PATRIZIA Immobilien AG
Speech by CFO Karim Bohn
at the Annual General Meeting on 20 June 2018

- Check against delivery -

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Ladies and Gentlemen,

I, too, welcome you, our shareholders, to our Annual General Meeting today.

Now that Wolfgang Egger has told you about the general business situation, our strategic direction and the acquisitions made in 2017, I will now give you an overview of PATRIZIA Immobilien AG's net assets, financial position and results of operations as the company's CFO. I am delighted to report on another thoroughly successful financial year this year.

The two most important KPIs that we use to manage our business are operating income and the real estate assets entrusted to us, which we call assets under management. Both KPIs performed positively in the 2017 financial year.

In the 2017 financial year, **operating income** amounted to EUR 82.2 million and thus substantially exceeded the forecast of EUR 60 to 75 million that we made at the start of the 2017 financial year. Operating income thus increased by 13.8% compared to the adjusted operating income of EUR 72.2 million in the previous year. In the previous year, operating income was adjusted for the effects of the Harald transaction, which had a non-recurring and significantly positive influence on the 2016 financial year's operating income of EUR 283.2 million. In this transaction, PATRIZIA acquired more than 14,000 apartments in Germany and Sweden for around EUR 900 million in 2015, and the apartments were sold already at the end of 2015 – reflected in accounting in the 2016 financial year – for around EUR 1.1 billion to buyers including Deutsche Wohnen AG.

In the same period, **assets under management** grew organically – i.e. not including the assets under management of the three acquired companies – from EUR 18.6 billion to EUR 20.8 billion. With growth of EUR 2.2 billion, the development of assets under management was slightly better than the forecast of a EUR 2.0 billion increase that we made at the start of the financial year.

The conclusion of the acquisition of Sparinvest Property Investors (SPI) in the fourth quarter of 2017 increased the assets under management by another EUR 1.1 billion, so we reported assets under management totalling EUR 21.9 billion at the end of 2017 – an increase of 17.7% compared to the previous year.

As my colleague Wolfgang Egger has already explained to you, we announced two more successful acquisitions in the fourth quarter of 2017. These acquisitions were not officially concluded and thus included in our figures until 1 January 2018 for TRIUVA and 23 March 2018 for Rockspring – accordingly, these two companies had no further influence on our business results in 2017. Due to the two acquisitions, PATRIZIA had assets under management of EUR 38.7 billion at the end of 2017, which are contractually secured but still subject to approval from the supervisory authorities. These are shown to you as a pro forma figure on the current overview slide.

After this first overview, I will now talk initially about the company's **results of operations**. **Operating income** is our most important management parameter, as it reflects PATRIZIA's operating and financial performance. Our operating income comprises two components in particular: **Fee income** from our comprehensive range of services for institutional and private customers and **return on equity employed**, primarily from co-investments, which you will find in the Group management report of the 2017 Annual Report as investment income. Both earnings contributions increased considerably in 2017 and formed the basis for the solid rise in our operating income from EUR 72.2 million in 2016 to EUR 82.2 million in the past financial year.

Fee income from the service business increased by 12.4% overall to EUR 211.9 million, after EUR 188.6 million in 2016. EUR 93.2 million of this was attributable to the steady and recurring **management service fees**, EUR 51.8 million to fees from the **transaction business** and EUR 66.9 million to **performance fees**.

While management service fees and performance fees developed very positively compared to the previous year in some cases, transaction fees were below the very strong previous year's figure, but on a par with the average of the financial years since 2012.

Return on equity employed – or investment income – also developed very well at EUR 43.9 million compared with EUR 29.7 million in 2016. Investment income includes **principal investments**, i.e. investments for the company's own account, which generate rental income as well as net gains on disposal. As part of our strategy of becoming a pure-play investment manager for third parties, this income component will become less significant in the future. It also includes **income from co-investments**, especially dividends and measurement effects from selected fund products in which PATRIZIA participates together with its institutional investors, usually with an equity interest of a single-digit percentage.

Overall, fee income now amounts to around 80% of our total income. In line with our strategy, we have thus replaced the rather volatile and risky own investments business with stable and recurring service business.

In my report on the results of operations, I would now like to give you further details on the development of our second key management parameter, **assets under management**, i.e. the real estate assets entrusted to us by institutional and private customers.

I have already told you about the change in assets under management due to organic and inorganic growth. The **organic** growth of assets under management of EUR 2.2 billion to EUR 20.8 billion last year can be explained as follows:

The increase is particularly attributable to a large number of **transactions** with a volume totalling EUR 6.0 billion – after a volume of EUR 5.1 billion in 2016. The acquisition and sale volume was increased in the 2017 financial year compared to the previous year. Acquisitions for our customers of EUR 3.5 billion were offset by sales of EUR 2.5 billion. These transactions are and will remain the main driver of assets under management's organic growth.

Moreover, the size of the **transaction volume** also reflects the competitive advantage that we can offer our institutional and private customers thanks to our local employees in the key European real estate markets – local expertise and access to the most important real estate transactions. In addition, other effects of EUR 1.2 billion had a positive influence on the development of our assets under management, including in particular positive measurement effects from the properties managed in the funds. The proportion of international real estate outside of Germany was nearly unchanged at around 30% of assets under management.

The increase of assets under management remains one of our strategic targets, as an increase in the real estate assets entrusted to us is directly associated with an increase in the stable and recurring management service fees, which makes PATRIZIA less susceptible to cyclical fluctuations.

Allow me to briefly discuss the key items on our **consolidated statement of financial position**: Our conservative figures continue to demonstrate that we are a well-financed company and a reliable business partner. Our statement of financial position and the capital structure are extremely solid.

Let's start with the **structure of the statement of financial position**: In May 2017, we successfully issued a bonded loan of EUR 300 million at a very attractive interest rate averaging 1.5% and with a long-term average maturity of around seven years. The purpose of this external financing was firstly to increase the company's financial flexibility and secondly to secure the extraordinarily low interest rates currently predominating for the long term. These conditions were made possible by the very strong structure of PATRIZIA's statement of financial position. Despite the external financing, our **net equity ratio** is virtually unchanged year-on-year at 81.1% as of the end of 2017.

At the end of 2017, we reported **cash in hand and short-term money market investments** of EUR 584.7 million. Less the bonds totalling EUR 322.0 million at the end of 2017, PATRIZIA's **net liquidity** amounts to EUR 262.7 million. In other words, the available cash in hand and short-term money market investments would allow us to pay back all financial liabilities immediately – a clear sign of the strength of our financial position. These figures already include the outflow of liquidity due to the payment of the purchase prices of two of the three acquisitions described today and for the **share buy-backs** in the 2017 financial year.

We will continue our strategy of conservative planning and a solid statement of financial position structure in the years to come. It builds trust and makes us attractive as a business partner, gives us the flexibility to react to changing market conditions and, above all, gives us a strategic advantage when it comes to taking future market opportunities. Now we've come full circle to the strategy of further expansion in rapid-changing markets described by Wolfgang Egger.

Please allow me to **digress** briefly to the topic of **share buy-backs**:

PATRIZIA announced a public **share buy-back offer** on 8 August 2017. The acceptance period ended on 7 September 2017. In the course of the share buy-back offer, the company purchased a total of 2,011,980 treasury shares at a purchase price of EUR 17.40 per share or EUR 35.0 million in total – this equated to 2.18% of the share capital. A subsequent **share buy-back programme** announced on 13 September 2017 was completed on 30 October 2017. In the course of this programme, the company purchased a total of 848,871 treasury shares at an average purchase price of EUR 17.67 per share or EUR 15.0 million in total, which equates to 0.92% of the share capital. PATRIZIA therefore bought back a total of 2,860,851 of its own shares in the year under review, equating to 3.10% of the share capital.

These share buy-backs were aimed in particular at creating an acquisition currency. This means that, especially when acquiring partner-run companies, we wanted to ensure that the sellers commit themselves to the company as new PATRIZIA employees and financially. This was achieved with lock-up agreements, which prohibit a potential sale of the PATRIZIA shares received as a purchase price payment for several years. The sellers are now just as invested as you are, dear shareholders, in the price performance of the PATRIZIA share.

We already used portions of the own shares bought back in the fourth quarter of 2017. 64,434 treasury shares worth a total of EUR 1.15 million – equating to EUR 17.82 per share - were used to pay the purchase price for Sparinvest Property Investors and transferred to the sellers.

There were therefore exactly 2,796,417 treasury shares at the end of 2017, amounting to 3.03% of the share capital.

If we subtract this number from the 92,351,476 shares **issued** as of the end of 2017, we are left with 89,555,059 **outstanding** shares at the end of 2017. Both figures can be found on the inside cover of our 2017 Annual Report.

To pre-empt a question: The number of treasury shares at the **date on which this Annual General Meeting was convened** in May 2018 was just 1,434,038 – the further decline was due to the partial purchase price payment for the Rockspring acquisition, which fell due on the conclusion of the acquisition on 23 March 2018. In this acquisition too, part of the purchase price is being paid in shares; in total, 1,362,379 treasury shares are being transferred to the seller.

Having carried out the share buy-backs I just mentioned, we ask you in **item 6 of today's agenda** for further authorisation to acquire treasury shares within the next five years. So that PATRIZIA can react quickly and flexibly – should circumstances require it or make it seem appropriate – we present you with the new authorisation for resolution today. Its scope is adapted to the current share capital and allows for the acquisition of treasury shares for all legally permitted purposes. It is an advance resolution with a term of five years. Its content largely matches the expired authorisation and is based on market standards. This also applies to the exclusion of the subscription right under certain circumstances. We are aware of the special significance of the subscription right for you, our shareholders, and assure you that we would only exclude it if we believe it to be essential for the interests of the company.

Allow me now to move onto another important topic: our **dividend strategy**.

The Managing Board of PATRIZIA Immobilien AG, in consultation with the company's Supervisory Board, has decided to propose to you, honoured shareholders, a dividend distribution for the first time since the 2007 financial year at this Annual General Meeting. At the same time, there is no longer a plan to issue bonus shares at a ratio of 10:1.

There are several reasons for the change in the dividend strategy. You may remember that bonus shares were issued, among other reasons, to preserve the company's liquidity in the years after the financial and economic crisis, to enable strategic investments such as acquisitions and co-investments and to increase the tradability of shares in PATRIZIA Immobilien AG – the so-called trading liquidity on the stock exchange. Due to the company's very successful performance, we now have – as has just been shown to you – a strong financial position with ample cash in hand. In addition, the company is well positioned on the capital market with a market capitalisation of EUR 1.7 billion and a daily trading volume of over 150,000 shares.

However, institutional investors' "income funds" for instance – these are equity funds that primarily invest in dividend-paying securities – have been unable to invest in PATRIZIA Immobilien AG shares as the company paid no dividend. We thus excluded a group of potential investors in the share.

In addition, the company's strong results show that PATRIZIA has now reached a size and above all stability at which forecast certainty with regard to future cash flows has become much greater than in previous years. In line with the strategy, more volatile investments on our own account have been replaced with stable revenue from the management of our assets under management. We would like to adjust our dividend policy accordingly.

To put it quite clearly, bonus shares were the right instrument at the right time for advancing PATRIZIA's strategic aims. By distributing a dividend, dear shareholders, we want to give you an appropriate share in the company's profits. At the same time, the company will continue to grow for as long as this creates added value for our institutional and private customers and thus benefits the company's performance and you as co-owners of PATRIZIA.

The proposed dividend of EUR 0.25 per share equates to a total distribution of EUR 23.1 million based on the shares issued. Compared to the consolidated net profit after minority interests of EUR 55.0 million in the past financial year, this equates to a distribution ratio of around 42%. We would therefore like to invest some of the after-tax profit in the company's future growth and further market opportunities.

So now we come to the **technical details**: As you read in the invitation to the Annual General Meeting, we would like to give you the option of receiving the dividend either in cash or in the form of shares in PATRIZIA Immobilien AG. In this way, we will meet the differing expectations of our shareholders. If this Annual General Meeting votes for the management's proposal in item 2 of the agenda, you will receive a letter from your custodian bank in the next few days that will allow you to exercise your dividend option during the offer period from 21 June 2018 to 9 July 2018. If you do not respond, the dividend less any taxes and levies will be paid into your custody account.

However, if you would like to reinvest your dividend entitlements in PATRIZIA, please fill out the appropriate option form and instruct your custodian bank accordingly. Shareholders who wish to exchange their dividend entitlements for shares in PATRIZIA Immobilien AG will receive the shares with a markdown of 3% on the reference price that will be set at the end of the subscription period on the basis of the average, volume-weighted share price of PATRIZIA Immobilien AG in XETRA trading on 5 July 2018. With this markdown, we wish to give you an incentive to reinvest in PATRIZIA.

In both cases, the payment of the dividend or the entry of the chosen number of shares to your custody accounts can be expected on **20 July 2018** after a settlement period required for technical reasons.

For further details, please see "Shareholders / Annual General Meetings / 2018" on our website – in addition, our Investor Relations team will be happy to answer any questions you may have.

With regard to **item 5 of today's agenda**, we request approval for the conclusion of a control and profit transfer agreement between PATRIZIA Immobilien AG and its newly founded subsidiary PATRIZIA Acquisition Holding Beta GmbH. The latter is purely a shelf company and was entered in the commercial register of the Local Court of Augsburg under HRB 32562 on 23 May 2018. Our experience from the recent acquisitions shows that an existing acquisition company that is integrated into the Group simplifies the technical execution of an acquisition process, so we would like to prepare for potential market opportunities early.

The control and profit transfer agreement includes the customary provisions for such an agreement, so mainly provisions on the management of the company and on profit transfer to PATRIZIA Immobilien AG and provisions on PATRIZIA Immobilien AG's legal obligation to compensate any losses of PATRIZIA Acquisition Holding Beta GmbH in accordance with section 302 of the German Stock Corporation Act. The intended control and profit transfer agreement serves to optimise the structure of the PATRIZIA Group for tax purposes. The intercompany agreement will take effect when PATRIZIA Acquisition Holding Beta GmbH is entered into the commercial register. Although the entry in the commercial register will only be made during the course of 2018, the obligation to transfer profits will then be effective retrospectively for the entire 2018 financial year.

As PATRIZIA Immobilien AG is the sole partner of PATRIZIA Acquisition Holding Beta GmbH, neither provisions on compensation and settlements for outside shareholders nor an evaluation of the company for the conclusion of the contract are required.

I will now say a few words on the **PATRIZIA share**: PATRIZIA Immobilien AG's share developed very positively in the 2017 financial year. Adjusted for the capital increase from company funds for the issue of bonus shares in 2017, the price rose by 35%. The unadjusted price rise was 22%.

Eight equity analysts are currently monitoring the company. The majority of experts from various banks and brokers recommend the PATRIZIA share as a buy at an average price target of currently EUR 21.62.

Our shareholder structure remains very stable. Wolfgang Egger holds a majority of 51.71% in our company. The other top 50 shareholders account for roughly 31% of the capital, 30% of which are based in Germany, 9% in Europe and 8% in the United States of America. Union Investment continues to hold major share blocks of over 3%. Private shareholders hold around 10% of our shares.

Valued Shareholders,

I am now coming to the final part of my report on PATRIZIA's net assets, financial position and results of operations before I go into the other agenda items: the **outlook for the current 2018 financial year**.

2018 will be another successful financial year for PATRIZIA. We expect operating income of between EUR 85 million and EUR 100 million, which equates to a year-on-year increase of up to 22%. This forecast is based on the assumption that we can organically increase the assets under management by another EUR 2 - 3 billion in the 2018 financial year.

In the first quarter of 2018, we already announced operating income of EUR 42.7 million – certainly an extraordinarily strong first quarter that we cannot extrapolate to subsequent quarters at the same level. Nevertheless, we feel this tailwind puts us on the right path to achieve the targets we have set for the 2018 financial year.

For the sake of completeness, I will now talk about the **separate financial statements of the parent company**, PATRIZIA Immobilien AG. PATRIZIA Immobilien AG's earnings comprise three components: the operating income of the company itself, profits and losses of the subsidiaries with which profit and loss transfer agreements exist, and dividends from subsidiaries. As of 31 December 2017, the net profit for the year amounted to EUR 270.4 million after a net loss for the year of EUR 23.1 million at the end of 2016.

The main reason for the significantly positive result is the fact that the income from the sale of the Harald portfolio in 2016 is now reflected in PATRIZIA Immobilien AG's annual financial statements for 2017 due to the merger of Group companies. The high net profit for the year therefore also reflects results from previous reporting periods.

Together with the profit carried forward from previous years of EUR 181.0 million and less the acquisition of treasury shares of EUR 46.1 million, the **unappropriated profit** amounts to EUR 405.3 million. This constitutes the company's distributable profit, the appropriation of which is to be resolved upon as item 2 of today's agenda.

Ladies and gentlemen,

The German Stock Corporation Act requires the Managing Board to inform the Annual General Meeting of the acquisition-related disclosures according to section 289a (1) and section 315a (1) of the German Commercial Code and the material features of the internal control and risk management system with regard to the accounting process. These disclosures are detailed in the company's 2017 Annual Report on pages 58 f. and 67 ff. respectively. Explanations in this regard can also be found in the Managing Board's written reports, which have been available on the PATRIZIA website since the Annual General Meeting was convened and are also laid out on the sign-up desk here at the Annual General Meeting today. So please refer to these documents.

This brings me to the end of my remarks on PATRIZIA's net assets, financial position and results of operations.

To sum up, PATRIZIA is a company with tradition and a future, which started a new chapter in the 2017 financial year with a sustainably profitable business model and with specific growth initiatives for a prosperous future with a growing income base. Starting from the excellent year 2017, we will enhance the business in the current and subsequent years and continue to increase our KPIs. In the long term, we will be successful with our business model in order to implement our vision – we intend to be the leading global partner for pan-European real estate investments. This strength is based on our employees, whose local real estate expertise helps to ensure our success on the European property markets and the global finance markets. I, too, would like to take this opportunity to offer them my sincerest thanks.

I would also like to thank you, our shareholders, for your trust. We are looking forward to continuing PATRIZIA's successful journey with you.

Before I hand back over to our chairman Dr Seitz, as a matter of form I would like to point out that we support all the statements from the podium in the following general debate.

Thank you very much for your attention.