PATRIZIA
WERTE ENTSCHEIDEN

30

1984–2014

THIRTY
YEARS OF
PATRIZIA

# ANNUAL REPORT 2013

# Key Figures

## REVENUES AND EARNINGS

| EUR '000 | 2013 | 2012 | Change % |
|---|---|---|---|
| Revenues | 217,398 | 229,238 | –5.2 |
| Total operating performance | 207,878 | 196,111 | 6.0 |
| EBITDA | 24,856 | 49,280 | –49.6 |
| EBIT | 18,749 | 44,739 | –58.1 |
| EBT | 39,599 | 28,621 | 38.4 |
| Operating result[1] | 38,119 | 43,892 | –13.2 |
| Consolidated annual profit | 37,168 | 25,455 | 46.0 |

## STRUCTURE OF ASSETS AND CAPITAL

| EUR '000 | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Non-current assets | 390,036 | 463,423 |
| Current assets | 502,679 | 488,130 |
| Equity | 374,481 | 336,387 |
| Equity ratio (in%) | 41.9% | 35.4% |
| Non-current liabilities | 104,316 | 345,414 |
| Current liabilities | 413,918 | 269,752 |
| Total assets | 892,715 | 951,553 |

## SHARE

| | |
|---|---|
| ISIN | DE000PAT1AG3 |
| SIN (Security Identification Number) | PAT1AG |
| Code | P1Z |
| Share capital as of 31 December 2013 | EUR 63,077,300 |
| No. of shares in issue as of 31 December 2013 | 63,077,300 |
| 2013 high[2] | EUR 9.75 |
| 2013 low[2] | EUR 6.05 |
| Closing price 2013[2] | EUR 7.67 |
| Closing price 2012[2] | EUR 6.46 |
| Share price performance | 18.7% |
| Market capitalisation as of 31 December 2013 | EUR 483.8 million |
| Average trading volume per day[3] | 162,600 shares |
| Indices | SDAX, GEX, DIMAX |

[1] Without amortisation of other intangible assets (fund management contracts), adjusetd for profit/loss from interest rate hedges without cash effect. Realised changes in the value of investment property included.
[2] Closing price in Xetra trading
[3] All German stock exchanges

# Contents



Our service for you:

- Further information you find in our Annual Report
- Detailed information in the diagram
- Additional information on our website

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

## LETTER TO OUR SHAREHOLDERS

Dear shareholders,
Dear ladies and gentlemen,

2013 proved another year of immense growth for PATRIZIA. Two key developments prompted corresponding organisational changes within the Group.

Firstly, we adapted our structures to the requirements resulting from the changes to the regulatory framework following the entry into force of the new Kapitalanlagegesetzbuch (Capital Investment Code) in July 2013. This step marked the German legislature's translation of the European Directive on Alternative Investment Fund Managers (AIFM Directive) into German law.

Secondly, however PATRIZIA reached further milestones in its internationalisation strategy. We are very proud of these milestones, which are now also reflected in our group structure. In the 2013 fiscal year we acquired international residential and commercial real estate of over EUR 500 million within the context of fund investments and co-investments in Great Britain and in Scandinavia.

While growth sparks expectations, it also brings developments, which could perhaps not have been anticipated. During the course of the year we had to revise our original results target formulated at the end of the first quarter of 2013. Instead of the original target operating result of EUR 47 to 49 million, in December 2013 we reduced our forecast result for the overall year to EUR 38 to 41 million. We can now state that we posted a result of EUR 38.1 million. The fact that the result was below original expectations is due to many factors, the financial consequences of which could not have been foreseen at the start of the year.

One of these factors concerns the purchase of the commercial real estate portfolio in Hessen known as “Leo I”, which we originally planned to complete before the end of 2013 and which was expected to make a significant contribution to results. In the end, however, we were unable to complete this transaction before the end of the year. The purchase contract was signed in the middle of February 2014, meaning the corresponding effects on results were not lost and were instead merely shifted to the 2014 fiscal year.

The result was also burdened by the implementation of the AIFM Directive and by “broken deal costs” associated with transactions that we either aborted during the course of the respective project or where we were ultimately unsuccessful. In addition, the handover of the residential units at our project development in Frankfurt was delayed due to insolvency on the part of a supplier and is now expected to take place in the second quarter of 2014. Moreover, acquiring individual properties for the residential real estate funds proved increasingly difficult due to the tight market and the strong competition among buyers in this segment during 2013.

The contributions to the result that were lost due to the above factors were partly compensated by portfolio transactions such as the acquisition of the “DEIKON portfolio” or of the “Hessen portfolio” (“Leo II”). These were, however, unable to fully offset the lack of income and higher expenses.

In connection with the reduced profit forecast for 2013 as a whole, in December we also set our target for 2014 based on the approved plans. For the fiscal year 2014, the PATRIZIA Group forecasts an operating result of at least EUR 50 million.

As a result of corresponding purchases and sales, we expect assets under management to record net growth of EUR 1 billion respectively over the next two years. In addition, one to three portfolio transactions with an individual volume of EUR 0.2 to 1 billion will further increase the volume of real estate being managed. Here, the focus of PATRIZIA’s growth in 2014 and 2015 will most probably be attributable to the commercial sector. Today, our assets under management in the commercial sector are already at a similar level to those in the residential real estate sector.

For the 2014 forecast, we must firstly remember that the purchase fees incurred in 2013 – especially in connection with the acquisition of GBW AG – will be replaced by regular management fees during the course of the current year. Secondly, we will benefit from the fact that a large part of our interest hedging transactions ended on 31 January 2014, with the rest due to end in the middle of the year; this will significantly reduce our future financial expenses. As part of reducing our level of debt, we will use released equity – without leverage – for equity investments in new co-investments.

2014 is a very special year for us as it marks the 30th anniversary of the founding of our Company. We have adopted “30 years of PATRIZIA – 100% passion” as our slogan for this anniversary year. We have chosen this because we believe our passion for our work is one of the key drivers behind PATRIZIA’s successful growth over three decades. As a fully integrated real estate investment company we have established a unique selling point within the real estate sector and plan to further enhance this profile in future. PATRIZIA’s positive development would not have been possible without our highly motivated employees. As Managing Board, we would like to take this opportunity to thank our employees for their high level of commitment, which is at the same time also the best guarantee for our future success.

Augsburg, 14 March 2014

The PATRIZIA Managing Board

**Wolfgang Egger**
Chairman of the Board

**Arwed Fischer**
Member of the Board

**Klaus Schmitt**
Member of the Board

- Leading – fully integrated – in all asset classes – in Germany and in Europe
- PATRIZIA offers private and institutional investors direct as well as indirect real estate investments
- PATRIZIA currently manages real estate assets with a value of around EUR 12 billion
- The PATRIZIA share price climbs by 18.7% in the course of the year
- Bonus shares again in a ratio of 10:1 for the 2013 fiscal year (proposal to the 2014 Annual General Meeting)

# *To Our Shareholders*

# Report of the Supervisory Board

Dear Shareholders,
dear ladies and gentlemen

For PATRIZIA, 2013 marked another year of growth, but also a year that presented many challenges.

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 2013. We regularly advised the Managing Board on corporate management issues and monitored the measures taken. The Supervisory Board was always involved at an early stage 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 regular written and verbal information regarding all key aspects of the Company's and Group's business performance. We were provided with equally detailed information about the current risks and opportunities concerning the earnings and liquidity situation and their management. The PATRIZIA Managing Board provided detailed explanations of and justifications for the Company's budgeting and its realisation as well as for deviations from previously prepared plans.

## ORDINARY MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board came together in four ordinary meetings during the reporting year. On two occasions, the Supervisory Board members met without the participation of the Managing Board. Each member attended every meeting. Regular exchanges between the Supervisory Board and the Managing Board also took place outside of these scheduled meetings in personal discussions. We discussed in detail all measures requiring approval and made our decisions on the basis of the reports and proposed resolutions of the Managing Board. When necessary, urgent resolutions of the Supervisory Board were 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. The Supervisory Board considers it expedient to base the size of the Supervisory Board of PATRIZIA Immobilien AG on the statutory minimum number of members in order to enable it to work efficiently and to allow an intensive exchange of ideas.

On 18 March 2013 we met for the year's first regular meeting of the Supervisory Board. Following a careful review in the presence of the external auditor, we approved the 2012 annual financial statements for PATRIZIA Immobilien AG and the consolidated financial statements for the Group as well as the combined management report for the Company and the Group. Following a separate examination, the Supervisory Board also approved the dependent company report for the 2012 fiscal year. Significant attention was devoted to the report from the operational areas. Liquidity planning, personnel development and further corporate development were also discussed, notably in connection with the internal restructuring and the European expansion. The proposed resolutions for the agenda of the 2013 Annual General Meeting were also approved.

Dr. Theodor Seitz (Chairman of the Supervisory Board)

At the Supervisory Board meeting following the Annual General Meeting on 12 June 2013, we focused on current business development, including in particular the issues of purchasing and co-investments. Individual fund products and the current liquidity situation were also discussed. In addition, the Supervisory Board approved amendments, in accordance with Article 16 of the Articles of Association, to the wording of the first sentence of Article 3 of the Articles of Association (Company Notifications) and the first sentence of Article 4 (4) of the Articles of Association (Contingent Capital).

The third Supervisory Board meeting held on 27 September 2013 focused on issues relating to the operational areas. The discussions placed particular emphasis on the continuing challenging market situation for funds business purchases. The Managing Board also informed us about the status of the various project developments and commented on the performance of the co-investments. The growth of our foreign branches, notably of PATRIZIA Nordics A/S of Copenhagen, Denmark, was also discussed. We also addressed the liquidity situation against the backdrop of the portfolio purchases made in the form of further co-investments and scrutinised personnel planning within the Group.

At the last meeting of 2013 held on 16 December the Managing Board explained development in the operational areas. In addition to the general business and liquidity situation, we focused on planning for the 2014 fiscal year. We also discussed the delay in the new-build project in Frankfurt. The insolvency of a major trade company meant that the contribution to results that was expected in 2013 will now be pushed back to the first half of 2014. In addition to headcount development, the Supervisory Board also discussed the level of selling expenses. Having compared expected income against planned investments, we approved the 2014 budget in its entirety. In addition, an adjustment to Managing Board bonuses was agreed in view of the significant increase in responsibilities assumed by the Managing Board members.

The Supervisory Board also addressed the amendments to the German Corporate Governance Code in the version valid since 10 June 2013. At this meeting, the Managing Board and Supervisory Board issued a declaration of conformity in accordance with Article 161 of the German Stock Corporation Act (AktG) which also expressed an opinion on the recommendations of the Code. The recommendations and suggestions of the Code are followed through with a few exceptions. The current and also all previous declarations of conformity are permanently available for viewing on the website of PATRIZIA AG. 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

PATRIZIA Immobilien AG's participation as co-investor in the acquisition of shares in GBW AG totalling EUR 58 million and the acquisition of the "Deikon portfolio" were agreed by circulation.

## EXAMINATION OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS 2013

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 24 March 2014. The Managing Board and the responsible auditors explained the findings of the audit and were available to provide additional information. The risk management system and the effectiveness of the internal control system also formed part of the audit. The auditor confirmed that there were no material weaknesses in this regard.

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 Managing Board's proposal on the appropriation of consolidated annual profit. We concurred with the findings of the examination by the auditor. No objections were raised. The Supervisory Board approved the annual and consolidated financial statements. The annual financial statements are thus adopted pursuant to Section 172 of the German Stock Corporation Act (AktG). The Supervisory Board agrees with the proposal on the appropriation of consolidated annual profit made by the Managing Board and supports a renewed capital increase from company funds in order to issue bonus shares instead of paying a dividend.

## EXAMINATION OF THE DEPENDENT COMPANY REPORT

All legal and business relationships with related parties and companies were presented 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 auditor 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 2013 fiscal year 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 auditor’s report on the dependent company report was made available to all members of the Supervisory Board at an early stage and was discussed with the auditors present at the meeting. The Supervisory Board concurred with the result of the auditor’s examination of the dependent company report. In accordance with the concluding findings of its examination, the Supervisory Board raises no objections to the dependent company report and the concluding declaration of the Managing Board contained therein.

We express our gratitude to the Managing Board and to all employees for their work. The result achieved in 2013 was only made possible through their loyalty and tireless dedication.

Augsburg, 24 March 2014

For the Supervisory Board

**Dr. Theodor Seitz**
Chairman

# The PATRIZIA Share

Please refer to diagram on p. 14

Please refer to diagram on p. 13

Please refer to table on p. 38

KEY FIGURES FOR THE PATRIZIA SHARE

| | | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Share prices[1] | | | | |
| High | EUR | 9.75 | 6.65 | 5.90 |
| Low | EUR | 6.05 | 3.32 | 3.06 |
| Year-end closing price | EUR | 7.67 | 6.46 | 3.43 |
| Share price performance | % | 18.7 | 88.3 | –10.8 |
| Market capitalisation as of 31 December[1] | EUR million | 483.8 | 370.4 | 178.8 |
| | | | | |
| Average trading volume per day[2] | EUR | 1,225,700 | 440,400 | 423,800 |
| Average trading volume per day[2] | Shares | 162,600 | 89,200 | 91,200 |
| Trading volume for the year | | 0.69[3] | 0.42[4] | 0.45 |
| No. of shares in issue as of 31 December | Shares | 63,077,300 | 57,343,000 | 52,130,000 |
| | | | | |
| Earnings per share (IFRS) | EUR | 0.59 | 0.44 | 0.26 |
| Price-earnings ratio | | 13 | 15 | 13 |
| NAV per share | EUR | 5.56 | 6.10 | 7.07 |
| Dividend per share | EUR | 0.00[5] | 0.00[6] | 0.00[6] |

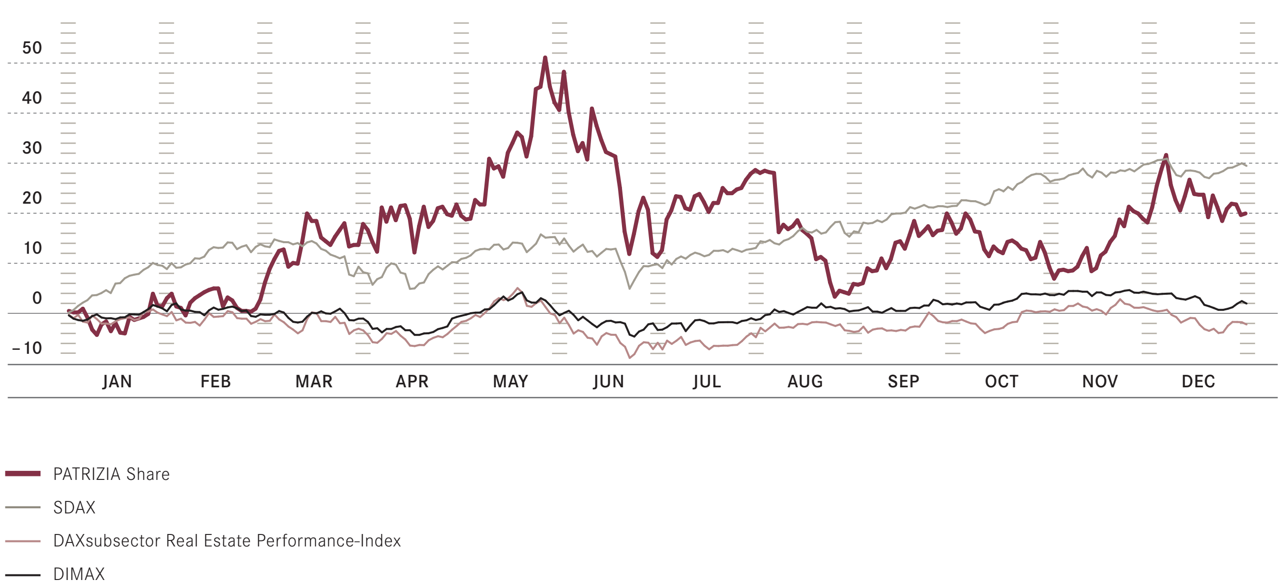
[1] Closing price in Xetra trading
[2] All German stock exchanges
[3] Based on the average total number of shares in issue in 2013 (59,840,955)
[4] Based on the average total number of shares in issue in 2012 (54,423,150)
[5] Instead, bonus shares are to be issued in a ratio of 10:1, subject to the approval of the Annual General Meeting on 27 June 2014
[6] Instead, bonus shares were issued in a ratio of 10:1

In the past 2013 fiscal year, hopes of a surge in growth within the global economy and a lack of alternative high-yield investments attracted equity investors to the European markets. This trading environment also prompted a 26% rise in Germany's leading DAX index, which closed the last trading day on 9,594 points. Having already recorded a 29% rise in 2012, it reached several new all-time highs over the course of 2013 and again presented investors with substantial returns. The SDAX small-cap index also reached record highs, rising 29% to 6,789 points.

Having opened 2013 at a price of EUR 6.46, the PATRIZIA share closed the year at EUR 7.67. Despite the 10% increase in share capital from the issue of bonus shares, there were no signs of any direct dilutive effect: with a rise of 18.7%, the PATRIZIA share set itself apart from the overall trend within the industry, where the DAX subsector Real Estate Performance Index fell by 1.6% and the DIMAX real estate index published by the banking firm Ellwanger & Geiger rose by only 2.5%. The additional shares and the improved price meant PATRIZIA's market capitalisation rose 30.6% to EUR 484 million compared with the previous year (31 December 2012: EUR 370 million).

PATRIZIA's market capitalisation again rises by one third in 2013, to EUR 484 million

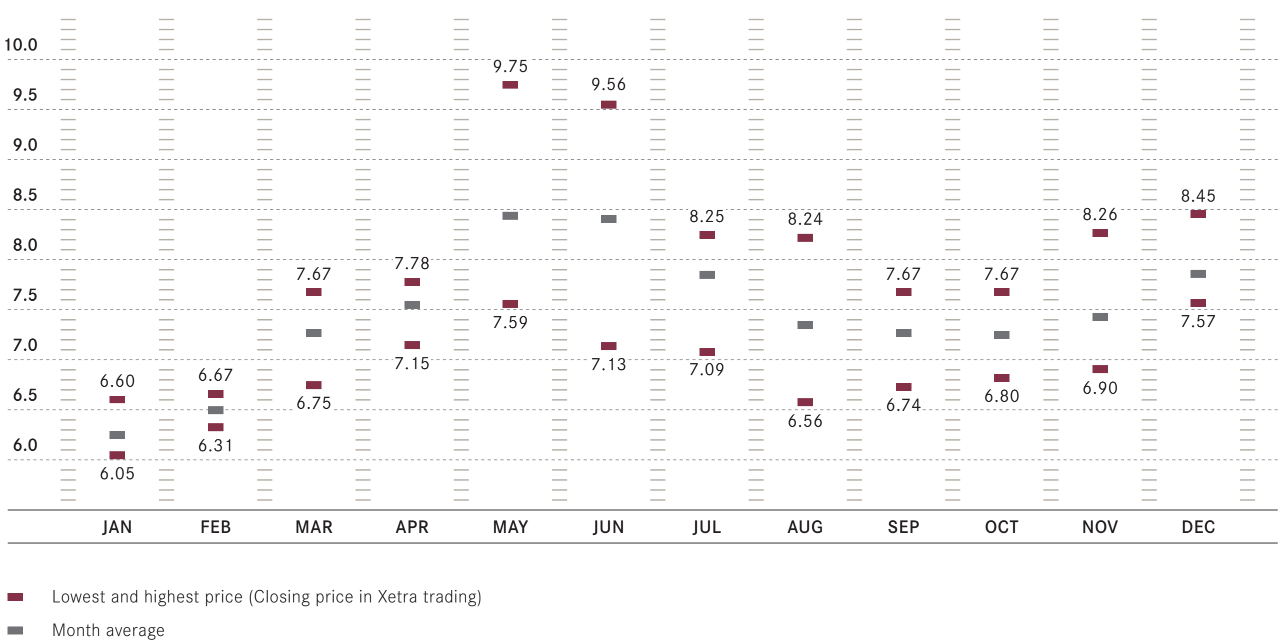
**PERFORMANCE OF THE PATRIZIA SHARE COMPARED WITH DIFFERENT INDICES IN 2013 (%)**




In 2013, the PATRIZIA share moved between a low of EUR 6.05 on 10 January and a high of EUR 9.75 on 29 May. On average, all German stock markets traded 162,600 PATRIZIA shares per day. Compared with 89,200 shares in the previous year, the 82% rise clearly highlights investors' increased interest in the share which did, however, occasionally also prove extremely volatile. Over the course of the year, the trading volume rose from an average of 125,200 shares per day in January to 195,200 shares per day in December. Trading was particularly lively in June, and also in the fourth quarter as a whole. Based on PATRIZIA Immobilien AG's total number of shares in 2013 (59,840,955), the total of 41.1 million PATRIZIA shares traded during the reporting year represents an annual turnover of 0.69 (previous year: 0.42).

The trading volume was consistently high in Q4 2013

HIGHS AND LOWS OF THE PATRIZIA SHARE IN 2013 (EUR)




**Bonus shares — Another successful capital increase from company funds**
Instead of a dividend payment, the Annual General Meeting of PATRIZIA Immobilien AG held on 12 June 2013 decided to issue bonus shares in a ratio of 10:1. The corresponding change to the Articles of Association was entered in the Company's Commercial Register on 8 July 2013 and thus became effective. Each shareholder then received one additional share for every ten existing PATRIZIA shares. The new shares carry dividend rights from the beginning of the 2013 fiscal year. As a result of the conversion of retained earnings, the Company's share capital increased by EUR 5,734,000 and has since amounted to EUR 63,077,300 divided into 63,077,300 registered no-par value shares.

**Investor Relations — Intensive dialogue with the capital market**
During the 2013 reporting year we continued our intensive exchange with and regular reporting to institutional and private investors and also analysts on all important events and developments relating to the Company. The Managing Board and the Investor Relations team held around 24 roadshow days and presented PATRIZIA at 16 national and international conferences. Discussions focussed on PATRIZIA's transition to a European real estate investment company and on explaining our path of European expansion. Two real-estate trade fairs, namely EPRA (European Public Real Estate Association) and EXPO Real, also served as a communications platform.

Detailed information relating to the PATRIZIA share, the events calendar including all conferences and roadshows and also downloads of all presentations and reports are available on our website at: www.patrizia.ag/en/investor-relations

### ANALYSTS' RECOMMENDATIONS FOR THE PATRIZIA SHARE

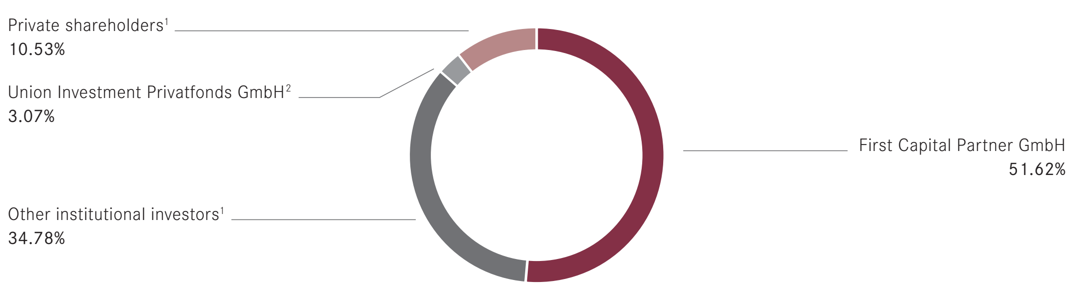
| Bank | Analyst | Date | Rating | Target price |
|---|---|---|---|---|
| Baader Bank AG | Andre Remke | 26.02.2014 | Buy | EUR 10.40 |
| Bankhaus Lampe KG | Dr. Georg Kanders | 13.02.2014 | Buy | EUR 9.50 |
| Berenberg Bank Joh. Berenberg, Gossler & Co.KG | Kai Klose | 17.12.2013 | Buy | EUR 8.50 |
| Close Brothers Seydler Research AG | Manuel Martin | 17.02.2014 | Buy | EUR 10.50 |
| Commerzbank AG | Thomas Rothäusler | 21.01.2014 | Buy | EUR 10.00 |
| equinet Bank AG | Dr. Philipp Häßler | 14.02.2014 | Buy | EUR 9.10 |
| HSBC Trinkaus & Burkhardt AG | Thomas Martin | 06.08.2013 | Hold | EUR 8.70 |
| J.P. Morgan Cazenove | Neil Green | 13.03.2014 | Sell | EUR 7.50 |
| Kepler Cheuvreux | Thomas Neuhold | 14.02.2014 | Buy | EUR 9.00 |
| KochBank GmbH | Ralf Groenemeyer | 28.01.2014 | Buy | EUR 11.25 |
| Warburg Research GmbH | Torsten Klingner | 14.02.2014 | Buy | EUR 8.50 |

Current opinions can be found on our website: www.patrizia.ag/en/investor-relations/shares/analysts-recommendations

### Shareholder structure – further reporting threshold exceeded

There was only a slight change in the shareholder structure in the past fiscal year: First Capital Partner GmbH, which is attributable to our CEO, continues to hold 51.62% and thus remains the Company's main shareholder. In a notification of voting rights issued at the end of May 2013, Union Investment Privatfonds GmbH informed us that it held 3.07% of the Company's shares. At the end of August 2013, AXA S.A. informed us that its shareholding had fallen below 3%. Other institutional investors account for a further 34.78% of shares, while 10.53% of shares are in the hands of private shareholders.

### PATRIZIA SHAREHOLDER STRUCTURE AS OF 31 DECEMBER 2013




[1] Shareholders recorded in the register of names, those not recorded are estimated
[2] As per notification of voting rights dated 22 May 2013

- Income from participations improved from EUR 6.6 million to EUR 32.1 million
- With cash and cash equivalents of EUR 105.5 million, the PATRIZIA Group has a stable basis
- Bank loans reduced by 38% to EUR 322 million
- Equity ratio climbs from 35.4% to 41.9%

# *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 because the position of PATRIZIA Immobilien AG as a management and financial holding company is largely shaped by the position of the Group. 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 FUNDAMENTAL PRINCIPLES RELATING TO THE GROUP

## 1.1 COMPANY PROFILE, BUSINESS MODEL AND MAJOR LOCATIONS

PATRIZIA offers private and institutional investors direct as well as indirect real estate investments. The fact that almost any form of real estate investment can be realised with us as partner positions us as Germany's leading fully integrated real estate investment company. In the medium-term we will achieve this same objective in the rest of Europe as well. Established in 1984, PATRIZIA currently has around 700 employees and is active as an investor and services provider on the real estate markets in more than ten European countries.

PATRIZIA structures and manages real estate investments:

- in all phases of the real estate life cycle,
- across all stages of the value chain,
- in different regional real estate markets,
- in different types of real estate use and
- using different investment vehicles.

### Major Locations

PATRIZIA's business model proves robust in the face of national cyclical fluctuations and provides stability

In addition to various German locations, PATRIZIA is also represented through its own offices in Dublin, Copenhagen, London, Luxembourg, Paris and Stockholm. The timing differences between some real estate market cycles mean that by maintaining a presence in several countries, PATRIZIA ensures greater flexibility for investment and divestment decisions. And the fact that in addition to regional markets, PATRIZIA also develops submarkets differentiated according to type of use reduces its dependence on cyclical developments in individual market segments. Diversification thus reduces investment risks – not only for PATRIZIA itself but also for its clients.

## 1.2 GOALS AND STRATEGIES

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

PATRIZIA currently manages real estate assets with a value of around EUR 12 billion, mainly as a co-investor and portfolio manager for institutional investors such as insurance companies, pension fund institutions, government funds and savings banks. PATRIZIA manages real estate with a value of EUR 5.7 billion on behalf of third parties; a further EUR 5.6 billion is accounted for by co-investments where PATRIZIA has an equity stake of up to 10%.

Own stock of real estate in which PATRIZIA holds 100% of the equity currently amounts to EUR 0.5 billion; most of this will, however, be sold by the end of 2015. Remaining stocks will also be sold soon after 2015. Further growth will be generated through co-investments and management services: equity that is freed up will be re-invested in new co-investments. This will create a commonality of interest among all participants.

PATRIZIA acts as a direct and indirect investor. At the same time, our longstanding real estate expertise enables us to cover the key business functions of:

- Alternative Investments
- Asset Management
- Portfolio Management
- Real Estate Development
- Property Management
- Transaction Acquisition
- Transaction Sales.

In addition, PATRIZIA's asset management companies structure customised investment solutions for our institutional clients. Consideration is given to special requirements in terms of risk preference, fungibility, returns and holding period of the properties. The concept of PATRIZIA funds aims to establish real estate portfolios based on diversification of risks in order to ensure a stable cash flow and generate sustainable returns. PATRIZIA covers every aspect of professional fund and asset management. Constant income from services in the field of co-investments and fund/portfolio management already generates the major share of the Group's result. In addition, the equity available to PATRIZIA via co-investments enables it to effect a much larger volume of investments than was previously possible with own investments.

Co-investments require a commonality of interest among all participants

### Balance between Commercial and Residential Real Estate

Around half of the managed real estate assets are accounted for by commercial real estate in the office, retail, hotel, light industrial or care fields and the other half by residential real estate. Originally focussing on residential real estate, PATRIZIA's purchases of companies specialising in commercial real estate such as the former LB ImmoInvest GmbH or Tamar Capital Group Ltd. means it now has many experts on its team with high levels of expertise in the field of commercial real estate in Germany and other European countries.

### Focus on Europe – A local Presence

For its commitments in the different markets, PATRIZIA always relies on its own local presence to ensure the respective real estate portfolios and investment vehicles are managed by its own personnel and that investment and management processes can be controlled at all times. Consequently, PATRIZIA only expands into new markets/market segments where other companies that are established on the market can be integrated within the PATRIZIA Group and/or where it is possible to recruit highly qualified experts with an appropriate track record. In addition, PATRIZIA's numerous country-specific investment vehicles provide a corresponding platform for implementing international investment strategies.

Internationalisation permits greater diversification

## 1.3 CONTROL SYSTEM

### Corporate Management

The Group's most important control variable is the operating result before taxes. It is calculated from pre-tax earnings according to IFRS adjusted for profit/loss arising from the non-cash market valuation of investment properties, interest rate hedges and amortisation of intangible assets. The latter relates to fund management

Calculation of the operating result is explained in detail in 2.3.2

contracts transferred on acquisition of PATRIZIA GewerbeInvest KAG mbH and Tamar Capital Group Ltd. Realised changes in value from the sale of investment property are added to this. In addition to further, individually agreed targets, the operating result is also the measure used for the performance-related compensation paid to members of the Managing Board and to first-tier managers.

**Segments/Areas of Business**

PATRIZIA reports via two operating segments which are defined according to whether PATRIZIA acts as investor or service provider. The corresponding financial figures for the Investments and Management Services segments are shown under Segment Reporting (No. 7 of the Notes to the Consolidated Financial Statements).

The Investments segment includes own investments and parts of co-investments

The **Investments segment** primarily bundles portfolio management and the sale of own investments. As of the balance sheet date, the segment had a portfolio of around 4,100 residential units (31 December 2012: around 6,000) as well as three project developments that are reported as investment property and inventories. Clients include private and institutional investors that invest either in individual residential units or in real estate portfolios. The entire stock of own property will be sold off as far as possible by the end of 2015. Remaining stocks will also be sold off soon after 2015. Furthermore, all income from participating interests relating to equity interests of the structural companies from co-investments is also reported in this segment.

The steadily growing Management Services segment covers the services sector

The **Management Services segment** covers a wide spectrum of real estate services, in particular analysis and advice during the purchase and sale of individual residential and commercial properties or portfolios (Acquisition and Sales), the management of real estate (Property Management), value-oriented management of real estate portfolios (Asset Management) as well as strategic consulting with regard to investment strategy, portfolio planning and allocation (Portfolio Management) and the execution of complex, non-standard investments (Alternative Investments). Special funds are also established and managed – including at a client's individual request – via the Group's two own asset management companies. Commission revenues generated by services, both from co-investments and from business with third parties, are reported in this segment. This segment also includes income from participating interests arising directly in operating units.

The range of services provided by the Management Services segment is being increasingly used by third parties as assets under management grow and PATRIZIA sells off more and more of its own portfolio.

## 2 ECONOMIC REPORT

### 2.1 ECONOMIC ENVIRONMENT

Germany remains a growth driver in the Eurozone

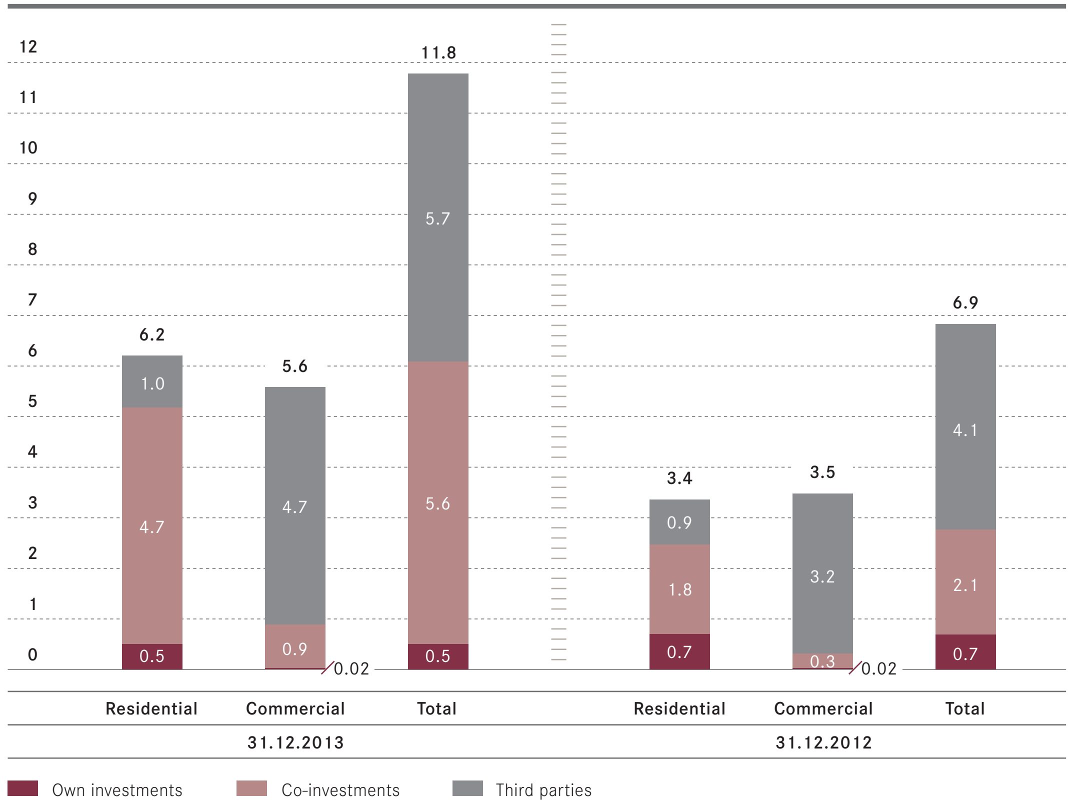
Despite the difficult economic and political situation in some countries within the Eurozone, Germany's economy expanded by a seasonally adjusted 0.6% in 2013 compared with the previous year. It thus retained its status as a European growth driver. By contrast, the Eurozone as a whole declined by a seasonally adjusted 0.4%, notably due to cautious private consumer spending and weak international demand. Germany's real estate market evolved at a brisk pace during 2013 as a whole. Demand for residential real estate rose due to lower interest rates for mortgages and low returns on alternative investments. At the same time, the price increase for residential property which has been apparent since 2010 continued, especially in big cities and neighbouring districts. In 2013 the commercial real estate market benefitted from the stable development in private expenditure and the increasing employment rate, resulting in falling vacancy rates and rising top rents. Medium-sized towns revealed a less pronounced development in rents. The sharp rise in the unemployment rate in countries facing unstable macroeconomic situations affected the development of office and commercial real estate markets in the Euro-zone and led to small rent increases.

## 2.2 THE COURSE OF BUSINESS

### Assets under management rise by more than 70%

At the end of the 2013 fiscal year, PATRIZIA was managing real estate assets of EUR 11.8 billion. This represents a rise of EUR 4.9 billion or 71% (31 December 2012: EUR 6.9 billion). As a result of corresponding purchases and sales, we expect assets under management to record net growth of EUR 1 billion respectively over the next two years. In addition, one to three portfolio transactions with an individual volume of EUR 0.2 to 1 billion will further increase the volume of real estate being managed. Almost all assets under management are now assigned to co-investments and services business for third parties.

ASSETS UNDER MANAGEMENT (IN EUR BILLION)




PATRIZIA's level of participation is a determining factor in the financial assessment of the course of business. Consequently, the figures in the table below are based on equity share and not on segments as these cannot be clearly differentiated based on the level of participation. The course of business is therefore shown based on the categories own investments, co-investments and third parties.

Including the sales effected as services, 3,436 units were traded compared with 2,696 units in the previous year; this represents a 27% increase

SUMMARY OF COMPLETED SALES, AVERAGE PRICES AND RENTS

| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | 2013 | 2012 | Change in % |
|---|---|---|---|---|---|---|---|
| **Units from own stocks**[1] | **260** | **182** | **778** | **494** | **1,714** | **1,709** | **0.3** |
| Units from residential property resale | 232 | 152 | 169 | 193 | 746 | 924 | –19.3 |
| Average weighted sales price in EUR/sqm | 2,676 | 2,547 | 2,652 | 2,649 | 2,640 | 2,513 | 5.1 |
| Units from block sales | 28 | 30 | 609 | 301 | 968 | 785 | 23.3 |
| Average weighted sales price in EUR/sqm | 1,462 | 2,534 | 1,309 | 1,973 | 1,618 | 1,667 | –2.9 |
| Average rental income in EUR/sqm | 7.67 | 7.62 | 7.71 | 7.57 | 7.64 | 7.60 | 0.5 |
| **Co-Investments**[2] | **306** | **176** | **264** | **308** | **1,054** | **559** | **88.6** |
| Residential property resale[3] | 135 | 176 | 145 | 287 | 743 | 482 | 54.1 |
| Block sales | 171 | 0 | 119 | 21 | 311 | 77 | >100 |
| **Services**[2] | **118** | **65** | **51** | **434** | **668** | **428** | **56.1** |
| Residential property resale | 0 | 2 | 3 | 1 | 6 | 20 | –70.0 |
| Block sales | 118 | 63 | 48 | 433 | 662 | 408 | 62.3 |
| **TOTAL** | **684** | **423** | **1,093** | **1,236** | **3,436** | **2,696** | **27.4** |

1 Transfer of ownership, usage and encumbrances (purchase price payments become due at the time of the commercial changeover and are thus recognised in profit or loss)
2 Notarial deeds (sales commission becomes payable at the time of the notarial deed and is therefore recognised in profit or loss)
3 Including new-build sales from project developments (Q1: 31 apartments, Q2: 27 apartments, Q3: 24 apartments, Q4: 41 apartments)

## 2.2.1 OWN INVESTMENTS GERMANY

Once again, no new own investments were effected in 2013 because PATRIZIA is focusing on establishing new co-investments and special real estate funds. The stock of own property will be sold off as far as possible by the end of 2015. Remaining stocks will also be sold off soon after 2015.

### Residential property resale

Once again, private investors were the predominant category of purchasers

In 2013, demand for residential units from tenants, owner-occupiers and private investors fell by 19% to 746 units (previous year: 924 units). 70% (previous year: 72%) of the properties were purchased by private investors. Owner-occupiers and tenants accounted for significantly lower shares with 19% (previous year: 17%) and 11% (previous year: 11%) respectively.

### Block sales

In 2013, 968 apartments were sold in ten transactions within the framework of block sales; this represented a rise of 23% (previous year: 785 units). The last 152 apartments at the Dresden site were sold in the third quarter of 2013.

RESIDENTIAL PROPERTY RESALE AND BLOCK SALES BY REGION IN 2013 (OWN INVESTMENT)

| Region/city | Number of units sold | | | | Area sold in sqm | | | |
|---|---|---|---|---|---|---|---|---|
| | Residential property resale | Block sales | Total | Share in % | Residential property resale | Block sales | Total | Share in % |
| Munich | 557 | 143 | 700 | 40.8 | 41,863 | 13,157 | 55,021 | 47.3 |
| Berlin | 68 | 434 | 502 | 29.3 | 5,030 | 20,378 | 25,408 | 21.8 |
| Dresden | 0 | 152 | 152 | 8.9 | 0 | 10,284 | 10,284 | 8.8 |
| Hanover | 0 | 129 | 129 | 7.5 | 0 | 8,611 | 8,611 | 7.4 |
| Cologne/Düsseldorf | 101 | 0 | 101 | 5.9 | 7,577 | 0 | 7,577 | 6.5 |
| Hamburg | 20 | 50 | 70 | 4.1 | 1,350 | 3,062 | 4,412 | 3.8 |
| Leipzig | 0 | 60 | 60 | 3.5 | 0 | 5,104 | 5,104 | 4.4 |
| TOTAL | 746[1] | 968[2] | 1,714 | 100 | 55,820 | 60,596 | 116,416 | 100 |

[1] Of these, 430 units were reported under investment property.
[2] Of these, 511 units were reported under investment property.

In the year under review 1,714 units (previous year: 1,709) were placed from own stock. This represents 28.7% of PATRIZIA's entire portfolio as at 1 January 2013

Taking into account sales completed and redensification measures, our portfolio at the end of the year under review comprised 4,064 units with an area of around 297,000 sqm. We anticipate that around 30% of the units will be realised through residential property resale and the remaining 70% through block sales.

THE PATRIZIA PORTFOLIO – BREAKDOWN BY REGION AS AT 31 DECEMBER 2013

| 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 % |
| Cologne/Düsseldorf | 410 | 739 | 1,149 | 28.2 | 35,936 | 67,978 | 103,914 | 35.0 |
| Leipzig | 0 | 828 | 828 | 20.4 | 0 | 47,874 | 47,874 | 16.1 |
| Frankfurt/Main | 146 | 580 | 726 | 17.9 | 10,009 | 35,958 | 45,967 | 15.5 |
| Munich | 624 | 10 | 634 | 15.6 | 49,975 | 817 | 50,791 | 17.1 |
| Hamburg | 40 | 512 | 552 | 13.6 | 2,853 | 32,622 | 35,475 | 11.9 |
| Hanover | 0 | 106 | 106 | 2.6 | 0 | 7,604 | 7,604 | 2.6 |
| Berlin | 29 | 40 | 69 | 1.7 | 2,645 | 2,720 | 5,365 | 1.8 |
| TOTAL | 1,249 | 2,815 | 4,064 | 100 | 101,418 | 195,573 | 296,990 | 100 |

77% of PATRIZIA's total of around 4,100 own units are located in the top five locations in Germany

## PROJECT DEVELOPMENTS

### Real estate development focuses on the construction of new living space

The new construction project in the Westend district of Frankfurt, which is being implemented as a own investment, comprises six exclusive city villas (product name VERO) and one apartment block (product name F40), which was sold to an institutional investor in 2012. After it has been completed and fully leased, this transaction will be recorded in profit/loss on transfer of ownership, usage and encumbrances during the entire 2014 year. 85% of the project is already sold. The overall project has been awarded the gold pre-certificate for residential buildings by the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen (DGNB)).

With its Friedrich-Karl-Terrassen project, PATRIZIA is implementing a new-build project in Cologne's Niehl district. 84 high-class condominiums with sizes of between 36 and 135 sqm are being constructed on a plot that has been owned since 2007 and that is in the direct vicinity of one of our property resale projects. In 2013 residential units that were still available were notarised.

**PATRIZIA'S OWN PROJECT DEVELOPMENTS AS AT 31 DECEMBER 2013**

| City, project | Intended sales price | Marketable residential space | Size of site | Planned completion |
|---|---|---|---|---|
| Frankfurt/Main, VERO/F40 | EUR 111 million | 16,890 sqm | 8,090 sqm | Q2 2014 |
| Hamburg, IBA-Soft House | EUR 3 million | 660 sqm | 800 sqm | Q2 2014 |
| Cologne, Friedrich-Karl-Terrassen | EUR 23 million | 7,520 sqm | 8,720 sqm | Q2 2014 |
| TOTAL | **EUR 137 million** | **25,070 sqm** | **17,610 sqm** | – |

## 2.2.2 CO-INVESTMENTS GERMANY

### RESIDENTIAL

#### GBW AG

At the start of April PATRIZIA repeated its success of the previous year when it concluded a major transaction. PATRIZIA negotiated and signed the deal for the acquisition of BayernLB's 91.36% stake in GBW AG, which was purchased by an investment consortium led by PATRIZIA. Together with two other share packages, the consortium secured 96.5% of the shares. The underlying corporate value for the purchase was EUR 2.453 billion. The contract was finalised on 27 May 2013. A squeeze-out process – the transfer of shares held by minority shareholders against payment of a cash settlement – has now been completed.

The consortium consists of 27 investors from German-speaking countries with a long-term focus, including 9 of the 13 investors who had already invested in the Süddeutsche Wohnen co-investment. PATRIZIA acts as investment and asset manager. PATRIZIA has investment capital of EUR 56.5 million tied up in this co-investment, representing a stake of 5.1%. For implementing the transaction, PATRIZIA received a purchasing fee in line with what is customary for a transaction of this magnitude and complexity; this fee was received in the second and third quarters of 2013. PATRIZIA also receives an ongoing asset management fee. In addition to the return on the invested equity, PATRIZIA will receive an additional bonus if specified targets for returns are exceeded.

#### Süddeutsche Wohnen GmbH (Südewo)

PATRIZIA acquired LBBW Immobilien GmbH in Europe's largest real estate transaction of 2012 (gross purchase price EUR 1.435 billion). As of 31 December 2013, Süddeutsche Wohnen GmbH had around 20,000 residential units. The residential apartment management segment was sold to a strategic investor in 2013 on regulatory grounds. The central business activity consists in long-term and value-enhancing management of the residential property assets. The positive trend on real estate markets in the south of Germany continued in 2013. Operational implementation of the business plan is proceeding according to plan. PATRIZIA itself holds a stake of 2.5% or EUR 15 million and acts as investment and asset manager.

#### WohnModul I SICAV-FIS

PATRIZIA WohnModul I SICAV-FIS firstly enables the purchase of project developments and asset repositioning properties, while secondly allowing apartments to be sold even during the investment phase. The exit strategy provides for both block sales and individual sales. Our partner in this co-investment is a renowned German pension fund that has promised total equity of EUR 300 million in several tranches. PATRIZIA's participation is around 9%, which currently equates to tied capital of EUR 18.3 million. The participation will amount to EUR 30 million once the entire equity has been called up. Equity of EUR 189 million had been called up by 31 December 2013.

### PORTFOLIO OF WOHNMODUL I – BREAKDOWN BY REGION AS AT 31 DECEMBER 2013

| Region/city | Number of units at the time of purchase | Area in sqm at the time of purchase | Number of units 31.12.2013 | Area in sqm 31.12.2013 |
|---|---|---|---|---|
| Munich | 1,702 | 114,244 | 1,175 | 79,482 |
| Copenhagen | 484 | 39,036 | 484 | 39,036 |
| Hamburg | 185 | 15,160 | 134 | 11,013 |
| Cologne/Düsseldorf | 33 | 3,127 | 33 | 3,127 |
| Berlin | 54 | 4,560 | 27 | 2,195 |
| **TOTAL** | **2,458** | **176,127** | **1,853** | **134,853** |

### CURRENT STATUS OF THE PROJECT DEVELOPMENTS FOR WOHNMODUL I AS AT 31 DECEMBER 2013

| City, project | Intended sales price in EUR million | Marketable residential space in sqm | Property area in sqm | Completion in | PATRIZIA share in % |
|---|---|---|---|---|---|
| Augsburg, Provinopark | 62 | 17,021 | 28,061 | Q1 2014 to Q4 2015, 3 CP | 13.726 |
| Düsseldorf, Belsenpark | 59 | 11,296 | 7,577 | Q2 2014, 2 CP[1] | 13.726 |
| Düsseldorf, Gerresheim | 261 | 73,250 | 192,893 | Q3 2017 | 13.726 |
| Munich, Baumkirchen | 262 | 54,500 | 29,094 | Q4 2017, 4 CP[1] | 4.545 |
| Munich, Hofmannstrasse | 374 | 81,290 | 92,890 | Q4 2019 | 9.090 |
| Munich, Nawiaskystraße | 23 | 6,204 | 9,523 | Q4 2015 | 9.090 |
| Hamburg, Unter den Linden | 152 | 37,937 | 106,129 | Q2 2015 | 9.090 |
| Berlin, Alte Jacobstraße | 35 | 8,017 | 3,779 | Q3 2016 | 9.090 |
| **TOTAL** | **1,228** | **289,515** | **469,946** | **–** | **–** |

[1] CP = Construction phases

PATRIZIA Real Estate Development's new construction project volume has increased manifold as a result of co-investments

#### COMMERCIAL

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

PATRoffice Real Estate GmbH & Co. KG is an actively managed co-investment with two pension funds, namely APG from the Netherlands and ATP Real Estate from Denmark. PATRIZIA Immobilien AG has a 6.25% (EUR 7.8 million) stake in the company, which was founded in 2007. The investment volume currently stands at EUR 321 million and is constantly decreasing due to sales. For example, real estate with a value of EUR 23 million was successfully sold in 2013.

**DEIKON**

As partner of a German institutional investor, PATRIZIA has acquired a portfolio with 86 German retail properties. The real estate purchase price was around EUR 178 million. PATRIZIA itself has a 5.1% stake in this co-investment, equating to tied capital of EUR 5.1 million. The specialist stores and supermarkets in attractive retail locations with rentable space of around 133,000 sqm generate an annual basic net rent of approximately EUR 16 million. The properties were acquired from the insolvency estate of DEIKON GmbH i.I. as part of a structured bidding process from which PATRIZIA emerged successfully.

**sono west**

In cooperation with PATRIZIA, Frankfurt-based project developer OFB is planning the construction of a new, eight-storey office and business building in Frankfurt/Main. Under the name “sono west”, a gross floor space of around 8,200 sqm will be created on the site of around 1,900 sqm on Bockenheimer Landstrasse by the middle of 2015. Sono west is the last part of a larger city quarter development. In addition to high-quality rental apartments, PATRIZIA has already realised six city villas with condominiums on the site. PATRIZIA holds a 30% stake in the sono west co-investment. The co-investor will assume responsibility for the commercial and marketing aspects of the project, while PATRIZIA will be responsible for structural engineering.

### 2.2.3 CO-INVESTMENTS INTERNATIONAL

#### COMMERCIAL

**Plymouth Sound Holdings LP**

PATRIZIA established its first co-investment in Great Britain in the middle of April 2013 through its London-based subsidiary PATRIZIA UK (formerly Tamar Capital Group) and in cooperation with Oaktree Capital Management L.P. It has acquired three office properties in a volume of EUR 32.5 million (GBP 27.1 million) for this co-investment. PATRIZIA has a 10% stake (EUR 3.5 million) and acts as asset and investment manager. Regional markets in the United Kingdom currently offer good opportunities to acquire attractive commercial real estate at the low point of the market cycle and to increase its value through active asset management.

**Winnersh Holdings LP**

In July 2013 the IQ Winnersh business park located near London was acquired for EUR 285 million (GBP 245 million) within the framework of a joint venture with Oaktree Capital Management L.P. The 118,200 sqm commercial estate comprises offices, warehouses, data centres as well as industrial and retail sites. The purchase also includes four hectares of adjoining building land, so that added value can be generated in the long term and the range of tenants extended through the development of a new site. In the middle of November a further property known as “100 Berkshire Place” was acquired with an area of around 5,000 sqm. The transaction volume is EUR 14.5 million (GBP 12.1 million). PATRIZIA has a 5% stake, amounting to just over EUR 3.7 million, in Winnersh Holdings LP.

## 2.2.4 THIRD PARTIES GERMANY

### RESIDENTIAL & COMMERCIAL

**PATRIZIA Asset Management Companies**
Various PATRIZIA business functions act as service providers for the asset management companies' special funds, thereby generating fees. Conflicts of interest between the funds are prevented through different purchase criteria for the real estate and through purchase teams that act independently of each other. The funds are established for an initial holding period of between seven and ten years and fulfil the role of property asset holders. Conflicts of interest with co-investments are avoided through different approaches to utilisation and different exit strategies for the properties.

**PATRIZIA WohnInvest KAG mbH**, established in 2007, invests in residential real estate in Germany and Europe. At the end of 2013 it was managing seven special funds with a target volume of around EUR 2 billion, of which around EUR 1 billion has already been invested. During the year under review real estate with a volume of EUR 126 million was purchased (notarised).

As of 31 December 2013, the special fund provider **PATRIZIA GewerbeInvest KAG mbH** was managing 16 funds with a real estate value of EUR 4.1 billion. In 2013 it took over the management of a special fund with capital commitments of EUR 200 million from an occupational pension fund, and also acquired a new individual mandate with capital commitments of EUR 300 million. The investment strategy focuses on European "core" commercial properties. A portfolio of 36 office properties with a rentable space of 447,200 sqm was purchased for an investment consortium mainly comprising of savings banks. The office properties are all in the federal state of Hessen and are leased to the federal state on a very long-term basis. The buildings are mainly used by ministries, courts, the police and fiscal authorities. The transaction volume was EUR 850 million. Overall, PATRIZIA GewerbeInvest KAG sold or purchased real estate with a value of EUR 1.6 billion (notarisations) for the managed funds.

### PATRIZIA FUNDS AS AT 31 DECEMBER 2013

| in EUR million | Planned target volume | Committed equity | Assets under management | Number of funds |
|---|---|---|---|---|
| **PATRIZIA WohnInvest KAG mbH** | **2,026** | **951** | **929[1]** | **7** |
| **PATRIZIA GewerbeInvest KAG mbH** | **6,971** | **3,562** | **4,102** | **16** |
| Modular funds | 3,500 | 1,401 | 1,509 | 7 |
| Individual funds | 1,471 | 1,187 | 1,265 | 7 |
| Label funds | 2,000 | 974 | 1,328 | 2 |
| **TOTAL PATRIZIA** | **8,997** | **4,513** | **5,031** | **23** |

[1] Excludes project developments secured under purchase contracts

### Other Asset and Portfolio-Management-Mandates

As part of a further mandate from an occupational pension fund, PATRIZIA acquired the first three properties for around EUR 55 million. The fund, which focuses on “value-add” real estate in Germany, has equity of EUR 100 million. Properties considered for investment include commercial and residential real estate in good and very good locations, and also properties requiring renovation, new rentals and repositioning. PATRIZIA is responsible for purchasing for the fund and also for asset and portfolio management.

### Implementation of the AIFMD by PATRIZIA in Germany

AIFMD – Alternative Investment Fund Manager Directive

PATRIZIA Immobilien AG has launched a Group-wide project to implement the AIFMD. The licence applications for PATRIZIA WohnInvest KAG mbH and PATRIZIA GewerbeInvest KAG mbH were submitted in Germany in the middle of February 2014. These two applications are currently being processed.

## 2.2.5 THIRD PARTIES INTERNATIONAL

### Acquisition of the Tamar Capital Group

Expanding our services portfolio and our European presence through the acquisition of a British asset manager

The British Financial Services Authority approved the acquisition of the London-based real estate investment and asset management company at the end of April 2013. The purchase agreement had already been signed in December 2012. All 18 Tamar employees were retained by PATRIZIA. Their expertise in transactions and asset management in the office, commercial and retail real estate sector will enable PATRIZIA to expand its market presence in Great Britain, Ireland, France and Germany. Tamar also currently provides fund management services for the Tamar European Industrial Fund (TEIF), a closed-ended fund that is listed on the London Stock Exchange. The individual Tamar branch offices were integrated into the PATRIZIA national companies (PATRIZIA UK, PATRIZIA France, PATRIZIA Deutschland).

### PATRIZIA Nordics A/S – Successful Path Continues

Following the opening of the first Nordics branch in Stockholm in 2011, the new office of PATRIZIA Nordics A/S was opened in Copenhagen in May 2013. Twelve people are now employed there. At the end of the 2013 fiscal year PATRIZIA acquired a residential portfolio in Copenhagen with a rental space of 39,000 sqm and 484 apartments. Purchases of EUR 43 million were also made for Euro City Residential Fund I and for the SV Europa Direkt fund. In 2013, the Nordics region’s assets under management were thus increased by around 90% from EUR 301 million to EUR 571 million.

### Implementation of the AIFMD by PATRIZIA abroad

As part of the Group-wide project to implement the AIFMD, the licence application for PATRIZIA Fund Management A/S (licence platform in Denmark) was submitted in December 2013. This application is currently undergoing processing. The licence application for Luxembourg is currently being prepared and will be submitted in the next few weeks.

## 2.3 ECONOMIC POSITION

### 2.3.1 GENERAL STATEMENT BY THE MANAGING BOARD

The 2013 fiscal year was also characterised by expansion. **Assets under management** rose EUR 4.9 billion to around EUR 12 billion. A major contributory factor was the acquisition of GBW AG by the consortium led by PATRIZIA. At EUR 38.1 million, the **operating result** was within the range of EUR 38 to 41 million as forecast at the end of the year. The cash and cash equivalents and the taking out of two bonded loans in a total amount of EUR 77.0 million enabled us to engage in further co-investments. As we continued to sell off our real estate portfolio and repaid bank loans as a consequence, the consolidated balance sheet decreased in line with expectations. Overall, our net asset, financial and earnings situation continued to enjoy positive development.

Our net asset, financial and earnings situation continued to enjoy positive development

### 2.3.2 EARNINGS SITUATION OF THE GROUP

OVERVIEW OF KEY ITEMS IN THE CONSOLIDATED INCOME STATEMENT

| | 2013 EUR '000 | 2012 EUR '000 | Change in % |
|---|---|---|---|
| Revenues | 217,398 | 229,238 | –5.2 |
| Total operating performance | 207,878 | 196,111 | 6.0 |
| EBITDA | 24,856 | 49,280 | –49.6 |
| EBIT | 18,749 | 44,739 | –58.1 |
| EBT | 39,599 | 28,621 | 38.4 |
| Operating result[1] | 38,119 | 43,892 | –13.2 |
| Consolidated annual profit | 37,168 | 25,455 | 46.0 |

[1] Adjusted for amortisation on other intangible assets (fund management contracts), unrealised value adjustments to investment property and non-cash effects from interest hedging transactions. Realised changes in the value of investment property have been added.

**Significant increase in Service Business**

**Consolidated revenues** fell by 5.2% in 2013 to EUR 217.4 million (2012: EUR 229.2 million). This was firstly due to the fact that 54.9% of the units sold came from non-current assets and that the selling prices totalling EUR 169.4 million are, in accordance with IFRS, not reported in revenues (2012: EUR 178.3 million). This change in revenues is largely attributable to the declining purchase price revenues from inventory assets (–24.5% compared with the previous year). In contrast, revenues from service business rose by a significant 40.9% to EUR 94.8 million.

Detailed information is provided in the table on purchase price revenues on p. 30

**Inventories** thus accounted for only 45.1% of the transaction volume (based on units sold). Revenues generated by residential property resales from inventories decreased from EUR 83.8 million to EUR 54.8 million (–34.6%), while revenues from block sales rose from EUR 22.5 million to EUR 25.5 million (+13.5%). The sale of around 29% of our real estate holding (around 116,000 sqm) resulted in a significant planned 28.2% reduction in associated rental income to EUR 30.7 million. The average monthly rent per square metre across the entire portfolio remained almost stable at EUR 7.57 (31 December 2012: EUR 7.67/sqm). Revenues from co-investments amounted to EUR 39.2 million (+35.9%; 2012: EUR 28.9 million), while revenues from third parties rose to EUR 55.6 million (+44.6%; 2012: EUR 38.5 million).

A breakdown of consolidated revenues is shown below:

## CONSOLIDATED REVENUES

| | 2013 EUR '000 | Group revenues 2013 in % | 2012 EUR '000 | Change in % |
|---|---|---|---|---|
| Purchase price revenues from residential property resale | 54,763 | 25.2 | 83,772 | –34.6 |
| Purchase price revenues from block sales[1] | 25,491 | 11.7 | 22,462 | 13.5 |
| Rental revenues | 30,699 | 14.1 | 42,744 | –28.2 |
| Revenues from co-investments | 39,226 | 18.0 | 28,871 | 35.9 |
| Revenues from third parties | 55,609 | 25.6 | 38,456 | 44.6 |
| Other[2] | 11,609 | 5.4 | 12,933 | –10.2 |
| TOTAL | **217,398** | **100** | **229,238** | **–5.2** |

[1] Purchase price receipts from investment property are not included in revenues.
[2] The item "Other" primarily includes rental ancillary costs.

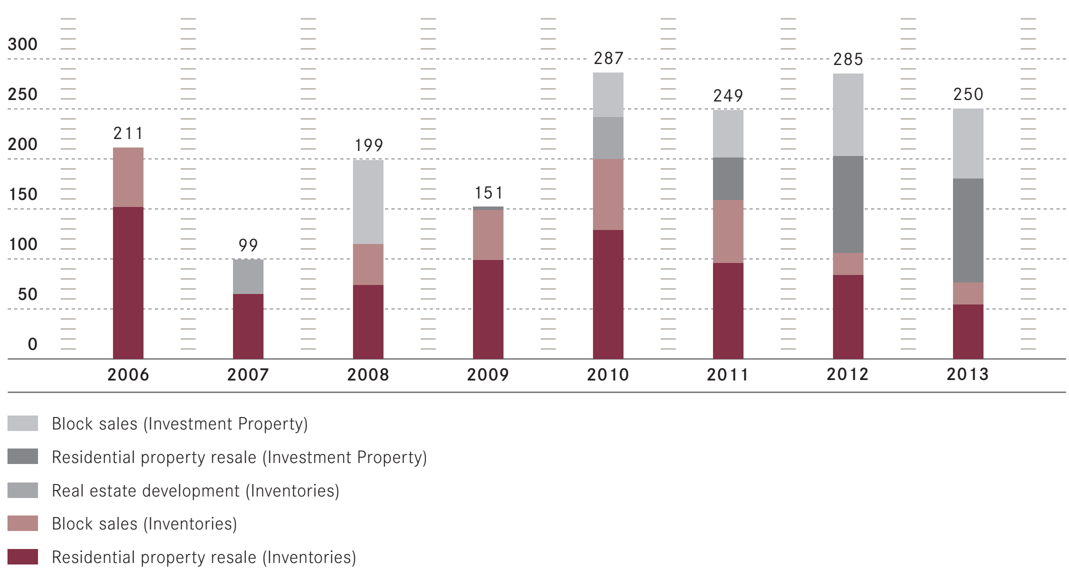
However, **revenues** have only limited significance for PATRIZIA since the selling prices of properties reported in non-current assets are not reflected in revenues. Profits from such sales are reported under the item **"Income from the sale of investment property"**. In the fiscal year under review, purchase price receipts of EUR 169.4 million resulted in a profit of EUR 19.1 million after deduction of carrying amounts of EUR 150.3 million (gross margin: 11.3%). In the period 2007–2013, real estate accounted for positive pro-rata value adjustments that are only recognised at sale and reported accordingly in the new presentation of the operating result and in the cash flow statement.

## PURCHASE PRICE REVENUES

| | 2013 EUR '000 | 2012 EUR '000 | Change in % |
|---|---|---|---|
| **Sales revenues from inventories** | **80,254** | **106,234** | **–24.5** |
| Residential property resale | 54,763 | 83,772 | –34.6 |
| Block sales | 25,491 | 22,462 | 13.5 |
| **Sales revenues from investment property[1]** | **169,428** | **178,325** | **–5.0** |
| Residential property resale | 96,691 | 96,525 | 0.2 |
| Block sales | 72,737 | 81,800 | –11.1 |
| TOTAL | **249,682** | **284,559** | **–12.3** |

[1] Purchase price receipts from investment property are not included in revenues. Instead, the income statement reports the gross profit.

SALES VOLUMES 2006–2013 (IN EUR MILLION)




Changes in inventories in the year under review were EUR -36.7 million and fell significantly as a result of the decrease in sales from inventories (2012: EUR –61.6 million). Purchase price receipts of EUR 80.3 million (2012: EUR 106.2 million) contrasted with decreases in carrying value of EUR -68.8 million (2012: EUR –85.2 million), equating to a gross margin of 14.3% (2012: 19.8%). Inventories increased as a result of capitalisation totalling EUR 32.1 million (2012: EUR 23.6 million). There was no increase to inventory through purchases.

### High investments in our portfolio

Higher building costs in real estate development (EUR 21.4 million) resulted in a rise in the cost of materials by 7.9% to EUR 58.3 million compared with the previous year (2012: EUR 54.0 million). EUR 22.5 million was invested for renovation and reconstruction activities within the portfolio (2012: EUR 15.0 million), of which EUR 12.0 million (2012: EUR 8.4 million) was capitalised. Renovation expenses for real estate reported under inventories are generally capitalised. Total current maintenance costs (which generally cannot be capitalised) were lower as a result of the reduction in the size of the portfolio (2013: EUR 2.3 million; 2012: EUR 2.8 million). Assuming an average portfolio size of around 351,300 sqm for 2013, annual costs for renovation and reconstruction amounted to EUR 44.58/sqm (2012: EUR 31.38/sqm) and EUR 6.51/sqm for current maintenance (2012: EUR 5.81/sqm). Cost of materials also includes operating costs.

### 22% Increase in Employees within the Group

Average headcount over the year rose from 529 to 647 employees. The increased **staff costs** amounted to EUR 65.7 million in 2013 (+38.2%). This was due to the new appointments in Germany and other countries and to higher sales commissions on account of better than expected sales. The total provision to cover the variable salary entitlements for the Managing Board and Managing Directors for the past fiscal year was higher than in the previous year – not least due to the increase in the share price. Please refer to the Compensation Report under item 3.2 of this Management Report and to item 9.4 of the Notes to the Consolidated Financial Statements for more information concerning the compensation of the Managing Board.

**Other operating expenses** amounted to EUR 59.0 million. A large proportion of the higher expenses in the 2013 fiscal year were attributable to PATRIZIA GewerbeInvest KAG's continuous remuneration for the label funds. Additional costs were incurred through the integration of the Tamar Capital Group. This item also includes consulting expenses in connection with transactions effected that were charged on to the investment vehicles and also "broken deal costs" for transactions that did not materialise. It also includes expenses relating to the implementation of the AIFMD and costs associated with the reorganisation.

### OTHER OPERATING EXPENSES

| | 2013 EUR '000 | 2012 EUR '000 | Change in % |
|---|---|---|---|
| Operating expenses | 11,507 | 9,031 | 27.4 |
| Administrative expenses | 15,558 | 12,660 | 22.9 |
| Selling expenses | 22,444 | 17,456 | 28.6 |
| Other expenses | 9,483 | 6,121 | 54.9 |
| **TOTAL** | **58,992** | **45,268** | **30.3** |

The components of other operating expenses are also listed under item 6.7 of the Notes to the Consolidated Financial Statements.

As a result of the above effects, **earnings before finance income and income taxes** (EBIT) in the reporting year fell by 58.1% to EUR 18.7 million (2012: EUR 44.7 million).

**Financial expenses fall by 7%**

Additional information is provided under item 6.9 in the Notes to the Consolidated Financial Statements

In accordance with IFRS, changes in market value arising from interest hedging transactions are recognised 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. Depending on the level of interest, the valuation is reported as income or expense in the financial result. It has no influence on the liquidity position of PATRIZIA but can on occasions lead to significant fluctuations in the result. Most of these interest hedging transactions, which guaranteed us a fixed average interest rate of 4.01% p.a. as of 31 December 2013, were concluded at the end of 2006/beginning of 2007 in connection with the financing of major real estate portfolios (investment property). At PATRIZIA, the hedged volume now significantly exceeds the actual amount of the loans, with most of the hedges having expired on 31 January 2014 resulting in a significant reduction in financial expenses in the first quarter of 2014. The remaining hedges will expire on 30 June 2014, leading to a further reduction in our financial expenses. Financing costs (interest rate plus margin) in 2013 amounted to 7.06% of the average bank liabilities over the year (2012: 5.29%). This is due to the fact the financial result is currently still burdened by high hedging costs. The **cash-related financial result** (cash-related interest expenses for bank loans plus expenses for interest rate hedging) improved from EUR –33.4 million to EUR –31.0 million (+7.1%).

MARKET VALUATION OF INTEREST RATE HEDGES 2013

| | 1st quarter EUR '000 | 2nd quarter EUR '000 | 3rd quarter EUR '000 | 4th quarter EUR '000 | 2013 EUR '000 | 2012 EUR '000 | Change in % |
|---|---|---|---|---|---|---|---|
| Change in the value of derivatives | 4,894 | 4,874 | 4,666 | 5,091 | 19,525 | 11,028 | 77.0 |

### Investment result increases due to the holding in GBW

The influence of **income from participations** on the consolidated result increases as the number of co-investments grows. PATRIZIA generated earnings of EUR 32.1 million (2012: EUR 6.6 million) from the Südewo and GBW AG co-investments. The rise is, among other things, due to the new co-investment, GBW AG, established in 2013 (EUR 14.4 million) and to the fact that this year was the first time Südewo was included for the whole year (EUR 17.6 million). Income from the **GBW AG** co-investment comprises of the pro-rata advanced profit distribution for 2013 in an amount of EUR 5.6 million, the dividend on the invested equity of EUR 4.2 million and the performance fee of EUR 4.6 million. In addition to the advance profit distribution for 2013 of EUR 7.3 million and the distribution on the invested equity of EUR 1.7 million, the **Südewo** co-investment also generated a performance bonus of EUR 8.6 million for the 2012 and 2013 fiscal years. The **co-investment WohnModul I** contributed a result of EUR 0.7 million compared with EUR 0.5 million in the previous year. It is important to note that in addition to residential property resale, new construction projects are also a focus here, even though these are largely still in the development phase. The results from the co-investments and the improved financial result meant earnings before tax (EBT) rose 38.4%.

A rise in investment results demonstrates the increasing success of our co-investments

### Operating result reflects PATRIZIA's earnings power

After deduction of the financial result, earnings before tax (EBT) according to IFRS were EUR 39.6 million, following EUR 28.6 million in the previous year. The reconciliation of EBT in accordance with IFRS to the operating result is effected via an adjustment to non-cash-related components of the result and by taking realised value adjustments to investment property into account. In addition, amortisation on fund management contracts, unrealised changes in the value of investment property and gains/losses from currency translation are eliminated. This approach gives an **operating result** of EUR 38.1 million (2012: EUR 43.9 million). An analysis of the sources reveals that the Management Services segment accounted for 80% of the operating result in 2013 (2012: 52%). We thus more than achieved our target of a share from service business of at least two-thirds.

The Management Services segment accounted for 80% of the operating result in 2013

## CALCULATION OF THE ADJUSTED FIGURES 2013

| | 1st quarter EUR '000 | 2nd quarter EUR '000 | 3rd quarter EUR '000 | 4th quarter EUR '000 | 2013 EUR '000 | 2012 EUR '000 |
|---|---|---|---|---|---|---|
| **EBIT** | **2,509** | **5,326** | **4,674** | **6,240** | **18,749** | **44,739** |
| Amortisation on fund management contracts[1] | 492 | 650 | 649 | 775 | 2,566 | 1,968 |
| Unrealised change in the value of investment property | 0 | 0 | 0 | –17 | –17 | –18 |
| Realised change in the value of investment property | 5,824 | 3,154 | 2,340 | 3,745 | 15,063 | 23,568 |
| **EBIT adjusted** | **8,825** | **9,130** | **7,663** | **10,743** | **36,361** | **70,257** |
| Income from participations | 6,528 | 9,305 | 0 | 16,289 | 32,122 | 6,557 |
| Earnings from companies accounted for using the equity method | 0 | 0 | 646 | 12 | 658 | 455 |
| Financial result | –2,807 | –3,074 | –3,107 | –2,916 | –11,904 | –23,130 |
| Change in the value of derivatives | –4,894 | –4,874 | –4,666 | –5,091 | –19,525 | –11,028 |
| Release of other result from cash flow hedging | 0 | 0 | 0 | 433 | 433 | 781 |
| Gains/losses from currency translation | 0 | 0 | –15 | –11 | –26 | 0 |
| **OPERATING RESULT** | **7,652** | **10,487** | **521** | **19,459** | **38,119** | **43,892** |

[1] Other intangible assets that resulted from the acquisition of PATRIZIA GewerbeInvest KAG mbH and Tamar Capital Group Ltd.

Of the previously applied revaluation of investment property, a total amount of EUR 38.7 million was realised from 2007 to 2012. In 2013, the realised changes in the value of investment property amounted to EUR 15.1 million. For the coming years we expect a contribution to results of around EUR 16 million, most of which will be realised in 2015.

Details of the operational realisation of fair value changes since the initial revaluation:

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|---|---|---|---|---|---|---|---|---|
| Change in the value of investment property | 69,477 | 0 | 0 | 325 | 3 | 18 | 17 | 69,840 |
| Realised change in the value of investment property | 0 | 3,179 | 304 | –353 | 12,042 | 23,568 | 15,063 | 53,803 |
| Cumulative balance from value changes and operating realisation | 69,477 | 66,298 | 65,994 | 66,672 | 54,633 | 31,083 | 16,037 | 16,037 |

### Consolidated annual profit increases 46%

In the 2013 fiscal year, PATRIZIA achieved a consolidated annual profit in accordance with IFRS of EUR 37.2 million (2012: EUR 25.5 million). In 2013, earnings per share rose from EUR 0.40 to EUR 0.59.

## 2.3.3 THE GROUP'S FINANCIAL SITUATION

### CAPITAL STRUCTURE

**New bonded loans taken out**
In 2013, two bonded loans in a total amount of EUR 77 million were taken out with an institutional investor from among PATRIZIA's real estate investors. The loans have a residual term of 2.5 and 4.5 years respectively, are subject to interest at 4.5% and 4.65% and may be repaid by us prematurely. They are reported under the balance sheet item Non-current liabilities.

The sale of real estate is always associated with the repayment of bank loans, all of which are now classified as current. Loans decreased by EUR 199.4 million, or 38.3%, to EUR 321.6 million. However, the economic transfer and/or full purchase price payment and the associated pro-rata repayment of loans of block sales notarised in the fourth quarter of 2013 and amounting to EUR 42.1 million is taking place in the 2014 fiscal year. Consequently, indebtedness including the two bonded loans will only fall below EUR 350 million at the start of February 2014. Most of the remaining interest hedges expire on 1 January 2014, with the remainder expiring in the middle of the year. Following this, most loans will be unsecured and based on the 1- or 3-month Euribor rate. In this connection, our financial expenses will fall significantly in future. A detailed schedule of maturities by fiscal year is listed in the Notes to the Consolidated Financial Statements under item 5.2.

**Equity ratio climbs by 6.5 percentage points**
Under liabilities, equity increased by the retained consolidated annual profit from the previous year to EUR 374.5 million. Having set a target equity ratio of 45%, we almost reached this with a ratio of 41.9% (31 December 2012: 35.4%). Over the coming years, we expect stable to increasing equity, which together with a reduction in total assets will produce a further increase in the equity ratio. Our new target is to increase the equity ratio to 80–90% by the end of 2015.

### INVESTMENTS

In addition to investments for construction measures within our portfolio and our project developments, which are largely shown under the cost of materials, our liquid assets were in particular also used for new co-investments. In 2013 we engaged in five new co-investments, which have tied up EUR 75.7 million in equity. An overview of all investments is provided in the table on PATRIZIA's capital allocation under item 2.3.4 Net Assets of the Group.

See page 37 for further information

### LIQUIDITY

**Liquidity analysis**
Central responsibility for the financing of the PATRIZIA Group is borne by PATRIZIA Immobilien AG. As of 31 December 2013, there were loan agreements with nine German banks, concluded exclusively in euros. According to the loan agreements and in accordance with our current business model, we reduce loans depending on the status of sales for the financed real estate. When selling real estate or individual units, up to approximately 83% of the sales proceeds is used for repayment.

Liquidity management ensures that the PATRIZIA Group is solvent at all times. Most of the individual Group companies are directly linked to and monitored by the Group's automatic cash pooling system. 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 and the liquidity surpluses from sales represent the most important source of liquidity within the Group and, alongside bank loans and two bonded loans, ensure that financing requirements are met. A liquidity reserve is maintained in the form of cash to ensure the Group's solvency.

### 2.3.4 NET ASSETS OF THE GROUP

**PATRIZIA NET ASSET AND FINANCIAL KEY FIGURES**

| | 31.12.2013<br>EUR '000 | 31.12.2012<br>EUR '000 | Change in % |
|---|---|---|---|
| Total assets | 892,715 | 951,553 | –6.2 |
| Equity (including non-controlling partners) | 374,481 | 336,387 | 11.3 |
| Equity ratio | 41.9% | 35.4% | 6.5 PP |
| Bank loans | 321,634 | 521,054 | –38.3 |
| – Cash and cash equivalents | 105,536 | 38,135 | > 100 |
| + Bonded loans (non-current liabilities) | 77,000 | 0 | – |
| = Net financial debt | 293,098 | 482,919 | –39.3 |
| Real estate assets[1] | 538,920 | 720,024 | –25.2 |
| Loan to Value[2] | 59.7% | 72.4% | –12.7 PP |
| Net Gearing[3] | 78.6% | 144.2% | –65.6 PP |
| Operating return on equity[4] | 10.7% | 13.6% | –2.9 PP |

[1] Real estate assets comprise investment property valued at fair value and real estate held in inventories valued at amortised cost.
[2] Proportion of bank loans to real estate assets. Only investment property is calculated at fair value. Inventories are stated at amortised cost.
[3] Ratio of net financial debt to equity adjusted for minority interests
[4] Ratio of operating result to average equity
PP = percentage points

#### Real estate sales reduce total assets

As of 31 December 2013, the PATRIZIA Group reported **total consolidated assets** of EUR 892.7 million, EUR 58.8 million less than at the end of 2012. Under assets, the stock of real estate decreased by EUR 181.1 million. **Investment property** is recognised at fair value through profit or loss in accordance with IAS 40 (EUR 229.7 million). As could be seen, properties sold in the fiscal year that were reported under investment property were sold at a profit, thus confirming the value retention of the properties. Real estate intended for sale as part of ordinary business operations is reported in the **inventories** and measured at amortised cost (EUR 309.2 million). This item also includes our own real estate developments in Frankfurt, Hamburg and Cologne. They have a carrying value of EUR 93.0 million.

The PATRIZIA Group's consolidated total assets will continue to decrease. The disposal of all real estate will not be completely compensated for by the non-financed expansion of participations. The various participations grew by a total of EUR 64.2 million and have almost trebled. The co-investments DEIKON, GBW AG, Plymouth Sound Holdings LP, sono west and Winnersh Holdings LP were added in the 2013 fiscal year.

### PATRIZIA CAPITAL ALLOCATION FOR THE YEAR ENDED 31.12.2013

| in EUR million | Assets under management | Investment capital | Participation in % |
|---|---|---|---|
| **Own investments** | **6,169** | **266.2** | |
| Investment property and inventories[1] | 539 | 220.9 | 100 |
| Operating companies[2] | 5,630 | 45.3 | 100 |
| **Co-investments** | **5,602** | **119.2** | |
| **Residential** | **4,695** | **92.2** | |
| GBW AG | 2,600 | 56.5 | 5,1 |
| Süddeutsche Wohnen GmbH | 1,514 | 15.0 | 2,5 |
| WohnModul I SICAV-FIS | 538 | 18.3 | 9.09 |
| Other | 43 | 2.4 | 10 |
| **Commercial Germany** | **565** | **19.8** | |
| PATRoffice | 321 | 7.8 | 6.25 |
| sono west | 58 | 7.0 | 30 |
| Deikon | 186 | 5.1 | 5,1 |
| **Commercial international** | **342** | **7.1** | |
| Plymouth Sound Holdings LP (UK) | 33 | 3.5 | 10 |
| Winnersh Holdings LP (UK) | 309 | 3.7 | 5 |
| **Tied investment capital** | **11,771** | **385.4** | |
| Bank balances and cash | – | 66.1 | – |
| **Total investment capital** | **11,771** | **451.5** | |
| thereof borrowed capital (bonded loans) | – | 77.0 | – |
| thereof PATRIZIA equity | – | 374.5 | – |

[1] Including real estate developments
[2] Including PATRIZIA WohnInvest KAG mbH, PATRIZIA GewerbeInvest KAG mbH, PATRIZIA UK, PATRIZIA Nordics

## Consolidated Cash Flow Statement

In the reporting year, there were cash inflows from **current business activities** of EUR 179.8 million (2012: EUR 32.9 million). As a result of the disbursements associated with the acquisition of participations, **cash inflows from investment activities** were down on the previous year and stood at EUR 87.0 million (2012: EUR 145.8 million). On the other hand, the volume of transactions caused cash **outflows from financing activities** since, as in 2012, significantly more loans could be repaid than were taken out. The **change in cash** thus amounted to EUR 67.4 million (2012: EUR 6.3 million) and increased cash and cash equivalents from EUR 38.1 million at the end of 2012 to EUR 105.5 million as of 31 December 2013.

### SUMMARY OF THE 2013 CASH FLOW STATEMENT

| | 2013 EUR '000 | 2012 EUR '000 | Change in % |
|---|---|---|---|
| Cash inflow from operating activities | 179,788 | 32,855 | > 100 |
| Cash inflow from investment activities | 87,046 | 145,755 | –40.3 |
| Cash outflow from financing activities | –199,433 | –172,303 | 15.7 |
| Changes in cash | 67,401 | 6,307 | > 100 |
| Cash and cash equivalents 1 January | 38,135 | 31,828 | 19.8 |
| Cash and cash equivalents 31 December | 105,536 | 38,135 | > 100 |

### Net Asset Value

Net asset value (NAV) represents the actual value of the real estate less net financial liabilities. At PATRIZIA, some real estate is valued at the market value (fair value, applies to investment property), and some at amortised cost (inventories). In 2013, sales resulted in gross margins of 11.3% and 14.3% above the carrying value, thus testifying to the value retention of our properties. The Management Services division, which contributed 80% of the operating result over the year, is not included when calculating net asset value. Since the NAV represents only part of PATRIZIA, we do not consider it appropriate to value the Group on the basis of this indicator.

CALCULATION OF NAV

| | 31.12.2009 EUR '000 | 31.12.2010 EUR '000 | 31.12.2011 EUR '000 | 31.12.2012 EUR '000 | 31.12.2013 EUR '000 |
|---|---|---|---|---|---|
| Investment property[1] | 657,320 | 614,945 | 532,321 | 374,104 | 229,717 |
| Investments in joint ventures | 13 | 8 | 18 | 0 | 0 |
| Participations in associated companies | 0 | 0 | 6,809 | 15,810 | 18,295 |
| Participations | 3,090 | 3,090 | 3,134 | 18,407 | 80,074 |
| Inventories[2] | 676,008 | 510,438 | 407,529 | 345,920 | 309,203 |
| Current receivables and other current assets | 29,428 | 10,282 | 48,735[3,4] | 92,013[3,4] | 82,262 |
| Bank balances and cash | 56,183 | 70,537 | 43,690[3] | 50,330[3] | 105,536 |
| Less non-current liabilities | 0 | 0 | 0 | 0 | –77,000[4] |
| Less current liabilities | –13,116 | –17,008 | –16,354[3,4] | –25,876[3,4] | –75,759 |
| Less bank loans | –1,070,207 | –841,380 | –673,752[3] | –521,054 | –321,634 |
| **NAV** | **338,719** | **350,912** | **352,130** | **349,654** | **350,694** |
| No. of shares | 52,130,000 | 52,130,000 | 52,130,000 | 57,343,000 | 63,077,300 |
| **NAV/SHARE (EUR)** | **6.50** | **6.73** | **6.75** | **6.10** | **5.56** |

1 Fair market valuation; (gross) sales margin of 2013: 11.3%
2 Valuation at amortised cost; (gross) sales margin of 2013: 14.3%
3 Figures excluding PATRIZIA GewerbeInvest KAG mbH, purchase loans eliminated (concerns 2011) and cash and cash equivalents increased by outflow of equity (concerns 2011 and 2012)
4 Adjusted for non-property-specific items

## 2.3.5 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 financing and management holding for these companies, PATRIZIA Immobilien AG generated revenues of EUR 13.4 million (2012: EUR 12.8 million), mostly from management cost allocations to the subsidiaries. This allocation was increased in the 2013 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 2013 fiscal year, the parent company reported significantly higher purchasing and sales commissions generated in connection with the purchase or establishment of the special funds of the PATRIZIA asset management companies and co-investments. Staff costs increased by 34.0% to EUR 19.8 million (2012: EUR 14.8 million) since the number of employees rose over the course of the year from 178 to 213, or from 206 to 242 when trainees are included. The cost of materials and other operating expenses increased by 17.8% (EUR 19.6 million). In 2013, administrative expenses were negatively affected by higher rental expenses for office accommodation caused by increased staff numbers and new branch offices and by expenses for due diligence processes. Net interest income decreased by EUR 2.3 million to EUR 3.6 million. 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. Income from profit and loss transfers was up on the previous year and totalled EUR 48.6 million (2012: EUR 27.9 million, +74.0%). Earnings from investments climbed 62.7% to EUR 1.8 million. PATRIZIA Immobilien AG's annual profit under HGB for the 2013 fiscal year amounted to EUR 25.5 million (2012: EUR 13.4 million) and when combined with the profits carried forward of EUR 64.4 million represents the Company's unappropriated profit. This unappropriated profit amounted to EUR 89.9 million, an increase of 39.7% over the previous year (EUR 64.4 million).

The pleasing development made by PATRIZIA Immobilien AG will continue in the 2014 fiscal year. According to the forecast for the consolidated result in 2014, earnings from participations and profit transfer agreements will continue to improve. In view of the capacity adjustment in connection with PATRIZIA's growth and reorganisation in the 2013 fiscal year, we do not expect any major increase in costs in excess of the full-year effects in 2013. Equity before appropriation of profits will continue to develop favourably. Indebtedness may increase temporarily if interim financing becomes necessary within the framework of investments.

### SUMMARY OF THE PATRIZIA IMMOBILIEN AG BALANCE SHEET

| | 31.12.2013<br>EUR '000 | 31.12.2012<br>EUR '000 |
|---|---|---|
| Non-current assets | 250,321 | 190,652 |
| Current assets | 216,564 | 171,901 |
| Prepaid expenses | 518 | 665 |
| TOTAL ASSETS | **467,402** | **363,217** |
| | | |
| Equity | 364,964 | 339,420 |
| Provisions | 11,109 | 9,845 |
| Liabilities | 91,330 | 13,952 |
| TOTAL ASSETS | **467,402** | **363,217** |

### SUMMARY OF THE PATRIZIA IMMOBILIEN AG INCOME STATEMENT

| | 2013<br>EUR '000 | 2012<br>EUR '000 | Change in % |
|---|---|---|---|
| Revenues | 13,423 | 12,772 | 5.1 |
| Other capitalised services and other operating income | 1,341 | 2,405 | –44.2 |
| Cost of materials | –1,780 | –3,391 | –47.5 |
| Staff costs | –19,779 | –14,760 | 34.0 |
| Depreciation, amortisation, write-downs and other operating expenses | –21,090 | –15,631 | 34.9 |
| Profit/loss from participations, profit transfers and loss absorption | 50,428 | 29,057 | 73.5 |
| Net interest income | 3,589 | 5,937 | –39.5 |
| **Result from ordinary activities** | **26,133** | **16,388** | **59.5** |
| Taxes | –590 | –2,990 | –80.3 |
| **Annual profit/loss** | **25,543** | **13,399** | **90.6** |
| Profit carried forward | 64,382 | 50,984 | 26.3 |
| UNAPPROPRIATED PROFIT | **89,926** | **64,382** | **39.7** |

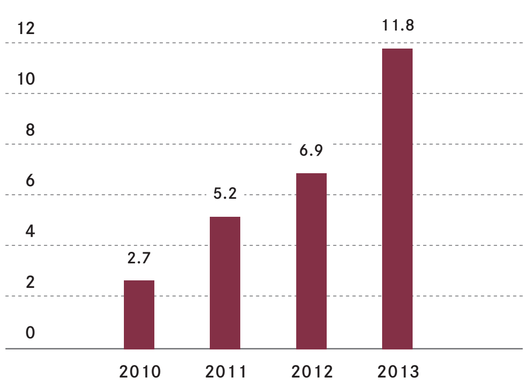
## 2.3.6 FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

### FINANCIAL PERFORMANCE INDICATORS

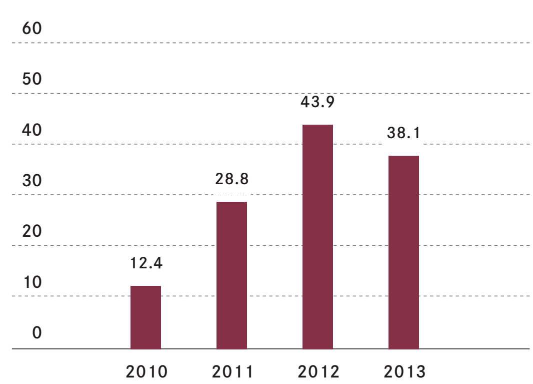
PATRIZIA uses various indicators to manage the Group and achieve its corporate targets. It has defined **assets under management** and **operating result** as permanent key parameters. With figures for **indebtedness** and **equity ratio** having shown a constant improvement in recent fiscal years, these parameters will now play only a subordinate role because the Group's financing is now on a sound footing. **Sales margins** are also becoming less important as own stock is increasingly sold off.

Summary of trends in financial performance indicators:

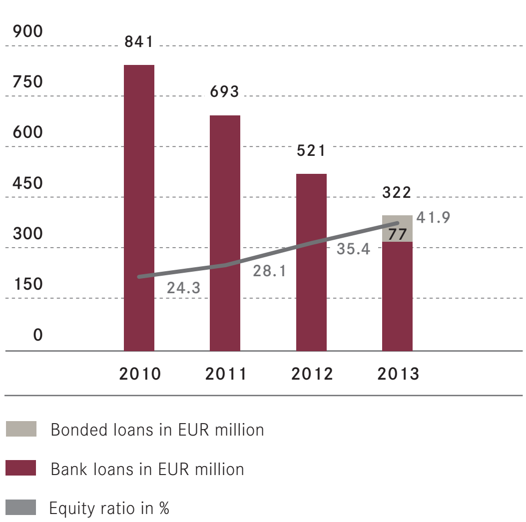
ASSETS UNDER MANAGEMENT (IN EUR BILLION)



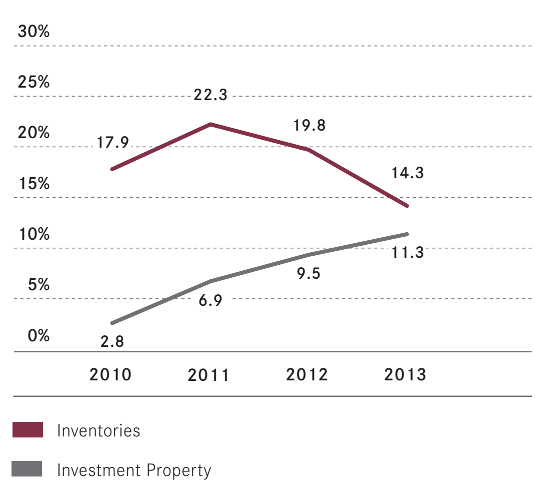

OPERATING RESULT (IN EUR MILLION)




BANK LOANS AND EQUITY RATIO AS AT 31.12.




SALES MARGINS (GROSS)



Summary of forecast figures for the 2013 fiscal year, actual values for 2013 and new target figures for 2014:

| | 2013 forecast | 2013 actual values | 2014 forecast |
|---|---|---|---|
| Assets under management | Growth of EUR 1 billion | Growth of EUR 4.9 billion | Growth of EUR 2 billion |
| Operating result | EUR 47-49 million | EUR 38.1 million | At least EUR 50 million |
| Indebtedness | EUR 350 million[1] | EUR 399 million[1,2] | EUR 180 million[1] |
| Equity ratio | 45% | 41.9% | Increasing to 80–90% by the end of 2015 |

[1] Including EUR 77 million in bonded loans
[2] Target figure was not achieved because although ownership, use and encumbrances were transferred for some properties, the purchase price is to be received in 2014, as reflected in the balance sheet item current receivables and other current assets of EUR 82.3 million.

### Assets under management

The PATRIZIA Managing Board forecast a rise in real estate assets of EUR 1 billion for the 2013 fiscal year. In fact, assets under management rose from EUR 6.9 billion to EUR 11.8 billion. For 2014 we expect assets under management to grow by EUR 2 billion. This represents the balance of purchases and sales by the two asset management companies and the co-investments and of the continuing sale of own stock. In addition, this mean value takes into account one to three portfolio transactions with an individual volume of EUR 0.2 to 1 billion. We will also endeavour to continuously expand our assets under management in subsequent years, too.

### Operating result

The operating result before taxes is the Group's most important control variable. The 2013 forecast provided for between EUR 47 and 49 million. In December 2013 this target was reduced to EUR 38 to 41 million. This was due to lower than planned income associated with several one-off effects in connection with expenditures which could only be partly offset by additional business. The actual figure was EUR 38.1 million. For 2014, the PATRIZIA Managing Board anticipates an operating result of at least EUR 50 million.

### Indebtedness

Indebtedness of EUR 350 million was forecast for year-end 2013, including around EUR 270 million in bank loans (EUR 292 million in loans less EUR 22 million in purchase price payments received) and just under EUR 80 million in respect of two bonded loans. By comparison, as of 31 December 2013, indebtedness was comprised of EUR 300 million in bank loans (EUR 322 million in loans less EUR 22 million in purchase price payments received) and EUR 77 million in bonded loans. The target figure for bank loans was therefore not fully achieved on the balance sheet date. It is, however, important to note that the economic transfer and/or full purchase price payment and the associated pro-rata loan repayment of block sales notarised in the fourth quarter of 2013 in a volume of EUR 42.1 million is taking place in the 2014 fiscal year. Consequently, indebtedness fell below EUR 350 million at the start of February 2014. For the 2014 fiscal year we expect a reduction to EUR 180 million, including around EUR 100 million in bank loans and just under EUR 80 million in bonded loans.

## NON-FINANCIAL PERFORMANCE INDICATORS

### Management Responsibility

The current Corporate Responsibility Report is available on our website: www.patrizia.ag/en/press/publications/corporate-responsibility-report-2013-1

PATRIZIA Immobilien AG continues to support various organisations in the real estate industry that are committed to promoting sustainability and environmentally conscious actions. Through our membership in other associations of national and international property companies, we participate in various working groups to make a contribution to the subject of sustainability in the real estate sector, for example in defining reporting standards for residential property. In accordance with its sustainability strategy, PATRIZIA will, over the coming years, work towards the targets it has set itself, as detailed in the Corporate Responsibility Report.

### Property Management recertified by TÜV

TÜV Nord has recertified PATRIZIA Deutschland GmbH's Property Management business function in accordance with DIN EN ISO 9001:2008. Recertification audits have been conducted in a three-yearly cycle since 2007 (the latest in 2012), with surveillance audits conducted on an annual basis. The certification is valid for the offices in Augsburg, Berlin, Dresden, Frankfurt, Hamburg, Cologne, Munich and Stuttgart.

In addition, PATRIZIA Property Management is increasingly using green electricity from local sources to supply its assets under management; we obtain this from almost all suppliers on almost the same terms as for electrical energy produced from conventional sources. Regular re-negotiation of framework agreements often enables us to secure more favourable terms for tenants and owners for the supply of natural gas, buildings insurance, measurement services or drinking water analyses.

### Sustainability Certificates for Project Developments

Since 2010, PATRIZIA has followed a consistent policy of submitting all construction project developments for DGNB certification

Real Estate Development, which focuses on the creation of own construction projects, is an essential component of PATRIZIA's business activities. PATRIZIA was one of the first real estate companies in Germany involved in establishing the “New Housing” label within the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen (DGNB)). As well as contributing important expert knowledge to drive the development of this new certification system, as early as 2010 PATRIZIA also started consistently submitting all its own construction project developments for DGNB certification. As a result, the projects Provinopark in Augsburg, Belsenpark in Düsseldorf and Friedrich-Karl-Terrassen in Cologne were each awarded the DGNB pre-certificate in silver. PATRIZIA even received the pre-certificate in gold for the VERO town villas project in Frankfurt. PATRIZIA has stated its intention to obtain a pre-certificate for every future project development. Key fundamental principles of PATRIZIA's project developments include avoiding additional land sealing and focussing on inner city areas when selecting project locations, thereby ensuring short distances between home and place of work.

PATRIZIA's travel management policy also considers sustainable aspects. In principle, care should be taken to use the mode of transport that enables the destination to be reached in the most economic and most environmentally compatible way, with priority given to public transport.

### PATRIZIA KinderHaus Foundation

PATRIZIA also practises sustainability through the PATRIZIA KinderHaus Foundation, which was established by CEO Wolfgang Egger in 1999 and which involves itself around the world in carefully selected projects whose principal focus is always on creating appropriate living spaces for children and young people in need by providing new buildings precisely tailored to their particular requirements. The aim is always to help these young people to help themselves. The Foundation works exclusively with experienced, recognised 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 needy children and young people is met over the long term and to a high degree. Since its beginnings, the Foundation has constructed eight PATRIZIA KinderHaus buildings in Germany, Africa and Asia. 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 PATRIZIA and sponsors so that 100% of all donations received can be directly passed on to the aid projects.

More information on the PATRIZIA KinderHaus Foundation aid projects is available at www.patrizia.ag/kinderhausstiftung/en

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

More extensive information can be found in PATRIZIA's Corporate Responsibility Report, which was published for the first time in the 2013 fiscal year. With this report, PATRIZIA fulfils the requirements of the Global Reporting Initiative (GRI), as officially confirmed on 23 September 2013.

### Employees

At the end of 2013, the PATRIZIA Group employed 712 permanent employees (previous year: 586 employees, +21.5%) including 42 trainees and students of Duale Hochschule Stuttgart majoring in real estate, in addition to 63 part-time employees. 40 employees (previous year: 8) are now employed at PATRIZIA's international branches in Denmark, France, Great Britain, Ireland, Luxembourg and Sweden. The increase in the number of positions is primarily attributable to the rise in assets under management and to the expansion of the Group's European presence. From 2014 the number of employees in Germany will remain fairly stable, while positions remain to be filled in other countries. On average during 2013, PATRIZIA employed 647 staff (2012: 529 employees, +22.3%), including 34 trainees and 59 part-time-employees. In terms of full-time equivalents, the European headcount at the end of the year was 688 active employees (2012: 532, +29.3%).

The average age of PATRIZIA employees, excluding trainees, is 39 (including Europe). Due to our growth, we again increased the number of trainees and students from 35 in 2012 to 42 in 2013. The current training rate is 6%, with a medium-term target of over 7%. The proportion of male to female full-time employees in Germany is 48% to 52%, while the proportion of male to female part-time employees is 13% to 87%. With an overall proportion of 55%, the majority of employees in the PATRIZIA Group are female. Within senior management (Managing Board and first-tier managers), 13% of those employed in the fiscal year throughout Europe were women, while 23% of managers in the Group were female. PATRIZIA has for several years offered various part-time models to enable better reconciliation of family and working life.

Due to the significant increase in the number of staff, the average period of employment (excluding trainees in Europe) is around four years. We attach great importance to recruiting new managers from within our own ranks wherever possible. Despite growth in Europe and locations throughout Germany, we filled 6 of the 17 vacant management positions with our own staff in 2013. In addition, 24 internal changes took place in the fiscal year as a result of extensive career development. PATRIZIA's internal academy offers company-specific further training and among others, uses PATRIZIA's own experts as trainers. In the first two years since establishment, 1,300 participants attended eleven different seminars in the fields of real estate expertise, management expertise, personal and social expertise and international expertise.

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

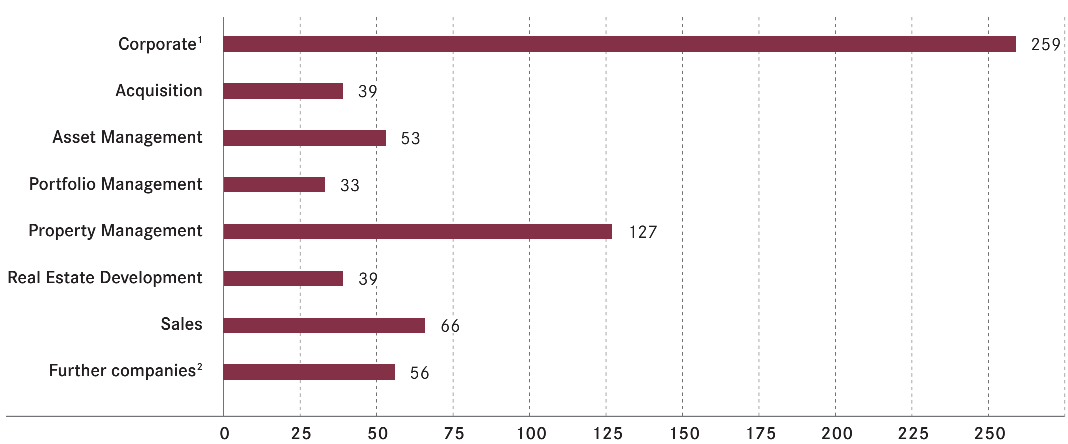
PATRIZIA is among Germany's Top Employers

An annual staff survey has been conducted since 2010. Since November 2012, PATRIZIA has also participated in the public competition "Deutschlands Beste Arbeitgeber" ("Germany's Best Employers") organised by the "Great Place to Work" Institute in Cologne. A participation rate of around 91% of employees in 2013 underlines the sustained interest and credibility of management in the effectiveness of this instrument. In 2013 employee satisfaction increased by a further 1% and now stands at 78%. The survey has, for example, resulted in the introduction of a company health management programme, a kindergarten allowance, group accident insurance and a shopping card, and also a staff participation programme with effect from 2013. The instrument of an employee survey remains an essential component of PATRIZIA's corporate culture and will be continued in future in order to foster the company's further development.

The attractiveness of the company as an employer is also noticeable on the job market. In 2011 PATRIZIA was for the first time voted one of the top 15 employers in real estate by Immobilienzeitung magazine; at the time, it was the only company in residential real estate represented in the rankings. In 2013 PATRIZIA gained another three places, jumping to 8th place.

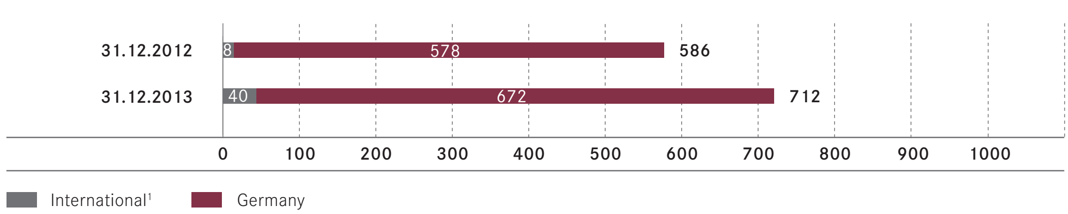
The Group's reorganisation, which was deliberately started during PATRIZIA's most favourable economic situation to date, was completed on 30 June 2013. From now on, functions will be bundled at national level and managed transnationally. The following graphs illustrate PATRIZIA's realignment, which ensures the company is prepared for further international growth.

## STAFF NUMBERS IN GERMANY BY BUSINESS FUNCTION AS AT 31 DECEMBER 2013




¹ Trainees are primarily assigned to the Corporate business function.
² Primarily PATRIZIA Alternative Investments GmbH, PATRIZIA GewerbeInvest KAG mbH, PATRIZIA WohnInvest KAG mbH, PATRoffice

## GEOGRAPHICAL CHANGES IN STAFF NUMBERS




¹ Denmark, France, Great Britain, Ireland, Luxembourg and Sweden

# 3 FURTHER DISCLOSURES

## 3.1 MERGER-RELATED DISCLOSURES

The following statement is a disclosure of information in accordance with Article 289 (4) and Article 315 (4) of the Handelsgesetzbuch (HGB – German Commercial Code) which can play a role in the acquisition of control over a company. All arrangements comply with the standards of German companies oriented towards the capital market.

**Composition of subscribed capital**
Since the capital increase from company funds was entered into the Commercial Register on 8 July 2013, the Company's subscribed capital (share capital) has totalled EUR 63,077,300 and is divided into 63,077,300 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 not aware of any contractual restrictions relating to voting rights or the transfer of shares.

**Direct or indirect share of voting rights of more than 10%**
As of 31 December 2013, Wolfgang Egger, CEO of PATRIZIA Immobilien AG, held a total stake of 51.62% 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.

**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 6 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.

The Company's Articles of Association you find at www.patrizia.ag/en/investor-relations/corporate-governance/articles-of-association

**Powers of the Managing Board to issue and buy back shares**
By resolution of the Annual General Meeting of 23 June 2010, the Managing Board is entitled to acquire shares in the Company with a volume of up to 10% of the share capital until 23 June 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 or 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 cancelled, sold in exchange for a contribution in kind or to shareholders or used to meet subscription or conversion rights.

The Managing Board was authorised, by resolution of the Annual General Meeting on 20 June 2012, to increase the share capital on one or more occasions with the consent of the Supervisory Board by up to a total of EUR 14,335,750 in exchange for cash contributions and/or contributions in kind by issuing new, registered no-par value shares (Authorised Capital 2012) by 19 June 2017. In certain cases, the Managing Board is authorised, with the approval of the Supervisory Board, to exclude the legal subscription rights of the shareholders. The complete authorisation results from Article 4 (3) of the Articles of Association. In addition, the Managing Board is authorised on one or more occasions, with the approval of the Supervisory Board to grant until 19 June 2017 in accordance with the more detailed 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 "bonded loans") in the aggregate principal amount of up to EUR 375,000,000 with a term of up to 20 years and to grant the bearer or the creditor of bonded loans, 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 14,335,750. As a result of the 2013 capital increase from company funds, the 2012 contingent capital was conditionally increased, in accordance with Article 218 sentence 1 AktG and by law in the same ratio as the share capital, i.e. by 10%, to EUR 15,769,325 through the issue of 15,769,325 new, registered no-par values shares with a pro-rata share in the share capital of EUR 1.00. 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 exist with the members of the Managing Board or employees for the event of a takeover bid.

## 3.2 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 in the 2013 fiscal year. PATRIZIA follows the recommendations of the German Corporate Governance Code in its entirety for the compensation of the Managing Board and Supervisory Board.

### Compensation of the Managing Board

The system of management compensation was approved by the Annual General Meeting on 23 June 2010. 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 components and performance-related 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.

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. Consequently, the amount of variable compensation paid out depends on the degree to which the predetermined targets are achieved, missed or exceeded.

The primary criterion for the achievement of company targets is profit for the reporting period, as calculated in accordance with IFRS and without taking into account changes in the fair value of the investment property, the losses from currency translation 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 and Tamar Capital Group Ltd.) and taking into account realised increases in fair value. This adjusted pre-tax result is reported in PATRIZIA's financial reports as operating result. The operating result 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 the operating result 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.

The Group return on equity for the reporting period is another important company target. 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 small-cap index.

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

For each predefined target, a variable compensation amount is calculated depending on the degree to which the target has been achieved. The total of all the amounts is paid out in two components. Two-thirds of the amount is paid out in the form of a cash payment, which is designated as a short-term component. The remaining third of the variable compensation is granted in the form of performance share units, i.e. it is not paid out directly in cash. This third is intended as a component with a long-term incentive effect. Performance share units are virtual shares which grant the legitimate beneficiary the right to receive a monetary amount after a 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 31 December 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 31 December of the second or third year following the fiscal year in question, i.e. after the end of the vesting period. The variable compensation components with a long-term incentive effect are thus dependent on the Company's share price performance.

The total remuneration paid out for the Managing Board in the 2013 fiscal year amounted to EUR 2.0 million (previous year: EUR 1.8 million). Furthermore, the Managing Board acquired 74,219 performance share units (previous year: 118,354), the cash value equivalent of which will be paid out in the 2015 and 2016 fiscal years. The amount of variable compensation due to be paid out for the past 2013 fiscal year and due for payment in 2014 has not yet been determined since not all components required to achieve the targets are known.

The following payments were granted to the individual members of the Managing Board in 2013:

| 2013 | Short-term compensation[1] | | | | |
|---|---|---|---|---|---|
| in EUR | Fixed compensation (fixed salary) | Non-cash and other benefits[2] | Contribution to retirement pension | Short-term variable compensation | Total |
| Wolfgang Egger, Chairman | 360,000 | 21,676 | 12,000 | 306,000 | 699,676 |
| Arwed Fischer | 350,000 | 31,671 | 12,000 | 223,500 | 617,171 |
| Klaus Schmitt | 360,000 | 11,851 | 24,000 | 289,600 | 685,451 |
| TOTAL | **1,070,000** | **65,198** | **48,000** | **819,100** | **2,002,298** |

[1] Payment in the 2013 fiscal year
[2] The item primarily includes non-cash benefits arising from the provision of company cars and insurance premiums.

| 2012 | Short-term compensation[1] | | | | |
|---|---|---|---|---|---|
| in EUR | Fixed compensation (fixed salary) | Non-cash and other benefits[2] | Contribution to retirement pension | Short-term variable compensation | Total |
| Wolfgang Egger, Chairman | 360,000 | 75,562 | 12,000 | 202,674 | 650,236 |
| Arwed Fischer | 300,000 | 37,498 | 12,000 | 219,111 | 568,609 |
| Klaus Schmitt | 300,000 | 33,399 | 24,000 | 248,125 | 605,524 |
| TOTAL | **960,000** | **146,459** | **48,000** | **669,910** | **1,824,369** |

[1] Payment in the 2012 fiscal year
[2] The item primarily includes non-cash benefits arising from the provision of company cars and insurance premiums.

| | Variable compensation with a long-term incentive effect | | | |
|---|---|---|---|---|
| | 2013[1] | | 2012[2] | |
| | Fair value when granted in EUR[3] | Number of performance share units[4] | Fair value when granted in EUR[5] | Number of performance share units[4] |
| Wolfgang Egger, Chairman | 153,000 | 26,906 | 101,337 | 35,541 |
| Arwed Fischer | 124,250 | 21,849 | 112,056 | 39,301 |
| Klaus Schmitt | 144,800 | 25,464 | 124,063 | 43,512 |
| GESAMT | **422,050** | **74,219** | **337,456** | **118,354** |

[1] Granted in the 2013 calendar year for the 2012 fiscal year once all criteria required for determining the variable compensation were known.
[2] Granted in the 2012 calendar year for the 2011 fiscal year once all criteria required for determining the variable compensation were known.
[3] Conversion to performance share units with two-year/three-year vesting period at an average price of EUR 6.255211. To be paid out in 2015/2016 at the average Xetra price 30 days before and after 31 December 2014/2015.
[4] Due to the bonus shares issued in a ratio of 10:1 in 2012 and 2013, the performance share units issued were adjusted in the same ratio in order to offset any potential dilution effect.
[5] Conversion to performance share units with two-year/three-year vesting period at an average price of EUR 3.45. To be paid out in 2014/2015 at the average Xetra price 30 days before and after 31 December 2013/2014.

### Compensation of the Supervisory Board

The compensation of the Supervisory Board is determined by resolution of the Annual General Meeting and in the Articles of Association. The Supervisory Board receives fixed compensation in line with the level customary in the market; this is paid to members in four equal instalments at the end each quarter. No variable compensation is paid.

In view of the size of the Supervisory Board with just three members no committees were formed so that the committee remuneration recommended by the German Corporate Governance Code is irrelevant. If a Supervisory Board member was not a member for the entire fiscal year, he/she only receives the fixed compensation pro rata temporis. The members of the Supervisory Board also receive reimbursement for all their expenses as well as reimbursement for any value-added tax payable on their compensation and expenses. The compensation of the Supervisory Board for the 2013 fiscal year totalled EUR 100,000 plus reimbursement for expenses, and is reported in other operating expenses.

The following payments were granted to the Supervisory Board in the 2013 fiscal year:

| | Fixed compensation | |
|---|---|---|
| in EUR | 2013 | 2012 |
| Dr. Theodor Seitz, Chairman | 40,000 | 40,000 |
| Harald Boberg | 30,000 | 30,000 |
| Manfred J. Gottschaller | 30,000 | 30,000 |
| **TOTAL** | **100,000** | **100,000** |

## 3.3 DECLARATION ON CORPORATE GOVERNANCE – DISCLOSURES IN ACCORDANCE WITH ARTICLE 289A HGB (GERMAN COMMERCIAL CODE)

The Managing Board of PATRIZIA Immobilien AG issued a declaration on 16 December 2013 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.

## 3.4 TRANSACTIONS WITH RELATED COMPANIES AND INDIVIDUALS

The Managing Board submitted a dependent company report to the Supervisory Board, to which it adds the following 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 for each legal transaction. There were no measures taken during the fiscal year that require reporting."

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.

## 4 SUPPLEMENTARY REPORT

**Own investments**

Economic transfer and/or full purchase price payment and the associated pro-rata loan repayment of block sales notarised in the fourth quarter of 2013 in a volume of EUR 42.1 million is not taking place until the 2014 fiscal year. Indebtedness including the two bonded loans will therefore fall below EUR 350 million at the start of February 2014.

A large part of our interest hedging transactions ended on 31 January 2014, with the rest due to end in the middle of the year; this will significantly reduce our future financial expenses.

**Co-investments**

At the end of February 2014 a further 112 residential units with a total area of around 8,300 sqm were purchased in Munich. These will be transferred in the first quarter of 2014.

At the start of January 2014 the fourth property, “Watchmoor – Lakeview”, was purchased for the co-investment Plymouth Sound Holdings LP for around EUR 6.5 million (GBP 5.4 million).

**Third Parties**

On 14 February 2014, PATRIZIA signed the contract for the purchase of the “Leo I” real estate portfolio in Hessen. This comprises of 18 office buildings that are leased to the federal state of Hessen on a long-term basis. The overall portfolio has a market value of around EUR 1 billion and is being sold by a subsidiary of Commerz Real AG. PATRIZIA is acquiring the portfolio via a special real estate fund. The transaction is expected to be completed in the first quarter of 2014.

We have also already made initial purchases for the residential and commercial funds of the two asset management companies in a volume of around EUR 105 million.

## 5 DEVELOPMENT OF OPPORTUNITIES AND RISKS

### 5.1 MANAGEMENT OF OPPORTUNITIES AND RISKS

A standard corporate risk management system ensures that opportunities and risks are systematically captured, assessed, controlled, monitored and communicated. Our aim is to obtain information on risks and opportunities and their financial implications as early as possible and to manage such risks and opportunities in such a way as to ensure that PATRIZIA’s survival is not endangered and to ensure the long-term value of the company is secured and increased. The Managing Board of PATRIZIA Immobilien AG bears overall responsibility. Responsibility for monitoring and developing the risk management system lies with the risk management working group, which is made up of employees drawn from the Controlling, Investor Relations and Legal departments and also the operational areas and which falls within the remit of the Chief Financial Officer. Opportunities are managed outside of risk management. The business functions Acquisition and Alternative Investments systematically and continuously monitor the market for new investment opportunities. In addition, Corporate Development focuses on the further development of existing products and generates new, customised product solutions for our customers in cooperation with Institutional Clients. Market opportunities are thus tapped using an integrated approach. Furthermore, PATRIZIA’s Operational Committee ensures that strategic opportunities for growth are identified and consistently pursued.

The scope of consolidation included in the consolidated financial statements also corresponds to the scope of consolidation for risk management purposes. In addition, PATRIZIA's asset management companies each maintain their own separate risk management system which focuses on the risks associated with the managed special real estate funds and ensures compliance with legal supervisory requirements.

Risk management is integrated as a continual process in our operational processes. We continuously monitor the German and European real estate markets, the general economic environment and our own internal processes. Risks and opportunities – defined as negative/positive deviations from planned figures – are identified and communicated at an early stage so that they can pass through the further management process. This is ensured through the weekly jours fixes of the Managing Board, the monthly coordination meeting between the COO and Managing Directors/Country Heads and between Managing Directors and Controlling or the meetings of the Executive Committee Germany and the Operational Committee. The Executive Committee Europe meets on a quarterly basis. The Group Controlling reports provide a regular, standardised information base for managing opportunities and risks. Value drivers are defined for each area of responsibility and are subjected to a monthly target-actual analysis in order to identify undesirable developments at an early stage and enable measures to be taken. Identified opportunities and risks are integrated into the planning and forecasting processes. We evaluate risks based on their probability of occurrence and the magnitude of potential damage and summarise them at Group level. This enables us to determine whether and to what extent there is a need for any action. Risks with a high probability of occurrence or magnitude of damage are limited through operational measures. When necessary, we allow for risks by including precautions such as provisions in the balance sheet. Our analysis of risks and opportunities generally covers the two-year period of our regular corporate planning and can also extend beyond this in the event of significant strategic risks.

Our risk management aims to identify risks and opportunities at an early stage and to manage them in order to ensure the long-term value of the company is secured

Both the efficiency and effectiveness of the risk management system are assessed once a year by means of an internal risk audit. The results appear in a risk report which presents all risks, operational measures and responsibilities. At the same time, the comprehensive documentation of this report ensures an orderly audit which can be conducted by the responsible departments and can be understood and followed by the Supervisory Board. In addition to the Managing Board, the managing directors of the business functions are also informed of the risk inventory's results. The early risk detection system is also audited by the auditors in accordance with Article 319 (4) of the Handelsgesetzbuch (HGB – German Commercial Code).

### 5.2 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 or that customers for whom we perform accounting work could report misrepresentations in their financial statements which could have a material impact on the decisions made by the readers of such statements. In order to identify sources of error and to limit risks that might result from them, PATRIZIA Immobilien AG has established an appropriate internal control system (ICS) for its accounting process. It provides sufficient security for the reliability of its financial reporting and creation of the annual and consolidated financial statements and quarterly reports throughout the year in compliance with regulations. However, the ICS cannot provide absolute certainty with regard to avoiding errors or misstatements in accounting and financial statements.

For each quarter and each complete year, the members of PATRIZIA Immobilien AG's Managing Board sign the declaration by the legal representatives. In doing so, they confirm that the prescribed accounting standards have been complied with and that the figures give a true and fair view of the assets, liabilities, financial position and profit or loss.

The starting point for the ICS is the planning drawn up once each year based on the targets set by the Managing Board and the expectations with regard to the development of the operating business. Planning supplies budgetary values for the coming fiscal year and target figures for the following fiscal year for each company and each cost centre. Differences between the actual and target figures are determined and analysed on a monthly basis. A revised forecast for the current year is made in the middle of the year and 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 examines the effect of amendments to laws and standards and other notices on accounting and the preparation of financial statements. The intention is to guarantee compliance with legal regulations and standards by means of the systematic implementation of the principle of dual control in accounting-related processes. Separate functions and authorisation regulations, which are reinforced by ongoing, standardised and automated control and coordination systems, are a significant part of our ICS.

Operational accounting for all operational companies and property companies with real estate assets in Germany is located centrally within PATRIZIA Immobilien AG. Operational accounting for the companies located abroad is generally performed by the national company. Operational accounting is based on group-wide standards within a central IT environment which is largely based on SAP and for which there are defined access rights. With the exception of the subsidiaries located abroad (Denmark, France, Great Britain, Ireland, Luxembourg and Sweden), current financial accounting and the preparation of the annual financial statements are performed exclusively at the head office of PATRIZIA Immobilien AG. Rules for the group-wide presentation of the companies to be included in the PATRIZIA consolidated financial statements are issued by PATRIZIA Immobilien AG. PATRIZIA's internationalisation is presenting new challenges concerning professional control of the new locations. In addition, implementation of the SAP system has not yet been completed for the new branch offices. The accuracy and reliability of the individual financial statements presented by the international subsidiaries are verified within Group Accounting. Group Accounting consolidates the individual financial statements to produce the consolidated financial statements. The employees involved in the preparation of the annual financial statements are properly trained, and relevant responsibilities and controls are clearly defined for this work.

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.

## 5.3 IMPORTANT CATEGORIES OF OPPORTUNITY AND RISK

### 5.3.1 MARKET AND INDUSTRY

**Opportunities and Risks arising from Macroeconomic Developments:** The current environment with favourable financing terms and low mortgage interest rates is increasing the attractiveness of real estate as an alternative investment in Germany and Europe, and thus demand from private and institutional investors. This is firstly providing PATRIZIA with an opportunity to increase the sale of residential units to tenants, owner-occupiers and private investors. Secondly, the current financing situation is enabling it to implement portfolio purchases and project developments. The success in implementing the current reforms to stabilise the imbalances in countries facing financial difficulties may transfer to the German economy and thus have a favourable impact on the real estate market. In addition, an unexpected adjustment of the ECB's main refinancing operations rate and an increase in the rate of unemployment among young people within the Eurozone can dampen stable macroeconomic development. The purchase and sale of real estate and also property management are directly linked to trends on the rental and investment markets. Economic developments in Germany and Europe could affect the rental and investment markets and thus PATRIZIA's commercial success. We do not currently see any risk of a slowdown in PATRIZIA's business performance in the medium term. Moreover, we do not see any risks of changes in value for the two major co-investments of recent years (Südewo, GBW AG) as the real estate markets are continuing to develop positively.

Financing conditions and low mortgage interest rates are increasing the investment attractiveness of real estate

**The Residential Real Estate Market in Germany:** Demand on the German residential real estate market remains high and is, among other things, boosted by the favourable underlying macroeconomic conditions within the German economy, which promises high value retention compared with other countries. The positive price trend especially in top locations and continuing attractive prospects for returns even in secondary locations have led to an increasing presence of national and international investors on the investment market. For the first time since 1990, the data published on the German census at the start of 2013 have provided important information on the level of home ownership, the age structure of buildings and on vacancy rates, which will in future increasingly affect the basis of investment decisions. Housing construction activities rose constantly last year, prompting us to forecast an increase in future floor space supply. However, markets in Germany with intense demand will continue to suffer from an inadequate supply of residential space. In addition to real estate in the major cities, PATRIZIA will therefore also increasingly consider high-quality properties in selected secondary cities as an interesting investment alternative.

**The Residential Real Estate Market in Europe:** Across Europe, price development for residential real estate was very modest last year. However, PATRIZIA considers the price increase observed for residential real estate in the Nordic countries as an opportunity to benefit from this positive trend through suitable investments in the current market environment. Average construction activities on the European residential real estate market were also at a low level last year. This was, among other things, due to the high country-specific levels of unemployment and restrictive domestic demand. Long-term, however, demographic change and the trend towards concentration in big cities in particular will increasingly influence the development of real estate and its prices. In this context, we see interesting potential for investment through the development of suitable residential real estate in regions where demand is increasing. For PATRIZIA, this applies, among other things, to Scandinavia as well as to other markets, such as Great Britain, with a historically weak institutional condominium market structure.

PATRIZIA believes Scandinavia and Great Britain offer potential for investment

**The Commercial Real Estate Market in Germany and Europe:** The increase in consumer spending in Germany during the last year combined with general economic trends had a positive impact on the returns on and demand for retail properties. Despite the divergent economic trend within European countries, 2013 revealed a very active transactions market for commercial real estate. Last year, the proportion of international investors, notably from Asia, also rose significantly. The observed investment activities were focussed on the major British, French and German cities, which also attracted many non-European institutional investors. PATRIZIA believes this area continues to offer interesting investment opportunities, with attention also increasingly focussed on good secondary locations. The same can also be said of the commercial real estate markets in the Nordic countries, which last year revealed a manageable number of transactions, partly due to the shortage in low-risk properties on offer.

**Competitive Situation:** The increasing demand for indirect real estate investments means this market is likely to grow further. The European regulation of managers (AIFMD) will lead to harmonisation and thus to equality among fund administrators. Competitors will therefore need to enhance their unique selling points in future.

PATRIZIA has responded in a foresighted manner and has already undergone organisational and process-based restructuring to help it secure a leading market position in Europe. The new structure will enable PATRIZIA to leverage transnational synergies while also optimising existing service lines. This market position must be further expanded over the coming years. Increasing assets under management will enable PATRIZIA to successively increase its income from European service business and further stabilise its operating business. In addition, PATRIZIA's established investment platforms in Germany, Denmark, the United Kingdom and Ireland, France and Luxembourg will achieve a further expansion in the product range, enabling it to also attract increasing numbers of international investors.

Competition in the Services segment will continue. Customers are attaching increasing importance to outstanding management quality at competitive prices. PATRIZIA considers it also well positioned in this respect, too.

**Long-term Investment Contracts:** The long-term investment contracts result in planable income flows. Moreover, the long-term contracts render the loss of a client in the 2014 fiscal year highly unlikely. As a result of the flexible organisational structure it is not possible to identify excess capacities resulting from possible losses of clients.

### 5.3.2 BUSINESS AND OPERATING ACTIVITIES

**Purchases and Sales of Real Estate:** Depending on whether we are acting as seller or purchaser, fluctuating prices can either be advantageous for us or present us with business challenges. This applies in equal measure to own investments, co-investments and third parties. On the supply side, the continuing high demand for attractive real estate has led to a shortage in suitable properties, while at the same time demand pressures are driving prices higher. This makes it increasingly challenging to acquire suitable properties offering adequate returns. For PATRIZIA, opportunities are in particular presented by larger properties where there is a demand for a speedy purchase and good market knowledge. The loss of planned purchase fees can have a negative impact on the consolidated result, unless they are offset by other income. In sales of both own and third-party properties we are benefitting from the high demand and increasing prices.

**Own and third-party properties:** We consider a decline in the market attractiveness of our properties improbable. We invest in maintenance and modernisation on an ongoing basis to enhance rentability and saleability. The optimisation measures we carry out while holding the real estate increase its attractiveness and consequently also sales prices. As an asset and property manager, we are also responsible for managing and optimising external properties for third parties. Inadequate maintenance and renovations, delays in construction, failure to meet deadlines or cost overruns – especially with new construction project developments – could lead to customer dissatisfaction or even a loss of orders and have a detrimental impact on the Group's earnings position. We again assume a low probability of occurrence with negligible financial consequences for 2014.

**Co-investments:** For PATRIZIA, regular initiation of new, profitable co-investments is an important prerequisite for long-term successful business activity. The success of new co-investments is directly linked to the supply situation. Depending on the product, securing customers and consequently the required equity does not represent a limiting factor and is on the contrary helped by the current underlying economic conditions. We do not consider securing finance a risk either. The challenge lies in purchasing corresponding individual properties or portfolios that match PATRIZIA's criteria and those of investors. In this context, please refer to the previous statements under "Purchases and Sales of Real Estate".

**Funds:** For the special real estate funds, opportunities and risks primarily result from the planned income from fees, which in turn depend on the assets managed, on sales and purchases and on the fund returns achieved. Income can be negatively affected by the depreciation of real estate, losses of rent and a reduced transaction volume. This could make it necessary to reduce or even suspend planned dividends to investors. A lack of customer satisfaction can result in outflows of funds and make it difficult to establish new funds. PATRIZIA benefits from the fact that it handles diversified modular funds and various individual funds and is able to access a varied supply of suitable properties. Completely different purchasing profiles make up for possible bottlenecks in individual classes of property. We assume that we will be able to invest investor equity within the specified period and that we will not have to lower our sights with regard to properties or prices. Here we benefit from the fact that properties held in special funds have to be backed by at least 50% equity and that borrowing in this constellation can be obtained quickly and on favourable terms. In general, we do not expect a lower level of investment activity for 2014. We currently estimate the risk of having to reduce planned dividends to investors as very low. In fact, we see an opportunity to gain new customers as a result of the funds' performance and PATRIZIA's reputation as a serious partner and to realise the planned establishment of new funds and the expansion of existing fund products within a short period.

**Customers and Business Partners:** Partner risks are those arising from business relationships with customers and suppliers. Non-adherence to deadlines and/or inadequate quality of 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, especially for project development. Losses of rent and subsequent bad-debt losses could also negatively impact PATRIZIA's revenues and earnings. 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 realised at a later time and that negative budget variances could arise in the short term.

A customer's dissatisfaction with the property-related services we provide could lead to a loss of customer trust, financial demands and even to the loss of the contract. As regards service contracts and co-investments, there is the risk that partner companies withdraw from the market or delay making investments in the volumes originally intended. The loss of business partners/investors or problems with acquiring new business could jeopardise expected income from fees and the financing and implementation of the respective joint projects. Extending co-investment and fund business activity increases PATRIZIA's dependence on institutional clients such as insurance companies and pension funds. This could put pressure on our margins. In order to reduce this risk we have adopted a broad-based sales strategy that also includes addressing international investors. 48% of investors in our funds and co-investments have multiple investments with PATRIZIA.

For further information, please refer to the section on employees under 2.3.6

**Employees:** The skills and motivation of our employees are decisive factors in PATRIZIA's success as our business activities are increasingly becoming a so-called "people business". We count on employees who gain the trust of investors, tenants, business partners and shareholders as a result of their expertise and who establish long-term business relationships for the benefit of PATRIZIA. During the period of continued growth it is crucial for PATRIZIA to recruit suitable new employees to ensure the company's successful further development. We are introducing a number of personnel development measures in order to reduce the risk of staff fluctuations and a loss of knowledge and to strengthen long-term loyalty to PATRIZIA, especially in key positions. Wherever possible, we endeavour to fill management positions internally.

**IT Security:** Almost all our essential business processes are now based on IT systems. Any fault affecting the operation or security of the IT system affects operating activities. A substantial loss of data could lead to considerable financial losses and also adversely affect tenants' and business partners' perception of the Company. Regular data backups are made in order to guarantee the reliability of IT operations. Furthermore, permanent monitoring and continuous optimisation are undertaken to prevent outages. We invest considerable amounts in hardware and software, not only in order to limit risks but also in the interests of further development. Regular emergency exercises, also extending to our outsourcing partners, are designed to ensure that processes run as smoothly as possible in the event of disaster recovery. In addition, the ERP (Enterprise Resource Planning) systems are operated on a redundant and mirrored basis. In combination with virtualised storage and server systems, this will ensure a significant reduction in downtime in an emergency – especially for central business processes. Role-specific access rights are defined in order to guarantee data security. The password policy ensures regular changes of access passwords and only permits secure versions.

### 5.3.3 FINANCIAL RISKS

**Financing Risks:** 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 extremely low. On the one hand, because we will only undertake direct real estate investments on our own in exceptional cases and on the other hand because the company's earning power and liquidity situation, and therefore its credit standing, has shown a significant and sustainable improvement. Current interest rates remain at an historic low level. Even rising interest rates would not present a problem for PATRIZIA because the high levels of sales have reduced the level of indebtedness over a period of years and this development is continuing. PATRIZIA's own stock is financed at the property/portfolio level. Bank loans will be largely redeemed as we sell off our entire real estate portfolio by 2015/2016. The loans for EUR 284.9 million which are due to expire in 2014 will also have been reduced via sales by the time they mature. Extensions are already being negotiated and the relevant contracts will be concluded early at a lower interest rate.

In 2013 and as an alternative to bank loans, we took out two bonded loans with one of our institutional real estate investors. This enables us to react flexibly to capital requirements of new co-investments.

PATRIZIA also procures external capital as a service for the co-investments and funds. The equity required for refinancing individual properties is currently around 30% for our co-investments, and funds must by law finance at least 50% of their special funds from own funds. The ideal feasible volume from an individual bank for refinancing is between EUR 15 and 40 million. Larger portfolio financing of EUR 100 million is also easily conceivable for PATRIZIA.

**Credit Terms:** Some of PATRIZIA's bank loans contain loan clauses. We currently do not see any risk of PATRIZIA breaching the various underlying covenants. Loans are always concluded at the level of the special purpose property company. The covenants generally relate to the rental basis, with interest expenses for each property covered by rental income.

We currently see no risks from external borrowing

**Rating:** At present, there is no credit check in the sense of a rating by an external rating agency for PATRIZIA on account of the associated costs. However, we currently envisage this will happen within two years at the latest.

**Interest Risks:** We have entered into interest rate hedges in the form of swaps and collars for our bank liabilities. The revised market valuation of these hedges as of the reporting date can have a considerable influence on net profit in accordance with IFRS, even if these effects do not constitute income or expenses that impact liquidity. Our continuous planning takes account of all changes in financing costs. Increasing interest rates would have a positive effect on earnings owing to the valuation of the derivative instruments, and on the balance sheet the valuation result from cash flow hedges would have a positive effect on equity. Derivative financial instruments are not used for trading or speculation purposes. Most of our hedge agreements were concluded at the end of 2006/beginning of 2007 in parallel with the conclusion of larger financing volumes. The acquisition interest rate hedged averaged 4.01% p.a. at the end of 2013. Most of the interest hedging transactions expire on 31 January 2014, or on 30 June 2014 at the latest. From the second half of 2014, therefore, the financial result will no longer be affected by changes in the value of derivatives or expenses for interest hedging. Financing costs will reduce considerably in 2014.

Interest hedges that expire in January and June 2014 will have a favourable impact on the cash-related financial result

**Liquidity Situation:** We regard the likelihood and effect of the risk of a liquidity bottleneck as very low. As of 31 December 2013, bank balances and cash posted amounting to EUR 105.5 million were available to PATRIZIA in order to cover its refinancing and operating liquidity requirements. In addition, based on the Group's current liquidity planning, we expect further cash surpluses from operating business within a forecast period of one year; these will be used for investment planning in the same periods. The equity released through sales also increases existing liquidity.

PATRIZIA optimises and manages liquidity by means of cash pooling. Early-warning indicators and comprehensive continuous planning also serve to prevent risks and to ensure that an unexpected liquidity requirement can be serviced.

Internal financing power and debt retirement capability are ensured

**Fluctuations in International Exchange Rates:** Most subsidiaries and real estate companies are based within the Eurozone. The international branches in Denmark, Sweden and Great Britain represent an exception; these perform external asset management mandates and also establish co-investments. As of the balance sheet date, PATRIZIA had international currency investments of EUR 6.4 million with a minority holding in the co-investments Plymouth Sound Holdings LP and Winnersh Holdings LP. Since the participating interests in these companies and the granting of shareholder loans are effected in the respective national currency, the subsidiaries and real estate companies are subject to a certain exchange risk. This exchange risk can be considered limited because Denmark and England have close links with the Eurozone and therefore pursue a central monetary policy objective aimed at ensuring stability of the krone/GBP vis-à-vis the euro.

Exchange risks can occur with increasing expansion outside of the Eurozone

### 5.3.4 OTHER RISKS

**Legal Risks:** At present, there are no major legal disputes and/or claims for compensation.

**Changes to Legislation and Regulatory Requirements:** The Alternative Investment Fund Manager Directive (AIFMD) adopted by the European Parliament was translated into national law in the respective countries in 2013. PATRIZIA's fund products are also affected by this new Directive. The measures to establish compliance with the AIFMD resulted in one-off expenses in 2013. Further one-off costs for additional/new international investment platforms are expected in 2014, although these are unlikely to be as high as last year.

The higher supervisory and administrative requirements associated with the AIFMD will result in recurring higher expenses for PATRIZIA and these may have a negative impact on previous margins achieved. The application for authorisation of the German asset management companies will be submitted in the first quarter of 2014. We do not believe there is a risk that the supervisory authorities will reject the applications.

The European investment industry is more strictly regulated by the EU-wide AIFM Directive

We do not consider there is any additional risk for our funds that are subject to regulatory supervision and affected by the respective national AIFMD provisions because each fund was prepared for the new regulatory environment during the process to establish AIFMD compliance. Among other things, the terms of investment were adapted as part of these preparatory measures. We therefore do not consider there is any risk of non-compliance.

**Contractual Risks:** No contractual risks exist (e.g. in respect of the social clauses of the established co-investments) because these only affect the non-consolidated subsidiaries. The investment contracts do not reveal any substantive contractual risks.

## 5.4 OVERALL ASSESSMENT OF OPPORTUNITIES AND RISKS

Risk management at PATRIZIA is a continuous process which identifies changes in risk and defines appropriate countermeasures. In 2013, as in previous years, PATRIZIA examined the evaluation categories for the potential magnitude of damage of all known risks and increased or reduced them as necessary. The risk management system illustrated here enables PATRIZIA to counteract the specified risks and to exploit the opportunities that present themselves. Considering all relevant individual risks and a possible cumulative effect, PATRIZIA's overall risk is limited at present. No significant risks to the future development and continued existence of the Company and the Group have been identified based on our current knowledge and medium-term planning for the main investments (until the planned exit).

The overall risk situation improved again in 2013 compared with the previous year. This was helped by the continuing process to reduce debt, which resulted in a 38.3% reduction in loans and the equity ratio reaching a comfortable level of 41.9% with a further rise expected. Although the operating result was below forecast, 80% of income now results from services business, which is predictable. With the co-investments business model assuming a more concrete form each year and the associated investment results having an increasing impact on the consolidated result, our risk profile has fallen again and will continue to fall in future years.

# 6 REPORT ON EXPECTED DEVELOPMENTS

## 6.1 FUTURE ECONOMIC FRAMEWORK

**Macroeconomic Development:** At the end of 2013, economic and monetary development in the Eurozone in 2013 prompted the ECB to consider all available instruments to keep inflation below, but close to 2%. Together with the most recent reduction in the key interest rate, economic growth of around 1% is forecast for the Eurozone for the current year, following a contraction in 2013. This development is, among other things, based on successful implementation of the reforms to stabilise national budgets and reduce unemployment, and on stable international demand. Germany is expected to experience growth in the coming year, which could be jeopardised firstly by economic development in financially weak European countries and secondly by measures planned under the coalition agreement. One example here is the impact of the planned introduction of a minimum wage.

**General Business Development:** The European investment industry is more strictly regulated through the EU-wide AIFM Directive. The adjustments required at PATRIZIA were made during 2013 and fully considered. PATRIZIA's ongoing operations are not affected by the introduction of the new Directive. For further information, please refer to item 5.3.4 of the Opportunity and Risk Report (here: Legal Risks and Changes to Legislation and Regulatory Requirements).

**Future Situation in the German Real Estate Market:** The underlying macroeconomic conditions in Germany combined with the sharp rise in demand for residential real estate will result in price and rent rises during the current year. This effect will be more pronounced in conurbations with a rising/constant population trend than in cities where population figures have fallen in recent years. However, opportunities for rent increases are dependent on the Federal Government's planned freeze on rent prices. The commercial real estate market is also benefitting from the strong domestic demand. Sound returns are expected in 2014 due to the high demand from national and international investors and the increased attractiveness of German commercial investments.

**Future Situation in the European Real Estate Market:** We have outlined the situation concerning supply and prices in the European real estate markets of relevance for PATRIZIA in the Opportunity and Risk Report under item 5.3. We anticipate that the statements made there for 2014 remain valid and that the market will not alter greatly.

Please refer to page 53 et seq. for more information

## 6.2 STRATEGIC DIRECTION

It is our intention to become the leading fully integrated real estate investment company in Europe by 2015. We are focusing on expanding fund and asset management. This produces annually recurring, predictable income. Co-investments enable us to effect a much larger volume of investments with the available equity than was previously possible with own investments. We aim to have sold almost all of PATRIZIA's remaining own real estate portfolio of around 4,100 apartments by the end of 2015, allowing us to then operate as an investment manager and co-investor. Own investments will remain an option in exceptional cases.

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

In 2013, we increased managed real estate assets from EUR 6.9 billion to EUR 11.8 billion. As a result of corresponding purchases and sales, we expect assets under management to record net growth of EUR 1 billion respectively over the next two years. In addition, one to three portfolio transactions with an individual volume of EUR 0.2 to 1 billion will further increase the volume of real estate being managed. The purchase of the “Leo I” portfolio, which has assets under management of EUR 1 billion and which was effected in the middle of February 2014, is one of these three portfolio transactions. In principle, we expect stronger growth in the commercial sector, which has now proven itself as a second main pillar and become a fixed element of PATRIZIA’s business activities.

Institutional investors want investment products from one single source

Our clear commitment as a co-investor and the integrated services of purchasing and selling, property, fund and asset management are all arguments in favour of PATRIZIA as an investment platform. The extensive investment products meet almost all requirements and offer institutional investors customised solutions.

## 6.3 EXPECTED DEVELOPMENT OF THE EARNINGS SITUATION AND ASSUMPTIONS CONCERNING ACHIEVEMENT OF TARGETS IN 2014

### 6.3.1 THE GROUP IN GENERAL

SUMMARY OF THE DEVELOPMENT OF SELECTED ITEMS IN THE CONSOLIDATED INCOME STATEMENT

| | 2013 forecast | 2013 actual values | 2014 forecast |
|---|---|---|---|
| Operating result | EUR 47-49 million | EUR 38.1 million | minimum EUR 50 million |
| Return on equity | Increase, over the medium term, to 15% | 11% | 13% |
| Staff costs | EUR 58 million | EUR 65.7 million | EUR 71-73 million |
| Cost of Materials | > EUR 75 million | EUR 58.3 million | EUR 35-38 million |
| Other Operating Expenses | approx. EUR 45 million | EUR 59.0 million | EUR 45-50 million |

**Operating result:** This is the Group’s most important control variable. The 2013 forecast provided for between EUR 47-49 million. In December 2013 this target was reduced to EUR 38-41 million. This was due to lower than planned income associated with several one-off effects in connection with expenditures which could only be partly offset by additional business. The actual figure was EUR 38.1 million. Earnings from investments are gaining in importance and will also be a determining factor in 2014. For 2014, PATRIZIA’s Managing Board forecasts an operating result of at least EUR 50 million.

**Return on equity:** In last year’s annual report, we expected a return on equity of 15% in the medium term. For the 2014 fiscal year we expect a return on equity (based on the operating result achieved) of around 13%.

**Revenues:** 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 the item “Income from the sale of investment property”. The item income from participations is shown below EBIT and thus improves earnings before taxes, but does not increase sales revenues. It is for this reason that PATRIZIA is not forecasting sales revenues in the current annual report.

**Staff Costs:** The increased staff costs are due to the new appointments in Germany and other countries and to higher sales commissions on account of better than expected sales. For 2014, we do not expect a significant increase in the number of employees (based on full-time equivalents). However, the training rate will increase slightly from its current 6%. It should be noted that trainees are reported under full-time equivalents. The expansion of international activities will lead to new jobs. The new appointments made during 2013 will affect staff costs for the entire year for the first time in 2014. We expect overall staff costs of EUR 71-73 million.

**Cost of Materials:** The cost of materials in 2013 was below the planned figure because two project developments were delayed into the current 2014 year. The item mainly includes new construction costs for PATRIZIA's own project developments in Frankfurt, Cologne and Hamburg and also expenses for renovating and maintaining own stock. For 2014 we expect costs of between EUR 35 and 38 million, most of which can be capitalised.

**Other Operating Expenses:** A large proportion of the higher expenses in the 2013 fiscal year were attributable to PATRIZIA GewerbeInvest KAG's continuous remuneration for the label funds. Additional costs were incurred through the integration of the Tamar Capital Group. This item also includes consulting expenses in connection with transactions effected that were charged on to the investment vehicles and also "broken deal costs" for transactions that did not materialise. It also includes expenses relating to the implementation of the AIFMD and costs associated with the reorganisation. In 2014 other operating expenses are expected to amount to EUR 45–50 million.

Further financial performance indicators are detailed in 2.3.6

### 6.3.2 OWN INVESTMENTS

**SUMMARY OF THE DEVELOPMENT OF OWN INVESTMENTS**

| | 2013 forecast | 2013 actual values | 2014 forecast |
|---|---|---|---|
| Sales of own stock | approx. 1,800 units | 1,714 units | approx. 1,800 units |
| Rental revenues | Continuous decline | EUR 30.7 million | around EUR 20 million |
| VERO project development | Completion of the 6 town villas | Insolvency of a contracting partner prevents handover | Completion with a contribution to results of EUR 5-6 million |

**Sales of own stock:** 1,714 units were sold in 2013. PATRIZIA's own portfolio which currently comprises 4,100 units is to be largely sold off by the end of 2015. Remaining stocks will also be sold off soon after 2015. An annual guide figure provides for the sale of around 1,800 units. We anticipate that around 30% of the units will be sold through residential property resale and the remaining 70% through block sales, and that in each case a mark-up of around 20% on the carrying value will be achieved. It should be borne in mind that sales of 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. Most of the sales planned for 2014 relate to non-current assets.

**Rental revenues:** Rental revenues are constantly declining as sales of own properties increase. As a result of the sales effected in 2013 and the ones planned for 2014, we expect rental revenues of around EUR 20 million in 2014.

**Project developments:** The insolvency of a contracting partner for a major trade company for our construction project in Frankfurt meant that completion of the six VERO town villas, which was planned for the fourth quarter of 2013, is now delayed into the first half of 2014. The anticipated contribution to results is EUR 5-6 million.

#### 6.3.3 CO-INVESTMENTS

**Südewo:** The annual advance profit distribution is EUR 7.3 million. In addition to the dividend on the invested equity of EUR 1.7 million, in 2013 we also received performance-linked bonuses of EUR 8.6 million. In the 2014 fiscal year we expect lower performance-linked income as the figure for 2013 includes the two fiscal years 2012 and 2013.

**GBW AG:** The advance profit distribution in 2013 was EUR 5.6 million, pro-rata. It will be calculated for the whole year for the first time in 2014. Due to the fact that extensive value-enhancing measures were implemented in the first year of the investment, both the dividend on the invested equity of EUR 4.2 million and also the performance fee of EUR 4.6 million exceeded the business plan.

Please refer to page 37 for the summary of investments

**Other Co-investments:** In addition to the fees for management services, we also receive the dividend on the proportionate equity invested for all other co-investments. For the co-investments established in 2013, the effect of the higher assets under management will be seen for the first time over a full year. The acquisition fee for new co-investments will have a favourable effect.

#### 6.3.4 THIRD PARTIES

PATRIZIA expects institutional investors to show increasing interest in special real estate funds. At the end of the year, for example, PATRIZIA GewerbeInvest KAG had extended its savings banks customer base from 42 to 74. We plan to invest around EUR 1 billion for our investors via the funds of the two asset management companies in the 2014 fiscal year. We are optimistic we will attract fresh capital in addition to the current existing equity commitments of EUR 1.1 billion. In addition to the purchasing fee and the customary fund management fee, the asset management companies are now also generating sales fees through portfolio streamlining measures.

### 6.4 EXPECTED DEVELOPMENT OF THE NET ASSET AND FINANCIAL SITUATION

As of 31 December 2013, financial liabilities declined to EUR 399 million (EUR 322 million in bank loans and EUR 77 million in bonded loans). However, it is important to note that the economic transfer and/or full purchase price payment and the associated pro-rata repayment of loans of block sales notarised in the fourth quarter of 2013 and amounting to EUR 42.1 million is taking place in the 2014 fiscal year, reducing indebtedness to below EUR 350 million at the start of February 2014. We should be virtually debt-free by the end of 2015 when PATRIZIA's portfolio has been almost entirely sold. The majority of interest rate hedges expired on 31 January 2014. Given the current interest level, this means significantly reduced expenses for interest hedging, which will have a favourable impact on the financial result. Financial expenses will fall still further when the last interest hedges expire on 30 June 2014. Repayment of loans will result in a continuous increase in the equity ratio; we expect this to be at least 80% by the end of 2015. As of 31 December 2013, it stood at 41.9% and thus almost reached the forecast target of 45%. We also anticipate that we will not exceed a tax quota of 15% in the next one to two years.

## 6.5 DIVIDEND POLICY

The Managing Board and the Supervisory Board of PATRIZIA Immobilien AG propose that the retained earnings for the past 2013 fiscal year amounting to EUR 89.9 million should be fully carried forward to the new account and that in lieu of a cash dividend, new shares should be issued to shareholders, via a capital increase from company funds, in a ratio of 10:1. The shareholders will not be required to make any contribution. PATRIZIA has already effected a 10% capital increase from company funds in the last two years. Both increases resulted in only a temporary diluting effect, which was more than offset by the favourable share price performance. For 2014 we also expect that any diluting effect will only be brief due to PATRIZIA's anticipated favourable economic performance. We again plan to use the retained liquid assets for investing in co-investments, thus promoting sustainable growth for PATRIZIA. For the current fiscal year we are ruling out a cash capital increase to finance new investments.

"Bonus shares" will again be issued in a ratio of 10:1 in lieu of a cash dividend for the 2013 fiscal year

If the Annual General Meeting of PATRIZIA Immobilien AG to be held on 27 June 2014 agrees to the measure, the capital increase will be effected by issuing 6,307,730 new registered no-par value shares. This measure will not affect the amount of total equity since it simply involves a transfer from retained earnings to subscribed capital. The share capital will increase from a current total of EUR 63,077,300 to EUR 69,385,030, divided into 69,385,030 no-par value shares. The new shares will carry dividend rights from the beginning of the 2014 fiscal year.

## 6.6 GENERAL STATEMENT OF THE COMPANY'S MANAGEMENT ON PROSPECTS FOR 2014

The outlook for 2014 and statements about subsequent years 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, 14 March 2014

**Wolfgang Egger**
CEO

**Arwed Fischer**
CFO

**Klaus Schmitt**
COO

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.

- 22% Increase in Employees within the Group
- Management Services now account for 80% of the operating result compared with 52% in the previous year
- Equity ratio climbs by 6.5 percentage points
- The stock of own property will be sold off as far as possible by the end of 2015

# *Consolidated Financial Statements*

# Consolidated Balance Sheet

## AS OF 31 DECEMBER 2013

ASSETS

| EUR '000 | Notes | 31.12.2013 | 31.12.2012 |
|---|---|---|---|
| **A. Non-current assets** | | | |
| Goodwill | 4.1.1 | 610 | 610 |
| Other intangible assets | 4.1.2 | 41,904 | 43,259 |
| Software | 4.1.3 | 8,698 | 7,553 |
| Investment property | 4.1.4 | 229,717 | 374,104 |
| Equipment | 4.1.5 | 4,765 | 3,479 |
| Participations in associated companies | 4.1.6 | 18,295 | 15,810 |
| Participations | 4.1.7 | 80,074 | 18,407 |
| Loans | 4.1.8 | 5,814 | 0 |
| Long-term tax assets | 4.2 | 159 | 201 |
| **Total non-current assets** | | **390,036** | **463,423** |
| **B. Current assets** | | | |
| Inventories | 4.3 | 309,203 | 345,920 |
| Securities | | 96 | 60 |
| Short-term tax assets | 4.2 | 5,582 | 5,380 |
| Current receivables and other current assets | 4.5 | 82,262 | 98,635 |
| Bank balances and cash | 4.6 | 105,536 | 38,135 |
| **Total current assets** | | **502,679** | **488,130** |
| **TOTAL ASSETS** | | **892,715** | **951,553** |

## EQUITY AND LIABILITIES

| EUR ’000 | Notes | 31.12.2013 | 31.12.2012 |
|---|---|---|---|
| **A. Equity** | | | |
| Share capital | 5.1.1 | 63,077 | 57,343 |
| Capital reserve | 5.1.2 | 204,897 | 210,644 |
| Retained earnings | | | |
| Legal reserves | 5.1.3 | 505 | 505 |
| Non-controlling shareholders | 5.1.4 | 1,398 | 1,556 |
| Valuation results from cash flow hedges | 4.4 | –31 | –469 |
| Currency translation difference | 2.5 | 500 | 0 |
| Consolidated annual profit | | 104,135 | 66,808 |
| **Total equity** | | **374,481** | **336,387** |
| **B. Liabilities** | | | |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 5.3 | 22,933 | 23,242 |
| Long-term financial derivatives | 4.4 | 0 | 16,363 |
| Retirement benefit obligations | 5.4 | 534 | 388 |
| Long-term bank loans | 5.2 | 0 | 302,004 |
| Non-current liabilities | 5.5 | 80,849 | 3,417 |
| **Total non-current liabilities** | | **104,316** | **345,414** |
| CURRENT LIABILITIES | | | |
| Short-term bank loans | 5.2 | 321,634 | 219,050 |
| Short-term financial derivatives | 4.4 | 2,819 | 6,069 |
| Other provisions | 5.6 | 1,719 | 1,479 |
| Current liabilities | 5.7 | 75,759 | 28,750 |
| Tax liabilities | 5.8 | 11,987 | 14,404 |
| **Total current liabilities** | | **413,918** | **269,752** |
| **TOTAL EQUITY AND LIABILITIES** | | **892,715** | **951,553** |

# Consolidated Income Statement

## FOR THE PERIOD FROM 1 JANUARY 2013 TO 31 DECEMBER 2013

| EUR '000 | Notes | 2013 | 2012 |
|---|---|---|---|
| Revenues | 6.1 | 217,398 | 229,238 |
| Income from the sale of investment property | 4.1.4 | 19,133 | 16,916 |
| Changes in inventories | 6.2 | –36,717 | –61,609 |
| Other operating income | 6.3 | 8,064 | 11,566 |
| **Total operating performance** | | **207,878** | **196,111** |
| Cost of materials | 6.4 | –58,314 | –54,020 |
| Staff costs | 6.5 | –65,733 | –47,561 |
| Results from fair value adjustments to investment property | 4.1.4 | 17 | 18 |
| Other operating expenses | 6.7 | –58,992 | –45,268 |
| **EBITDA** | | **24,856** | **49,280** |
| Amortisation of intangible assets and depreciation on property, plant and equipment | 6.6 | –6,107 | –4,541 |
| **Earnings before finance income and income taxes (EBIT)** | | **18,749** | **44,739** |
| Income from participations | 6.8 | 32,122 | 6,557 |
| Earnings from companies accounted for using the equity method | 4.1.6 | 658 | 455 |
| Finance income | 6.9 | 20,520 | 11,727 |
| Finance cost | 6.9 | –32,424 | –34,857 |
| Losses from currency translation | 2.5/6.9 | –26 | 0 |
| **Earnings before income taxes (EBT)** | | **39,599** | **28,621** |
| Income tax | 6.10 | –2,431 | –3,166 |
| **Consolidated annual profit** | | **37,168** | **25,455** |
| | | | |
| Earnings per share (undiluted) in EUR | 6.11 | 0.59 | 0.40 |
| | | | |
| **The consolidated annual profit for the period is allocated to:** | | | |
| Shareholders of the parent company | | 37,327 | 25,462 |
| Non-controlling shareholders | | –159 | –7 |
| | | **37,168** | **25,455** |

# Consolidated Statement of Comprehensive Income

## FOR THE PERIOD FROM 1 JANUARY 2013 TO 31 DECEMBER 2013

| EUR '000 | 2013 | 2012 |
|---|---|---|
| **Consolidated annual profit** | **37,168** | **25,455** |
| Items of other comprehensive income with reclassification to net profit/loss for the period | | |
| Profit/loss from the translation of financial statements of international business units | 500 | 0 |
| Cash flow hedges | | |
| Amounts recorded during the reporting period | 0 | 276 |
| Reclassification of amounts that were recorded | 438 | 586 |
| **Total result for the reporting period** | **38,106** | **26,317** |
| The total result is allocated to | | |
| Shareholders of the parent company | 38,265 | 26,324 |
| Non-controlling shareholders | –159 | –7 |
| | **38,106** | **26,317** |

# Consolidated Cash Flow Statement

## FOR THE PERIOD FROM 1 JANUARY 2013 TO 31 DECEMBER 2013

| EUR '000 | 2013 | 2012 |
|---|---|---|
| Consolidated annual profit | 37,168 | 25,455 |
| Income taxes recognised through profit or loss | 2,431 | 3,166 |
| Financing costs recognised through profit or loss | 32,424 | 34,857 |
| Income from financial investments recognised through profit or loss | –1,653 | –1,025 |
| Amortisation of intangible assets and depreciation on property, plant and equipment | 6,107 | 4,541 |
| Results from fair value adjustments to investment property | –17 | –18 |
| Gain on disposal of investment properties | –19,133 | –16,916 |
| Change in deferred taxes | –377 | –2,520 |
| Change in retirement benefit obligations | 146 | 17 |
| Non-cash result from the valuation of derivatives | –19,525 | –10,316 |
| Changes in inventories, receivables and other assets that are not attributable to investing activities | 53,394 | 23,405 |
| Changes in liabilities that are not attributable to financing activities | 124,023 | 9,391 |
| Interest paid | –30,567 | –32,739 |
| Interest received | 477 | 170 |
| Income tax payments | –5,110 | –4,613 |
| **Cash inflow from operating activities** | **179,788** | **32,855** |
| Capital investments in intangible assets and property, plant and equipment | –7,183 | –5,563 |
| Cash receipts from disposal of investment property | 169,428 | 178,325 |
| Payments for development or acquisition of investment property | –5,891 | –3,174 |
| Payments for the acquisition of shareholdings | –61,676 | –15,273 |
| Payment for investments in companies accounted for using the equity method | –1,818 | –8,560 |
| Cash outflows for loans to companies in which participations are held | –5,814 | 0 |
| **Cash inflow from investing activities** | **87,046** | **145,755** |
| Borrowing of loans | 93,314 | 25,940 |
| Repayment of loans | –292,734 | –198,238 |
| Payment for the issuance of bonus shares | –13 | –5 |
| **Cash outflow from financing activities** | **–199,433** | **–172,303** |
| **Changes in cash** | **67,401** | **6,307** |
| Cash 1 January | 38,135 | 31,828 |
| Cash 31 December | 105,536 | 38,135 |

# Consolidated Statement of Changes in Equity

## FOR THE PERIOD FROM 1 JANUARY 2013 TO 31 DECEMBER 2013

| EUR '000 | Share capital | Capital reserve | Valuation result from Cash Flow Hedges | Retained earnings (legal reserve) | Currency translation | Consolidated net profit/loss | Thereof attributable to the Shareholders of the parent company | Thereof attributable to non-controlling shareholders | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance 1 January 2012** | **52,130** | **215,862** | **–1,331** | **505** | **0** | **41,346** | **308,512** | **1,563** | **310,075** |
| Net amount recognised directly in equity, where applicable less income taxes | | | 862 | | | | 862 | | 862 |
| Expenses for the issuance of shares | 5,213 | –5,213 | | | | | | | |
| Expense incurred in issuing bonus shares | | –5 | | | | | –5 | | –5 |
| Net profit/loss for the period | | | | | | 25,462 | 25,462 | –7 | 25,455 |
| Full overall result for the fiscal year | | | 862 | | | | 26,324 | –7 | 26,317 |
| **Balance 31 December 2012** | **57,343** | **210,644** | **–469** | **505** | **0** | **66,808** | **334,831** | **1,556** | **336,387** |
| **Balance 1 January 2013** | **57,343** | **210,644** | **–469** | **505** | **0** | **66,808** | **334,831** | **1,556** | **336,387** |
| Net amount recognised directly in equity, where applicable less income taxes | | | 438 | | 500 | | 938 | | 938 |
| Expenses for the issuance of bonus shares | 5,734 | –5,734 | | | | | | | |
| Expense incurred in issuing bonus shares | | –13 | | | | | –13 | | –13 |
| Non-controlling interests arising from the inclusion of new companies | | | | | | | | 1 | 1 |
| Net profit/loss for the period | | | | | | 37,327 | 37,327 | –159 | 37,168 |
| Full overall result for the fiscal year | | | 438 | | | | 38,265 | –159 | 38,106 |
| **BALANCE 31 DECEMBER 2013** | **63,077** | **204,897** | **–31** | **505** | **500** | **104,135** | **373,083** | **1,398** | **374,481** |

# *Notes*

# Notes to the IFRS Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2013

## GENERAL DISCLOSURES

PATRIZIA Immobilien AG is a listed German stock corporation. The company's headquarters are located at Fuggerstrasse 26, 86150 Augsburg. PATRIZIA Immobilien AG has been active as an investor and service provider on the real estate market for 30 years, and now in over ten countries. PATRIZIA covers the spectrum of purchasing, management, appreciation and sale of residential and commercial real estate. As a recognised business partner of large institutional investors, the Company operates nationally and internationally, covering the entire value chain relating to all fields of real estate. Currently the Company manages real estate assets with a value of EUR 11.8 billion mainly as a co-investor and portfolio manager for insurance companies, pension fund institutions, sovereign wealth funds and savings banks.

## 1 PRINCIPLES APPLIED IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of PATRIZIA Immobilien AG to 31 December 2013 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.

At the time of preparing the consolidated financial statements the following standards and interpretations had been published and were to be applied for the first time during the current fiscal year:

- IFRS 13 – "Fair Value Measurement" (to be applied for fiscal years commencing on or after 1 January 2013)
- IFRIC 20 – "Stripping Costs in the Production Phase of a Surface Mine" (to be applied for fiscal years commencing on or after 1 January 2013)
- Annual improvements to the IFRS – 2009-2011 cycle (changes to IAS 12 – "Property, plant and equipment" and IAS 32 – "Financial Instruments: Presentation"; to be applied for fiscal years commencing on or after 1 January 2013)

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 IAS 1 – "Presentation of Financial Statements" (amendment relating to the presentation of other comprehensive income; to be applied for fiscal years commencing on or after 1 July 2012)
- Amendment to IAS 19 – "Employee Benefits" (comprehensive revision of the standard; to be applied for fiscal years commencing on or after 1 January 2013)

- Amendment to IFRS 1 – "First-time application of International Financial Reporting Standards" (amendments relating to government loans; to be applied for fiscal years commencing on or after 1 January 2013)
- Amendment to IFRS 7 – "Financial Instruments: Disclosures" (inclusion of the requirement to disclose information about rights of offset and related arrangements; to be applied for fiscal years commencing on or after 1 January 2013)

The new standards and interpretations to be applied from the current fiscal year did not have any material impact on the consolidated financial statements.

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

- IFRS 9 – "Financial Instruments" (to be applied for fiscal years commencing on or after 1 January 2017; this standard has not yet been adopted by the EU)
- IFRS 10 – "Consolidated Financial Statements" (to be applied for fiscal years commencing on or after 1 January 2013; in the EU, first-time application is mandatory for fiscal years commencing after 1 January 2014)
- IFRS 11 – "Joint Arrangements" (to be applied for fiscal years commencing on or after 1 January 2013; in the EU, first-time application is mandatory for fiscal years commencing after 1 January 2014)
- IFRS 12 – "Disclosure of Interests in Other Entities" (to be applied for fiscal years commencing on or after 1 January 2013; in the EU, first-time application is mandatory for fiscal years commencing after 1 January 2014)
- IFRS 14 – "Regulatory Deferral Accounts" (to be applied for fiscal years commencing on or after 1 January 2016; the amendments to this standard have not yet been adopted by the EU)
- Annual improvements to the IFRS – 2010–2012 cycle (amendments to IFRS 2 – "Share-based Payment", IFRS 3 – "Business Combinations", IFRS 8 – "Operating Segments", IFRS 13 – "Fair Value Measurement", IAS 16 – "Property, Plant and Equipment", IAS 24 – "Related Party Disclosures", and IAS 38 – "Intangible Assets"; to be applied for fiscal years commencing on or after 1 July 2014; the amendments to these standards have not yet been adopted by the EU)
- Annual improvements to the IFRS – 2011–2013 cycle (amendments to IFRS 1 – "First-time Application of International Financial Reporting Standards", IFRS 3 – "Business Combinations", IFRS 13 – "Fair Value Measurement" and IAS 40 – "Investment Property"; to be applied for fiscal years commencing on or after 1 July 2014; the amendments to these standards have not yet been adopted by the EU)
- IFRIC 21 – "Levies" (to be applied for fiscal years commencing on or after 1 January 2014; the amendments to this standard have not yet been adopted by the EU)

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

- Amendment to IAS 27 – "Separate Financial Statements" (elimination of the consolidation provisions; to be applied for fiscal years commencing on or after 1 January 2013; in the EU, first-time application is mandatory for fiscal years commencing after 1 January 2014)
- Amendment to IAS 28 – "Investments in Associates and Joint Ventures" (inclusion of rules on accounting of joint ventures; to be applied for fiscal years commencing on or after 1 January 2013; in the EU, first-time application is mandatory only for fiscal years commencing after 1 January 2014)

- Amendment to IAS 32 – “Financial Instruments: Presentation” (additions on account of application problems relating to the requirements for offsetting financial assets and liabilities; to be applied for fiscal years commencing on or after 1 January 2014)
- Amendment to IFRS 9 – “Financial Instruments” and IFRS 7 – “Financial Instruments: Disclosures” (amendments to the mandatory effective date and transition disclosures; to be applied for fiscal years commencing on or after 1 January 2017; this standard has not yet been adopted by the EU)
- Amendment to IFRS 9 – “Financial Instruments”, IFRS 7 – “Financial Instruments: Disclosures” and IAS 39 – “Financial Instruments: Recognition and Measurement” (additions relating to hedge accounting; to be applied for fiscal years commencing on or after 1 January 2017; this standard has not yet been adopted by the EU)
- Amendment to IAS 39 – “Financial Instruments: Recognition and Measurement” (additions concerning the novation of derivatives and continuation of hedge accounting; to be applied for fiscal years commencing on or after 1 January 2014)
- Amendments to IFRS 10 – “Consolidated Financial Statements”, IFRS 11 – “Joint Arrangements” and IFRS 12 – “Disclosure of Interests in Other Entities” (clarifications concerning certain transition provisions on first-time application of IFRS 10, IFRS 11 and IFRS 12; to be applied for fiscal years commencing on or after 1 January 2013; in the EU, first-time application is mandatory for fiscal years commencing after 1 January 2014)
- Amendments to IFRS 10 – “Consolidated Financial Statements”, IFRS 12 – “Disclosure of Interests in Other Entities” and IAS 27 “Separate Financial Statements” (introduction of an exemption from the requirement to consolidate subsidiaries for eligible investment entities; to be applied for fiscal years commencing on or after 1 January 2014)
- Amendment to IAS 36 – “Impairment of assets” (correction concerning certain disclosures resulting from the adoption of IFRS 13; to be applied for fiscal years commencing on or after 1 January 2014)
- Amendment to IAS 19 – “Employee Benefits” (amendment concerning contributions by employees or third parties in respect of service; to be applied for fiscal years commencing on or after 1 July 2014; this standard has not yet been adopted by the EU)

With regard to first-time application of IFRS 9, it is not currently possible to evaluate the effects because detailed analyses are still underway. We do not expect the other standards specified above to have any material impacts on accounting.

The balance sheet presentation is geared towards the maturity of the corresponding assets and liabilities. Assets and liabilities are regarded as current if their realisation 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).

# 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 and PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH, the subsidiaries listed and bound by a profit and loss transfer agreement each make use of the relief provided for in Article 264 (3) of the Handelsgesetzbuch (HGB – 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 65 subsidiaries. They are included in the consolidated financial statements in line with the rules of full consolidation. In addition, one participating interest in a SICAV is 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, 28.3% of the limited liability capital is held in one real estate development company (in the form of a GmbH & Co. KG), while 30% is held in the associated general partner. 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 this real estate development company are accounted for at purchase cost.

The reporting dates of the subsidiaries included in the consolidated financial statements correspond to the parent company's reporting date. The financial statements are prepared in line with uniform accounting and valuation principles.

## COMPANY ACQUISITIONS, SALES AND INTERCOMPANY RESTRUCTURING

### Purchase of Tamar Capital Group Ltd. (renamed PATRIZIA UK Ltd.)

As at 22 April 2013, PATRIZIA Immobilien AG purchased 100% of Tamar Capital Group Ltd.'s shares with voting rights.

Tamar Capital Group Ltd. is a London-based real estate investment and asset management company. In addition to its home market, Tamar Capital Group Ltd. is also currently active on the German, French, Scandinavian and Belgian markets and places special emphasis on light industrial, retail and office properties. Tamar European Industrial Fund belongs to the group and is listed on the London Stock Exchange.

In acquiring Tamar Capital Group Ltd., PATRIZIA Immobilien AG is pursuing its strategic goal of expanding its business activities in other European countries and of establishing itself as the leading, fully integrated real estate investment company in Europe. Acquiring Tamar Capital Group Ltd. thus offers PATRIZIA Immobilien AG the opportunity to strengthen its presence in various core European markets, especially in the United Kingdom and France, thereby expanding its service offering, investor commitment and consequently the volume of managed investments in the area of commercial real estate throughout Europe. Moreover, besides the strategic aspects of market positioning, the integration of the Tamar Group into the PATRIZIA group of companies is also expected to create considerable synergy effects in the areas of real estate expertise, knowledge of the European market and service.

### Assets acquired and liabilities assumed

At the time of acquisition, the fair values of the identified assets and liabilities of Tamar Capital Group Ltd. were as follows:

| EUR '000 | Fair value at time of acquisition |
|---|---|
| **Assets** | |
| Licences | 121 |
| Client contracts (asset management) | 1,105 |
| Receivables in respect of a mezzanine loan | 331 |
| Property, plant and equipment | 53 |
| Trade receivables | 522 |
| Cash and cash equivalents | 626 |
| Other assets | 524 |
| | **3,282** |
| **Liabilities** | |
| Trade payables | 65 |
| Other liabilities | 1,102 |
| Provisions | 219 |
| Deferred tax liabilities | 368 |
| | **1,754** |
| **Total of identifiable net assets at fair value** | 1,528 |
| Difference from the company acquisition | –933 |
| **TOTAL COUNTERPERFORMANCE** | **595** |

As part of the acquisition of the TAMAR Group, badwill of TEUR 933 was recognised, which is shown under other operating income. This badwill results from the difference between the purchase price and the net assets acquired, measured at fair value. The badwill was attributable to the purchase price paid, which ultimately was the result of the purchase agreement negotiations conducted.

The new fair values to be determined will be determined autonomously pursuant to IFRS 3, i. e. without any links to existing fair values, in accordance with local accounting rules and regulations.

Hidden reserves were identified in a receivable in respect of a mezzanine loan and in the acquired asset management contracts and licenses. No other tangible or intangible assets that should be shown separately in expectation of a future economic benefit were identified.

The fair value and gross amount of trade receivables is TEUR 522. None of the trade receivables were impaired at the time of acquisition and it is expected that it will be possible to collect all the contractual amounts.

The revenues for the Tamar Group amounted to TEUR 3,554 pro-rata for the period from the date of acquisition. The corporate group thus contributed a loss of TEUR 1,400 to the consolidated result.

Assuming an acquisition date of the start of the fiscal year, the Tamar Group generated revenues of TEUR 4,482 and thus a loss of TEUR 1,779.

### Counterperformance

The counterperformance (excluding transaction costs) for the assets acquired and liabilities assumed by PATRIZIA Immobilien AG is comprised as follows:

| EUR '000 | |
|---|---|
| Cash payment | 264 |
| Liability from conditional counterperformance | 331 |
| **TOTAL COUNTERPERFORMANCE** | **595** |

A conditional counterperformance was agreed as part of the purchase agreement with the former owners of Tamar Capital Group Ltd. Under this agreement, PATRIZIA Immobilien AG undertakes to make further payments to the former owners if a company (including its subsidiaries), whose shares that were held by Tamar Capital Group Ltd. are being taken over by PATRIZIA Immobilien AG is wound up or liquidated. The winding up/liquidation is expected approximately 24 months after the date of acquisition. In such case, payments will be made to the former owners in the amount of the pro-rata proceeds from property sales after deduction of liabilities and taxes. At the time of acquisition, the fair value of the conditional counterperformance was estimated at TEUR 331.

The transaction costs of TEUR 326 were posted as an expense and reported under other operating expenses.

### Further information on the company acquisition

With the acquisition of Tamar Capital Group Limited, London (renamed PATRIZIA UK Ltd.), the following companies were added to the scope of consolidation of PATRIZIA Immobilien AG:

- Tamar Capital Partners Limited, Swindon (renamed PATRIZIA Capital Partners Ltd.)
- Tamar Capital Partners GmbH, Berlin (merged into PATRIZIA Deutschland GmbH)
- Tamar Capital France Limited, Edinburgh
- Tamar Capital Partners S.A.S., Paris (renamed PATRIZIA France S.A.S.)
- Tamar Financial Services Limited, Edinburgh (renamed PATRIZIA Financial Services Ltd.)
- Tamar Asset Management Limited, Edinburgh (renamed PATRIZIA Asset Management Ltd.)

### Further new companies founded

PATRIZIA Luxembourg S.à r.l., part of the scope of consolidation of PATRIZIA Immobilien AG, founded PATRIZIA Investment Management COOP S.A., Luxembourg, on 12 March 2013. The company's share capital is EUR 100. The purpose of the company is the purchase and holding of all forms of participations and of all types of certificates, holding these as investments and trading in them in any possible manner.

PATRIZIA Luxembourg S.à r.l., part of the scope of consolidation of PATRIZIA Immobilien AG, founded PATRIZIA Investment Management SCS, Luxembourg, on 12 March 2013. The company's share capital is GBP 639. The purpose of the company is investment in unlisted companies and all types of certificates as well as the management, monitoring and development of such investments with the principal purpose of indirect investment in real estate and its management.

PATRIZIA Immobilien AG founded Pearl AcquiCo Zwei GmbH & Co. KG, Frankfurt on 14 March 2013. The company's fixed capital initially amounted to TEUR 1 and was increased to EUR 1 million on 22 May 2013. The purpose of the company is the founding, purchase of and direct and/or indirect participation in companies whose sole purpose is the construction and management of real estate.

PATRIZIA Immobilien AG founded PATRIZIA Real Estate Investment Management S.à r.l., Luxembourg, on 2 April 2013. The company's share capital is TEUR 125. The purpose of the company is the founding and management of one or more Luxembourg-based specialist investment funds.

PATRIZIA Luxembourg S.à r.l., part of the scope of consolidation of PATRIZIA Immobilien AG, founded SENECA TopCo S.à r.l., Luxembourg, on 10 July 2013. The company's share capital is TEUR 12.5. The purpose of the company is the purchase and holding of shares in one or several real estate companies, the granting of finance to property companies as well as the purchase and development of real estate.

On 17 September 2013, PATRIZIA Immobilien AG established PATRIZIA Ireland Ltd., Dublin. The company's share capital is GBP 8,360. The purpose of the company is the provision of property-related services in Ireland.

PATRIZIA Nordics A/S, part of the scope of consolidation of PATRIZIA Immobilien AG, founded PATRIZIA Fund Management A/S, Copenhagen, on 17 December 2013. The company's share capital is DKK 500,000. The purpose of the company is the initiation, administration and management of vehicles.

## 2.2 CAPITAL CONSOLIDATION USING FULL CONSOLIDATION

In principle, all subsidiaries are recognised in the consolidated financial statements using full consolidation. Since 1 January 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 Handelsgesetzbuch (HGB – German Commercial Code).

The date of initial consolidation is the date of acquisition and therefore the date on which control over the net worth and the operating activities of the acquired company is actually transferred to the parent company. The acquisition costs comprise the cash paid for the acquisition. Since 1 January 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 recognised 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 recognised 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 AND ASSOCIATED COMPANIES 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 recognised (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 recognised for temporal differences arising from the elimination of profits and losses as a result of transactions within the Group.

### 2.5 CURRENCY TRANSLATION

Business transactions in foreign currencies are translated using the relevant exchange rates at the time of the transaction. In the following periods, monetary assets and liabilities are valued on the balance sheet date and the translation differences are recorded through profit or loss. Non-monetary items that were measured in a foreign currency at historical cost are translated using the rate prevailing on the date of the business transaction.

The financial statements of international subsidiaries whose functional currency is not the euro and does not therefore correspond to the Group's presentation currency are translated using the modified reporting date method. Thereafter, assets and liabilities are translated at the respective rate on the reporting date. Income and expenses are translated at the exchange rate prevailing on the date of the transaction. The resulting translation differences are shown separately in equity.

## 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 recognised at acquisition or production cost at the date of addition. Subsequent measurement provides for the carrying out of scheduled amortisation and, if applicable, unscheduled amortisation as well as reversals taking into account amortised cost of acquisition or manufacturing.

Acquisition costs include the directly attributable purchase and commitment costs.

Scheduled amortisation is carried out using the straight-line method. It starts as soon as the asset can be used and ends on expiry of the useful life or on disposal of the asset. The amortisation period is geared towards the expected useful life. Purchased software is amortised over three to ten years.

## 3.3 MANAGEMENT CONTRACTS

Management contracts acquired as part of the business combination with the company now known as PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH and those acquired as part of the business combination with the company now known as PATRIZIA UK Ltd. 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 scheduled cumulative amortisation and any cumulative impairments).

The period of amortisation for the management contracts is based on the expected terms of the fund contracts. Since their course cannot be reliably determined, the straight-line method was selected.

## 3.4 EQUIPMENT

Equipment is recognised at acquisition or production cost at the date of addition. Subsequent measurement provides for the carrying out of scheduled amortisation and, if applicable, unscheduled amortisation as well as write-ups, taking into account amortised cost of acquisition or manufacturing.

Acquisition costs include the directly attributable purchase and commitment costs.

Scheduled amortisation is carried out using the straight-line method. It starts as soon as the asset can be used and ends on expiry of the useful life or on disposal of the asset. The amortisation period is geared towards the expected useful life. Equipment is amortised over three to thirteen years. Minor-value assets are fully depreciated in the year of acquisition.

## 3.5 IMPAIRMENT OF ASSETS

Where assets are subject to scheduled amortisation and there is an indication of impairment, a review is undertaken to ascertain whether there is a need for unscheduled amortisation. A reversal is applied if the reason for unscheduled amortisation no longer exists. Assets that are not subject to scheduled amortisation 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 realising higher rent potential over a long 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 within the framework of the construction or development process. Measurement is at fair value taking into account the current usage that corresponds to the highest and best usage. Changes in value are recognised through profit or loss.

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. In terms of 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.

When determining this fictitious market value, two sub-portfolios within investment property are measured separately from each other.

For individual investment properties, the residential property resale process was launched in previous years and successfully continued and expanded in 2013. The properties that are earmarked for resale are valued internally using detailed project accounting. This valuation includes the key input factors such as comparative values from market transactions relating to the property/in its direct vicinity and assumptions concerning period of utilisation, potential categories of purchasers and planned renovation and modernisation measures that are still to be carried out.

Due to the qualitative nature of this accounting, the overall valuation is to be assigned to Level 3 based on the valuation hierarchy under IFRS 13. The values determined are entry prices within the context of IFRS 13; in this case, therefore, it is not necessary to deduct purchaser transaction costs.

On the closing date, properties with a total area of 49,592 sqm with an average selling price of EUR 2,858 per square metre were earmarked for resale. Any change in this average attainable selling price per square metre results in a corresponding change in the fair value determined using the valuation method (example: if the average attainable selling price per square metre rises by EUR 100, this is reflected in an increase of TEUR 4,959 in the fair value).

The valuation of the investment property that is not earmarked for resale is based on valuations by independent experts who apply international valuation standards (International Valuation Standard, Concepts/Principles No. 9.2.1.3 – Income Capitalisation 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 in accordance with the Immobilienwertermittlungsverordnung (ImmoWertV – German Ordinance on the Valuation of Real Estate), 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 capitalised 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 modernisation and re-renting. The resulting value is referred to as core value.

The difference between the market rent and the rent received is capitalised 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 17% are assumed, which can have a material impact on the assumed remaining lease term. Key items of payments are maintenance costs averaging EUR 7 to 10 p.a./sqm living space and EUR 15 to 20 p.a. per parking space, management costs of 1.95 to 4.82% of rental income, and the risk of loss of rental income of 2% of rental income. The capitalisation interest rates used amount to between 4.5 and 6.25%.

With the exception of the market rent used in the valuation (level 2 of the valuation hierarchy), the input factors used in the core value and topslice method mainly concern company-specific measurement parameters that are not observable in the market (level 3 of the valuation hierarchy). In accordance with the valuation hierarchy specified in IFRS 13, the fair value measurement of the investment property is thus to be assigned to level 3.

The following table quantifies the sensitivities for the most important input factors affecting the fair value of investment property:

| Input factors | Unit | Change | Sensitivity in EUR million |
|---|---|---|---|
| Market rent | in % | +/−5 | +7.0/−6.8 |
| Capitalisation interest rate | in % | +/−5 basis points | −5.9/+6.7 |

All investment property held by the Group is leased. The resultant rental income and the expenses directly associated with it are recognised in the consolidated 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 these are accounted for using the equity method.

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 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 straightforward modernisation 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 recognised during this time period. However, inventories are still classed as intended for direct sale even if the sale is not recognised within three years (e.g. due to unforeseeable/unforeseen changes in underlying economic conditions).

Inventories are carried at the lower of acquisition costs/production costs 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 capitalised 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 modernisation and selling costs incurred.

## 3.9 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 fulfilment 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 levels, 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 categorised 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. For available-for-sale financial assets, the Group ascertains, on each reporting date, whether there are objective indications that impairment of an asset or of a group of assets has taken place. In the case of available-for-sale equity instruments, a "significant" or "continuing" fall in the fair value of the instrument below its acquisition cost would represent an objective indication.

**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 amortised 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 amortised 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 recognised 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 recognised 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 recognised using a value adjustment account. Derecognition of receivables takes place if they are classified as uncollectible.

### 3.10 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.

### 3.11 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 recognised at fair value through profit or loss. Following initial recognition, the interest-bearing loans are measured at amortised cost using the effective interest method.

## 3.12 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 derecognised if the preconditions of IAS 39 are met.

A **financial liability** is derecognised 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 recognised through profit or loss.

## 3.13 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses the derivative financial instruments of interest rate swaps and interest rate collars to protect itself against interest rate risks. These derivative financial instruments are measured at fair value. Derivative financial instruments are recognised 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 recognised 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 recognised asset or with a recognised 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 recognised in the statement of comprehensive income, while the ineffective part is immediately recognised through profit or loss.

The amounts taken directly to equity are transferred to the consolidated income statement during the period in which the hedged transaction influences the result, e.g. if hedged financial income or expenses are recognised or if an expected sale is executed.

If the scheduled transaction or the fixed obligation is no longer expected, the amounts previously recognised 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 recognised in equity remain as separate items in equity until the scheduled transaction or fixed obligation has occurred.

## 3.14 RETIREMENT BENEFIT OBLIGATIONS

Performance-related pension plans are valued using the projected unit credit method on the basis of a pension report. The retirement benefit obligations in the balance sheet are calculated based on the present value of the defined benefit obligation on the balance sheet date. The Group recognises actuarial gains and losses for defined benefit pension plans through profit or loss in the reporting period in which they arise. The interest share of pension expenses was not significant enough to be recognised in the financial result, and was instead recognised in staff costs.

## 3.15 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.

## 3.16 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 fulfilment of the contractual agreement is dependent upon the utilisation of a certain asset or certain assets and whether the agreement grants a right to utilisation of the asset.

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 recognised as expenses correspondent to the rental income over the term of the lease. Contingent rent is recognised 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 classified as operating leases.

## 3.17 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 recognised in equity are not recognised in the income statement, but rather in equity.

Tax assets and 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 taxes of the same taxable entity and are levied by the same tax authority.

### Deferred taxes

Deferred taxes are recognised 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 recognised for all deductible temporary differences, tax loss carryforwards not yet utilised and tax credits not yet utilised, 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 utilised 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 recognised are reviewed on every balance sheet date and are recognised in the amount in which it has become probable that a future taxable result allows recognition 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 realised 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 recognised in equity are not recognised in the income statement, but are also recognised 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.

## 3.18 BORROWING COSTS

Borrowing costs used to produce a qualifying asset are capitalised. 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.

## 3.19 REVENUE RECOGNITION

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 business, revenue is usually recognised after performance has been provided and invoicing has taken place.

## 3.20 ESTIMATES AND ASSESSMENTS IN ACCOUNTING

When preparing the consolidated financial statements a certain degree of assumptions must be made and estimates must be used which impact on the amount and reporting of the assets and liabilities, income and expenses as well as contingent receivables and liabilities carried for the reporting period. An estimate is made on the basis of the most recently available reliable information. The assets, liabilities, income, expenses and contingent receivables and liabilities recognised on the basis of estimates may differ from the amounts to be recognised 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:

- Measurement of investment property
- Determining the recoverable amount to assess the necessity and extent of unscheduled amortisation, especially on the real estate posted under the item “Inventories”
- Recognising and measuring provisions
- Valuing receivables subject to risk
- Assessing whether deferred tax assets can be recognised

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.

# 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 amortisation for the fiscal year and for the previous year are set out below:

### 4.1.1 GOODWILL

| EUR '000 | 2013 Acquisition costs | 2013 Amortisation | 2013 Carrying amounts | 2012 Acquisition costs | 2012 Amortisation | 2012 Carrying amounts |
|---|---|---|---|---|---|---|
| **Balance as at 1 January** | **610** | **0** | **610** | **610** | **0** | **610** |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| **Balance as at 31 December** | **610** | **0** | **610** | **610** | **0** | **610** |

The goodwill with a carrying amount of TEUR 610 (previous year: TEUR 610) results from the acquisition of PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH. The company was identified as a cash-generating unit. The goodwill will not be deductible in future fiscal periods and is therefore treated as a permanent difference when determining deferred taxes.

The recoverable amount of the cash-generating unit was determined by means of a calculation of the value in use based on cash-flow projections from the financial budget approved by the Managing Board for a period of seven years and a discount rate of 7.08% p.a. (previous year: 10.0% p.a.). For the period after the seventh year, the cash flows were extrapolated using a constant annual growth rate of 1% p.a. (previous year: 2% p.a.). The Managing Board is of the opinion that no reasonably foreseeable change in the underlying assumptions on which the determination of the recoverable amount is based would cause the cumulative carrying amount of the cash-generating unit to exceed its cumulative recoverable amount.

### 4.1.2 OTHER INTANGIBLE ASSETS

| EUR '000 | 2013 Acquisition costs | 2013 Amortisation[1] | 2013 Carrying amounts | 2012 Acquisition costs | 2012 Amortisation | 2012 Carrying amounts |
|---|---|---|---|---|---|---|
| **Balance as at 1 January** | **47,195** | **3,936** | **43,259** | **47,195** | **1,968** | **45,227** |
| Additions | 1,232 | 2,587 | 0 | 0 | 1,968 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| **Balance as at 31 December** | **48,427** | **6,523** | **41,904** | **47,195** | **3,936** | **43,259** |

[1] The difference compared with the amortisation posted in the income statement in 2013 results from currency translations

The intangible assets include an amount of TEUR 41,290 relating to the hidden reserves, in respect of the fund management contracts, identified during the purchase price allocation of PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH and an amount of TEUR 614 relating to the hidden reserves identified during the purchase price allocation of PATRIZIA UK Ltd. (formerly Tamar Capital Group Ltd.). The hidden reserves are currently subject to scheduled amortisation of TEUR 2,452 per annum. A review of the fair value revealed a further impairment requirement of TEUR 135.

### 4.1.3 SOFTWARE

| EUR '000 | | | 2013 | | | 2012 |
|---|---|---|---|---|---|---|
| | Acquisition costs | Amortisation | Carrying amounts | Acquisition costs | Amortisation | Carrying amounts |
| **Balance as at 1 January** | **10,403** | **2,850** | **7,553** | **6,706** | **1,426** | **5,280** |
| Additions | 2,938 | 1,793 | 0 | 4,332 | 1,455 | 0 |
| Disposals | 0 | 0 | 0 | –635 | –31 | 0 |
| **Balance as at 31 December** | **13,341** | **4,643** | **8,698** | **10,403** | **2,850** | **7,553** |

### 4.1.4 INVESTMENT PROPERTY

DEVELOPMENT OF NON-CURRENT ASSETS

| EUR '000 | 2013 | 2012 |
|---|---|---|
| | Investment property | Investment property |
| **Fair Value** | | |
| **Balance as at 1 January** | **374,104** | **532,321** |
| Additions – assets | 5,891 | 3,174 |
| Disposal – assets | –150,295 | –161,409 |
| Positive fair value changes | 16,893 | 7,385 |
| Negative fair value changes | –16,876 | –7,367 |
| **Balance as at 31 December** | **229,717** | **374,104** |

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 eleven investment properties in Berlin, Hanover, Dresden, Munich and Potsdam were sold.

In the fiscal year under review, one property in an amount of TEUR 19,282 was transferred from valuation based on the investment method to comparative value measurement because observable input factors can be derived through the available comparative prices from sales of individual units that have already taken place.

Based on the fair value of the overall portfolio, the average value is EUR 1,768 (previous year: EUR 1,857) per square metre and/or a multiplier of 15 (previous year: 17) based on the target rent as at 31 December 2013.

The fair value of the pledged investment property is TEUR 229,717 (previous year: TEUR 374,104).

### 4.1.5 EQUIPMENT

| EUR '000 | 2013 Acquisition costs | 2013 Amortisation | 2013 Carrying amounts | 2012 Acquisition costs | 2012 Amortisation | 2012 Carrying amounts |
|---|---|---|---|---|---|---|
| **Balance as at 1 January** | **7,617** | **4,138** | **3,479** | **6,728** | **3,966** | **2,762** |
| Additions | 3,134 | 1,728 | 0 | 2,037 | 1,118 | 0 |
| Disposals | –601 | –481 | 0 | –1,148 | –946 | 0 |
| **Balance as at 31 December** | **10,150** | **5,385** | **4,765** | **7,617** | **4,138** | **3,479** |

### 4.1.6 PARTICIPATIONS IN ASSOCIATED COMPANIES

| EUR '000 | 2013 Acquisition costs | 2013 Adjustments at equity | 2013 Carrying amounts | 2012 Acquisition costs | 2012 Adjustments at equity | 2012 Carrying amounts |
|---|---|---|---|---|---|---|
| **Balance as at 1 January** | **15,379** | **431** | **15,810** | **6,818** | **–9** | **6,809** |
| Additions | 1,827 | 658 | 0 | 8,561 | 440 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| **Balance as at 31 December** | **17,206** | **1.089** | **18,295** | **15,379** | **431** | **15,810** |

The item "Participations in associated companies" mainly includes the 9.09% (previous year: 9.09%) share in PATRIZIA WohnModul I SICAV-FIS. The following table shows the key data for the associated companies accounted for at equity. The figures do not relate to the shares attributable to the PATRIZIA Group, but instead refer to the company as a whole.

| EUR '000 | 2013 | 2012 |
|---|---|---|
| Total assets | 660,779 | 433,798 |
| Total liabilities | 357,301 | 191,528 |
| Revenues | 30,914 | 22,196 |
| Net profit for the year | 9,881 | 5,616 |

The share in the consolidated net profit of PATRIZIA WohnModul I SICAV-FIS was TEUR 658 (previous year: TEUR 440).

### 4.1.7 PARTICIPATIONS

| EUR '000 | 2013 Acquisition costs | 2013 Amortisation | 2013 Carrying amounts | 2012 Acquisition costs | 2012 Amortisation | 2012 Carrying amounts |
|---|---|---|---|---|---|---|
| **Balance as at 1 January** | **18,407** | **0** | **18,407** | **3,134** | **0** | **3,134** |
| Additions | 61,676 | 0 | 0 | 15,273 | 0 | 0 |
| Disposals | 9 | 0 | 0 | 0 | 0 | 0 |
| **Balance as at 31 December** | **80,074** | **0** | **80,074** | **18,407** | **0** | **18,407** |

The item "Participations" includes the following main holdings:

- PATRoffice Real Estate GmbH & Co. KG 6.25% (31 December 2012: 6.25%)
- CARL A-Immo GmbH & Co. KG 12.5% (31 December 2012: 12.5%)
- sono west Projektentwicklung GmbH & Co. KG 28.3% (31 December 2012: 28.3%)
- Projekt Feuerbachstraße Verwaltung GmbH 30% (31 December 2012: 30%)
- PATRIZIA Projekt 150 GmbH 10% (31 December 2012: 10%)
- Plymouth Sound Holdings LP 10% (31 December 2012: 0%)
- Winnersh Holdings LP 4.9% (31 December 2012: 0%)
- Seneca Holdco S.à r.l. 5.1% (31 December 2012: 0%)
- GBW AG 5.1% (31 December 2012: 0%)

Key additions during the fiscal year were the participation in GBW AG (TEUR 48,978), in Seneca Holdco S.à r.l. (TEUR 5,046), in Plymouth Sound Holdings LP (TEUR 1,412 TEUR) and in Winnersh Holdings LP 4.9% (TEUR 3,536).

### 4.1.8 LOANS

| EUR '000 | 2013 Acquisition costs | 2013 Amortisation | 2013 Carrying amounts | 2012 Acquisition costs | 2012 Amortisation | 2012 Carrying amounts |
|---|---|---|---|---|---|---|
| **Balance as at 1 January** | **0** | **0** | **0** | **0** | **0** | **0** |
| Additions | 5,814 | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| **Balance as at 31 December** | **5,814** | **0** | **5,814** | **0** | **0** | **0** |

Loans of TEUR 3,069 were granted in connection with the co-investment GBW and loans of TEUR 2,745 were granted in connection with the co-investment Plymouth Sound Holdings LP.

## 4.2 TAX ASSETS

Corporation tax credits of TEUR 159 (previous year: TEUR 201) with a right to payment that arose after 2008 and that are to be paid by the tax authorities over a period of 10 years in equal annual amounts are treated as non-current tax assets. Measurement is at present value.

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

## 4.3 INVENTORIES

A breakdown of inventories is shown below:

INVENTORIES

| EUR '000 | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Real estate intended for sale | 216,216 | 273,791 |
| Real estate in the development phase | 92,987 | 72,129 |
| | **309,203** | **345,920** |

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

As at 31 December 2013, four properties were in the development phase. In 2013 inventories with a total carrying amount of TEUR 68,844 (previous year: TEUR 85,214) were sold.

During the period under review directly assignable borrowing costs of TEUR 1,235 (previous year: TEUR 695) were capitalised.

The carrying amounts of inventories which are pledged as security totalled TEUR 280,670 (previous year: TEUR 343,444).

Realisation of inventories amounting to TEUR 76,274 is expected to last longer than twelve months.

## 4.4 FINANCIAL DERIVATIVES

The Group uses various interest rate swaps and interest rate collars for partial hedging of the interest rate risk from its bank loans. These are cash flow hedges where an effective 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 recognised through profit or loss in the income statement. In the fiscal year, they amounted to TEUR 19,525 (previous year: TEUR 11,028).

As at 31 December 2013, the nominal volume of the derivatives classified as ineffective totalled TEUR 483,930 (previous year: TEUR 511,671); the corresponding market values were TEUR –2,819 (previous year: TEUR –21,929).

The changes to the fair values of the effective hedging derivatives of TEUR –122 (previous year: TEUR –244) were directly recognised in equity, taking deferred taxes of TEUR –19 (previous year: TEUR –39) into account.

During the year under review market value changes of TEUR 0 (previous year: TEUR 1) were taken into account in the income statement as ineffective portions of hedging derivatives.

With all effective hedging derivatives having expired in the 2013 fiscal year, the nominal volume of effective hedging derivatives as at 31 December 2015 amounted to TEUR 0 (previous year: TEUR 15,000); the corresponding market values were also TEUR 0 (previous year: TEUR 503).

In the year under review, value changes in cash flow hedges in the amount of TEUR 433 (previous year: TEUR 781) were released through profit or loss, with derecognition of the corresponding deferred taxes applied (TEUR 68), and transferred into the financial result.

As at 31 December 2013, the total amount of unrecognised 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 –31 (previous year: TEUR –469). It is expected that all of the existing hedging transactions will be ended in accordance with the contracts during the 2014 year. For payment flows recognised 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 | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Trade receivables | 18,339 | 20,449 |
| Other current assets | 63,923 | 78,186 |
| | **82,262** | **98,635** |

The carrying amount of the receivables and other current assets corresponds to their fair value.

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

### RENT RECEIVABLES

| EUR '000 | 2013 | 2012 |
|---|---|---|
| **Rent receivables** | **628** | **616** |
| Of which < 90 days | 308 | 72 |
| Of which > 90 days | 320 | 544 |

Rent receivables of TEUR 628 (previous year: TEUR 616) are secured through rental deposits.

Trade receivables of TEUR 21,078 (previous year: TEUR 24,187) were decreased by specific value adjustments of TEUR 2,739 (previous year: TEUR 3,738) to a carrying amount of TEUR 18,339 (previous year: TEUR 20,449).

The other current assets were mainly influenced by a reduction of TEUR 15,103 in purchase price receivables and a rise of TEUR 6,279 in receivables from companies in which participations are held.

Changes in the value adjustment account for receivables:

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

| EUR '000 | 2013 | 2012 |
|---|---|---|
| **Balance as at 1 January** | **3,738** | **4,388** |
| Additions | 6 | 274 |
| Outflows due to derecognitions | –597 | –232 |
| Outflows due to payments received | –408 | –692 |
| **BALANCE AS AT 31 DECEMBER** | **2,739** | **3,738** |

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 1,400 (previous year: TEUR 1,830) is pledged as security. A breakdown is shown below:

An amount of TEUR 1,000 is pledged in favour of R+V Versicherung as collateral for a guarantee credit. This guarantee credit is security for a payment guarantee that was issued by the bank for the general contractor in the "Wasserturm, Sternschanze" 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 300 was pledged to Zurich Versicherung as security for a guarantee in a total amount of TEUR 1,514. No cash security is required for the remaining guarantee facility (TEUR 3,559) with Zurich Versicherung, which can also be used by PATRIZIA for various guarantees.

The pledging of a credit balance in favour of Bayerische Landesbank (institution under public law) in an amount of TEUR 100 as collateral for an interest hedge was cancelled.

There were also purchase price payment accounts of TEUR 21,704 (previous year: TEUR 0), which are earmarked pursuant to Article 6 of the Makler- und Bauträgerverordnung (MaBV – Brokers and Building Developers Ordinance).

# 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

Following the issue of bonus shares, the company's share capital at the reporting date totalled EUR 63,077,300 (previous year: EUR 57,343,000) and is divided into 63,077,300 (previous year: 57,343,000) registered no-par value shares (shares with no nominal value).

The Managing Board was further authorised, by resolution of the Annual General Meeting on 20 June 2012, to increase the share capital on one or more occasions with the consent of the Supervisory Board by up to a total of EUR 14,335,750 in exchange for cash contributions and/or contributions in kind by issuing new, registered no-par value shares by 19 June 2017 (Authorised Capital 2012).

At the same time the company's share capital was conditionally increased, through a resolution of the Annual General Meeting, by up to EUR 14,335,750.00 through the issue of 14,335,750 new, registered no-par value shares with a pro-rata share in the share capital of EUR 1.00 (Contingent Capital 2012). The conditional capital increase shall be used to grant rights to the holders or creditors of convertible bonds and bonds with warrants and/or profit participation rights with conversion or option rights and/or a conversion obligation that are issued, on the basis of the resolution by the General Meeting held on 20 June 2012, until 19 June 2017 by the company or by companies in which the company holds a direct or indirect majority interest.

First Capital Partner GmbH is a shareholder of PATRIZIA Immobilien AG with 32,557,435 no-par value shares (previous year: 29,597,668 no-par value shares), which equates to a 51.62% shareholding (previous year: 51.62%).

### 5.1.2 CAPITAL RESERVE

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. In connection with the issue of bonus shares in the 2013 fiscal year, the capital reserve fell by TEUR 5,747 (previous year: TEUR 5,218).

### 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 –3,119, with earnings of TEUR –159 allocated to the non-controlling shareholder.

## 5.2 BANK LOANS

The residual terms of the bank loans are as follows:

### BANK LOANS

| EUR '000 | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Up to 1 year | 284,857 | 52,683 |
| More than 1 to 2 years | 36,777 | 430,281 |
| More than 2 to 5 years | 0 | 38,090 |
| More than 5 years | 0 | 0 |
| TOTAL | 321,634 | 521,054 |

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

### MATURITY

| Year | Amount of loans due as at 31.12.2013 | |
|---|---|---|
| | EUR '000 | in % |
| 2014 | 284,857 | 88.6 |
| 2015 | 36,777 | 11.4 |
| TOTAL | 321,634 | 100 |

Bank loans are measured at amortised 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 321,634 (previous year: TEUR 519,670). In addition, financial liabilities are secured by assigning purchasing prices, and others are secured by assigning future rental payments.

## 5.3 DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES

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

**DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES**

| EUR ’000 | 31.12.2013 Assets | 31.12.2013 Liabilities | 31.12.2012 Assets | 31.12.2012 Liabilities |
|---|---|---|---|---|
| Investment property | 0 | 7,276 | 0 | 10,585 |
| Inventories | 0 | 1,232 | 0 | 1,292 |
| Derivatives | 446 | 0 | 3,550 | 0 |
| Tax loss carryforwards | 0 | 0 | 0 | 0 |
| Intangible assets PATRIZIA GewerbeInvest KAG mbH | 0 | 13,326 | 0 | 13,961 |
| Securities PATRIZIA GewerbeInvest KAG mbH | 0 | 0 | 0 | 0 |
| Consolidation of debts | 881 | 1,477 | 889 | 1,470 |
| Other | 1,774 | 2,723 | 187 | 560 |
| | **3,101** | **26,034** | **4,626** | **27,868** |
| Netting | –3,101 | –3,101 | –4,626 | –4,626 |
| | **0** | **22,933** | **0** | **23,242** |

Due to the lack of predictability regarding dissolution of the tax group, no deferred tax assets have been recognised for losses prior to fiscal unity of TEUR 447 (previous year: TEUR 447). The losses can be carried forward for an indefinite period.

According to IAS 12.24(b), the Group has not recognised 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 recognised for existing loss carryforwards in Alte Haide Baugesellschaft mbH of TEUR 654 (previous year: TEUR 1,481) due to lack of predictability concerning their tax usability.

In addition, on the balance sheet date, two companies (previous year: two companies) had corporation tax loss carryforwards of TEUR 26,984 (previous year: TEUR 31,481); no deferred tax assets were formed for these due to the lack of predictability concerning their usability for fiscal purposes.

Where possible, 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 recognised amounted to TEUR 9,861 (previous year: TEUR 11,342).

## 5.4 RETIREMENT BENEFIT OBLIGATIONS

In principle, there are no performance-related pension schemes at the Group. Exceptions to this are a scheme that was transferred in 2002 in conjunction with an acquisition and a plan which was assumed in 2007 in connection with the acquisition of a real estate portfolio. As at the balance sheet date, a total of six people had a performance-related commitment. Four of these people are retired persons who already receive ongoing pension payments. As at 31 December 2013, actuarial interest rates of 2.94% - 3.7% (previous year: 2.78% - 3.0%) and a projected pension increase of 2.0% (previous year: 2.0%) were used for the reference reports prepared in accordance with IAS 19. 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" (2005 G Reference Tables). As at 31 December 2013, the pension provision was recognised at TEUR 534 (previous year: TEUR 388). Due to the low level of the annual pension payments of TEUR 84 (previous year: TEUR 26) 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 unrecognised actuarial losses and/or unrecognised past service costs. The interest cost is posted under Staff costs.

In the current fiscal year, the employer's contributions to pension insurance amounted to TEUR 2,726.

## 5.5 NON-CURRENT LIABILITIES

Non-current liabilities mainly comprise liabilities from bonded loans in an amount of TEUR 77,000 (previous year: TEUR 0) and the long-term components of the management participation model that is described in more detail in 9.2.

## 5.6 OTHER PROVISIONS

The changes in other provisions are shown below:

### OTHER PROVISIONS 2013

| EUR '000 | 01.01.2013 | Addition | Release | Drawn | 31.12.2013 |
|---|---|---|---|---|---|
| Other provisions | 1,479 | 1,719 | 186 | 1,293 | 1,719 |
| | **1,479** | | | | **1,719** |

### OTHER PROVISIONS 2012

| EUR '000 | 01.01.2012 | Addition | Release | Drawn | 31.12.2012 |
|---|---|---|---|---|---|
| Other provisions | 1,092 | 1,479 | 39 | 1,053 | 1,479 |
| | **1,092** | | | | **1,479** |

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.

## 5.7 CURRENT LIABILITIES

A breakdown of current liabilities is shown below:

KURZFRISTIGE VERBINDLICHKEITEN

| EUR ’000 | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Trade payables | 2,237 | 1,914 |
| Advance payments | 37,930 | 1,591 |
| Other liabilities | 35,592 | 25,245 |
| | **75,759** | **28,750** |

The current liabilities have a residual term of less than 12 months. Due to the short residual term, there are no major differences between the carrying amount and the fair value of the liabilities.

The advance payments relate to purchase price receipts from current real estate development measures.

Other liabilities mainly include liabilities for acquisition and production costs arising after the balance sheet date, obligations under services purchased before the balance sheet date, interest arising on bonded loans, obligations in connection with variable salary components, performance-related commissions and sales commissions.

## 5.8 TAX LIABILITIES

The tax liabilities mainly concern subsequent taxation of the former Equity 02 portfolios amounting to TEUR 2,123 (previous year: TEUR 2,463), corporation tax and trade tax on profits of domestic subsidiaries amounting to TEUR 4,636 (previous year: TEUR 4,598), corporation tax of TEUR 1,040 (previous year: TEUR 2,869) on account of subsidiaries in Luxembourg that are subject to limited taxation in Germany, and also other taxes.

## 5.9 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 and are held with several different banks in order to diversify risks.

Apart from derivative instruments, the main financial liabilities used by the Group comprise long-term and short-term bank loans and trade payables. 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 and interest rate collars. 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 of 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 31 December 2013, 100% of the Group's external funds were hedged (previous year: 100%).

### 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 a cash flow sensitivity analysis with 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 31 December 2013 and without taking taxes into account, this would have an effect of TEUR 424 (previous year: TEUR 1,429) on the consolidated profit and TEUR 0 (previous year: TEUR 151) on consolidated equity. Taking deferred taxes into account, an increase of 100 basis points in the interest rate would have an effect of TEUR 1,223 (previous year: TEUR 1,382) on the consolidated profit and TEUR 0 (previous year: TEUR 127) on consolidated equity. When determining the effects, existing accounting hedges were included with their characteristics as they appeared on the balance sheet date.

### Credit Risk

In principle, due to a wide and uncorrelated counterparty structure there is no concentration of risks within the 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 by 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 unrecognised profit.

CAPITAL MANAGEMENT

| EUR '000 | 2013 | 2012 |
|---|---:|---:|
| Interest-bearing loans | 321,634 | 521,054 |
| Trade payables and other liabilities | 87,745 | 42,258 |
| Less cash and short-term deposits | –105,536 | –38,135 |
| **Net financial liabilities** | **303,843** | **525,177** |
| | | |
| Equity | 374,481 | 336,387 |
| Cash flow hedges valuation result | 31 | 469 |
| Currency translation difference | –500 | 0 |
| **Total modified equity** | **374,012** | **336,856** |
| | | |
| Modified equity and net financial liabilities | 677,855 | 862,033 |
| Gearing ratio | 45% | 61% |

## 5.10 FINANCIAL ASSETS AND LIABILITIES

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

### FINANCIAL ASSETS

| EUR '000 | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Loans and receivables | 201,644 | 140,453 |
| Available-for-sale financial assets | 80,083 | 18,407 |

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

### CARRYING AMOUNTS OF THE FINANCIAL LIABILITIES

| EUR '000 | 2013 | 2012 |
|---|---|---|
| Financial liabilities which are measured at fair value through profit or loss and are held for trading in accordance with IAS 39 | 2,819 | 21,929 |
| Financial liabilities which are measured at amortised cost | 327,714 | 526,911 |
| Derivative financial instruments which are designated as hedging instruments and are effective as such | 0 | 503 |

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

### NET PROFIT/LOSS BY CATEGORY

| EUR '000 | 2013 | 2012 |
|---|---|---|
| Loans and receivables | +995 | +699 |
| Available-for-sale financial assets | +32,128 | +6,557 |
| Financial liabilities which are measured at fair value through profit or loss and are held for trading in accordance with IAS 39 (interest expenses) | –19,771 | –18,798 |
| Financial liabilities which are measured at amortised cost | –8,104 | –13,101 |
| Financial liabilities which are measured at fair value through profit or loss and are held for trading in accordance with IAS 39 (change in value) | +19,525 | +11,028 |
| Derivative financial instruments which are designated as hedging instruments and are effective as such – included in consolidated profit | +0 | +1 |

Net profit and loss from financial instruments that are recognised 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 23,271 (previous year: TEUR 31,227).

## 6.2 CHANGES IN INVENTORIES

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

## 6.3 OTHER OPERATING INCOME

Other operating income primarily includes income from cancelled obligations in the amount of TEUR 1,478 (previous year: TEUR 4,257), income from the reduction in specific value adjustments in the amount of TEUR 1,153 (previous year: TEUR 791), income from liability compensation in the amount of TEUR 20 (previous year: TEUR 589), income from payments in kind of TEUR 911 (previous year: TEUR 639), income from insurance compensation in an amount of TEUR 336 (previous year: TEUR 171), income from costs charged on of TEUR 243 (previous year: TEUR 1,716), the settlement of transaction fees in an amount of TEUR 627 (previous year: TEUR 2,736) and income from the recognition of differences from company acquisitions in an amount of TEUR 933 (previous year: TEUR 0).

## 6.4 COST OF MATERIALS

Cost of materials includes the direct costs incurred in conjunction with service performance and comprises maintenance expenses of TEUR 2,289 (previous year: TEUR 2,773), real estate development costs of TEUR 21,351 (previous year: TEUR 17,787), renovation costs of TEUR 20,218 (previous year: TEUR 14,988) and ancillary costs of TEUR 14,457 (previous year: TEUR 18,472).

## 6.5 STAFF COSTS

A breakdown of staff costs is shown below:

STAFF COSTS

| EUR '000 | 2013 | 2012 |
|---|---|---|
| Wages and salaries | 59,119 | 42,389 |
| Social insurance contributions | 6,614 | 5,172 |
| | **65,733** | **47,561** |

## 6.6 AMORTISATION

Scheduled amortisation of software and equipment amounted to TEUR 3,521 (previous year: TEUR 2,573). This item also shows amortisation of the hidden reserves allocated to the fund management contracts and licences within the context of the acquisition of PATRIZIA GerwerbeInvest Kapitalanlagegesellschaft mbH and the acquisition of PATRIZIA UK Ltd. Scheduled amortisation amounts to TEUR 2,452 per annum (previous year: TEUR 1,968). An annual impairment test resulted in impairment of TEUR 135 (previous year: TEUR 0).

## 6.7 OTHER OPERATING EXPENSES

A breakdown of other operating expenses is shown below:

OTHER OPERATING EXPENSES

| EUR '000 | 2013 | 2012 |
|---|---|---|
| Operating expenses | 11,507 | 9,031 |
| Administrative expenses | 15,558 | 12,660 |
| Selling expenses | 22,444 | 17,456 |
| Other expenses | 9,483 | 6,121 |
| | **58,992** | **45,268** |

## 6.8 INCOME FROM PARTICIPATIONS

The income from participations of TEUR 32,122 originates from the GBW and Südewo investments. Of this, an amount of TEUR 13,158 is attributable to performance-dependent allocation of profits. The income from participations was recognised in the same reporting period.

## 6.9 FINANCIAL RESULT

FINANCIAL RESULT

| EUR '000 | 2013 | 2012 |
|---|---|---|
| Interest on bank deposits | 326 | 168 |
| Income from securities | 0 | 0 |
| Changes in the value of derivatives | 19,525 | 11,028 |
| Other interest | 669 | 531 |
| **Financial income** | **20,520** | **11,727** |
| Interest on revolving lines of credit and bank loans | –8,104 | –13,101 |
| Interest-rate hedging expense | –19,771 | –18,798 |
| Changes in the value of derivatives | 0 | 0 |
| Release of other result from cash flow hedging | –433 | –781 |
| Other finance costs | –4,116 | –2,177 |
| **Financial expenses** | **–32,424** | **–34,857** |
| **Financial result** | **–11,904** | **–23,130** |

Interest income of TEUR 669 (previous year: TEUR 531), which was recognised 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.

Currency translation differences of TEUR 26 (previous year: TEUR 0) were recognised through profit or loss in the fiscal year.

## 6.10 INCOME TAX

A breakdown of income taxes is shown below:

INCOME TAXES

| EUR '000 | 2013 | 2012 |
|---|---|---|
| Actual taxes | –3,180 | –5,761 |
| Deferred taxes | 749 | 2,595 |
| | **–2,431** | **–3,166** |

The deferred taxes in the income statement chiefly result from 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 EXPENSES

| EUR '000 | 2013 | 2012 |
|---|---|---|
| IFRS consolidated profit/loss for the period before income tax | 39,599 | 28,621 |
| Income tax expenses expected on the above | –12,206 | –8,822 |
| Tax additions and deductions | 3,370 | 1,518 |
| Use of non-capitalised loss carryforwards | 3,015 | 2,974 |
| Trade tax effects from income subject to limited taxation | 1,447 | 823 |
| Effects outside the period | 2,302 | 808 |
| Other | –359 | –467 |
| EFFECTIVE TAX EXPENSE | **–2,431** | **–3,166** |

## 6.11 EARNINGS PER SHARE

EARNINGS PER SHARE

| in EUR | 2013 | 2012 |
|---|---|---|
| Profit share of Group shareholders | 37,326,087 | 25,461,247 |
| Number of shares issued | 63,077,300 | 57,343,000 |
| Weighted number of shares | 63,077,300 | 63,077,300 |
| EARNINGS PER SHARE (UNDILUTED) | **0.59 EUR** | **0.40 EUR** |

There were no diluted earnings per share in the reporting year or in the previous year. In application of IAS 33.64, the weighted number of shares for the previous year (57,343,000) was replaced by the weighted number of shares in 2013 (63,077,300).

The Managing Board was authorised, by resolution of the Annual General Meeting on 20 June 2012, to increase the share capital on one or more occasions with the consent of the Supervisory Board by up to a total of EUR 14,335,750 in exchange for cash contributions and/or contributions in kind by issuing new, registered no-par value shares by 19 June 2017 (Authorised Capital 2012).

## 7 SEGMENT REPORTING

With the exception of the two asset management companies and PATRIZIA Alternative Investment GmbH, the operating subsidiaries headquartered in Germany were merged into PATRIZIA Deutschland GmbH as of 1 July 2013. International subsidiaries will continue to be run as independent entities. Functions within the new organisational structure will be bundled at national level and managed transnationally. The realignment ensures that PATRIZIA is prepared for further international growth.

From now on the business segments will no longer be categorised according to type of use into residential and commercial but according to whether PATRIZIA acts as investor or service provider. In line with the Group's reporting for management purposes and in accordance with the definition contained in IFRS 8 "Operating segments", two segments have been identified based on functional criteria: **Investments** and **Management Services**. Besides functional criteria, the operating segments will also be delimited by geographical criteria. Country assignment will be effected according to the location of the real estate asset being managed. International subsidiaries will continue to be reported as a total for the time being owing to the still low contribution made by the individual national companies to revenues and results.

In addition, PATRIZIA Immobilien AG (corporate administration) together with the management of international subsidiaries will be reported under Corporate. Corporate does not constitute an operating segment with an obligation to report but is presented separately owing to its activity as an internal service provider and its transnational function.

The elimination of intracompany revenues, interim results and the reversal of intracompany interest charges will be performed via the Consolidation column. The "Corporate" column thus consolidates all internal services between the Investments and Management Services segments and the Group within a country; it represents the external service provided by the Group in the region concerned. Transnational consolidation is performed in the Consolidation row.

The **Investments segment** primarily bundles portfolio management and the sale of own investments. As at the balance sheet date, the segment had a portfolio of around 4,100 residential units (31 December 2012: around 6,000) as well as three real estate developments that are reported as investment property and inventories. Clients include private and institutional investors that invest either in individual residential units or in real estate portfolios. It is planned to sell off the entire stock of own property as far as possible by the end of 2015.

The results of all participating interests (excluding interim profits) from co-investments are also reported in this segment.

The **Management Services segment** covers a broad spectrum of real estate services, in particular analysis and consultancy during the purchase and sale of individual residential and commercial properties or portfolios (Acquisition and Sales), the management of real estate (Property Management), value-oriented management of real estate portfolios (Asset Management) as well as strategic consulting with regard to investment strategy, portfolio planning and allocation (Portfolio Management) and the execution of complex, non-standard investments (Alternative Investments). Special funds are also established and managed – including at a client's individual request – via the Group's two own asset management companies. Commission revenues generated by services, both from co-investments and from business with third parties, are reported in the Management Services segment. These also include income from participating interests that are granted as interim profits for asset management of the two co-investments Südewo and GBW.

The range of services provided by the Management Services segment is being increasingly used by third parties as assets under management grow and PATRIZIA sells off more and more of its own portfolio.

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 parameters, which for the purposes of internal control and reporting are referred to as EBT and operating EBT (operating result).

EBT, the measure of segment earnings, comprises the total of revenues, income from the sale of investment property, changes in inventories, cost of materials and staff costs, other operating income and expenses, changes in the value of investment property, amortisation, as well as earnings from investments (including investments valued at equity) and the financial result and gains/losses from currency translation.

Certain adjustments are made in the course of determining operating EBT (operating result). First, these involve non-cash effects such as amortisation on other intangible assets (fund management contracts) transferred in the course of the acquisition of PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH and Tamar Capital Group Ltd., unrealised changes in the value of investment property, losses from currency translation and the results of the market valuation of the interest-rate hedging instruments. Second, income-related realised changes in the value of investment property are then added to this.

Revenues arise between reportable segments. These intracompany services are invoiced at market prices.

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

The individual segment figures are set out below. The reporting of amounts in EUR thousands can result in rounding differences. However, individual items are calculated on the basis of non-rounded figures. Figures from the previous year have been adapted to the new structure.

**2013 (1 JANUARY – 31 DECEMBER 2013)**

| EUR '000 | Investments | Management Services | Corporate | Consolidation | Group |
|---|---|---|---|---|---|
| Germany | | | | | |
| **External revenues** | **122,496** | **89,057** | **0** | **0** | **211,553** |
| Purchase price revenues from single unit sales | 54,763 | 0 | | | 54,763 |
| Purchase price revenues from block sales | 25,491 | 0 | | | 25,491 |
| Rental revenues | 30,671 | 27 | | | 30,698 |
| Revenues from services | 0 | 89,030 | | | 89,030 |
| Co-investments | 0 | 36,379 | | | 36,379 |
| Third parties | 0 | 52,651 | | | 52,651 |
| Other revenues | 11,571 | 0 | | | 11,571 |
| **Intercompany revenues** | **197** | **28,938** | **0** | **–29,135** | **0** |
| International[1] | | | | | |
| **External revenues** | **0** | **5,739** | **0** | **0** | **5,739** |
| Revenues from services | | 5,739 | | | 5,739 |
| Co-investments | | 2,785 | | | 2,785 |
| Third parties | | 2,954 | | | 2,954 |
| **Intercompany revenues** | **0** | **2,988** | **0** | **–1,072** | **1,917** |
| Corporate | | | | | |
| **External revenues** | **0** | **0** | **106** | **0** | **106** |
| **Intercompany revenues** | **0** | **0** | **13,316** | **0** | **13,316** |
| Consolidation | | | | | |
| **External revenues** | **0** | **0** | **0** | **0** | **0** |
| **Intercompany revenues** | **0** | **–2,988** | **0** | **–12,245** | **–15,233** |
| Group | | | | | |
| **External revenues** | **122,496** | **94,796** | **106** | **0** | **217,398** |
| Purchase price revenues from single unit sales | 54,763 | 0 | 0 | | 54,763 |
| Purchase price revenues from block sales | 25,491 | 0 | 0 | | 25,491 |
| Rental revenues | 30,671 | 27 | 2 | | 30,699 |
| Revenues from services | 0 | 94,769 | 66 | | 94,835 |
| Co-investments | 0 | 39,164 | 62 | | 39,226 |
| Third parties | 0 | 55,605 | 4 | | 55,609 |
| Other revenues | 11,571 | 0 | 39 | | 11,609 |
| **Intercompany revenues** | **197** | **28,938** | **13,316** | **–42,451** | **0** |
| Financial Result | –14,888 | –567 | 3,544 | 6 | –11,904 |
| **Financial income** | | | | | |
| Germany | 24,842 | 1,377 | 0 | 0 | 26,219 |
| International[1] | 11,956 | 121 | 0 | 0 | 12,077 |
| Corporate | 0 | 0 | 7,730 | 0 | 7,730 |
| Consolidation | 0 | 0 | 0 | –25,506 | –25,506 |
| **Group** | **36,798** | **1,498** | **7,730** | **–25,506** | **20,520** |
| **Financial expenses** | | | | | |
| Germany | –44,286 | –1,978 | 0 | 0 | –46,265 |
| International[1] | –7,400 | -86 | 0 | 0 | –7,486 |
| Corporate | 0 | 0 | –4,186 | 0 | –4,186 |
| Consolidation | 0 | 0 | 0 | 25,512 | 25,512 |
| **Group** | **–51,686** | **–2,065** | **–4,186** | **25,512** | **–32,424** |

[1] France, Great Britain, Luxembourg, Nordics

PROSECUTION

| EUR '000 | Investments | Management Services | Corporate | Consolidation | Group |
|---|---|---|---|---|---|
| EBT (IFRS) | | | | | |
| Germany | 11,541 | 43,498 | 0 | 735 | 55,774 |
| International[1] | 4,435 | 2,045 | 0 | 0 | 6.480 |
| Corporate | 0 | 0 | –22,655 | 0 | –22,655 |
| Consolidation | 0 | 0 | 0 | 0 | 0 |
| **Group** | **15,976** | **45,543** | **–22,655** | **735** | **39,599** |
| Adjustments | | | | | |
| **Germany** | **–4,047** | **2,186** | **0** | **0** | **–1,860** |
| Significant non-operating earnings | 19,110 | –2,186 | | | 16,923 |
| Market valuation income derivatives | 19,525 | 0 | | | 19,525 |
| Market valuation expenditures derivatives | -433 | 0 | | | –433 |
| Changes in the value of investment property | 17 | 0 | | | 17 |
| Fund agreement amortisation | 0 | –2,186 | | | –2,186 |
| Realised fair value | 15,063 | 0 | | | 15,063 |
| International[1] | 0 | 380 | 0 | 0 | 380 |
| Significant non-operating earnings | 0 | –380 | | | –380 |
| Valuation of fund shares | 0 | –380 | | | –380 |
| **Group** | **–4,047** | **2,566** | **0** | **0** | **–1,481** |
| Operating result (adjusted EBT) | | | | | |
| Germany | 7,495 | 45,684 | 0 | 735 | 53,914 |
| International[1] | 4,435 | 2,424 | 0 | 0 | 6.859 |
| Corporate | 0 | 0 | –22,655 | 0 | –22,655 |
| Consolidation | 0 | 0 | 0 | 0 | 0 |
| **Group** | **11,930** | **48,109** | **–22,655** | **735** | **38,119** |

[1] France, Great Britain, Luxembourg, Nordics

## 2012 (1 JANUARY – 31 DECEMBER 2012)

| EUR '000 | Investments | Management Services | Corporate | Consolidation | Group |
|---|---|---|---|---|---|
| **Germany** | | | | | |
| **External revenues** | **161,910** | **66,851** | **0** | **0** | **228,761** |
| Purchase price revenues from single unit sales | 83,772 | 0 | | | 83,772 |
| Purchase price revenues from block sales | 22,462 | 0 | | | 22,462 |
| Rental revenues | 42,742 | 0 | | | 42,742 |
| Revenues from services | 4 | 66,851 | | | 66,855 |
| Co-investments | 0 | 28,578 | | | 28,578 |
| Third parties | 4 | 38,273 | | | 38,277 |
| Other revenues | 12,929 | 0 | | | 12,929 |
| **Intercompany revenues** | **226** | **26,422** | **0** | **–26,649** | **0** |
| **International**[1] | | | | | |
| **External revenues** | **0** | **179** | **0** | **0** | **179** |
| Revenues from services | | 179 | | | 179 |
| Third parties | | 179 | | | 179 |
| **Intercompany revenues** | **0** | **859** | **0** | **0** | **859** |
| **Corporate** | | | | | |
| **External revenues** | **0** | **0** | **298** | **0** | **298** |
| **Intercompany revenues** | **0** | **0** | **8,011** | **0** | **8,011** |
| **Consolidation** | | | | | |
| **External revenues** | **0** | **0** | **0** | **0** | **0** |
| **Intercompany revenues** | **0** | **–859** | **0** | **–8,011** | **–8.869** |
| **Group** | | | | | |
| **External revenues** | **161,910** | **67,030** | **298** | **0** | **229,238** |
| Purchase price revenues from single unit sales | 83,772 | 0 | 0 | | 83,772 |
| Purchase price revenues from block sales | 22,462 | 0 | 0 | | 22,462 |
| Rental revenues | 42,742 | 0 | 2 | | 42,744 |
| Revenues from services | 4 | 67,030 | 293 | | 67,327 |
| Co-investments | 0 | 28,578 | 293 | | 28,871 |
| Third parties | 4 | 38,452 | 0 | | 38,456 |
| Other revenues | 12,929 | 0 | 3 | | 12,933 |
| **Intercompany revenues** | **226** | **26,422** | **8.011** | **–34.659** | **0** |
| **Financial Result** | –27,559 | –1,463 | 5,892 | 0 | –23,130 |
| **Financial income** | | | | | |
| Germany | 17,495 | 2,811 | 0 | 0 | 20,306 |
| International[1] | 14,902 | 0 | 0 | 0 | 14,902 |
| Corporate | 0 | 0 | 9,334 | 0 | 9,334 |
| Consolidation | 0 | 0 | 0 | –32,814 | –32,814 |
| **Group** | **32,397** | **2,811** | **9,334** | **–32,814** | **11,727** |
| **Financial expenses** | | | | | |
| Germany | –50,420 | –4,273 | 0 | 0 | –54,693 |
| International[1] | –9,536 | 0 | 0 | 0 | –9,536 |
| Corporate | 0 | 0 | –3,442 | 0 | –3,442 |
| Consolidation | 0 | 0 | 0 | 32,814 | 32,814 |
| **Group** | **–59,956** | **–4,273** | **–3,442** | **32,814** | **–34,857** |

[1] France, Great Britain, Luxembourg, Nordics

➔

PROSECUTION

| EUR '000 | Investments | Management Services | Corporate | Consolidation | Group |
|---|---|---|---|---|---|
| **EBT (IFRS)** | | | | | |
| Germany | 10,403 | 29,356 | 0 | 582 | 40,340 |
| International[1] | 5,366 | 48 | 0 | 0 | 5,413 |
| Corporate | 0 | 0 | –17,132 | 0 | –17,132 |
| Consolidation | 0 | 0 | 0 | 0 | 0 |
| **Group** | **15,768** | **29,403** | **–17,132** | **582** | **28,621** |
| **Adjustments** | | | | | |
| **Germany** | **13,303** | **1,968** | **0** | **0** | **15,271** |
| Significant non-operating earnings | 10,265 | –1,968 | | | 8,297 |
| Market valuation income derivatives | 11,028 | 0 | | | 11,028 |
| Market valuation expenditures derivatives | –781 | 0 | | | –781 |
| Changes in the value of investment property | 18 | 0 | | | 18 |
| Fund agreement amortisation | 0 | –1,968 | | | –1,968 |
| Realised fair value | 23,568 | 0 | | | 23,568 |
| International[1] | 0 | 0 | 0 | 0 | 0 |
| **Group** | **13,303** | **1,968** | **0** | **0** | **15,271** |
| **Operating result (adjusted EBT)** | | | | | |
| Germany | 23,706 | 31,324 | 0 | 582 | 55,612 |
| International[1] | 5,366 | 48 | 0 | 0 | 5,413 |
| Corporate | 0 | 0 | –17,132 | 0 | –17,132 |
| Consolidation | 0 | 0 | 0 | 0 | 0 |
| **Group** | **29,071** | **31,372** | **–17,132** | **582** | **43,892** |

[1] France, Great Britain, Luxembourg, Nordics

As a supplement to the above segment reporting, the following section details determination and calculation of EBITDA (as reported) and EBITDA (including income from participations) broken down according to “directly attributable real estate activities” and “third party and special real estate solutions” in accordance with the EPRA[1] Ground Rules is provided below. The following overview increases the transparency of the PATRIZIA Group’s allocation of earnings in light of the further expansion in our co-investments.

The column “Directly attributabale real estate activities” summarises the commitments defined as “relevant real estate activities”. The column “Third-party and special real estate business” summarises the following activities:

- Service results for third parties
- Service results for co-investments, where these concern the equity share of third parties
- Complete results of our asset management companies
- Complete results of the Property Management business function
- Complete results of the Real Estate Development business function
- Results of the structural/investment companies (e.g. holding company)

[1] European Public Real Estate Association

| EUR ’000 | Total | of which real estate activities directly attributable to PATRIZIA[1] | of which third party and special real estate solutions[2] |
|---|---|---|---|
| Revenues | 217,398 | 138,702 | 78,695 |
| Rental revenues and revenues from billing of incidental expenses | 41,443 | 41,752 | –309 |
| Sales revenues | 80,254 | 80,054 | 200 |
| Other revenues | 95,700 | 16,896 | 78,804 |
| Income from the sale of investment property | 19,133 | 19,133 | 0 |
| Changes in inventories | –36,717 | –58,092 | 21,375 |
| Other operating income | 8,064 | 3,132 | 4,932 |
| **Total operating performance** | **207,878** | **102,876** | **105,002** |
| Cost of materials | –58,314 | –39,338 | –18,976 |
| Results from fair value adjustments to investment property | 17 | 17 | 0 |
| Staff costs | –65,733 | –8,326 | –57,408 |
| Other operating expenses | –58,992 | –29,635 | –29,357 |
| **EBITDA I (as reported)** | **24,856** | **25,594** | **–739** |
| Income from participations | 32,780 | 21,012 | 11,768 |
| Pro-rata result from real estate investments | 20,479 | 21,012 | –534 |
| Other income from participations | 12,302 | 0 | 12,302 |
| **EBITDA II – incl. Income from participations** | **57,636** | **46,607** | **11,029** |
| **EBITDA-percentage** | **100.0%** | **80.9%** | **19.1%** |
| Amortisation | –6,107 | | |
| Financial result | –11,904 | | |
| Losses from currency translation | –26 | | |
| **EBT (as reported)** | **39,599** | | |

[1] Corresponds to the EPRA definition for relevant real estate activities
[2] Corresponds to the EPRA definition for activities that are not relevant real estate activities

# 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 1,400 (previous year: TEUR 1,830) 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 in connection with the payment of bonus shares of PATRIZIA Immobilien AG as well as loan receipts and redemptions to finance current and non-current assets.

As in the previous year, no cash 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. Exceptions to this are a scheme that was transferred in 2002 as part of an acquisition process and a plan which was assumed in 2007 in connection with the acquisition of a real estate portfolio. As at the balance sheet date, a total of six people had a performance-related commitment. Four of these people are retired persons who already receive ongoing pension benefits. In addition, there are performance-related pension schemes for the Managing Board in the context of a company provident fund. In this respect, the Group makes set contributions to an independent entity (fund). This pension commitment involves a risk of subsidiary liability for the Group if the fund does not have sufficient assets to pay all benefits relating to work performed by the employees in the reporting period and earlier periods. The provident fund commitment is reinsured. The commitment was granted in 2003. In 2013, a total of TEUR 55.9 (previous year: TEUR 66.9) 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 1 January 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 members of the Managing Board and members of the Executive Committee (ExCo) 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 amortisation of intangible assets (fund management contracts arising on the acquisition of PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH and of PATRIZIA UK Ltd.) into account and taking into account realised increases in fair value. This adjusted pre-tax result is reported in PATRIZIA's financial reports as operating result. Other target criteria 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. Members of the Managing Board and members of the Executive Committee 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 members of the Managing Board and members of the Executive Committee 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 aforementioned forecast consolidated profit, the members of the Managing Board and the 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 to three 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 Managing Board member 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 entitlements.

For 2013, a long-term incentive of TEUR 1,481 was established for the first and second management level. This equates to the liability posted of 130% of the maximum long-term variable compensation that can be achieved. The final calculation cannot be made until all data required for the calculation is known; this data will not be known until after the consolidated financial statements have been approved. This monetary amount is converted into performance share units at the average Xetra price 30 days prior to and after 31 December of the fiscal year in question. The cash price equivalent of the shares calculated from this is paid out at the average Xetra price 30 days prior to and after 31 December of the second/third year (vesting period).

Based on the average share price of the PATRIZIA share price 30 days before and after 31 December 2013, the average price is EUR 7.78. This corresponds to 190,258 shares. In the reporting period expenses of TEUR 2,794 (previous year: TEUR 2,135) arose for share-based compensation.

Fair value is as follows:

### COMPONENTS WITH LONG-TERM INCENTIVE EFFECT

| | Number of performance shares 2013 | Fair values 31.12.2013 EUR '000 | Number of performance shares 2012 | Fair values 31.12.2012 EUR '000 | Paid out in EUR '000 |
|---|---|---|---|---|---|
| Tranche of performance share units in the 2013 fiscal year[1] | 190,258 | 1,481 | 0 | 0 | 0 |
| Tranche of performance share units in the 2012 fiscal year | 195,347 | 1,521 | 148,990 | 932 | 0 |
| Tranche of performance share units in the 2011 fiscal year | 276,279 | 2,151 | 249,618 | 1,563 | 19 |
| Tranche of performance share units in the 2010 fiscal year | 0 | 0 | 196,439 | 1,229 | 1,229 |
| **Total** | **661,884** | **5,153** | **595,047** | **3,724** | **1,248** |

[1] Corresponds to the liability posted for 130% target achievement. Final calculation of this variable compensation and payment to the individual beneficiaries becomes possible when all data required to determine it is known. This will not be until after the 2013 consolidated financial statements have been approved.

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

### PERFORMING SHARE UNITS

| | 01.01. – 31.12.2013 | 01.01. – 31.12.2012 |
|---|---|---|
| Outstanding at the start of the reporting period | 595,047 | 561,123 |
| Granted in the reporting period | 257,403 | 189,567 |
| Correction on account of specific settlementin the reporting period | 12,422 | –57,917 |
| Paid out in the reporting period | 202,988 | 97,725 |
| **Outstanding at the end of the reporting period** | **661,884** | **595,047** |

## 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 companies 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.

PATRIZIA 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, holds a total stake of 51.62% 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.

**Share ownership by members of the PATRIZIA Executive Committee**
In addition, Johannes Altmayr, Martin Büber-Monath, Dr. Marcus Cieleback, Markus Fischer, Jürgen Kolper, Günter Loder, Andreas Menke and James Muir hold a total of 0.1% as members of the PATRIZIA Executive Committee.

**Contracts and business relationships between the Managing Board members directly and PATRIZIA**
PATRIZIA Immobilien AG and subsidiaries of PATRIZIA Immobilien AG provide various services for Mr Wolfgang Egger and for companies controlled indirectly or directly by Wolfgang Egger. In 2013, these specifically concerned real estate development services and the organisation of an architect workshop by PATRIZIA Deutschland GmbH. An amount of TEUR 49 was invoiced in this connection. All services provided satisfy customary market standards for comparative arms-length transactions.

**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, which is used by the company as its head office (Fuggerstrasse 18-24 and also Fuggerstrasse 26 in Augsburg) at a current monthly rent of TEUR 110 (previous year: TEUR 103).

**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. In 2013 consultancy costs of TEUR 0.5 (previous year: TEUR 0) 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

The following payments were granted to the members of the Managing Board in 2013:

#### SHORT-TERM COMPENSATION 2013[1]

| in EUR | Fixed compensation (Fixed salary) | Non-cash and other benefits[2] | Contribution to retirement pension | Short-term variable compensation | Total |
|---|---|---|---|---|---|
| Wolfgang Egger, Chairman | 360,000 | 21,676 | 12,000 | 306,000 | 699,676 |
| Arwed Fischer | 350,000 | 31,671 | 12,000 | 223,500 | 617,171 |
| Klaus Schmitt | 360,000 | 11,851 | 24,000 | 289,600 | 685,451 |
| **TOTAL** | **1,070,000** | **65,198** | **48,000** | **819,100** | **2,002,298** |

[1] Payment in the 2013 fiscal year
[2] The item primarily includes non-cash benefits arising from the provision of company cars and insurance premiums.

#### SHORT-TERM COMPENSATION 2012[1]

| in EUR | Fixed compensation (Fixed salary) | Non-cash and other benefits[2] | Contribution to retirement pension | Short-term variable compensation | Total |
|---|---|---|---|---|---|
| Wolfgang Egger, Chairman | 360,000 | 75,562 | 12,000 | 202,674 | 650,236 |
| Arwed Fischer | 300,000 | 37,498 | 12,000 | 219,111 | 568,609 |
| Klaus Schmitt | 300,000 | 33,399 | 24,000 | 248,125 | 605,524 |
| **TOTAL** | **960,000** | **146,459** | **48,000** | **669,910** | **1,824,369** |

[1] Payment in the 2012 fiscal year
[2] The item primarily includes non-cash benefits arising from the provision of company cars and insurance premiums.

#### VARIABLE COMPENSATION WITH A LONG-TERM INCENTIVE EFFECT

| | 2013[1] | | 2012[2] | |
|---|---|---|---|---|
| | Fair value when granted in EUR[3] | Number of performance share units[4] | Fair value when granted in EUR[5] | Number of performance share units[4] |
| Wolfgang Egger, Chairman | 153,000 | 26,906 | 101,337 | 35,541 |
| Arwed Fischer | 124,250 | 21,849 | 112,056 | 39,301 |
| Klaus Schmitt | 144,800 | 25,464 | 124,063 | 43,512 |
| **TOTAL** | **422,050** | **74,219** | **337,456** | **118,354** |

[1] Granted in the 2013 calendar year for the 2012 fiscal year once all criteria required for determining the variable compensation were known.
[2] Granted in the 2012 calendar year for the 2011 fiscal year once all criteria required for determining the variable compensation were known.
[3] Conversion to performance share units with two-year/three-year vesting period at an average price of EUR 6.255211. To be paid out in 2015/2016 at the average Xetra price 30 days before and after 31 December 2014/2015.
[4] Due to the bonus shares issued in a ratio of 10:1 in 2012 and 2013, the performance share units issued were adjusted in the same ratio in order to offset any potential dilution effect.
[5] Conversion to performance share units with two-year/three-year vesting period at an average price of EUR 3.45. To be paid out in 2014/2015 at the average Xetra price 30 days before and after 31 December 2013/2014.

**Members of the Supervisory Board of the parent company**
The following are members of the Supervisory Board:

- Dr. Theodor Seitz, Chairman, tax consultant and lawyer, Augsburg
- Harald Boberg, representative of Bankhaus Lampe KG, (Düsseldorf), Hamburg
- Manfred J. Gottschaller, director of Bayerische Handelsbank AG, Munich, retired

In the fiscal year, the Supervisory Board received fixed compensation of TEUR 100 (previous year: TEUR 100); details can be found in the following table:

The following payments were granted to the Supervisory Board in the 2013 fiscal year:

| in EUR | Fixed compensation | |
|---|---|---|
| | 2013 | 2012 |
| Dr. Theodor Seitz, Chairman | 40,000 | 40,000 |
| Harald Boberg | 30,000 | 30,000 |
| Manfred J. Gottschaller | 30,000 | 30,000 |
| TOTAL | **100,000** | **100,000** |

## 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 | |
|---|---|
| 2014 | 5,599 |
| 2015–2018 | 13,325 |
| 2019 and later | 2,549 |
| | **21,473** |

Use of our office buildings 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 seven years and results in an annual leasing expense of TEUR 1,322. Rental agreements have also been concluded for offices in other locations; they have remaining terms of between three months and ten years. The resulting obligations amount to TEUR 3,155 for 2014, TEUR 2,617 for 2015 and TEUR 2,413 for 2016.

### 9.6 EMPLOYEES

The average headcount at the Group in 2013 (excluding members of the Managing Board, including trainees) was 647 (previous year 529).

### 9.7 AUDITOR'S FEES

The expenses for the auditor recorded for the 2013 fiscal year amounted to TEUR 402 (previous year: TEUR 407) for auditing the financial statements, TEUR 32 for other auditing services (previous year: TEUR 0) and TEUR 180 (previous year: TEUR 4) for tax advisory services.

### 9.8 GERMAN CORPORATE GOVERNANCE CODE

On 16 December 2013, 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 Management Report of the company and the Group.

The Managing Board released these financial statements for forwarding to the Supervisory Board on 14 March 2014. The Supervisory Board is tasked with auditing the consolidated financial statements and announcing if it approves the consolidated financial statements.

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

The Management Report 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 Handelsgesetzbuch (HGB – German Commercial Code).

Augsburg, 14 March 2014

**Wolfgang Egger**
CEO

**Arwed Fischer**
CFO

**Klaus Schmitt**
COO

# Appendix to the Notes to the Consolidated Financial Statements

## LIST OF SHAREHOLDINGS

PATRIZIA Immobilien AG participates **directly** in the following companies:

| Name | Head office | Shareholding % | Equity EUR | Net profit/net loss for the last fiscal year EUR |
|---|---|---|---|---|
| PATRIZIA Deutschland GmbH | Augsburg | 100 | 2,058,192.85 | 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 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] | Augsburg | 100 | 2,963,776.67 | 0.00 |
| PATRIZIA Projekt 230 GmbH[1] | Augsburg | 100 | 18,656.57 | 0.00 |
| PATRIZIA Projekt 240 GmbH[1] | Augsburg | 100 | 15,582.49 | 0.00 |
| PATRIZIA Projekt 250 GmbH[1] | Augsburg | 100 | 14,837.33 | 0.00 |
| PATRIZIA Projekt 260 GmbH[1] | Augsburg | 100 | 24,040.80 | 0.00 |
| Wohnungsgesellschaft Olympia mbH | Hamburg | 100 | 114,097.72 | –11,448.07 |
| Stella Grundvermögen GmbH[1] | Augsburg | 100 | 7,538,113.38 | 0.00 |
| PATRIZIA Real Estate Corporate Finance GmbH | Augsburg | 100 | 7,704.36 | –3,137.05 |
| 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] | Augsburg | 100 | 25,000.00 | 0.00 |
| PATRIZIA Property Inc. | Wilmington, Delaware/USA | 100 | –13,404.38[2] | –3,976.37[2] |
| PATRIZIA Nordics A/S | Copenhagen | 100 | 862,311.33[3] | 905,463.08[3] |
| PATRIZIA Projekt 700 GmbH | Augsburg | 100 | 42,008.00 | –292.00 |
| PATRIZIA Projekt 710 GmbH | Augsburg | 100 | 35,597.82 | –4,951.27 |
| Carl HR Verwaltungs GmbH | Munich | 100 | 27,774.26 | 2,104.37 |
| Carl B-Immo Verwaltungs GmbH | Munich | 100 | 27,582.23 | 2,104.37 |
| Carl A-Immo Verwaltungs GmbH | Munich | 100 | 27,805.76 | 2,104.37 |
| Carl Carry Verwaltungs GmbH | Munich | 100 | 27,804.06 | 2,104.37 |
| Carl C-Immo Verwaltungs GmbH | Munich | 100 | 27,104.37 | 2,104.37 |
| Carl HR AcquiCo GmbH | Munich | 100 | 32,925.49 | 7,764.34 |
| PATRIZIA Sweden AB | Stockholm | 100 | 213,953.13[3] | 6,685.50[3] |
| Pearl AcquiCo Zwei GmbH und Co. KG | Frankfurt | 99.9 | 57,831,747.27 | 4,117,504.71 |
| PATRIZIA Real Estate Investment Management S.à r.l. | Luxembourg | 100 | 459,848.26 | 334,848.26 |
| PATRIZIA Ireland Ltd. | Dublin | 100 | –10,028.17 | 0.00 |
| PATRIZIA UK Limited | Swindon | 100 | –65,456.66[3] | 1,027.98[3] |

1 As a result of the existing control and profit transfer agreements, the results are adopted by PATRIZIA Immobilien AG.
2 Amounts from 2012
3 Provisional financial statements

PATRIZIA Immobilien AG participates **indirectly** in the following companies:

| Name | Head office | Shareholding % | Equity EUR | Net profit/net loss for the last fiscal year EUR |
|---|---|---|---|---|
| PATRIZIA European Real Estate Management GmbH | Augsburg | 100 | 491,157.29 | 466,157.29 |
| Projekt Wasserturm Verwaltungs GmbH | Augsburg | 51 | 51,500.74 | 2,148.84 |
| Alte Haide Baugesellschaft mbH | Augsburg | 100 | 8,626,043.77 | 342,508.70 |
| PATRIZIA Luxembourg S.à r.l. | Luxembourg | 100 | 142,056,381.39 | 1,248,782.68 |
| PATRIZIA Lux 10 S.à r.l. | Luxembourg | 100 | 12,137,397.65 | –15,302.18 |
| PATRIZIA Lux 20 S.à r.l. | Luxembourg | 100 | 30,299,613.38 | –40,948.12 |
| PATRIZIA Lux 30 N S.à r.l. | Luxembourg | 100 | 85,805.64 | –914.95 |
| PATRIZIA Lux 50 S.à r.l. | Luxembourg | 100 | 9,121,836.28 | –22,198,09 |
| PATRIZIA Lux 60 S.à r.l. | Luxembourg | 100 | 693,786.60 | –16,432.03 |
| PATRIZIA Real Estate 10 S.à r.l. | Luxembourg | 100 | 20,450,129.73 | 1,715,391.38 |
| PATRIZIA Real Estate 20 S.à r.l. | Luxembourg | 100 | –20,567,000.28 | 27,607,044.29 |
| PATRIZIA Real Estate 50 S.à r.l. | Luxembourg | 100 | –5,743,247.11 | –1,056,885.18 |
| PATRIZIA Real Estate 60 S.à r.l. | Luxembourg | 100 | 738,713.79 | 1,097,004.85 |
| F40 GmbH | Augsburg | 94.9 | 7,355,393.07 | –3,118,927.16 |
| PATRIZIA Projekt 380 GmbH | Augsburg | 100 | 5,800.33 | –4,375 |
| Projekt Wasserturm Grundstücks GmbH & Co. KG | Augsburg | 45.9 | –716,611.17 | –15,310.03 |
| Projekt Wasserturm Bau GmbH & Co. KG | Augsburg | 51 | –614,219.82 | 555,779.40 |
| PATRIZIA Projekt 600 GmbH | Augsburg | 100 | 5,070,059.59 | 499,245.96 |
| PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH[1] | Hamburg | 94.9 | 5,000,100.00 | 0.00 |
| LB Invest GmbH | Hamburg | 100 | 43,931.78 | –600.74 |
| PATRIZIA Facility Management GmbH[2] | Augsburg | 100 | 25,000.00 | 0.00 |
| Projekt Feuerbachstraße Verwaltung GmbH | Frankfurt | 30 | 27,734.05 | 281.92 |
| sono west Projektentwicklung GmbH & Co. KG | Frankfurt | 28.3 | 9,422,060.93[3] | –124,619.84[3] |
| PATRIZIA Fund Management A/S | Copenhagen | 100 | -90,947.44 | –157,965.28 |
| PATRIZIA Investment Management SCS | Luxembourg | 78.26 | -444,724.82 | –436,936.56 |
| PATRIZIA Investment Management COOP S.A. | Luxembourg | 100 | -7,796.42 | –7,896.42 |
| SENECA TopCo S.à r.l. | Luxembourg | 100 | 5,062,059.31 | -4,050.52 |
| PATRIZIA Capital Partners Limited | Swindon | 100 | –678,638.37[3] | –1,137,398.38[3] |
| Tamar Capital France Limited | Edinburgh | 100 | 1.20[3] | 0.00[3] |
| PATRIZIA Asset Management Limited | Edinburgh | 100 | 16,205.12[3] | –16,069.98[3] |
| PATRIZIA Financial Services Limited | Edinburgh | 100 | 203,506.29[3] | –137,035.54[3] |
| PATRIZIA France S.A.S. | Paris | 100 | 309,829.20 | 190,207.76[3] |

[1] As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 600 GmbH.
[2] As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 180 GmbH.
[3] Provisional financial statements

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

| | | | | |
|---|---|---|---|---|
| PATRIZIA Vermögensverwaltungs GmbH[1] | Augsburg | 100 | 687,583.35 | 0.00 |
| PATRIZIA WohnModul I SICAV-FIS | Luxembourg | 9.09 | 240,023,477.23[2] | –1,050,393.20[2] |

[1] As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 180 GmbH.
[2] Provisional financial statements

# Auditor's Certificate

We have audited the consolidated financial statements prepared by PATRIZIA Immobilien AG, Augsburg – comprising the consolidated balance sheet, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and consolidated notes – as well as the report on the position of the company and the Group for the fiscal year from 1 January to 31 December 2013. 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, 14 March 2014

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

**Löffler**
German Public Auditor

**Stadter**
German Public Auditor

# Responsibility Statement by the Legal Representatives of PATRIZIA Immobilien AG

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

| Wolfgang Egger | Arwed Fischer | Klaus Schmitt |
|---|---|---|
| CEO | CFO | COO |

# *Further Information*

# Consolidated Balance Sheet

## FIVE-YEAR OVERVIEW IN ACCORDANCE WITH IFRS

### ASSETS

| EUR '000 | 31.12.2013 | 31.12.2012 | 31.12.2011 | 31.12.2010 | 31.12.2009 |
|---|---|---|---|---|---|
| **A. Non-current assets** | | | | | |
| Goodwill | 610 | 610 | 610 | 0 | 0 |
| Other intangible assets | 41,904 | 43,259 | 45,227 | 0 | 0 |
| Software | 8,698 | 7,553 | 5,280 | 2,811 | 539 |
| Investment property | 229,717 | 374,104 | 532,321 | 614,945 | 657,320 |
| Equipment | 4,765 | 3,479 | 2,762 | 1,893 | 1,650 |
| Investments in joint ventures | 0 | 0 | 18 | 8 | 13 |
| Participations in associated companies | 18,295 | 15,810 | 6,809 | 0 | 0 |
| Participations | 80,074 | 18,407 | 3,134 | 3,090 | 3,090 |
| Loans | 5,814 | 0 | 0 | 0 | 0 |
| Long-term tax assets | 159 | 201 | 846 | 281 | 313 |
| **Total non-current assets** | **390,036** | **463,423** | **597,007** | **623,028** | **662,925** |
| **B. Current assets** | | | | | |
| Inventories | 309,203 | 345,920 | 407,529 | 510,438 | 676,008 |
| Securities | 96 | 60 | 1,634 | 0 | 0 |
| Short-term tax assets | 5,582 | 5,380 | 4,279 | 263 | 1,879 |
| Current receivables and other current assets | 82,262 | 98,635 | 60,007 | 10,282 | 29,428 |
| Bank balances and cash | 105,536 | 38,135 | 31,828 | 70,537 | 56,183 |
| **Total current assets** | **502,679** | **488,130** | **505,277** | **591,520** | **763,498** |
| **TOTAL ASSETS** | **892,715** | **951,553** | **1,102,284** | **1,214,548** | **1,426,423** |

EQUITY AND LIABILITIES

| EUR '000 | 31.12.2013 | 31.12.2012 | 31.12.2011 | 31.12.2010 | 31.12.2009 |
|---|---|---|---|---|---|
| **A. Equity** | | | | | |
| Share capital | 63,077 | 57,343 | 52,130 | 52,130 | 52,130 |
| Capital reserve | 204,897 | 210,644 | 215,862 | 215,862 | 215,862 |
| Retained earnings | | | | | |
| Legal reserves | 505 | 505 | 505 | 505 | 505 |
| Non-controlling shareholders | 1,398 | 1,556 | 1,563 | 832 | 877 |
| Valuation results from cash flow hedges | –31 | –469 | –1,331 | –2,372 | –6,079 |
| Currency translation difference | 500 | 0 | 0 | 0 | 0 |
| Consolidated annual profit | 104,135 | 66,808 | 41,346 | 27,775 | 21,529 |
| **Total equity** | **374,481** | **336,387** | **310,075** | **294,732** | **284,824** |
| **B. Liabilities** | | | | | |
| NON-CURRENT LIABILITIES | | | | | |
| Deferred tax liabilities | 22,933 | 23,242 | 26,314 | 9,701 | 5,516 |
| Long-term financial derivatives | 0 | 16,363 | 33,470 | 39,715 | 34,208 |
| Retirement benefit obligations | 534 | 388 | 371 | 368 | 339 |
| Long-term bank loans | 0 | 302,004 | 417,685 | 0 | 0 |
| Non-current liabilities | 80,849 | 3,417 | 2,410 | 1,202 | 259 |
| **Total non-current liabilities** | **104,316** | **345,414** | **480,250** | **50,986** | **40,322** |
| CURRENT LIABILITIES | | | | | |
| Short-term bank loans | 321,634 | 219,050 | 275,667 | 841,380 | 1,070,207 |
| Short-term financial derivatives | 2,819 | 6,069 | 233 | 363 | 8,895 |
| Other provisions | 1,719 | 1,479 | 1,092 | 666 | 580 |
| Current liabilities | 75,759 | 28,750 | 22,644 | 17,008 | 13,116 |
| Tax liabilities | 11,987 | 14,404 | 12,323 | 9,413 | 8,051 |
| Other current liabilities | 0 | 0 | 0 | 0 | 428 |
| **Total current liabilities** | **413,918** | **269,752** | **311,959** | **868,830** | **1,101,277** |
| **TOTAL EQUITY AND LIABILITIES** | **892,715** | **951,553** | **1,102,284** | **1,214,548** | **1,426,423** |

# Consolidated Income Statement

## FIVE-YEAR OVERVIEW IN ACCORDANCE WITH IFRS

| EUR '000 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Revenues | 217,398 | 229,238 | 269,007 | 339,593 | 250,888 |
| Income from the sale of investment property | 19,133 | 16,916 | 6,205 | 1,237 | 370 |
| Changes in inventories | -36,717 | -61,609 | -102,910 | -165,632 | -106,173 |
| Other operating income | 8,064 | 11,566 | 8,225 | 4,658 | 14,168 |
| **Total operating performance** | **207,878** | **196,111** | **180,527** | **179,856** | **159,253** |
| Cost of materials | -58,314 | -54,020 | -45,743 | -68,072 | -60,884 |
| Staff costs | -65,733 | -47,561 | -35,672 | -28,580 | -23,888 |
| Results from fair value adjustments to investment property | 17 | 18 | 3 | 325 | 0 |
| Other operating expenses | -58,992 | -45,268 | -40,990 | -21,376 | -17,553 |
| **EBITDA** | **24,856** | **49,280** | **58,125** | **62,153** | **56,928** |
| Amortisation of intangible assets and depreciation on property, plant and equipment | -6,107 | -4,541 | -3,494 | -904 | -824 |
| **Earnings before finance income and income taxes (EBIT)** | **18,749** | **44,739** | **54,631** | **61,249** | **56,104** |
| Income from participations | 32,122 | 6,557 | 0 | 0 | 0 |
| Earnings from companies accounted for using the equity method | 658 | 455 | 5 | -5 | 6 |
| Finance income | 20,520 | 11,727 | 8,988 | 11,494 | 12,271 |
| Finance cost | -32,424 | -34,857 | -43,718 | -61,250 | -76,342 |
| Currency result | -26 | 0 | 0 | 0 | 0 |
| **Profit/loss before income taxes** | **39,599** | **28,621** | **19,906** | **11,488** | **-7,961** |
| Income tax | -2,431 | -3,166 | -6,413 | -5,287 | -1,539 |
| **Consolidated annual profit/loss** | **37,168** | **25,455** | **13,493** | **6,201** | **-9,500** |
| | | | | | |
| Earnings per share (undiluted) in EUR | 0.59 | 0.40 | 0.24 | 0.12 | -0.18 |

# Supervisory Board

AS OF 31 DECEMBER 2013

## 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

**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**

- Deputy Chairman of the Supervisory Board of mosaiques diagnostics and therapeutics AG, Hanover

## MANFRED J. GOTTSCHALLER

**Deputy Chairman**
Member of the Supervisory Board since 2003
Director of Bayerische Handelsbank AG i. R., Munich

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

- None

# Managing Board

AS OF 31 DECEMBER 2013

## WOLFGANG EGGER

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

**Responsibilities**
Corporate Communications – Marketing – Research - Strategy & Corporate Development

**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: 1 March 2008
Appointed until: 29 February 2016

**Responsibilities**
Controlling & Accounting – Corporate Finance – Insurance – Investor Relations – IT - Procurement & Services – 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: 1 January 2006
Appointed until: 31 December 2015

**Responsibilities**
Boards and Committees – Human Resources – Legal – Management of Operating Business Fields – Organisational Development

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

- None

# Financial Calendar and Contact Details

FINANCIAL CALENDAR 2014

| | |
|---|---|
| 27 March 2014 | Financial statements 2013 |
| 8 May 2014 | Interim report for the first quarter of 2014 |
| 27 June 2014 | Annual General Meeting, Augsburg |
| 6 August 2014 | Interim report for the first half of 2014 |
| 6 November 2014 | Interim report for the first nine months of 2014 |

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This annual report was published on 27 March 2014. This is a translation of the German annual report. In case of doubt, the German version shall apply. Both versions are available on our website:
www.patrizia.ag/investor-relations/finanzberichte/geschaeftsberichte
www.patrizia.ag/en/investor-relations/financial-reports/annual-reports

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