilien AG. The system of management remuneration was approved by the Annual General Meeting on June 23, 2010, and has not been changed since.

The amount and structure of the compensation paid to the Managing Board members are determined and regularly reviewed by the Supervisory Board. The compensation paid to Managing Board members is based on their respective remit, the personal performance of the individual Managing Board member and of the Managing Board as a whole as well as the economic and financial situation and performance of PATRIZIA. The compensation paid to Managing Board members is performance-related and made up of non-performance-related and performance-related components as well as components with long-term incentive effects. 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 on the basis of targets set at the start of the fiscal year, 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 paid out accordingly depends on the degree to which the predetermined targets are achieved, missed or exceeded.

The primary criterion for the achievement of company targets is consolidated profit before tax for the reporting period, as calculated in accordance with IFRS and without taking into account changes in the fair value of the investment property and interest rate hedges. This adjusted pre-tax profit is published in PATRIZIA's quarterly and annual reports as so-called adjusted EBT and reflects its operating earnings power. Adjusted EBT acts as an important control variable for the Group. Every year, depending on the Company's planning, a target figure that exactly specifies the amount of operating profit to be achieved is defined. If adjusted EBT is less than the hurdle of 67 % of the defined target figure, the variable compensation of the Managing Board is omitted completely, irrespective of which other targets – 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 variable compensation is the performance of PATRIZIA's shares over two years in relation to the DIMAX real-estate reference index 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 predefined target, a variable compensation amount is calculated depending on the degree to which the target has been 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 performance 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. Performance share units are virtual shares which grant the legitimate beneficiary the right to receive a monetary amount after a performance period of two years has passed. This performance period was increased from two to three years at the beginning of 2010 for new agreements and extensions to Managing Board member contracts. The performance share units do not carry any voting or dividend rights. The variable compensation component with a long-term incentive effect is initially converted into performance share units at the average Xetra rate of the PATRIZIA share 30 days prior to and after December 31 of the fiscal year in question. The cash price equivalent of the shares calculated from this is paid out at the average Xetra rate 30 days prior to and after December 31 of the second or third year following the fiscal year in question, i.e. after the end of the vesting period. The variable compensation components with a long-term incentive effect are thus dependent on the Company's share price performance.

There are no agreements in place in the case of a change of control. The Managing Board's total compensation in fiscal year 2010 amounted to EUR 2.1 million.

The following payments were granted to the members of the Managing Board:

#### FIXED COMPENSATION

EUR	Fixed compensation		Payments in kind and other payments <sup>1</sup>		Contribution to retirement pension		Total non-performance-related compensation	
	2010	2009	2010	2009	2010	2009	2010	2009
Wolfgang Egger, Chairman	260,000	260,000	22,704	21,828	12,000	12,000	294,704	293,828
Arwed Fischer	240,000	240,000	40,048	41,586	12,000	12,000	292,048	293,586
Klaus Schmitt	240,000	180,000	31,225	30,554	12,000	12,000	283,225	222,554
<b>Total</b>	<b>740,000</b>	<b>680,000</b>	<b>93,977</b>	<b>93,968</b>	<b>36,000</b>	<b>36,000</b>	<b>869,977</b>	<b>809,968</b>

<sup>1</sup> The item primarily includes non-cash benefits from the provision of company cars and insurance premiums.

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## VARIABLE COMPENSATION (PERFORMANCE-RELATED)

EUR	Short-term variable compensation <sup>1</sup>		Variable compensation with a long-term incentive effect <sup>2</sup>	
	2010	2009	2010	2009
Wolfgang Egger, Chairman	309,000	0	154,500	0
Arwed Fischer <sup>3</sup>	260,000	240,000	130,000	0
Klaus Schmitt	222,000	0	111,000	0
<b>Total</b>	<b>791,000</b>	<b>240,000</b>	<b>395,500</b>	<b>0</b>

<sup>1</sup> Payment in fiscal year.

<sup>2</sup> Conversion into performance share units with a two-year or three-year vesting period; to be paid out at the Xetra average rate 30 days before and after December 31 of the second or third year following the fiscal year in question. No performance share units were granted for the 2009 fiscal year since the specified target hurdle was not reached and no variable compensation was paid at all.

<sup>3</sup> Up until 2010 Mr. Fischer was granted a minimum variable compensation of EUR 240,000 per year. Under the terms of a contract extension, a cash bonus was agreed with him replacing the previous minimum variable compensation and this is linked to individual targets.

The members of the Managing Board or related parties also effected transactions with PATRIZIA Immobilien AG and its subsidiaries in 2010. A list of transactions complying with standards customary in the sector and market prices can be found in the Notes to the Consolidated Financial Statements 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

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. In view of the size of the Supervisory Board with just three members no committees were formed so that the recommended committee remuneration is therefore irrelevant.

The variable components are based on the dividend that is distributed to shareholders for the previous fiscal year. Each Supervisory Board member receives EUR 675 for each dividend of EUR 0.01 per share that exceeds a dividend of EUR 0.05 per share but does not exceed a dividend amount of EUR 0.50 per share. Each Supervisory Board member receives an additional EUR 375 for each dividend of EUR 0.01 per share that exceeds a dividend of EUR 0.50 per share but does not exceed a dividend amount of EUR 0.75 per share. Each Supervisory Board member receives an additional EUR 225 for each dividend of EUR 0.01 per share that exceeds a dividend of EUR 0.75 per share but does not exceed a dividend amount of EUR 1 per share. The variable compensation is payable upon the close of the Annual General Meeting, which decides on the appropriation of profit for the previous fiscal year in each case.

The Chairman of the Supervisory Board receives 1.33 times the fixed and variable compensation respectively. 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 2010 amounted to EUR 62,500, plus reimbursement for expenses. The variable compensation cannot be calculated and paid out until the Annual General Meeting of 2011 has approved the proposal on the appropriation of net profit by the Managing and Supervisory Boards. The proposal provides for retained earnings for the 2010 reporting period to be fully carried forward to new account. This would mean that – as in the period 2007–2009 – the Supervisory Board would not receive any variable compensation.

The following payments were granted to the Supervisory Board in 2010:

#### COMPENSATION

EUR	Fixed compensation		Variable compensation	
	2010	2009	2010 <sup>1</sup>	2009
Dr. Theodor Seitz, Chairman	25,000	24,937.50	0	0
Harald Boberg	18,750	18,750.00	0	0
Manfred J. Gottschaller	18,750	18,750.00	0	0
<b>Total</b>	<b>62,500</b>	<b>62,437.50</b>	<b>0</b>	<b>0</b>

<sup>1</sup> Subject to the 2011 Annual General Meeting agreeing the appropriation of net profits

# The PATRIZIA Share

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## KEY FIGURES FOR THE PATRIZIA SHARE

		2010	2009	2008
<b>Share prices <sup>1</sup></b>				
High	EUR	3.85	4.02	5.67
Low	EUR	2.59	1.29	0.87
Year-end closing price	EUR	3.84	3.06	1.63
Share price performance	%	25.5	87.7	-68.4
Market capitalization as of December 31 <sup>1</sup>	EUR million	200.2	159.5	85.0
<b>Average trading volume per day <sup>2</sup></b>				
	EUR	182,000	189,900	739,900
	shares	56,000	75,400	311,700
Trading volume for the year		0.27	0.37	1.52
No. of shares in issue as of December 31	million shares	52.13	52.13	52.13
<b>Earnings per share (IFRS)</b>				
	EUR	0.12	-0.18	-0.65

<sup>1</sup> Closing price in Xetra trading

<sup>2</sup> All German stock exchanges

At the start of 2010 the stock markets were characterized by high volatility and a continuing lack of confidence. The crisis in Greece's national finances was a source of great uncertainty. After some price corrections in the first quarter followed by a period of sideways trading around the 6,000 mark, the DAX, Germany's leading share index, only saw upward movement in the fall, bolstered by sound fundamental economic and corporate data and by positive prospects for 2011. The stock markets were also buoyed up by the large volume of liquidity provided by the US Federal Reserve and the European Central Bank and by the lack of alternative investment opportunities. The DAX just crossed the psychologically important threshold of 7,000 points in the final auction on December 7, 2010, reaching its highest closing price for two and a half years. It finished the year just under this mark at 6,914 points, recording growth of 16 %. Small and medium-cap stocks benefited even more strongly from the recovery in German manufacturing, with the MDAX seeing 35 % growth and outpacing the DAX benchmark index. The reference index relevant to PATRIZIA, the small-cap index SDAX, rose by 46 % over the same period.

The PATRIZIA share closed the year up 25.5 %. Following a volatile initial six months, the PATRIZIA share traded sideways for some time. It experienced a jump in October and then continued to mark time once more at the higher level until the end of the year.

The PATRIZIA share opened 2010 at a price of EUR 3.06. After an encouraging start to the year, it fell back to EUR 2.59 and continued to dip below the 3-euro mark until September. From the end of September it rose steadily to EUR 3.77 only to lose the gains a short time later. After an increase at the end of the year, it closed 2010 at EUR 3.84, gaining EUR 0.78 (25.5 %) in the course of the year. Eight analysts currently cover PATRIZIA's business performance. We publish the current consensus overview on our website under Investor Relations.

The peer group of listed housing portfolio companies also saw positive growth in 2010, experiencing in part significant price gains. The share prices of the peer group moved up between 5 % and 57 %.

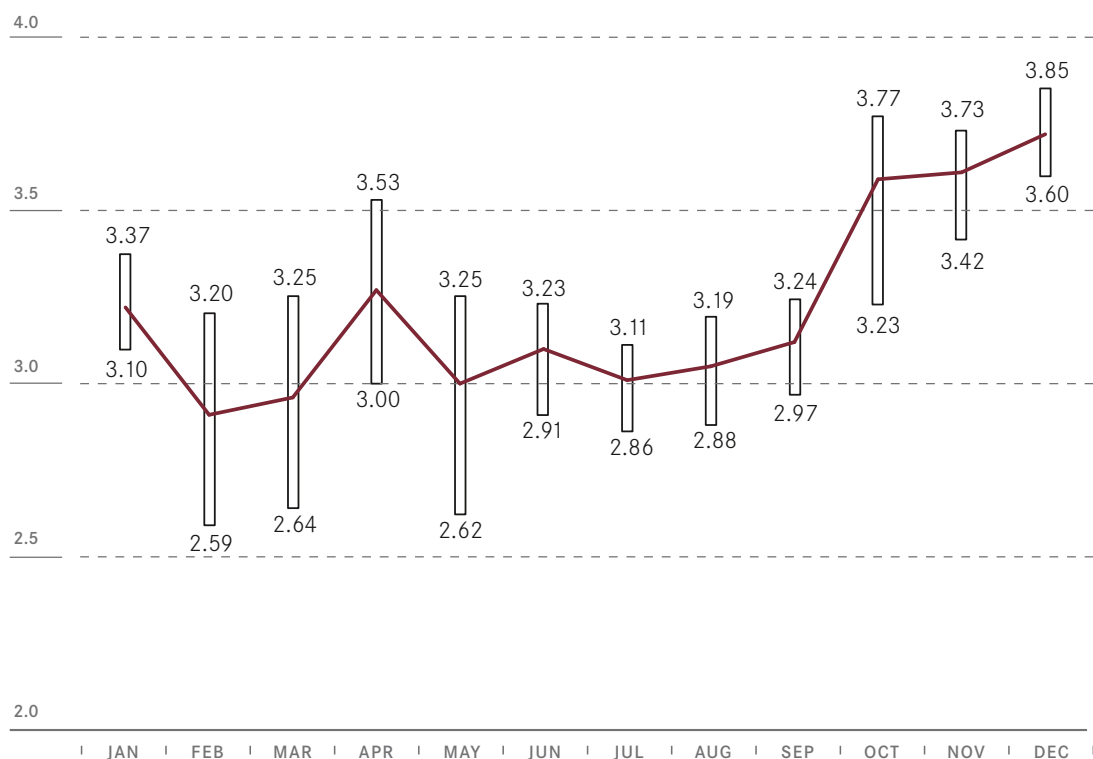
# DEVELOPMENT OF THE PATRIZIA SHARE IN 2010 (%)



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## HIGHS AND LOWS OF THE PATRIZIA SHARE IN 2010 (EUR)

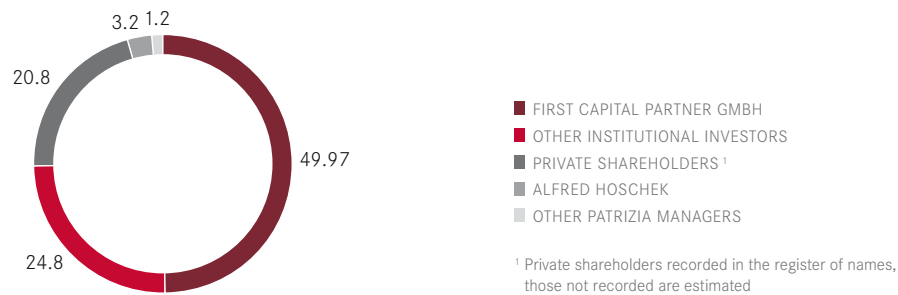


□ HIGHS AND LOWS (CLOSING PRICES ON XETRA) — MONTH AVERAGE

The trading volume continued to fall in 2010. An average of 56,000 shares was traded on all German stock exchanges per day compared with 75,400 shares per day the previous year. Based on PATRIZIA Immobilien AG's total number of shares (52.13 million), the total of 14.3 million PATRIZIA shares traded during the reporting year represent a turnover of 0.27 (previous year: 0.37). The share's liquidity thus declined again.

PATRIZIA's shareholder structure remained stable in 2010. First Capital Partner GmbH, which is attributable to our CEO Wolfgang Egger, remains the company's main shareholder with 49.97 %. Furthermore, Alfred Hoschek's shareholding remains above the reporting threshold of 3 %. The remaining 46.8 % of shares remain in free float.

#### SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2010 (%)





# Partnership

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Our goal is to be a valuable partner for our customers, providing a solid and sustainable foundation for all of their property decisions. Every project is different, requiring our strategic vision, individual focus and personal commitment.

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PARTNERSHIP – ONE ASPECT OF RESPECT.



► **PATRIZIA HEAD OFFICE, AUGSBURG**

PATRIZIA's heart beats in Augsburg, where all subsidiaries and divisions manage our real estate business. We conscientiously meet our customers' wishes from our central location or from our local branch offices.

# Presence

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You will find us as investor and service provider in all core real estate markets. Whether residential or commercial property, property management or project development, we apply our experience and knowledge in every location.

---

PRESENCE – ONE ASPECT OF RESPECT.



# Friendliness

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We engage with our customers and partners with interest, openness and attentive consideration. We focus on individuals and their requirements. We are interested in long-term business relationships and not in the fastest way to closing a deal.

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FRIENDLINESS – ONE ASPECT OF RESPECT.

# Management Report

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## Management Report of the Company and the Group

The Group management report was subsumed into the management report of PATRIZIA Immobilien AG in accordance with Article 315 (3) of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with Article 298 (3) of the HGB since the situation of PATRIZIA Immobilien AG as financial holding company is largely determined by the situation of the Group. 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 euros.

## 1 Business Segments and Environment

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 and Europe, improving them, enhancing their value and subsequently reselling the real estate. PATRIZIA has served the residential real estate sector throughout Germany as an investor and service provider for 27 years. In addition to its headquarters in Augsburg, its branches in Berlin, Cologne, Dresden, Frankfurt/Main, Hamburg, Munich and Stuttgart are responsible for property sales and provide services locally. Our regional orientation ensures that we have direct contact to our customers and local market expertise.

The Group is divided into two segments, that of Investments and that of Services. These are composed of business units that are closely linked in both a strategic and an economic sense. Residential Property Resale, Asset Repositioning and Project Development are consolidated for reporting purposes into the Investments segment, as they demonstrate comparable economic characteristics. The business segments of Asset and Investment Management, Funds and Property Management are consolidated into the Services segment due to their similar economic characteristics. All the business lines have access to PATRIZIA's own Research department.

### **PATRIZIA BUSINESS LINES**



In the **Investments segment**, PATRIZIA buys real estate, enhances the value by working on the real estate itself – e.g. by implementing construction projects or by reducing vacancy – and resells the improved real estate, regardless of whether it is reported as a non-current or current asset. Comprising the lines of Residential Property Resale, Asset Repositioning and Project Development, PATRIZIA thus generally works for its own portfolio. The investment horizon is generally short-term to medium-term, usually two to five years. Within this time frame, PATRIZIA increases the property's profitability and arranges for its resale – whether as individual apartments to tenants, owner-occupiers

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and private investors, or in parcels to wealthy private and institutional investors. 79 % of our around 9,300 apartments are located in the top five locations in Germany: in Berlin, Cologne/Düsseldorf, Frankfurt/Main, Hamburg and Munich.

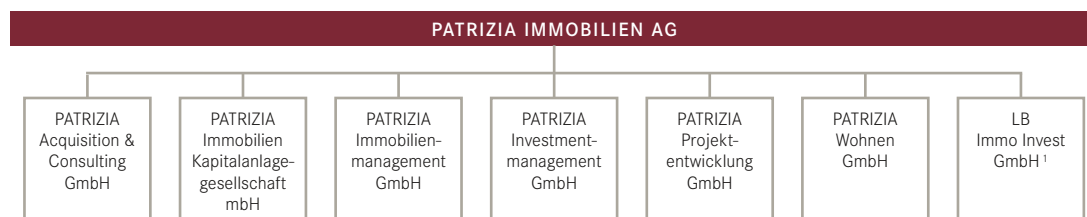
In the **Services segment**, PATRIZIA performs all services relating to real estate. The service range covers advice on purchase, asset management and property management and the sale of real estate. We act here as owner representatives, optimizing real estate portfolios as though they were our own. PATRIZIA Immobilien Kapitalanlagegesellschaft mbH establishes theme funds, offering institutional investors the opportunity to invest indirectly in German and European residential real estate. PATRIZIA invests the investor equity in real estate without an equity interest and manages it pursuant to the Investment Act. PATRIZIA also offers key services for the funds. Through the acquisition of LB Immo Invest GmbH, PATRIZIA also has with effect from the beginning of the 2011 fiscal year an asset management company that is responsible for funds that invest primarily in commercial real estate.

**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. There are a number of methods of achieving this: Vacancy rates are reduced and rental cash flow is increased through professional management. Value can also be created with asset repositioning, depending on the quality of the real estate, thereby justifying a later sale at much higher prices. Different measures are required depending on the real estate portfolio, but we service the entire real estate value-added chain using our own employees. Only the coordinated interaction of purchase, asset management and sale allow the optimum development of a property and its successful placement on the market.

**Structure**

PATRIZIA Immobilien AG is the PATRIZIA Group's management holding company and performs central management and service functions. In 2010 the holding company encompassed six subsidiaries that were active on the market and responsible for the operating business of PATRIZIA. They are wholly-owned subsidiaries of PATRIZIA Immobilien AG and have profit transfer agreements with it. LB Immo Invest GmbH was acquired as a 94.9 % subsidiary of the PATRIZIA Group with effect from January 3, 2011, and is therefore not included in the consolidated financial statements. There is no profit transfer agreement. The real estate portfolios are managed via real estate companies and round off the Group. A detailed list of shareholdings can be found in the Notes to the Consolidated Financial Statements.

**THE PATRIZIA GROUP**

¹ Part of the group since January 3, 2011

**PATRIZIA Acquisition & Consulting GmbH** is responsible for purchasing residential real estate including the necessary research for our own investments and for our funds that invest in residential real estate.

**PATRIZIA Immobilien Kapitalanlagegesellschaft mbH (KAG)** establishes special real estate funds for domestic 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 the services of the PATRIZIA Group, such as real estate research, the acquisition of suitable properties, financing at fund level, asset management and property 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 17,500 units, 8,200 of which are administered for third parties as a supplement to its own portfolios.

**PATRIZIA Investmentmanagement GmbH** manages the real estate assets of institutional and private investors, assuming responsibility for 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' requirements. The company markets individual properties and real estate portfolios from its own portfolio or provides sales consultation for third-party transactions. Furthermore, this is where our commercial real estate team is integrated, which implements all services from purchase consultation and processing through asset management to the resale of a commercial property.

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

**PATRIZIA Wohnen GmbH** handles asset management for the resale portfolio, structural engineering and residential property resale. Asset Management generates the best possible added value for our own residential real estate in every phase of use. The Structural Engineering unit devises solutions relating to the structural substance of buildings and implements these solutions cost-effectively. Residential Property Resale manages sales of individual apartments 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. Each property is divested in full.

**LB Immo Invest GmbH** was acquired from HSH Real Estate AG, a subsidiary of HSH Nordbank AG in December 2010 with effect from January 3, 2011. The company is not yet included in the 2010 consolidated financial statements. As a real-estate asset management company LB Immo Invest establishes funds that invest primarily in office and commercial property as well as in care facilities and hotels. Besides its principal German market, it also invests in France, UK, USA, Scandinavia and Benelux. The customer group of institutional investors principally consists of savings banks, insurance companies and pension funds.

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**1.1 Economic Environment****Rapid recovery in the German economy after the crisis**

The German economy experienced a surprising economic U-turn in 2010 following the most severe recession of the post-war period. Whereas gross domestic product (GDP) shrank by 4.7 % in 2009, last year saw growth of 3.6 %, something which experts had not expected at the beginning of the year and which was stronger than at any time since reunification. While growth in the first six months of 2010 was sustained in many areas by robust export demand, a more balanced basis for growth can be seen over the whole year. Investment and private consumer spending in particular contributed their share to growth. As a result of these overall positive developments, the unemployment rate in 2010 fell once more below the low level seen in 2008.

In 2010 the European Central Bank's key rate remained at the historically low level of 1.0 %, not least because of the difficulties of individual countries on the periphery of the eurozone and continuing uncertainty regarding the stability of individual European banks.

**Excellent prospects for residential real-estate investment in major German cities**

The positive economic environment is being increasingly felt in German residential property markets. Following years of negative performance, there are also initial signs of a turnaround in construction activity, even though a difficult finance environment for project developers is still preventing strong growth in construction activity. As a result, favorable economic growth is mainly reflected in rising prices and rents. This pressure on prices and rents is being magnified by continuing migration within Germany to the economically strong conurbations. Migrants increasingly no longer comprise just students and young professionals but also families and older people choosing to relocate to the cities. The result is that new construction often lags behind demand, not just in terms of volume but also to an increasing degree in terms of quality.

The highest rents demanded for properties to let were registered in Munich at the end of 2010. The highest increases in rent in the last twelve months were seen in Berlin, Düsseldorf and Cologne. As in the past, Berlin remains the most affordable location among the top markets, even if a catching-up process has begun as a consequence of the increases in rent of the last few quarters.

The interest shown by institutional investors in German residential real estate remains high but transaction volume is restricted, particularly in the top locations, by a lack of appropriate property on offer. The effect of this, principally on properties in a good state of preservation and in good or very good residential areas, is sometimes a significant rise in prices and hence falling returns. The volume of transactions in the area of residential property portfolios in Germany therefore hardly changed in 2010 compared to the previous year.

## 1.2 Business Development

### Key events in the Investments segment

#### Residential property resales up 22 % on previous year

Residential property resale involves the individual sales of residential real estate to tenants, owner-occupiers and private investors.

The upturn in demand for residential property that began in the prior year continued steadily through 2010 culminating in an increase in the number of units sold by 21.9 % to 801 apartments (2009: 657 apartments). Private investors form the largest group of purchasers, accounting for 67.2 % (2009: 60.0 %), followed by owner-occupiers, accounting for 24.5 % (2009: 37.1 %). The proportion of tenants remained low, at 8.4 %, but this was far higher than in the previous year (2009: 2.9 %). The continuing low level of tenant purchases is due to the fact that no new properties were put up for sale in the past twelve months.

#### RESIDENTIAL PROPERTY REALES IN 2010 BY QUARTER

	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	2010	2009	Change
Privatized units	183	177	245	196	801	657	21.9 %
Average sales price in EUR per sqm	2,492	2,505	2,348	2,169	2,370	2,351	0.8 %

Individual sales in 2010 by region were as follows:

#### INDIVIDUAL SALES IN 2010

Region/city	Number of privatized units	Share of sales %	Area sold in sqm	Average size per unit in sqm
Munich	523	65.3	35,187	67
Cologne/Düsseldorf	87	10.9	6,355	73
Hamburg	68	8.5	4,831	71
Berlin	34	4.2	2,315	66
Hanover	34	4.2	2,182	64
Regensburg	32	4.0	2,225	70
Friedrichshafen	18	2.2	1,152	64
Frankfurt/Main	5	0.6	370	74
<b>Total</b>	<b>801</b>	<b>100</b>	<b>54,617</b>	<b>68</b>

#### Movement in the market for block sales: number of units sold increases more than threefold

A further sales channel is bundling apartments and apartment buildings into portfolios for sale to wealthy private and institutional investors. Activity in this business segment picked up significantly in 2010, and we were able to more than treble the number of units sold to 1,002 (2009: 289 units). We recorded a fall in the average sales price per square meter caused by regional conditions to EUR 1,625 (2009: EUR 2,177). The reason for this development is that some of the properties disposed of in Leipzig, Frankfurt and greater Hamburg in the fourth quarter could be sold without considerable renovation work being done. All purchasers are German private individuals and family offices.

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**GLOBAL SALES IN 2010 BY QUARTER**

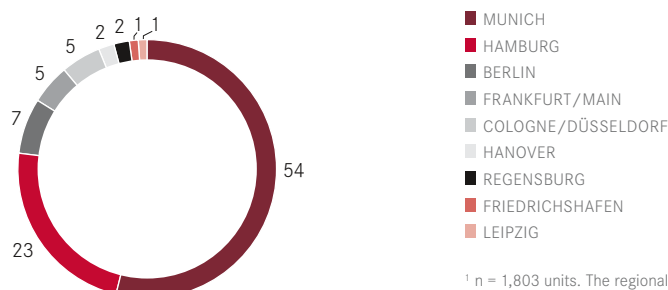
	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	2010	2009	Change
Units via block sales	0	297	83	622	1,002	289	246.7 %
Number of transactions	0	2	3	6	11	4	175.0 %
Average sales price in EUR per sqm	–	1,987	1,801	1,389	1,625	2,177	–25.4 %

Global sales in 2010 by region were as follows:

**GLOBAL SALES IN 2010**

Region/city	Number of units sold in blocks	Share of sales %	Area sold in sqm	Average size per unit in sqm
Munich	455	45.4	32,711	72
Hamburg	346	34.5	23,834	69
Berlin	97	9.7	10,574	109
Frankfurt/Main	93	9.3	5,353	58
Leipzig	11	1.1	661	60
<b>Total</b>	<b>1,002</b>	<b>100</b>	<b>73,133</b>	<b>73</b>

In 2010, a total of 1,803 units were placed via residential property resales and block sales, almost double the figure for the previous year (2009: 946 units, +90.6 %). This corresponds to 16.2 % of our entire real-estate portfolio as of January 1, 2010 (2009: 7.8 %).

**SALES IN 2010 BY REGION <sup>1</sup> (%)**

<sup>1</sup> n = 1,803 units. The regional breakdown within the sales channels of residential property resales and block sales can be seen in the above tables.

Taking into account the sales concluded in 2010 and subsequent redensification measures, our portfolio includes 9,305 units with a total area of approximately 649,000 sqm at year end. We anticipate that around 30 % of the units will be realized through residential property resales and the remaining 70 % through block sales. 600 units in Munich, Hamburg and Berlin held as investment property were released for residential property resale, increasing the Residential Property Resale portfolio without any purchases.

**THE PATRIZIA PORTFOLIO – BREAKDOWN BY REGION AS OF DECEMBER 31, 2010**

Region/city	Number of units				Area in sqm			
	Residential property resale	Asset repositioning	Total	Share %	Residential property resale	Asset repositioning	Total	Share %
Munich	1,394	2,114	3,508	37.7	108,154	133,131	241,285	37.2
Cologne/Düsseldorf	795	600	1,395	15.0	64,450	58,262	122,712	18.9
Hamburg	292	547	839	9.0	21,386	33,781	55,167	8.5
Leipzig	0	970	970	10.4	0	63,730	63,730	9.8
Berlin	267	544	811	8.7	19,219	28,478	47,697	7.4
Frankfurt/Main	13	785	798	8.6	930	49,320	50,250	7.7
Hanover	12	385	397	4.3	605	27,047	27,652	4.3
Regensburg	32	352	384	4.1	2,108	24,367	26,475	4.1
Dresden	0	152	152	1.6	0	10,284	10,284	1.6
Friedrichshafen	21	30	51	0.5	1,216	2,171	3,387	0.5
<b>Total</b>	<b>2,826</b>	<b>6,479</b>	<b>9,305</b>	<b>100</b>	<b>218,068</b>	<b>430,571</b>	<b>648,639</b>	<b>100</b>

**PATRIZIA project development makes significant contribution to earnings**

In the 2010 fiscal year PATRIZIA completed and successfully sold three project developments: A total of 41 apartments in the new building projects “Am Schwalbeneck” (Augsburg) and “Casa Verde” (Herthastrasse, Munich) were sold individually while the mixed-use property “Isartor-Palais” (Zwingerstrasse, Munich) was sold en bloc to an institutional investor.

A further wholly-owned property is currently in the development phase. The new building project in Feuerbachstrasse 40 in Frankfurt’s Westend calls for six exclusive city villas with 54 apartments (marketed under the VERO product name), an apartment block with 64 apartments (marketed under the F40 product name) and an office building with seven full floors together with staggered floors. The plot was acquired back in 2007 for EUR 40 million. The demolition of the existing buildings began in the fourth quarter of 2010, with the start of structural work scheduled for the second quarter of 2011 and final completion in 2013. Part of this project development, the construction of six city villas and the apartment block, has earned the pre-certificate in gold, the highest distinction awarded by the German Sustainable Building Council (DGNB).

Approximately 10 % of PATRIZIA’s equity is available for project developments.

**PATRIZIA’S OWN PROJECT DEVELOPMENTS**

City, project	Site size	Planned gross floor area	Intended sales price	Construction start	Scheduled completion
Frankfurt/Main, Feuerbachstrasse	8,000 sqm	29,500 sqm	EUR 140 Mio.	Q4 2010	2013

As an external service provider, PATRIZIA is currently providing project development, management and controlling on behalf of a client for the Hanse Cube office complex in Hamburg, awarded the pre-certificate in silver by the German Sustainable Building Council, the work being commissioned by Wolfgang Egger or companies indirectly or directly attributable to him. Please see item 9.3 of the Notes to the Consolidated Financial Statements for more information.

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**Key events in the Services segment****New PATRIZIA Immobilien Kapitalanlagegesellschaft mbH funds**

PATRIZIA Immobilien Kapitalanlagegesellschaft mbH, established in 2007, invests in residential real estate in Germany and Europe. At the end of 2010 it was managing five funds with a target volume totaling EUR 1.6 billion, of which EUR 664 million has already been invested. Two of the funds, PATRIZIA Urbanitas and PATRIZIA Domizil I, were re-established in the course of 2010 as individual funds for an institutional investor. The result of PATRIZIA Immobilien Kapitalanlagegesellschaft mbH is currently dominated by purchasing commissions. In 2010 real estate totaling EUR 174 million was acquired for the special funds, including the first property in Finland for the PATRIZIA EuroCity Residential Fund I.

**FUNDS OF PATRIZIA IMMOBILIEN KAPITALANLAGEGESELLSCHAFT MBH AS OF DECEMBER 31, 2010**

	Investment volume in EUR million	Committed equity in EUR million	Invested volume in EUR million
PATRIZIA German Residential Fund I	400	130	179
PATRIZIA EuroCity Residential Fund I	400	200	128
		(fully subscribed)	
VPV Immo PATRIZIA I (Transfer fund)	185	185	185
PATRIZIA Urbanitas	300	150	139
PATRIZIA Domizil I	300	150	33
<b>Total</b>	<b>1,585</b>	<b>815</b>	<b>664</b>

The individual PATRIZIA Group companies act as service providers for the investment company's special funds, thus generating fees. Conflicts of interest between purchases for the funds and proprietary purchases by PATRIZIA are prevented through different purchase criteria for the real estate and different purchase teams. The funds are established for a holding period of between seven and ten years and fulfill the role of portfolio management.

**Acquisition of LB Immo Invest GmbH**

PATRIZIA Immobilien AG signed the purchase agreement for the special fund provider LB Immo Invest GmbH on December 9, 2010. The vendor was HSH Real Estate AG, a subsidiary of HSH Nordbank AG. As a 94.9 % subsidiary of the PATRIZIA Group, LB Immo Invest will be fully included in the consolidated accounts as of January 2011. The strategic motivation for the acquisition was an increased demand for indirect real-estate investment coupled with the fact that we are expanding our field of competence to include commercial real estate with an international orientation. By expanding our fund business we will be able to generate higher regular income and reduce the influence of fluctuations in demand in real-estate trading.

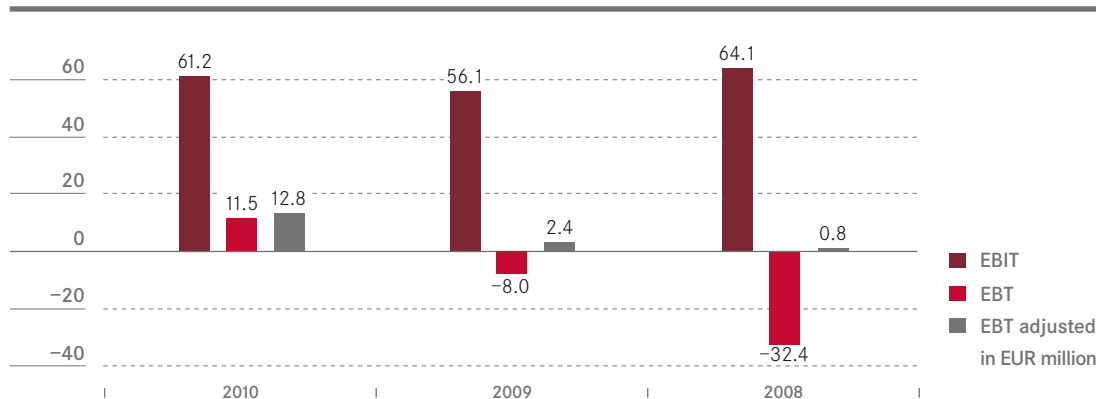
**PATROffice Real Estate GmbH & Co. KG**

Our co-investment with pension funds APG of the Netherlands and ATP Real Estate of Denmark, PATROffice Real Estate GmbH & Co. KG, is fully invested with a volume of EUR 355 million. Thus, in 2010 no other investments were made. However, a value-added property of the actively managed co-investment was successfully resold in January. A commercial property in Munich was sold at a multiple of the net actual rent of over 20. The internal rate of return (IRR) on the capital employed was 28 %. Both ratios clearly show the success of the portfolio that PATRIZIA Asset Management actively manages. PATRIZIA Immobilien AG owns 6.25 % of PATROffice's equity.

## 2 Net Asset, Financial and Earnings Situation

### 2.1 Earnings Situation of the Group

#### DEVELOPMENT OF KEY EARNINGS INDICATORS



#### 35 % increase in sales revenues

In 2010 PATRIZIA generated external sales of EUR 339.6 million (2009: EUR 250.9 million). This was principally due to greater sales of property. The largest share by far was generated by the Residential Property Resale business unit. An increase of 144 resale units, or 21.9 %, resulted in an increase in purchase price revenues of 30.3 %. In the case of global sales, only objects reported as inventories are stated in sales revenues. Project Development, which did not complete any object in the previous year, contributed 12.5 % to sales. The positive growth in sales activities more than compensated for the decline in rental income. Set against rental income, annual administrative costs of EUR 240–270 are incurred per apartment. The average monthly rent per square meter for the overall portfolio fell to EUR 7.67 as of December 31, 2010, as a result of regional factors (December 31, 2009: EUR 7.82 per sqm). It should be noted that 54.2 % of sales were effected in the Munich region, the location with the highest average rent in our portfolio.

A breakdown of consolidated sales revenues is shown below:

#### CONSOLIDATED REVENUES

	2010 EUR '000	Percentage of Group revenues 2010 in %	2009 EUR '000	Change %
Purchase price revenues from Residential Property Resale	128,930	38.0	98,981	30.3
Purchase price revenues from Asset Repositioning <sup>1</sup>	71,452	21.0	48,985	45.9
Purchase price revenues from Project Development	42,372	12.5	0	–
Rental revenues	63,805	18.8	70,132	–9.0
Revenues from the Services segment	9,962	2.9	10,492	–5.0
Others <sup>2</sup>	23,072	6.8	22,298	3.5
<b>Total</b>	<b>339,593</b>	<b>100</b>	<b>250,888</b>	<b>35.4</b>

<sup>1</sup> Purchase price receipts from investment property are not included in revenues.

<sup>2</sup> The Others item primarily includes rental ancillary costs.

The volume of sales has only a limited significance as an indicator for PATRIZIA since purchase price revenues from

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investment property are not reported in sales. The sale of 243 units from non-current assets resulted in purchase price receipts of EUR 43.9 million and in income amounting to EUR 1.2 million. A value adjustment to the properties in our portfolio of EUR 66.3 million was last made in 2007. In 2010 several adjustments were made totaling TEUR 325.

**PURCHASE PRICE REVENUES**

	2010 EUR '000	2009 EUR '000	Change %
Purchase price revenues from individual sales, block sales and project development included in sales revenues	242,754	147,966	64.1
Purchase price revenues from investment property	43,937	3,050	> 1,000
<b>Total</b>	<b>286,691</b>	<b>151,016</b>	<b>89.8</b>

Changes in inventories in the year under review were EUR –165.6 million, increasing significantly as a result of the rise in sales (2009: EUR –106.2 million, +56 %). Purchase price receipts from inventories of EUR 242.8 million contrast with decreases in the carrying value of EUR –199.2 million. Inventories increased as a result of capitalization totaling EUR 33.6 million. There was no increase to inventory through acquisitions.

**Cost of materials 12 % higher than in previous year**

Manufacturing costs for project developments resulted in a rise in the cost of materials compared to the previous year of 11.8 % to EUR 68.1 million (2009: EUR 60.9 million). Approximately EUR 14.4 million was invested in completed and ongoing projects of PATRIZIA Project Development. EUR 20.2 million was spent on renovation and reconstruction activities (2009: EUR 15.2 million), of which EUR 16.1 million could be capitalized. Renovation expenses for real estate reported under inventories can be capitalized on the balance sheet whereas expenses for objects reported as non-current assets are recognized directly in income. Current maintenance costs (which generally cannot be capitalized) accounted for EUR 6.9 million (2009: EUR 8.8 million). Assuming an average portfolio size of 742,400 sqm for 2010, annual costs for current maintenance amounted to EUR 9.26/sqm and renovation and reconstruction costs amounted to EUR 27.21/sqm. If the reconstruction work for the portfolios in Munich-Ludwigsfeld (construction dating back to the 1950s) and Leipzig is excluded, this value is just EUR 11.90/sqm. Moreover, cost of materials also includes operating costs.

**Operational growth associated with extra headcount**

In 2010 staff costs increased by 19.6 % to EUR 28.6 million (2009: EUR 23.9 million). This was caused in the first instance by new recruitment raising staff numbers from 349 employees at the end of 2009 to the current level of 370 (+6.0 %). Second, temporary staff were used as part of a project launched to migrate an IT system. Increasing residential property resales resulted in higher commissions being paid to our sales staff. These are paid on a performance-related basis to staff when the notarial deeds are signed. The provisions to cover the variable salary entitlements determined for managers were considerably higher than in the previous year. Staff costs also include the remuneration of the Managing Board, which consists 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. 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 2.1 million in the reporting year (2009: EUR 1.0 million). The variable components paid for 2010 amounted to EUR 0.8 million. The Managing Board received no variable remuneration in the previous 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 in item 9.4 of the Notes to the Consolidated Financial Statements. Other operating expenses totaled EUR 21.4 million. Costs resulted from increased selling and other expenses. These

include e.g. marketing expenses, the assumption of purchase price ancillary costs for tenants, value adjustments to receivables and costs that were incurred in connection with the acquisition of LB Immo Invest.

#### OTHER OPERATING EXPENSES

	2010 EUR '000	2009 EUR '000	Change %
Administrative expenses	9,716	9,138	6.3
Selling expenses	5,271	4,263	23.6
Other expenses	6,390	4,152	53.9
<b>Total</b>	<b>21,376</b>	<b>17,553</b>	<b>21.8</b>

#### Financial result significantly improved

The financial result improved from EUR –64.1 million to EUR –49.8 million and is significantly influenced by the market valuation of interest rate hedges as of the closing date. The market valuation is recognized in the financial result as income or expense depending on changes in the interest rate level, causing the results to fluctuate substantially. The valuation is recognized in the income statement when the underlying interest rate hedging transactions have a longer term than the loan agreements they are used to hedge or when the hedged volume is larger than the underlying loan. In 2010 the valuation, which had no effect on liquidity, amounted to EUR –1.6 million after incurring an expense of EUR –10.4 million in the previous year, with corresponding negative effects on the IFRS result. Financial income (EUR 11.5 million) increased as a result of the market valuation of the interest hedging instruments by EUR 10.5 million (2009: EUR 5.8 million), while financial expenses amounting to EUR 61.3 million included EUR 12.2 million that resulted from the effect of the valuation (2009: EUR 16.2 million). Excluding these valuations, the adjusted financial result also improved by EUR 5.6 million from –53.7 million to EUR –48.1 million. Pure interest expenses for bank loans plus expenses from interest hedges fell by EUR 11.0 million. In 2010, the costs of financing (including margin and processing fee) amounted to 4.99 % of the average bank loans over the year. The hedged interest rate as of December 2010 was 4.08 %.

With regard to servicing loans, it is important that rental income from financed property exceeds the cash financing result – i.e. the financing result adjusted by income and expenses from the interest rate hedges valuation – of EUR –48.1 million by 32.6 % (2009: EUR 53.6 million, corresponding to an excess balance of 30.6 %). This is significant for us since defined interest service coverage ratios and debt service coverage ratios (ISCR, DSCR) are covenants in our loan agreements.

#### Earnings situation firmer

PATRIZIA's earnings situation showed a significant recovery in 2010. Earnings before interest and tax (EBIT) calculated in accordance with IFRS were EUR 61.2 million, 9.1 % above the value for the previous year. The improvement was largely due to successful sales.

After deduction of the financial result, earnings before tax (EBT) according to IFRS are EUR 11.5 million, following –8.0 million in the previous year. This shows not just that our profitability has improved but also that the Group's financing costs are decreasing.

#### Adjusted earnings before taxes

The reconciliation of EBT in accordance with IFRS to EBT adjusted is effected via an adjustment to market valuation results. This means that only cash-related financial income or expenses are included for the financial result and changes in value in investment property are eliminated. EBT adjusted thus reflects PATRIZIA's operating result.

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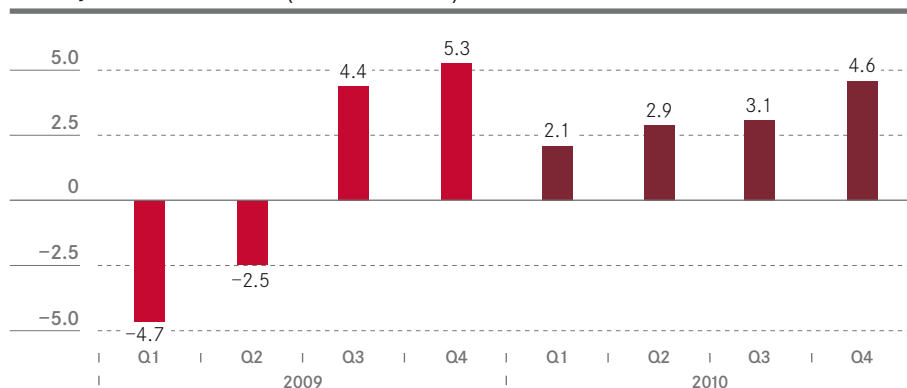
Since the level of interest rate changed over the year, the market valuation fluctuated considerably from quarter to quarter and resulted in volatile IFRS quarterly results while the operating result showed steady growth. With an EBT adjusted of EUR 12.8 million we met the raised forecast made in November of between EUR 12 million and EUR 13 million (previously EUR 10 million). In the process, the operating result also improved from quarter to quarter, as in the previous year.

**CALCULATION OF EBT ADJUSTED 2010**

	1 <sup>st</sup> quarter EUR '000	2 <sup>nd</sup> quarter EUR '000	3 <sup>rd</sup> quarter EUR '000	4 <sup>th</sup> quarter EUR '000	2010 EUR '000
EBT posted in accordance with IFRS	-5,060	-492	6,690	10,350	11,488
Elimination of effects from the market valuation of interest rate hedges	7,196	3,402	-3,569	-5,404	1,626
Elimination of changes in value of investment property	0	0	0	-325	-325
<b>EBT adjusted</b>	<b>2,136</b>	<b>2,910</b>	<b>3,122</b>	<b>4,621</b>	<b>12,789</b>

**CALCULATION OF EBT ADJUSTED 2009**

	1 <sup>st</sup> quarter EUR '000	2 <sup>nd</sup> quarter EUR '000	3 <sup>rd</sup> quarter EUR '000	4 <sup>th</sup> quarter EUR '000	2009 EUR '000
EBT posted in accordance with IFRS	-16,028	485	89	7,493	-7,961
Elimination of effects from the market valuation of interest rate hedges	11,317	-2,976	4,266	-2,226	10,381
<b>EBT adjusted</b>	<b>-4,711</b>	<b>-2,492</b>	<b>4,356</b>	<b>5,267</b>	<b>2,420</b>

**EBT ADJUSTED BY QUARTER (IN EUR MILLION)**

**Tax burden resulting from interest barrier**

It should be noted with regard to income taxes that our companies located in Luxembourg are affected by the so-called interest barrier. This resulted in tax expenses of EUR 1.9 million (2009: EUR 1.7 million).

**Positive result for 2010 even in accordance with IFRS**

In the past year PATRIZIA achieved a net profit in accordance with IFRS after two years of losses. Net profit amounted to EUR 6.2 million (2009: EUR –9.5 million). In this respect we would like to emphasize that we generated operating profits in 2009 and 2008, too, as can be seen from the EBT adjusted figures for the previous years. Earnings per share improved in the reporting year from EUR –0.18 to EUR 0.12.

**OVERVIEW OF KEY ITEMS IN THE CONSOLIDATED INCOME STATEMENT**

	2010 EUR '000	2009 EUR '000	Change %
Revenues	339,593	250,888	35.4
Total operating performance	179,856	159,253	12.9
EBIT	61,244	56,110	9.1
EBIT adjusted <sup>1</sup>	60,919	56,110	8.6
EBT	11,488	–7,961	244.3
EBT adjusted <sup>1</sup>	12,789	2,419	428.7
Consolidated net profit / loss	6,201	–9,500	165.3

<sup>1</sup> Adjusted for profit / loss of non-cash market valuations

**2.2 Net Asset and Financial Situation of the Group**

At December 31, 2010, PATRIZIA reported total assets of EUR 1,214.5 million (December 31, 2009: EUR 1,426.4 million). The structure in the consolidated balance sheet improved significantly over the course of the year:

**Balance sheet structure**

Our real estate investments consist of investment properties and inventories and as of December 31, 2010, were reported at EUR 1,125 million (December 31, 2009: EUR 1,333.3 million). Investment property is recognized at fair value in profit or loss in accordance with IAS 40, which resulted in a net write-up of TEUR 325. As could be seen, properties sold in 2010 that were reported under investment property were sold at a profit, thus confirming the value retention of the properties. Sales caused a decline to EUR 614.9 million at the end of the year (December 31, 2009: EUR 657.3 million). The real estate intended for sale as part of ordinary business operations is reported in the inventories (EUR 510.4 million) and measured at amortized cost (December 31, 2009: EUR 676.0 million). This item also includes our project developments, which have a carrying value of EUR 53.9 million.

The sale of real estate is always associated with a reduction in bank liabilities. Over the course of the year liabilities with banks decreased by EUR 228.8 million to EUR 841.4 million. We were able to exceed the target updated in November of EUR 870 million as a result of the successful sales. It should be added that, regardless of the actual terms, loans which serve to finance inventories are reported as short-term bank loans in the balance sheet – matching the inventories – in accordance with IFRS. A detailed schedule of maturities by fiscal year is listed in the Notes to the Consolidated Financial Statements under item 5.2. We have entered into interest rate hedges for 66.2 % of our bank liabilities, which expire as of July 31, 2014 at the latest. The remaining third are based on the 1- or 3-month Euribor.

The equity ratio climbed in the past fiscal year from 20.0 % to 24.3 %, meaning that we have almost achieved our target of 25.0 %.

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## PATRIZIA NET ASSET AND FINANCIAL KEY FIGURES

	12/31/2010 EUR '000	12/31/2009 EUR '000	Change %
Total assets	1,214,548	1,426,423	-14.9
Equity (including non-controlling partners)	294,732	284,824	3.5
Equity ratio	24.3 %	20.0 %	4.3 % points
Bank loans	841,380	1,070,207	-21.4
Cash and cash equivalents	70,537	56,183	25.5
Real estate assets <sup>1</sup>	1,125,383	1,333,328	-15.6
Loan to value <sup>2</sup>	74.8 %	80.3 %	-5.5 % points

<sup>1</sup> Real estate assets comprise investment property valued at fair value and real estate held in inventories valued at amortized cost

<sup>2</sup> Proportion of the volume of loans to real estate assets. Only investment property is calculated at fair value. Inventories are stated at amortized cost.

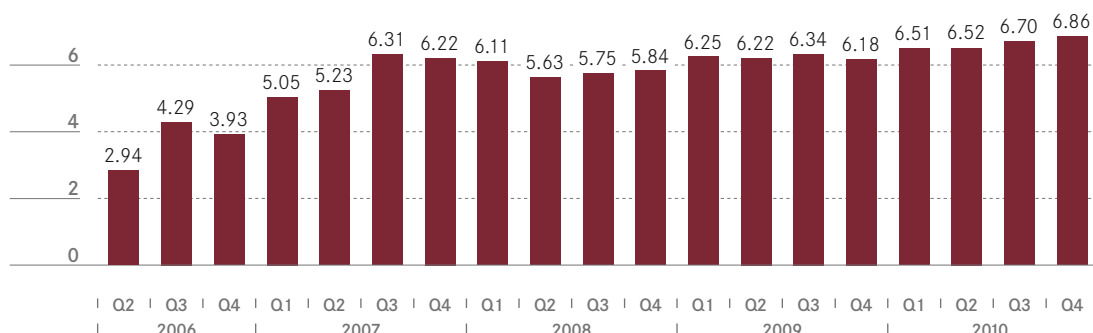
## Net Asset Value

Net asset value (NAV) represents the actual value of the real estate less net financial liabilities. PATRIZIA did not calculate and publish this figure in the past since, first, our real estate is valued in part at fair value and in part at amortized cost and, second, our complete range of services is not included in the valuation. However, since NAV is required by many participants in the real estate sector and published by many other – mostly property management – companies, we have adopted this approach and will now state NAV in the following manner at the end of each quarter:

## CALCULATION OF NAV

	12/31/2009 EUR '000	03/31/2010 EUR '000	06/30/2010 EUR '000	09/30/2010 EUR '000	12/31/2010 EUR '000
Investment property	657,320	657,320	652,560	639,000	614,945
Participations (PATROffice)	3,090	3,090	3,090	3,090	3,090
Inventories	676,008	655,253	598,170	575,047	510,438
Bank balances and cash	56,183	53,530	58,801	64,124	70,537
Less bank loans	-1,070,207	-1,029,949	-972,830	-931,912	-841,380
<b>NAV</b>	<b>322,407</b>	<b>339,244</b>	<b>339,791</b>	<b>349,349</b>	<b>357,630</b>
No. of shares	52,130,000	52,130,000	52,130,000	52,130,000	52,130,000
<b>NAV/share (EUR)</b>	<b>6.18</b>	<b>6.51</b>	<b>6.52</b>	<b>6.70</b>	<b>6.86</b>

## DEVELOPMENT OF NAV PER SHARE SINCE PATRIZIA'S IPO AT THE END OF EACH QUARTER (IN EUR)



## Liquidity analysis

Central responsibility for the financing of the PATRIZIA Group is borne by PATRIZIA Immobilien AG. As of December 31, 2010, there were loan agreements with seven different German banks, concluded exclusively in euros. In accordance with the loan agreements and our business model, we reduce loans during the project depending on the status of sales. When selling real estate or individual units, between 88–93 % of the sales proceeds flow into repayment. Interest rate change risks are largely hedged using interest swaps and collars. Detailed explanations in this respect can be found under items 4.4 and 5.8 of the Notes to the Consolidated Financial Statements. The main 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 Group's automatic cash pooling system. Account surpluses are transferred to the parent company and account deficits are offset by it on a same-day basis. Payment receipts from operating companies represent the most important source of liquidity within the Group and ensure that financing requirements are met as well as bank loans. A liquidity reserve is maintained in the form of cash to ensure the Group's solvency.

In the reporting year, there were cash inflows from current business activities of EUR 205.8 million (2009: EUR 101.8 million). As a result of the extensive sale of investment property, cash inflows from investing activities of EUR 40.5 million were significantly above the level of the previous year (2009: cash outflow of EUR 0.2 million). On the other hand, the higher volume of transactions caused higher cash outflows from financing activities since more loans could be repaid than had to be taken out. The change in cash thus amounted to EUR 14.4 million (2009: EUR –11.7 million) and increased cash and cash equivalents from EUR 56.2 million at the end of 2009 to EUR 70.5 million as of December 31, 2010.

## SUMMARY OF THE 2010 CASH FLOW STATEMENT

	2010 EUR '000	2009 EUR '000	Change %
Cash inflow from operating activities	205,795	101,805	102.1
Cash inflow (2009: outflow) from investing activities	40,523	–171	>1,000
Cash outflow from financing activities	–231,964	–113,356	–104.6
Changes in cash	14,354	–11,722	222.5
Cash and cash equivalents Jan. 1	56,183	67,905	–17.3
Cash and cash equivalents Dec. 31	70,537	56,183	25.5

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**2.3 Non-relevant Subareas**

The PATRIZIA Immobilien AG Group Management Report does not contain any information on certain subareas as these are not relevant for the Company. This includes statements on research and development since this is not performed within the Group. We have included statements on comparable activities, such as our research. 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 ("procurement") and the implementation of value-enhancing measures ("production") take place on an individual basis according to the property concerned, as this is the only way we can offer tailored solutions.

**2.4 Notes on the Annual Financial Statements prepared under HGB for PATRIZIA Immobilien AG (Holding)**

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 5.6 million (2009: EUR 6.4 million), mostly from management cost allocations to the subsidiaries. This allocation was increased in the 2009 fiscal year. In addition, the accounting department of PATRIZIA Immobilienmanagement GmbH was transferred to the holding company in the reporting year. For this the subsidiary paid a higher contribution via internal allocation to the parent company, which has to bear correspondingly higher staff expenses. However, total revenues sank in 2010 since the additional receipts listed could not offset the lower commission income for services performed by the subsidiaries. Commission income is invoiced by the parent company and results in corresponding administrative expenses. In the 2010 fiscal year, the parent company reported lower purchasing and sales commissions generated in connection with the purchase or establishment of special funds of PATRIZIA Immobilien Kapitalanlagegesellschaft mbH. Staff costs increased by 54.1 % to EUR 9.4 million (2009: EUR 6.1 million) since the number of employees rose from 73 to 117, or from 88 to 132 when trainees are included. This was caused by the above-mentioned transfer of the accounting department of PATRIZIA Immobilienmanagement GmbH to the holding company and by the unit "Institutional Customers", which was newly established to strengthen sales activities. Furthermore, the Managing Board were granted variable compensation in 2010 which had been dropped the previous year. Other operating expenses increased by a similar extent from EUR 4.5 million to EUR 6.9 million (+53.3 %). Lower administrative expenses are offset by considerably higher selling and other costs. The improved net interest income is in part the result of the interest expenses in the previous year for backpayment of taxes after completion of a tax audit. The parent company's profit/loss consists of the operating profit/loss of the Company itself and profits and losses of the subsidiaries with which profit and loss transfer agreements exist. The overall very good operational performance resulted in income from profit and loss transfers increasing by many times over to EUR 13.7 million (2009: EUR -2.3 million). PATRIZIA Immobilien AG's net profit under HGB for the 2010 fiscal year of EUR 9.0 million (2009: net loss of EUR -2.8 million) combined with the profits carried forward of EUR 28.3 million represents the Company's distributable profit. Unappropriated profit amounted to EUR 37.4 million, an increase of 32 % over the previous year (EUR 28.3 million).

**SUMMARY OF THE PATRIZIA IMMOBILIEN AG BALANCE SHEET**

	12/31/2010	12/31/2009
	EUR '000	EUR '000
Non-current assets	154,337	151,837
Current assets	177,206	158,090
Prepaid expenses	149	87
<b>Total assets</b>	<b>331,693</b>	<b>310,014</b>
Equity	312,365	303,330
Provisions	3,327	2,194
Liabilities	16,001	4,490
<b>Total equity and liabilities</b>	<b>331,693</b>	<b>310,014</b>

**SUMMARY OF THE PATRIZIA IMMOBILIEN AG INCOME STATEMENT**

	2010	2009
	EUR '000	EUR '000
Revenues	5,610	6,392
Other capitalized services and other operating income	672	238
Cost of materials	-855	-2,435
Staff costs	-9,446	-6,088
Depreciation, amortization, write-downs and other operating expenses	-7,699	-5,234
Profit / loss from profit transfers and loss absorption	13,658	-2,275
Net interest income	6,950	6,370
<b>Result from ordinary activities</b>	<b>8,890</b>	<b>-3,031</b>
Taxes	145	259
<b>Net profit / loss</b>	<b>9,035</b>	<b>-2,772</b>
Profit carried forward	28,292	31,064
<b>Unappropriated profit</b>	<b>37,327</b>	<b>28,292</b>

**Disclosures in accordance with Article 289 (4) and Article 315 (4) HGB (German Commercial Code)****Composition of subscribed capital**

The Company's subscribed capital (share capital) of EUR 52,130,000 is divided into 52,130,000 no-par value registered shares each representing a notional portion of the share capital of EUR 1.00. All shares are of the same class. The same rights and obligations are associated with all shares. Each share confers the right to one vote. All shares are admitted for trading on the official market of the Prime Standard of the Frankfurt Stock Exchange.

**Restrictions relating to voting rights and transfer of shares**

The shareholders in the Company are not restricted with regard to the acquisition or disposal of shares by legislation or by the Company's Articles of Association. The Managing Board is unaware of any contractual restrictions relating to voting rights or to the transfer of shares.

**Direct or indirect share of voting rights of more than 10 %**

As of December 31, 2010, Wolfgang Egger, CEO of PATRIZIA Immobilien AG, held a total stake of 49.97 % indirectly and directly in the Company via First Capital Partner GmbH, in which he directly and indirectly holds a 100 % stake via WE Vermögensverwaltung GmbH & Co. KG.

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**Shares with special rights conferring powers of control**

There are no shares with special rights conferring powers of control.

**System of control of voting rights when employees have a stake in the capital and do not exercise their rights of control directly**

Employees who have a stake in the capital of PATRIZIA Immobilien AG exercise control rights like any other shareholder in accordance with legal provisions and the Articles of Association.

**The appointment and dismissal of members of the Managing Board, changes to the Articles of Association**

The provisions governing the appointment and dismissal of members of the Managing Board are contained in Article 84 f. of the Aktiengesetz (AktG – German Stock Corporation Act) and in Article 16 of the Company's Articles of Association. Changes to the Articles of Association take place in accordance with Article 179 ff. of the AktG in combination with Articles 16 and 21 of the Articles of Association of PATRIZIA Immobilien AG.

**Powers of the Managing Board to issue and buy back shares**

By resolution of the Annual General Meeting of June 23, 2010, the Managing Board is entitled to acquire shares in the Company with a volume of up to 10 % of the share capital until June 23, 2015. The entitlement may be exercised by the Company in full or for partial amounts, on one or more occasions and in pursuit of one or more purposes, but also by its subsidiaries for its own account or for the account of the latter by third parties. Acquisition can be effected at the discretion of the Managing Board via the stock exchange, by means of a public bid made to the shareholders, through the use of derivative instruments or through an individually negotiated repurchase. The acquired shares may subsequently be used for all legally permissible purposes; in particular they may be canceled, sold in exchange for a contribution in kind or to shareholders or used to meet subscription or conversion rights.

Furthermore, the Managing Board was authorized by resolution of the Annual General Meeting on June 13, 2007 to increase the share capital on one or more occasions with the consent of the Supervisory Board by up to a total of EUR 26,065,000 in exchange for cash contributions and/or contributions in kind by issuing new, registered no-par value shares (authorized capital) by June 12, 2012. The Managing Board is authorized, with the consent of the Supervisory Board, to exclude shareholders' subscription rights in certain cases. The complete authorization results from Article 4 (3) of the Articles of Association. In addition, 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. At the same time, the Company's share capital was contingently increased by resolution of the Annual General Meeting by up to EUR 26,065,000 by the issue of 26,065,000 new registered no-par value shares. The details relating to the contingent capital increase result from Article 4 (4) of the Articles of Association.

**Significant agreements by the Company contingent upon a change in control subsequent to a takeover bid**

No agreements contingent upon a change in control subsequent to a takeover bid exist.

**Compensation agreements by the Company with the members of the Managing Board or employees for the event of a takeover bid**

No compensation agreements with the members of the Managing Board or employees for the event of a takeover bid exist.

## 2.5 Declaration on Corporate Governance – Disclosures in accordance with Article 289a HGB (German Commercial Code)

The Managing Board of PATRIZIA Immobilien AG issued a declaration on January 26, 2011, concerning corporate governance in accordance with Article 289a HGB (German Commercial Code) and has made this available to the public on the Company's website at

[www.patrizia.ag/en/investor\\_relations/corporate\\_governance/declaration\\_on\\_corporate\\_management.html](http://www.patrizia.ag/en/investor_relations/corporate_governance/declaration_on_corporate_management.html).

## 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 item 9.3.

# 3 Our Responsibility

## 3.1 Sustainability

PATRIZIA Immobilien AG supports various organizations in the real estate industry that are committed to sustainability and environmentally conscious actions. PATRIZIA Projektentwicklung GmbH, for example, is a member of the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen e. V. – DGNB) and is involved in a working group that is developing a certificate for new housing construction. As an approved DGNB auditor, a project manager from PATRIZIA Projektentwicklung assists in the planning of PATRIZIA's own new construction. We participate in various working groups to make a contribution to the subject of sustainability in the real estate sector through our membership in other associations of national and international property companies, for example in defining reporting standards for residential property.

We rate the environmental expertise of the German construction industry as high on an international scale. For PATRIZIA, the careful use of resources plays a central role in construction measures, particularly with regard to new project development. In the 2010 fiscal year, the new construction project in Feuerbachstrasse, Frankfurt/Main, involving the building of six VERO town villas and the F40 housing block, was awarded the DGNB pre-certificate in gold, the highest distinction awarded by DGNB.

We optimize the energy standards of our existing real estate by employing modern, efficient technologies and also make a lasting contribution to protecting the environment and climate by extending the life cycle of the buildings. The construction measures undertaken to enhance the value of our buildings include the installation of new windows and heating systems and heat insulation to facades, ceilings and roofs. In addition, our tenants and buyers also benefit from lower ancillary costs. Besides the ecological aspects, we also think that the economic efficiency of the measures should not be disregarded. To evaluate which measures are sensible in terms of energy savings,

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PATRIZIA examines the entire value creation process and life cycle of the property, e.g. the energy consumption tied to construction and the energy requirements for the use of the building are taken into equal consideration.

PATRIZIA Immobilienmanagement GmbH also conducts surveys among our tenants on a regular basis in order to involve them in the optimization process. The ideas and suggestions that we gain from this process are included in the property management process, contributing to a long-term tenant relationship and low tenant fluctuation rates. The tenant portal on PATRIZIA's website also provides comprehensive services to the tenants directly. They can find information, tips and important online services. If, for example, a tenant's bank details change or if a tenant discovers a fault in an apartment, he/she can send a message at any time from the comfort of his/her home using the appropriate online form. This not only saves time for both parties, but costs as well. In 2010, PATRIZIA Immobilienmanagement was able to achieve better conditions for heat metering services and media provision for its tenants when renegotiating framework agreements. We help raise tenant awareness of sustainability with an information program and practical tips on saving energy at home, along with ideas for conserving energy elsewhere, such as in the workplace.

Sustainability is not just limited to PATRIZIA's core business: For over twelve years, PATRIZIA has systematically engaged in social projects via the KinderHaus Foundation. The projects' principal focus is always on creating appropriate living conditions for children and young people in need by providing new buildings tailored to their exact particular requirements. Five PATRIZIA KinderHaus facilities have been built since its inception. The first was an isolation ward for children in Peramiho, Tanzania, in 2002. This was followed by an aftercare center for families with very sick and chronically ill children in Munich in 2006. In 2008, the Foundation completed a school hostel with adjoining dining room in Ruanda and a further aftercare center in Hamburg. An elementary school was completed in Uganda in 2010, and the PATRIZIA KinderHaus Foundation is currently working on the construction of an elementary school in the mountains of Nepal.

### 3.2 Employees

As of December 31, 2010 the PATRIZIA Group had 370 permanent employees (2009: 349 employees) including 16 trainees and students of Duale Hochschule Stuttgart majoring in real estate in addition to 43 part-time employees. After a reduction in the number of employees in 2009, headcount increased once more over the course of the year by 21, or 6 %. On average during 2010, PATRIZIA employed 364 staff throughout the Group (2009: 357 employees), including 15 trainees and 42 part-time employees. We only train for our own requirements since we wish to take on all trainees after they pass their exams.

As of January 1, 2010, all accounting functions within the Group were bundled at corporate level. As a result, 30 employees transferred within the Group from PATRIZIA Immobilienmanagement GmbH to PATRIZIA Immobilien AG. Furthermore, the business unit "Institutional Customers" was established within the Group in order to strengthen our sales activities. Our asset management company also created new positions as a result of establishing new funds to meet the increased volume of business.

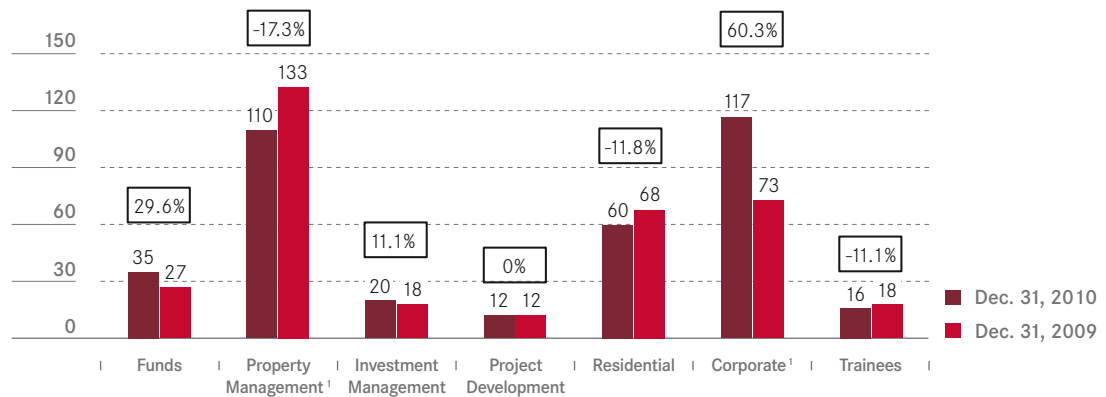
The proportion of male to female full-time employees is 43:57 while the proportion of male to female part-time employees is 7:93. With a proportion of 61 %, the majority of employees in the PATRIZIA Group are female.

As a real-estate agent and investment company, our employees are PATRIZIA's principal success factor. The average period of employment of PATRIZIA employees including trainees is far in excess of three years despite the many new staff taken on in the reporting year and the years before. We attach great importance to recruiting new managers from within our own ranks wherever possible. Despite growth and eight locations around Germany,

we filled one-third of vacant management positions with our own staff in 2010. Training opportunities are available to every employee and take account of personal development goals as well as the requirements of the business. Approximately TEUR 250 was spent on training in the year under review.

In 2010 we began to investigate the attractiveness of the Company as an employer by means of what will become an annual staff survey and to further enhance the attractiveness together with our employees. The participation rate of 91 % is a clear indication of our employees' interest in and commitment to actively participating in the process and thus their identification with the Company. Results of the subsequent intensive analysis of the findings in various workshops are, for example, the development and implementation of a PATRIZIA mission statement for managers and staff, further support for the flow of information within the company and the launch of a group-wide work-life balance program encompassing the categories of "communication", "advancement", "health management" and "family-friendly company".

#### CHANGES IN STAFF NUMBERS BY BUSINESS LINE



<sup>1</sup> As a result of centralizing accounting functions, the staff affected at PATRIZIA Immobilienmanagement GmbH have been employed at PATRIZIA Immobilien AG since January 1, 2010.

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## 4 Opportunity and Risk Report

### 4.1 Opportunity and Risk Management

#### Risk policy principles

PATRIZIA's risk policy principles are oriented towards safeguarding the continued existence and sustainable 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. A systematic risk management process ensures that risks are identified, 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 for success. PATRIZIA's business model and strategy coupled with the Group's business, financial and social objectives determine how opportunities and risks are dealt with.

Without a willingness to take risks, we would pass up potential opportunities as well. A balanced relationship between opportunities and risks is essential in this respect. Our method is to enter into appropriate risks if there is a strong likelihood of realizing the associated sustained value enhancement potential for 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. Transactions of a speculative nature are strictly prohibited. If risks are unavoidable or arise unforeseeably, we hedge them via risk instruments and appropriate countermeasures.

#### Risk management organization

The task of group-wide risk management and its representation for all affiliated entities is assigned to PATRIZIA Immobilien AG as the holding company. A risk management working group, which is organizationally assigned to the Controlling and Legal departments, is responsible for implementing the risk management processes introduced throughout the Company and reports directly to the Managing Board on a regular basis. It designs the identification process, monitors compliance with the processes and allocates responsibilities for the individual risks. Risks can also take the form of missed or insufficiently exploited opportunities. 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 companies. At Managing Board level, responsibility for risk management falls within the remit of the Chief Financial Officer of PATRIZIA Immobilien AG.

In addition, PATRIZIA Immobilien Kapitalanlagegesellschaft mbH maintains a separate risk management system ensure that legal supervisory requirements are met. It is specially designed to deal with risks associated with the special managed real estate funds .

#### Risk management process

Both the efficiency and effectiveness of the risk management system are assessed twice a year by means of an internal risk audit as well as through regular monitoring of compliance with the risk management processes. This involves asking the managers from the various operating business segments about possible individual risks. This allows new risks to be identified and existing ones to be monitored, quantified and assessed with regard to the probability of their occurrence. Measures are determined for reducing each risk and managers are assigned responsibility for implementing them. The results appear in a risk report which presents the organizational measures and regulations regarding risk recognition, quantification, communication, control and supervision. At the same time, the comprehensive documentation of this report ensures an orderly assessment which can be conducted both externally by the auditor and internally by the responsible departments as well as by the Supervisory Board. In addition to the Managing Board, the directors of the operating companies are also informed of the risk inventory's results.

All employees of PATRIZIA Immobilien AG and its subsidiaries are required to take account of all possible risks that might be involved in their actions. They are instructed to report all risks to risk management. Risks are quantified according to their probability of occurrence of between 0 % and 100 % and the magnitude of potential damage. Overall risk is calculated and updated over a specific period of time by linking the various parameters. We are able to adjust and improve internal structures and processes by continuously analyzing risks and regularly monitoring the effectiveness of our risk management system.

## 4.2 Risk-related Developments

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

### **Market and industry risks**

#### **MACROECONOMIC DEVELOPMENT**

Although PATRIZIA only operates within the German real estate market in respect of its own investments, European and/or global economic developments can affect the Company's performance. The effects of the debt crisis in countries on the periphery of the EU are likely to represent a potential risk for the real economy in Germany. The effects spread to the other eurozone countries could result in less positive economic growth. On the other hand, continuing expansionary monetary policy with its low interest rates could lead to a significant jump in global demand with correspondingly positive effects for strongly export-oriented countries like Germany. With such a development, long-term mortgage rates are also likely to remain at an historically low level. This provides PATRIZIA with an opportunity to increase the sale of residential properties. Positive effects could also be expected if the banks were to increase their lending. The emerging inflationary tendencies could also raise demand for assets with stable value such as residential real estate.

#### **PRICE CHANGES IN THE GERMAN RESIDENTIAL REAL ESTATE MARKET**

In contrast to other European countries, residential real estate prices in Germany have remained relatively stable in recent years. There was no bubble effect as seen in many other European countries. This, together with a heightened concern for security on the part of many private and institutional investors, has caused steadily increasing competition in the investment market for residential real estate. If competition continued to grow it would hamper PATRIZIA's investment in Germany and possibly result in lower margins due to relatively higher purchase prices. This could also lead to a loss of market share for PATRIZIA. We consider market entry barriers for new domestic and international demand to be low, as the activities of a wide variety of international investors have shown in the last few years. As far as own investments are concerned, new acquisition would become more difficult while sales would benefit from price increases. Our asset management company would be exposed to the risk of only being able to find less suitable properties in terms of return on investment.

A fall in real estate prices could negatively impact PATRIZIA's operating activities and impair its ability to generate the margins it realized in the past. Assumptions made upon the purchase of real estate could prove inaccurate and could delay or hinder the resale of the real estate or individual residential units. We constantly analyze price levels and integrate these into our planning. We limit the risk of declining prices by purchasing only high-quality properties in economically appealing locations with significant population influx and good prospects for the future. We can practically rule out the risk of falling prices and rents in our portfolio's locations.

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**COMPETITIVE SITUATION**

In view of the anticipated high demand for indirect residential real estate investments, it is likely that further new funds focusing on German and European residential real estate will be launched in the near future. This could make it more difficult to make purchases for our own fund products and also to win new investors. We expect increased competition in the service sector relating to real estate for asset and property management services. The emergence of new providers could lower the prices for such services, or existing customers could be lost to competitors. We do not consider it probable that foreign service providers will expand into the German market in the current market climate. To strengthen its own competitive position, PATRIZIA Immobilienmanagement GmbH obtained certification according to ISO 9001:2000 in 2007. We do not expect any new competitors in the area of residential property resale. We regard the complexity and regulations that must be observed in residential property resale as a barrier to entry into the market. Competitive risks could have a negative impact on the earnings position of both the Investment and Services segments.

**REGULATORY AND LEGAL PROCEEDINGS**

In the context of our operating activities, PATRIZIA could become involved in legal disputes, particularly with tenants or with regard to project developments. At present, there are no major legal disputes and/or claims for compensation. We consider the potential impact of a legal dispute on PATRIZIA's financial position to be minor, irrespective of whether such disputes were to arise on an individual or cumulative basis. Amendments to laws and regulatory requirements such as tenancy or tax law or construction permit procedures could negatively impact our business development in the future.

**Business risks****PROPERTY RISKS**

Although as a real estate trading company PATRIZIA usually only holds properties in its portfolio for a short time, it is important for us to optimize the structural condition of the properties in our portfolios. We invest in maintenance and modernization on an ongoing basis to enhance rentability and saleability. The optimization measures we carry out while holding the real estate increase its attractiveness and consequently also purchase prices. Inadequate maintenance and renovations, 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 damage to buildings caused by bad weather or technical failure.

**REAL ESTATE SALES**

PATRIZIA is a real estate agent. Due to the timely placement of our properties on the market, we are exposed to marketing risks. We consider it improbable that the market attractiveness of our properties could decline. Nevertheless, events and conditions could make acquisition of a property appear unattractive regardless of the product. A decline in interest in buying for both individual and block sales could result in the calculated sales prices not being obtained and planning targets not being met. Additional risks could arise from warranties assured in purchase agreements.

**CHARACTERISTICS OF LARGE-SCALE PROJECTS**

Global sales of residential units of various sizes are part of 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. Our large-scale projects also include our project developments, each of which is subject to its own stringent time schedule. Delays in drawing up and accepting construction projects can also impact the financial and earnings situation.

#### **CUSTOMERS AND BUSINESS PARTNERS**

Partner risks are those arising from business relationships with customers and suppliers. In order to diversify risks, we maintain a wide base of clients and suppliers and attach great importance to credit standing and reliability. Even so, non-adherence to supplier deadlines and/or inadequate quality of supplier services, for example, pose risks that could make it more difficult, for example, to rent or sell property. A delay in construction would result in cost and sales risks, in particular for project development. As regards joint venture and co-investment, there is the risk that partner companies could withdraw from the market or delay making investments in the volumes originally intended. The loss of business partners or problems with acquiring new business and joint venture partners could jeopardize the financing and implementation of the respective joint projects.

Loss of rent and subsequent bad-debt losses could negatively impact PATRIZIA's revenues and earnings as well. We limit defaults on payments by means of active receivables management. Impairments that exceed the ordinary extent are thus unlikely, particularly as the receivables are generally hedged to the customary extent by deposit payments. The risk of bad-debt losses is very low in real estate sales since ownership only passes to the purchaser upon receipt of the purchase price. However, withdrawal from a purchase agreement would mean that the planned income could only be realized at a later time and that negative budget variances could arise in the short term.

#### **EMPLOYEES**

The skills and motivation of our employees are decisive factors in PATRIZIA's success. A risk of knowledge loss exists from staff fluctuations as well as from not recruiting sufficiently qualified specialists to fill vacancies in good time. In both cases, we would thus sacrifice competitive advantage on the market. In view of the average time our employees have been with the Group, we categorize the probability of increased fluctuation arising as high. We minimize this risk by means of qualified promotion of junior staff and implement focused employee-retention measures, primarily with respect to key positions.

#### **IT SECURITY**

The majority of our business processes are supported by efficient IT systems. Any fault affecting the reliability or security of the IT system could lead to delays or interruptions to operating activities and thus to unscheduled costs. A substantial loss of data could lead to considerable financial losses and also adversely affect tenants' and business partners' perception of the Company. To protect our IT-based business processes, the information technology deployed is constantly subject to examination and enhancement. In order to limit risks we regularly invest in hardware and software. Based on these precautionary measures, we may assume that the probability of a system failure occurring is very low, although the magnitude of damage would be considerable. Individual rights are defined for each user to restrict access and ensure data security. This is coupled with a password change every 40 days and only allowing reuse after 25 password generations.

#### **Financial risks**

##### **FINANCING**

The assessment of PATRIZIA's credit standing influences financing options. We consider the risk that external capital may not be available to PATRIZIA to the necessary extent or only at financially unattractive conditions to be low. The equity required for new financing is currently around 25 % for new target objects. A loan of approximately EUR 467 million is due for extension on March 31, 2011. We consider the extension of the financing to be non-critical and view decreased bank margins rather as an opportunity to reduce finance costs for the underlying portfolio.

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**INTEREST RATE FLUCTUATIONS**

The use of external financing in connection with our acquisitions of real estate exposes us to interest rate fluctuations and refinancing risks. Our continuous planning takes account of all changes in financing costs. 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. Based on the current volume of non-capped rate loans amounting to EUR 284.5 million, we continue to assess the potential extent of financial loss as minor. If interest rates were to rise, we would conclude interest hedges for this portion.

**INTEREST HEDGES**

We employ interest rate derivatives in order to reduce the interest rate risk. We have entered into interest rate hedges for 66.2 % of our bank liabilities, which expire as of July 31, 2014 at the latest. The revised market valuation of interest rate hedges as of the reporting date can have a considerable influence on net profit in accordance with IFRS in the event of major interest rate fluctuations, even if these effects do not constitute income or expenses that impact liquidity. Most of our interest hedge agreements were concluded at the end of 2006/beginning of 2007 in parallel to our conclusion of larger financing volumes. The acquisition interest rate hedged on the basis of these interest hedge agreements averaged 4.08 % at the end of 2010. Derivative financial instruments are not used for the purpose of trading or speculation.

**CREDIT TERMS**

Depending on the loan agreement, there is a risk that PATRIZIA will breach the underlying covenants. As a result, the banks could modify the terms of 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. The credit terms are ISCR (interest service cover ratio) and DSCR (debt service cover ratio). ISCR specifies what percentage of the interest cost is covered by net annual basic rent, while DSCR specifies what percentage of expected interest cost plus repayment (service of capital) is covered by rental income. There are also loan agreements that are linked to the loan to value ratio (LTV), i.e. the ratio of the loan amount to the fair value of the financed property. 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. Loans are always concluded at real estate company level, i.e. the real estate contained within them serves as security. Interest is more than covered by rental revenues while sales proceeds are chiefly used for repayment. Significant vacancies or losses of rent as well as delayed sales could negatively impact the conditions of our loans.

**LIQUIDITY**

As of December 31, 2010, bank balances and cash posted amounting to EUR 70.5 million were available to PATRIZIA in order to cover its refinancing and operating liquidity requirements. Unexpected cost increases, delays in the sales process or rising vacancy levels could adversely affect free liquidity within the Group. In order to minimize refinancing and liquidity risks, PATRIZIA optimizes and manages liquidity by means of cash pooling. Early warning indicators and comprehensive continuous planning also serve to prevent risks. We consider the risk of insufficient internal financing power and debt retirement capability to be very low.

**FLUCTUATIONS IN FOREIGN EXCHANGE RATES**

We can rule out any direct impact from foreign-exchange fluctuations through our predominantly domestic focus in the operating segment as well as in financing. All major subsidiaries and property companies are located within the European Monetary Union (Germany or Luxembourg) so that no foreign-exchange risks exist in this regard. Only our "PATRIZIA EuroCity Residential Fund I" holds real estate outside of the eurozone, in Sweden. This real estate is part of the fund's assets.

### 4.3 Developments relating to Opportunities

#### **Macroeconomic development, mortgage rates**

The continuing expansionary monetary policy with its low interest rates could lead to a significant jump in global demand with correspondingly positive effects for strongly export-oriented countries like Germany. With such a development, long-term mortgage rates are also likely to remain at an historically low level at the same time. This presents PATRIZIA with the opportunity to increase the sale of residential units to tenants, owner-occupiers and private investors. Positive effects could also be expected if the banks were to increase their lending.

Furthermore, the emerging inflationary tendencies could also raise demand for assets with stable value such as residential real estate and thus have a positive effect on PATRIZIA's sales activities.

#### **Demographic development, demand for living space**

According to forecasts by the Statistisches Bundesamt (German Federal Statistical Office), the country's population 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 challenges this assumption. Despite the decline in population, demand for housing will rise by 2020 since the number of households will grow by 650,000 to 40.5 million. The reasons for this are, first, the growing trend toward smaller, older households due to the increasing number of single people and, second, people's increased living requirements leading to a steady rise in living space per person. We see an opportunity in the persistent demand for the successful implementation of our business model over the long term.

#### **Demand for housing**

Building activity continues to lag behind demand despite a slight rise in the number of building permits and completions. We anticipate regional bottlenecks, entailing rising rents and prices, particularly in the conurbations where growth is strong, primarily in the west of Germany. PATRIZIA's portfolio is located in these economically attractive metropolitan areas. We regard the trends described as an opportunity to attain stable to rising prices and higher rent levels than in previous years. The low home ownership rate in Germany in relation to the number of households – 43 %, of which 19 % are households with an owner-occupied apartment – provides great potential for the residential property resales we offer.

#### **Special real estate funds**

We assume that there will be an increase in indirect real estate investments. In addition to our own asset management company that invests in residential real estate, we therefore acquired LB Immo Invest GmbH with effect from the beginning of 2011. This special fund provider for real estate has a long and proven track record in the field of international commercial property. The acquisition extends our range of services and we think that it will provide us with very good opportunities to develop new markets and investor groups and to generate sustained growth for the PATRIZIA Group.

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#### **4.4 Internal Control and Risk Management System with regard to the Reporting Process – Disclosures in accordance with Article 289 (5) and Article 315 (2) No. 5 HGB (German Commercial Code)**

The risks relating to accounting and financial reporting are that our annual financial statements and quarterly reports could contain misrepresentations. In order to identify sources of error and to limit risks that might result from them, PATRIZIA Immobilien AG has established appropriate internal control systems (ICS) for the process of its accounting to provide sufficient security for the reliability of its financial reporting and creation of the published annual financial statements and quarterly reports throughout the year. However, the ICS cannot provide absolute certainty with regard to avoiding errors or misstatements in reporting and auditing.

The starting point for the ICS is the planning drawn up once each year specifying budgetary values and target figures for each company and each cost center for the coming fiscal year. Differences between the actual and target figures are determined and analyzed on a monthly basis. A revised forecast is made for the current year which ties actual values already achieved with open budget values.

The ICS includes all measures and processes to ensure that all transactions are entered uniformly, correctly and quickly into the bookkeeping and financial statements. It ensures compliance with legal regulations and standards while examining the effect of amendments to laws and standards and other notices on accounting and auditing. Separate functions and authorization regulations, which are reinforced by ongoing, standardized control and coordination systems, are a significant part of our ICS .

Accounts payable accounting is located centrally in the holding while accounts receivable accounting is centrally organized and currently processed at five locations. The basis is provided by group-wide standards within a central IT environment for which there are defined access rights. The annual financial statements are prepared almost exclusively for all Group companies at the head office of PATRIZIA Immobilien AG. The employees involved in the annual financial statements are properly trained, and responsibilities and controls are clearly defined for these statements.

The effectiveness of our accounting-related ICS is evaluated as part of the final reporting procedures and also examined by our auditor as part of its auditing remit.

#### **4.5 Overall Assessment of Opportunities and Risks**

Risk management at PATRIZIA is a continuous process which identifies changes in risk and defines appropriate countermeasures. In 2010, as in previous years, PATRIZIA examined the evaluation categories for the potential magnitude of damage of all known risks 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. Considering all relevant individual risks and a possible cumulative effect, PATRIZIA's overall risk is limited at present. No significant risks to the future development and continued existence of the Company and the Group have been identified based on our current knowledge and medium-term planning.

The good sales in 2010 have enabled us to reduce our level of debt and to strengthen our liquidity. We firmly believe that our risk profile has fallen considerably compared with 2009.

## 5 Supplementary Report

The acquisition of the asset management company LB Immo Invest GmbH was completed as of January 3, 2011. The company will therefore be included in the consolidated financial statements for the first time in 2011.

Since December 31, 2010, PATRIZIA Projektentwicklung GmbH has acquired two plots of land with a total area of 7,500 sqm in the Oberkassel district of Düsseldorf, one of the city's most desirable areas. The building plot is part of the former rail freight terminal site in Oberkassel and is an element of the Belsenpark development project. It is planned to construct a total of 140 premium-segment apartments here by 2014. The volume of the project is around EUR 60 million. Notarization was also performed for a plot of land in Augsburg. Around 240 apartments will be built in three construction phases on around 30,000 sqm near the city center and sold individually. Completion of the last construction phase is planned for 2015.

In January, notarization was effected for a small block sale of 26 units in the greater Munich area and for a further 45 in Hamburg. There was a sale of an additional 18 apartments in Hamburg at the beginning of March. We expect to receive the purchase prices in the first and second quarters of 2011.

Moreover, the first purchase was made for the residential property resale portfolio. PATRIZIA acquired 478 apartments and a commercial unit in Munich with total effective floor space of around 30,600 sqm. The total investment amount for the residential complex, which is situated in the district of Ramersdorf-Perlach, i.e. including purchase price ancillary costs and expenses for the planned energy-saving refurbishment measures will exceed EUR 50 million.

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## 6 Report on Expected Developments

### 6.1 Future Economic Framework

#### Future general economic situation in Germany

Starting from what was in economic terms an extremely pleasing performance in 2010, continued positive growth can be expected for 2011 and subsequent years from where we stand today. It may be assumed that the export sector will contribute less to growth in Germany in 2011, but robust domestic demand, in particular from private households, should ensure GDP growth in the region of 2.5 %. This development will be aided by continued historically low interest rates. At the same time there are risks associated with these prospects. A worsening of the current “debt crisis” in the eurozone could lead to negative effects in Germany. According to a preliminary estimate by the Statistisches Bundesamt (German Federal Statistical Office), the inflation rate in Germany climbed to 1.9 % in January. Perceived inflation, which only applies to everyday consumer goods, even rose by 3.25 %. This is joined in Germany by rising wages and a higher price-setting power on the part of companies owing to the positive economic situation. With the rise in the rate of inflation we see a good chance that the shift to material assets such as real estate will continue.

#### Future situation in the German residential real estate market

The federal structure of Germany causes sharply divergent trends in the residential property market. There is an increasing shortage of residential property, above all in the economically strong conurbations as a result of continued immigration, while it can generally be said that more rural regions away from the large centers of population suffer from a surplus in supply.

Although the German population is already shrinking, this will result in considerable, regionally concentrated demand for new construction that will be intensified by a further decline in the size of the average household. The demographic changes alone will account for new construction requirements of between 180,000 and 200,000 apartments per year. In addition to this there will also be new demand for improved quality that is partially the result of the no longer up-to-date housing stock. Current new construction activity lags significantly behind these figures, with a corresponding effect on rents and purchase prices. Considerable rent increases can be expected in some parts, above all in the cities, which may well exceed the rate of inflation of 1.7 % expected by Consensus Economics. There are also likely to be similar developments seen in the area of purchase prices. Here it will be important to develop concepts, in particular for households with lower incomes, allowing affordable housing to be offered in the conurbations. If steps are not taken to ensure this there will be the danger that business organized around the division of labor will no longer function smoothly if insufficient numbers of staff of all levels of qualification and salary are available. One of the central challenges of the future will be to create appropriately affordable housing as part of the internal development of metropolitan areas in order to meet this demand.

For the first time there were again more building permits issued in Germany in 2009 compared with 2008 that were not due to tax pull-forward incentives. A higher number of housing completions can be expected in 2010 due to the close historical relationship between permits and completions. Rising construction activity can also be expected in subsequent years given the very positive macroeconomic performance and positive housing construction indicators. This will be increasingly driven by the construction of apartment buildings since growing urbanization is shifting housing demand to the cities.

## 6.2 Strategic Direction

### **Residential and commercial real estate**

The acquisition of the asset management company LB Immo Invest GmbH has added commercial special real estate funds to our existing portfolio of services. In the past few years PATRIZIA has built up a track record of competence in the field of commercial real estate via direct commissions and co-investments, and customers include both national and international pension funds and insurance companies. As a fully integrated business we can today provide all services related to residential and commercial property with our own staff. We are in a position to offer private and institutional investors direct as well as indirect real estate investments in Germany, Europe and farther afield. The fact that almost any form of real estate investment can be realized with us as partner positions us as a real estate investment company.

This realignment of our business activities is accompanied by a physical separation of the residential and commercial segments: PATRIZIA is and remains the specialist in residential real estate based in Augsburg while the area of commercial real estate is supported and controlled from Hamburg.

In addition to funds in which PATRIZIA has no equity stake of its own, we intend offering a larger number of co-investments in future that will increasingly replace our own 100 % investments. PATRIZIA's aim in this will be a stake in the region of 10 % depending on the investment and the partners.

### **Financial reporting in 2011**

LB Immo Invest GmbH became a new operating subsidiary of the PATRIZIA Group with effect from January 3, 2011. This was the reason for PATRIZIA to alter the existing corporate structure. The changes will result in the use of the real estate as residential or commercial property now determining and segmenting the associated activities. The business activities of the PATRIZIA Group will in future be separated into the segments residential, commercial and special real estate business. The segmentation of the corporate divisions will be based on the changed internal reporting lines. This means that financial reporting will have to reflect the changes. Following the implementation of the new corporate structure, the segments are as follows:

The residential segment bundles all activities relating to own investment, services and funds in the field of residential real estate while the commercial segment combines the same portfolio of services for commercial real estate. This covers LB Immo Invest GmbH and the co-investment PATRoffice Real Estate GmbH & Co. KG. PATRIZIA Projektentwicklung GmbH and PATRIZIA Immobilienmanagement GmbH, which serve both the residential and commercial real estate sectors, together form the segment special real estate business. The internal corporate, cross-company services provided by the holding company will remain unchanged in the segment Corporate.

## 6.3 Expected Development of the Earnings and Financial Situation

In Residential Property Resale it will be difficult to achieve the 2010 sales figures with a total of 801 apartments sold despite favorable general conditions and good demand. We want to maintain this level for the entire year but do not exclude the possibility of a slight decline. 600 units held as investment property have now been released for residential property resale. The initial phase of sale, in which only the tenants are approached, is planned to start in the second quarter of 2011. Despite the change in sales channel, the objects will continue to be reported as non-current assets. In contrast, we intend growing global sales significantly. After selling around 1,000 units in 2010 we see a good possibility of attaining more transactions and in some cases increasing individual volumes.

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PATRIZIA Projektentwicklung will not complete any projects in the current fiscal year. In 2010 it contributed EUR 42.4 million to sales. These revenues should be made up for in 2011 through increased block sales. PATRIZIA Projektentwicklung is currently examining further investment opportunities. The project development in Frankfurt with the VERO and F40 subprojects is due to be completed in full by 2013.

2011 will see increasing earnings contributions from our two asset management companies. Since residential funds of PATRIZIA Immobilien KAG are still in the investment phase, we will continue to benefit in the current fiscal year from one-off purchase commission and then from rising administration fees as the amount of capital investment grows. We expect a profit contribution (EBT) from the integration of LB Immo Invest, after deduction of transaction-related financing costs, of EUR 3.5 million. PATRIZIA in its old structure, i.e. excluding LB Immo Invest, should achieve an operating profit in 2011 that at least matches the 2010 result.

The loan agreement extensions due in the fiscal year do not pose any problem. The bank margins currently required are generally below the level of the last loan agreements concluded and in the case of the extensions are likely to have a positive effect on our costs of finance. Furthermore, the proportion of hedged loans is decreasing meaning that we will benefit from the continuing low interest rates for the unhedged share. The more success we enjoy in real estate sales, the more we will be able to reduce our level of debt. However, as we will resume purchasing activities in 2011 requiring new loans to be taken out, we cannot name a target figure for the level of bank liabilities at the end of the year. We will nevertheless retain our goal for a minimum equity ratio of 25 %, which prescribes the point of reference for new borrowing.

We will be purchasing for our own account for the first time since 2007. An initial object in Munich with around 480 units was notarized for residential property resale in February. We are currently analyzing further objects, concentrating on the locations of Hamburg and Berlin in addition to Munich. Besides the acquisition costs for the additionally planned purchases, the construction costs for our project development in particular will contribute to costs of material approximately doubling in 2011.

Further increasing staff costs can be expected in the current fiscal year. The increased headcount at PATRIZIA in 2010 will have a full annual effect for the first time in 2011. Furthermore, the purchase of LB Immo Invest GmbH resulted in 49 more employees. Additional individual positions are to be created depending on actual growth.

**Dividend policy**

New financing will be required for the purchase of new objects for residential property resales and for project development in 2011. It is our firm intention to maintain higher liquidity against the background of higher equity requirements for granting new loans. The Managing Board will propose to the Supervisory Board that the net profit of PATRIZIA Immobilien AG for 2010 be entirely carried forward to a new account. The deciding reason for waiving the dividend is exclusively the business and earnings performance of the past year and not our expectations for 2011, since it is our aim to allow shareholders to participate directly in PATRIZIA's success once more. The prerequisite for this is first to stabilize the current 24.3 % equity base within the Group at a level of 25–30 %. Second, the amount of a potential dividend will continue to depend on PATRIZIA's results and the general business situation. Given the appropriate business success, 20 % to 25 % of the operating profit (EBT adjusted) should be distributed as dividends. We are confident that we will be able to meet these conditions provided business continues to develop successfully.

### General statement by the company's management to prospects for 2011 and 2012

From the current perspective, we have set ourselves ambitious but achievable goals for the 2011 fiscal year. We want to at least equal the operating profit of the past year of EUR 12.8 million. The acquisition of LB Immo Invest will add momentum to profit growth, and here we expect an additional contribution of EUR 3.5 million after deducting transaction-related financing costs, so that we are aiming for an operating profit (EBT adjusted) of EUR 16–17 million. We would also like to allow our shareholders to participate in the success of the Company by paying a dividend provided that we achieve our profit target and our equity base is at least 25 %.


Our primary aims beyond the current fiscal year include strengthening our operating earnings performance and maintaining a balanced financial structure. It goes without saying that in 2012 we do not wish to fall below our 2011 result. With regard to the quality of profit we would like to significantly increase the proportion of steady revenues.

The prospects for 2011 and 2012 include all the events that were known at the time the consolidated financial statements were prepared and that could influence the business performance of PATRIZIA.


Augsburg, March 4, 2011



**Wolfgang Egger**  
Chairman of the Board



**Arwed Fischer**  
Member of the Board



**Klaus Schmitt**  
Member of the Board



# Trust

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Trust is the basis for growing relationship. We believe that every good partnership is based on an open exchange of ideas, mutual understanding and shared goals. This is what our customers can depend on.

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TRUST – ONE ASPECT OF SUSTAINABILITY.



# Sustainable value

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With respect to our assets, sustainable value comprises more than location, building quality and technical features. For us it is all about how people use living and working spaces and about making appropriate decisions.

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THIS IS AN ASPECT OF SUSTAINABILITY.

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► **NEW “VERO” DEVELOPMENT,  
FRANKFURT/MAIN**

Planned with a unique vision – VERO will adapt to match whatever the future might bring. With its exclusive fit-out variants and flexible floor plans, it offers a concept for a lifetime spent in the city



# Certainty for the future

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In a changing world people want security, a dependable future and room to grow. Social and cultural progress needs people with visions who can think ahead and who support change.

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CERTAINTY FOR THE FUTURE – ONE ASPECT OF SUSTAINABILITY.

# Consolidated Financial Statements and Notes

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# Consolidated Income Statement

FOR THE PERIOD FROM JANUARY 1, 2010 TO DECEMBER 31, 2010

EUR '000	Notes	2010	2009
Revenues	6.1	339,593	250,888
Income from the sale of investment property	4.1	1,237	370
Changes in inventories	6.2	-165,632	-106,173
Other operating income	6.3	4,658	14,168
<b>Total operating performance</b>		<b>179,856</b>	<b>159,253</b>
Cost of materials	6.4	-68,072	-60,884
Staff costs	6.5	-28,580	-23,888
Amortization of software and depreciation on equipment	6.6	-904	-824
Results from fair value adjustments to investment property	4.1	325	0
Other operating expenses	6.7	-21,376	-17,553
Earnings from companies accounted for using the equity method	4.1	-5	6
Finance income	6.8	11,494	12,271
Finance cost	6.8	-61,250	-76,342
<b>Profit / loss before income taxes</b>		<b>11,488</b>	<b>-7,961</b>
Income tax	6.9	-5,287	-1,539
<b>Net profit / loss</b>		<b>6,201</b>	<b>-9,500</b>
Profit carried forward		21,529	31,029
<b>Consolidated net profit</b>		<b>27,730</b>	<b>21,529</b>
Earnings per share (undiluted), in EUR	6.10	0.12	-0.18
The net profit / loss for the period is allocated to:			
- Shareholders of the parent company		6,246	-9,500
- Non-controlling partners		-45	0
		<b>6,201</b>	<b>-9,500</b>

# Consolidated Statement of Comprehensive Income

FOR THE PERIOD FROM JANUARY 1, 2010 TO DECEMBER 31, 2010

EUR '000	Notes	2010	2009
Net profit / loss		<b>6,201</b>	<b>-9,500</b>
Other result			
Cash flow hedges			
- Amounts recorded during the reporting period	4.4	2,316	-455
- Reclassification of amounts that were recorded	4.4	1,391	2,430
<b>Total result for the reporting period</b>		<b>9,908</b>	<b>-7,525</b>
The total result is allocated to:			
- Shareholders of the parent company		9,953	-7,525
- Non-controlling partners		-45	0
		<b>9,908</b>	<b>-7,525</b>

# Consolidated Balance Sheet

AT DECEMBER 31, 2010

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## ASSETS

EUR '000	Notes	12/31/2010	12/31/2009
<b>A. Non-current assets</b>			
Software	4.1	2,811	539
Investment property	4.1	614,945	657,320
Equipment	4.1	1,893	1,650
Investments in joint ventures	4.1	8	13
Participations	4.1	3,090	3,090
Long-term tax assets	4.2	281	313
<b>Total non-current assets</b>		<b>623,028</b>	<b>662,925</b>
<b>B. Current assets</b>			
Inventories	4.3	510,438	676,008
Short-term tax assets	4.2	263	1,879
Current receivables and other current assets	4.5	10,282	29,428
Bank balances and cash	4.6	70,537	56,183
<b>Total current assets</b>		<b>591,520</b>	<b>763,498</b>
<b>Total assets</b>		<b>1,214,548</b>	<b>1,426,423</b>

**EQUITY AND LIABILITIES**

EUR '000	Notes	12/31/2010	12/31/2009
<b>A. Equity</b>			
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
Non-controlling partners	5.1.4	832	877
Valuation results from cash flow hedges	4.4	–2,372	–6,079
Consolidated net profit		27,775	21,529
<b>Total equity</b>		<b>294,732</b>	<b>284,824</b>
<b>B. Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	5.3	9,701	5,516
Long-term financial derivatives	4.4	39,715	34,208
Retirement benefit obligations	5.4	368	339
Non-current liabilities	9.2	1,202	259
<b>Total non-current liabilities</b>		<b>50,986</b>	<b>40,322</b>
<b>Current liabilities</b>			
Short-term bank loans	5.2	841,380	1,070,207
Short-term financial derivatives	4.4	363	8,895
Other provisions	5.5	666	580
Current liabilities	5.6	17,008	13,116
Tax liabilities	5.7	9,413	8,051
Other current liabilities		0	428
<b>Total current liabilities</b>		<b>868,830</b>	<b>1,101,277</b>
<b>Total equity and liabilities</b>		<b>1,214,548</b>	<b>1,426,423</b>

# Consolidated Cash Flow Statement

FOR THE PERIOD FROM JANUARY 1, 2010 TO DECEMBER 31, 2010

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EUR '000	2010	2009
Consolidated net profit / loss	6,201	-9,500
Actual income taxes recognized through profit or loss	2,056	2,055
Financing costs recognized through profit or loss	48,806	59,670
Income from financial investments recognized through profit or loss	-948	-962
Amortization of intangible assets and depreciation on property, plant and equipment	904	824
Results from fair value adjustments to investment property	-325	0
Loss from / gain on disposal of investment property	-1,237	-370
Result from the first time consolidation of F 40 GmbH	0	-7,984
Change in deferred taxes	4,185	-406
Change in retirement benefit obligations	29	-26
Ineffectiveness of cash flow hedges	682	10,253
Changes in inventories, receivables and other assets that are not attributable to investing activities	186,574	115,787
Changes in liabilities that are not attributable to financing activities	4,763	-8,042
Interest paid	-47,585	-62,169
Interest received	738	990
Income tax payments / refunds	952	1,685
<b>Cash inflow from operating activities</b>	<b>205,795</b>	<b>101,805</b>
Capital investments in intangible assets and property, plant and equipment	-3,464	-436
Cash receipts from disposal of intangible assets and property, plant and equipment	45	8
Cash receipts from disposal of investment property	43,937	3,050
Profit / loss on shareholdings recognized at equity	5	0
Payments for development or acquisition of investment property	0	-1,739
Investments	0	-1,154
Net inflows from the acquisition of subsidiaries	0	100
<b>Cash inflow/outflow from investing activities</b>	<b>40,523</b>	<b>-171</b>
Borrowing of loans	5,571	14,304
Repayment of loans	-237,535	-127,660
<b>Cash outflow from financing activities</b>	<b>-231,964</b>	<b>-113,356</b>
<b>Changes in cash</b>	<b>14,354</b>	<b>-11,722</b>
Cash January 1	56,183	67,905
Cash December 31	70,537	56,183

# Statement of Changes in Consolidated Equity

FOR THE PERIOD FROM JANUARY 1, 2009 TO DECEMBER 31, 2010

EUR '000	Share capital	Capital reserves	Valuation results from Cash Flow Hedges	Retained earnings (legal reserve)	Consolidated net profit/loss	Thereof attributable to the shareholders of the parent company	Thereof attributable to non-controlling partners	Total
Balance January 1, 2009	52,130	215,862	-8,054	505	31,029	291,472		291,472
Net amount recognized directly in equity, where applicable less income taxes			1,975			1,975		1,975
Net profit/loss for the period					-9,500	-9,500		-9,500
Full overall result for the fiscal year			1,975		-9,500	-7,525		-7,525
Additional non-controlling partners which originated in the course of the F 40 GmbH acquisition						0	877	877
Balance December 31, 2009	52,130	215,862	-6,079	505	21,529	283,947	877	284,824
Net amount recognized directly in equity, where applicable less income taxes			3,707			3,707		3,707
Net profit/loss for the period					6,246	6,246	-45	6,201
Full overall result for the fiscal year			3,707		6,246	9,953	-45	9,908
<b>Balance December 31, 2010</b>	<b>52,130</b>	<b>215,862</b>	<b>-2,372</b>	<b>505</b>	<b>27,775</b>	<b>293,900</b>	<b>832</b>	<b>294,732</b>

# Notes to the IFRS Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2010

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## 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, 2010 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 up to the balance sheet date by the EU in the context of the endorsement process and published in the Official Journal of the EU.

The following interpretations had already been published at the time of preparing the consolidated financial statements, and were to be adopted for the first time in the current financial year:

- IFRIC 17 – “Distributions of Non-cash Assets to Owners” (to be adopted for fiscal years commencing on or after July 1, 2009)
- IFRIC 18 – “Transfer of Assets from Customers” (to be adopted for fiscal years commencing on or after July 1, 2009)

At the time of preparing the consolidated financial statements, the following standards, as amended, were to be used for the first time:

- Amendment to IFRS 1 – “First-time Adoption of International Financial Reporting Standards” (restructured standard; to be adopted for fiscal years commencing on or after July 1, 2009)
- Amendment to IFRS 1 – “First-time Adoption of International Financial Reporting Standards” (amendments relating to assets used for exploration of oil and gas and additional relief for embedded leasing agreements; to be used for fiscal years commencing on or after January 1, 2010)
- Amendment to IFRS 2 – “Share-based Payment” (clarification of accounting for cash-settled, share-based payments in the Group; to be adopted for fiscal years commencing on or after January 1, 2010)
- Revision of IFRS 3 – “Business Combinations” (comprehensive amendments relating in particular to the application of the purchase method; to be adopted for fiscal years commencing on or after July 1, 2009)
- Amendment to IAS 27 – “Consolidated and Separate Financial Statements” (amendments regarding partial disposal of subsidiaries, associated companies and joint ventures and regarding the results attributable to non-controlling shares; to be adopted for fiscal years commencing on or after July 1, 2009)
- Amendment to IAS 39 – “Financial Instruments: Recognition and Measurement” (amendments relating to the risk positions qualifying for hedge accounting; to be adopted for fiscal years commencing on or after July 1, 2009)
- Amendment to IAS 39 and IFRIC 9 – “Reassessment of Embedded Derivatives” (amendments relating to the assessment of embedded derivatives upon reclassification of financial assets; to be adopted for fiscal years commencing on or after July 1, 2009)
- Amendments arising from the annual improvements to the IFRSs dating from April 2009

The new/amended standards and IFRICs did not have any impact on 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 yet compulsory:

- IFRS 9 – “Financial Instruments” (to be adopted for fiscal years commencing on or after January 1, 2013; this standard has not yet been adopted by the EU)
- IAS 24 (revised) – “Related Party Disclosures” (amended disclosure requirements for companies that are controlled, jointly controlled or significantly influenced by a government, and clarification of the definition of a related party; to be adopted for fiscal years commencing on or after January 1, 2011; this amendment has not yet been adopted by the EU)
- IFRIC 19 – “Extinguishing Financial Liabilities with Equity Instruments” (to be adopted for fiscal years commencing on or after July 1, 2010)

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

- Amendment to IFRS 1 – “First-time Adoption of International Financial Reporting Standards” (amendments relating to an exception from the disclosure under IFRS 7 – comparative figures; to be used for fiscal years commencing on or after July 1, 2010)
- Amendment to IFRS 1 – “First-time Adoption of International Financial Reporting Standards” (amendments relating to fixed points in time in the exception for derecognitions; to be used for fiscal years commencing on or after July 1, 2011; this amendment has not yet been adopted by the EU)
- Amendment to IFRS 1 – “First-time Adoption of International Financial Reporting Standards” (amendments relating to severe high inflation; to be used for fiscal years commencing on or after July 1, 2011; this amendment has not yet been adopted by the EU)
- Amendment to IFRS 7 – “Financial Instruments” (amendments to improve disclosures in the event of transfers of financial assets; to be adopted for fiscal years commencing on or after July 1, 2011; this amendment has not yet been adopted by the EU)
- Amendment to IAS 12 – “Income Taxes” (limited amendment relating to the recovery of underlying assets; to be adopted for fiscal years commencing on or after January 1, 2012; this amendment has not yet been adopted by the EU)
- Amendment to IAS 32 – “Financial Instruments: Presentation” (amendments regarding accounting for rights issues, if they are denominated in a currency other than the company’s functional currency; to be adopted for fiscal years commencing on or after February 1, 2010).
- Amendment to IFRIC 14 – “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (amendment regarding voluntary pre-payments within the framework of minimum funding requirements; to be adopted for fiscal years commencing on or after January 1, 2011)
- Amendments arising from annual IFRS improvements made in April/May 2009; partly applicable for fiscal years commencing on or after January 1, 2011; however, these amendments have not yet been adopted by the EU

We do not expect any significant effects on the consolidated financial statements following the application of the amended standards and interpretations.

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

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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 in the accounting, valuation and consolidation methods compared with the German Commercial Code:

- Valuation of investment property at market values;
- Valuation of financial derivatives at market value, with valuation changes being treated in profit or loss 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 of 93.21 % in PATRIZIA Immobilien AG; following first listing of the shares on March 31, 2006 its stake was 50.02 %. Following the capital increase carried out in January 2007 and various share purchases during the course of 2007, First Capital Partner GmbH's direct and indirect shareholding in PATRIZIA Immobilien AG was 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, 2010, First Capital Partner GmbH's direct and indirect shareholding in PATRIZIA Immobilien AG was 49.97 %.

## **2 Scope of Consolidation and Consolidation Methods**

### **2.1 Scope of Consolidation**

All of the Company's subsidiaries are included in the consolidated financial statements of PATRIZIA Immobilien AG. The Group includes all companies controlled by PATRIZIA Immobilien AG. Control is deemed to be the ability to determine the business and financial policy of the subsidiary in order to benefit from its commercial activities.

Control is in principle 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 (Appendix to the Notes to the Consolidated Financial Statements). With the exception of PATRIZIA Immobilien Kapitalanlagegesellschaft mbH, PATRIZIA Wohnen GmbH and Stella Grundvermögen GmbH, the subsidiaries that are listed and that are 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 influencing their business and financial policies, two or more partner companies are bound to common management under a 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. In principle, 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 within the consolidated financial statements.

In addition to the parent company, the scope of consolidation comprises 52 subsidiaries. They are included in the consolidated financial statements in line with the rules of full consolidation. There were no associated companies as at the balance sheet date. In addition, one joint venture is accounted for at equity in the consolidated financial statements.

In principle, the financial statements of the subsidiaries included in the consolidated financial statements are prepared as at the balance sheet date of the annual financial statements of PATRIZIA Immobilien AG. In 2010, the fiscal year of Wohnungsgesellschaft Olympia mbH, which ran from December 1 to November 30 and did not correspond to the calendar year, was changed to bring it in line with the calendar year. Consequently, the annual financial statements of Wohnungsgesellschaft Olympia mbH as at November 30, 2010 and also the annual financial statements for the incomplete fiscal year from December 1 to December 31, 2010 are included in the consolidated financial statements. The financial statements are prepared in line with uniform accounting and valuation principles.

#### **Company acquisitions, sales and intercompany restructuring**

Under a contract dated July 28, 2010, PATRIZIA founded a subsidiary, PATRIZIA Property Inc. in Delaware, USA. The starting capital was USD 100.

Under an agreement dated November 16, 2010 and a supplementary agreement dated December 2, 2010, Stella Grundvermögen GmbH acquired a 5.1 % stake in Alte Haide Baugesellschaft mbH from AHO Verwaltungs GmbH with effect from December 2, 2010. The acquiring company paid a cash price of TEUR 415 for the purchase of the shares; as a result of full control being achieved, amounts of TEUR 525 in bank balances, TEUR 62 in inventories, TEUR 5 in tax reimbursement claims, TEUR 1 in other receivables, TEUR 1 in other liabilities and TEUR 173 in tax liabilities were included in the scope of consolidation. The gain of TEUR 3 from the purchase was included in the income statement under the item Other operating income.

Alte Haide Baugesellschaft acquired the shares of PATRoffice Real Estate 997 GmbH on December 6, 2010. PATRoffice Real Estate 997 GmbH is a shelf company and its acquisition does not therefore constitute a company acquisition as defined by IFRS 3. Under a shareholders' resolution dated December 21, 2010, PATRoffice Real Estate 997 GmbH was renamed "PATRIZIA Projekt 600 GmbH". The acquiring company paid a cash purchase price of TEUR 25 for the shares; as a result of control being achieved, an amount of TEUR 25 in bank balances was included in the scope of consolidation.

Under a notarial purchase agreement dated December 9, 2010, PATRIZIA Immobilien AG acquired a 94.9 % stake in LB Immo Invest GmbH, Hamburg, via its indirect subsidiary PATRIZIA Projekt 600 GmbH (formerly PATRoffice Real Estate 997 GmbH). The date of acquisition for implementing full consolidation of the shares has been set at January 3, 2011. Legal and financial transfer of the shares took place on January 3, 2011 following full payment of the purchase price.

LB Immo Invest GmbH is an asset management company based in Hamburg that focuses on the management of special real estate funds. At the time of acquisition the company administered 12 real estate funds with a gross fund volume of EUR 2,321 million.

The provisional cash purchase price for the shares that were acquired indirectly by PATRIZIA Immobilien AG (94.9 %) was EUR 35.2 million (excluding ancillary acquisition costs). The ancillary acquisition costs were treated as an expense.

Due to the fact that the contractual documents available to date are incomplete and also to the fact that at the time of preparing the consolidated financial statements, the required market valuations and other calculations had not

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yet been completed, the final calculation of the purchase price and also the value of the contracts acquired and of the associated deferred tax liabilities may differ slightly from the amounts shown below.

According to provisional calculations to date and full exposure of the hidden reserves, the Group has received the following assets and liabilities:

**FAIR VALUE 2010**

EUR million	Fair Value
Intangible assets (including fund management contracts)	46.2
Property, plant and equipment	0.2
<b>Total non-current assets</b>	<b>46.4</b>
Shares and other variable-yield securities	1.6
Trust receivables	0.6
Other assets, prepaid expenses and deferred charges	3.4
Cash and cash equivalents	7.1
<b>Total current assets</b>	<b>12.7</b>
<b>Total assets</b>	<b>59.1</b>
Deferred taxes	14.9
<b>Total non-current liabilities</b>	<b>14.9</b>
Trust liabilities	0.6
Other current liabilities	3.1
Provisions for taxes	0.1
Other current provisions	4.1
<b>Total current liabilities</b>	<b>7.9</b>
<b>Total liabilities</b>	<b>22.8</b>
<b>Net assets</b>	<b>36.3</b>
Thereof share attributable to non-controlling partners	1.9
Thereof share attributable to the controlling parent company	34.4
Provisional purchase price	35.2

The value of the share accounted for by the non-controlling partners (5.1 %) in LB Immo Invest GmbH was stated at the fair value of the net assets purchased and amounts to EUR 1.9 million. The resulting goodwill amounts to EUR 0.8 million.

The resulting goodwill is based on expected synergy effects between the purchased company and the existing company PATRIZIA Immobilien KAG and also the other service providers within the PATRIZIA Group.

The goodwill will not be tax-deductible in future periods.

With the exception of the exposure of hidden reserves in the fund management contracts and in fund shares held and a resulting adjustment of deferred tax liabilities, it was possible to take over the carrying amounts on an unchanged basis. There were no other intangible assets that could be recognized in expectation of a future economic benefit.

The new fair values to be determined autonomously in accordance with IFRS 3 (i.e. without any link to existing carrying amounts under local accounting provisions) are determined in accordance with uniform group-wide accounting provisions applicable within the PATRIZIA Group.

Due to the purchase date of January 3, 2011, no amounts relating to the purchased company are shown in the statement of comprehensive income.

The acquired cash amounts to EUR 7.1 million.

## 2.2 Capital Consolidation using Full Consolidation

In principle, all subsidiaries are recognized in the consolidated financial statements using full consolidation. Since January 1, 2002, acquired subsidiaries have been accounted for using the purchase method under IFRS 3. Using the relief option of IFRS 1, purchases of shares in companies before this date were still accounted for on the basis of the carrying amount method in accordance with the German Commercial Code.

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 purchase. The calculated acquisition costs are allocated among the identifiable assets and liabilities of the acquired company. Goodwill is to be stated if the acquisition costs exceed the share in the re-valued net worth of the acquired company that is applicable to the parent company. In the reverse case, a negative difference is to be recognized through profit or loss. The equity share held in the acquired company is authoritative in determining the net worth applicable to the Group. In principle, the re-valued net worth must be recognized in full. Non-controlling partners' interests are posted separately within consolidated equity. If the loss for a period that is applicable to the non-controlling partners exceeds their interest that is 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 are recognized (proportionately) in the consolidated financial statements when the equity method is applied. Instead, the carrying amount of the participation is updated annually in accordance with the development of the proportionate equity in 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. During initial consolidation, the acquisition costs for the shares acquired are netted against the equity attributable to them. Any difference is examined, in accordance with the rules for full consolidation, for the existence of hidden reserves or charges and any remaining difference is treated as goodwill. During subsequent consolidation, the carrying amount of the participation is updated in line with the proportionate changes in equity at the associated company.

## 2.4 Consolidation of Liabilities, Expenses and Income and Elimination of Intra-group Results

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

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**2.5 Currency Translation**

The consolidated financial statements were prepared in EURO, the Group's functional currency. With the exception of PATRIZIA Property Inc. in Delaware, USA, which was founded during the year under review, the scope of consolidation is made up only of subsidiaries located in the European Monetary Union; consequently, only one set of financial statements is in a foreign currency and requires translation. Similarly, there were no material assets or liabilities, contingent receivables 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 acquisition or manufacturing cost at the date of addition. Subsequent measurement provides for the carrying out of scheduled amortization and, if applicable, unscheduled amortization as well as reversals taking into account amortized cost of acquisition or manufacturing.

Acquisition costs include the directly attributable purchase and commitment costs.

Scheduled amortization is carried out using the straight-line method. It starts as soon as the asset can be used and ends with disposal 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**

Where assets are subject to scheduled depreciation and there is an indication of impairment, a review is undertaken to ascertain whether there is a need for unscheduled depreciation. Assets that are not subject to scheduled depreciation are checked on each balance sheet date to ascertain if there is a need for value adjustment.

**3.3 Investment Property**

Qualifying real estate as an investment is based on a corresponding management decision to use the real estate in question to generate rental income and thus liquidity, while realizing higher rent potential over a long time period and, accordingly, an increase in value. The share of owner-occupier use does not exceed 10 % of the rental space. In contrast to the real estate posted under inventories, investment property is not intended for sale in the ordinary course of business or for such sale within the framework of the construction or development process. Investment property is measured at fair value, with changes in value recognized through profit or loss.

Investment property is measured at market values. In principle, investment property is measured on the basis of external appraisals carried out by independent experts using current market prices or using customary valuation methods and consideration of the current and long-term rental situation. The residential property resales process was launched in 2010 for individual investment properties. Valuation of these properties is based on current comparative values.

The market value is equivalent to the fair value. According to IAS 40, this is defined as the value reasonably obtainable on the market based on a hypothetical buyer/purchaser situation. Investment property is reported at this fictitious market value without any deduction of transaction costs.

With the exception of the properties earmarked for resale, the fair values of the investment property as shown in the consolidated financial statements are based on valuations by independent experts who apply international valuation standards (International Valuation Standard, Concepts/Principles No. 9.2.1.3 – Income Capitalization Approach; RICS Valuation Standards PS 3.3 – Market Value) based on discounted future cash flows in accordance with the investment method (core value and topslice) – (IAS 40.46 (c)).

In contrast to the German income value method, the approach used for the investment method does not consider a separate value for the plot.

The market rent is reduced by costs of the lessor that cannot be passed on and is capitalized as perpetual annuity with the interest rate determined for the property in question. For each property, costs that cannot be passed on to the tenant, such as risk of loss of rental income, management, maintenance costs and an appropriation for operating costs that cannot be passed on, were deducted from the gross income of the rental forecast along with estimated costs for modernization and re-renting. The resulting value is referred to as core value.

The difference between the market rent and the rent received is capitalized during the remaining residual rental term assumed for residential properties (in this case up to 5 years); costs borne by the lessee and a deduction for risk are taken into consideration. The resulting value is referred to as topslice.

The market value is derived by adding the core value and the topslice, which is negative if the market rent is higher than the rent received. The costs of rental, maintenance and renovation are also deducted. The total gives the market value of the property.

Property-specific vacancy rates between 0 % and 10 % are assumed, which can have a material impact on the assumed remaining lease term. Key items of payments include maintenance costs averaging EUR 6 to 10 p.a./sqm living space and EUR 15 p.a. per parking space, management costs of 0.73 to 5.75 % of rental income, and the risk of loss of rental income amounting to 2 % of rental income.

In contrast to the previous year when they were valued by independent experts, the properties that are now earmarked for residential property resale were valued by PATRIZIA using detailed project accounting. This project accounting is based on comparative values ascertained in the direct surroundings of the properties. Both offer prices and also selling prices were used for this, but only of comparable properties.

In the preceding year, all fair values of the investment property as shown in the consolidated financial statements were based on valuations by independent experts in accordance with international assessment standards based on discounted future cash flows using the DCF method (IAS 40.46 (c)).

All investment property held by the Group is leased. The resultant rental income and the expenses directly associated with it are recognized in the income statement.

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**3.4 Participations in Joint Ventures**

The Group has a stake in a joint venture, meridomus GmbH Forderungsmanagement und Servicegesellschaft für den Vermieter, in the form of a jointly managed company. Accordingly, there is a contractual agreement between the partners on joint management of the entity's economic activities. The Group accounts for its share in the joint venture at equity. The Group includes its share in the joint venture by annually updating the carrying amount of the joint venture 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 the parent company's financial statements. If necessary, adjustments are made to ensure compliance with the uniform accounting and valuation policies applicable across the Group.

**3.5 Inventories**

The Inventories item contains real estate that is intended for sale in the context of ordinary activities or that is intended for such sale in the context of the construction or development process; in particular, it includes real estate that has been acquired solely for the purpose of resale in the near future or for development and resale. Development also covers pure modernization and renovation activities. Assessment and qualification as an inventory is undertaken within the context of the purchasing decision and implemented in the balance sheet as at the date of addition.

PATRIZIA has defined the operating business cycle as three years, because based on experience, the majority of the units to be sold are sold and recognized during this time period. However, inventories are still classed as intended for direct sale even if the sale is not recognized within three years (e.g. due to unforeseeable/unforeseen changes in economic conditions).

Inventories are carried at the lower of cost and net sales price. 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 that are directly related to the acquisition, construction or production of a qualifying asset are capitalized as part of the purchase or production costs for the respective asset. Borrowing costs that are not directly related to the acquisition, construction or production of a qualifying asset are recorded as an expense in the time period in which they arise. The net sale price corresponds to the sale proceeds likely to be generated in the ordinary course of business less any renovation or modernization and selling costs incurred.

**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 stated 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. This also applies analogously 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.

These financial instruments must be allocated to one of three steps, depending on the extent to which the fair value can be assessed.

- Level 1 valuations at fair value are those which are based on quoted prices (unadjusted) on active markets for identical financial assets or liabilities.
- Level 2 valuations at fair value are those based on parameters that do not correspond to quoted prices for assets and liabilities as in level 1 (data), but are either derived directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 valuations at fair value are those derived from models that use parameters for the assessment of assets or liabilities that are not based on observable market data (non-observable parameters, assumptions).

The fair value of derivatives is determined by external banks. The valuation can be assigned to level 2.

Investments which have been entered into with the intention of holding them are categorized as available-for-sale financial assets. These are valued at acquisition cost since, due to the absence of an active market, a fair value can only be determined on the basis of specific sale negotiations. 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 quoted in an active market. Following initial recognition, loans and receivables are measured at amortized cost using the effective interest method less any impairments.

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 the impairment loss is equivalent to the difference between the carrying amount of the asset and the present value of the expected future cash flow (with the exception of expected future, though not yet occurred, loan losses), discounted with the original effective interest rate of the financial asset, i.e. at the effective interest rate determined at initial recognition. The carrying amount of the asset is decreased using a value adjustment account. The impairment loss is recognized through profit or loss.

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

If, in the case of trade receivables, there are objective indications 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 takes place if they are classified as uncollectible.

### 3.7 Cash and Cash Equivalents

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

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**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 at fair value through profit or loss. 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 (or 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, cancelled or has expired.

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 derecognition of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognized through profit or loss.

**3.10 Derivative Financial Instruments**

The Group uses the derivative financial instruments of interest swaps, collars and caps to protect itself against interest rate 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.

Profits 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 immediately through profit or loss.

The PATRIZIA Group's hedging instruments are classified as cash flow hedges for accounting purposes, since they involve hedging against the risk of fluctuations in the cash flow, which can be allocated to the risk associated with a recognized asset or with a 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 terms of compensating for risks resulting from changes to fair value or cash flow. They are continuously assessed as to whether they were actually highly effective during the entire reporting period for which the hedge was defined.

Cash flow hedges that 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 through profit or loss.

The amounts taken directly to equity are transferred to the income statement 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 income statement. If the hedging instrument expires or is sold, terminated or exercised without substitution or a rollover 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 pension 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. In principle, 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 it must be possible to measure in a reliable manner. Provisions are measured using the best possible estimate of the extent of the obligation. The provisions are discounted in the event of material interest effects.

### 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 the respective 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 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 during the negotiations and the conclusion of an operating leasing contract are added to the carrying amount of the leased object and are recognized as expenses correspondent 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

#### **Actual taxes**

Actual tax refund claims and liabilities for current and previous periods are measured at the amount expected to be recovered from or paid to the tax authorities. Calculation of the amount is based on the tax rates and tax laws which apply at the balance sheet date.

Actual taxes which refer to items that are directly recognized in equity are not recognized in the income statement, but rather in equity.

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**Deferred taxes**

Deferred taxes are recognized using the liability method, for temporary differences existing on the balance sheet date between the amount stated in the balance sheet for an asset or a liability and the fiscal amount.

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 extent to which taxable income will be available against which the deductible temporary differences and the tax loss carryforwards and tax credits not yet utilized can be used.

The carrying amount of deferred tax assets is reviewed on every balance sheet date and decreased by the extent to which it is no longer probable that a sufficient taxable result will be available against which the deferred tax asset can at least be partly used. Deferred tax assets not recognized are reviewed on every balance sheet date and are 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 rates which will probably become effective in the period in which an asset is realized or a liability is settled. The tax rates and laws applicable on the balance sheet date are used as a basis. Future tax rate changes are to be taken into account on the balance sheet date if significant effectiveness requirements are met within the scope of pending legislation.

Deferred taxes which relate to items that are directly recognized in equity are not recognized in the income statement, but are also recognized in equity.

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

**3.15 Borrowing Costs**

Borrowing costs used to produce a qualifying asset are capitalized. A qualifying asset is an asset that is needed for a significant time period in order to bring it into condition for its intended use or sale. This requirement is met by all projects under development by the Group. All other borrowing costs are recorded as expenses in the period in which they are incurred.

**3.16 Income Realization**

The basic prerequisite for recognition of profit in the Investments segment when selling real estate is the likelihood of economic benefits and reliable quantification of revenues. In addition, there must be a transfer to the purchaser of the main opportunities and risks associated with ownership of the assets, relinquishment of the legal or actual power of disposal over the assets and the ability to reliably determine the expenses relating to the sale that have been or are still to be incurred.

In the Services segment, revenue is usually recognized after performance has been provided and invoicing has taken place.

### 3.17 Estimates and Assessments in Accounting

Due to the uncertainties associated with the operating activities, individual items in the consolidated financial statements cannot be measured with precision, and can instead 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 recognized in future. Changes are taken into account through profit or loss 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 item Inventories
- Recognizing and measuring provisions
- Valuing receivables subject to risk
- Assessing whether deferred tax assets can be recognized.

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 deterioration in the earnings situation, a decrease in the value of the purchased assets and a considerable reduction in the revenues generated from residential property resale and ongoing rental.

In addition to the factors inherent in each property, the recoverability 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 a risk that, in the event of a negative development of the real estate market or of the general economic situation, the valuation estimates made by the Group may have to be corrected. If unscheduled amortization of the Group's real estate assets was required, this would have a detrimental impact on the net asset, financial and earnings situation of the Group.

When buying real estate or portfolios or for carrying out modernization projects, PATRIZIA is predominantly financed by loans. A significant rise in the current interest rate would significantly increase the Group's financing costs when refinancing existing liabilities and when financing future modernization projects, and could thus detrimentally affect the earnings situation.

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## 4 Notes to the Consolidated Balance Sheet – Assets

### 4.1 Non-current Assets

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

#### DEVELOPMENT OF NON-CURRENT ASSETS – 2010

EUR '000	Software	Equipment	Total
Acquisition costs			
Balance 01/01/2010	1,090	4,214	<b>5,304</b>
Additions	2,551	913	3,464
Disposals	0	–198	–198
Balance 12/31/2010	3,641	4,929	<b>8,570</b>
Amortization			
Balance 01/01/2010	551	2,564	<b>3,115</b>
Additions	279	625	904
Disposals	0	–153	–153
Balance 12/31/2010	830	3,036	<b>3,866</b>
<b>Carrying amounts as at 01/01/2010</b>	<b>539</b>	<b>1,650</b>	<b>2,189</b>
<b>Carrying amounts as at 12/31/2010</b>	<b>2,811</b>	<b>1,893</b>	<b>4,704</b>

#### DEVELOPMENT OF NON-CURRENT ASSETS – 2009

EUR '000	Software	Equipment	Total
Acquisition costs			
Balance 01/01/2009	945	4,271	<b>5,216</b>
Additions	237	199	436
Disposals	–92	–256	–348
Balance 12/31/2009	1,090	4,214	<b>5,304</b>
Amortization			
Balance 01/01/2009	366	2,265	<b>2,631</b>
Additions	277	547	824
Disposals	–92	–248	–340
Balance 12/31/2009	551	2,564	<b>3,115</b>
<b>Carrying amounts as at 01/01/2009</b>	<b>579</b>	<b>2,005</b>	<b>2,584</b>
<b>Carrying amounts as at 12/31/2009</b>	<b>539</b>	<b>1,650</b>	<b>2,189</b>

**DEVELOPMENT OF NON-CURRENT ASSETS – 2010**

EUR '000	Investment property
Fair Value	
Balance 01/01/2010	<b>657,320</b>
Additions – assets	0
Disposal – assets	-42,700
Positive fair value changes	18,090
Negative fair value changes	-17,765
<b>Balance 12/31/2010</b>	<b>614,945</b>

**DEVELOPMENT OF NON-CURRENT ASSETS – 2009**

EUR '000	Investment property
Fair Value	
Balance 01/01/2009	<b>660,000</b>
Additions – assets	0
Disposal – assets	-2,680
Positive fair value changes	19,940
Negative fair value changes	-19,940
<b>Balance 12/31/2009</b>	<b>657,320</b>

**DEVELOPMENT OF NON-CURRENT ASSETS – 2010**

EUR '000	Investment property under construction
Acquisition costs	
Balance 01/01/2010	<b>0</b>
Additions – assets	0
Rebooked assets	0
<b>Balance 12/31/2010</b>	<b>0</b>

**DEVELOPMENT OF NON-CURRENT ASSETS – 2009**

EUR '000	Investment property under construction
Acquisition costs	
Balance 01/01/2009	<b>11,162</b>
Additions – assets	1,739
Disposal – assets	-12,901
<b>Balance 12/31/2009</b>	<b>0</b>

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## DEVELOPMENT OF NON-CURRENT ASSETS – 2010

EUR '000	Participations in joint ventures	Participations	Total
Acquisition costs			
Balance 01/01/2010	13	3,090	3,103
Additions	0	0	0
Disposals	0	0	0
Balance 12/31/2010	13	3,090	3,103
Adjustments at equity/amortization			
Balance 01/01/2010	0	0	0
Additions	-5	0	-5
Disposals	0	0	0
Balance 12/31/2010	-5	0	-5
<b>Carrying amounts as at 01/01/2010</b>	<b>13</b>	<b>3,090</b>	<b>3,103</b>
<b>Carrying amounts as at 12/31/2010</b>	<b>8</b>	<b>3,090</b>	<b>3,098</b>

## DEVELOPMENT OF NON-CURRENT ASSETS – 2009

EUR '000	Participations in joint ventures	Participations	Total
Acquisition costs			
Balance 01/01/2009	7.335	3,090	10,425
Additions	1,154	0	1,154
Disposals	-8,476	0	-8,476
Balance 12/31/2009	13	3,090	3,103
Adjustments at equity/amortization			
Balance 01/01/2009	-1,302	0	-1,302
Additions	6	0	6
Disposals	1,296	0	1,296
Balance 12/31/2009	0	0	0
<b>Carrying amounts as at 01/01/2009</b>	<b>6,033</b>	<b>3,090</b>	<b>9,123</b>
<b>Carrying amounts as at 12/31/2009</b>	<b>13</b>	<b>3,090</b>	<b>3,103</b>

Investment property is property that is held for generating rental income and/or for capital appreciation. Investment property is recognized at fair value through profit or loss in accordance with IAS 40. In the year under review a total of seven investment properties in Berlin, Halstenbek, Hamburg and Frankfurt am Main were sold.

Investment property under construction relates to the asset repositioning project Munich-Ludwigsfeld, which was reposted to inventories in accordance with IAS 40.57 b) and 40.58 in the preceding year.

The 50 % share in meridomus GmbH is accounted for under the item Investments in joint ventures.

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

## 4.2 Tax Assets

Corporation tax credits of TEUR 281 (previous year: TEUR 313) with a right to payment that arose after 2008 and that are to be paid by the tax authorities over a period of 10 years in equal annual amounts are treated as non-current tax assets. Measurement is at present value.

Allowable taxes 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:

### INVENTORIES

EUR '000	2010	2009
Real estate intended for sale	456,507	607,352
Real estate in the development phase	53,931	68,656
	<b>510,438</b>	<b>676,008</b>

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

Three properties that were in the development phase at the start of the year were completed and sold during the fiscal year. As at December 31, 2010, one property was still in the development phase. In 2010 inventories with a total carrying amount of TEUR 199,205 (previous year: TEUR 126,554) were sold. In the year under review no adjustments were made to inventories (previous year: TEUR 1,008).

The carrying amounts of the inventories which are pledged as security total TEUR 509,248 (previous year: TEUR 547,868).

Realization of inventories amounting to TEUR 344,074 is expected to last longer than twelve months.

## 4.4 Financial Derivatives

The Group uses various interest rate swaps, interest rate collars and interest rate caps for 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 in some cases.

The changes to the fair values of the derivatives classed as ineffective are recognized through profit or loss in the income statement. In the fiscal year, they amounted to TEUR 470 (previous year: TEUR –9,711).

As at December 31, 2010, the nominal volume of the derivatives classified as ineffective totaled TEUR 530,518 (previous year: TEUR 498,136); the corresponding market values were TEUR –36,402 (previous year: TEUR –34,052).

The changes to the fair values of the effective hedging derivatives of TEUR 2,555 (previous year: TEUR –520) were directly recognized in equity, taking deferred taxes into account.

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In the year under review, value changes in cash flow hedges recognized in equity in the amount of TEUR 3,870 (previous year: TEUR 2,792) were released through profit or loss, with derecognition of the corresponding deferred taxes applied, and transferred to the financial result.

During the year under review market value changes of TEUR 151 (previous year: TEUR –670) were taken into account in the income statement as ineffective portions of hedging derivatives.

As at December 31, 2010, the nominal volume of these hedging derivatives totaled TEUR 85,000 (previous year: TEUR 230,486); the corresponding market values were TEUR –3,676 (previous year: TEUR –9,051).

As at December 31, 2010, the entire amount of unrecognized losses from interest hedging transactions that was transferred to the provisions for hedging transactions related to these future transactions, taking into account deferred tax effects, was TEUR –2,372 (previous year: TEUR –6,079). It is expected that 32 % of the interest hedging transactions will end in accordance with the contracts in 2012, and that 42 % will end in 2013 and 26 % in 2014. For payment flows recognized through profit or loss cf. item 5.2.

#### 4.5 Current Receivables and Other Current Assets

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

##### **RECEIVABLES AND OTHER CURRENT ASSETS**

EUR '000	2010	2009
Trade receivables	4,296	22,041
Other current assets	5,986	7,387
	<b>10,282</b>	<b>29,428</b>

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

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

##### **RENT RECEIVABLES**

EUR '000	2010	2009
Rent receivables	<b>288</b>	<b>1,681</b>
– of which < 60 days	288	532
– of which > 60 days and < 180 days	0	437
– of which > 180 days	0	712

Rent receivables of TEUR 288 (previous year: TEUR 572) are secured through rental deposits.

Trade receivables and other current assets are decreased by specific value adjustments of TEUR 3,160 (previous year: TEUR 1,762).

**CHANGES IN THE VALUE ADJUSTMENT ACCOUNT FOR RECEIVABLES**

EUR '000	2010	2009
Balance as at January 1	1,762	342
Additions	1,902	1,612
Outflows due to derecognitions	-504	-160
Outflows due to payments received	0	-32
<b>Balance as at December 31</b>	<b>3,160</b>	<b>1,762</b>

Trade receivables are in principle 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 item Bank balances and cash comprises cash and short-term cash deposits held by the Group. The carrying amount of these assets corresponds to their fair value.

Of the bank balances, an amount of TEUR 20,320 (previous year: TEUR 5,263) is pledged as security. A breakdown is shown below:

An amount of TEUR 3,500 is pledged as collateral for a guarantee credit (Avalkredit) to IKB Deutsche Industriebank AG. This guarantee credit is security for a payment guaranty that was issued by the Bank for the general contractor in the Sternschanze water tower project. Because arbitration proceedings are pending with the general contractor, it is not possible to judge how much longer the assets will be pledged as security.

A total of TEUR 720 was pledged as security to Zurich Versicherung as security for a guaranty in a total amount of TEUR 5,000. This can be used for various guarantees by PATRIZIA; cash collateral is 30 %.

An additional amount of TEUR 1,100 is pledged as collateral in favor of Bayerische Landesbank (institution under public law) to secure interest rates and repayments for a loan.

As part of the financing for the purchase price of LB Immo Invest GmbH, an amount of TEUR 15,000 has been pledged in favor of the financing bank. The finance contract provides for a contribution of TEUR 15,000 by PATRIZIA; the rest of the purchase price is financed through a loan.

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## 5 Notes to 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 Company's share capital totaled TEUR 52,130 (previous year: TEUR 52,130) and was divided into 52,130,000 (previous year: 52,130,000) registered no-par value shares.

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

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

First Capital Partner GmbH is indirectly and directly a shareholder of PATRIZIA Immobilien AG with 26,047,572 no-par value shares (previous year: 26,047,572 no-par value shares), which equates to a 49.97 % shareholding (previous year: 49.97 %).

#### 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 on an unchanged basis in the capital reserve.

#### 5.1.3 Retained Earnings

The legal reserve of TEUR 505 (previous year: TEUR 505) is posted under Retained earnings.

#### 5.1.4 Non-controlling Partners

As part of the initial consolidation of F 40 GmbH, PATRIZIA KinderHaus Foundation was allocated an amount of TEUR 877 corresponding to its share as a non-controlling partner. This amount is 5.1 % of the market value of F 40 GmbH at the time of acquisition. In the year under review the company generated a result of TEUR –1,685, with the result that earnings of TEUR –45 were allocated to the non-controlling partner.

## 5.2 Bank Loans

The residual terms of the bank loans are as follows:

### BANK LOANS

EUR '000	12/31/2010	12/31/2009
Less than 1 year	523,314	171,727
1 to 2 years	88,775	551,307
More than 2 to 5 years	229,291	347,173
More than 5 years	0	0
<b>Total</b>	<b>841,380</b>	<b>1,070,207</b>

Maturity by fiscal year (January 1 to December 31):

### MATURITY

Year	Amount of loans due as at 12/31/2010	
	EUR '000	in %
2011	523,314	62,2
2012	88,775	10,6
2013	81,020	9,6
2014	148,270	17,6
<b>Total</b>	<b>841,380</b>	<b>100</b>

The bank loans are measured at amortized cost. They have variable interest rates. 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.

All loans are in euro. Where real estate is sold, financial liabilities are in principle redeemed through repayment of a specific share of the sale proceeds.

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

In the above table, loans whose terms end within the 12 months following the reporting date are posted as bank loans with a residual term of less than one year.

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

The Group's own real estate serves as security for the bank loans. The bank loans secured by real estate liens amount to TEUR 837,018 (previous year: TEUR 1,068,978). In addition, financial liabilities are secured by assigning purchase prices, and by assigning future rental payments.

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**5.3 Deferred Tax Assets/Deferred Tax Liabilities**

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

**DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES**

EUR '000	12/31/2010 Assets	12/31/2010 Liabilities	12/31/2009 Assets	12/31/2009 Liabilities
Investment property	0	16,035	0	14,847
Inventories	1,318	0	1,561	0
Derivatives	6,421	0	7,208	0
Tax loss carryforwards	817	0	2,248	0
Capitalization of interest on borrowed capital	0	249	0	69
Initial consolidation of F 40 GmbH	0	1,153	0	1,153
Other	4	824	13	477
	<b>8,560</b>	<b>18,261</b>	<b>11,030</b>	<b>16,546</b>
Netting	-8,560	-8,560	-11,030	-11,030
		<b>9,701</b>		<b>5,516</b>

The previous year's tax loss carryforwards of TEUR 5,437 were used up in the 2010 fiscal year. Deferred tax assets of TEUR 817 (previous year: TEUR 2,248) were recognized for trade tax loss carryforwards of TEUR 5,445 (previous year: TEUR 9,252).

Due to the lack of predictability regarding dissolution of the tax group, no deferred tax assets have been recognized for losses prior to fiscal unity of TEUR 447 (previous year: TEUR 447). The loss carryforwards for which deferred tax assets have been capitalized will be used in line with expectations within the planning period (maximum 2 years). The losses can be carried forward for an indefinite period.

According to IAS 12.24(b), the Group has not 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 Alte Haide Baugesellschaft mbH of TEUR 2,666 (previous year: TEUR 5,937) due to the lack of predictability of their tax usability.

In addition, on the balance sheet date, one company (previous year: 2 companies) had corporation tax loss carryforwards of TEUR 49,326 (previous year: TEUR 47,313); no deferred tax assets were formed for these due to the lack of predictability concerning their usability for fiscal purposes.

Deferred tax assets and deferred tax liabilities are in principle offset 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.

The temporary differences relating to participating interests in subsidiaries for which no deferred taxes were recognized amounted to TEUR 7,478 (previous year: TEUR 7,500).

## 5.4 Retirement Benefit Obligations

In principle, 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 six people had a performance-related commitment. Four 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 2.5 % (previous year: approx. 14 %) on the basis of an actuarial report prepared in accordance with IAS 19. As at December 31, 2010, an actuarial interest rate of 4.78 % (previous year: 5.25 %) and a projected pension increase of 2.0 % (previous year: 2.0 %) 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 reference tables (probabilities of death and invalidity) (2005G Reference Tables). As at December 31, 2010, the pension provision recognized was TEUR 368 (previous year: TEUR 339). Due to the low level of the annual pension payments of TEUR 32 (previous year: TEUR 32) 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 unrecognized actuarial losses and/or unrecognized past service costs. The interest cost is posted under Staff costs.

## 5.5 Other Provisions

A breakdown of other provisions is shown below:

### OTHER PROVISIONS 2010

EUR '000	01/01/2010	Addition	Release	Drawn	12/31/2010
Other provisions	580	666	6	574	666
	<b>580</b>	<b>666</b>	<b>6</b>	<b>574</b>	<b>666</b>

### OTHER PROVISIONS 2009

EUR '000	01/01/2009	Addition	Release	Drawn	12/31/2009
Other provisions	616	580	14	602	580
	<b>616</b>	<b>580</b>	<b>14</b>	<b>602</b>	<b>580</b>

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

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

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**5.6 Current Liabilities**

A breakdown of current liabilities is shown below:

**CURRENT LIABILITIES**

EUR '000	2010	2009
Trade payables	2,655	2,908
Advance payments	347	2,092
Other liabilities	14,006	8,116
	<b>17,008</b>	<b>13,116</b>

The current liabilities have a residual term of less than 12 months. The fair value of the liabilities therefore corresponds to the carrying amount. Other liabilities chiefly include liabilities for acquisition and manufacturing costs arising after the balance sheet date in an amount of TEUR 6,537 (previous year: TEUR 3,673).

**5.7 Tax Liabilities**

The tax liabilities mainly concern subsequent taxation of the former Equity 02 portfolios amounting to TEUR 3,239 (previous year: TEUR 3,426), corporation tax and trade tax on profits of domestic subsidiaries amounting to TEUR 5,334 (previous year: TEUR 3,395) and taxes in Luxembourg of TEUR 108 (previous year: TEUR 620).

**5.8 Objectives and Methods of Financial Risk Management**

The Group's financial assets chiefly comprise trade receivables, other assets and bank balances. The Group is exposed to a credit risk in these categories. 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, where property is sold as a single asset, security exists in the form of a commercial right of retransfer for the sold real estate in the event of default by the customer. When individual apartments are sold, 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.

Apart from derivative instruments, the main financial liabilities used by the Group comprise bank loans and revolving lines of credit, trade payables and secured loans. The main objective of these financial liabilities is to finance the Group's business activities.

The Group also has derivative financial instruments. These comprise interest rate swaps, interest rate collars and interest rate caps. The aim of these derivative financial instruments is to hedge against interest risks which result from the Group's business activities and from its financing sources.

Significant risks for the Group arising from the financial instruments include interest-related cash flow risks and liquidity and credit risks. The Management decides on strategies and procedures to manage individual risk types; these are outlined below.

### **Interest rate risk**

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

To manage and smooth the Group's interest expense, the Group concludes 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 sets a maximum rate. The underlying obligation is hedged with these interest hedging transactions. As at December 31, 2010 and taking into account existing financial derivatives, approximately 73 % (previous year: 66 %) of the Group's external funds was fixed-interest-bearing.

### **Overview of the interest rate risk**

In principle, 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. Assuming a rise of 100 basis points in the interest rate, then as at December 31, 2010 and without taking taxes into account, this would have an effect of TEUR +12,090 (previous year: TEUR +21,255) on the consolidated profit and TEUR +2,424 (previous year: TEUR +3,548) on consolidated equity. Taking deferred taxes into account, an increase of 100 basis points in the interest rate would have an effect of TEUR +7,925 (previous year: TEUR +17,527) on the consolidated profit and TEUR +2,041 (previous year: TEUR +2,861) on consolidated equity. When determining the effects, existing accounting hedges were included with their characteristics as they appeared on the balance sheet date.

### **Credit risk**

In principle, due to a wide and uncorrelated counterparty structure there is no concentration of risks in our group of companies.

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

### **Liquidity risk**

The Group continually monitors the risk of a liquidity bottleneck using liquidity planning. This liquidity planning takes into account the terms of the financial liabilities and also 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 maturities 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 unrecognized profit.

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**CAPITAL MANAGEMENT**

EUR '000	2010	2009
Interest-bearing loans	841,380	1,070,207
Trade payables and other liabilities	27,087	22,175
Less cash and short-term deposits	-70,537	-56,183
<b>Net financial liabilities</b>	<b>797,930</b>	<b>1,036,199</b>
Equity	294,732	284,824
Unrecognized losses	2,372	6,079
<b>Total modified equity</b>	<b>297,104</b>	<b>290,903</b>
Modified equity and net financial liabilities	1,095,034	1,327,102
Gearing ratio	73 %	78 %

**5.9 Financial Assets and Liabilities**

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

**FINANCIAL ASSETS**

EUR '000	2010	2009
Loans and receivables	10,282	29,428
Available-for-sale financial assets	3,090	3,090
Bank balances and cash	70,537	56,183

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

**FINANCIAL LIABILITIES**

EUR '000	2010	2009
Financial liabilities which are measured at fair value through profit or loss and are held for trading in accordance with IAS 39	39,715	34,208
Financial liabilities which are measured at residual value through profit or loss	858,388	1,083,751
Derivative financial instruments which are designated as hedging instruments and are effective as such	363	8,895

The following net profit (+) or loss (–) was attributed to each category:

#### NET PROFIT OR LOSS

EUR '000	2010	2009
Loans and receivables	+375	+272
Available-for-sale financial assets	0	0
Bank balances and cash	+573	+690
Financial liabilities which are measured at fair value through profit or loss and are held for trading in accordance with IAS 39	–23,024	–22,285
Financial liabilities which are measured at residual value through profit or loss	–25,782	–31,844
Derivative financial instruments which are designated as hedging instruments and are effective as such		
– included in consolidated profit	–1,626	–10,904
– included in other profit	+3,707	+1,975
	<b>–45,777</b>	<b>–62,096</b>

Net profit and loss from financial instruments that are recognized at fair value through profit or loss include interest income/expense.

## 6 Notes to the Consolidated Income Statement

The income statement is prepared in line with the nature of expense method.

### 6.1 Revenues

Please refer to the statements on segment reporting.

Revenues include rental income from investment property of TEUR 42,256 (previous year: TEUR 43,880).

### 6.2 Changes in Inventories

The impact on the balance sheet of the purchase, sale and renovation of the property intended for sale is recognized through profit or loss under Changes in inventories and is corrected accordingly in Cost of materials. Consequently, the acquisition of property intended for sale leads to an increase in inventories and the sale of the corresponding property leads to a reduction in inventories.

### 6.3 Other Operating Income

Other operating income primarily includes income from cancelled obligations in the amount of TEUR 1,330 (previous year: TEUR 4,298); income from liability compensation in the amount of TEUR 588 (previous year: TEUR 600); income from payments in kind of TEUR 693 (previous year: TEUR 538); income from insurance compensation in the amount of TEUR 343 (previous year: TEUR 415); and income from received discounts in the amount of TEUR 330 (previous year: TEUR 218). The previous year included income from the initial consolidation of F 40 GmbH in an amount of TEUR 7,978.

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**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, ancillary rental costs and lease expenses. This includes TEUR 7,420 (previous year: TEUR 4,174) in maintenance expenses and also additional current expenses of TEUR 10,738 (previous year: TEUR 12,360) in respect of investment property.

**6.5 Staff Costs**

A breakdown of staff costs is shown below:

**STAFF COSTS**

EUR '000	2010	2009
Wages and salaries	25,100	20,932
Social insurance contributions	3,480	2,956
	<b>28,580</b>	<b>23,888</b>

**6.6 Amortization**

Scheduled amortization amounts to TEUR 904 (previous year: TEUR 824). It relates to software and equipment.

**6.7 Other Operating Expenses**

A breakdown of other operating expenses is shown below:

**OTHER OPERATING EXPENSES**

EUR '000	2010	2009
Administrative expenses	9,716	9,138
Selling expenses	5,271	4,263
Other expenses	6,389	4,152
	<b>21,376</b>	<b>17,553</b>

## 6.8 Financial Result

### FINANCIAL RESULT

EUR '000	2010	2009
Interest on bank deposits	573	690
Income from interest hedges	0	5,477
Changes in the value of derivatives	10,546	5,832
Other interest	375	272
	<b>11,494</b>	<b>12,271</b>
Interest on revolving lines of credit and bank loans	-25,782	-31,385
Expenses from interest hedges	-23,024	-28,285
Changes in the value of derivatives	-12,172	-16,213
Other finance costs	-272	-459
	<b>-61,250</b>	<b>-76,342</b>
	<b>-49,756</b>	<b>-64,071</b>

Interest income of TEUR 375 (previous year: TEUR 272), which was recognized at the effective interest rate, is attributable to loans and receivables. There were no pure measurement effects for instruments of this category. The amount of the impairment on receivables can be seen under section 4.5.

## 6.9 Income Tax

A breakdown of income taxes is shown below:

### INCOME TAXES

EUR '000	2010	2009
Current taxes	-2,056	-2,055
Deferred taxes	-3,231	516
	<b>-5,287</b>	<b>-1,539</b>

The deferred taxes in the income statement chiefly result from loss carryforwards, the fair value measurement of interest rate hedging instruments and the investment property and also from the elimination of intra-Group results.

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**TAX RECONCILIATION STATEMENT**

The tax reconciliation statement describes the relationship between effective tax expenses and expected tax expenses based on the IFRS consolidated net profit/loss for the year (before income taxes) by applying the income tax rate of 30.825 % (previous year 30.825 %). The income tax rate consists of 15 % corporation tax, and on this a 5.5 % solidarity surcharge, as well as 15 % trade tax:

**EFFECTIVE TAX EXPENSE**

EUR '000	2010	2009
IFRS consolidated profit/loss for the period before income tax	11,488	-7,961
Expected actual income tax expenses	-3,541	2,454
Additions from Luxembourg companies	-1,992	-6,579
Other tax additions and deductions	391	195
Use of non-capitalized loss carryforwards	1,096	1,136
Non recognition of loss carryforwards	0	-8
Trade tax effects from income subject to limited taxation	-1,086	-2,492
Special effect of the initial consolidation of F 40 GmbH	0	2,583
Effects outside the period	700	722
Other	-855	450
<b>Effective tax expense</b>	<b>-5,287</b>	<b>-1,539</b>

**6.10 Earnings per Share****EARNINGS PER SHARE**

EUR	2010	2009
Profit share of Group shareholders	6,201,680	-9,500,401
Number of shares issued	52,130,000	52,130,000
Weighted number of shares	52,130,000	52,130,000
<b>Earnings per share (undiluted)</b>	<b>0.12</b>	<b>-0.18</b>

There were no diluted earnings per share in the reporting year or in the previous year. As at December 31, 2010, there was authorized capital of TEUR 26,065.

## 7 Segment Reporting

PATRIZIA's segments that must be reported on include Investments and Services. The segments are distinguished according to the type of products and services offered and also according to the sales channels and client profiles. In 2010 we did not make any adjustments to the Group structure that would have triggered new segmentation of the business areas. As such, the existing segment classifications have remained in place.

The Investments segment holds a real estate portfolio for residential property resale, asset repositioning and project development. Clients include private and institutional investors that invest either in individual residential units or in real estate portfolios. As of the balance sheet date, the segment had a portfolio of 9,305 (previous year: 11,120) residential and commercial units that are listed as investment property and inventories.

The Services segment covers a wide range of real estate services, including 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), the management of real estate (property management) as well as the incorporation, supervision and administration of special funds, including following individual requests from clients, via the Company's asset management company (Kapitalanlagegesellschaft). A significant portion of the services offered by the Services segment is also used by in-house entities.

The PATRIZIA Group's internal control and reporting measures are primarily based on the principles of accounting under IFRS. The Group measures the success of its segments using segment earnings, which for the purposes of internal control and reporting are referred to as EBIT, EBT, EBIT adjusted and EBT adjusted.

EBT refers to the total of revenues, income from the sale of investment property, cost of materials and staff costs, amortization and depreciation, other operating income and expenses as well as earnings from investments valued at equity and the financial result. EBIT denotes EBT minus the financial result. To determine EBIT adjusted and EBT adjusted, adjustments are made for purely valuation-related, non-cash effects; for details see the remarks in the Management Report.

The PATRIZIA Group's intercompany sales indicate the amount of revenues between the segments. Intercompany services are invoiced at market prices.

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

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The individual segment figures are set out below:

**SEGMENTS 2010**

EUR '000	Investments	Services	Corporate	Total
Third-party revenues	329,626	9,962	5	339,593
Intercompany revenues	20,769	3,498	6,084	30,351
Interest income	11,021	42	431	11,494
Interest expense	-60,858	-287	-105	-61,250
<b>Significant non-cash earnings</b>				
Market valuation income, derivatives	10,546	0	0	10,546
Market valuation expenditure, derivatives	-12,172	0	0	-12,172
Segment result EBIT	76,055	2,890	-17,701	61,244
Segment result EBT	26,218	2,645	-17,375	11,488
Segment result EBIT adjusted	75,730	2,890	-17,701	60,919
Segment result EBT adjusted	27,519	2,645	-17,375	12,789
Thereof result from investments valued at equity	0	0	-5	-5

**SEGMENTS 2009**

EUR '000	Investments	Services	Corporate	Total
Third-party revenues	240,391	10,492	5	250,888
Intercompany revenues	0	23,015	6,971	29,986
Interest income	6,010	69	360	6,439
Interest expense	-59,554	-259	-316	-60,129
<b>Significant non-cash earnings</b>				
Market valuation income, derivatives	5,832	0	0	5,832
Market valuation expenditure, derivatives	-16,213	0	0	-16,213
Income from initial consolidation	7,948	0	0	7,948
Segment result EBIT	67,008	2,792	-13,690	56,110
Segment result EBT	3,083	2,602	-13,646	-7,961
Segment result EBIT adjusted	77,389	2,792	-13,690	66,491
Segment result EBT adjusted	13,464	2,602	-13,646	2,420
Thereof result from investments valued at equity	6	0	0	6

Due to the capital intensity of the segment, the assets and liabilities in the Investments segment account for well over 90 % of the Group's total assets and liabilities. 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. The presentation of the cash flow statement was changed and the previous year was adjusted accordingly.

In the cash flow statement, the payment flows are subdivided into cash flow from current 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 short-term bank balances and cash posted in the balance sheet. Of the cash and cash equivalents, an amount of TEUR 20,320 (previous year: TEUR 5,263) is restricted in terms of availability.

Cash flow from investing activities contains financial investments and sales, especially in/of investment property, and also property, plant and equipment and investments in financial assets.

Cash flow from financing activities includes cash outflows for dividends and cash inflows from capital increases of PATRIZIA Immobilien AG as well as loan receipts and redemptions to finance current and non-current assets.

As in the previous year, no dividend was distributed during the reporting year.

## 9 Other Notes

### 9.1 Post-employment Employee Benefits

In principle, there are no performance-related pension schemes at the Group. An exception to this is a scheme that was transferred in 2002 as part of an acquisition process 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 six people had a performance-related commitment. Four of these people are retired persons who already receive ongoing pension benefits. 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 involves a 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 2010, a total of TEUR 56 (previous year: TEUR 56) was paid in contributions to the provident fund.

Most employees in the Group have compulsory state pension insurance and are thus covered by a state defined contribution scheme. Under this pension commitment, the Group is neither legally nor factually obliged to pay contributions over and above this. Contributions under defined contribution pension systems are paid in the year in which the employee provided the counterperformance for these contributions.

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

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**9.2 Management Participation Model**

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

The fundamental requirement of PATRIZIA's management participation model is a consistent target system that supports the corporate strategy. It is based on a long-term, multidimensional and neutral approach. The system sets directors and managers of Group companies quantitative and qualitative Company, business line and individual goals. In principle, the degree to which quantitative goals are achieved is based on projected figures derived from the Company's planning. Key objectives include in particular consolidated profit before taxes and Group return on equity as well as share price performance in absolute terms and in relation to reference indices.

At business line level, the basic structure of PATRIZIA's provision of services is mapped in the form of value contributions to processes and of performance interdependencies among the parties involved in processes. Directors and managers of Group companies involved in the provision of services or in qualitative projects are set common targets.

At individual level, the quantitative results or qualitative project results for which the directors and managers of Group companies hold individual responsibility are taken into account.

The degree to which the individual goals are achieved determines the amount of the variable portion of remuneration. A cap is placed on achievable variable compensation components. If the Group achieves less than two-thirds of the forecast consolidated profit, the directors and managers of Group companies lose the entire variable portion of remuneration.

The variable portion of remuneration is divided into a long-term and a short-term incentive component. The short-term incentive is paid directly after it has been established that the targets have been achieved. The long-term incentive is a salary commitment with a virtual link to the PATRIZIA share price. It is not paid until two years after 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 respective individual director or manager of a Group company should they leave the Group. Depending on the reason for leaving, an individual may receive all, part or none of the promised but as yet undistributed claims.

In 2010, a long-term incentive of TEUR 789 was established for the first and second management level. This monetary amount is converted into performing share units at the average Xetra price 30 days prior to and after December 31 of the fiscal year in question. The cash price equivalent of the shares calculated from this is paid out at the average Xetra rate 30 days prior to and after December 31 of the next year but one (vesting period).

Managers who leave the Company during the vesting period generally lose their claims to payment, unless they retire or die. Individual agreements may be concluded on a case-by-case basis.

Based on the average share price of the PATRIZIA share 30 days before and after December 31, 2010, the average price is EUR 4.02. This corresponds to 213,669 shares. No expenses or income related to the stock option plan arose during the reporting period.

Fair value is as follows:

#### COMPONENTS WITH LONG-TERM INCENTIVE EFFECT

	No. of performing share units	Fair values 12/31/2010 EUR '000	Fair values 12/31/2009 EUR '000	Paid out EUR '000
Tranche performing share units fiscal year 2010	213,669	789		0
Tranche performing share units fiscal year 2009	80,186	363	259	0

The performing share units as of the balance sheet date are as follows (number):

#### PERFORMING SHARE UNITS

units	12/31/2010	12/31/2009
Outstanding at the start of the reporting period	80,186	0
Granted for the reporting period	213,669	80,186
Forfeited in the reporting period	0	0
Paid out in the reporting period	0	0
Outstanding at the end of the reporting period	293,855	80,186

### 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
- FCP Biotech Holding GmbH
- Wohnungsportfolio WPO Berlin GmbH, Berlin
- Wohnungsportfolio WPO Immobilienservice GmbH, Berlin
- Immobilienportfolio IPO Berlin GmbH, Berlin
- Eurobilis AG, Gräfelfing
- Hansa-Langenhorn-Immobilien GmbH, Hamburg
- Verwaltung EHG Erste Hanseatische Grundvermögen GmbH, Hamburg
- E.H.G. Erste Hanseatische Grundvermögen GmbH & Co. KG, Hamburg

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- Wolfgang Egger Verwaltungs-GmbH, Gräfelfing
- Wolfgang Egger GmbH & Co. KG, Gräfelfing
- Stadtresidenz Friedrich-List Vermögensverwaltungs KG, Augsburg
- Objektgesellschaft An der Alster 47 GmbH & Co. KG, Augsburg
- LBG 3 GmbH
- ArsRatio Holding GmbH
- ArsRatio GmbH
- ArsRatio Forschung & Entwicklung GmbH
- Tottenham Hale S.a.r.l.
- Saven Hill Holding S.a.r.l.
- Shawmut Holding S.a.r.l.
- PRIME Development Proje gelistirme Ltd. STI

The company maintains the following business relationships with related parties.

#### **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, CEO, indirectly and directly holds a total stake of 49.97 % in the Company via First Capital Partner GmbH, in which he directly and indirectly holds a 100 % 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.

Klaus Schmitt, a member of the Company's Managing Board, holds a total stake of 0.15 % in PATRIZIA Immobilien AG.

#### **Ownership of shares by other members of the management in key positions**

In addition, Johannes Altmayr, Eckhard Bolte, Dr. Bernhard Engelbrecht, Markus Fischer, Werner Gorny, Jürgen Kolper, Klaus Kümmerle, Dr. Wolfgang Lange, Martin Lemke and Markus Scherl hold a total of 1.09 % as members of PATRIZIA's additional management level.

#### **Contracts and business relationships between the Managing Board members and PATRIZIA**

PATRIZIA Immobilien AG and the subsidiaries of PATRIZIA Immobilien AG provide 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 provided by PATRIZIA Immobilien AG and/or its subsidiaries is precisely defined in the framework agreement of March 25, 2010. The remuneration for services provided as agreed in the contract is in line with current market conditions. In the 2010 fiscal year, PATRIZIA provided services to the value of TEUR 534 (previous year: TEUR 739).

#### **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, including parking spaces, used by the Company as its head office (Fuggerstrasse 18–24 and also Fuggerstrasse 26 in Augsburg) at a current monthly rent of TEUR 93 (previous year: TEUR 22).

#### Rental agreements between individuals related to Managing Board members and PATRIZIA

Furthermore, Objektgesellschaft An der Alster 47 GmbH & Co. KG – as lessor – (Wolfgang Egger has a direct 95 % stake in this company) has concluded a rental agreement with the Company for a floor of a building in Hamburg with a monthly rent of TEUR 6 (previous year: TEUR 6) plus statutory VAT. The rental agreement was terminated with effect from November 30, 2010.

#### 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 GmbH & Co. KG), as well as general partner of Friedrich-List Vermögensverwaltungs KG.

#### 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 Company's Supervisory Board. The consultancy agreement was approved by means of a Supervisory Board resolution dated December 13, 2010. In 2010 consultancy costs of TEUR 10 (previous year: TEUR 13) 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
- Klaus Schmitt, law graduate, Chief Operating Officer

In the fiscal year, the payments made to the Managing Board totaled TEUR 2,056 (previous year: TEUR 1,050); details can be found in the following table:

#### MANAGING BOARD REMUNERATION 2010

EUR	Annual income			Long-term variable compensation <sup>2</sup>	Contribution to pension fund
	Fixed compensation	Short-term variable compensation	Payments in kind and other payments <sup>1</sup>		
Wolfgang Egger	260,000	309,000	22,704	154,500	12,000
Arwed Fischer	240,000	260,000	40,048	130,000	12,000
Klaus Schmitt	240,000	222,000	31,225	111,000	12,000
<b>Total</b>	<b>740,000</b>	<b>791,000</b>	<b>93,977</b>	<b>395,500</b>	<b>36,000</b>

<sup>1</sup> The item primarily includes non-cash benefits from the provision of company cars and insurance premiums.

<sup>2</sup> Conversion into performing share units with two-year vesting period; see 9.2 for the conditions. Performing share units were granted for the 2010 fiscal year as the defined target hurdle was achieved.

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## MANAGING BOARD REMUNERATION 2009

EUR	Annual income			Long-term variable compensation <sup>2</sup>	Contribution to pension fund
	Fixed compensation	Short-term variable compensation	Payments in kind and other payments <sup>1</sup>		
Wolfgang Egger	260,000	0	21,828	0	12,000
Arwed Fischer	240,000	240,000	41,586	0	12,000
Klaus Schmitt	180,000	0	30,554	0	12,000
<b>Total</b>	<b>680,000</b>	<b>240,000</b>	<b>93,968</b>	<b>0</b>	<b>36,000</b>

<sup>1</sup> The item primarily includes non-cash benefits from the provision of company cars and insurance premiums.

<sup>2</sup> Conversion into performing share units with two-year vesting period; see 9.2 for the conditions. No performing share units were granted for the 2009 fiscal year, as the defined target hurdle was 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, Munich, retired

The Supervisory Board received fixed remuneration of TEUR 63 (previous year: TEUR 62); details can be found in the following table:

## SUPERVISORY BOARD REMUNERATION 2010

EUR	Fixed compensation	Variable compensation
Dr. Theodor Seitz, Chairman	25,000	0
Harald Boberg	18,750	0
Manfred J. Gottschaller	18,750	0
<b>Total</b>	<b>62,500</b>	<b>0</b>

## SUPERVISORY BOARD REMUNERATION 2009

EUR	Fixed compensation	Variable compensation
Dr. Theodor Seitz, Chairman	24,938	0
Harald Boberg	18,750	0
Manfred J. Gottschaller	18,750	0
<b>Total</b>	<b>62,438</b>	<b>0</b>

## 9.5 Other Financial Obligations and Contingent Liabilities

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

### OBLIGATIONS FROM EXISTING MAINTENANCE AND LEASING AGREEMENTS

EUR '000	
2011	1,211
2012 – 2015	2,363
2016 and later	0
	<b>3,574</b>

Use of part of our office building is based on operating lease agreements. This also reduces capital tie-up and leaves the investment risk with the lessor. The leasing agreement for the office building in Augsburg still has a residual term of just under ten years and results in an annual leasing expense of TEUR 981. Rental agreements have also been concluded for subsidiaries' offices in other locations; they have remaining terms of between three months and three years. The obligations amount to TEUR 153 for 2011, TEUR 94 for 2012 and TEUR 14 for 2013.

## 9.6 Employees

The average headcount at the Group in 2010 (excluding members of the Managing Board) was 364 (previous year: 357).

## 9.7 Auditor's Fees

The auditor's expenses charged for the 2010 fiscal year in connection with auditing the financial statements amounted to TEUR 324 (previous year: TEUR 284).

## 9.8 German Corporate Governance Code

On January 26, 2011, 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](http://www.patrizia.ag)).

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## 10 Statement of the Managing Board

The Managing Board of PATRIZIA Immobilien AG is responsible for the preparation, completeness and accuracy of the Consolidated Financial Statements and of the report on the position of the Company and the Group.

The Managing Board released these financial statements for publication on March 4, 2011. Adoption of the financial statements will take place at the Supervisory Board meeting on March 21, 2011.

The Consolidated Financial Statements were prepared in line with the International Financial Reporting Standards (IFRS).

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

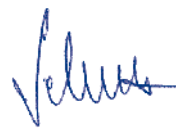
Augsburg, March 4, 2011



**Wolfgang Egger**  
Chairman of the Board



**Arwed Fischer**  
Member of the Board



**Klaus Schmitt**  
Member of the Board

# Appendix to the Notes to the Consolidated Financial Statements

## List of Shareholdings

PATRIZIA Immobilien AG participates directly in the following companies:

Name	Head office	Share holding in %	Equity in EUR	Net profit/net loss for the last fiscal year in EUR
PATRIZIA Acquisition & Consulting GmbH <sup>1</sup>	Augsburg	100	25,000.00	0.00
PATRIZIA Investmentmanagement GmbH <sup>1</sup>	Augsburg	100	164,912.54	0.00
PATRIZIA Immobilienmanagement GmbH <sup>1</sup>	Augsburg	100	16,881.05	0.00
PATRIZIA Projektentwicklung GmbH <sup>1</sup>	Augsburg	100	250,000.00	0.00
PATRIZIA Wohnen GmbH <sup>1</sup>	Augsburg	100	618,682.33	0.00
Deutsche Wohnungsprivatisierungs GmbH <sup>1</sup>	Augsburg	100	13,145.51	0.00
PATRIZIA Projekt 100 GmbH <sup>1</sup>	Augsburg	100	23,004.93	0.00
PATRIZIA Projekt 110 GmbH <sup>1</sup>	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 120 GmbH <sup>1</sup>	Augsburg	100	22,280.88	0.00
PATRIZIA Projekt 140 GmbH <sup>1</sup>	Augsburg	100	34,592.95	0.00
PATRIZIA Projekt 150 GmbH <sup>1</sup>	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 160 GmbH <sup>1</sup>	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 170 GmbH <sup>1</sup>	Augsburg	100	135,245,000.00	0.00
PATRIZIA Projekt 180 GmbH <sup>1</sup>	Augsburg	100	10,072,450.00	0.00
PATRIZIA Immobilien Kapitalanlagegesellschaft mbH <sup>1</sup>	Augsburg	100	2,963,776.67	0.00
PATRIZIA Projekt 220 GmbH	Augsburg	100	16,777.44	-3,034.12
PATRIZIA Projekt 230 GmbH	Augsburg	100	20,741.31	-3,021.73
PATRIZIA Projekt 240 GmbH	Augsburg	100	17,135.51	-3,078.30
PATRIZIA Projekt 250 GmbH	Augsburg	100	16,287.71	-3,051.93
PATRIZIA Projekt 260 GmbH <sup>1</sup>	Augsburg	100	24,040.80	0.00
PATRIZIA Projekt 280 Verwaltungs GmbH	Augsburg	100	16,099.91	-3,091.45
Wohnungsgesellschaft Olympia mbH	Hamburg	100	676,894.90	-133,082.98
Stella Grundvermögen GmbH <sup>1</sup>	Augsburg	100	7,538,113.38	0.00
PATRIZIA Real Estate Corporate Finance GmbH	Augsburg	100	12,626.04	-3,061.58
PATRIZIA Projekt 420 GmbH <sup>1</sup>	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 430 GmbH <sup>1</sup>	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 440 GmbH <sup>1</sup>	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 450 GmbH <sup>1</sup>	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 460 GmbH <sup>1</sup>	Augsburg	100	25,000.00	0.00
PATRIZIA Property Inc.	Wilmington, Delaware USA	100	-1,589.62	-1,662.89
meridomus GmbH Forderungsmanagement- und Servicegesellschaft für den Vermieter (formerly: PATROffice Real Estate 820 GmbH, Augsburg)	Cologne	50	16,457.30	-31,102.71

<sup>1</sup> As a result of the existing profit transfer agreements, the results were adopted by PATRIZIA Immobilien AG.

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PATRIZIA Immobilien AG participates indirectly in the following companies:

Name	Head office	Share holding in %	Equity in EUR	Net profit/net loss for the last fiscal year in EUR
PATRIZIA European Real Estate Management GmbH	Augsburg	100	747,079.84	491,224.37
Projekt Wasserturm Verwaltungs GmbH	Augsburg	51	45,330.74	44,804.87
Alte Haide Baugesellschaft mbH	Augsburg	100	7,594,202.68	4,298,150.88
PATRIZIA Luxembourg S.à.r.l.	Luxembourg	100	138,248,562.97	1,051,240.55
PATRIZIA Lux 10 S.à.r.l.	Luxembourg	100	12,045,749.53	1,874.55
PATRIZIA Lux 20 S.à.r.l.	Luxembourg	100	30,000,068.34	124,696.83
PATRIZIA Lux 30 N S.à.r.l.	Luxembourg	100	11,009.54	-684.68
PATRIZIA Lux 50 S.à.r.l.	Luxembourg	100	9,066,777.96	4,844.48
PATRIZIA Lux 60 S.à.r.l.	Luxembourg	100	695,654.91	18,925.44
PATRIZIA Real Estate 10 S.à.r.l.	Luxembourg	100	13,287,749.56	1,112,304.35
PATRIZIA Real Estate 20 S.à.r.l.	Luxembourg	100	-82,069,248.13	-21,563,694.87
PATRIZIA Real Estate 30 S.à.r.l.	Luxembourg	100	15,337.67	-800.50
PATRIZIA Real Estate 50 S.à.r.l.	Luxembourg	100	4,038,657.86	1,529,281.53
PATRIZIA Real Estate 60 S.à.r.l.	Luxembourg	100	-6,481,211.67	738,981.69
PATRIZIA Projekt 330 GmbH <sup>1</sup>	Augsburg	100	25,000.00	0.00
F 40 GmbH	Augsburg	94,9	11,760,101.66	-1,707,166.18
PATRIZIA Projekt 380 GmbH	Augsburg	100	14,193.82	-4,876.41
Projekt Wasserturm Grundstücks GmbH & Co. KG	Augsburg	45,9	-656,494.92	-56,309.08
Projekt Wasserturm Bau GmbH & Co. KG	Augsburg	51	-689,728.58	132,136.13
PATRIZIA Projekt 600 GmbH	Augsburg	100	21,588.02	-2,355.09

<sup>1</sup> As a result of the existing 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 in %	Equity in EUR	Net profit/net loss for the last fiscal year in EUR
PATRIZIA Projekt B 280 GmbH & Co. KG	Augsburg	100	-5,353.67	-4,256.76
PATRIZIA Vermögensverwaltungs GmbH <sup>1</sup>	Augsburg	100	687,583.35	0.00

<sup>1</sup> As a result of the existing profit transfer agreements, 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, income statement, 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, 2010. 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, March 15, 2011

Deloitte & Touche GmbH  
Wirtschaftsprüfungsgesellschaft

**Klinger**  
German Public Auditor

**Becker**  
German Public Auditor

# Responsibility Statement by the Legal Representatives of PATRIZIA Immobilien AG

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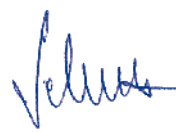
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the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



**Wolfgang Egger**  
Chairman of the Board



**Arwed Fischer**  
Member of the Board



**Klaus Schmitt**  
Member of the Board

# Further Information

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# Consolidated Balance Sheet

FIVE-YEAR OVERVIEW IN ACCORDANCE WITH IFRS

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## ASSETS

EUR '000	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
<b>A. Non-current assets</b>					
Software	2,811	539	579	196	237
Investment property	614,945	657,320	660,000	711,558	0
Investment property under construction	0	0	11,162	20,205	0
Equipment	1,893	1,650	2,005	2,087	1,472
Investments in joint ventures	8	13	6,033	5,067	0
Participations	3,090	3,090	3,090	2,043	1
Long-term financial derivatives	0	0	0	8,704	0
Long-term tax assets	281	313	311	375	361
Deferred tax assets	0	0	0	0	1,470
<b>Total non-current assets</b>	<b>623,028</b>	<b>662,925</b>	<b>683,180</b>	<b>750,235</b>	<b>3,541</b>
<b>B. Current assets</b>					
Inventories	510,438	676,008	717,772	793,395	228,403
Short-term financial derivatives	0	0	0	4,546	827
Short-term tax assets	263	1,879	6,685	3,144	0
Current receivables and other current assets	10,282	29,428	41,611	37,859	58,684
Bank balances and cash	70,537	56,183	67,905	54,013	83,211
<b>Total current assets</b>	<b>591,520</b>	<b>763,498</b>	<b>833,973</b>	<b>892,957</b>	<b>371,125</b>
<b>Total Assets</b>	<b>1,214,548</b>	<b>1,426,423</b>	<b>1,517,153</b>	<b>1,643,192</b>	<b>374,666</b>

**EQUITY AND LIABILITIES**

EUR '000	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
<b>A. Equity</b>					
Share capital	52,130	52,130	52,130	52,130	47,400
Capital reserves	215,862	215,862	215,862	215,862	118,398
Retained earnings					
- legal reserves	505	505	505	505	505
Non-controlling partners	832	877	0	0	0
Valuation results from cash flow hedges	-2,372	-6,079	-8,054	2,941	475
Consolidated net profit	27,775	21,529	31,029	65,167	24,946
<b>Total equity</b>	<b>294,732</b>	<b>284,824</b>	<b>291,472</b>	<b>336,605</b>	<b>191,724</b>
<b>B. Liabilities</b>					
<b>Non-current liabilities</b>					
Deferred tax liabilities	9,701	5,516	4,769	9,914	0
Long-term financial derivatives	39,715	34,208	24,551	1,142	946
Retirement benefit obligations	368	339	365	369	306
Non-current liabilities	1,202	259	0	0	0
<b>Total non-current liabilities</b>	<b>50,986</b>	<b>40,322</b>	<b>29,685</b>	<b>11,425</b>	<b>1,252</b>
<b>Current liabilities</b>					
Short-term bank loans	841,380	1,070,207	1,161,735	1,261,997	125,494
Short-term financial derivatives	363	8,895	10,238	235	0
Other provisions	666	580	616	594	535
Current liabilities	17,008	13,116	12,556	32,171	44,489
Tax liabilities	9,413	8,051	9,847	165	10,810
Other current liabilities	0	428	1,004	0	362
<b>Total current liabilities</b>	<b>868,830</b>	<b>1,101,277</b>	<b>1,195,996</b>	<b>1,295,162</b>	<b>181,690</b>
<b>Total equity and liabilities</b>	<b>1,214,548</b>	<b>1,426,423</b>	<b>1,517,153</b>	<b>1,643,192</b>	<b>374,666</b>

# Consolidated Profit and Loss Account

FIVE-YEAR OVERVIEW IN ACCORDANCE WITH IFRS

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## 2010

	2010	2009	2008	2007	2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Revenues	339,593	250,888	221,325	193,253	237,611
Income from the sale of investment property	1,237	370	21,747	0	0
Changes in inventories	-165,632	-106,173	-75,623	666,705	44,114
Other operating income	4,658	14,168	4,109	1,905	3,357
<b>Total operating performance</b>	<b>179,856</b>	<b>159,253</b>	<b>171,558</b>	<b>861,863</b>	<b>285,082</b>
Cost of materials	-68,072	-60,884	-66,000	-778,775	-201,777
Staff costs	-28,580	-23,888	-22,445	-19,908	-14,882
Amortization of software and depreciation on equipment	-904	-824	-846	-771	-593
Results from fair value adjustments to investment property	325	0	0	69,477	150
Other operating expenses	-21,376	-17,553	-17,199	-20,543	-16,706
Earnings from companies accounted for using the equity method	-5	6	-1,004	-298	0
Finance income	11,494	12,271	29,972	20,371	2,645
Finance cost	-61,250	-76,342	-126,444	-68,246	-6,719
<b>Profit / loss before income taxes</b>	<b>11,488</b>	<b>-7,961</b>	<b>-32,408</b>	<b>63,170</b>	<b>47,200</b>
Income tax	-5,287	-1,539	-1,730	-15,129	-14,800
<b>Net profit / loss</b>	<b>6,201</b>	<b>-9,500</b>	<b>-34,138</b>	<b>48,041</b>	<b>32,400</b>
Profit carried forward	21,529	31,029	65,167	17,126	0
Allocation to retained earnings					
- legal reserves	0	0	0	0	0
- other retained earnings	0	0	0	0	-7,454
<b>Consolidated net profit</b>	<b>27,730</b>	<b>21,529</b>	<b>31,029</b>	<b>65,167</b>	<b>24,946</b>
Earnings per share in line with IFRS, in EUR	0.12	-0.18	-0.65	0.92	0.71

# 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

## Harald Boberg

### **1<sup>st</sup> Deputy Chairman**

Member of the Supervisory Board since 2003  
Representative of Bankhaus Lampe KG, (Bielefeld), Hamburg

### **Notification of seats on other supervisory boards 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

### **2<sup>nd</sup> Deputy Chairman**

Member of the Supervisory Board since 2003  
Director of Bayerische Handelsbank AG, retired, Munich

### **Notification of seats on other supervisory boards pursuant to Article 285 No. 10 of the German Commercial Code**

— None

# Managing Board

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## Wolfgang Egger

### **Chief Executive Officer**

First appointed on: August 21, 2002

Appointed until: April 30, 2012

### **Responsibilities**

Business development, communications, institutional clients Germany, marketing, research

### **Notification of seats on other supervisory boards pursuant to**

#### **Article 285 No. 10 of the German Commercial Code**

— None

## Arwed Fischer

### **Chief Financial Officer**

First appointed on: March 1, 2008

Appointed until: February 29, 2016

### **Responsibilities**

Accounting/tax, central purchasing, controlling, financing, insurance, investor relations, IT, risk management

### **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, 2015

### **Responsibilities**

Corporate acquisitions, human resources, investment management, legal affairs, management of operating business fields, boards and committees, organizational development

### **Notification of seats on other supervisory boards pursuant to**

#### **Article 285 No. 10 of the German Commercial Code**

— None

# Financial Calendar 2011 and Contact

## Financial Calendar 2011

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March 23, 2011	Financial Statements for Fiscal Year 2010, Press Conference on Financial Statements
May 11, 2011	Interim Report – 1 <sup>st</sup> Quarter 2011
June 29, 2011	Annual General Meeting, Augsburg
August 10, 2011	Interim Report – 2 <sup>nd</sup> Quarter 2011
October 19, 2011	11 <sup>th</sup> Real Estate Share Initiative Conference, Frankfurt/Main
November 9, 2011	Interim Report – 3 <sup>rd</sup> Quarter 2011

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## PATRIZIA Immobilien AG

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This annual report was published on March 23, 2011, and is also available in German.  
The German text will be the definitive version in cases of doubt.

