PATRIZIA
WERTE ENTSCHEIDEN

Creating value with values

ANNUAL REPORT 2011

Key Figures

REVENUES AND EARNINGS

EUR '000	2011	2010	Change %
Revenues	269,007	339,593	–20.8
Total operating performance	180,527	179,856	0.4
EBITDA	58,125	62,153	–6.5
EBIT	54,631	61,249	–10.8
EBIT adjusted[1]	56,596	60,924	–7.1
EBT	19,906	11,488	73.3
EBT adjusted[1,2]	16,712	12,789	30.7
Net profit	13,493	6,201	117.6

STRUCTURE OF ASSETS AND CAPITAL

EUR '000	12/31/2011	12/31/2010
Non-current assets	597,007	623,028
Current assets	505,277	591,520
Equity	310,075	294,732
Equity ratio (in %)	28.1	24.3
Non-current liabilities	480,250	50,986
Current liabilities	311,959	868,830
Total assets	1,102,284	1,214,548

SHARE

ISIN	DE000PAT1AG3
SIN (Security Identification Number)	PAT1AG
Code	P1Z
Share capital at December 31, 2011	EUR 52,130,000
No. of shares in issue at December 31, 2011	52,130,000 shares
2011 high[3]	EUR 5.90
2011 low[3]	EUR 3.06
Closing price 2011[3]	EUR 3.43
Share price performance	–10.8%
Market capitalization at December 31, 2011	EUR 178.8 million
Average trading volume per day[4]	91,212 shares
Indices	SDAX, EPRA, GEX, DIMAX

[1] Without amortization of other intangible assets (fund management contracts)
[2] In addition adjusetd for profit/loss from interest rate hedges without cash effect
[3] Closing price at Frankfurt Stock Exchange Xetra trading
[4] All German stock exchanges

We are continually moving one step closer to our customers and are present on selected locations – right next to you. PATRIZIA's headquarters is located in Augsburg. PATRIZIA also has branch offices in all major German cities: Berlin, Dresden, Frankfurt/Main, Hamburg, Cologne, Munich and Stuttgart. Additional offices are located in Luxembourg and Stockholm while branches in other European countries are currently being planned.

PATRIZIA LOCATIONS AND OUR PORTFOLIOS

Residential units:

- < 100
- 101 – 250
- 251 – 500
- 501 – 1,000
- > 2,000
- Headquarters

Commercial property[1]:

- < 20,000 sqm
- 20,001 – 40,000 sqm
- 40,001 – 60,000 sqm
- 60,001 – 80,000 sqm
- > 600,000 sqm

[1] Administered for third parties

Contents

Creating value with values

We need rooms in which to live, to dwell and to work. As one of the leading property companies in Germany, we offer all services from a single source. With our years of experience and in-depth knowledge, we develop forward-looking solutions to maintain and increase value.

Our actions are also shaped by values. Three principles are of particular importance to us: value enhancement, sustainability and appreciation. They are the key to our success. Our employees put their all into these principles. Day after day. Because they know that values are what really count.

Residential
Commercial
Special Real Estate Solutions

"It is only with integrity, heart and understanding that sustainable success can be achieved. This is something that our customers value. For me, opening the door to their new home is a wonderful feeling."

Erwin Jakob | Team leader
PATRIZIA Wohnen GmbH, Munich Sales Team

Local expertise

We can turn your dream home into a reality. Over the last 30 years we have sold enough residential properties to fill a small town – to tenants, owner-occupiers and private investors – and 745 last year alone.

The residential property market demands a real feel for every single property, as well as for the wishes of the tenants and buyers. Being present on-site is therefore vital. With numerous offices throughout Germany, we are always on hand to support our customers. For us, this is an expression of our appreciation, and it is precisely this that sets us apart.

▸ “Ludwig-Richter-Höfe” in Munich

+16% [1]

PATRIZIA Wohnen GmbH key figures (2011)

Interested parties	**4,500**
Recommendation quota	40%
Initial consultations	2,300
Private investors [2]	51.3 years
Owner-occupiers [2]	46.2 years
Tenants [2]	50.0 years

[1] More interested parties compared with 2010
[2] Average age

Attractive solutions

Commercial property presents considerable asset value. The aim of our asset management is to maximise this value. This is a real challenge; the potential returns can be high – but so are the risks involved.

We unite investment, portfolio optimisation and sales as part of a long-term strategy. This includes both the search for value-enhancing potential and safeguarding the cash flow. Our comprehensive expertise forms the perfect basis for this and helps create tailor-made solutions for our customers.

▸ "Kwantum" commercial centre in Amsterdam

+15.5%[1]

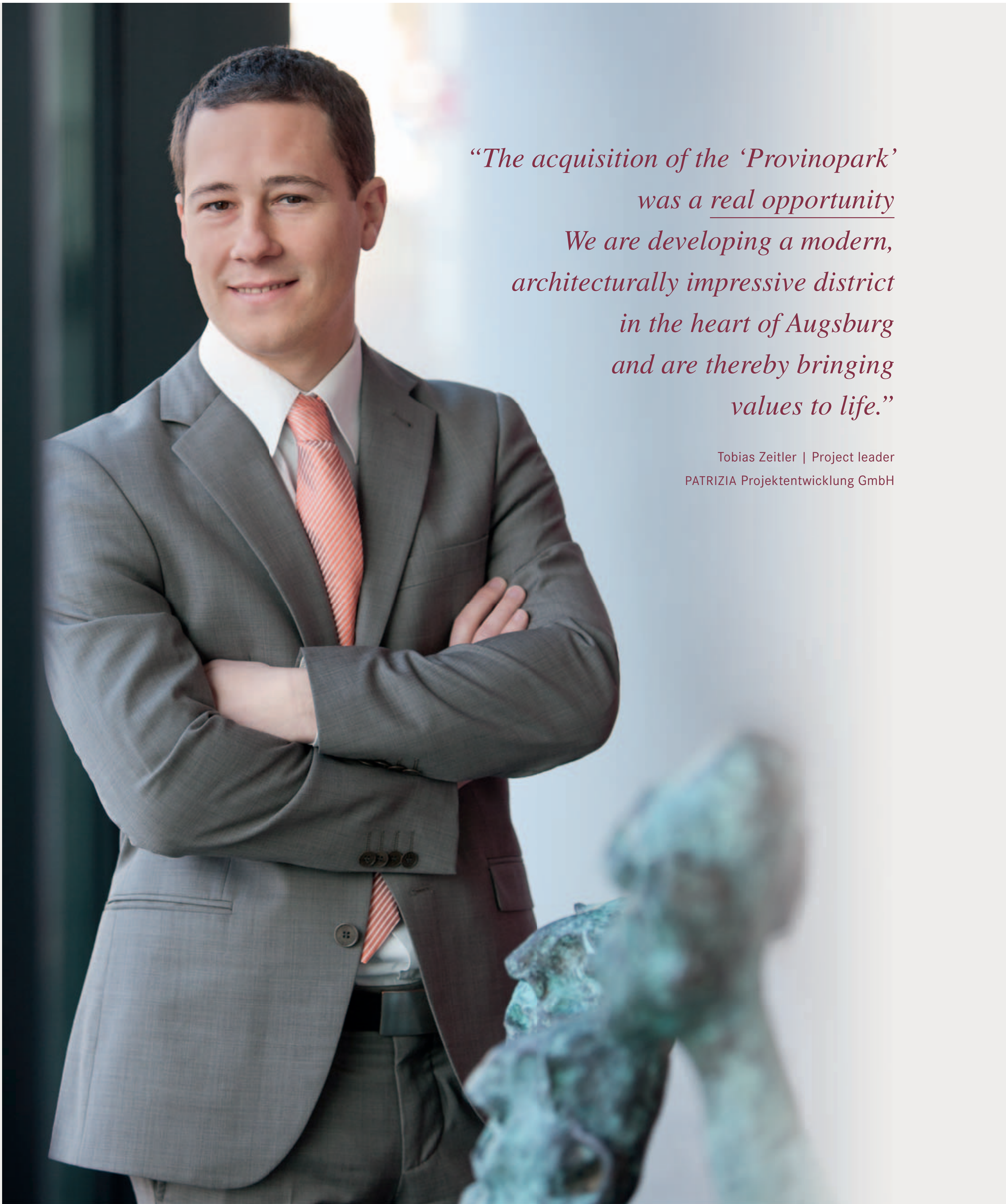
PATRIZIA GewerbeInvest KAG mbH key figures (2011)

Assets under management	Approx. EUR 3 billion
Asset classes:	
- Office	40.9%
- Residential	11%
- Retail	23.8%
- Logistics	8.6%
- Hotel	6.2%
Geographical allocation of funds:[2]	
- Germany	7
- Europe	4
- Abroad non-European	1

[1] Increase of assets under management compared with 2010
[2] In accordance with investment guidelines

“Asset management is one of our most important value drivers We currently manage fund assets of €2.5 billion in Europe and half of this is invested in Germany.”

Claudia Zoric | Asset manager
PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH



"The acquisition of the 'Provinopark' was a real opportunity We are developing a modern, architecturally impressive district in the heart of Augsburg and are thereby bringing values to life."

Tobias Zeitler | Project leader
PATRIZIA Projektentwicklung GmbH

First-class service

Dedicated support until the handover of the keys – that's our mission. No matter whether the property is residential or commercial, we will always be on hand to assist our customers in the acquisition, conception, implementation and marketing of their project development. You can rely on us.

Furthermore, we advise both property and non-property firms in tapping growth potential. We naturally also take on the management of all planning- and construction-related value-added processes for our customers.

▸ "Provinopark" in Augsburg

+18.5% [1]

PATRIZIA Projektentwicklung GmbH key figures (2011)

Plot offers	**950**
Period of aquisition audit [2]	6 months
Acquisition to start of construction [2]	9 months
Construction period [2]	18 months
Living space in stage of development [2]	50,000 sqm
Plot area in stage of development [2]	250,000 sqm

[1] Increase of Plot offers compared with 2010
[2] Average value

Bright prospects

More and more people are being drawn to towns. The need for living space is increasing. And one thing is clear everywhere: people are becoming more demanding. We search for the right properties in growth-oriented European metropolises.

As part of our acquisition process, we analyse, examine and value the properties with the utmost care. We attach a great deal of importance to the fact that our investment should have bright prospects. We only invest in places that have a sustainable future.

▸ "Am Eppendorfer Mühlenteich" in Hamburg

+22%[1]

PATRIZIA Acquisition & Consulting GmbH key figures (2011)

Offers	**4,100**
Property inspections	1,000
Countries	12
Acquisitions	2,600 residential units
Volume	EUR 415 million

[1] Increase of offers compared with 2010

"Value creation begins with a purchase. As such, we drive the acquisition process from market/portfolio analysis and compilation of the business plan through to the investment. That comes about through a great deal of experience and vision."

Ruth Lawriw | Team leader, Funds, Germany
PATRIZIA Acquistion & Consulting GmbH

"Identifying the right properties for our funds comes with a great deal of responsibility. The continuous success of recent years shows that we have chosen the right path for our investment strategy."

Sebastian Schlansky | Investment manager
PATRIZIA GewerbeInvest
Kapitalanlagegesellschaft mbH

In-depth insights

The commercial property market presents many promising opportunities – both in Germany and many other European states. We are experts in terms of the economic framework for services, retail and hotels.

Our sophisticated modular portfolio system is based on this expertise. With assets in various fields of business, we are able to precisely reproduce our investors' desired risk-return profile. A distinct advantage.

▸ "Borromées" office building in Paris

+12.5%[1]

PATRIZIA GewerbeInvest KAG mbH key figures (2011)

Countries	**9**
Special funds:	13
– Modular funds	7
– Individual funds	4
– Label funds	2
Employees	58

[1] More countries in which fund objects are situated compared with 2010

Comprehensive expertise

It is important to us that we not only maintain the value of residential property, but also increase it. Sometimes it is enough to simply develop the loft space. Tailored modernisation measures contribute to a building remaining attractive on the market. This is precisely what we demand.

We look after our own portfolio in the same way as those of external clients. Numerous institutional investors trust in our comprehensive intuition and our years of experience – and can therefore count on predictable returns.

▸ "An der Helmstedter Strasse" in Berlin

–23%[1]

PATRIZIA Wohnen GmbH key figures (2011)

Total residential units	**7,548 539,040 sqm**
Shared across:	
- Residential Property Resale	2,063 units 161,957 sqm
- Asset Repositioning	5,485 units 377,082 sqm

[1] Reduction of residential units compared with 2010

“The rate of return is a decisive value. Our customers trust that we will exhaust all the possibilities in order to achieve the best possible result for them.”

Susan Schacherer | Asset manager
PATRIZIA Wohnen GmbH

"Last year we sold over 1,400 residential properties and 85 commercial units with a total value of around €170 million. Behind this success is a highly motivated team."

Markus Leitner | Global sales manager
PATRIZIA Sales GmbH

A valuable advisor

The search for sensible investment opportunities that hold their value has become more dynamic. Property is especially popular. We offer our national and international investors a comprehensive portfolio of residential complexes, residential and commercial buildings, office buildings, hotels and retail property.

Our global sales customers include both private investors and institutional clients. They value us as a reliable companion in the search for a promising investment, because we do not look at just individual properties, rather at the whole market.

▸ Residential and commercial building in Schöneberg, Berlin

+30%[1]

PATRIZIA Sales GmbH key figures (2011)

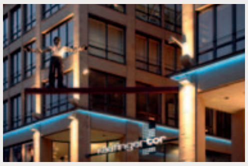
Total area sold	**104,000 sqm**
Properties sold	36
Shared across:	
- Residential units	1,446
- Commercial units	85
Inspections	> 250
Negotiation period (Offer to notary appointment)[2]	3 months

[1] Increase of total area sold compared with 2010
[2] Average value

A strong partner

Our property management has one main goal: to continuously increase property values. We take care of the management and maintenance, the right leasing mix and excellent results. All with our customers in mind.

We support our customers as a partner and advisor, and accompany them through all the difficult questions and decisions. In doing so, we help to effectively relieve their burden. Our services stretch right the way from classic to commercial property management.



▸ "Kaufingertor" in Munich

+37.5%[1]

PATRIZIA Immobilien-management GmbH key figures (2011)

Commercial area	**440,000 sqm**
Rental and condominium management	18,000 units
Parking spaces, garages, etc.	17,000
Customers	125
Locations[2]	8

[1] More commercial area compared with 2010
[2] Branches and locations with own employees in all major conurbations


"We manage residential and commercial property of any size throughout Germany. We thus contribute a little more each and every day to the optimal performance of your property."

Helmut Asam
Manager, Commercial Property Management/
Centre Management
PATRIZIA Immobilienmanagement GmbH

“We work closely with other PATRIZIA associations to deliver a unique palette of services. We aim to create value over the long term so that our customers can profit.”

Matthias Franke | Manager, Fund Management
PATRIZIA WohnInvest Kapitalanlagegesellschaft mbH

Individual products

Investors and assets need to suit one another. That is the basis for a successful investment – and a vital component of our strategy. We design theme funds for institutional investors, with the focus here on German and European property.

We also offer special solutions such as individual and roll-up funds that are tailored to the preferences of our customers. We are constantly tapping new potential with our creative concepts.

▸ “Belsenpark 1” in Düsseldorf

+19%[1]

PATRIZIA WohnInvest KAG mbH key figures (2011)

Invested volume	**EUR 792 million**
Target volume	EUR 1.4 billion
Funds:	5
- Pool funds	2
- Individual funds	2
- Transfer funds	1
Employees	20

[1] Increase of investment volume compared with 2010

Preface and Reports

f. l. t. r.: Klaus Schmitt (COO) | Arwed Fischer (CFO) | Wolfgang Egger (CEO)

Letter to Our Shareholders

Dear shareholders,
Dear ladies and gentlemen,

the motto for this year's annual report is "Creating value with values". The PATRIZIA brand is closely tied to three core values: real estate value enhancement, the principle of sustainability and respect for our customers, partners and employees. Values matter. This applies more than ever in a constantly changing world, especially in times of economic turbulence.

And the real estate sector in particular is benefiting from this return to traditional values. The sovereign debt crisis appears to have had little effect on the German property market – on the contrary, compared to the rest of Europe German real estate is seen as an extremely attractive and secure form of investment with a stable stream of rental income. What is new is that the focus is first on value retention and then on the return. The main drivers influencing the purchase of property are still primarily concern about possible inflation and uncertainty over the future of the euro.

WHAT DID WE ACHIEVE IN 2011?

PATRIZIA took advantage of these sentiments and achieved a great deal in 2011. We completed the first corporate acquisition in the history of our company and as a result succeeded in repositioning ourselves. Today, PATRIZIA is more than just a residential property specialist. The acquisition of LB Immo Invest GmbH, what is today PATRIZIA GewerbeInvest KAG mbH, did not represent a change in strategy, but rather a "mere" logical step in our evolution. We are now in a position to offer our residential property customers commercial real estate products from the same source, and vice versa. If we are to be successful in the long term, we must respond to changing demand. New market opportunities are constantly springing up and we can only seize them if we evolve. With PATRIZIA GewerbeInvest KAG we now also have a platform which we can use to internationalize our residential real estate business. The opening of our foreign office PATRIZIA Scandinavia in Stockholm was a further step towards our goal of establishing ourselves as "the" fully integrated real estate investment company in Europe and providing our customers with every form of real estate investment service.

The expansion of our service business, which we have been pursuing unfalteringly for a number of years, has opened up further sources of revenue. Fees for purchasing and selling, for asset and property management and for fund management even out the typical fluctuations encountered in property trading and help to stabilize earnings. Services contributed 33.5% of the operating result in the past fiscal year. The intention is that half of the results should come from investment management by 2013 and not from the sale of real estate. The service field will provide a higher than average improvement to revenues and to our profitability thanks to higher margins.

The higher the volume of our assets under management, the broader the base will be for providing services and thus for increasing our earnings. The newly created business unit “Alternative Investments” will also strengthen our service business and expand our co-investments. In contrast to traditional investors in our two asset management companies, here we will be addressing inter alia investors characterized by a higher risk / return profile. We will also satisfy their requirements.

WHERE DO WE STAND TODAY?

In 2012 we will be able to continue on the course we set last year. A significant milestone for our continuing development was the award of the contract for LBBW Immobilien GmbH to the consortium based around PATRIZIA. The staff of the newly established business unit Alternative Investments played a major role in the bidding process. We have responsibility for leading the consortium, which is made up of well-known European and German pension funds, German insurance companies, professional pension schemes and one savings bank – all long-term oriented investors. We act as investment and asset managers, but are not just service providers. Our own equity stake of approximately EUR 17.2 million means that we also participate as a co-investor. This one transaction has increased our assets under management from EUR 5.2 billion to approximately EUR 7 billion. In terms of revenue, we expect to see annual income from managing the LBBW portfolio of up to EUR 6 million. And it is important not to underestimate that we now have close ties to further investors with strong liquidity who in the past had to some extent little contact with the real estate market. We have thus created a win-win-situation, since institutional investors gain appropriate access to opportunities in the area of real estate while we gain access to investors who wish to invest for the long term. It also results in a long-term, reliable situation for tenants and the municipalities concerned. We are in an excellent position to take advantage of opportunities that the future will also bring.

The market recognizes our new structure and our growth. Feedback from investors has been positive, both from real estate and from equity investors. By achieving our forecast for the year of EUR 16 – 17 million we have once more confirmed the trust gained in previous years.

We would again like to share this success with our loyal shareholders appropriately after 4 years without a dividend. The objective we set for the 2011 fiscal year was a dividend of around 8 cents per share. It would have been possible to realize this objective with the operating result achieved. However, together with the Supervisory Board we have decided to offer our shareholders a share in the profits that will support the development of our company and which at the same time is intended to “compensate” you, our shareholders, for the past few years without a dividend. We will recommend to the Annual General Meeting that, instead of a cash dividend, it agree to a capital increase from retained earnings by issuing so-called bonus shares in a ratio of ten to one, i. e. you would receive one additional PATRIZIA share for every ten PATRIZIA shares you hold. This would require a total of EUR 5.2 million from the capital reserve – currently EUR 216 million – in order to issue 5.2 million new shares, which would carry dividend rights from the beginning of the 2012 fiscal year. This allocation will enable our shareholders to participate in the result of the past fiscal year and at the same time allow them to participate in the further development of PATRIZIA.

WHY HAVE WE TAKEN THIS STEP?

Our objective in issuing bonus shares is to make the PATRIZIA share even more attractive for investors. We currently see extremely promising investment opportunities and would therefore like to strengthen our free cash flow. Instead of a dividend of 8 cents per share – representing a payout of around EUR 4.2 million – we could use the same sum to undertake a further co-investment of around EUR 150 million with correspondingly sustained income over the coming fiscal years. We are convinced that the potential and outlook for PATRIZIA will quickly compensate for the dilution caused and that you will also benefit from the higher liquidity in the share.

WHAT ARE OUR AIMS FOR THE FUTURE?

PATRIZIA is making excellent progress. Looking at the operational business for this year we are pleased to say that the year started off on a very positive note. In addition to the positive decision regarding LBBW, we have launched two new residential funds with a total target volume of EUR 650 million and have solicited additional equity commitments for EUR 150 million for existing commercial funds. We have completed one block sale for EUR 3.0 million and the sales figures for residential property resales will exceed those for the same quarter last year. The cash freed up by the sales will improve our financial structure and increase the scope for new co-investments.

German real estate markets have proved to be extremely robust even in times of crisis. Property – preferably residential property – today plays an increasingly important role for institutional and private investors alike. Purchases and sales will not let up in 2012. These are positive signals that are having a beneficial effect on the current course of business. PATRIZIA is well prepared to take advantage of the benign market environment in order to grow further. The results of the past few years show that we are taking the right course.

We would like to extend our special thanks to PATRIZIA employees in all business units who contribute their creative power for the benefit of PATRIZIA on a daily basis and whose efforts have given PATRIZIA its new stature. We look to the future with great optimism. Together we will work to ensure that PATRIZIA remains a valuable investment for you.

Augsburg, March 27, 2012

The Managing Board

Wolfgang Egger
Chairman of the Board

Arwed Fischer
Member of the Board

Klaus Schmitt
Member of the Board

Report of the Supervisory Board

Dear shareholders,
Dear ladies and gentlemen,

PATRIZIA saw a successful conclusion to the past fiscal year. Following the first half of the year, in which earnings were in line with expectations, a strong final quarter ensured that the forecast consolidated result was achieved.

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 2011. We regularly advised the Managing Board on corporate management issues and monitored management measures. The Supervisory Board was involved in all major decisions affecting 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. In this process we paid constant attention to the current earnings and liquidity situation and to the opportunities and risks as well as how to manage them. The PATRIZIA Managing Board provided detailed explanations of and justifications for the Company's planning and its realization as well as for deviations from planning prepared earlier.

ORDINARY MEETINGS AND TOPICS OF THE SUPERVISORY BOARD

The Supervisory Board came together in four ordinary meetings during the reporting year. Each member attended every meeting. Regular exchanges between the Supervisory Board and the Managing Board also took place outside of these meetings in personal discussions. We discussed in detail 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, urgent 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 Immoblien AG on the statutory minimum number of members to enable us to work efficiently and to allow an intensive exchange of ideas.

During the first meeting of the Supervisory Board for the year held on March 21, 2011, we approved the 2010 annual financial statements for PATRIZIA Immobilien AG and the consolidated financial statements for the Group as well as the combined management report for PATRIZIA Immobilien AG and the Group following careful examination. Following a separate examination, the Supervisory Board also approved the dependent company report for the 2010 fiscal year. The resolutions for the agenda of the Annual General Meeting on June 29, 2011, were also approved. Considerable space was devoted to the liquidity plan and upcoming financing, whereby the extension of the loan for around EUR 460 million expiring on March 31, 2011, had already been concluded at that date.

Dr. Theodor Seitz (Chairman)

The Supervisory Board met for the second time on June 29, 2011, following the Annual General Meeting. All previous members were confirmed in their positions for a further three years by the Annual General Meeting. Dr. Theodor Seitz was once again appointed to the position of Chairman of the Supervisory Board in the constituent meeting.

In the meeting of the Supervisory Board held on September 26, 2011, the Managing Board informed us about various projects of the newly established Alternative Investments division as well as about the general business and liquidity situation. The Supervisory Board dealt in particular with the opportunities and risks of a possible acquisition of LBBW Immobilien GmbH by PATRIZIA together with national and international co-investors. We also discussed the practical implementation and cost situation regarding the IT system change-over introduced on July 1.

In the final meeting of 2011 held on December 12, the Managing Board presented the planning for the coming fiscal year and further strategic development in addition to operational performance. We approved the 2012 budget. We also obtained information about the demand for and interest in the PATRIZIA share on the part of the capital market in the light of weak share performance. During the same meeting, the Managing Board and Supervisory Board issued a declaration of conformity in accordance with Article 161 of the Aktiengesetz (AktG – German Stock Corporation Act) which also expressed an opinion on the recommendations of the Code. The recommendations and suggestions of the Code are observed with a few exceptions. The declaration of conformity is published on the PATRIZIA website where it can be viewed at all times. My colleagues on the Supervisory Board and I also examined the efficiency of our Supervisory Board activities and discussed the findings. The efficiency of our collaboration with each other and with the Managing Board was again found to be very good.

FURTHER SUPERVISORY BOARD RESOLUTIONS

The Supervisory Board unanimously agreed to extend the contract with CEO Wolfgang Egger by a further five years until June 30, 2016. This will thus ensure the continuity of the management of the Company. The founder and principal shareholder of PATRIZIA Immobilien AG, Wolfgang Egger, will continue to exercise a decisive influence on the strategic direction of the Company.

EXAMINATION OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS 2011

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), as well as the combined management report for PATRIZIA Immobilien AG and the Group were examined by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, together with the bookkeeping and each issued with an unqualified audit opinion. The documents mentioned as well as the audit reports from Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft were made available on time to the members of the Supervisory Board for the accounts meeting on March 27, 2012. The Managing Board and the responsible auditors explained the findings of the audit and were available to provide additional information. The risk management system of the PATRIZIA Group was also the subject of the audit. The auditors confirmed that no material weaknesses are inherent in the internal control system and risk management system.

The Supervisory Board also thoroughly examined the annual financial statements of PATRIZIA Immobilien AG, the consolidated financial statements, the combined management report for the Company and for the Group as well as the proposal on the appropriation of net profit. We concurred with the findings of the examination by the auditors. No objections were raised. The annual financial statements and the consolidated financial statements are thus approved. The Supervisory Board agrees with the proposal on the appropriation of net profit made by the Managing Board to issue bonus shares and the associated capital increase using retained earnings.

EXAMINATION OF THE DEPENDENT COMPANY REPORT

All legal and business relationships with related parties and companies 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 and companies 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 for the fiscal year 2011 was examined by the auditor and given the following 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.”

The auditors’ report on the dependent company report was made available to the members of the Supervisory Board in good time and was discussed with the auditors present at the meeting. In accordance with the concluding findings of its examination, the Supervisory Board raises no objections to the report and the concluding declaration of the Managing Board contained therein.

The Supervisory Board would like to thank the Managing Board, the directors of the operating companies and all employees for the work they have performed on behalf of and the loyalty they have shown to the Company. It is the employees, who with their competence and engagement, play such a key part in advancing PATRIZIA. Their daily commitment not only contributes to the commercial success of PATRIZIA but also ensures the satisfaction of our customers and tenants.

Augsburg, March 27, 2012

For the Supervisory Board

Dr. Theodor Seitz
Chairman

Corporate Governance

For PATRIZIA Immobilien AG, 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. PATRIZIA acknowledges the need for management and supervision of the company aiming at long-term commercial success, and this is the benchmark that it wishes to be measured by.

For PATRIZIA, responsible and transparent corporate governance is one of the core elements of long-term success. 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.

Value-oriented corporate governance is very important for PATRIZIA

In addition to changing legal regulations, we see lasting principles expressing our moral values and placing on us a responsibility for our actions. It is our opinion that the first and foremost duty of the Company and its representatives is to develop and enhance the confidence of shareholders, investors, business partners, customers and our own employees in a sustained and value-based system of corporate governance. We attach great importance to presenting the performance of our business and the associated opportunities and risks in an honest and transparent manner.

IMPLEMENTATION OF THE CODE

There were no changes made to the German Corporate Governance Code in 2011. The version of the Code dated May 26, 2010, published in the electronic Federal Gazette on July 2, 2010, thus continues to be valid. The declaration of conformity pursuant to Article 161 of the Aktiengesetz (AktG – German Stock Corporation Act) was issued by the Managing Board and Supervisory Board of PATRIZIA Immobilien AG on December 12, 2011. This and all preceding declarations of conformity are permanently available for access on our website at www.patrizia.ag. The following recommendations of the Code were not complied with in the 2011 fiscal year and will also not be complied with in the future:

- The Company did not send notification of convening the 2011 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.
- 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.

- 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 of no significance to PATRIZIA.
- Contrary to the recommendations of the Code, the compensation model for the Supervisory Board does not distinguish between chairman and deputy chairman of the Supervisory Board. Due to the Supervisory Board having three members, a distinction is only made between chairman and other members. 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.

Statement on recommendations and suggestions of the Code

In the current declaration of conformity we once again provide a voluntary statement concerning the implementation of recommendations contained in 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 2011 fiscal year or are to be complied with in 2012:

- The 2011 Annual General Meeting was not broadcast on the Internet for cost reasons. There are likewise no plans to broadcast the 2012 Annual General Meeting via the Internet for cost reasons, too.
- The Code recommends gearing the performance-related compensation of the Supervisory Board to the long-term success of the Company. 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 Company.

SHARE DEALINGS OF EXECUTIVE BODY MEMBERS

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. The CEO acquired PATRIZIA shares indirectly in the fiscal year. We published this share transaction, which must be reported pursuant to Article 15a of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act), across Europe and provided corresponding information on the PATRIZIA website.

DIRECTORS' DEALINGS 2011

Date	Name	Reason for reporting requirement/ Position	WKN (German stock identification number)	Transaction type (purchase/ sale)	Stock exchange	Price per share	Number
08/24/2011	Wolfgang Egger via First Capital Partner GmbH	Company closely associated with person with executive responsibilities	PAT1AG	Purchase	Over the counter	EUR 3.44	824,381

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, 2011 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	26,871,953	51.55%
Arwed Fischer	0	0.00%
Klaus Schmitt	80,000	0.15%
TOTAL	26,951,953	51.70%

The members of the Supervisory Board held no shares in the Company as of December 31, 2011.

COMPENSATION REPORT

The following section provides information on the principles of the compensation system and on the structure and amount of the payments made by PATRIZIA Immobilien AG to the Managing Board and to the Supervisory Board. The 2011 compensation report follows the recommendations of the German Corporate Governance Code for the Managing Board in its entirety and for the Supervisory Board with a few exceptions.

COMPENSATION OF THE MANAGING BOARD

The system of management compensation 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 customary for the sector, appropriate and performance-related. It is made up of non-performance-related and performance-related components as well as components with short- and long-term incentive effects. The non-performance-related components comprise fixed basic compensation, which is paid as a monthly salary, pension contributions as well as non-cash and other benefits which primarily consist of values to be applied in accordance with tax guidelines for the use of a company car and insurance premiums. There are no agreements in place in the case of a change of control.

Targets form the basis for assessing the variable compensation for the Managing Board

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 and without taking into account depreciation on intangible assets (fund management contracts that came about in the course of the acquisition of PATRIZIA GewerbeInvest KAG). This adjusted pre-tax profit is published in PATRIZIA's quarterly and annual reports as so-called EBT adjusted and reflects its operating earnings power. EBT adjusted 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 consolidated profit to be achieved is defined. If EBT adjusted 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.

Long-term variable compensation is paid to the Managing Board in the form of performance share units

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 fixed performance period has passed. For PATRIZIA, this performance period is three years for all Managing Board contracts valid since the 2011 fiscal year. A performance period of two years was valid prior to the conclusion of the new 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 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.

The total remuneration paid out for the Managing Board in the 2011 fiscal year amounted to EUR 1.7 million (previous year: EUR 1.1 million). Furthermore, the Managing Board acquired 72,445 performance share units (previous year: 0), the cash value equivalent of which will be paid out in the 2013 fiscal year. The amount of variable compensation granted for the past 2011 fiscal year and which will be paid out in 2012 has not yet been determined since not all components required to achieve the targets are known.

The following payments were granted to the members of the Managing Board in 2011:

SHORT-TERM COMPENSATION[1]

2011 in EUR	Fixed compensation (fixed salary)	Non-cash and other benefits[2]	Contribution to retirement pension	Short-term variable compensation[3]	Total
Wolfgang Egger, Chairman	310,000	24,407	12,000	229,484	575,891
Arwed Fischer	290,000	37,814	12,000	215,000	554,814
Klaus Schmitt	300,000	47,100	24,000	179,857	550,957
TOTAL	900,000	109,321	48,000	624,341	1,681,662

[1] Paid out in the 2011 fiscal year
[2] The item primarily includes non-cash benefits arising from the provision of company cars and insurance premiums.
[3] Cash components of variable compensation for the 2010 fiscal year paid out in the 2011 fiscal year after all data for their determination were known. One criterion for the individual targets for the members of the Managing Board was the outcome of the staff survey carried out in February 2011, meaning that the final calculation and payment of the variable compensation was not possible before the editorial deadline for the 2010 annual report.

SHORT-TERM COMPENSATION[1]

2010 in EUR	Fixed compensation (fixed salary)	Non-cash and other benefits[2]	Contribution to retirement pension	Short-term variable compensation[3]	Total
Wolfgang Egger, Chairman	260,000	22,704	12,000	0	294,704
Arwed Fischer	240,000	40,048	12,000	240,000	532,048
Klaus Schmitt	240,000	31,225	12,000	0	283,225
TOTAL	740,000	93,977	36,000	240,000	1,109,977

[1] Paid out in the 2010 fiscal year
[2] The item primarily includes non-cash benefits arising from the provision of company cars and insurance premiums.
[3] Up until 2010 Mr. Fischer was granted a minimum compensation of EUR 240,000 per year. Under the terms of the contract extension, a cash bonus was agreed with him replacing the previous minimum variable compensation and this is linked to individual targets.

VARIABLE COMPENSATION WITH A LONG-TERM INCENTIVE EFFECT

	Fiscal Year 2010[1]		Fiscal Year 2009[2]	
	Fair value when granted in EUR ’000	Number of performance share units	Fair value when granted in EUR ’000	Number of performance share units
Wolfgang Egger, Chairman	114,742	28,543	0	0
Arwed Fischer	86,560	21,532	0	0
Klaus Schmitt	89,929	22,370	0	0
TOTAL	291,231	72,445	0	0

[1] Conversion into performance share units with two-year vesting period at an average price of EUR 4.02. Paid out in 2013 at the average Xetra price 30 days prior to and after December 31, 2012.
[2] No performance share units were granted for the 2009 fiscal year since the specified target hurdle was not reached and no long-term variable compensation was paid at all.

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.

Variable compensation for the Supervisory Board is based on the dividend for the previous fiscal year

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 the 2011 fiscal year amounted to EUR 62,500, plus reimbursement for expenses. The variable compensation cannot be calculated and paid out until the Annual General Meeting for the 2011 fiscal year has approved the proposal on the appropriation of net profit. The Managing Board and the Supervisory Board propose that bonus shares be issued to shareholders at a ratio of 10:1 via a capital increase from retained earnings in lieu of a dividend for the past 2011 fiscal year. This would mean that – as in the period 2007-2010 – the Supervisory Board would not receive any variable compensation.

The following payments were granted to the Supervisory Board in 2011:

	Fixed compensation		Variable compensation	
in EUR	2011	2010	2011[1]	2010
Dr. Theodor Seitz, Chairman	25,000	25,000	0	0
Harald Boberg	18,750	18,750	0	0
Manfred J. Gottschaller	18,750	18,750	0	0
TOTAL	62,500	62,500	0	0

[1] Subject to the 2012 Annual General Meeting agreeing the appropriation of net profit

TRANSACTIONS WITH RELATED COMPANIES AND INDIVIDUALS

The members of the Managing Board and Supervisory Board or related parties also effected transactions with PATRIZIA Immobilien AG and its subsidiaries in 2011. A list of transactions complying with standards customary in the sector can be found in the Notes under item 9.3. No members of the Managing Board, Supervisory Board or Company were involved in any conflict of interest.

The PATRIZIA Share

KEY FIGURES FOR THE PATRIZIA SHARE

		2011	2010	2009
Share prices[1]				
High	EUR	5.90	3.85	4.02
Low	EUR	3.06	2.59	1.29
Year-end closing price	EUR	3.43	3.84	3.06
Share price performance	%	–10.8	25.5	87.7
Market capitalization as of December 31[1]	EUR million	178.8	200.2	159.5
Average trading volume per day[2]	EUR	423,800	182,000	189,900
Average trading volume per day[2]	shares	91,200	56,000	75,400
Trading volume for the year[2]		0.45	0.27	0.37
No. of shares in issue as of December 31	million shares	52.13	52.13	52.13
Earnings per share (IFRS)	EUR	0.26	0.12	–0.18
Price-earnings ratio		13	32	–17
NAV per share	EUR	7.07	6.86	6.18
Dividend per share	EUR	0.00[3]	0.00	0.00

Please refer to diagram on p. 38

Please refer to diagram on p. 37

Please refer to table on p. 61

[1] Closing price in Xetra trading
[2] All German stock exchanges
[3] Instead, issue of bonus shares in a ratio of 10:1, subject to approval of the 2012 Annual General Meeting.

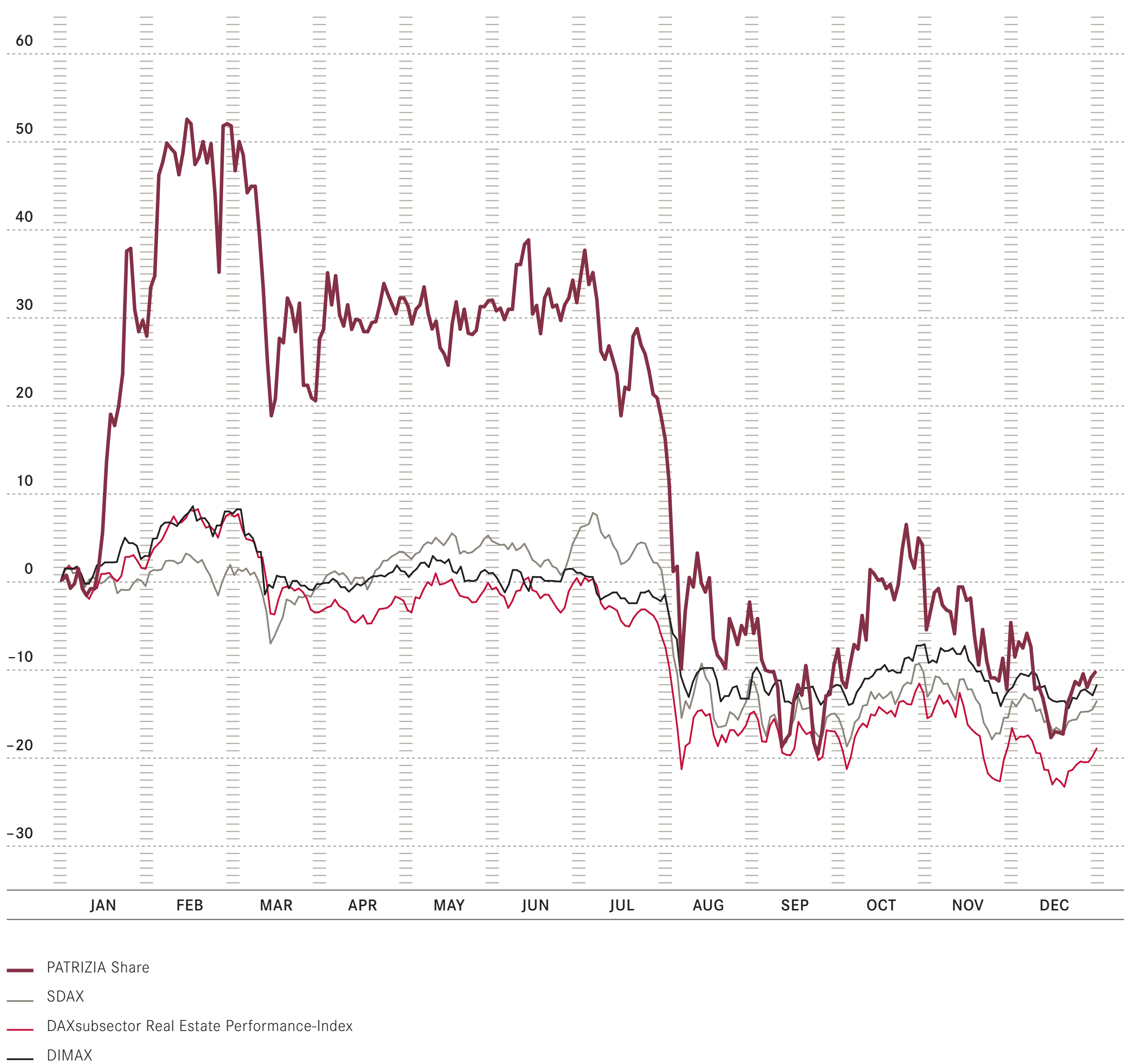
During the past year the continuing eurozone debt crisis triggered new concerns about the stability of international financial systems and clearly took its toll on the stock markets. Investors were particularly unsettled by Greece's dramatic budget situation. The rating agencies' decision to downgrade the credit rating of countries such as Spain, Portugal, Ireland and Italy compounded the strains on securities trading. Banks that had invested in government bonds of the affected countries were increasingly sucked into the undertow of the sovereign debt crisis. Against this backdrop, the economic outlook also became bleaker. All this was reflected in sharp price falls on the stock market. Even the DAX 30 index was not immune from the crisis. After reaching a high for the year in May, the index fell and closed 2011 on 5,898 points – a drop of 14.7% on the end of 2010. German small caps also proved disappointing for investors, with the SDAX performing poorly and posting a loss of 14.5%.

European sovereign debt crisis caused volatility in the markets

Speculation about measures to save the countries in the euro area that were facing insolvency and fears that global economic growth could experience a further downturn prompted frenzied volatility on the markets. With no solution to the sovereign debt crisis on the horizon, the VDAX volatility indicator recorded its highest level for two years at the start of October 2011, reflecting the growing uncertainty among market participants.

The PATRIZIA share closed 2011 down 10.8%. The peer group of listed housing portfolio companies fared very differently in 2011: Only one issuer recorded a positive trend of 4.2% for its shares, while the others recorded price falls of between 2.2 and 46.2%. The reference indices also posted heavier declines than PATRIZIA: The SDAX lost 14.5%, the DAXsubsector Real Estate Performance-Index fell by 18.8% and the DIMAX real estate stock index created by the bank Ellwanger & Geiger fell by 11.9%. From this, it can be seen that despite its fall in price, the PATRIZIA share asserted itself comparatively well in a difficult market and still reveals an upward trend when viewed over two and three years.

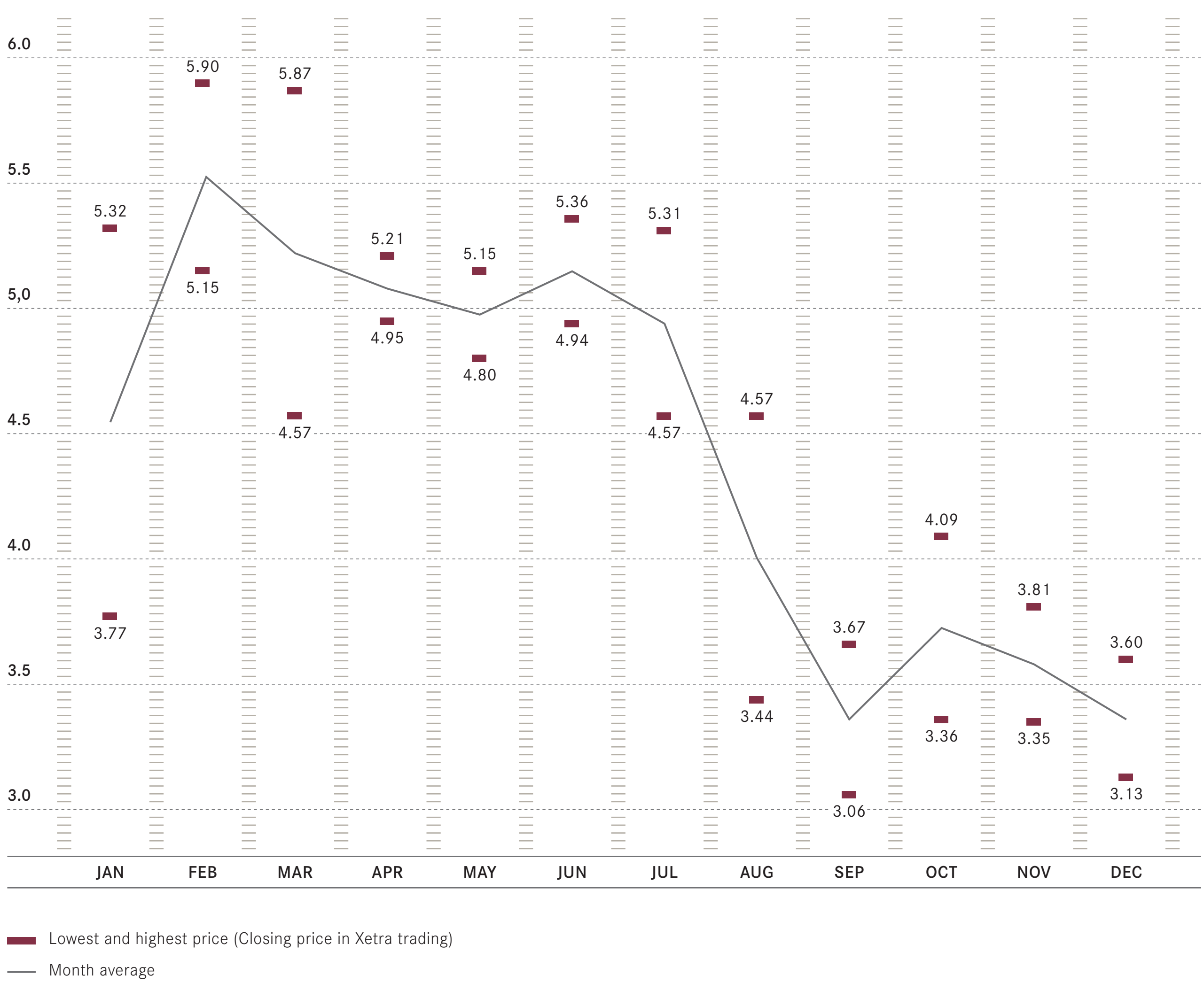
PERFORMANCE OF THE PATRIZIA SHARE COMPARED WITH DIFFERENT INDICES IN 2011 (%)



Positive development of PATRIZIA's share price until the beginning of August

Having opened 2011 at a price of EUR 3.84, the PATRIZIA share posted a considerable increase in value during the first few months – rising to EUR 5.90 (+53.6%) in the middle of February, which also marked its high for the year. Other stocks had already started to experience a similar recovery at the end of 2010. A reverse trend took hold in March and the share lost many of its gains before trading sideways until July, when the next price drop set in. Viewed over the year as a whole, however, the share price showed an upward trend until the start of August when a serious stock market crisis sent prices tumbling across the globe. A recovery in October provided a brief respite in the negative trend in the PATRIZIA share price. Alongside macro-economic factors, market participants' dwindling confidence about our ability to achieve our forecast for the year arguably had a detrimental impact on our share price. After nine months, and even though we were performing to plan, we had achieved an operating result of only EUR 5.5 million compared with our target of EUR 16 to 17 million. The PATRIZIA share closed 2011 at EUR 3.43, losing EUR 0.41 or 10.8% over the year. It was able to make up ground at the start of 2012.

HIGHS AND LOWS OF THE PATRIZIA SHARE IN 2011 (EUR)



The positive start to the year contributed to a further increase in trading volume in 2011: On average, all German stock markets traded 91,200 stocks per day, compared with 56,000 in the previous year. Based on PATRIZIA Immobilien AG's total number of shares (52.13 million), the total of 23.4 million PATRIZIA shares traded during the reporting year represents an annual turnover of 0.45 (previous year: 0.27). The share's liquidity thus showed a marked improvement.

Trading volume increased significantly in the 2011 fiscal year

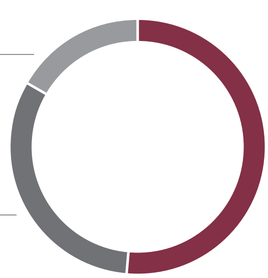
RESEARCH RELATING TO PATRIZIA

Bank	Analyst
Baader Bank AG	Andre Remke
Bankhaus Lampe KG	Frank Neumann
Berenberg Bank Joh. Berenberg, Gossler & Co.KG	Kai Klose
Close Brothers Seydler Research AG	Manuel Martin
DZ Bank AG	Ulrich Geis
HSBC Trinkaus & Burkhardt AG	Thomas Martin
J.P. Morgan Cazenove	Harm Meijer
Warburg Research GmbH	Torsten Klingner

We publish the current consensus overview on our website: www.patrizia.ag/en/investor-relations/shares/analysts-recommendations.html

PATRIZIA's shareholder structure remained largely stable in 2011. First Capital Partner GmbH, which is attributable to our CEO Wolfgang Egger, increased its shareholding from 49.97% to 51.55% and remains the company's main shareholder. Alfred Hoschek's shareholding fell below the reporting threshold of 3%; in August we were notified that his holding amounted to 2.16%. The share of institutional investors rose from 24.8% to 32.06% during the reporting year. The share held by private shareholders fell accordingly, from 25.3% to 16.39%.

PATRIZIA SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2011



[1] Private shareholders recorded in the register of names, those not recorded are estimated

Management Report

MANAGEMENT REPORT OF THE COMPANY AND THE GROUP

The Group management report was subsumed into the management report of PATRIZIA Immobilien AG in accordance with Article 315 (3) of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with Article 298 (3) of the HGB. The combined 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, STRUCTURE AND ENVIRONMENT

1.1 BUSINESS ACTIVITIES OF PATRIZIA

Company Profile

PATRIZIA manages real estate assets totaling more than EUR 5 billion

PATRIZIA Immobilien AG has been active as an investor and service provider on the real estate market for almost 30 years and with a focus on residential property, has seen continuous growth. It has been listed in the Prime Standard of the Deutsche Börse and is a 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 nationally and internationally, covering the entire value chain relating to all fields of real estate. PATRIZIA's current portfolio of managed real estate comprises 30,000 residential and commercial units. The company also launches special real estate funds in accordance with investment law via its subsidiaries PATRIZIA WohnInvest KAG mbH and PATRIZIA GewerbeInvest KAG mbH and is today one of the leading companies in the German specialist fund market. PATRIZIA currently manages real estate assets totaling more than EUR 5 billion.

Strategy and Implementation

As Germany's leading fully integrated real estate investment company, PATRIZIA covers the entire spectrum of services relating to real estate

In its early years PATRIZIA initially concentrated on residential property and residential property resale. It later added office and commercial real estate and fund business. Today we provide the complete range of residential and commercial property services using our own staff. We are in a position to offer private and institutional investors direct as well as indirect real estate investments in Germany and also in Europe. The fact that almost any form of real estate investment can be realized with us as partner positions us as one of Germany's leading fully integrated real estate investment companies. We would like to achieve the same objective in the rest of Europe in the medium term as well.

The acquisition of LB Immo Invest GmbH – today's PATRIZIA GewerbeInvest KAG mbH – at the beginning of 2011 was a significant step towards realizing our strategy. With the specialist fund provider, we have achieved considerable expansion in the field of commercial real estate and indirect investment and advanced the internationalization of your company. The acquisition has also opened up access to new groups of investors such as the savings banks. 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. 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 is a stake up to 10% depending on the investment and the partners.

Leading – fully integrated – in all asset classes – in Germany and in Europe. That is our vision. We wish to offer our customers even better value creation in all segments of the real estate market. It is our intention to become "the" fully integrated real estate investment company in Europe by 2015.

Value-added Chain

Our aim as an investor and service provider is to create end-to-end solutions for return-oriented optimization of real estate portfolios, realizing that different measures are required depending on the portfolio involved. Only the coordinated interaction of purchase, asset management and sale allow the optimum development of a property and its successful placement on the market.

We operate at all stages of the value-added chain

PARTNER FOR THE COMPLETE REAL-ESTATE LIFECYCLE

Research	Approximately 3 million German and 350,000 European apartments in internal database			Value Chain
Acquisition	Approximately 4,000 project offers both commercial and residential per year			
Portfolio	I Alignment with individual requirements profile I Development of individualized strategy			
Optimization	I Reduction of vacancy rates I Revitalization (energy-efficient retrofitting) I Eco-friendly technologies I Reduction of admin costs I Alignment of rents with market prices			
Exit strategies	**Global sales** (individual properties)	**Residential property resale** (individual apartments)	**Bundled sales** (several properties)	
Property Management	Closed loop with insights and best practices gained from aftersales service channeled back into research			

1.2 ORGANIZATIONAL STRUCTURE

Legal Structure of the Group

PATRIZIA Immobilien AG is the PATRIZIA Group's management holding company and performs central management and service functions. The holding company encompasses nine subsidiaries that are active on the market and responsible for the operating business of PATRIZIA. They are generally wholly owned subsidiaries of PATRIZIA Immobilien AG and have profit transfer agreements with it. PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH (formerly LB Immo Invest GmbH) was acquired as a 94.9% subsidiary of the PATRIZIA Group with effect from January 3, 2011. 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.

PATRIZIA Business Segments

The Group is divided into three business segments: Residential, Commercial and Special Real Estate Solutions. These are composed of business units that are closely linked in both a strategic and economic sense and which all have access to PATRIZIA's own Research department and to its own acquisition consulting resources. The segment reporting reflects the structure of the business segments.

We concentrate on our established strengths: Residential and commercial real estate

Residential	Commercial	Special Real Estate Solutions
Acquisition	Acquisition	Sales
Asset Management (Investment Management)	Asset Management (Investment Management)	Property Management
Investments I Residential Property Resale I Asset Repositioning	Investments	Project Development I Investments I Co-Investments
Co-Investments I Residential Property Resale I Asset Repositioning	Co-Investments	Claims Management
Funds I Special Funds (InVG) I Alternative Funds	Funds I Special Funds (InVG) I Alternative Funds	Alternative Investments

Business Segment Residential

The Residential segment bundles all activities relating to own and co-investments, services and funds in the field of residential real estate. Clients include private and institutional investors that invest directly or indirectly in individual residential units or in real estate portfolios. 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. 75% of our around 7,500 apartments are located in the top five locations in Germany: In Berlin, Cologne/Düsseldorf, Frankfurt/Main, Hamburg and Munich. In contrast, funds designed for institutional investors are established for a holding period of between seven and ten years and fulfill the role of property asset holder. The business model of each co-investment is adapted to match the needs and requirements of the relevant investor. The following is an overview of the business segment's operating subsidiaries:

PATRIZIA Acquisition & Consulting GmbH is responsible for acquiring residential real estate and asset holding companies including the necessary research. The division performs purchasing for own and co-investments as well as for PATRIZIA residential real estate funds in Germany and Europe.

PATRIZIA Wohnen GmbH handles asset management for the residential 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. Structural Engineering devises solutions relating to the structural substance of buildings. Residential Property Resale manages sales of individual apartments to tenants, owner-occupiers and private investors. Subdivided properties are generally sold off completely within two to five years. Third-party residential property portfolios are also resold as a service.

PATRIZIA WohnInvest Kapitalanlagegesellschaft mbH offers special real estate funds to domestic institutional investors and is responsible for the entire fund management. It establishes special theme funds that invest 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 German Investmentgesetz (InvG – Investment Act). In this process, the asset management company 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. In addition to theme funds, institutional investors are also offered individually optimized investment opportunities through companies based in Luxembourg.

Well-known institutional investors trust PATRIZIA and rely on our expertise, since we offer flexible, customized fund solutions

Business Segment Commercial

The Commercial segment combines a similar portfolio of services as the Residential segment, but geared to commercial real estate.

PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH was acquired as LB Immo Invest GmbH from HSH Real Estate AG, a subsidiary of HSH Nordbank AG, with effect from January 3, 2011. The asset management company 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. PATRIZIA GewerbeInvest KAG currently manages 13 special funds, namely four individual funds, two label funds and seven modular funds.

Our modular fund system enables investors to model their own personal risk / return profile using targeted investments in various categories of use

The primary task of **PATRIZIA Investmentmanagement GmbH** is to manage the commercial 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.

Business Segment Special Real Estate Solutions

Four subsidiaries that serve both the residential and commercial sectors make up the business segment Special Real Estate Solutions.

PATRIZIA Alternative Investments GmbH focuses on complex, non-standardized real estate transactions. These may include the purchase of real estate companies or portfolios that are suffering e.g. financial or operational difficulties. The aim is to sustainably restructure the purchased properties using PATRIZIA's real estate expertise and to relaunch them successfully on the market.

PATRIZIA Immobilienmanagement GmbH specializes in property management of residential and commercial real estate of all sizes of its own or in third-party ownership. It currently manages around 19,500 units, 12,000 of which are administered for third parties as a supplement to its own portfolios.

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

PATRIZIA Sales GmbH is responsible for global sales from PATRIZIA's own stock and for marketing real estate on behalf of third parties, for example drawn from our funds or from Asset-Management-clients.

Major Locations

Branches throughout Germany and offices in Luxembourg and Stockholm provide a regional presence and a pan-European network

The headquarters of PATRIZIA Immobilien AG are located in Augsburg, where central strategic, management and administrative functions are situated to supervise the Group. Operational companies specializing in residential real estate are also located in Augsburg, while the Commercial segment is supported and managed from Hamburg. PATRIZIA Alternative Investments GmbH performs its business activities from Frankfurt/Main. Branches in the main locations of our portfolio – Berlin, Cologne, Dresden, Frankfurt/Main, Hamburg, Munich and Stuttgart – provide sales and management services for our own properties as well as for third-party real estate. Our regional orientation ensures that we have direct contact to our customers and local market expertise. PATRIZIA's new office in Sweden was opened in July 2011. The company in Stockholm supports investments for our residential and commercial real estate funds in Scandinavia.

Management

The operating profit has been adjusted to take account of essential effects

The most important control variable within the Group is operating profit before taxes, so-called EBT adjusted. It is used to embed our aim of sustained value enhancement within the business processes of the company's segments. EBT adjusted is calculated from earnings before tax according to IFRS adjusted for profit/loss arising from the non-cash market valuation of investment properties and interest rate hedges as well as amortization of intangible assets. The latter relates to fund management contracts that resulted from the acquisition of PATRIZIA GewerbeInvest KAG. In addition to further, individually agreed targets, EBT adjusted is also the measure for the performance-related compensation paid to members of the Managing Board and to senior managers. The calculation of operating profit is explained on page 58.

1.3 ECONOMIC ENVIRONMENT

Macroeconomic Development

The positive economic momentum seen in 2010 continued in 2011, even though there was an increasing slowdown in the prospects for growth and in actual growth towards the end of the year. Despite this slowdown, gross domestic product increased in real terms by 3% in 2011 compared with the previous year, with growth being supported by, amongst other things, a significant increase in private consumption. As a result of this positive growth in the general economy unemployment again sank in the course of the year and there is even a labor shortage in individual sectors of the economy.

The key interest rate of the European Central Bank (ECB) was once more 1.0% at the end of the year after the ECB had hinted at an end to the period of low interest rates with two interest rate changes in the summer. However, as a result of the significantly greater uncertainty in the financial markets caused by the sovereign debt crisis in the euro area the ECB had to return interest rates to this historically low level in order not to endanger the stability of the financial markets in the euro area.

Performance of the German Real Estate Market

Since 2010 the figures for completions and permits in housing construction seem to have broken the negative trend of the previous years, even if the level of permits and completions continues to lag significantly behind demand. This can be seen for example in rents and purchase prices which are developing a very positive momentum. However, price increases have very different rates of change. Among the top markets in Germany (Munich, Stuttgart, Cologne, Berlin, Hamburg, Frankfurt/Main, Düsseldorf, Leipzig, Dresden), Munich continues to be the most expensive, followed by Hamburg. The residential property market in Berlin was largely able to maintain the momentum of the previous year, even though Berlin still enjoys a relatively moderate price level. Eastern German locations are again seeing rising trends in rents and purchase prices in the new construction segment as a result of improving general conditions.

The German market is regarded as highly attractive by international investors

The high level of interest from domestic and foreign investors in German residential properties was evidenced in 2011 by the high volumes of investment of around EUR 6 billion, signifying a 3-year high. Almost 200 transactions were performed with a minimum of 50 residential units. The most active group of purchasers were institutional investors such as property companies, banks and fund management companies, making up around four fifths of the transaction volume on the purchasing side. Around 60% of buyers came from Germany. Of the transactions performed in 2011, most portfolio sales were made in Berlin. Other regional areas of focus were North Rhine-Westphalia, Bavaria and Hamburg. Some 150,000 residential units were traded in 2011, almost three times as many apartments as were sold in 2010.

The German office markets also experienced a fair revival in 2011. The country's office strongholds in particular benefited from a strong increase in demand for space and low completion figures. This lowered the average vacancy rates in the seven largest office locations, and top rents rose in five of the seven largest office markets. The positive performance of the German retail trade led to a brisk demand for new retail space, and there was a significant increase in the take-up of space compared with 2010. Contrary to what the development of the economy might suggest, demand in the second half of 2011 enjoyed growth once more so that there was no apparent fall-off in demand owing to economic developments. The lion's share of demand on the German retail market came from international retailers, who accounted for more than 50%. As a result, top rents in the large cities continued to rise, or at least remained stable, in 2011.

1.4 BUSINESS DEVELOPMENT

Business Development in the Residential Segment

Own investments

Residential Property Resale

In Residential Property Resale we sell individual apartments to tenants, owner-occupiers and private investors.

40% of all apartments disposed of in the 2011 fiscal year were sold as individual units

The demand for residential units remained at a high level in 2011, finishing off the year however with a slowdown in sales by 7.0% to 745 apartments (2010: 801 apartments). The background to this is that, in spite of an increased number of notarial deeds being signed last year, the volume of the corresponding purchase prices was less in 2011 due to the time lag between notary appointment and due date for payment or transfer of ownership/benefits/encumbrances. The large number of signed notarial deeds at the end of the year will result in a strong first quarter 2012. Since the sale of additional residential complexes started in 2011, the proportion of tenants among purchasers has increased: 14.1% of the apartments were sold to tenants (2010: 8.4%), 24.9% to owner-occupiers (2010: 24.5%) and 61.0% to private investors (2010: 67.2%).

RESIDENTIAL PROPERTY RESALE IN 2011 BY QUARTER

	1st quarter	2nd quarter	3rd quarter	4th quarter	2011	2010	Change in %
Privatized units from own stock	132	161	230	222	745	801	–7.0
Average sales price	EUR 2,260 per sqm	EUR 2,324 per sqm	EUR 2,502 per sqm	EUR 2,399 per sqm	EUR 2,360 per sqm	EUR 2,370 per sqm	0.0
Privatized units for third parties	28	17	10	29	84	91	–7.7

Individual sales in 2011 by region were as follows:

RESIDENTIAL PROPERTY RESALE IN 2011

Region/city	Number of privatized units	Share of sales in %	Area sold in sqm	Average size per unit in sqm
Munich	462	62.0	32,720	71
Cologne/Düsseldorf	109	14.6	7,938	73
Hamburg	82	11.0	7,074	86
Berlin	53	7.1	4,498	85
Regensburg	26	3.5	1,926	74
Friedrichshafen	7	0.9	416	59
Frankfurt/Main	3	0.4	217	72
Hanover	3	0.4	210	70
TOTAL	**745**	**100**	**55,000**	**74**

Block sales

Block sales benefited from a strong fourth quarter

In 2011 a total of 1,097 residential and commercial units were sold en bloc in 16 transactions. The majority consisted of between 10 and 40 units per sale. The exception here was one block sale with around 680 units in the greater Munich area realized in the fourth quarter 2011. The other sales in the last quarter of 2011 were performed in Friedrichshafen, in the area around Regensburg and in Berlin, which put pressure on the average square meter prices obtained.

GLOBAL SALES IN 2011 BY QUARTER

	1st quarter	2nd quarter	3rd quarter	4th quarter	2011	2010	Change in %
Units via block sales	63	69	129	836	1,097	1,002	9.5
Number of transactions	2	4	4	6	16	11	45.5
Average sales price	EUR 1,597 per sqm	EUR 1,587 per sqm	EUR 2,606 per sqm	EUR 1,466 per sqm	EUR 1,679 per sqm	EUR 1,625 per sqm	3.3

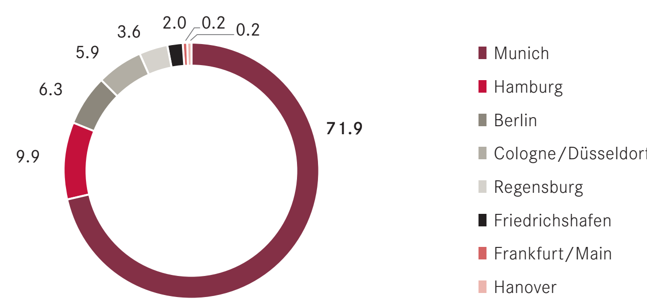
Global sales in 2011 by region were as follows:

GLOBAL SALES IN 2011

Region/city	Number of units sold in blocks	Share of sales in %	Area sold in sqm	Average size per unit in sqm
Munich	863	78.7	45,558	53
Hamburg	100	9.1	6,909	69
Berlin	64	5.8	6,294	98
Regensburg	40	3.6	2,681	67
Friedrichshafen	30	2.7	2,171	72
TOTAL	**1,097**	**100**	**63,613**	**58**

In fiscal year 2011, a total of 1,842 units were placed via residential property resale and block sales (2010: 1,803). This corresponds to 19.8% of our entire real estate portfolio as of January 1, 2011 (2010: 16.2%).

SALES IN 2011 BY REGION[1] (%)



[1] n =1,842 units. The regional breakdown within the sales channels of residential property resale and block sales can be seen in the above tables.

Taking into account the sales concluded in 2011 and subsequent redensification measures, our portfolio includes 7,548 units with a total area of approx. 539,000 sqm at year end (December 31, 2010: 9,305 units, 649,000 sqm). We anticipate that around 27% of the units will be realized through residential property resale and the remaining 73% through block sales.

THE PATRIZIA PORTFOLIO – BREAKDOWN BY REGION AS OF DECEMBER 31, 2011

Region/city	Number of units				Area in sqm			
	Residential property resale	Asset re-positioning	Total	Share in %	Residential property resale	Asset re-positioning	Total	Share in %
Munich	1,028	1,161	2,189	29.0	79,597	87,460	167,058	31.0
Cologne/ Düsseldorf	678	683	1,361	18.0	56,810	62,773	119,583	22.2
Leipzig	0	991	991	13.1	0	59,288	59,288	11.0
Frankfurt/Main	11	776	787	10.4	795	49,309	50,104	9.3
Berlin	186	506	692	9.2	13,589	26,579	40,168	7.5
Hamburg	140	518	658	8.7	9,861	32,635	42,496	7.9
Hanover	7	386	393	5.2	473	27,047	27,520	5.1
Regensburg	2	312	314	4.2	182	21,708	21,891	4.1
Dresden	0	152	152	2.0	0	10,284	10,284	1.9
Friedrichshafen	11	0	11	0.1	649	0	649	0.1
TOTAL	**2,063**	**5,485**	**7,548**	**100**	**161,957**	**377,082**	**539,040**	**100**

75% of the around 7,500 residential units belonging to PATRIZIA are situated in the top five German locations

Co-investments

First co-investment in the Residential segment

PATRIZIA WohnModul I is our first co-investment in the field of residential real estate

PATRIZIA is opening up its core business for institutional investors with its co-investment PATRIZIA WohnModul I SICAV-FIS. The company draws on PATRIZIA's entire value creation competence. Besides purchasing and asset and property management it includes block sales as well as individual sales as an exit strategy. The partner for this co-investment is a prestigious German pension fund that is investing EUR 100 million in equity. PATRIZIA is itself also participating in WohnModul I with an amount of around 10%. The initial investments have already been made. They include residential complexes with some 480 units in Munich, around 990 units in Germering and 140 units in Hamburg. These apartments will be sold on as individual units to tenants, owner-occupiers and private investors in the coming years in accordance with PATRIZIA's proven business model. Furthermore, the co-investment also involves two project developments in Düsseldorf and Augsburg that will also be sold as individual apartments. A total of EUR 300 million is already invested for the co-investment that was only established in September 2011. A conflict of interest with PATRIZIA's own investments will not arise since PATRIZIA will perform future acquisitions primarily in the form of co-investments. PATRIZIA WohnInvest KAG will be acting as fund manager.

Residential funds

Assets under management grow steadily

PATRIZIA WohnInvest KAG is raising additional equity capital for new funds

PATRIZIA WohnInvest KAG mbH (formerly PATRIZIA Immobilien Kapitalanlagegesellschaft mbH), established in 2007, invests in residential real estate in Germany and Europe. At the end of 2011 it was managing five funds with a target volume totaling EUR 1.4 billion, of which EUR 792 million has already been invested. In the past fiscal year the asset management company purchased real estate amounting to EUR 227 million and sold real estate totaling EUR 22 million. Furthermore EUR 327 million of equity was acquired for two further funds, for which the first properties will be purchased in 2012. The first is the German Residential Fund II with a target volume of some EUR 450 million, for which notarial deeds amounting to EUR 20 million have been signed, the second is SN Regio with a target volume of EUR 200 million.

FUNDS OF PATRIZIA WOHNINVEST KAG MBH AS OF DECEMBER 31, 2011

EUR million	launched in	Target volume	Committed equity	Investment volume[1]
PATRIZIA German Residential Fund I	2007	400	130	200
PATRIZIA EuroCity Residential Fund I	2008	250	125	169
VPV Immo PATRIZIA I[2]	2009	172	172	172
PATRIZIA Urbanitas	2010	300	150	137
PATRIZIA Domizil I	2010	300	150	114
TOTAL		1,422	727	792

[1] Includes project developments secured by purchase contract
[2] Transfer fund, volume decreases continuously due to disposals

The individual PATRIZIA Group companies act as service providers for the asset management company's special funds, thus generating fees. Conflicts of interest between purchases for the funds and proprietary purchases by PATRIZIA and between the funds themselves are prevented through different purchase criteria for the real estate and different purchase teams. The residential funds are established for a holding period of between seven and ten years and fulfill the role of portfolio management. Moreover, conflicts of interest with co-investments are avoided in particular through different approaches to utilization and different exit strategies for the properties.

Business Development in the Commercial Segment

PATRIZIA's own investments

Now that the remaining commercial premises in Venloer Strasse, Cologne, have been fully let the aim is to sell the property.

Initial consolidation of PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH

The acquisition of LB Immo Invest GmbH – today's PATRIZIA GewerbeInvest KAG mbH – was concluded as of January 3, 2011. The seller was HSH Real Estate AG, a subsidiary of HSH Nordbank AG. It was fully consolidated as a 94.9% subsidiary of the PATRIZIA Group with effect from January 2011. At the end of the year the special fund provider managed 13 funds with gross fund assets of EUR 2.5 billion. The volume of investment has grown by EUR 500 million since the acquisition.

FUNDS OF PATRIZIA GEWERBEINVEST KAG MBH AS OF DECEMBER 31, 2011

EUR million	launched in	Target volume	Committed equity	Investment volume[1]
Modular Funds		**2,710.0**	**869.5**	**1,194.6**
LB Handels-Invest Deutschland I	2002	360.0	178.0	256.2
LB Büro-Invest Europa I	2004	600.0	185.0	232.1
LB Wohn-Invest Deutschland I	2005	350.0	175.5	261.8
LB Handels-Invest Europa I	2005	600.0	140.0	169.6
LB Hotel-Invest Deutschland I	2007	300.0	68.0	100.5
LB Pflege-Invest Deutschland I	2007	500.0	123.0	174.4
LB Immo Invest Projekt I[1]	2006	0.0	0.0	0.0
Individual Funds		**892.3**	**577.3**	**444.2**
SV Europa Direkt	2003	300.0	150.0	98.7
LB-VA ImmoInvest	2004	300.0	150.0	164.7
LB HanseMerkur Invest	2005	187.3	187.3	134.6
LB Immo Invest Saar	2005	105.0	90.0	46.2
Label Funds		**1,300.0**	**694.1**	**893.2**
GLL BVK Internationaler Immobilien-Spezialfonds	2004	1,000.0	544.1	736.0
LB Immo HBL	2010	300.0	150.0	157.2
TOTAL		**4,902.3**	**2,140.9**	**2,532.1**

[1] The fund has no further real estate after all the properties were successfully sold in 2010.

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. Various properties in the actively managed co-investment were successfully re-sold in 2011. PATRIZIA Immobilien AG owns 6.25% of PATRoffice's equity.

Business Development in the Special Real Estate Solutions Segment

Award for PATRIZIA Immobilienmanagement

PATRIZIA Immobilienmanagement GmbH took second place in the asset class "Residential" of German Property Manager in Bell Management Consulting's Property Management Report 2011. Around 100 asset managers evaluated a data set of some 40 different property managers.

PATRIZIA Projektentwicklung is concentrating on premium new residential construction

PATRIZIA's own project development in Frankfurt/Main is running to schedule and within budget

A new construction project in the Westend district of Frankfurt/Main is currently being realized by PATRIZIA as an own investment. The 8,000 sqm plot was acquired back in 2007 for EUR 40 million. Demolition work was completed within the planned budget and schedule in 2011. Structural work for six exclusive city villas with 54 apartments (marketed under the VERO product name) and an apartment block with 64 apartments (marketed under the F40 product name) is due to start in the first quarter 2012. Final completion is expected in 2013. The construction of the six city villas and of the apartment block has earned the pre-certificate in gold, the highest distinction awarded by the German Sustainable Building Council (DGNB).

PATRIZIA'S OWN PROJECT DEVELOPMENTS

City, project	Size of site	Gross floor space, planned	Intended sales price	Construction start	Planned completion
Frankfurt/Main, Feuerbachstrasse	8,000 sqm	29,500 sqm	EUR 140 million	Q4/2010	2013

New project developments in Düsseldorf and Augsburg will provide residential space in the premium segment

PATRIZIA Projektentwicklung GmbH is currently managing two project developments as a service provider for the co-investment PATRIZIA WohnModul I SICAV-FIS. In the first case it is participating in the Belsenpark development project involving a 7,500 sqm site in the sought-after Oberkassel district of Düsseldorf. PATRIZIA obtained positive outline planning permission in 2011 to build two premium-segment residential complexes with south-facing detached houses on the two plots acquired. The planned 83 residential units of PATRIZIA's "Belsenpark 1" opposite the new park and adjacent to the new pedestrian zone in Oberkassel are generously designed apartments with a high level of appointment. In view of the high level of comfort and ecology, a pre-certificate for sustainable building has been applied for from the German Sustainable Building Council (DGNB). The project volume is approximately EUR 60 million. In the second case, a plot of land of approximately 28,000 sqm has been acquired near the center of Augsburg. This is where 210 residential units will be built in three phases of construction and sold individually. The final phase of construction is expected to be completed in 2015. The volume of the project is EUR 57 million. PATRIZIA is participating in WohnModul I with an equity stake of around 10%.

2 NET ASSET, FINANCIAL AND EARNINGS SITUATION

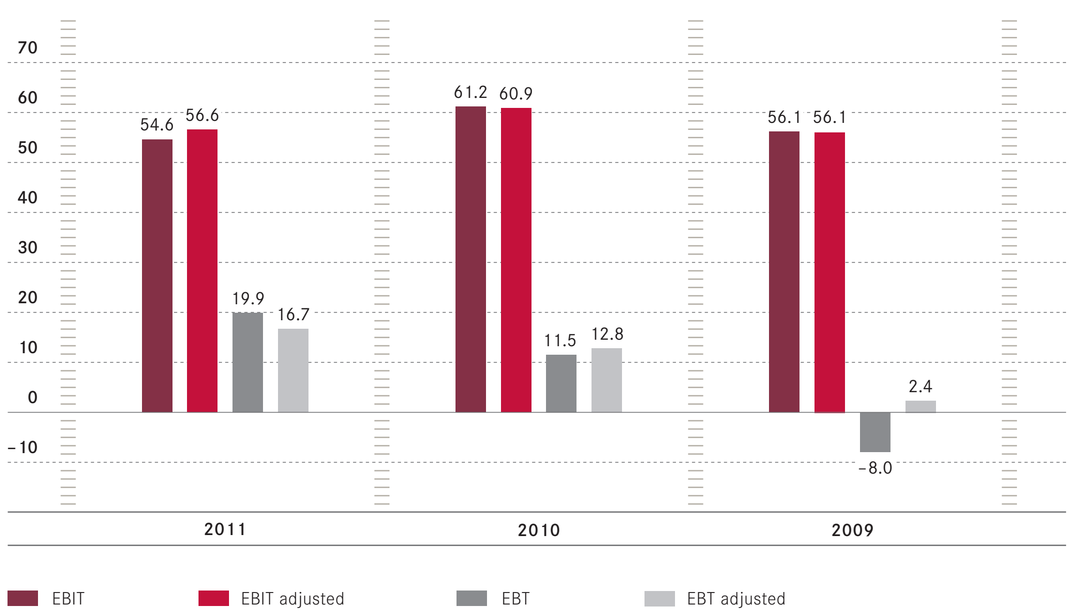
You will find a five-year overview of the consolidated income statement and consolidated balance sheet on pages 154 ff. of the Annual Report 2011.

2.1 GENERAL STATEMENT BY THE MANAGING BOARD

The equity ratio increased from 24.3% to 28.1% in the last fiscal year, meaning that we achieved our target of at least 25% – 30%. With cash and cash equivalents of EUR 31.8 million, the PATRIZIA Group has a stable basis. Around EUR 38.7 million was particularly invested last year in the purchase of PATRIZIA GewerbeInvest KAG as well as in new co-investments. EBT adjusted improved from EUR 12.8 million in the previous year to EUR 16.7 million in the year under review.

2.2 EARNINGS SITUATION OF THE GROUP

DEVELOPMENT OF KEY EARNINGS INDICATORS (IN EUR MILLION)



Revenue volume continues to lose significance as an indicator of business success
In 2011, consolidated revenues fell by 20.8% to EUR 269.0 million (2010: EUR 339.6 million). This was mainly due to the fact that 22.7% of the units sold came from non-current assets and that the selling prices totaling EUR 90.1 million are not reported in revenues in accordance with IFRS (2010: EUR 43.9 million).

Revenues generated by residential property resales from inventory thus decreased to EUR 95.9 million (2010: EUR 142.2 million) and sales revenues from block sales to EUR 63.0 million. The sale of around 20% of our real estate holding (approx. 119,000 sqm) resulted in a planned reduction in associated rental income of 13.3% to EUR 55.3 million, which could nevertheless be made up in part by rental increases in the remaining portfolio. 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 7.69 as of December 31, 2010, as a result

The sales figure does not allow an exact comparison to be made since revenues from investment property are not reported in sales of regional factors (September 30, 2011: EUR 7.83/sqm, December 31, 2010: EUR 7.67/sqm). As a result of the initial consolidation of PATRIZIA GewerbeInvest KAG, the services for third parties contributed an increasing share to consolidated sales (2011: 13.6%, 2010: 3.3%). At EUR 26.1 million, the two asset management companies generated a major share of the revenues from services.

A breakdown of consolidated sales revenues is shown below:

CONSOLIDATED REVENUES

	2011 EUR '000	Percentage of Group revenues 2011 in %	2010 EUR '000	Change in %
Purchase price revenues from residential property resales[1]	95,895	35.6	142,235	–32.6
Purchase price revenues from asset repositioning[2]	63,033	23.4	100,519	–37.3
Rental revenues	55,323	20.6	63,805	–13.3
Revenues from fund transactions[3]	26,144	9.7	5,048	417.9
Revenues from other services	10,485	3.9	5,992	75.0
Other[4]	18,127	6.7	21,995	–17.6
TOTAL	**269,007**	**100**	**339,593**	**–20.8**

1 In the previous year EUR 13.3 million of this came from project development.
2 In the previous year, EUR 29.1 million of this came from project development. Purchase price receipts from investment property are not included in revenues.
3 2010 excluding PATRIZIA GewerbeInvest KAG; part of group since January 2011.
4 The Others item primarily includes rental ancillary costs.

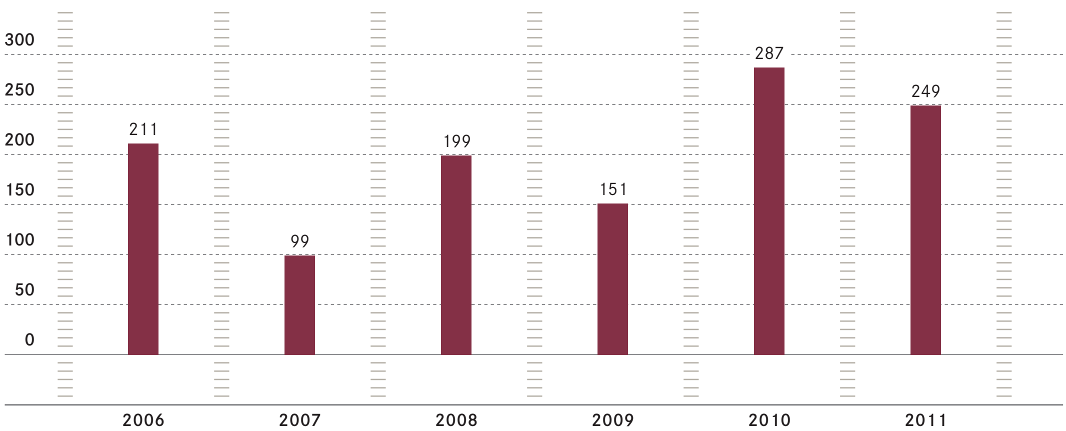
However, as already indicated, sales revenues have only limited significance for PATRIZIA since the selling prices of properties reported in non-current assets are not reflected in sales revenues. Profits from sales are reported under item “Loss from/gain on the disposal of investment property”. In the past fiscal year, purchase price receipts of EUR 90.1 million resulted in a profit of EUR 6.2 million after a deduction of a carrying amount of EUR 83.9 million. These disposals included block sales of 230 units and individual sales of 189 units. Investment property accounted for a pro rata value adjustment of EUR 66.3 million in 2007. Several adjustments were made in 2010 totaling TEUR 325. The value adjustment in 2011 totaled TEUR 3.

PURCHASE PRICE REVENUES

	2011 EUR '000	2010 EUR '000	Change in %
Sales revenues from inventories	**158,928**	**242,754**	**–34.5**
Residential property resales[1]	95,895	142,235	–32.6
Block sales[2]	63,033	100,519	–37.3
Sales revenues from investment property[3]	**90,068**	**43,937**	**105.0**
Residential property resales	42,913	0	–
Block sales	47,155	43,937	7.3
TOTAL	**248,996**	**286,691**	**–13.1**

1 In the previous year EUR 13.3 million of this came from project development.
2 In the previous year EUR 29.1 million of this came from project development.
3 Purchase price receipts from investment property are not included in revenues.

SALES VOLUMES 2006 – 2011 (IN EUR MILLION)



Changes in inventories in the year under review were EUR –102.9 million, falling as a result of the decrease in sales (2010: EUR –165.6 million). Purchase price receipts from inventories of EUR 158.9 million (2010: EUR 242.8 million) contrast with decreases in the carrying value of EUR –120.9 million (2010: EUR –199.2 million). Inventories increased as a result of capitalization totaling EUR 18.0 million (2010: EUR 33.6 million). There was no increase to inventory through purchases.

Continuing high investments in our portfolio

Circumstances such as decreased building costs (primarily project development), lower renovation and maintenance costs and reduced incidental costs resulted in a fall in the cost of materials compared with the previous year of 32.8% to EUR 45.7 million (2010: EUR 68.1 million). EUR 15.1 million was invested for renovation and reconstruction activities (2010: EUR 20.2 million), EUR 11.5 million (2010: EUR 16.1 million) was capitalized. Renovation expenses for real estate reported under inventories can generally be capitalized on the balance sheet whereas expenses for objects reported as non-current assets are recognized directly in income (with the exception of properties earmarked for resale, which are also capitalized). Current maintenance costs (which generally cannot be capitalized) accounted for EUR 3.6 million (2010: EUR 6.9 million). Assuming an average portfolio size of 628,000 sqm for 2011, annual costs for current maintenance amounted to EUR 5.66/sqm (2010: EUR 9.26/sqm) and renovation and reconstruction costs amounted to EUR 23.99/sqm (2010: EUR 27.21/sqm). Cost of materials also includes operating costs.

Staff costs increase due to acquisitions

The recruitment of new employees involved additional staff expenses. These amounted to EUR 35.7 million (2010: EUR 28.6 million), an increase of 24.8%. Average headcount over the year rose from 364 to 455 employees, primarily through the acquisition of PATRIZIA GewerbeInvest KAG, which alone accounted for more than 50 employees. Commission payments to sales staff were slightly above the previous year owing to a higher number of notarizations. The provisions to cover the variable salary entitlements determined for managers for the 2011 fiscal year were also 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 paid out to the Managing Board was EUR 1.6 million in the reporting year (2010: EUR 1.1 million). The reason for the increase is the variable share of remuneration, which in contrast to 2010 was granted to all members of the Managing Board. In the same way, higher provisions were posted for variable remuneration granted in 2011 and paid out in 2012 than 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 2011 Corporate Governance Report on page 30 f. and under item 9.4 of the Notes to the Consolidated Financial Statements.

Other operating expenses totaled EUR 41.0 million. The increase results from the initial full consolidation of PATRIZIA GewerbeInvest KAG and from additional higher selling and other expenses. These include e.g. marketing expenses, the assumption of purchase price ancillary costs for tenants, and costs that were incurred in connection with the acquisition of LB Immo Invest GmbH and LBBW Immobilien GmbH. Moreover, the transitory payments from PATRIZIA GewerbeInvest KAG are substantial for the so called label funds. Staff costs for temporary employees, who were deployed during the changeover to the new IT system, are included in the administrative overhead.

OTHER OPERATING EXPENSES

	2011 EUR '000	2010 EUR '000	Change in %
Administrative expenses	10,506	9,716	8.1
Selling expenses	14,926	5,271	183.2
Other expenses	9,022	6,390	41.2
TOTAL	40,990	21,376	91.8

Positive change in market value improves the financial result

The financial result improved from EUR –49.8 million to EUR –34.7 million. The reasons for this include the market valuation of the interest rate hedges as of the closing date, which had a positive effect of EUR 5.1 million owing to lower levels of interest (furthermore, processing fees and the expenses from interest rate hedging also sank). In contrast, an expense of EUR –1.6 million had been incurred in the previous year. 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. The valuation has no effect on PATRIZIA's liquidity but does have correspondingly positive effects on the IFRS result. Financial income (EUR 9.0 million) increased as a result of the market valuation of the interest hedging instruments by EUR 6.0 million (2010: EUR 10.5 million), while financial expenses amounting to EUR 43.7 million included EUR 0.9 million that resulted from the effect of the valuation (2010: EUR 12.2 million). If these valuations are ignored, the cash-related financial result would show a EUR 8.3 million improvement from EUR –48.1 million in 2010 to currently EUR –39.9 million. The purely financial expenses/income relating to bank loans decreased by EUR 9.5 million to EUR 38.9 million. Financing costs (interest rate plus margin) in 2011 amounted to 4.92% of the average bank loans over the year (2010: 4.99%). The hedged interest rate as of December 31, 2011, was 4.00% (2010: 4.08%).

MARKET VALUATION OF INTEREST RATE HEDGES

	1st quarter EUR '000	2nd quarter EUR '000	3rd quarter EUR '000	4th quarter EUR '000	2011 EUR '000	2010 EUR '000
Change in the value of derivatives	12,052	–1,430	–7,598	2,114	5,138	–1,626

In order to judge the productive efficiency of the portfolio and the cash inflow from the properties during the holding period it is important to determine to what degree rental income covers the financing costs. To this end, net rental income, i. e. after deducting expenses for current maintenance, is compared with the adjusted, cash-related financial result. This results in an excess balance of 29.9% (2010: 18.2%). This indicator 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 even firmer

PATRIZIA's earnings situation again showed a significant improvement in 2011. Earnings before interest and tax (EBIT) calculated in accordance with IFRS were EUR 54.6 million, 10.8% below the previous year's figure of EUR 61.2 million. The main reason for the fall was an increase in staff and material costs. EBIT adjusted is determined by adjusting the non-cash effect from amortization on other intangible assets (fund management contracts). The fund management contracts were transferred in the course of the acquisition of PATRIZIA GewerbeInvest KAG mbH (formerly LB Immo Invest GmbH). Changes in the value of investment property are not included in EBIT adjusted, either, owing to their non-cash character. EBIT adjusted decreased from EUR 60.9 million to EUR 56.6 million.

After deduction of the financial result, earnings before tax (EBT) according to IFRS are EUR 19.9 million, following 11.5 million in the previous year.

EBT adjusted reflects PATRIZIA's operating result

The reconciliation of EBT in accordance with IFRS to EBT adjusted is effected via an adjustment to non-cash-related components of the results. First, only cash-related financial income and expenses are included in the financial result, i. e. the changes in the market values of interest rate hedges are ignored in the same way as the change in value of the fund shares. Second – as already explained in the context of EBIT adjusted – amortization on fund management contracts and changes in the value of investment property are eliminated. This process results in EBT adjusted of EUR 16.7 million (2010: EUR 12.8 million), which means that we have met the forecast of between EUR 16 million and EUR 17 million issued in March 2011 and confirmed in the course of the year. The IFRS quarterly results proved to be volatile since the market valuation varied from quarter to quarter owing to the change in interest rates over the course of the year. In contrast, the operating result showed positive values throughout the period. As in the previous year, the operating result in the second six months was significantly stronger than in the first six months. When considering sources of income over all segments, EUR 8.2 million came from services, which approximates to 33.5% (2010: EUR 1.0 million). Our aim was a share of services of around 30%.

CALCULATION OF EBT ADJUSTED 2011

	1st quarter EUR '000	2nd quarter EUR '000	3rd quarter EUR '000	4th quarter EUR '000	2011 EUR '000
EBIT posted in accordance with IFRS	**11,722**	**10,037**	**14,138**	**18,734**	**54,631**
Amortization on intangible assets that resulted from the acquisition of PATRIZIA GewerbeInvest KAG	492	492	492	492	1,968
Change in value of investment property	0	0	0	–3	–3
EBIT adjusted[1]	**12,214**	**10,530**	**14,630**	**19,222**	**56,596**
Financial result	428	–11,497	–17,768	–5,888	–34,725
Change in the value of derivatives	12,052	–1,430	–7,598	–8,162	–5,138
Change in value of fund shares	0	0	0	–21	–21
EBT ADJUSTED[1,2]	**590**	**463**	**4,459**	**11,200**	**16,712**

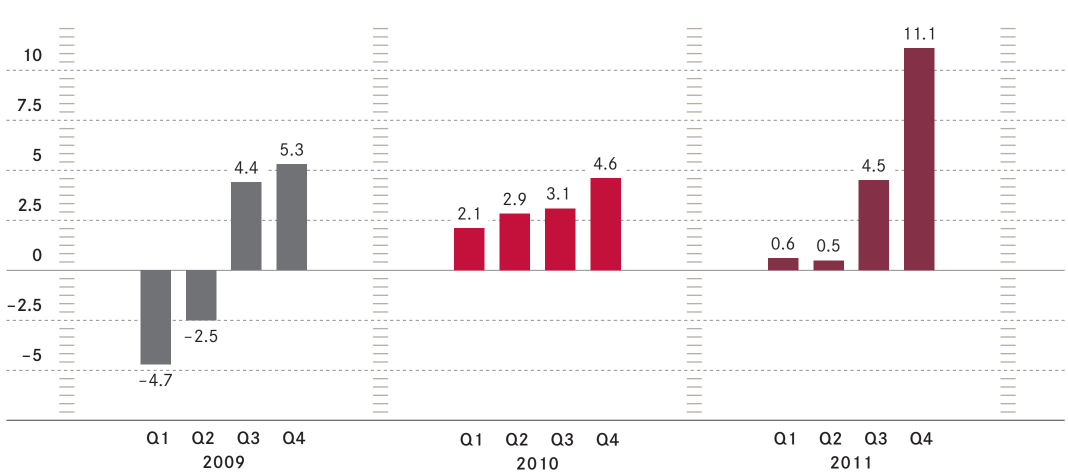
[1] Adjusted for amortization on other intangible assets (fund management contracts) and change in the value of investment property.
[2] Additionally adjusted for non-cash-related results from interest hedging transactions and change in the value of fund shares.

CALCULATION OF EBT ADJUSTED 2010

	1st quarter EUR '000	2nd quarter EUR '000	3rd quarter EUR '000	4th quarter EUR '000	2010 EUR '000
EBIT posted in accordance with IFRS	**13,855**	**15,465**	**15,384**	**16,545**	**61,249**
Change in value of investment property	0	0	0	–325	–325
EBIT adjusted[1]	**13,855**	**15,465**	**15,384**	**16,220**	**60,924**
Financial result	–18,915	–15,957	–8,693	–6,196	–49,761
Change in the value of derivatives	7,196	3,402	–3,569	–5,404	1,626
EBT ADJUSTED[1,2]	**2,136**	**2,910**	**3,122**	**4,621**	**12,789**

[1] Adjusted for changes in the value of investment property.
[2] Additionally adjusted for profit/loss from non-cash-related interest hedges.

OPERATING RESULT (EBT ADJUSTED) BY QUARTER (IN EUR MILLION)



Additional 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. The tax expense accounted for by these companies totaling EUR 3.2 million (2010: 1.9 million) includes interest barrier effects amounting to EUR 0.7 million.

Positive result for 2011 even in accordance with IFRS

In the past twelve months PATRIZIA achieved a consolidated annual profit in accordance with IFRS of EUR 13.5 million (2010: EUR 6.2 million). Earnings per share rose in 2011 from EUR 0.12 to EUR 0.26.

OVERVIEW OF KEY ITEMS IN THE CONSOLIDATED INCOME STATEMENT

	2011 EUR '000	2010 EUR '000	Change in %
Revenues	269,007	339,593	–20.8
Total operating performance	180,527	179,856	0.4
EBITDA	58,125	62,153	–6.5
EBIT	54,631	61,249	–10.8
EBIT adjusted[1]	56,596	60,924	–7.1
EBT	19,906	11,488	73.3
EBT adjusted[1, 2]	16,712	12,789	30.7
Consolidated annual profit	13,493	6,201	117.6

[1] Adjusted for amortization on other intangible assets (fund management contracts, applies to 2011) and changes in the value of investment property (applies to 2010 and 2011).
[2] Additionally adjusted for non-cash-related results from interest hedging transactions (applies to 2010 and 2011) and change in the value of fund shares (applies to 2011).

2.3 NET ASSET AND FINANCIAL SITUATION OF THE GROUP

At December 31, 2011, PATRIZIA reported total assets of EUR 1,102.3 million (December 31, 2010: EUR 1,214.5 million). The structure in the consolidated balance sheet again improved over the course of the year. Owing to the changed business model, which no longer calls for the build-up of the company's own investments to compensate for continuous disposals, total assets will continue to fall over the coming quarters. Co-investments will gradually replace real estate assets, which were to a large extent financed with external debt, and will be reported in the balance sheet as non-current assets. The equity ratio will continue to increase while equity remains stable.

Significant improvement in the balance sheet structure

Investment property and inventories together make up PATRIZIA's real estate assets. Their carrying value at December 31, 2011, amounted to EUR 939.9 million (December 31, 2010: EUR 1,125.4 million, –16.5%). Investment property is recognized at fair value through profit or loss in accordance with IAS 40. As could be seen, properties sold in the reporting period reported under investment property were sold at a profit, thus confirming the value retention of the properties. Disposals not matched by purchases resulted in a reduction to EUR 532.3 million at the end of the year (December 31, 2010: EUR 614.9 million). The real estate intended for sale as part of ordinary business operations is reported in the inventories and measured at amortized cost (December 31, 2011: EUR 407.5 million, December 31, 2010: EUR 510.4 million). This item also includes our project development in Frankfurt/Main consisting of the two subprojects VERO and F40. They have a carrying value of EUR 61.0 million.

Repayment of bank loans

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 148.0 million to EUR 693.4 million. Since the beginning of the year the structure of our loans changed in such a way that we no longer report only short-term loans: The loan taken out to finance the purchase of PATRIZIA GewerbeInvest KAG with a term until March 31, 2015, and the extension of the loan used to finance investment properties with a due date of June 30, 2014, are reported on the balance sheet as long-term loans. A detailed schedule of maturities by fiscal year is listed in the Notes under item 5.2. We have entered into interest rate hedges for 84% of our bank liabilities, which expire as of June 30, 2014, at the latest. The remaining 16% is based on the 1- or 3-month Euribor, where we are benefiting significantly from the low level of interest rates.

The equity ratio increased from 24.3% to 28.1% in the last fiscal year, meaning that we achieved our target of at least 25% – 30%.

PATRIZIA NET ASSET AND FINANCIAL KEY FIGURES

	12/31/2011 EUR '000	12/31/2010 EUR '000	Change in %
Total assets	1,102,284	1,214,548	–9.2
Equity (including non-controlling partners)	310,075	294,732	5.2
Equity ratio	28.1%	24.3%	3.8% points
Bank loans	693,352	841,380	–17.6
Cash and cash equivalents	31,828	70,537	–54.9
Net financial debt	661,524	770,843	–14.2
Real estate[1]	939,850	1,125,383	–16.5
Loan to value[2]	71.7%	74.8%	–3.1% points
Net gearing[3]	214.4%	262.3%	–47.9% points

[1] Real estate assets comprise investment property valued at fair value and real estate held in inventories valued at amortized cost.
[2] Proportion of the volume of loans to real estate assets. Only investment property is calculated at fair value. Inventories were stated at amortized cost. Loans were adjusted for the financing of PATRIZIA GewerbeInvest KAG.
[3] Net gearing is the ratio of net financial debt to equity adjusted for minority interests.

Net asset value

Net asset value (NAV) represents the actual value of the real estate less net financial liabilities. For PATRIZIA it should be noted that, first, our properties are partly valued at fair value and partly at amortized cost and, second, valuation does not include our entire spectrum of services, which in 2011 accounted for 33.5% in all segments of the operating result. In the last fiscal year real estate with a carrying value of EUR 204.9 million was sold for EUR 249.0 million and bank loans totaling EUR 148.0 million were repaid or deconsolidated. 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, even if it represents only one subarea of PATRIZIA.

CALCULATION OF NAV

	12/31/2010 EUR '000	03/31/2011 EUR '000	06/30/2011 EUR '000	09/30/2011 EUR '000	12/31/2011 EUR '000
Investment property[1]	614,945	613,471	611,269	566,396	532,321
Investments in joint ventures	8	27	27	27	18
Participations in associated companies	0	0	0	1,636	6,809
Participations	3,090	3,090	3,090	3,090	3,134
Inventories[2]	510,438	498,333	527,931	460,031	407,529
Current receivables and other current assets[3]	10,282	13,769	16,984	26,345	48,735
Bank balances and cash[3]	70,537	49,656	33,923	76,476	43,690
Less bank loans[3]	–841,380	–815,231	–830,147	–764,836	–673,752
NAV	**367,912**	**357,499**	**388,651**	**357,875**	**368,484**
No. of shares	52,130,000	52,130,000	52,130,000	52,130,000	52,130,000
NAV/SHARE (EUR)	**7.06**	**6.86**	**6.50**	**6.87**	**7.07**

1 Fair market valuation
2 Valuation at amortized cost
3 Values for 2011 without PATRIZIA GewerbeInvest KAG mbH, purchase loans eliminated and cash and cash equivalents increased by outflow of equity

Liquidity analysis

Central responsibility for the financing of the PATRIZIA Group is borne by PATRIZIA Immobilien AG. As of December 31, 2011, 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, up to approximately 90% 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 automatic cash pooling system of the Group. On a same-day basis, account surpluses are transferred to the parent company and account deficits are offset by it. 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.

Cash flow statement: Cash outflow caused by acquisition of company and capital contributions to co-investments

In the reporting year, there were cash inflows from current business activities of EUR 44.7 million (2010: EUR 205.8 million). As a result of the extensive sale of investment property, cash inflows from investment property of EUR 49,5 million were significantly above the level of the previous year (2010: EUR 40.5 million). On the other hand, the higher volume of transactions caused higher cash outflows from financing activities, since significantly more loans could be repaid than were taken out. The change in cash thus amounted to EUR –38.7 million (2010: EUR 14.4 million) and reduced cash and cash equivalents from EUR 70.5 million at the end of 2010 to EUR 31.8 million at December 31, 2011.

SUMMARY OF THE 2011 CASH FLOW STATEMENT

	2011 EUR '000	2010 EUR '000	Change in %
Cash inflow from operating activities	44,718	205,795	–78.3
Cash inflow from investment activities	49,494	40,523	22.1
Cash outflow from financing activities	–132,921	–231,964	–42.7
Changes in cash	–38,709	14,354	< –100.0
Cash and cash equivalents Jan. 1	70,537	56,183	25.5
Cash and cash equivalents Dec. 31	31,828	70,537	–54.9

2.4 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 and the Group. This includes statements on research and development, as this is not carried out within the Group. We have included statements on comparable activities, such as our research. 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.

2.5 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 8.0 million (2010: EUR 5.6 million), mostly from management cost allocations to the subsidiaries. This allocation was increased in the 2011 fiscal year. Commission income for services rendered on the part of subsidiaries also contributed to increased revenues. Commission income is invoiced through the parent company and results in corresponding administrative expenses. In the 2011 fiscal year, the parent company reported significantly higher purchasing and sales commissions generated in connection with the purchase or establishment of special funds of PATRIZIA asset management companies and co-investments. Staff costs increased by 26.6% to EUR 11.9 million (2010: EUR 9.4 million) since the number of employees rose from 117 to 143, or from 132 to 165 when trainees are included. Other operating expenses increased from EUR 6.9 million to their current level of EUR 13.7 million (+98.6%). Administrative expenses were especially impacted by the changeover to the new IT system introduced on July 1 and by higher rental expenses for office accommodation caused by increased staff numbers and new branch offices. At EUR 6.9 million, net interest income maintained the same level as the previous year. 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 27.4 million (2010: EUR 13.7 million). PATRIZIA Immobilien AG's net profit under HGB for the 2011 fiscal year of EUR 13.7 million (2010: EUR 9.0 million) and when combined with the profits carried forward of EUR 37.3 million represents the Company's distributable profit. Unappropriated profit amounted to EUR 51.0 million, an increase of 37% over the previous year (EUR 37.3 million).

SUMMARY OF THE PATRIZIA IMMOBILIEN AG BALANCE SHEET

	12/31/2011 EUR '000	12/31/2010 EUR '000
Non-current assets	163,855	154,337
Current assets	185,098	177,206
Prepaid expenses	554	149
TOTAL ASSETS	**349,507**	**331,693**
Equity	326,022	312,365
Provisions	8,677	3,327
Liabilities	14,808	16,001
TOTAL EQUITY AND LIABILITIES	**349,507**	**331,693**

SUMMARY OF THE PATRIZIA IMMOBILIEN AG INCOME STATEMENT

	2011 EUR '000	2010 EUR '000
Revenues	8,017	5,610
Other capitalized services and other operating income	1,351	672
Cost of materials	–2,148	–855
Staff costs	–11,939	–9,446
Depreciation, amortization, write-downs and other operating expenses	–15,079	–7,699
Profit/loss from profit transfers and loss absorption	28,022	13,658
Net interest income	6,939	6,950
Result from ordinary activities	**15,163**	**8,890**
Taxes	–1,506	145
Net profit/loss	**13,657**	**9,035**
Profit carried forward	37,327	28,292
UNAPPROPRIATED PROFIT	**50,984**	**37,327**

2.6 DISCLOSURES IN ACCORDANCE WITH ARTICLE 289 (4) AND ARTICLE 315 (4) OF THE HANDELSGESETZBUCH (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, 2011, Wolfgang Egger, CEO of PATRIZIA Immobilien AG, held a total stake of 51.55% 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.

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 Management 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.

2.7 DECLARATION ON CORPORATE GOVERNANCE – DISCLOSURES IN ACCORDANCE WITH ARTICLE 289A OF THE HANDELSGESETZBUCH (HGB – GERMAN COMMERCIAL CODE)

The Managing Board of PATRIZIA Immobilien AG issued a declaration on January 17, 2012, concerning corporate governance in accordance with Article 289a of the Handelsgesetzbuch (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

2.8 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, the Company received appropriate consideration."

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 NON-FINANCIAL PERFORMANCE INDICATORS

3.1 MANAGEMENT RESPONSIBILITY

Among other things, PATRIZIA is an active member of DGNB

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 authorized DGNB auditor, a project manager from PATRIZIA Projektentwicklung accompanies the design of new buildings managed by PATRIZIA – both for own investments and for external clients. 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.

PATRIZIA Projektentwicklung in Frankfurt/Main awarded DGNB pre-certificate in gold for housing

We rate the environmental expertise of the German construction industry as high on an international scale. The standards applied often go beyond the statutory requirements, e.g. with regard to applicable Energieeinsparverordnungen (EnEV – Energy Saving Regulation). For PATRIZIA, the careful use of resources plays a central role in construction measures, particularly with regard to new project development. The new construction project in Feuerbachstrasse, Frankfurt/Main, involving the building of six VERO town villas and the F40 housing block, has earned the DGNB pre-certificate in gold for housing, the highest distinction awarded by DGNB. The pre-certificate in gold has been applied for from DGNB on the basis of the high level of comfort and ecology for the Düsseldorf Belsenpark project, which PATRIZIA Projektentwicklung is managing on behalf of third-party clients. The buildings are being constructed to the KFW 70 energy efficiency standard in accordance with EnEV 2009. This is where barrier-free freehold apartments are being built with advanced levels of appointment such as EIB bus technology, which allows different systems within the building such as lighting, shutters, alarm system, heating and household appliances etc. to be controlled, networked using computers and also remotely monitored. We are taking account of the expected increased proliferation of electric cars by installing electrical connections for the 126 parking spaces in the underground car park. Extensive green roofs will be installed over all roofs. The pre-certificate has also been applied for from the DGNB for the construction project Provinopark in Augsburg.

The Soft House is an innovative contribution by PATRIZIA to the International Building Exhibition (IBA) in Hamburg in 2013

The PATRIZIA “Soft House” project is a new development that is being realized as part of the IBA (Internationale Bauausstellung – International Building Exhibition) in Hamburg in 2013. The Soft House will be constructed as a highly energy-efficient and sustainable building. Furthermore, planned as a passive house, a large proportion of energy required in the home will be produced by way of solar panels in the roof membrane. The house will also use pumps to exploit geo-thermal energy, and the technology installed in the house is ready for use with the forthcoming smart metering of energy consumption. This is intended to help residents analyze their energy consumption on a regular basis and systematically save energy or shift their energy consumption to times when electricity tariffs are more favorable. The house is being built as a solid wood construction, meaning it is based on renewable raw materials that also bind CO_2. The use of indigenous timber avoids it having to be transported over long distances. This method of construction can also be used by local suppliers. With regard to the choice of location, redensification of the Elbe islands represents a valuable contribution to conserving resources since it allows the existing infrastructure to be used. Moreover, the redensification of a mature urban quarter preserves open land.

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. We are conscious of the fact that we have only limited influence on our tenants' energy consumption beyond the design of the structures. 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, 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. The layout of the housing areas with their green spaces and playgrounds is also a part of the ecological assessment.

Sustainability involves the entire life cycle of the property

The conversion of space is another component of our sustainability strategy. In Leipzig, for example, 3-room residential units were turned into three apartments, each consisting of a bed-sitting room, a kitchenette and its own bathroom. This measure was undertaken because demand for 3-room residential units was very low and at the same time there was a lack of accommodation for students. The conversion was our response to changed requirements. Another project that was also undertaken in Leipzig is the creation of barrier-free apartments suitable for the elderly offering 24-hour access to care services. Besides the apartments, the project also includes a therapeutic bath and a communal recreation room in order to ensure optimum support.

PATRIZIA Immobilienmanagement GmbH also conducts surveys among its 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 2011, PATRIZIA Immobilienmanagement was often able to achieve better conditions for its tenants in the regular renegotiation of framework agreements, for example for building insurance. 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 the workplace.

PATRIZIA Immobilienmanagement conducts regular tenant surveys

We do not feel obliged to act in a sustainable manner only towards our tenants and clients. Our head office was extended in 2010 through renting an additional energy-efficient new building. A conservatory in front of the west facade allows soundproofed, naturally conditioned fresh air into the offices when the windows are open. All employees and visitors enjoy barrier-free access to all rented offices within the building. There is also a secure place to park bicycles in a central location in the underground car park as motivation for members of staff to cycle to work.

We encounter issues of sustainability not just in the field of real estate but also, for example, in travel management. As a matter of principle, means of transport should be chosen to reach a destination in the most economic manner. In this preference should be given to public transport.

When purchasing or replacing hardware, we ensure that components are made of recycled material or that they can be completely recycled. Besides ergonomic chairs and desks, reduced energy consumption and lower radiation emissions for technical equipment are additional criteria we take into account when designing the workplace.

Targeted and sustainable on principle – PATRIZIA KinderHaus Foundation aid projects

PATRIZIA also practices sustainability through the PATRIZIA KinderHaus Foundation, established by CEO Wolfgang Egger in 1999 and which involves itself around the world in projects whose 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. The aim is always to help these young people to help themselves. The Foundation works exclusively with experienced, recognized partners in the implementation of these children's aid projects. After completion of the new building financed by the Foundation, the partners ensure that the purpose agreed for it for the benefit of the needy children and young people is met over the long term and to a high degree. Since its beginnings, the Foundation has constructed six PATRIZIA KinderHaus buildings in Germany and Africa, the latest in the form of a primary school in Kattike in Nepal. The Foundation will focus on three new projects in 2012: and international children's day-care center in Germany, a kindergarten in Nepal and an orphanage facility in Tanzania.

PATRIZIA Immobilien AG is the main sponsor of the PATRIZIA KinderHaus Foundation

The PATRIZIA KinderHaus Foundation is supported entirely by the work of volunteers from within and from outside of the company. All administrative costs are covered by sponsors so that 100% of all donations received can be passed on to the aid projects direct.

3.2 EMPLOYEES

PATRIZIA junior staff development – Number of training places doubled in 2011

As of December 31, 2011, the PATRIZIA Group had 498 permanent employees (2009: 370 employees), including 24 trainees and students of Duale Hochschule Stuttgart majoring in real estate in addition to 57 part-time employees and 16 employees on parental leave. Headcount increased once more in the course of the year by 128, or 34.6%, with 58 employees being accounted for by PATRIZIA GewerbeInvest KAG. On average during 2011, PATRIZIA employed 455 staff throughout the Group (2010: 364 employees), including 17 trainees and 53 part-time employees. The average age of PATRIZIA employees, excluding trainees, is 38. Owing to the growth planned over the coming years, we doubled the number of trainees and students from eight in 2010 to 16 in the reporting year. We are aiming for a vocational training rate of over 6% in the medium term.

As of January 3, 2011, PATRIZIA GewerbeInvest, with 55 employees, was merged into the Group as a further subsidiary (December 31, 2011: 58 employees). Furthermore, the business unit "Alternative Investments" was established as a new business line with four employees. Owing to growth in assets under management new positions were created in almost all business units in the course of the year. In terms of full-time equivalents, the headcount at the end of the year was 464 active employees.

The proportion of male to female full-time employees is 45:55 while the proportion of male to female part-time employees is 14:86. With a proportion of 58%, the majority of employees in the PATRIZIA Group are female. Whereas there were no female managers at senior level (Managing Board and first management) in 2010, their proportion increased to 17% in the reporting year. 20% of managers within the Group are female.

In order to reconcile family and working life PATRIZIA has for years provided the opportunity of working from home in addition to the normal workplace. Just under 10% of staff currently take advantage of the possibility of spending part of their working time at home.

Wherever possible and reasonable, we fill management positions from within our own ranks

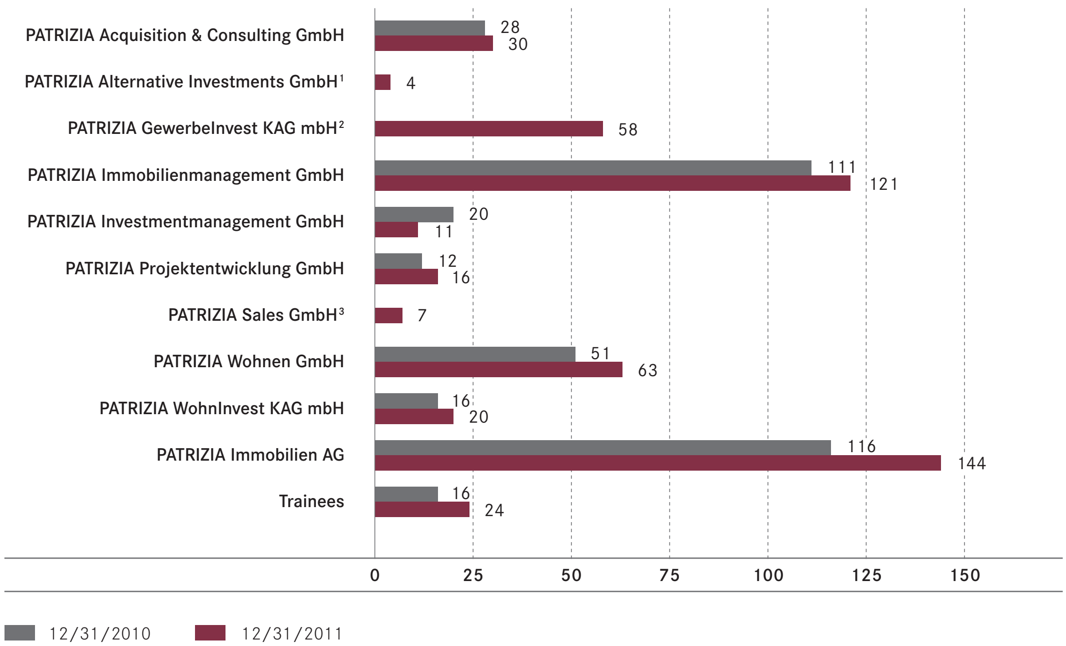
Despite the significant increase in the number of staff, the average period of employment, excluding trainees, is far in excess of four years. We attach great importance to recruiting new managers from within our own ranks wherever possible. Despite growth and eight locations around Germany, we filled two-thirds of vacant management positions with our own staff in 2011. We established the PATRIZIA Akademie in the reporting year in order to provide even more closely targeted training for our employees and to prepare them for future challenges. In addition to the subject of “real-estate expertise” we also offer employees company-specific further training in the areas “management training”, “self-development” and “international skills”. TEUR 270 was spent on further training in 2011. Owing to the large number of scheduled courses, more than TEUR 300 is planned to be spent in 2012.

Many measures were introduced and successfully implemented thanks to the employee survey

After conducting an employee satisfaction survey for the first time in 2010, we were able to raise employee satisfaction by over 20% in the reporting year by systematically performing the areas of action defined by the Managing Board. Participation once more of around 90% of employees underlines the sustained interest and credibility of management in the effectiveness of this instrument. 2011 saw the introduction, for example, of a kindergarten allowance, a company health management program and group accident insurance cover for all staff and the promotion of a feedback culture. The instrument of an employee survey has now become an essential component of PATRIZIA’s corporate culture and will also be continued in the coming years in order to further develop the company.

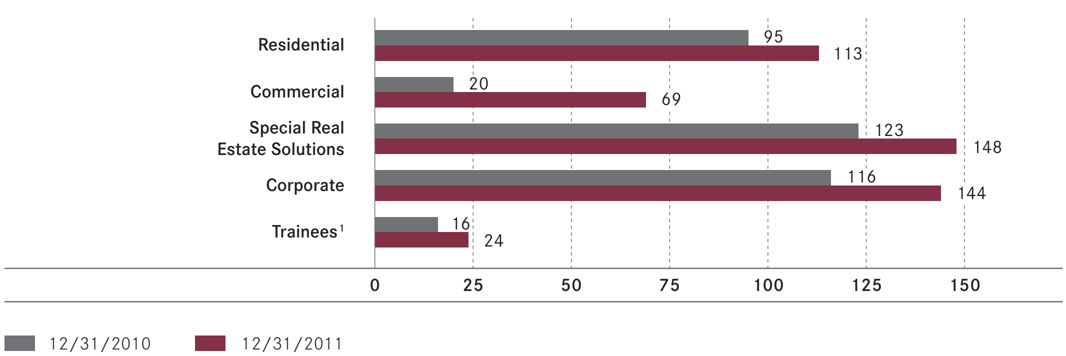
The attractiveness of the Company as an employer is also noticeable on the job market. In 2011 PATRIZIA was voted one of the top 15 employers in real estate by Immobilien Zeitung magazine for the first time and is thus the only company in residential real estate represented in the rankings.

CHANGES IN STAFF NUMBERS BY OPERATING COMPANY



[1] PATRIZIA Alternative Investments GmbH was founded in November 2011. Its staff were recruited in 2011.
[2] PATRIZIA GewerbeInvest KAG mbH has been part of the Group since January 3, 2011.
[3] PATRIZIA Sales GmbH was founded in June 2011. In the previous year its staff (4 employees) had worked for PATRIZIA Investmentmanagement GmbH.

CHANGES IN STAFF NUMBERS BY BUSINESS LINE/SEGMENT



[1] Trainees are primarily assigned to the Corporate segment.

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.

Our Group-wide risk management system enables us to capture, assess, manage and monitor risks

Without the 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. As a matter of principle, transactions of a speculative nature are 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. All employees in the PATRIZIA Group are required to take account of all possible risks that might be involved in their actions. The direct responsibility for early detection of risks and for reporting these 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, both asset management companies of PATRIZIA maintain their own separate risk management system to ensure that legal supervisory requirements are met. It is specially designed to deal with risks associated with the managed special 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, allowing 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. Risk reporting has been integrated into the planning and controlling process. At the same time, the comprehensive

Risk reporting has been integrated into the planning and controlling process

The aim of our risk management system is to obtain information about risks and their financial consequences as early as possible in order to adopt suitable measures to counteract them

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.

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

Individually, or in conjunction with other situations, occurrence of the individual risks described below can impair the operating activities of PATRIZIA and negatively impact the net asset, financial and earnings situation of the Company 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

Where its own investments are concerned, PATRIZIA only acts on the German market. Special asset funds also invest in selected European countries. European and/or global economic developments could affect PATRIZIA's business performance. In particular, 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 in 2012. A spread of the crisis to the core states of the eurozone is likely to have a negative effect on economic growth. On the other hand, continuing expansionary monetary policy with its low interest rates could again 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 a historically low level at the same time. 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

Premium locations as well as attractive secondary locations continue to be characterized by a very high level of demand while at the same time there is a relatively low level of supply. This has resulted in prices stabilizing over recent months at an unchanged high level. Prices are not likely to decline in the coming months, either. We have determined in places that rents and purchase prices asked for in project developments at premium locations are continuing to rise and are in some cases reaching a level that was previously known only from the market in Munich. More and more we are experiencing at top locations and secondary locations alike when buying project developments for our funds that we face direct competition from individual sales (high demand from investors due to favorable interest rates) and that the prices asked by many sellers are based on these values. Many property owners are reluctant to sell off real estate they hold owing to the lack of alternative investment opportunities, which in addition to the high level of demand is also contributing on the supply side to the currently high price levels.

PATRIZIA is benefiting from price increases in its sales activities, but in our purchasing activities we face the risk of finding fewer suitable properties based on the aspect of investment returns. We constantly analyze price levels and integrate these into our planning. As explained, we can exclude the possibility of falling prices and rents at our investment locations.

SUPPLY SITUATION FOR REAL ESTATE PURCHASES

The volume and quality of property offers received have been improving since the end of 2010. However, the availability of high-quality property assets at good locations must still be regarded as low. Due to the continuing very high level of demand for residential property at premium locations the market environment is still very strained, which is resulting in a consistently high level of prices. This is also because the number of market players wishing to invest in the residential asset class is still growing, exacerbating the competitive situation. More and more, investors are focusing on secondary locations (B locations) such as Hanover, Bremen and university towns in general. There is now increased demand for good to very good micro locations there, too. The competitive situation will continue to intensify for the residential segment at B locations as well owing to the already very high level of prices at premium locations.

We have been able to conclude several successful real estate purchases for our funds and co-investments over the past few months. We are still on the lookout for suitable properties to buy for both areas – asset holding funds and property resale funds.

COMPETITIVE SITUATION

In view of the anticipated high demand for indirect residential real estate investments, we consider it very probable 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.

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. The importance of the German Investmentgesetz (InVG – Investment Act) also grows through the expansion of our asset management companies.

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 salability. 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. As an asset and property manager, we are also responsible for managing and optimizing external properties for third parties. Poor service could lead to customer dissatisfaction and even to the loss of contracts. Furthermore, risks exist due to conditions upon which PATRIZIA has no influence, such as damage to buildings caused by bad weather or technical failure. We assume a low probability of occurrence with negligible financial consequences for 2012 and beyond.

REAL ESTATE SALES

PATRIZIA still currently generates a large proportion of its revenues from the resale of real estate, so that we are faced with 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. We also count our project development in Frankfurt/Main as a large-scale project. Delays in construction could have an impact on our financial situation and earnings position.

CUSTOMERS AND BUSINESS PARTNERS

Partner risks are those arising from business relationships with customers and suppliers. Non-adherence to supplier deadlines and/or inadequate quality of supplier services 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. 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, as 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.

Dissatisfaction on the part of the customer with the services we provide could lead to financial demands and even to the loss of the contract. 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. Extending co-investment and fund business activity increases PATRIZIA's dependence on large clients such as insurance companies and pension funds.

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 and as a result of the experience of the past few years, 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. Our aim is to fill management positions wherever possible internally with our own staff.

IT SECURITY

Almost all of our business processes are conducted using 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 invest considerable amounts in hardware and software. These preventive measures are intended to ensure that the probability of system failure occurring is extremely low. Nevertheless, the magnitude of damage would be considerable. Access rights restricted to each individual user are defined in order to ensure data security.This is coupled with a password change every 40 days and only allowing reuse after 25 password generations. Furthermore, we also perform emergency disaster recovery exercises on a regular basis. When we switched over to our new ERP system on July 1, 2011, we also put a mirrored ERP system into operation, significantly reducing any possible downtime in central business processes.

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 at all times to the necessary extent or only at financially unattractive conditions to be low. The equity required for new financing is currently around 30% for our co-investments. We did not make any 100% own investments requiring finance in 2011, and these will remain the exception in the future. The volume that is ideally provided by a bank for new financing is between EUR 20 million and EUR 50 million. There are no major loans that need to be extended in 2012 and 2013. We consider the extensions of the financing to be made to be non-critical and view decreased bank margins as more of an opportunity to reduce finance costs for the underlying portfolio. The loan of currently around EUR 404 million, which will fall due at the end of the second quarter 2014, should have been largely redeemed through sales by then. Since PATRIZIA will increasingly be undertaking co-investments in the future instead of 100% participations, large-volume financing will lose considerable significance.

INTEREST RISKS

The extensive use of external financing in connection with our acquisitions of real estate exposes us to interest rate fluctuation risks. We employ interest rate derivatives to hedge the risk. We have entered into interest rate hedges for 84% of our bank liabilities, which expire as of June 30, 2014, at the latest. 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 averaged 4.00% at the end of 2011. 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. Derivative financial instruments are not used for the purpose of trading or speculation.

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 109 million (16% of all bank liabilities), 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.

Our planning for 2012 was based on the assumption of moderately rising interest rates, whereas falling interest rates are more likely in the current environment. Increases in interest rates would only have a slight effect on our liquidity situation owing to the interest rate hedges concluded. Increasing interest rates would have a positive effect on earnings owing to the valuation of the derivative instruments, and on the balance sheet the result of valuation from cash flow hedges would have a positive effect on equity.

CREDIT TERMS

Depending on the loan agreement, there is a risk that PATRIZIA will breach the underlying covenants. The banks could modify the terms of such loans or call in parts of them as a result. 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. The observance of covenants is continuously monitored by Corporate Finance as part of the risk management process. 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. We do not currently see this as a risk.

RATING

At present, a credit check in the sense of a rating by an external rating agency does not exist with regard to PATRIZIA on account of the associated costs. The banks that provide us with finance all prepare internal credit rating reports. Inadequate business results could have a negative impact on bank-specific ratings. Achieving the 2011 forecast and the improved outlook for 2012 benefit our rating.

LIQUIDITY

As of December 31, 2011, bank balances and cash posted amounting to EUR 31.8 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 in terms of probability and effect.

FLUCTUATIONS IN FOREIGN EXCHANGE RATES

In the area of own investments and services PATRIZIA pursues a policy focused primarily on the domestic market, which means that the direct influence of changes in foreign exchange rates can be excluded from the areas of operations and financing. All major subsidiaries and real estate companies are based within the eurozone (Germany or Luxembourg) so that there are no exchange rate risks in this case with the exception of the foreign location PATRIZIA Scandinavia in Sweden, which manages Scandinavian investments in our funds. Both our asset management companies maintain properties outside of the eurozone, but these are components of the special funds.

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 a 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 also have a positive effect on PATRIZIA's sales activities.

Demographic developments, 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 tend to qualify 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 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, both from our own stock as well as a service on behalf of third parties.

Special real estate funds

We assume that there will be an increase in indirect real estate investments. For this reason we acquired LB Immo Invest GmbH – today PATRIZIA GewerbeInvest KAG mbH – with effect from the beginning of 2011 in addition to the asset management company we founded, which invests in residential real estate. This special fund provider for real estate has a long and successful track record in the field of international commercial property. The acquisition enabled us to extend our spectrum of services and to develop new markets and investor groups. In addition, PATRIZIA GewerbeInvest also allows us to implement our strategy of internationalization through its existing platforms abroad more rapidly. Existing structures and processes enable PATRIZIA to leverage effects of scale when establishing new funds. Growing volumes of assets under management will increase recurrent income from management fees and contribute to stabilizing operating earnings.

Real estate investment company

Winning the bidding for LBBW Immobilien GmbH by an investor consortium led by PATRIZIA in February 2012 made a significant contribution to the growth in our assets under management. It is expected that the income associated with the acquisition and the asset management will result in increased earnings for 2012. At the same time, this transaction gives us an optimum position for future projects, also of a similar magnitude, and shows that as a collection point for capital we have good access to notable international investors. We are collaborating with approximately 80% of the investors from the LBBW consortium for the first time, which increases the list of partners for future transactions.

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 OF THE HANDELSGESETZBUCH (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 for each company and cost center budgetary values for the coming fiscal year and target figures for the following 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 four 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 2011, as in previous years, PATRIZIA examined the evaluation categories for the potential magnitude of damage of all known risks and where necessary, increased or reduced them. 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.

In 2011 we continued to pay back loans and at 28.1% reached the upper limit of our intended equity ratio of 25 – 30%. As our modified business model continues to take on concrete form through its practical implementation, we are convinced that our risk profile has once more fallen compared with the previous year.

5 SUPPLEMENTARY REPORT

Business Segment Residential

Residential Property Resale

In January 2012 notarial deeds were signed for the final individual apartments to be sold in Hanover, meaning that the location could be closed for residential property resale. There are still around 390 units that are intended to be sold through block sale.

Block Sales

In the fourth quarter of 2011 was one notarial deed signed, which will only be recognized as income in the first quarter of 2012. It includes 17 units totaling a volume of revenues of EUR 1.3 million.

New funds of PATRIZIA WohnInvest KAG

Since the beginning of the year PATRIZIA has established further special real estate funds via its asset management company. First, notarial deeds were signed for the first two properties for the PATRIZIA German Residential Fund II. Second, equity was solicited from a savings bank in the south of Germany for a fund investing in residential and commercial real estate with a target volume of some EUR 200 million. The focus of the fund is on residential real estate, while commercial properties are to make up around one-third of the investment. The portfolio is to be built up in southern Germany. The new fund will be PATRIZIA's first to invest in both residential and commercial real estate.

Business Segment Commercial

PATRIZIA GewerbeInvest KAG

The savings banks that have invested in the funds of PATRIZIA GewerbeInvest KAG have been convinced by PATRIZIA's real estate expertise and have opened the existing special funds LB Handels-Invest Deutschland I and LB Wohn-Invest Deutschland I for further equity. Both funds should achieve a total inflow of EUR 150 million, meaning an increase in investment volume of EUR 300 million.

Business Segment Special Real Estate Solutions

PATRIZIA wins the bidding process for LBBW Immobilien GmbH and its 21,000 residential units

On February 13, 2012, the investment consortium led by PATRIZIA Immobilien AG won the bidding process to acquire LBBW Immobilien GmbH. The purchase price is EUR 1.435 billion. It is expected that the transaction will be finally concluded in the second quarter of 2012. With the acquisition of LBBW Immobilien GmbH, PATRIZIA has succeeded in landing the largest real estate deal in Germany in years. PATRIZIA is acting as investment and asset manager on behalf of the consortium and is also participating itself with an equity stake of EUR 17.2 million. The consortium led by PATRIZIA is made up of five German insurance companies who are responsible for approximately 40% of the equity (including LVM Versicherung), two foreign pension funds with a stake of approximately 30% (including Sweden's state pension fund AP3 with more than 25% and a Swiss pension fund), three German provident pension and retirement funds (approx. 25%), a savings bank from Baden-Württemberg (approx. 3%) and PATRIZIA Immobilien AG itself (approx. 2%). The transaction is being financed with 40% equity.

PATRIZIA will receive a one-time purchasing fee customary for transactions of this size and complexity. Asset management will generate more than EUR 6 million in revenues each year. PATRIZIA will receive an additional bonus if specified performance targets are exceeded. Furthermore, we expect a return on the invested capital of 4 – 4.5%, which should be in the region of EUR 0.6 million p.a. from 2013.

LBBW Immobilien GmbH owns 21,000 residential units and a further 17,200 residential units are managed on behalf of their owners. These property assets are one of the best portfolios in the south of Germany. The tenant structure is balanced, while vacancy and fluctuation rates are low. The region will be characterized in future by an influx of population and demand for residential accommodation, with corresponding stable rental values. This enables PATRIZIA to offer its co-investors in the consortium long-term investment security. The central business activity of LBBW Immobilien consists of the long-term and value-enhancing management of the stock property, property resale and property trading. As of December 31, 2011, the company employed a staff of 297 (full-time equivalents).

Project development

PATRIZIA Projektentwicklung GmbH has acquired an approx. 193,000 sqm plot of land from the Gerresheim glassworks in the Gerresheim district of Düsseldorf for property development. It is intended to create a city quarter with residential and commercial property together with local shops and a park. The demolition of existing buildings and the development of the local public infrastructure are expected to be completed by the end of 2014 so that building development can begin in 2015.

Notarial deeds were signed by an institutional investor for the F40 apartment block, part of the Feuerbachstrasse, Frankfurt/Main project development (see point 1.4), in February 2012. This means that a purchaser was found for the property before construction started.

6 REPORT ON EXPECTED DEVELOPMENTS

6.1 FUTURE ECONOMIC FRAMEWORK

Future General Economic Situation in Germany

The forecast for 2012 GDP has had to be adjusted down as a result of the gloomy outlook. Growth of up to 0.5% can currently be expected for Germany in the current year, underscoring its role as Europe's growth driver, since the current estimate for growth for the EU 27 states is just 0.2%. As a result, the German job market and domestic consumption are likely to see a positive development. The European Central Bank lowered its key interest rate once more to the historically low level of 1.00% at the end of 2011 in order to ward off the danger of a credit squeeze. Continuing turbulence on the financial markets and the difficulties in the banking sector mean that the possibility of a further cut in interest rates in the course of the year cannot be excluded. This is likely to benefit in particular the area of private property financing in Germany.

Future Situation in the German Residential Real Estate Market

The residential property market shows highly divergent developments as a result of Germany's federal structure and continuing internal migration to economically strong conurbations. There is an increasing lack of residential property in the mainly western German conurbations due to the level of building activity, which still lags behind demand, while it can be said that the more rural regions away from these centers suffer from an over-supply. Continuing rent and price increases can therefore be expected in these urban areas in 2012 and subsequent years. This effect will be aggravated by what is known as a requirement for new high-quality buildings resulting from the no longer up-to-date housing stock in many towns and cities. Overall these regions can be expected to see in part considerable rent increases both in new construction and also when stock is re-rented and these increases may be above the anticipated inflation rate of 1.8%. Thanks to the very positive growth in approvals last year, an increase in the number of completions can be expected in 2012 that is likely to continue in subsequent years due to growth in rents and purchase prices. 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

It is our intention to become the leading fully integrated real estate investment company in Europe by 2015:

- **leading:** PATRIZIA is the premium partner for residential real estate investment. The PATRIZIA Group is one of the leading companies in the German specialist fund market for residential and commercial real estate.
- **fully integrated:** PATRIZIA provides all real estate-related services in-house, from research and purchasing through to asset and property management as well as individual and global sales. The depth of added value is determined in the individual markets.
- **real estate investment company:** PATRIZIA invests both on its own account and on behalf of third parties, covering all types of use of real estate. Own investments are being increasingly replaced by co-investments where PATRIZIA's own stake is intended to amount to up to 10% depending on the investment and partners.
- **Europe:** PATRIZIA is represented by its own offices in the core markets of Scandinavia, Benelux and France, which are important for PATRIZIA and its clients. Investment and asset management as well as acquisition will play a leading role.

Our aim is EUR 10 billion of assets under management by the end of 2015

Co-investments will not just help us to strengthen fund, asset and property management but also our project development with its focus on residential accommodation as well as residential property resale. Through the acquisition of PATRIZIA GewerbeInvest KAG, we have expanded our existing commercial activities, giving them a long-term international direction. Our aim is to continuously increase assets under management by serving new investment markets in Europe, interesting new international clients in Germany, gaining additional German investors for our products and developing new products and services for our investors and not just in the residential asset class but also in the area of commercial real estate. PATRIZIA now has the necessary organizational and staff structure in order to be able to take on the management of around an additional one billion euros worth of real estate assets each year. Our aim is to have real estate assets under management totaling EUR 10 billion by the end of 2015, providing all essential services as a fully integrated investment company using our own staff.

6.3 GENERAL BUSINESS DEVELOPMENT

Business Segment Residential

We again wish to sell around 1,800 units in 2012, the third year in succession. Volumes in the two marketing channels can be expected of 800 units in residential property resale and 1,000 units in block sales, with internal shifts in numbers possible. The notarial deeds signed at the end of 2011 and the transfers of title in January and February suggest that the number of units resold in the first quarter of 2012 will exceed the 132 achieved in the previous year.

The aim of PATRIZIA WohnInvest KAG for 2012 is to acquire a volume of real estate worth EUR 300 – 400 million for the residential funds and the co-investment WohnModul I.

Business Segment Commercial

Investments totaling around EUR 200 – 300 million are to be made for existing funds by PATRIZIA GewerbeInvest KAG in 2012. In addition to the purchasing fee and the customary fund management fee, the asset management company also generates sales fees through initial portfolio streamlining.

Business Segment Special Real Estate Solutions

All PATRIZIA Projektentwicklung GmbH projects, both own investment and service projects, will be in the implementation phase in 2012, meaning that no properties can be completed and sold. We can only report the earnings effect following completion and sales. PATRIZIA does not apply the percentage-of-completion method.

We expect to assume responsibility for the asset and investment management functions of the LBBW portfolio in April 2012.

6.4 EXPECTED DEVELOPMENT OF THE EARNINGS SITUATION

The acquisition of LBBW Immobilien GmbH by the consortium led by PATRIZIA will have a major effect on earnings in the 2012 fiscal year. We will report the purchasing fee for the company in the second quarter of 2012. Fees for asset management will be generated on a pro rata basis following conclusion of the transaction, probably from April onwards. These will amount to over EUR 6 million over an entire fiscal year, so that around EUR 4.5 million can be expected for 2012. We will receive an additional bonus if specified performance targets are exceeded. However, this and dividends on invested equity will only be paid out for the previous fiscal year from 2013 onwards. We anticipate a return on capital employed of 4 – 4.5%, which corresponds to an annual financial return of around EUR 0.6 million.

With the disposals from the PATRIZIA portfolio it should be borne in mind that sales from investment property will generally result in significantly lower margins than real estate sales from inventory assets since the former are held at fair market value. Rental income decreases continuously as increasing numbers of properties are sold. The project development in Feuerbachstrasse, Frankfurt/Main, will cause building costs for the shell construction and marketing of four of the six city villas and the apartment block which are not matched by any revenues, meaning that PATRIZIA Projektentwicklung will conclude the year with a negative result.

Staff costs will rise in 2012 since we recruited employees in the course of last year that will for the first time have an effect on the entire year. It is only intended to increase staff numbers in individual cases, for example when establishing new funds. Overall we anticipate staff costs of over EUR 40 million for 2012.

In contrast, we expect improvements in the area of service. It is intended that services will account for around 40% of operating profit.

6.5 EXPECTED DEVELOPMENT OF THE FINANCIAL SITUATION

Two loans totaling EUR 84.4 million are due for extension in 2012, with individual loans of EUR 41.4 million and EUR 43.0 million. Owing to these non-critical amounts, revenues from the financed properties and our long-term relationship with exclusively German banks, the refinancing will be conducted as part of normal business activities without any difficulties.

As of December 31, 2011, our equity ratio was 28.1% with our target corridor so far ranging from 25% to 30%. We intend exceeding the 30% mark by the end of 2012.

6.6 DIVIDEND POLICY

"Bonus shares" in a ratio of 10:1 in lieu of a cash dividend for fiscal year 2011

The Managing Board and the Supervisory Board of PATRIZIA Immobilien AG propose that the retained earnings for the previous 2011 fiscal year amounting to EUR 51.0 million should be fully carried forward to the new account and that new shares in a ratio of 10:1 should be issued to shareholders in lieu of a cash dividend. The shareholders are not required to make any contribution. The reason for this decision is to conserve PATRIZIA's liquidity in favor of expansion in the form of co-investments and at the same time to increase the liquidity of the share. PATRIZIA's shareholders will make it possible for the company to strengthen free cash flow for 2012 and to undertake new investment.

If the Annual General Meeting of PATRIZIA Immobilien AG to be held on June 20, 2012, agrees to the measure, the capital increase will be performed by issuing 5,213,000 new registered no-par value shares. This measure will have no effect on the amount of equity since it simply involves a transfer from retained earnings to subscribed capital. Equity capital will increase from a current total of EUR 52,130,000 to EUR 57,343,000, divided into 57,343,000 registered no-par value shares. The new shares will carry dividend rights from the beginning of the 2012 fiscal year.

As the course of business over the last few months has shown, the investment climate on the German real estate market has seen a significant improvement. PATRIZIA will be able to exploit additional attractive investment opportunities in the near future and thereby increase the value of the company long term. At the same time, we reject the option of a cash capital increase to finance new investments in the foreseeable future. The retained cash resources of around EUR 4.2 million could be used to float an additional co-investment of EUR 150 million with a 10% stake in equity capital.

6.7 GENERAL STATEMENT BY THE COMPANY'S MANAGEMENT ON PROSPECTS FOR 2012 AND 2013

2012 forecast: Repeated growth of EBT adjusted

The goal for the coming years is increased assets under management. With its current structures, the organization is capable of handling growth of around EUR 1 billion per annum. We intend increasing managed real estate assets to around EUR 10 billion by 2015. We expect growth of EUR 1.7 – 1.9 billion for 2012, with EUR 1.4 billion being accounted for by the LBBW properties alone revenues from our sales of real estate are subject to fluctuations due on the one hand to prices that can be achieved in different regions and also because of margins on long- and short-term assets. Higher income from services is matched by higher expenditures on materials, IT and staff. Provided we achieve the planned purchasing and sales targets we expect that we will increase operating profit once more in the 2012 fiscal year of approximately 20%. We also anticipate continued stable earnings growth for 2013.

The prospects for 2012 and 2013 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 22, 2012

Wolfgang Egger
Chairman of the Board

Arwed Fischer
Member of the Board

Klaus Schmitt
Member of the Board

This report contains specific forward-looking statements that relate in particular to the business development of PATRIZIA and the general economic and regulatory environment and other factors to which PATRIZIA is exposed. These forward-looking statements are based on current estimates and assumptions by the Company made in good faith, and are subject to various risks and uncertainties that could render a forward-looking estimate or statement inaccurate or cause actual results to differ from the results currently expected.

Consolidated Financial Statements

Consolidated Balance Sheet

AS OF DECEMBER 31, 2011

ASSETS

EUR '000	Notes	12/31/2011	12/31/2010
A. Non-current assets			
Goodwill	4.1	610	0
Other intangible assets	4.1	45,227	0
Software	4.1	5,280	2,811
Investment property	4.1	532,321	614,945
Equipment	4.1	2,762	1,893
Investments in joint ventures	4.1	18	8
Participations in associated companies	4.1	6,809	0
Participations	4.1	3,134	3,090
Long-term tax assets	4.2	846	281
Total non-current assets		**597,007**	**623,028**
B. Current assets			
Inventories	4.3	407,529	510,438
Securities		1,634	0
Short-term tax assets	4.2	4,279	263
Current receivables and other current assets	4.5	60,007	10,282
Bank balances and cash	4.6	31,828	70,537
Total current assets		**505,277**	**591,520**
TOTAL ASSETS		**1,102,284**	**1,214,548**

EQUITY AND LIABILITIES

EUR '000	Notes	12/31/2011	12/31/2010
A. Equity			
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 shareholders	5.1.4	1,563	832
Valuation results from cash flow hedges	4.4	–1,331	–2,372
Consolidated net profit		41,346	27,775
Total equity		**310,075**	**294,732**
B. Liabilities			
NON-CURRENT LIABILITIES			
Deferred tax liabilities	5.3	26,314	9,701
Long-term financial derivatives	4.4	33,470	39,715
Retirement benefit obligations	5.4	371	368
Long-term bank loans	5.2	417,685	0
Non-current liabilities	9.2	2,410	1,202
Total non-current liabilities		**480,250**	**50,986**
CURRENT LIABILITIES			
Short-term bank loans	5.2	275,667	841,380
Short-term financial derivatives	4.4	233	363
Other provisions	5.5	1,092	666
Current liabilities	5.6	22,644	17,008
Tax liabilities	5.7	12,323	9,413
Total current liabilities		**311,959**	**868,830**
TOTAL EQUITY AND LIABILITIES		**1,102,284**	**1,214,548**

Consolidated Income Statement

FOR THE PERIOD FROM JANUARY 1, 2011 TO DECEMBER 31, 2011

EUR '000	Notes	2011	2010
Revenues	6.1	269,007	339,593
Income from the sale of investment property	4.1	6,205	1,237
Changes in inventories	6.2	–102,910	–165,632
Other operating income	6.3	8,225	4,658
Total operating performance		**180,527**	**179,856**
Cost of materials	6.4	–45,743	–68,072
Staff costs	6.5	–35,672	–28,580
Results from fair value adjustments to investment property	4.1	3	325
Other operating expenses	6.7	–40,990	–21,376
EBITDA		**58,125**	**62,153**
Amortization of intangible assets and depreciation on property, plant and equipment	6.6	–3,494	–904
Earnings before interest and taxes (EBIT)		**54,631**	**61,249**
Earnings from companies accounted for using the equity method	4.1	5	–5
Finance income	6.8	8,988	11,494
Finance cost	6.8	–43,718	–61,250
Earnings before taxes (EBT)		**19,906**	**11,488**
Income tax	6.9	–6,413	–5,287
Net profit		**13,493**	**6,201**
Profit carried forward		27,730	21,529
CONSOLIDATED NET PROFIT		**41,223**	**27,730**
Earnings per share (undiluted), in EUR	6.10	0.26	0.12
The net profit for the period is allocated to			
Shareholders of the parent company		13,571	6,246
Non-controlling shareholders		–78	–45
		13,493	**6,201**

Consolidated Statement of Comprehensive Income

FOR THE PERIOD FROM JANUARY 1, 2011 TO DECEMBER 31, 2011

EUR '000	Notes	2011	2010
Consolidated net profit		**13,493**	**6,201**
Other result			
Cash flow hedges			
Amounts recorded during the reporting period	4.4	712	2,316
Reclassification of amounts that were recorded	4.4	329	1,391
Total result for the reporting period		**14,534**	**9,908**
The total result is allocated to			
Shareholders of the parent company		14,612	9,953
Non-controlling shareholders		−78	−45
		14,534	**9,908**

Consolidated Cash Flow Statement

FOR THE PERIOD FROM JANUARY 1, 2011 TO DECEMBER 31, 2011

EUR ’000	2011	2010
Consolidated net profit	13,493	6,201
Actual income taxes recognized through profit or loss	5,814	2,056
Financing costs recognized through profit or loss	43,718	48,806
Income from financial investments recognized through profit or loss	–2,769	–948
Amortization of intangible assets and depreciation on property, plant and equipment	3,494	904
Results from fair value adjustments to investment property	–3	–325
Loss from disposal of investment properties	–6,205	–1,237
Change in deferred taxes	599	4,185
Change in retirement benefit obligations	3	29
Ineffectiveness of cash flow hedges	–5,137	682
Changes in inventories, receivables and other assets that are not attributable to investing activities	31,907	186,574
Changes in liabilities that are not attributable to financing activities	5,597	4,763
Interest paid	–40,772	–47,585
Interest received	1,925	738
Income tax payments/refunds	–6,945	952
Cash inflow from operating activities	**44,718**	**205,795**
Capital investments in intangible assets and property, plant and equipment	–4,655	–3,464
Cash receipts from disposal of intangible assets and property, plant and equipment	0	45
Cash receipts from disposal of investment property	90,068	43,937
Profit/loss on shareholdings recognized at equity	–5	5
Payments for development or acquisition of investment property	–1,368	0
Payments for the acquisition of shareholdings recognized at equity	–6,846	0
Cash receipts from the disposal of consolidated companies and other business units	944	0
Payments for the acquisition of consolidated companies and other business units	–28,644	0
Cash inflow from investing activities	**49,494**	**40,523**
Borrowing of loans	37,171	5,571
Repayment of loans	–170,092	–237,535
Cash outflow from financing activities	**–132,921**	**–231,964**
Changes in cash	**–38,709**	**14,354**
Cash January 1	70,537	56,183
Cash December 31	31,828	70,537

Consolidated Statement of Changes in Equity

FOR THE PERIOD FROM JANUARY 1, 2011 TO DECEMBER 31, 2011

EUR '000	Share capital	Capital reserve	Valuation result from Cash Flow Hedges	Retained earnings (legal reserve)	Consolidated net profit/ loss	Shareholders of the parent company	Non-controlling shareholders	Total
Balance January 1, 2010	**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			9,953	–45	9,908
Balance December 31, 2010	**52,130**	**215,862**	**–2,372**	**505**	**27,775**	**293,900**	**832**	**294,732**
Additional non-controlling shareholders which originated in the course of the PATRIZIA Gewerbe-Invest KAG mbH acquisition							1,889	1,889
Reclassification of guaranteed dividend							–1,080	–1,080
Net amount recognized directly in equity, where applicable less income taxes			1,041			1,041		1,041
Net profit/ loss for the period					13,571	13,571	–78	13,493
Full overall result for the fiscal year			1,041			14,612	–78	14,534
BALANCE DECEMBER 31, 2011	**52,130**	**215,862**	**–1,331**	**505**	**41,346**	**308,512**	**1,563**	**310,075**

Notes

Notes to the IFRS Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2011

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 and European real estate market. PATRIZIA Immobilien AG, along with its subsidiaries, is a real estate agent and investment house. It specializes in buying high-quality residential and commercial real estate at commercially attractive locations in Germany with the aim of increasing their value and subsequent reselling of the real estate. Therefore, the PATRIZIA Group performs all services along the value-added chain in the real estate sector. Via its subsidiaries, PATRIZIA WohnInvest Kapitalanlagegesellschaft mbH and PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH, the Company also issues specialized real estate funds in accordance with the Investmentgesetz (German Investment Act).

1 PRINCIPLES APPLIED IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of PATRIZIA Immobilien AG to December 31, 2011 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 Handelsgesetzbuch (HGB – 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 interpretation had already been published at the time of preparing the consolidated financial statements, and was to be adopted for the first time in the current financial year:

- IFRIC 19 – "Extinguishing Financial Liabilities with Equity Instruments" (to be adopted for fiscal years commencing on or after July 1, 2010)

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

- Amendment to IFRS 1 – "First-time Adoption of International Financial Reporting Standards" (introduction of an exemption from the disclosure under IFRS 7 – comparative figures; to be used for fiscal years commencing on or after July 1, 2010)
- Amendment to IAS 24 – "Related Party Disclosures" (introduction of a partial exemption from the disclosure requirements for government-related entities and clarification of the definition of a related party; to be adopted for fiscal years commencing on or after January 1, 2011)
- Amendment to IAS 32 – "Financial Instruments: Presentation" (changes concerning the classification of rights issues; 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" (amendments 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 the annual IFRS improvements made in May 2010 (to be adopted for fiscal years commencing on or after July 1, 2010/January 1, 2011)

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, 2015; this standard has not yet been adopted by the EU)
- IFRS 10 – "Consolidated Financial Statements" (to be adopted for fiscal years commencing on or after January 1, 2013; this standard has not yet been adopted by the EU)
- IFRS 11 – "Joint Arrangements" (to be adopted for fiscal years commencing on or after January 1, 2013; this standard has not yet been adopted by the EU)
- IFRS 12 – "Disclosure of Interests in Other Entities" (to be adopted for fiscal years commencing on or after January 1, 2013; this standard has not yet been adopted by the EU)
- IFRS 13 – "Fair Value Measurement" (to be adopted for fiscal years commencing on or after January 1, 2013; this standard has not yet been adopted by the EU)
- IFRIC 20 – "Stripping Costs in the Production Phase of a Surface Mine" (to be adopted for fiscal years commencing on or after January 1, 2013; this interpretation has not yet been adopted by the EU)

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 fixed transition dates and severe hyperinflation; 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 IFRS 7 – "Financial Instruments: Disclosures" (Amendment to improve disclosures on the transfer of financial assets; to be adopted for fiscal years commencing on or after July 1, 2011)
- Amendment to IAS 1 – "Presentation of Financial Statements" (amendment relating to the presentation of other comprehensive income; to be adopted for fiscal years commencing on or after July 1, 2012; this amendment has not yet been adopted by the EU)
- Amendment to IAS 12 – "Income Taxes" (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 19 – "Employee Benefits" (comprehensive revision of the standard; to be adopted for fiscal years commencing on or after January 1, 2013; this amendment has not yet been adopted by the EU)
- Amendment to IAS 27 – "Separate Financial Statements" (elimination of the consolidation provisions; to be adopted for fiscal years commencing on or after January 1, 2013; this amendment has not yet been adopted by the EU)
- Amendment to IAS 28 – "Investments in Associates and Joint Ventures" (inclusion of rules on accounting of joint ventures; to be adopted for fiscal years commencing on or after January 1, 2013; this amendment has 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.

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 holding 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. In August 2011 it increased its stake in the company and on December 31, 2011, its direct and indirect holding in PATRIZIA Immobilien AG was 51.55%.

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 WohnInvest Kapitalanlagegesellschaft mbH, PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH, der 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. A significant influence is assumed if a direct or indirect voting right share of at least 20% is held in another company. The assumption of a significant influence is rebuttable if, despite a voting share of 20% and above, contractual regulations exclude any influence on exercisable business and corporate policy and the exercisable rights consist only of industrial property rights. Associated companies are accounted for at equity within the consolidated financial statements.

In addition to the parent company, the scope of consolidation comprises 55 subsidiaries. They are included in the consolidated financial statements in line with the rules of full consolidation. In addition, one joint venture company and one participating interest in a SICAV are accounted for at equity in the consolidated financial statements. The SICAV is a stock corporation with variable equity in accordance with the laws of Luxembourg. In addition, 30% of the limited liability capital is held in one project development company (in the form of a GmbH & Co. KG). A significant influence does not apply because provisions in the partnership agreement mean that management cannot be exercised, that a significant influence cannot be exerted on the management and that there is no entitlement to appoint members of the governing organs. The shares in the project development company are accounted for at purchase cost.

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

Company acquisitions, sales and intercompany restructuring

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 Project 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 real-estate special funds. At the time of acquisition the company administered 13 real estate funds with a gross fund volume of EUR 2.3 billion.

In acquiring the asset management company LB Immo Invest GmbH, PATRIZIA has added commercial real-estate special funds to its existing portfolio of services. The aim of the acquisition was to expand the Group's activities in the field of commercial real estate.

The final cash purchase price for the shares that were acquired indirectly by PATRIZIA Immobilien AG (94.9%) was EUR 35.7 million (excluding ancillary acquisition costs). The ancillary acquisition costs amounted to EUR 0.4 million and were treated as an expense. Acquisition costs are shown under other operating expenses.

The Group has received the following assets and liabilities:

ASSETS AND LIABILITIES

	Fair Value EUR million
Intangible assets (including fund management contracts)	47.2
Property, plant and equipment	0.2
Total non-current assets	**47.4**
Shares and other variable-yield securities	1.6
Trust receivables	0.6
Other assets, prepaid expenses and deferred charges	3.5
Cash and cash equivalents	7.1
Total current assets	**12.7**
TOTAL ASSETS	**60.2**
Deferred taxes	15.3
Total non-current liabilities	**15.3**
Trust liabilities	0.6
Other current liabilities	3.1
Other current provisions	4.2
Total current liabilities	**7.9**
TOTAL LIABILITIES	**23.1**
Net assets	**37.0**
attributable to non-controlling shareholders	1.9
attributable to the controlling parent company	35.1
Purchase price	35.7

The value of the share accounted for by the non-controlling partners (5.1%) in LB Immo Invest GmbH was stated on the basis of the corresponding share of the identified net assets of the purchased company (revaluation method) and amounts to EUR 1.9 million. The resulting goodwill amounts to EUR 0.6 million and is based on expected synergistic effects between the purchased company and the existing company PATRIZIA WohnInvest KAG and also the other service companies of the PATRIZIA Group.

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

With the exception of the disclosure 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 unchanged. The gross receivables are equivalent to the shown amounts as no irrecoverable debt was expected. There were no other intangible assets that could be recognized in expectation of a future economic benefit.

The fund management contracts assigned to the intangible assets are subject to depreciation over the expected residual term of the agreements. During the period under review current amortization of EUR 2.0 million was applied.

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.

The acquired cash amounted to EUR 7.1 million.

LB Immo Invest GmbH was renamed PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH as of June 1, 2011. It contributed revenues of EUR 18.44 million and net earnings of EUR 0.7 million to the group accounts for the time of the acquisition until December 31, 2011.

Under a contract dated May 3, 2011, PATRIZIA established a subsidiary, PATRIZIA Scandinavia AB, with headquarters in Stockholm, Sweden. The starting capital was TSEK 50. The company is tasked with analysis of the northern European real estate market with a view to supporting globalization of the PATRIZIA Group and the acquisition of real estate.

A contract dated August 30, 2011, established PATRIZIA WohnModul I SICAV-FIS (SICAV-FIS) with headquarters in Luxembourg. The object of the company is the direct and indirect investment of company assets in real estate companies, real estate and the development of real estate. PATRIZIA Immobilien AG has a 9.09% stake in the capital of WohnModul I SICAV-FIS. The share capital of the SICAV-FIS is divided into two stock classes (A and B) which have the same voting rights. PATRIZIA Immobilien AG only has shares of stock class B. It holds 51% of the voting rights: Class A stockholders are entitled to appoint members of the governing organs. Consequently, PATRIZIA does not exert a controlling influence on the SICAV-FIS. As part of the process of commencing operations, PATRIZIA Immobilien AG sold 94.9% of its shares in the subsidiaries PATRIZIA Real Estate 30 S.à r.l., PATRIZIA Projekt 430 GmbH and PATRIZIA Projekt 440 GmbH, which were previously fully consolidated, to a wholly owned subsidiary of the SICAV-FIS (a Luxembourg intermediate holding company) at the carrying amount, with the result that the sub-companies were removed from the scope of consolidation with effect from August 30, 2011. The SICAV-FIS has not been included in the PATRIZIA Group's scope of fully consolidated companies due to the lack of ability to exert control over the company. The participating interest in the SICAV-FIS is accounted for at equity in PATRIZIA's consolidated financial statements.

Under a notarial agreement dated December 22, 2011, PATRIZIA Immobilien AG sold its shares in PATRIZIA Projekt 280 Verwaltungs GmbH and in PATRIZIA Projekt B 280 GmbH & Co. KG to PATRIZIA Projekt 150 GmbH, with the result that this company became sole stockholder of PATRIZIA B 280 GmbH & Co. KG. A plot of land belonging to PATRIZIA Projekt 150 GmbH was then sold to the capital company (KG) at market value. Following the subsequent sale of 90% of the shares in PATRIZIA Projekt 150 GmbH outside the Group, the company was removed from the scope of consolidation at the year-end. Under this transaction PATRIZIA Immobilien AG assumed a refurbishment obligation in an amount of EUR 2.2 million.

Under a notarial agreement dated December 20, 2011 and a supplementary notarial agreement dated December 30, 2011, PATRIZIA Immobilien AG founded a project company with AM Alpha Immobilien GmbH; PATRIZIA Immobilien AG has a 30% stake in this project company. The PATRIZIA Group does not have any material influence on decisions relating to business and financial policy; consequently, the company is not included as an associated company.

The former company PATRIZIA Project 330 GmbH was renamed PATRIZIA Facility Management GmbH with effect from December 13, 2011. The company commenced business operations in the 2011 fiscal year.

The former company PATRIZIA Projekt 460 GmbH was renamed PATRIZIA Alternative Investments GmbH with effect from December 15, 2011.

PATRIZIA Acquihold S.à r.l. with headquarters in Luxembourg was established by PATRIZIA Luxembourg S.à r.l., an indirect 100% subsidiary of PATRIZIA AG, with effect from December 2, 2011. The company has a common capital stock of TEUR 12.5 and its main object is to acquire participating interests in companies of any type in Luxembourg or in other countries.

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 comprise the cash paid for the acquisition. Since January 1, 2010, ancillary costs that are directly attributable to the acquisition are accounted for immediately through profit or loss. 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 and associated companies 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.

2.5 CURRENCY TRANSLATION

The consolidated financial statements were prepared in EURO, the Group's functional currency. With the exception of the subsidiary PATRIZIA Property Inc. in Delaware, USA, which was founded in the 2010 fiscal year, and of the subsidiary PATRIZIA Scandinavia AB, which is headquartered in Stockholm, Sweden, and was founded in the 2011 fiscal year, the scope of consolidation is made up only of subsidiaries located in the European Monetary Union; consequently, only two sets of financial statements are in a foreign currency and require 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 GOODWILL

The goodwill that results from a business combination is accounted for at acquisition cost less any required impairments and shown separately in the consolidated balance sheet.

In order to verify possible impairments, the goodwill is allocated to each cash-generating unit of the Group which is expected to derive a benefit from the synergies resulting from the business combination.

The cash-generating units that are allocated a portion of the goodwill are subject to an annual impairment review. If there is evidence of an impairment for an entity, that entity is assessed more frequently. If the recoverable amount of a cash-generating unit is smaller than the unit's carrying amount, the impairment expense is initially assigned to the carrying amount of any goodwill assigned to the unit and then proportionately to the other assets based on the carrying amount of each asset within the unit.

3.2 SOFTWARE

Software is 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 10 years.

3.3 MANAGEMENT CONTRACTS

Management contracts acquired as part of the business combination with the company now known as PATRIZIA GewerbeInvest KAG are shown separately from the goodwill; at the time of their acquisition they are measured at fair value.

In subsequent periods these management contracts are measured in exactly the same way as individually acquired intangible assets (i. e. at acquisition cost less cumulative amortization and any cumulative impairments).

The period of amortization for the management contracts is based on the expected terms of the fund contracts.

3.4 EQUIPMENT

Equipment is 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 write-ups, 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. Equipment is amortized over 3 to 14 years.

3.5 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.

3.6 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. For individual investment properties, the residential property resale process was launched in 2010 and successfully continued and expanded in 2011. Valuation of these properties is based on current comparative values.

The market value is equivalent to the fair value. The valuation method used to determine fair value pursuant to IAS 40.38 et seq. is based on a hypothetical transaction price, the most likely amount at which the asset could be exchanged between knowledgeable, willing parties in an arms-length transaction. With regard to content this definition also corresponds to the definition of the market value pursuant to Section 194 of the Baugesetzbuch (BauGB – Federal Building Code). In particular, this estimate excludes price assumptions that are increased or reduced by subsidiary agreements or special circumstances. 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 income value method following ImmoWertV, 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 5.38% of rental income, and the risk of loss of rental income amounting to 2% of rental income. The utilized interest rate for capitalization amounts betweeeen the range of 4.5 – 5.75%.

The properties that are now earmarked for residential property resale are not valued by independent experts but are instead 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.

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 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.

3.7 PARTICIPATIONS IN ASSOCIATED COMPANIES

PATRIZIA WohnModul I SICAV-FIS represents an associated company for PATRIZIA. Associated companies are companies in which PATRIZIA is able to assert a material influence on the company's business and financial policy (generally through a direct or indirect share of voting rights of 20 – 50%); in the consolidated financial statements, they are accounted for using the equity method and are initially reported at the cost of purchase.

PATRIZIA's share in the associated company's result following the acquisition is shown in the consolidated income statement. The cumulative changes after the date of acquisition increase or reduce the associated company's investment carrying amount. If the losses of an associated company that are attributable to PATRIZIA equal or exceed the value of the share in this company, no further shares in losses are recorded unless PATRIZIA has entered into obligations or has effected payments for the associated company.

The share in an associated company is the carrying amount of the participating interest, plus all non-current shares which, according to the business purpose, are attributable to the owner's net investment in the associated company. On every balance-sheet reporting date, PATRIZIA checks whether there is objective evidence for an impairment of the share in the associated company. If such evidence exists, PATRIZIA determines the impairment requirement as the difference between the recoverable amount and the carrying amount of the associated company. At the time when a material influence on an associated company is lost, any remaining shares are revalued at fair value. The difference between the carrying amount of the associated company and the fair value of the remaining share plus any sales proceeds is recorded through profit or loss.

3.8 INVESTMENTS 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 (IAS 31.38). 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.

3.9 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.

3.10 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.

3.11 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.

3.12 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.

3.13 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.

3.14 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.

3.15 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.

3.16 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.

3.17 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.

3.18 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.

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.

3.19 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.

3.20 INCOME REALIZATION

The basic prerequisite for recognition of profit 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.

3.21 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.

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 - 2011

EUR '000	Goodwill	Intangible Assets	Equipment	Total
Acquisition costs				
Balance 01/01/2011	**0**	**3,641**	**4,929**	**8,570**
Additions	610	50,260	1,799	52,669
Disposals	0	0	0	0
Balance 12/31/2011	**610**	**53,901**	**6,728**	**61,239**
Amortization				
Balance 01/01/2011	**0**	**830**	**3,036**	**3,866**
Additions	0	2,564	930	3,494
Disposals	0	0	0	0
Balance 12/31/2011	**0**	**3,394**	**3,966**	**7,360**
CARRYING AMOUNTS AS AT 01/01/2011	**0**	**2,811**	**1,893**	**4,704**
CARRYING AMOUNTS AS AT 12/31/2011	**610**	**50,507**	**2,762**	**53,879**

DEVELOPMENT OF NON-CURRENT ASSETS – 2010

EUR '000	Goodwill	Intangible Assets	Equipment	Total
Acquisition costs				
Balance 01/01/2010	**0**	**1,090**	**4,214**	**5,304**
Additions	0	2,551	913	3,464
Disposals	0	0	–198	–198
Balance 12/31/2010	**0**	**3,641**	**4,929**	**8,570**
Amortization				
Balance 01/01/2010	**0**	**551**	**2,564**	**3,115**
Additions	0	279	625	904
Disposals	0	0	–153	–153
Balance 12/31/2010	**0**	**830**	**3,036**	**3,866**
CARRYING AMOUNTS AS AT 01/01/2010	**0**	**539**	**1,650**	**2,189**
CARRYING AMOUNTS AS AT 12/31/2010	**0**	**2,811**	**1,893**	**4,704**

DEVELOPMENT OF NON-CURRENT ASSETS – 2011

EUR ’000	Investment Property
Fair Value	
Balance 01/01/2011	**614,945**
Additions – assets	1,368
Disposal – assets	–83,995
Positive fair value changes	4,770
Negative fair value changes	–4,767
BALANCE 12/31/2011	**532,321**

DEVELOPMENT OF NON-CURRENT ASSETS – 2010

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

DEVELOPMENT OF NON-CURRENT ASSETS – 2011

EUR '000	Participations in associated companies	Investments in joint ventures	Participations	Total
Acquisition costs				
Balance 01/01/2011	**0**	**8**	**3,090**	**3,098**
Additions	6,818	5	44	6,867
Disposals	0	0	0	0
Balance 12/31/2011	**6,818**	**13**	**3,134**	**9,965**
Adjustments at equity/ amortization				
Balance 01/01/2011	**0**	**–5**	**0**	**–5**
Additions	0	10	0	10
Disposals	–9	0	0	–9
Balance 12/31/2011	**–9**	**5**	**0**	**–4**
CARRYING AMOUNTS AS AT 01/01/2011	**0**	**8**	**3,090**	**3,098**
CARRYING AMOUNTS AS AT 12/31/2011	**6,809**	**18**	**3,134**	**9,961**

DEVELOPMENT OF NON-CURRENT ASSETS – 2010

EUR '000	Participations in associated companies	Investments in joint ventures	Participations	Total
Acquisition costs				
Balance 01/01/2010	**0**	**13**	**3,090**	**3,103**
Additions	0	0	0	0
Disposals	0	0	0	0
Balance 12/31/2010	**0**	**13**	**3,090**	**3,103**
Adjustments at equity/ amortization				
Balance 01/01/2010	**0**	**0**	**0**	**0**
Additions	0	–5	0	–5
Disposals	0	0	0	0
Balance 12/31/2010	**0**	**–5**	**0**	**–5**
CARRYING AMOUNTS AS AT 01/01/2010	**0**	**13**	**3,090**	**3,103**
CARRYING AMOUNTS AS AT 12/31/2010	**0**	**8**	**3,090**	**3,098**

The intangible assets include the goodwill of TEUR 610 arising in connection with the acquisition of PATRIZIA GewerbeInvest. The goodwill will not be deductible in future fiscal periods and is therefore treated as a permanent difference when determining deferred taxes. An impairment test did not reveal any valuation requirement.

Moreover, the significant addition of TEUR 47,195 relating to the hidden reserves identified during the purchase price allocation of PATRIZIA GewerbeInvest is attributable to the fund management contracts. The hidden reserves are currently depreciated by an amount of TEUR 1,968 per annum. A review of the fair value method did not reveal any additional impairment requirement.

Investment property is property that is held for generating rental income and/or for capital appreciation; in accordance with IAS 40, it is valued at market values through profit or loss. In the year under review a total of ten investment properties in Berlin, Hamburg, Munich and Überlingen were sold. In addition, six properties in Berlin, Hamburg and Munich were privatized during the fiscal year. A further five properties will be privatized in the 2012 fiscal year. The planned fair value disposal is TEUR 170,658.

The fair value of the pledged investment properties is TEUR 532,321 (previous year: TEUR 614,945).

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

The item Participations includes the 5.2% (previous year: 5.2%) share in Hyrebostädter i Norra Tyskland Verwaltungs GmbH, the 6.25% share (previous year: 6.25%) in PATRoffice Real Estate GmbH & Co. KG, the 9.09% (previous year: 0%) share in PATRIZIA WohnModul I SICAV-FIS and also the 30% (previous year: 0%) share in Projekt Feuerbachstraße GmbH & Co. KG.

4.2 TAX ASSETS

Corporation tax credits of TEUR 237 (previous year: TEUR 281) 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.

In addition, an amount of TEUR 609 (previous year: TEUR 0) is shown for deferred tax assets in relation to loss carryforwards.

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	2011	2010
Real estate intended for sale	346,443	456,507
Real estate in the development phase	61,086	53,931
	407,529	510,438

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

As at December 31, 2011, one property was still in the development phase. In 2011 inventories with a total carrying amount of TEUR 129,747 (previous year: TEUR 199,205) were sold. In the year under review no adjustments were made to inventories (previous year: TEUR 0).

The carrying amounts of the inventories which are pledged as security total TEUR 399.497 (previous year: TEUR 509,248).

Realization of inventories amounting to TEUR 194,308 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 4,947 (previous year: TEUR 470).

As at December 31, 2011, the nominal volume of the derivatives classified as ineffective totaled TEUR 524,485 (previous year: TEUR 530,518); the corresponding market values were TEUR –31,454 (previous year: TEUR –36,402).

The changes to the fair values of the effective hedging derivatives of TEUR –1,235 (previous year: TEUR 2,555) were directly recognized in equity, taking deferred taxes of TEUR –195 (previous year: TEUR –403) into account).

During the year under review market value changes of TEUR 190 (previous year: TEUR 151) were taken into account in the income statement as ineffective portions of hedging derivatives.

As at December 31, 2011, the nominal volume of these hedging derivatives totaled TEUR 60,000 (previous year: TEUR 85,000); the corresponding market values were TEUR –2,249 (previous year: TEUR –3,676).

In the year under review, no value changes in cash flow hedges (previous year: TEUR 3,870) were released through profit or loss, with derecognition of the corresponding deferred taxes applied, and transferred to the financial result.

As at December 31, 2011, 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 –1,331 (previous year: TEUR –2,372). It is expected that 14.8% of the interest hedging transactions will end in accordance with the contracts in 2012, and that 56.2% will end in 2013 and 29.0% 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	2011	2010
Trade receivables	9,893	4,296
Other current assets	54,393	5,986
	64,286	**10,282**

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	2011	2010
Rent receivables	225	**288**
of which < 60 days	225	288
of which > 60 days and < 180 days	0	0
of which > 180 days	0	0

Rent receivables of TEUR 225 (previous year: TEUR 288) are secured through rental deposits.

Trade receivables and other current assets are decreased by specific value adjustments of TEUR 4,388 (previous year: TEUR 3,160).

The main rise of TEUR 28,908 in other current assets was due to a receivable from the sale of a project company on December 31, 2011. It was also necessary to show receipts of monies into notary public escrow accounts which could not be forwarded in the fiscal year. These receipts amounted to TEUR 15,913.

CHANGES IN THE VALUE ADJUSTMENT ACCOUNT FOR RECEIVABLES

EUR '000	2011	2010
Balance as at January 1	**3,160**	**1,762**
Additions	**1,617**	**1,902**
Outflows due to derecognitions	–46	–504
Outflows due to payments received	–343	0
BALANCE AS AT DECEMBER 31	**4,388**	**3,160**

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 1,831 (previous year: TEUR 20,320) is pledged as security. A breakdown is shown below:

An amount of TEUR 1,000 is pledged in favor of R+V Versicherung as collateral for a guaranty credit. This guaranty 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 731 was pledged to Zurich Versicherung as security for a guaranty in a total amount of TEUR 5,000. This can be used for various guaranties by PATRIZIA; cash collateral is 15%.

A further amount of TEUR 100 is pledged in favor of Bayerische Landesbank (institution under public law) as collateral for an interest hedge.

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 26,871,953 no-par value shares (previous year: 26,047,572 no-par value shares), which equates to a 51.55% 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 878 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 –1,538 with the result that earnings of TEUR –78 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	12/31/2011	12/31/2010
Less than 1 year	90,044	523,314
1 to 2 years	81,095	88,775
More than 2 to 5 years	522,213	229,291
More than 5 years	0	0
TOTAL	693,352	841,380

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

MATURITY

Year	Amount of loans due as at 12/31/2011	
	EUR '000	in %
2012	90,044	13.0
2013	81,095	11.7
2014	514,613	74.2
2015	7,600	1.1
TOTAL	693,352	100

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 691,553 (previous year: TEUR 837,018). In addition, financial liabilities are secured by assigning purchase prices, and by assigning future rental payments.

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	12/31/2011 Assets	12/31/2011 Liabilities	12/31/2010 Assets	12/31/2010 Liabilities
Investment property	0	14,694	0	16,035
Inventories	0	771	1,318	0
Derivatives	5,333	0	6,421	0
Tax loss carryforwards	609	0	817	0
Intangible Assets PATRIZIA GewerbeInvest KAG	0	14,597	0	0
Securities PATRIZIA GewerbeInvest KAG	0	219	0	0
Consolidation of debts	0	1,269	0	527
Other	5	102	4	297
	5,947	**31,652**	**7,242**	**16,943**
Netting	–5,338	–5,338	–7,242	–7,242
	609	**26,314**	**0**	**9,701**

Deferred tax assets of TEUR 355 (previous year: TEUR 0) exist in respect of corporation tax loss carryforwards of TEUR 2,243 (previous year: TEUR 0). Deferred tax assets of TEUR 254 (previous year: TEUR 817) exist in respect of trade tax loss carryforwards of TEUR 1,693 (previous year: TEUR 5,445).

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 1,629 (previous year: TEUR 2,666) due to the lack of predictability of their tax usability.

In addition, on the balance sheet date, one company (previous year: 1 company) had corporation tax loss carryforwards of TEUR 41,909 (previous year: TEUR 49,326); 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 9,411 (previous year: TEUR 7,478).

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. Two 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. 2.5%) on the basis of an actuarial report prepared in accordance with IAS 19. As at December 31, 2011, an actuarial interest rate of 4.6% (previous year: 4.78%) 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, 2011, the pension provision recognized was TEUR 371 (previous year: TEUR 368). Due to the low level of the annual pension payments of TEUR 38 (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 2011

EUR '000	01/01/2011	Addition	Release	Drawn	01/01/2011
Other provisions	666	1,092	160	506	1,092
	666	**1,092**	**160**	**506**	**1,092**

OTHER PROVISIONS 2010

EUR '000	01/01/2010	Addition	Release	Drawn	01/01/2010
Other provisions	580	666	6	574	666
	580	**666**	**6**	**574**	**666**

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

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

5.6 CURRENT LIABILITIES

A breakdown of current liabilities is shown below:

CURRENT LIABILITIES

EUR '000	2011	2010
Trade payables	1,606	2,655
Advance payments	309	347
Other liabilities	20,729	14,006
	22,644	**17,008**

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 9,062 (previous year: TEUR 6,537).

5.7 TAX LIABILITIES

The tax liabilities mainly concern subsequent taxation of the former Equity 02 portfolios amounting to TEUR 2,847 (previous year: TEUR 3,239), corporation tax and trade tax on profits of domestic subsidiaries amounting to TEUR 2,750 (previous year: TEUR 5,334) and income taxes in Luxembourg of TEUR 4,579 (previous year: TEUR 108) and also other taxes.

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, 2011 and taking into account existing financial derivatives, approximately 84% (previous year: 73%) 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, 2011 and without taking taxes into account, this would have an effect of TEUR +9,372 (previous year: TEUR +12,090) on the consolidated profit and TEUR +846 (previous year: TEUR +2,424) on consolidated equity. Taking deferred taxes into account, an increase of 100 basis points in the interest rate would have an effect of TEUR +7,251 (previous year: TEUR +7,925) on the consolidated profit and TEUR +712 (previous year: TEUR +2,041) on consolidated equity. When determining the ef-fects, 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.

CAPITAL MANAGEMENT

EUR '000	2011	2010
Interest-bearing loans	693,352	841,380
Trade payables and other liabilities	34,209	27,087
Less cash and short-term deposits	–31,828	–70,537
Net financial liabilities	**695,733**	**797,930**
Equity	310,075	294,732
Unrecognized losses	1,331	2,372
Total modified equity	**311,406**	**297,104**
Modified equity and net financial liabilities	1,007,139	1,095,034
Gearing ratio	69%	73%

5.9 FINANCIAL ASSETS AND LIABILITIES

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

FINANCIAL ASSETS

EUR '000	2011	2010
Loans and receivables	65,235	10,282
Available-for-sale financial assets	3,134	3,090
Bank balances and cash	31,828	70,537

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

CARRYING AMOUNTS OF FINANCIAL LIABILITIES

EUR '000	2011	2010
Financial liabilities which are measured at fair value through profit or loss and are held for trading in accordance with IAS 39	31,454	36,401
Financial liabilities which are measured at amortized cost	698,897	858,388
Derivative financial instruments which are designated as hedging instruments and are effective as such	2,249	3,677

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

NET PROFIT/LOSS BY CATEGORY

EUR '000	2011	2010
Loans and receivables	+1,142	+375
Available-for-sale financial assets	+96	0
Bank balances and cash	+1,722	+573
Financial liabilities which are measured at fair value through profit or loss and are held for trading in accordance with IAS 39 (interest cost)	–16,851	–23,024
Financial liabilities which are measured at amortized cost	–23,564	–25,782
Financial liabilities which are measured at fair value through profit or loss and are held for trading in accordance with IAS 39 (impairment)	+4,947	+470
included in consolidated profit	+190	+150

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 38,864 (previous year: TEUR 42,256).

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 5,053 (previous year: TEUR 1,330); income from liability compensation in the amount of TEUR 588 (previous year: TEUR 588); income from payments in kind of TEUR 553 (previous year: TEUR 693); income from insurance compensation in the amount of TEUR 367 (previous year: TEUR 343), income from reimbursed court costs and lawyers' fees in the amount of TEUR 110 (previous year: TEUR 66) and income from received discounts in the amount of TEUR 193 (previous year: TEUR 330).

6.4 COSTS 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 3,639 (previous year: TEUR 7,420) in maintenance expenses and also additional current expenses of TEUR 3,138 (previous year: TEUR 10,738) in respect of investment property.

6.5 STAFF COSTS

A breakdown of staff costs is shown below:

STAFF COSTS

EUR '000	2011	2010
Wages and salaries	31,573	25,100
Social insurance contributions	4,099	3,480
	35,672	**28,580**

6.6 AMORTIZATION

Scheduled amortization of software and equipment amounted to TEUR 1,526 (previous year: TEUR 904). This item also shows amortization of the hidden reserves allocated to the fund management contracts when PATRIZIA GerwerbeInvest was acquired. Subject to an annual impairment test, the annual amortization amount is TEUR 1,968 (previous year: TEUR 0).

6.7 OTHER OPERATING EXPENSES

A breakdown of other operating expenses is shown below:

OTHER OPERATING EXPENSES

EUR '000	2011	2010
Operating expenses	6,536	4,242
Administrative expenses	10,506	5,922
Selling expenses	14,926	4,693
Other expenses	9,022	6,519
	40,990	**21,376**

6.8 FINANCIAL RESULT

FINANCIAL RESULT

EUR '000	2011	2010
Interest on bank deposits	1,722	573
Income from securities	96	0
Income from interest hedges	0	0
Changes in the value of derivatives	6,028	10,546
Other interest	1,142	375
	8,988	**11,494**
Interest on revolving lines of credit and bank loans	-23,564	-25,782
Expenses from interest hedges	-16,851	-23,024
Changes in the value of derivatives	-889	-12,172
Other finance costs	-2,414	-272
	-43,718	**-61,250**
	-34,730	**-49,756**

Interest income of TEUR 1,142 (previous year: TEUR 375), 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	2011	2010
Current taxes	–5,814	–2,056
Deferred taxes	–599	–3,231
	4,908	**–5,287**

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.

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	2011	2010
IFRS consolidated profit/loss for the period before income tax	19,906	11,488
Expected actual income tax expenses	–6,137	–3,541
Tax additions and deductions	–1,326	–1,601
Use of non-capitalized loss carryforwards	1,360	1,096
Non recognition of loss carryforwards	–713	0
Trade tax effects from income subject to limited taxation	240	–1,086
Effects outside the period	561	700
Other	–398	–855
EFFECTIVE TAX EXPENSE	**–6,413**	**–5,287**

6.10 EARNINGS PER SHARE

EARNINGS PER SHARE

	2011	2010
Profit share of Group shareholders	13,571,454	6,201,680
Number of shares issued	52,130,000	52,130,000
Weighted number of shares	52,130,000	52,130,000
EARNINGS PER SHARE (UNDILUTED)	**0.26 EUR**	**0.12 EUR**

There were no diluted earnings per share in the reporting year or in the previous year. As at December 31, 2011, there was authorized capital of TEUR 26,065.

7 SEGMENT REPORTING

PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH (formerly LB Immo Invest GmbH) became a new operating subsidiary of the PATRIZIA Group with effect from January 3, 2011 (cf. item 2.1 Scope of Consolidation). This was the reason for PATRIZIA to alter the existing corporate structure. From now on, the use of real estate as residential or commercial property determines and segments the associated activities. The business activities of the PATRIZIA Group are separated into the segments residential, commercial and special real estate transactions.

The segmentation of the corporate divisions is based on the changed internal reporting lines. This means that financial reporting has to reflect the changes. The segments are as follows:

The residential segment bundles all activities relating to own and co-investments, services and funds in the field of residential real estate. The real estate for residential property resale and block sales is held as own investments. 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 7,548 (December 31, 2010: 9,285) residential units that are listed as investment property and inventories. The asset management company PATRIZIA WohnInvest Kapitalanlagegesellschaft mbH is also part of this segment. As at December 31, 2011, it had established five real-estate special funds. The segment manages funds of approx. EUR 1.8 bn.

The commercial segment combines the same portfolio of services for commercial real estate. This also covers PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH and the co-investment PATRoffice Real Estate GmbH & Co. KG. The only proprietary investment of PATRIZIA is a commercial property with 25 units or 12,400 sqm. The segment manages funds of approx. EUR 3.4 bn.

PATRIZIA Alternative Investments GmbH, PATRIZIA Immobilienmanagement GmbH, PATRIZIA Projektentwicklung GmbH and PATRIZIA Sales GmbH, which serve both the residential and commercial real estate sectors, form the segment Special Real Estate Solutions. A significant portion of the services is used by in-house entities. Moreover, the companies act for external third parties.

The internal corporate, cross-company services provided by the holding company will remain unchanged in the segment Corporate. All consolidating entries are also processed via the segment Corporate. Thus all internal output is consolidated in the column Group, which represents the external output of the Group.

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 are listed in the internal control and reporting as EBIT, EBT, EBIT adjusted and EBT adjusted.

EBT comprises a total of revenues, income from the sale of investment property, changes in inventories, 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 the adjusted EBIT, allowances are made for the non-liquidity-related effect of amortizations of other intangible assets (fund management contracts) created in the course of the acquisition of PATRIZIA Gewerbe-Invest Kapitalanlagegesellschaft mbH (formerly LB Immo Invest GmbH). Further adjustments are made to account for the results of the market valuation of the interest rate hedging instruments.

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

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

The individual segment figures are set out below. The reporting of amounts in EUR thousands can result in rounding differences. The calculation of the single financial figures is carried out on basis of non-rounded figures. Figures from the previous year have been adapted to the new structure.

FOURTH QUARTER 2011 (OCTOBER 1 – DECEMBER 31, 2011)

EUR '000	Residential	Commercial	Special Real Estate Solutions	Corporate/ Consoli-dation	Total
Portfolio-Management					
Third-party revenues	3,248	923	2,013	-193	5,991
Rental revenues	0	0	1	0	1
Revenues from services	3,297	929	2,024	-242	6,008
Intercompany revenues	4,627	429	1,211	-6,378	-111
Own Investments					
Residential Property Resale					
Third-party revenues	37,371	–	82	–	37,453
Rental revenues	5,990	–	0	–	5,989
Purchase price revenues from single unit sales	25,819	–	0	–	25,819
Purchase price revenues from bloc sales	4,100	–	0	–	4,100
Other revenues	1,463	–	82	–	1,545
Intercompany revenues	46	–	31	–	77
Asset Repositioning					
Third-party revenues	55,941	483	–	–	56,424
Rental revenues	6,285	336	–	–	6,621
Purchase price revenues from bloc sales	47,200	0	–	–	47,200
Other revenues	2,457	147	–	–	2,604
Intercompany revenues	18	17	–	–	34
Funds					
Third-party revenues	3,713	4,197	–	–	7,910
Revenues from services	3,713	4,197	–	–	7,910
Intercompany revenues	0	0	–	–	0
Total Group Revenues					
Third-party revenues	100,274	5,603	2,095	-187	107,785
Rental revenues	12,274	336	1	0	12,611
Revenues from services	7,010	5,127	2,024	-242	13,919
Purchase price revenues from single unit sales	25,819	0	0	0	25,819
Purchase price revenues from bloc sales	51,300	0	0	0	51,300
Other revenues	3,834	141	70	55	4,099
Intercompany revenues	4,691	446	1,242	-6,378	0
Finance income	4,343	550	394	-953	4,333
Finance cost	-13,862	-1,586	-1,105	6,328	-10,225
Significant non-cash earnings					
Market valuation income derivatives	1,926	189	0	0	2,115
Market valuation expenditures derivatives	0	0	0	0	0
Results from fair value adjustments to investment property	3	0	0	0	3
Amortization of other intangible assets	0	-492	0	0	-492
Valuation of fund shares	0	21	0	0	21
Segment result EBIT	28,541	1,084	-1,876	-9,014	18,735
Segment result EBT	19,021	48	-2,586	-3,636	12,846
Segment result EBIT adjusted	28,539	1,576	-1,876	-9,014	19,224
Segment result EBT adjusted	17,093	330	-2,586	-3,636	11,200
Of which result from financial investments valued at equity	–	–	–	5	5
Segment assets	899,297	115,059	94,013	-6,085	1,102,284
of which shareholding carrying amounts of financial investments valued at equity	0	0	0	6,838	6,838
Additions to non-current assets	1,368	47,195	0	0	48,563
Segment liabilities	861,906	77,892	71,781	-219,370	792,209

FOURTH QUARTER 2010 (OCTOBER 1 – DECEMBER 31, 2010)

EUR '000	Residential	Commercial	Special Real Estate Solutions	Corporate/ Consoli-dation	Total
Portfolio-Management					
Third-party revenues	707	519	717	1	1,944
Rental revenues	0	57	42	3	102
Revenues from services	707	463	675	0	1,844
Intercompany revenues	3,191	1,416	1,281	–5,991	-102
Own Investments					
Residential Property Resale					
Third-party revenues	35,910	–	36,910	–	72,820
Rental revenues	5,228	–	48	–	5,276
Purchase price revenues from single unit sales	29,816	–	7,618	–	37,434
Purchase price revenues from bloc sales	0	–	29,067	–	29,067
Other revenues	866	–	177	–	1,042
Intercompany revenues	77	–	0	–	77
Asset Repositioning					
Third-party revenues	42,361	555	–	–	42,916
Rental revenues	9,561	333	–	–	9,896
Purchase price revenues from bloc sales	29,352	0	–	–	29,350
Other revenues	3,448	221	–	–	3,669
Intercompany revenues	6	18	–	–	25
Funds					
Third-party revenues	686	0	–	–	686
Revenues from services	686	0	–	–	686
Intercompany revenues	0	0	–	–	0
Total Group Revenues					
Third-party revenues	79,663	1,074	37,627	1	118,365
Rental revenues	14,791	390	90	3	15,272
Revenues from services	1,381	463	635	0	2,478
Purchase price revenues from single unit sales	29,816	0	7,618	0	37,434
Purchase price revenues from bloc sales	29,350	0	29,067	–2	58,417
Other revenues	4,326	221	217	0	4,764
Intercompany revenues	3,275	1,435	1,281	–5,991	0
Finance income	7,116	77	177	–175	7,196
Finance cost	–15,397	–346	–770	3,127	–13,386
Significant non-cash earnings					
Market valuation income derivatives	6,795	0	0	0	6,795
Market valuation expenditures derivatives	–1,391	0	0	0	–1,391
Results from fair value adjustments to investment property	325	0	0	0	325
Amortization of other intangible assets	0	0	0	0	0
Valuation of fund shares	0	0	0	0	0
Segment result EBIT	9,289	607	7,514	–864	16,546
Segment result EBT	1,010	339	6,922	2,080	10,350
Segment result EBIT adjusted	8,964	607	7,514	–864	16,221
Segment result EBT adjusted	–4,719	339	6,922	2,080	4,621
Of which result from financial investments valued at equity	–	–	–	–5	–5
Segment assets	1,056,940	17,553	61,982	78,073	1,214,548
of which shareholding carrying amounts of financial investments valued at equity	0	0	0	8	8
Additions to non-current assets	0	0	0	0	0
Segment liabilities	1,020,548	16,726	37,849	–155,307	919,816

TWELVE MONTHS OF 2011 (JANUARY 1 – DECEMBER 31, 2011)

EUR '000	Residential	Commercial	Special Real Estate Solutions	Corporate/ Consoli-dation	Total
Portfolio-Management					
Third-party revenues	3,879	2,266	4,583	–185	10,544
Rental revenues	0	0	1	2	3
Revenues from services	3,879	2,266	4,582	–242	10,485
Intercompany revenues	14,233	2,286	6,148	–22,985	–318
Own Investments					
Residential Property Resale					
Third-party revenues	138,692	–	404	–	139,096
Rental revenues	20,810	–	310	–	21,120
Purchase price revenues from single unit sales	95,895	–	0	–	95,895
Purchase price revenues from bloc sales	15,833	–	0	–	15,833
Other revenues	6,154	–	94	–	6,248
Intercompany revenues	165	–	31	–	196
Asset Repositioning					
Third-party revenues	91,119	2,104	–	–	93,223
Rental revenues	32,820	1,380	–	–	34,200
Purchase price revenues from bloc sales	47,200	0	–	–	47,200
Other revenues	11,099	724	–	–	11,823
Intercompany revenues	54	68	–	–	122
Funds					
Third-party revenues	7,763	18,381	–	–	26,144
Revenues from services	7,763	18,381	–	–	26,144
Intercompany revenues	0	0	–	–	0
Total Group Revenues					
Third-party revenues	241,453	22,752	4,987	–185	269,007
Rental revenues	53,630	1,380	311	2	55,323
Revenues from services	11,642	20,648	4,582	–242	36,629
Purchase price revenues from single unit sales	95,895	0	0	0	95,895
Purchase price revenues from bloc sales	63,033	0	0	0	63,033
Other revenues	17,254	724	94	55	18,127
Intercompany revenues	14,452	2,354	6,179	–22,985	0
Finance income	8,932	1,117	1,056	–2,116	8,988
Finance cost	–51,150	–3,431	–3,087	13,949	–43,718
Significant non-cash earnings					
Market valuation income derivatives	5,696	332	0	0	6,028
Market valuation expenditures derivatives	-889	0	0	0	–889
Results from fair value adjustments to investment property	3	0	0	0	3
Amortization of other intangible assets	0	–1,968	0	0	–1,968
Valuation of fund shares	0	21	0	0	21
Segment result EBIT	73,299	3,770	–2,873	–19,565	54,631
Segment result EBT	31,081	1,456	–4,903	–7,727	19,906
Segment result EBIT adjusted	73,297	5,738	–2,873	–19,565	56,596
Segment result EBT adjusted	26,272	3,071	–4,903	–7,727	16,712
Of which result from financial investments valued at equity	–	–	–	5	5
Segment assets	899,297	115,059	94,013	–6,085	1,102,284
of which shareholding carrying amounts of financial investments valued at equity	0	0	0	6,838	6,838
Additions to non-current assets	1,368	47,195	0	0	48,563
Segment liabilities	861,906	77,892	71,781	–219,370	792,209

TWELVE MONTHS OF 2010 (JANUARY 1 – DECEMBER 31, 2010)

EUR '000	Residential	Commercial	Special Real Estate Solutions	Corporate/ Consoli-dation	Total
Portfolio-Management					
Third-party revenues	1,541	2,118	3,219	5	6,883
Rental revenues	0	322	565	5	891
Revenues from services	1,541	1,797	2,654	0	5,992
Intercompany revenues	13,785	4,563	4,922	–23,601	-330
Own Investments					
Residential Property Resale					
Third-party revenues	202,392	–	42,677	–	245,069
Rental revenues	23,429	–	87	–	23,517
Purchase price revenues from single unit sales	128,930	–	13,305	–	142,235
Purchase price revenues from bloc sales	42,100	–	29,067	–	71,167
Other revenues	7,933	–	218	–	8,150
Intercompany revenues	278	–	0	–	278
Asset Repositioning					
Third-party revenues	80,566	2,027	–	–	82,594
Rental revenues	38,143	1,255	–	–	39,397
Purchase price revenues from bloc sales	29,352	0	–	–	29,352
Other revenues	13,072	773	–	–	13,844
Intercompany revenues	6	43	–	–	49
Funds					
Third-party revenues	5,048	0	–	–	5,048
Revenues from services	5,048	0	–	–	5,048
Intercompany revenues	2	0	–	–	2
Total Group Revenues					
Third-party revenues	289,547	4,146	45,896	5	339,593
Rental revenues	61,572	1,576	652	5	63,805
Revenues from services	6,589	1,797	2,654	0	11,040
Purchase price revenues from single unit sales	128,930	0	13,305	0	142,235
Purchase price revenues from bloc sales	71,452	0	29,067	0	100,519
Other revenues	21,005	773	218	0	21,995
Intercompany revenues	14,072	4,607	4,922	–23,601	0
Finance income	11,254	268	666	–694	11,494
Finance cost	–69,048	–1,337	–2,539	11,675	–61,250
Significant non-cash earnings					
Market valuation income derivatives	10,546	0	0	0	10,546
Market valuation expenditures derivatives	–12,172	0	0	0	–12,172
Results from fair value adjustments to investment property	325	0	0	0	325
Amortization of other intangible assets	0	0	0	0	0
Valuation of fund shares	0	0	0	0	0
Segment result EBIT	61,301	2,268	6,096	–8,416	61,249
Segment result EBT	3,508	1,198	4,223	2,558	11,488
Segment result EBIT adjusted	60,976	2,268	6,096	–8,416	60,924
Segment result EBT adjusted	4,810	1,198	4,223	2,558	12,789
Of which result from financial investments valued at equity	–	–	–	–5	–5
Segment assets	1,056,940	17,553	61,982	78,073	1,214,548
of which shareholding carrying amounts of financial investments valued at equity	0	0	0	8	8
Additions to non-current assets	0	0	0	0	0
Segment liabilities	1,020,548	16,726	37,849	–155,307	919,816

8 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

In the cash flow statement, the payment flows are subdivided into cash flow from 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 1,831 (previous year: TEUR 20,320) 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. Two 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 2011, a total of TEUR 72 (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.

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 of the past fiscal year, without taking changes in the market value of investment property and of interest hedging instruments into account and without taking amortization on intangible assets (fund management contracts arising on the acquisition of PATRIZIA GewerbeInvest KAG) into account. This adjusted pre-tax profit is published in PATRIZIA's financial reports as so-called EBT adjusted and reflects its operating earnings power. Other objectives include the Group return on equity and also share price performance 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 2011, a long-term incentive of TEUR 976 was established for the first and second management level. This corresponds to the provision formed for the maximum achievable long-term variable compensation. The final calculation cannot be made until all data required for the calculation are known; these data will not be known until after the consolidated financial statements have been approved. 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, 2011, the average price is EUR 3.45. This corresponds to 284,817 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 12/31/2011 EUR '000	Fair values 12/31/2010 EUR '000	Paid out EUR '000
Tranche performing share units fiscal year 2011	284,817	976	0	0
Tranche performing share units fiscal year 2010	178,581	613	789[1]	0
Tranche performing share units fiscal year 2009	97,725	335	363[1]	0

[1] These figures relate to the number of performing share units as at December 31, 2010.

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

PERFORMING SHARE UNITS

units	12/31/2011	12/31/2010
Outstanding at the start of the reporting period	276,306	80,186
Granted for the reporting period	284,817	213,669
Forfeited in the reporting period	0	17,549
Paid out in the reporting period	0	0
Outstanding at the end of the reporting period	**561,123**	**276,306**

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, Gräfelfing
- Wohnungsportfolio WPO Berlin GmbH, Berlin
- Wohnungsportfolio WPO Immobilienservice GmbH, Berlin
- Immobilienportfolio IPO Berlin GmbH, Berlin
- Eurobilia AG, Gräfelfing
- Hansa-Langenhorn-Immobilien GmbH, Hamburg
- Verwaltung EHG Erste Hanseatische Grundvermögen GmbH, Hamburg
- E.H.G. Erste Hanseatische Grundvermögen GmbH & Co. KG, Hamburg
- Wolfgang Egger Verwaltungs-GmbH, Gräfelfing
- Wolfgang Egger GmbH & Co. KG, Gräfelfing
- Stadtresidenz Friedrich-List Vermögensverwaltungs KG, Augsburg
- Objektgesellschaft An der Alster 47 GmbH & Co. KG, Augsburg
- LBG 3 GmbH, Gräfelfing
- ArsRatio Holding GmbH, Innsbruck, Austria
- ArsRatio GmbH, Kirchbichl, Austria
- ArsRatio Forschung & Entwicklung GmbH, Kirchbichl, Austria
- Tottenham Hale S.à r.l., Luxembourg
- Saven Hill Holding S.à r.l., Luxembourg
- Shawmut Holding S.à r.l., Luxembourg
- PRIME Development Proje gelistirme Ltd. STI, Istanbul, Turkey

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 51.55% 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, Dr. Bernhard Engelbrecht, Markus Fischer, Werner Gorny, Jürgen Kolper and Martin Lemke hold a total of 0.4% 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 2011 fiscal year, PATRIZIA provided services to the value of TEUR 523 (previous year: TEUR 534).

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 103 (previous year: TEUR 93).

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 2011 consultancy costs of TEUR 1 (previous year: TEUR 10) 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 1,682 (previous year: TEUR 1,110); details can be found in the following table:

MANAGING BOARD REMUNERATION 2011

EUR	Annual income[1]				
	Fixed compensation	Short-term variable compensation[2]	Payments in kind and other payments[3]	Long-term variable compensation[4]	Contribution to pension fund
Wolfgang Egger	310,000	229,484	24,407	114,742	12,000
Arwed Fischer	290,000	215,000	37,814	86,560	12,000
Klaus Schmitt	300,000	179,857	47,100	89,929	24,000
TOTAL	**900,000**	**624,341**	**109,321**	**291,231**	**48,000**

[1] Payment in the 2011 fiscal year
[2] Cash component of the variable compensation for the 2010 fiscal year that was paid in the 2011 fiscal year once all data required for its determination were known.
[3] The item primarily includes monetary benefits from the use of company cars and insurance premiums.
[4] Conversion to performance share units with two-year vesting period at an average price of EUR 4.02. to be paid out at the Xetra average rate 30 days before and after December 31, 2012.

MANAGING BOARD REMUNERATION 2010

EUR	Annual income[1]				
	Fixed compensation	Short-term variable compensation[2]	Payments in kind and other payments[3]	Long-term variable compensation[4]	Contribution to pension fund
Wolfgang Egger	260,000	0	22,704	0	12,000
Arwed Fischer	240,000	240,000	40,048	0	12,000
Klaus Schmitt	240,000	0	31,225	0	12,000
TOTAL	**740,000**	**240,000**	**93,977**	**0**	**36,000**

[1] Payment in the 2010 fiscal year
[2] Up until 2010 Mr. Fischer was granted a minimum 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.
[3] The item primarily includes monetary benefits from the use of company cars and insurance premiums.
[4] Conversion to performance share units with two-year vesting period; No performance share units were granted for the 2009 fiscal year, as the defined target hurdle was not achieved and no long-term variable compensation was therefore paid.

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 (Düsseldorf), Hamburg
- Manfred J. Gottschaller, director of Bayerische Handelsbank AG, Munich, retired

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

SUPERVISORY BOARD REMUNERATION 2011

EUR	Fixed compensation	Variable compensation[1]
Dr. Theodor Seitz, Chairman	25,000	0
Harald Boberg	18,750	0
Manfred J. Gottschaller	18,750	0
TOTAL	**62,500**	**0**

[1] Subject to the 2012 Annual General Meeting and the appropriation of net profits.

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
TOTAL	**62,500**	**0**

9.5 OTHER FINANCIAL OBLIGATIONS AND CONTINGENT LIABILITIES

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

OBLIGATIONS ARISING FROM EXISTING MAINTENANCE AND LEASING AGREEMENTS

EUR ’000	
2012	1,544
2013 – 2016	3,701
2017 and later	462
	5,707

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 1,225. 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 848 for 2012, TEUR 693 for 2013 and TEUR 491 for 2014.

9.6 EMPLOYEES

The average headcount at the Group in 2011 (excluding members of the Managing Board) was 455 (previous year: 364).

9.7 AUDITOR’S FEES

The auditor’s expenses charged for the 2011 fiscal year in connection with auditing the financial statements amounted to TEUR 343 (previous year: TEUR 324). In addition, in the last fiscal year the auditors charged TEUR 15 for tax advisory services and TEUR 6 for other assurance work.

9.8 GERMAN CORPORATE GOVERNANCE CODE

On December 12, 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).

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 22, 2012. Adoption of the financial statements will take place at the Supervisory Board meeting on March 27, 2012.

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 22, 2012

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[1]	Augsburg	100	25,000.00	0.00
PATRIZIA Investmentmanagement GmbH[1]	Augsburg	100	164,912.54	0.00
PATRIZIA Immobilienmanagement GmbH[1]	Augsburg	100	16,881.05	0.00
PATRIZIA Projektentwicklung GmbH[1]	Augsburg	100	250,000.00	0.00
PATRIZIA Wohnen GmbH[1]	Augsburg	100	618,682.33	0.00
Deutsche Wohnungsprivatisierungs GmbH[1]	Augsburg	100	13,145.51	0.00
PATRIZIA Projekt 100 GmbH[1]	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 110 GmbH[1]	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 120 GmbH[1]	Augsburg	100	22,280.88	0.00
PATRIZIA Sales GmbH[1] (formerly: PATRIZIA Projekt 140 GmbH)	Augsburg	100	34,592.95	0.00
PATRIZIA Projekt 150 GmbH[1]	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 160 GmbH[1]	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 170 GmbH[1]	Augsburg	100	135,245,000.00	0.00
PATRIZIA Projekt 180 GmbH[1]	Augsburg	100	10,072,450.00	0.00
PATRIZIA WohnInvest Kapitalanlagegesellschaft mbH[1] (formerly: PATRIZIA Immobilien Kapitalanlage-gesellschaft mbH)	Augsburg	100	2,963,776.67	0.00
PATRIZIA Projekt 220 GmbH	Augsburg	100	15,292.85	–1,484.59
PATRIZIA Projekt 230 GmbH	Augsburg	100	18,656.57	–2,084.74
PATRIZIA Projekt 240 GmbH	Augsburg	100	15,582.49	–1,553.02
PATRIZIA Projekt 250 GmbH	Augsburg	100	14,837.33	–1,450.38
PATRIZIA Projekt 260 GmbH[1]	Augsburg	100	24,040.80	0.00
Wohnungsgesellschaft Olympia mbH	Hamburg	100	112,693.33	87,128.74
Stella Grundvermögen GmbH[1]	Augsburg	100	7,538,113.38	0.00
PATRIZIA Real Estate Corporate Finance GmbH	Augsburg	100	11,458.31	–1,167.73
PATRIZIA Projekt 420 GmbH[1]	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 450 GmbH[1]	Augsburg	100	25,000.00	0.00
PATRIZIA Alternative Investments GmbH[1] (formerly: PATRIZIA Projekt 460 GmbH)	Augsburg	100	25,000.00	0.00
PATRIZIA Property Inc.	Wilmington, Delaware USA	100	–1,589.62[2]	–1,662.89[2]
PATRIZIA Scandinavia AB	Stockholm	100	50,000.00 SEK[3]	–9,086.66 SEK[3]
meridomus GmbH Forderungsmanagement- und Servicegesellschaft für den Vermieter	Cologne	50	36,634.02[3]	19,890.72[3]
Hyresbostädter i Norra Tyskland Verwaltungs GmbH	Augsburg	5.2	25,000.00	0.00

1 As a result of the existing control and profit transfer agreements, the results are adopted by PATRIZIA Immobilien AG.
2 Amounts from 2010
3 Provisional financial statements

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	492,559.33	467,559.33
Projekt Wasserturm Verwaltungs GmbH	Augsburg	51	47,433.89	2,103.15
Alte Haide Baugesellschaft mbH	Augsburg	100	8,278,999.60	684,796.92
PATRIZIA Luxembourg S.à r.l.	Luxembourg	100	139,536,137.22	1,287,574.25
PATRIZIA Lux 10 S.à r.l.	Luxembourg	100	12,051,045.16	5,295.63
PATRIZIA Lux 20 S.à r.l.	Luxembourg	100	30,058,689.17	58,620.83
PATRIZIA Lux 30 N S.à r.l.	Luxembourg	100	86,366.07	–4,643.47
PATRIZIA Lux 50 S.à r.l.	Luxembourg	100	9,082,570.75	15,792.79
PATRIZIA Lux 60 S.à r.l.	Luxembourg	100	699,974.47	4,319.56
PATRIZIA Real Estate 10 S.à r.l.	Luxembourg	100	17,693,162.02	4,405,412.46
PATRIZIA Real Estate 20 S.à r.l.	Luxembourg	100	–77,984,883.81	4,084,364.62
PATRIZIA Real Estate 50 S.à r.l.	Luxembourg	100	–1,807,448.46	–5,846,106.32
PATRIZIA Real Estate 60 S.à r.l.	Luxembourg	100	–825,586.30	5,655,625.37
PATRIZIA Acquihold S.à r.l.	Luxembourg	100	12,349.00	–151.00
F40 GmbH	Augsburg	94.9	10,221,828.97	–1,538,272.69
PATRIZIA Projekt 380 GmbH	Augsburg	100	12,452.32	–1,741.50
Projekt Wasserturm Grundstücks GmbH & Co. KG	Augsburg	45.9	–688,396.89	–31,888.75
Projekt Wasserturm Bau GmbH & Co. KG	Augsburg	51	–1,010,626.61	–313,466.19
PATRIZIA Projekt 600 GmbH	Augsburg	100	737,713.09	716,125.07
PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH	Hamburg	94.9	5,000,100.00	0.00[1]
LB Invest GmbH	Hamburg	100	43,645.70	46.43
PATRIZIA Facility Management GmbH (formerly: PATRIZIA Projekt 330 GmbH)[2]	Augsburg	100	25,000.00	0.00

[1] As a result of the existing control and profit transfer agreements, the results are adopted by the stockholder PATRIZIA Projekt 600 GmbH.
[2] As a result of the existing control and profit transfer agreements, the results are 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 Vermögensverwaltungs GmbH[1]	Augsburg	100	687,583.35	0.00
Blitz 11-677 GmbH	Munich	100	24,062.83	–937.17
Blitz 11-678 GmbH & Co. KG	Munich	100	226.08	–273.92
Blitz 11-679 GmbH	Munich	100	24,122.52	–877.48
Blitz 11-680 GmbH & Co. KG	Munich	100	286.77	–213.23
Blitz 11-683 GmbH	Munich	100	24,122.52	–877.48
Blitz 11-684 GmbH & Co. KG	Munich	100	286.77	–213.23
PATRIZIA WohnModul I SICAV-FIS	Luxembourg	9.09	164,485,586.35	–202,837.52

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

Auditor's Certificate

We have audited the consolidated financial statements prepared by PATRIZIA Immobilien AG, Augsburg – comprising the balance sheet, profit and loss account, statement of changes in equity, cash flow statement and notes – as well as the report on the position of the company and the Group for the fiscal year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the report on the position of the company and the Group 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 report on the position of the company and the Group 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 report on the position of the company and the Group 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 report on the position of the company and the Group 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 report on the position of the company and the Group. 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 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 26, 2012

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Klinger	**Becker**
German Public Auditor	German Public Auditor

Responsibility Statement by the Legal Representatives of PATRIZIA Immobilien AG

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

Wolfgang Egger
Chairman of the Board

Arwed Fischer
Member of the Board

Klaus Schmitt
Member of the Board

Further Information

Consolidated Balance Sheet

FIVE-YEAR OVERVIEW IN ACCORDANCE WITH IFRS

ASSETS

EUR '000	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
A. Non-current assets					
Goodwill	610	0	0	0	0
Other intangible assets	45,227	0	0	0	0
Software	5,280	2,811	539	579	196
Investment property	532,321	614,945	657,320	660,000	711,558
Investment property under construction	0	0	0	11,162	20,205
Equipment	2,762	1,893	1,650	2,005	2,087
Investments in joint ventures	18	8	13	6,033	5,067
Participations in associated companies	6,809	0	0	0	0
Participations	3,134	3,090	3,090	3,090	2,043
Long-term financial derivatives	0	0	0	0	8,704
Long-term tax assets	846	281	313	311	375
Total non-current assets	**597,007**	**623,028**	**662,925**	**683,180**	**750,235**
B. Current assets					
Inventories	407,529	510,438	676,008	717,772	793,395
Securities	1,634	0	0	0	0
Short-term financial derivatives	0	0	0	0	4,546
Short-term tax assets	4,279	263	1,879	6,685	3,144
Current receivables and other current assets	60,007	10,282	29,428	41,611	37,859
Bank balances and cash	31,828	70,537	56,183	67,905	54,013
Total current assets	**505,277**	**591,520**	**763,498**	**833,973**	**892,957**
TOTAL ASSETS	**1,102,284**	**1,214,548**	**1,426,423**	**1,517,153**	**1,643,192**

EQUITY AND LIABILITIES

EUR '000	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
A. Equity					
Share capital	52,130	52,130	52,130	52,130	52,130
Capital reserves	215,862	215,862	215,862	215,862	215,862
Retained earnings					
Legal reserves	505	505	505	505	505
Non-controlling shareholders	1,563	832	877	0	0
Valuation results from cash flow hedges	–1,331	–2,372	–6,079	–8,054	2,941
Consolidated net profit	41,346	27,775	21,529	31,029	65,167
Total equity	**310,075**	**294,732**	**284,824**	**291,472**	**336,605**
B. Liabilities					
NON-CURRENT LIABILITIES					
Deferred tax liabilities	26,314	9,701	5,516	4,769	9,914
Long-term financial derivatives	33,470	39,715	34,208	24,551	1,142
Retirement benefit obligations	371	368	339	365	369
Long-term bank loans	417,685	0	0	0	0
Non-current liabilities	2,410	1,202	259	0	0
Total non-current liabilities	**480,250**	**50,986**	**40,322**	**29,685**	**11,425**
CURRENT LIABILITIES					
Short-term bank loans	275,667	841,380	1,070,207	1,161,735	1,261,997
Short-term financial derivatives	233	363	8,895	10,238	235
Other provisions	1,092	666	580	616	594
Current liabilities	22,644	17,008	13,116	12,556	32,171
Tax liabilities	12,323	9,413	8,051	9,847	165
Other current liabilities	0	0	428	1,004	0
Total current liabilities	**311,959**	**868,830**	**1,101,277**	**1,195,996**	**1,295,162**
TOTAL EQUITY AND LIABILITIES	1,102,284	1,214,548	1,426,423	1,517,153	1,643,192

Consolidated Income Statement

FIVE-YEAR OVERVIEW IN ACCORDANCE WITH IFRS

EUR '000	2011	2010	2009	2008	2007
Revenues	269,007	339,593	250,888	221,325	193,253
Income from the sale of investment property	6,205	1,237	370	21,747	0
Changes in inventories	-102,910	-165,632	-106,173	-75,623	666,705
Other operating income	8,225	4,658	14,168	4,109	1,905
Total operating performance	**180,527**	**179,856**	**159,253**	**171,558**	**861,863**
Cost of materials	-45,743	-68,072	-60,884	-66,000	-778,775
Staff costs	-35,672	-28,580	-23,888	-22,445	-19,908
Results from fair value adjustments to investment property	3	325	0	0	69,477
Other operating expenses	-40,990	-21,376	-17,553	-17,199	-20,543
EBITDA	**58,125**	**62,153**	**56,928**	**65,914**	**112,115**
Amortization of intangible assets and depreciation on property, plant and equipment	-3,494	-904	-824	-846	-771
Earnings before interest and taxes (EBIT)	**54,631**	**61,249**	**56,104**	**65,068**	**111,343**
Earnings from companies accounted for using the equity method	5	-5	6	-1,004	-298
Finance income	8,988	11,494	12,271	29,972	20,371
Finance cost	-43,718	-61,250	-76,342	-126,444	-68,246
Earnings before taxes (EBT)	**19,906**	**11,488**	**-7,961**	**-32,408**	**63,170**
Income tax	-6,413	-5,287	-1,539	-1,730	-15,129
Net profit/loss	**13,493**	**6,201**	**-9,500**	**-34,138**	**48,041**
Profit carried forward	27,730	21,529	31,029	65,167	17,126
CONSOLIDATED NET PROFIT	**41,223**	**27,730**	**21,529**	**31,029**	**65,167**
Earnings per share (undiluted), in EUR	0.26	0.12	-0.18	-0.65	0.92

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

- Chairman of the Supervisory Board of CDH AG, Augsburg

HARALD BOBERG

1st Deputy Chairman
Member of the Supervisory Board since 2003
Representative of Bankhaus Lampe KG (Düsseldorf), Hamburg

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

- Member of the Supervisory Board of HanseMerkur Lebensversicherung AG, Hamburg
- Member of the Supervisory Board of Flughafen Hamburg GmbH, Hamburg
- Deputy Chairman of the Supervisory Board of mosaiques diagnostics and therapeutics AG, Hanover

MANFRED J. GOTTSCHALLER

2nd 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

WOLFGANG EGGER

Chief Executive Officer
First appointed on: August 21, 2002
Appointed until: June 30, 2016

Responsibilities
Communications, corporate strategy, 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 buying, 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
Boards and committees, corporate acquisitions, human resources, investment management, legal affairs, management of operating business fields, organizational development

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

- None

Financial Calendar and Contact

FINANCIAL CALENDAR 2012

March 28, 2012	Financial Statements 2011
May 10, 2012	Interim report for the first quarter of 2012
June 20, 2012	Annual General Meeting, Augsburg
August 9, 2012	Interim report for the first half of 2012
September 5, 2012	12th Annual Conference of the Real Estate Share Initiative, Berlin
November 8, 2012	Interim report for the first nine months of 2012

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In case of divergence from the German version, the German version shall prevail.

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