Group management report

Group management report

Combined management report of the Company and the Group

The Group management report has been combined with the management report of PATRIZIA AG in accordance with section 315 (5) of the German Commercial Code (HGB) in conjunction with section 298 (2) HGB because the situation of PATRIZIA AG as the management and financial holding company is strongly linked with the situation of the Group. The combined management report contains all presentations of the net assets, earnings and financial situation of the Company and the Group as well as other details that are required according to German commercial law and the supplementary provisions of DRS 20. The currency denomination is EUR. Differences may occur when using rounded amounts and percentages.

1 Group fundamentals

1.1 Business model

PATRIZIA AG is a global partner for pan-European real estate investments and one of the leading independent real estate investment companies in Europe. As at 31 December 2019 814 employees (FTE) are on hand for its clients in more than 15 European real estate markets. The company is also represented in New York, Hong Kong, Seoul, Melbourne and Tokyo. PATRIZIA provides a wide range of services from asset management, portfolio management and implementation of purchase and sales transactions for almost all investment classes to alternative investments and project developments. As a result, client preferences and requirements can be met extensively and specifically. Its clients include institutional and (semi-)professional investors such as insurance firms, pension fund institutions and sovereign funds from Germany, Europe, the US and Asia in addition to private investors. PATRIZIA develops bespoke products for its clients in line with their individual return expectations, diversification objectives and risk styles.

PATRIZIA's core business is pan-European real estate investment management for institutional, (semi-)professional and private investors. PATRIZIA generates fee income for the services it performs and investment income from its co-investments and principal investments. Accordingly, the Group's activities can be broken down into the following three categories:

Funds under management

In its funds under management, PATRIZIA uses its own regulated and unregulated platforms to structure, place and manage fund assets for PATRIZIA clients. These funds are launched without any equity investment on the part of PATRIZIA. PATRIZIA generates stable, recurring income in the form of management fees for property management as well as for acquisition and disposal transactions. PATRIZIA also receives performance fees if defined individual yield targets are exceeded.

PATRIZIA has various regulated investment platforms, including German asset management companies and a regulated platform (AIFM) in each of Luxembourg, France, Denmark and the United Kingdom. The companies make investments in the various real estate sectors, with a particular focus on Europe, on behalf of their clients via the funds launched. The funds act as holding agents. The properties held by the funds typically have a planned initial holding period of between five and ten years.

Funds under management also include co-investments. PATRIZIA uses **co-investments** to participate in real estate investments with its own capital alongside that of its investors, particularly in the value-add and opportunistic segments. In addition to committing to the customer and the transaction, PATRIZIA generates fees and additional investment income. This allows PATRIZIA's shareholders to participate indirectly in the performance of an attractive European property portfolio. Co-investments accounted for EUR 6.5bn of PATRIZIA's assets under management as at 31 December 2019. PATRIZIA has invested EUR 0.1bn of its own equity in co-investments, current market values of these co-investments are significantly above the historic investment costs.

PATRIZIA's co-investments are listed in detail below:

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Name	Description	AUM EUR m	PATRIZIA equity interest
Dawonia GmbH	Around 28,000 residential properties in southern Germany	4,647.8	5.1%
WohnModul I SICAV-FIS	Residential/commercial real estate and development projects in Europe	975.3	10.1%
TRIUVA/IVG logistics	Portfolio of 13 German and four logistics properties in France and the Netherlands	463.8	2.1%
Alliance	German retail portfolio comprising approx. 60 supermarkets, discount stores ad specialist stores	201.0	5.1%
Seneca	Portfolio comprising around 80 specialist stores and supermarkets	183.5	5.1%
TRIUVA/IVG commercial	Office properties in Germany	/	11.0%
Citruz Holdings LP (UK)	Office and light industrial portfolio in the United Kingdom that was successively realised following active management and that now only contains one property	2.3	10.0%
First Street Development LTD (UK)	Inner-city development site in Manchester originally used for office, retail, hotel and residential purposes that is being realised and sold in multiple phases	/	10.0%
PATRoffice	Portfolio that is being sold with only one remaining office property	/	6.3%

Further details can be found in the capital allocation on page 51.

All in all, **funds under management** accounted for EUR 43.2bn of PATRIZIA's assets under management as at 31 December 2019 (31 December 2018: EUR 39.8bn).

Fund of funds

As one of the world's leading investment managers for real estate funds of funds in the small and mid-cap segment, PATRIZIA Multi Managers is responsible for managing fund of funds products and provides an attractive product addition for PATRIZIA's clients. Operating with a global network of partners, PATRIZIA Multi Managers invests in best-in-class real estate funds in Europe, Asia and the Americas. Assets under management (invested equity) in this fund amounted to EUR 1.2bn as at 31 December 2019 (31 December 2018: EUR 1.2bn).

Principal investments

PATRIZIA operates as an investment manager for institutional, (semi-)professional and private investors, and therefore endeavours to avoid conflicts of interest with its own investments. Principal investments, i.e. own-account transactions, relate to the company's own property portfolio, which is being downsized in line with the strategy. The company also has small residual holdings of properties for resale. Principal investments amounted to just EUR 23.5m as at 31 December 2019 and related in particular to real estate in Munich and in London, United Kingdom.

Separately from the principal investments, properties are in some individual cases temporarily consolidated at the company as interim financing for closed-end funds or as early-phase investments with the purpose of subsequent contribution to institutional funds.

Information on the earnings development of the principal investments can be found in the description of the company's results of operations in section 2.3.2.

1.2 Group strategy

PATRIZIA aims to be a leader in all real estate asset classes for its investors – in Germany and Europe. As an independent real estate company, PATRIZIA operates both for large institutional investors from all over the world and for (semi-)professional and private investors from Germany, providing extensive value added in all real estate segments. PATRIZIA aims to strengthen its position further, steadily increasing its assets under management and recurring income in future years in order to generate a long-term rise in operating income and further improve the company's stability and financial flexibility.

Expansion and extension of the European platform

In previous years, offices have been opened and teams set up in all relevant European countries in order to establish a local presence for clients. One key element of PATRIZIA's strategy is extending existing country activities and tapping into further markets in Europe. Expansion into new markets and market segments is only carried out either where other companies established on the market can be seamlessly integrated into the PATRIZIA Group or where highly qualified experts with a relevant track record can be recruited. The market is constantly monitored with a view to these kinds of additions.

Expansion of the product range

The product line is subject to targeted expansion and now covers nearly all real estate asset classes: from residential, office, retail and logistics properties to hotels and care homes. PATRIZIA's Europe-wide platform provides ideal conditions to offer investments within the legal and regulatory framework preferred by the respective investors according to their local regulations. This expertise and its wide-ranging presence in Europe have helped to establish PATRIZIA among investors as an internationally successful brand. As well as broadening its existing product range, PATRIZIA also plans to expand its business with infrastructure and debt finance products as part of its Strategy 2023.

Expansion of the national and international investor base

Relationships with investors have been and continue to be expanded worldwide. Local contacts have been established in Australia, Hong Kong, Japan, South Korea and the USA, and the European support team for institutional investors has been selectively bolstered. The existing national investor base is also being expanded further in Germany. The aim is to build up a long-term, stable client relationship as per that which PATRIZIA already enjoys with its existing predominantly German investors. There is strong demand among these investors for the range of new products as well as advice on reinvesting sales proceeds from existing investments. In the 2019 financial year, as in the previous year, around 54% of newly raised institutional equity was attributable to international investors, thereby underlining the success of the strategic international expansion.

Pioneer in technology and innovation

PATRIZIA recognized the growing influence of technology and innovation on the investment management and real estate sector at an early stage and pursues the clear strategy of taking on a pioneering role in these areas. As well as incorporating these topics in the staff line-up of the company's Management Board as at 1 January 2020, PATRIZIA has already been investing for several years in innovative technology and data analysis tools, up-and-coming technology companies and industry-wide solutions to offer customers further improvements in service.

1.3 Competitive strengths

Direct access to a broad investor base

Direct access to investors is one of PATRIZIA's strengths. It is built on the trust of clients who have maintained and deepened their 35-year-plus business relationship with PATRIZIA, and who include more than 400 institutional investors in Germany and abroad. They invest with PATRIZIA regularly and recurrently, as the company outperforms its benchmarks. In addition, PATRIZIA has been offering closed-end funds for private investors and (semi-)professional investors since 2016. As well as attractive new closed-end fund products for national investors, a fund for (semi-)professional investors that can also be subscribed to by investors outside Germany was launched in 2019 for the first time. Overall, investors entrusted PATRIZIA with new equity of EUR 3.2bn in the past financial year. PATRIZIA currently has outstanding equity commitments amounting to around EUR 2.5bn, which as at 31 December 2019 have not yet been invested in real estate or real estate portfolios.

Network established throughout Europe

Based on the long-term, trusting cooperation with its business partners and a professional, highly scalable platform, PATRIZIA's scope of activity and network covers more than 15 European real estate markets. PATRIZIA is represented in these markets by teams with long-standing and, above all, local expertise. The company's regionally and nationally established network enables it to identify and pursue attractive investment opportunities in nearly all real estate asset classes and risk profiles. As a result, PATRIZIA has direct access to current market developments and tracks virtually all transactions relevant to its investors.

Extensive real estate value chain covered

PATRIZIA's investors are offered broad services as well as specialist expertise in the various types of use and risk classes of real estate. Investors receive an "all-round package" that covers all services and the entire value chain of the investment. Of course, individual components can also be selected from this range.

Successful track record attracts further transactions

PATRIZIA's successful transactions build its reputation. In the past year alone, it signed purchases and sales with a volume of EUR 9.0bn for its clients (+32.6% year-on-year), of which EUR 7.6bn (+45.8%) was closed in 2019. Ongoing high performance fees in the 2019 financial year are testament to the track record of the real estate funds launched for institutional, (semi-)professional and private investors. The long-term value-added within a portfolio is one of the company's core strengths that pays off in the return generated for investors. However, PATRIZIA's clients and business partners also value its professional identification of opportunities in all real estate asset classes throughout Europe and its fast, smooth handling of purchases and sales.

PATRIZIA has the DNA of an investor

PATRIZIA has the DNA of an investor and also invests in conjunction with its institutional clients. Investing part of its equity has been a key element of PATRIZIA's business model since the company was founded, with its equity being selectively invested in co-investments in partnership with clients. PATRIZIA's long-standing experience and wide-ranging expertise as an investor are sought out and valued by its clients.

Reputation breeds trust

Among investors and business partners in Europe, the name PATRIZIA is synonymous with trust-based, reliable partnership and successful transactions. This reputation stems from sustainable, prudent and successful business operations. The brand and the associated trust are essential to attracting new clients and extending existing business relationships. This is why the company places great value on fostering the PATRIZIA brand and earning the trust of investors with every investment.

1.4 Group management and performance indicators

1.4.1 Corporate management by segment

At PATRIZIA, corporate management is carried out under the Management services and Investments segments. The **Management services** segment largely comprises service fee income from portfolio, asset and fund management. The **Investments** segment primarily contains the return on equity employed. Segment reporting can be found in note 7 of the notes to the consolidated financial statements.

1.4.2 Corporate management on the basis of financial performance indicators

PATRIZIA uses the following financial performance indicators for corporate management:

02

Financial performance indicators	Description
Assets under management (real estate assets)	The Group's growth is assessed on the basis of assets under management.
Operating income	Operating income is the Group's key management parameter. It is calculated as EBT in accordance with IFRS, adjusted for the non-cash effects like the measurement of investment property and unrealised currency and derivative effects, amortisation on fund management contracts, and net reorganisation income or expense. It includes changes in value on the disposal of investment property, operating income from participations (IFRS 9), other financial result and realised currency effects.

In addition, the following framework parameters are applied in Group management:

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Further framework parameters	Description
Management fees	PATRIZIA receives recurring service fees for managing the real estate assets, usually depending on the volume of assets under management or net asset value of the managed funds.
Transaction fees	PATRIZIA receives a transaction volume-related fee for purchases or sales.
Performance fees	PATRIZIA receives performance fees if defined target returns on individual investments are exceeded.
Transaction volume	The transaction volume is the sum of signed acquisitions and disposals.
Net sales revenues and co-investment income	Return on own capital employed.
Equity raised	For the various investments, equity is raised from institutional, (semi-)professional and private investors worldwide.

The development of these indicators is detailed in section 2.2.

1.4.3 Corporate management on the basis of non-financial performance indicators

For direct corporate management, PATRIZIA does not apply any non-financial performance indicators.

1.5 Non-financial statements

1.5.1 ESG Strategy

PATRIZIA's mission is to build communities and create sustainable futures by means of responsible real estate investment management. Real estate – residential, commercial or logistics – plays a crucial role in society as it serves basic human needs like housing, workspace, infrastructure for health care and transportation of goods. In all these functions real estate determines the built environment and has a large impact on the natural environment, as much as it impacts the people and communities in the surrounding. The PATRIZIA Environmental, Social and Governance (ESG) Strategy makes sure that such impact is a positive one. Based on this ambition, PATRIZIA seeks to contribute to:

- A viable and resilient ecological system focused on the preservation of natural environment;
- A society in which economic development is not at the expense of vulnerable groups or future generations;
- Good corporate governance and well-functioning markets.

PATRIZIA is committed to a vision of prudent property stewardship with the goal to enhance sustainability of the Group's assets under management. The PATRIZIA ESG Committee has instituted a systematic approach to improve the operating metrics by incorporating ESG elements along the lines of the investment process. This commitment is embodied in the Group's ESG Strategy. While the ESG Strategy and activities are overseen by the ESG Committee PATRIZIA believes that ESG considerations need to be implemented throughout the business functions to ensure responsible decision making and conscientious consideration of environmental and social impact in the best possible alignment with investors' interests. ESG integration in the investment process follows the natural life cycle of investment. PATRIZIA has formulated material ESG aspects to be assessed during acquisition to prepare the management phase. Included are economical, ecological, cultural and social, technical, and functional aspects. The outcomes are reflected in fund level and asset level business plans and hence considered in the financial evaluation of the investment.

Responsibility and monitoring

ESG is a Management Board responsibility, with the ESG Committee being set-up as one of the Group's six Executive Committees, directly reporting to the Management Board and being chaired by PATRIZIA's COO. A dedicated Sustainability Manager coordinates and initiates ESG activities throughout the business functions and a specialised Asset Management ESG Team ensures environmental and social proof procurement for asset management. The ESG Committee members are heading the various core business functions of PATRIZA to allow ESG matters to be communicated from the ESG Committee to the business functions and vice versa.

The annual UN Principles of Responsible Investment Assessment Report (UN PRI) and the Global Real Estate Sustainability Benchmark (GRESB) are used to give direction and monitor overall progress of the PATRIZIA ESG Strategy. In addition, all discretionary funds either have or are in the process of implementing fund-level Environmental Management Systems (EMS) in alignment with the international DIN ISO 14000. Minimum targets have been set on a corporate level which each fund must work towards to when setting their annual targets and objectives. Operating an EMS supports fund and asset managers to proactively manage ESG issues, formally document objectives and monitor progress on a regular basis as well as report back to the ESG and/or Fund Review Committee annually.

1.5.2 ESG Reporting

PATRIZIA's ESG Strategy aligns the real estate investment and management activities with environmental, social and governance aspects. Corporate Social Responsibility (CSR) guidelines for non-financial reporting require for the following aspects to be included in non-financial statements: 1) environment, 2) employees, 3) social, 4) human rights and 5) corruption and fraud. While all of those are covered in the Group's ESG Strategy and are based on relevant policies and processes, details are provided in the following chapters.

Environmental

PATRIZIA has implemented conscientious, environmentally responsible investment management practices to measure and monitor consumption and emission within its control and seek opportunities to utilise low carbon and renewable energy sources in an effort to reduce the Group's carbon footprint. In addition to its managed real estate portfolio PATRIZIA scrutinises its office operations aiming to improve energy and water efficiency and decrease carbon emissions.

ESG Data

PATRIZIA is striving for greater transparency in assessment of performance across non-financial or ESG metrics and linking it with the financial bottom line. On that account PATRIZIA is continuously improving its system to gather and assess environmental and social performance data and working closely with Management partners and exploring new technology solutions to continuously increase data coverage. A strong data foundation is crucial to define relevant ESG KPIs and implement such into investment practices and provide transparent reporting. The inclusion of ESG KPIs in business plans helps improving the managed real estate portfolio's energy and water efficiency and reduce waste, striving towards a more sustainable environment. PATRIZIA's interpretation of ESG data points is aligned with the GRESB definition, being the major reporting tool for ESG performance of real estate funds. In 2019 the GRESB asset data file has been integrated into PATRIZIA's reporting framework with the roll-out taking place over the year 2020. Additionally, PATRIZIA promotes placement of smart meters in order to facilitate digital data collection and get a better grip on consumption data.

Employees

PATRIZIA's clients benefit from the variety of skills, experience and characters of PATRIZIA's employees. Their qualifications and strengths form the basis for business success. Investing in the Group's people and striving to attract, retain and promote a unique and capable workforce is therefore important to the Group's further development.

PATRIZIA's People Deal endeavours to create an environment in which employees can fulfil their entire potential and in which differences are respected and acknowledged. PATRIZIA helps its employees to perform their tasks as well as possible and is proud of its partnership-based corporate culture. As an employer, PATRIZIA delegates a high degree of decision-making authority and responsibility to its employees. This gives them the scope to evolve and enhance their knowledge, experience and characters. In the process, this fosters their identification with the corporate objectives and their commitment to clients. This is what is meant by the "PATRIZIA spirit". PATRIZIA helps its employees to find the right place in one of its business units and global locations. Interesting career and development opportunities for employees create a team that makes PATRIZIA what it is – the global partner for pan-European real estate investment.

Attracting employees

In order to reinforce PATRIZIA's excellent marketing position and ensure that it is optimally positioned for the future, it is important for it to be an attractive employer that offers interesting and varied challenges for young talents and experienced specialist alike.

To reach the respective target group, PATRIZIA advertises jobs on its own website and in a targeted manner on various job portals. A presence at trade fairs (e.g. EXPO REAL and the IZ Careers Forum), universities (e.g. IREBS) and schools in Augsburg and the surrounding area and the provision of numerous internships, theses and student employee positions are further key elements of employer branding.

With its management trainee program, PATRIZIA gives graduates of real estate programmes the ideal preparation for their future tasks in the form of an in-depth, comprehensive insight into the Group. During the 18-month program, the management trainees pass through three real estate departments and one non-real estate department, always including international experience at one of PATRIZIA's European locations. In terms of content, the trainees can expect both strategic and operational tasks in which they already assume responsibility for entire projects. One particularly notable fact is that PATRIZIA only trains people with a view to meeting its own needs. To date, all trainees and students have been employed after the end of their training where this was desired by both parties. This is no longer something that can be taken for granted in many other industries and companies, and it reflects the seriousness with which PATRIZIA seeks to ensure sustainable staff retention.

Employee development

In addition to training, the targeted development of employees is promoted through:

- Regular feedback and employee development meetings
- Target agreements
- Cross-departmental interdisciplinary project work
- An attractive internal job market and transfer opportunities
- Targeted succession planning
- Management program
- Targeted individual career planning with appropriate training options
- A wide range of in-house training options in the PATRIZIA Academy

The options offered by the PATRIZIA Academy were again expanded in 2019 in order to provide employees with an attractive portfolio and to reflect the growing internationality of PATRIZIA. In 2019, the extensive international training options included classroom-based training as well as flexible online language courses. As a matter of principle, various subject-specific, methodical and soft skills training programmes are available to employees. Individual employees may also obtain external training in the form of seminars and part-time studies.

As 2019 continued to be a year of change and integration of the newly acquired companies in 2018, with newly composed teams in a pan-European matrix structure, this was accompanied by various measures such as intact team workshops, personal coaching and development on topics such as progressive management and dealing professionally with leadership challenges.

Health & well-being

PATRIZIA places great importance on the mental and physical health of its employees in an employment world that is changing and becoming digital at an increasingly rapid pace. Accordingly, employees are offered burnout prevention and mindfulness training, “active breaks”, yoga and mobile massages.

To improve employees’ work-life balance, various forms of part-time work are available at all locations. The overall level of part-time workers is 14.2%. Two of the top-five PATRIZIA countries with most employees have an above average level of part-time workers: Germany with 16.4% and the Netherlands with 14.3%.

PATRIZIA culture

An open culture of discussion is a priority for PATRIZIA, as is a regular exchange between employees that enhances the employee experience. In 2019 employee network groups were established to drive a number of cultural and working related initiatives so employees can bring their whole self to work and feel comfortable:

- Promoting a culture of inclusion & diversity
- Supporting a culture of parents and carers in the workplace
- Providing health and well-being opportunities
- Providing opportunities for networking, education & development

Culture is also promoted in a highly targeted manner through various events, e.g.:

– Employee orientation day for all new PATRIZIA staff
– "PATRIZIA Talks" events (knowledge sharing)
– Annual Employee Day
– Insights (seeing how other teams work)

Diversity and inclusion

PATRIZIA's values include innovation and diversity. The international and multicultural Group thrives on the combination of different perspectives that contribute to its long-term success. Employees are given equal opportunities regardless of race or ethnic origin, gender, religion or ideology, disability, sexual identity or age. Appointments, promotions and level of remuneration are based solely on employees' qualifications and experience. In addition, on signing their employment contract, all managers and employees are obliged to refrain from discrimination on the above grounds.

The number of employees (FTEs) was 814 as at 31 December 2019. There is a balanced age structure: just under 6% of employees are under 25 years old, approximately 25% are aged between 25 and 34, 37% are aged between 35 and 44, little over 24% are aged between 45 and 54, and a good 8% are aged 55 or above. The diversity of nationalities, cultures and languages is also a major strategic advantage for PATRIZIA. In the reporting year, the workforce had a total of 34 different nationalities.

The share of women in the workforce is 46%. The share of women in the Management Board in 2019 is 25%, while 17% of the managers in the top management team, i.e. the first management level below the Management Board, are female. Looking at the total number of managers within the Group, over 27% are female.

Social

Social responsibility has been a focus of PATRIZIA since the Group's beginnings. Investing in real estate means investing in communities; PATRIZIA aims to do both in a sustainable manner. The ESG Strategy safeguards the Group's social impact. Real estate has a great impact on socioeconomic aspects of society. PATRIZIA takes this responsibility very serious and aims to demonstrate social responsibility towards all individuals and communities which are impacted by the Group's activities. The aspiration is to manage assets in a way to create a built environment which benefits the community and fulfils its needs.

In order to find solutions to create positive social impact PATRIZIA relies on cooperation with its stakeholders and therefore stays in constant dialogue with investors, tenants, service providers and the wider communities to identify common interests.

The Group further encourages engagement with local communities through building and tenant outreach and local cooperation. The importance of ESG matters is communicated to property managers and tenants through green clauses in property management agreements and green leases. PATRIZIA's presence in all major European countries allows to support and encourage supplier responsibilities and sustainable best practices locally.

PATRIZIA Children Foundation (PCF)

A fundamental part of PATRIZIA's corporate culture is the understanding that some of the Group's success must be shared with those who are in desperate need. This is one of the core beliefs and led to the foundation of the PATRIZIA Children Foundation 20 years ago to provide education, shelter and health care to children in need.

In establishing the foundation, Wolfgang Egger created the basis for realising his desire to give children access to education. The foundation has achieved a great deal since then: So far, around 220,000 children and young adults have benefited from the foundation's facilities around the world. Looking back on this makes the foundation proud and motivates it to implement many more projects. Since it was fist established, the PCF has initiated a total of 20 children's homes, 17 projects have been completed and three are being finalised. There are currently facilities in 11 countries on four continents: Germany, Cameroon, India, Kenya, Nepal, Peru, Rwanda, South Africa, Tanzania, Uganda and Zimbabwe.

The foundation is a legally independent organisation whose work is supported by PATRIZIA: Up to 1% of the Group's operating income is spent on social projects such as the foundation. In addition to financial support, employees of the Group also have the option to dedicate 1% of their work time to charitable causes. Around two days per person per year can be used to support the PCF's goal of creating prospects for more children.

Anti-corruption and -fraud

PATRIZIA is committed to high ethical standards and expects the same from its employees and third-party service providers. Anti-corruption and -fraud laws around the world explicitly require the implementation of policies and procedures designed to ensure compliance with anti-corruption and -fraud requirements. PATRIZIA has a Code of Values and a Compliance Manual that contain extensive regulations and standards relating to anti-bribery and corruption. In addition, compliance training sessions that particularly cover these two issues have been held globally for all employees in 2018 and 2019.

Human rights

PATRIZIA is committed to respecting fundamental human rights as defined by the United Nations Universal Declaration of Human Rights and international standards of labour rights as defined by the International Labour Organisation (ILO). As a German business PATRIZIA is also examining its implementation of human rights due diligence at corporate level in relation to the German federal government's National Action Plan on Human Rights. PATRIZIA's commitment to human rights is included in the Group's Compliance Handbook as well as the UK Modern Slavery Statement and is in line with the UN Global Compact Principles.

1.5.3 UN Sustainability development goals (SDGS)

PATRIZIA's ESG Strategy and business activities are aligned with the overall goal of the UN Sustainability Development Goals (SDGs) to create a better future for all. The SDGs are a universal set of goals, targets and indicators for global development that are very important guidelines for the PATRIZIA ESG Strategy and the Group's understanding what responsible practices are. The SDGs serve as a blueprint for positively transforming today's world by ending poverty, safeguarding the planet and ensuring prosperity for all by 2030.[1]

1 UN Sustainable Development Goals, Knowledge Platform: https://sustainabledevelopment.un.org/rio20

PATRIZIA's SDGs approach

Creating investment practices and business plans linked to the goals of the SDGs, of which there are 169 subgoals, illustrates the breadth of opportunity that investing with impact offers. In an effort to support the goals set out in the SDGs PATRIZIA commits to adopt more sustainable business practices and seeks to innovate to deliver sustainable products and services. While supporting the SDGs in their entirety, PATRIZIA has identified the following SDGs as primarily relevant and closest to the Group's values and will proceed to include these in corporate and fund specific ESG strategies:

- **SDG 11 Sustainable Cities and Communities** reflects the core of real estate investment management.
- **SDG 7 Renewable Energy** and **SDG 13 Climate Action** are fundamental to create sustainable cities and communities.
- **SDG 3 Good Health** and **SDG 4 Quality Education** are primary values of corporate social responsibility.

SDG case studies:
PATRIZIA's ESG activities, derived from the objectives set in its ESG Strategy, support the SDGs and are described in the following examples:

SDG 11 Sustainable Cities and Communities

PATRIZIA invests in cities and developments to create inclusive, safe, resilient and sustainable communities.

Real estate activities | Sustainable communities | PATRIZIA launched its new flagship open-ended core pan-European residential fund Living Cities in November 2019 with EUR 650m seed assets. The fund targets residential investments including co-living, retirement and student housing. One of the two apartment developments in the fund, Green Levels in Munich's West End, enhances accessibility, connectivity and community. Residents can go to work, shop or reach other city parts in a car-free environment and make use of provided E-car and E-cycle charging stations.

Real estate activities | Sustainable developments | In Hamburg's HafenCity PATRIZIA realises new apartments on a floor area of around 27,500 square meters. The design aligns with the Baakenhafen's concept to offer accommodation for families, students, seniors and people in need of care by combining co-working, a restaurant and a piano bar to enliven the public space with a cultural program. The exhibition of the Loki Schmidt Foundation, working on the preservation of rare plants and animals, also finds its home in the house, demonstrating that there is nature in such densely populated areas as Hafencity, which is important to be conserved.

SDG 7 Renewable Energy

PATRIZIA promotes the generation of renewable and clean energy being a major pillar in the transition to a carbon free future and a milestone on the way to mitigate climate change.

Real estate activities | Green energy | Around 70% of PATRIZIA's managed portfolio is running on green energy generating savings of 50.000 tons of CO_2 per year and supporting the market for renewable energy as well as generating considerable cost reductions for tenants.[2]

2 PATRIZIA buys green energy for the general areas and unlet space. The tenants are responsible for purchasing energy for their rental space themselves

Real estate activities | Solar energy | In May 2019 PATRIZIA has acquired the Logchain Portfolio, 131,000 sqm of prime logistics space across three key locations in the Netherlands with the plan to supplement the logistic assets with solar panels to generate clean energy on site and deploy the large roof space.

SDG 13 Climate Action

PATRIZIA recognises its impact on the environment and climate change and commits to integrate climate change measures into policies and processes.

Group | carbon emissions | To kick-off Management PATRIZIA's carbon footprint, the Group has neutralised 145 tons of CO_2 emissions caused by the employees' travels to the annual employee day. PATRIZIA's off-set donation supports two projects to mitigate carbon emissions globally. PATRIZIA will follow-up on the initiative with a broader strategy to measure, reduce and provide more in-depth reporting on carbon emissions. In 2020 PATRIZIA initiates a project to measure the Group's carbon footprint, followed by a reduction strategy and to be expanded to cover the Group's assets under management.

Group | Reduction of plastic use | To reduce its environmental footprint, PATRIZIA wants to diminish plastic bottled water in its offices and replace them with glass bottles or water dispensers. The latter is the preferred option, because drinking tap water, where possible without health concerns, additionally saves the carbon emissions caused by the transport of bottled water.

SDG 3 Good Health

One main pillar of PATRIZIA's ESG Strategy is Health and Well-being. The Group aims to create a healthy work environment and promote the well-being of employees, where possible, to stimulate productivity and promote a sustainable community.

Real estate activities | Healthcare fund | PATRIZIA has launched its third healthcare fund with a focus on senior living and care properties in Germany and other European countries. The PATRIZIA Social Care Fund III has an initial target volume of EUR 300m and a long-term target of EUR 700m. The first acquisitions have already been made: four new, high-quality care homes in Germany. PATRIZIA's healthcare investments create the social infrastructure answering the needs of an aging society and provide an environment for living and care.

Group | Sports | PATRIZIA employees spend a lot of time sitting and working at the computer. To promote good posture and movement PATRIZIA provides workstation checks, modern office equipment and different complimentary sport programmes across offices.

Group | Healthy offices | To understand and manage indoor air quality in PATRIZIA offices two pilot projects in London and Augsburg in 2019 have been initiated to measure and assess air pollution and identify ways to regulate fresh air supply and help to ensure a healthier work environment.

SDG 4 Quality Education

PATRIZIA supports its employees in the maintenance of their employability and promotes their ongoing developments by continuously offering internal and external education for employees of all ages, training for apprentices and trainees and entry-level opportunities for university graduates.

Group | Training and education | 22 dual students and apprentices were employed in the following training professions at PATRIZIA as at the end of the year: Office management assistant (11), real estate agent (4), dual study course in business administration – real estate industry (6), dual study course in accounting and controlling (1). 100% of PATRIZIA employees received compliance training in 2019 to ensure ethical behaviour promoting positive impact and three “PATRIZIA Talks” took place to share knowledge, introduce innovative ideas and first and foremost create inspiration.

Real Estate Activities | Industry engagement | PATRIZIA engages closely with industry organisations and PATRIZIA employees actively participate in numerous committees and expert groups supporting real estate industry organisations and providing training courses for real estate professionals. In February 2019 PATRIZIA has been the main sponsor of the ULI Europe Conference in London and committed to support ULI’s Urban Plan Project in 2019 and for the following years.

1.5.4 UN Principles of responsible investment

The Group’s corporate governance framework is forming the foundation of PATRIZIA’s ESG efforts. Derived from there, PATRIZIA is committed to conducting business in a manner that complies with the law, meets high ethical standards and positively impacts environment and society. PATRIZIA takes its social responsibility very seriously. Transparent actions, but above all moral actions along universally human parameters such as integrity, decency, dignity and respect, form the basis of PATRIZIA’s activities.

The ESG Strategy is based on the UN PRI and in alignment with the UN Global Compact Principles. Being a signatory to UN PRI, PATRIZIA is committed to voluntarily abide by the principles of responsible investment and recognises that applying these Principles align investors with broader objectives of society. Therefore, where consistent with its fiduciary responsibilities, PATRIZIA commits to the following:

- To incorporate ESG issues into investment analysis and decision-making processes;
- To be an active owner and to incorporate ESG issues into ownership policies and practices;
- To seek appropriate disclosure on ESG issues by the entities in which PATRIZIA invests;
- To promote acceptance and implementation of the Principles within the investment industry;
- To work with the PRI Secretariat and other signatories to enhance their effectiveness in implementing the Principles;
- To report on activities and progress towards implementing the Principles.

The annual UN PRI report supports PATRIZIA in assessing the strategic and operational implementation of the ESG strategy. In 2019 the UN PRI score is A for both modules. For the generic strategy and governance module an A is in line with the median score, in the specific module on property investments PATRIZIA has outperformed the median score of B.

1.5.5 ESG Strategy integration

ESG Screening and exclusion

The PATRIZIA ESG Screening and Exclusion policy ensures alignment of the Group’s clients and shareholders money with PATRIZIA’s broader beliefs and mitigates reputational ESG risks as a first step of integrating ESG issues in the investment process. PATRIZIA excludes entering into, or continuing, any kind of business relationship or transactions with corporate entities, governments, joint ventures or individuals with clear, direct links to controversial weapons and restricts business with countries that are deemed to have serious violations on political stability and peace, human rights and religious freedoms.

ESG Integration in investment process

PATRIZIA aims to deliver the best service to its clients, provide tenants with modern and healthy building space while helping to reduce the total carbon footprint of the real estate sector. Potential acquisitions undergo a due diligence process, including the record of ESG information, to identify asset level ESG risks and opportunities prior to acquisition and appropriately address such in investment proposals and business plans. One of the main goals include undertaking investments to improve the energy-efficiency of the assets under management to better fine-tune the associated costs while protecting the environment. PATRIZIA assesses investments for natural hazard risks and governance concerns such as anti-money laundering, requiring background checks on partners to ensure any potential conflicts of interest are identified. Access to public transportation for investments in urban areas is also routinely considered and regular reviews of regulatory compliance is undertaken to ensure properties to comply with local and national laws, including sustainability standards.

Active ownership

PATRIZIA actively manages its properties under consideration of environmental performance indicators such as energy, water, waste and greenhouse gas emissions aiming to improve the ESG results of invested properties for the benefit of investors, tenants and all other stakeholders. Portfolios are regularly evaluated to identify sustainability measures and lower operating expenses, increase efficiency as well as long-term asset value. Relevant environmental indicators are integrated in fund strategies to enhance the position of assets in their markets, reduce obsolescence and promote resiliency. Additionally, the benefit of third-party green building and health and well-being certifications (e.g. LEED, BREEAM, HQE, WELL, Fitwel) is considered.

The Fund and Asset Management teams work closely together and discuss progress in execution of the ESG strategies during regular meetings. In addition, strong emphasis is put on stakeholder engagement and investigating new ways of cooperation with tenants in order to stimulate them in adopting environmentally sound practices and to positively contribute to social aspects and local communities. PATRIZIA appoints property managers who are responsible for Management compliance of operational assets. The annual GRESB results, of the participating funds, are reviewed in quarterly meetings as part of the Environmental Management System (EMS according to ISO14001).

1.5.6 ESG risk analysis

The CSR guidelines, published by the European commission suggest emphasising the following five aspects in the non-financial statements: environment, employees, social, human rights, corruption and fraud. Following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) PATRIZIA additionally assesses the risks and opportunities of climate change.

Environmental risks

PATRIZIA's assets under management pose a physical risk to the environment by contributing to global greenhouse gas emissions. To minimise such adverse impact the ESG Strategy is constantly reviewed and aligned with energy-saving measures throughout the portfolio. Environmental KPIs are integrated in decision-making and property managers as well as tenants are engaged to increase data coverage of ESG data.

To analyse the environmental impact of PATRIZIA offices an energy audit has been conducted in October 2019, revealing potential for optimisation in the German offices.

Climate change risks

Considering the long-term nature of real estate, climate change risks must be taken into account, also when they are not always visible yet. Additionally, PATRIZIA is subject to increasing regulation with regards to environmental protection and climate change mitigation. This transition risk of legislative changes is monitored closely and business partners, especially property managers, are engaged to cooperate in complying with increasing requirements and protect assets against obsolescence due to policy changes. Amongst others, the following transition risks with regards to environmental issues and climate change are monitored:

– Changing market behaviour: PATRIZIA sees the shift of demand towards sustainable and responsible investment opportunities as an opportunity to future-proof its portfolio by demonstrating responsibility towards stakeholders, the environment and communities.
– Mandates on and regulation of existing products and services: PATRIZIA secures that the property portfolio is prepared for, amongst others, required EPC (Energy Performance Certificate) levels.
– Enhanced emissions-reporting obligations: PATRIZIA is taking steps to improve the Group's abilities to report its carbon footprint.

Physical risks to the Group's assets under management resulting from severe weather conditions and events are analysed during the due diligence process at time of acquisition. Additionally, the risks of possible structural damages are assessed and appropriately insured. Potential physical risks monitored include, but are not limited to, the following:

– Higher operating costs: PATRIZIA keeps an eye on the risk of higher operating costs due to higher insurance premiums to cover risk of climate change. However, up to today no increased insurance costs attributable to environmental or climate change risks has been recorded.
– Increased capital costs: Possible higher maintenance and CAPEX costs due to damage to facilities and inadequate technical facilities to be substituted.

Risks related to employees and social risks

PATRIZIA's employees, their motivation, knowledge and skills are key to the Group's success. Fluctuation of staff and the inability to recruit suitable staff would expose the Group to the risk of losing market expertise and jeopardise its competitive advantage. Risks are mitigated by offering attractive, interesting positions with motivating remuneration schemes, including relevant training opportunities to promote professional and personal development. PATRIZIA continually strives to improve its employer quality and to align with employees' needs.

Due to the nature of PATRIZIA's business there are no material risks imposed on employees with regards to work accidents. Nevertheless, health and well-being topics such as burnout prevention, work-life balance and promoting a sportive lifestyle are taken very seriously.

Human rights risk

Due to its regional focus PATRIZIA sees no particular risk with regards to human rights. PATRIZIA expects that business partners will respect internationally recognised human rights. These include, for example, strict compliance with the prohibition on forced and child labour, as well as observation of the statutory minimum working age. Additionally, PATRIZIA has enhanced its corporate governance framework with a commitment to the UK Modern Slavery Act.

Risks resulting from corruption and fraud

PATRIZIA primarily depends on its employees respecting corporate governance and compliance standards. If PATRIZIA's policies and protocols are not enforced and employees show unlawful or unethical behaviour this could have an adverse effect on the business and PATRIZIA's reputation. Therefore, a strong system is in place to ensure the documentation, enforcement and controls of compliance rules and relevant training is provided to all employees via the PATRIZIA Academy.

In particular, PATRIZIA expects that business partners will comply with statutory prohibitions regarding bribery and corruption, as well as competition law. In particular, the Group will in no way tolerate attempts by business partners to inappropriately influence PATRIZIA employees in business dealings through gifts and other benefits. The Group will also not provide any incentives that could give business partners the impression that PATRIZIA staff is receptive to inappropriate gifts or other benefits.

2 Economic report

2.1 Economic environment

The markets in general: As was already becoming apparent at the end of 2018, economic growth in the euro area was lower in 2019 than in the previous year. The reasons for this included the trade conflict between China and the USA and the slowdown of the global economy, which resulted in lower corporate investments. In the current year, growth on a similar scale is anticipated for the euro area. The employment market in the euro area has so far remained unaffected by the weak economy. This development looks set to continue in the current year. In the past year, inflation remained below the ECB's long-term goal, and this can be expected to be the case in the current year too. The continuation of the ECB's loose monetary policy will keep encouraging a low-interest-rate environment that will remain in place for a long time still. At the time of publication of this report, it is not possible to conclusively assess the effects that the further spread of the Covid-19 virus will have on the general economic situation as well as on the markets relevant to PATRIZIA.

Real estate markets: Low interest rates, favourable financing conditions and a lack of investment alternatives dominated the European real estate investment market in 2019 and will continue to do so in 2020. Strong interest on the part of institutional investors will continue or even increase. Despite this strong interest, the transaction volume remained largely stable year-on-year at EUR 307.7bn (2018: EUR 315.2bn). This also reflects the intense competition on the European real estate investment markets, as the only limiting factor in this context is product availability. This same applies to the anticipated transaction volume this year. The high level of demand for real estate investments led to further price increases and there was yield compression again in 2019. The only exception was the retail sector, where slight yield compression could be observed due to the radical structural changes in many markets. All in all, these market conditions mean that market presence and a deep knowledge of the regional market conditions are becoming increasingly important in order to develop and successfully implement portfolio strategies.

Sources: PATRIZIA, European Commission, RCA

Structural growth market: The real estate investment management market will continue to grow in the coming years. On the one hand, an aging society is leading to further increases in capital inflows for private product providers. In addition, according to many economists, the low interest rate environment will persist for a few more years, which is why institutional investors on the look-out for returns are increasing their allocations to real estate. At the same time, large investors are increasingly looking for investment managers with a wide range of products, which leads to an ongoing consolidation in the global investment management market. Whereas in 2012 only EUR 15bn in assets under management were needed to be among the top ten real estate investment managers in Europe, by 2018 this had risen to EUR 32bn (+113%).

Sources: irei.com, Ifo Institute, German Federal Ministry for Family Affairs, Senior Citizens, Women and Youth

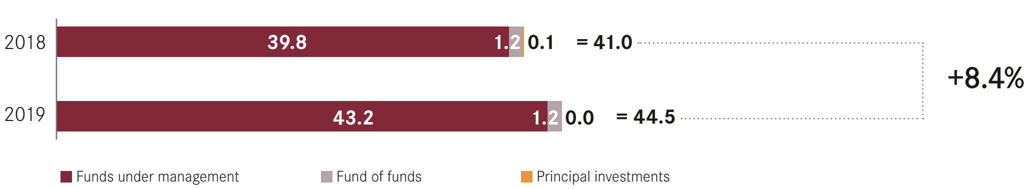
2.2 Business performance

Development of financial performance indicators

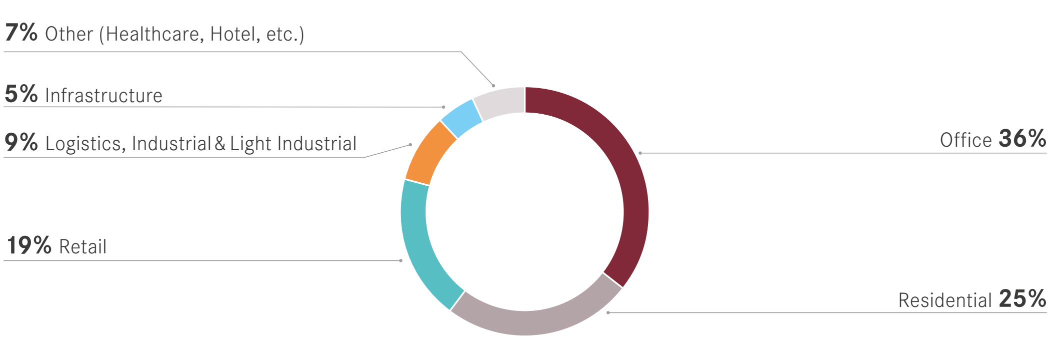
Assets under management

PATRIZIA had real estate assets under management of EUR 44.5bn as at 31 December 2019, as against EUR 41.0bn as at the end of the previous year. EUR 28.2bn of this related to Germany and EUR 16.2bn to other countries. In total, assets under management rose by EUR 3.4bn or 8.4% in the reporting period and were positively influenced mainly by organic growth and measurement effects. The goal of increasing assets under management to between EUR 44.0bn and EUR 45.0bn in 2019 was thus achieved.

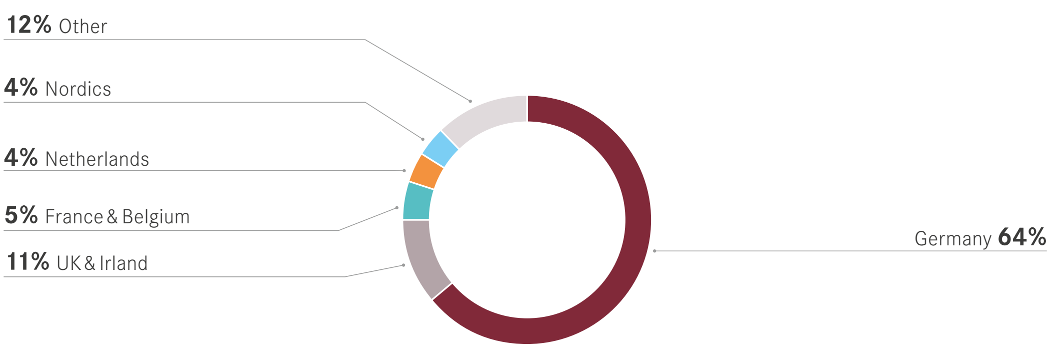
Assets under management (EUR bn) G01



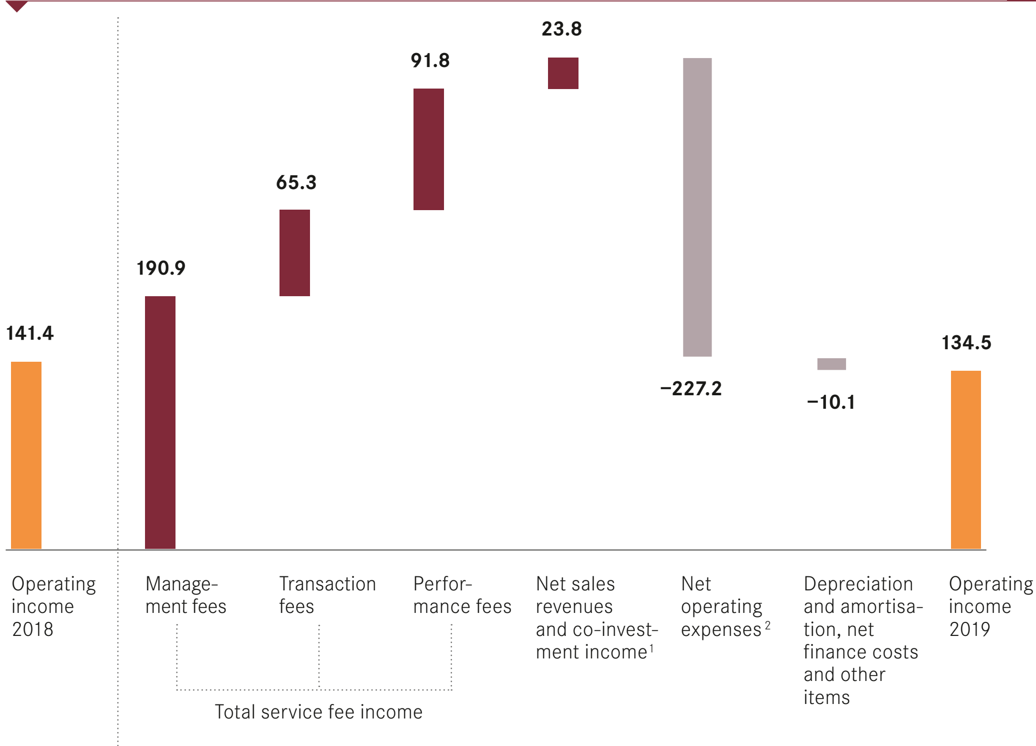
Assets under management as at 31 December 2019 – Sectoral distribution G02



Assets under management as at 31 December 2019 – Geographical distribution G03



Operating income – 2019 Composition (EUR m) G04



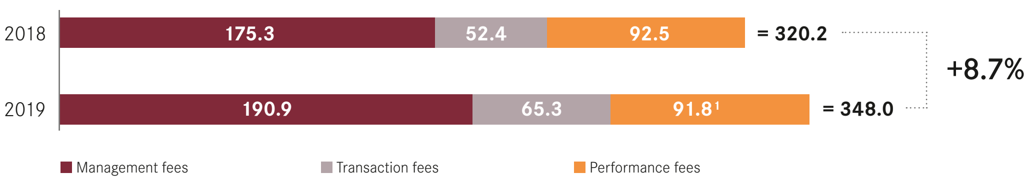
1 Including EUR 4.0m realised changes in value from the sale of investment property as well as EUR 4.9m operating income from participations (IFRS 9)
2 Inter alia netted against other operating income of EUR 14.6m

Operating income is the Group's key management parameter. It represents the total of all of the operating items in the income statement adjusted for extraordinary and non-cash effects. In the 2019 financial year, operating income of EUR 134.5m was generated, thus exceeding the forecast range of EUR 120.0m to EUR 130.0m. The quality of revenues was also significantly increased. Net sales revenues and co-investment income only contributed EUR 13.0m to earnings (2018: EUR 22.9m). Adjusted for this item, operating income rose by 2.5% year-on-year.

A detailed reconciliation of the individual components of operating income to their respective line items in the consolidated income statement in particular can be found from page 48 onwards in this report.

Development of the parameters supporting the management of the company:

Total service fee income (EUR m) G05



1 Excluding EUR 9.2m in performance fees from label funds

Total fee income increased by 8.7% to EUR 348.m in 2019 (2018: EUR 320.2m). The individual components of total service fee income are discussed below:

Management fees

All services performed by PATRIZIA are compensated in the form of fees. Management fees comprise the company's remuneration for real estate services such as asset, fund and portfolio management and are mostly recurring in nature. Management fees of EUR 190.9m were received in 2019 (2018: EUR 175.3m). This increase of 8.8% was primarily due to organic growth in assets under management. Adjusted for non-periodic effects in the amount of EUR 5.4m, the year-on-year increase came to 5.8%.

Transaction fees

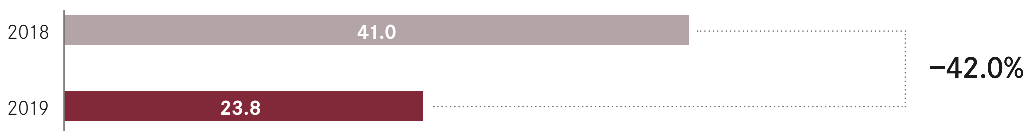
PATRIZIA receives transaction fees for the implementation of acquisition and disposal transactions. These fees amounted to EUR 65.3m in the past year (2018: EUR 52.4m; +24.8%). Acquisitions accounted for EUR 41.4m of this figure (2018: EUR 30.7m; +35.0%) and disposals for EUR 23.9m (2018: EUR 21.7m; +10.3%). In the same period, the transaction volume on the European market as a whole recorded a decline of 2.4% from EUR 315.2bn to EUR 307.7bn. This demonstrates PATRIZIA's strong deal-sourcing capabilities, which benefit its global client base.

Performance fees

PATRIZIA receives performance fees if defined target investment yields are met or exceeded. Due to the sustained positive development of the real estate assets under management by PATRIZIA, performance fees also remained at a high level of EUR 91.8m (excluding EUR 9.2m in performance fees from label funds) and were thus almost stable compared to the previous year (2018: EUR 92.5m). In the consolidated income statement, these fees are reported partly as revenues (EUR 82.8m; 2018: EUR 76.4m) and partly as income from participations (EUR 18.3m; 2018: EUR 12.4m). Revenues for the 2019 financial year include EUR 9.2m in performance fees from label funds, which are adjusted in the calculation of performance fees for the Group, as they are passed on to the label funds via the item cost of purchased services. In the 2018 financial year, operating income from participations of EUR 3.8m was also generated for the Dawonia co-investment. This was attributable to performance fees. No income of this kind was generated in 2019.

Net sales revenues and co-investment income (EUR m)

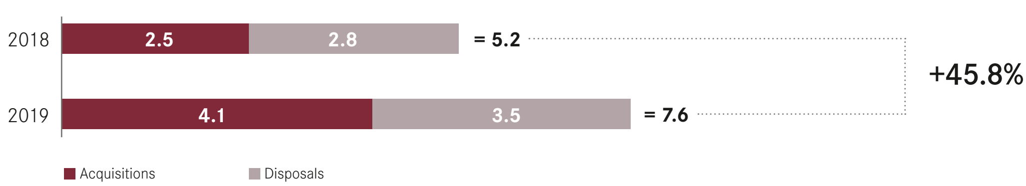
G06



In the 2019 reporting year, PATRIZIA generated net sales revenues and co-investment income of EUR 23.8m after EUR 41.0m in the same period of the previous year. This result reflects the lower revenues from the strategic sale of principal investments, which contributed EUR 13.0m to net income (2018: EUR 22.9m). Co-investments contributed EUR 10.8m (2018: EUR 18.1m).

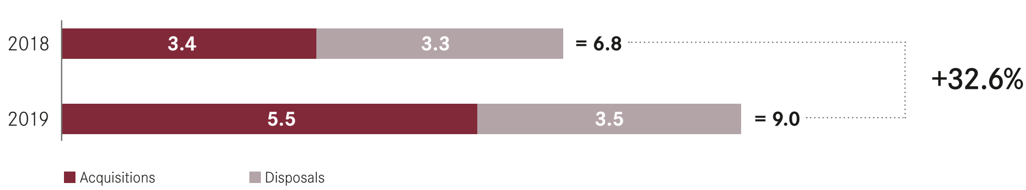
Transaction volume on the basis of closed transactions (EUR bn)

G07



Transaction volume on the basis of signed transactions (EUR bn)

G08



The transaction volume consists of the realised property acquisitions and disposals. Acquisitions closed in 2019 amounted to EUR 4.1bn (signed in 2019: EUR 5.5bn; signed in 2018: EUR 3.4bn) while disposals closed amounted to EUR 3.5bn (signed in 2019: EUR 3.5bn; signed in 2018: EUR 3.3bn). All in all, PATRIZIA closed a record volume of transactions at EUR 7.6bn, corresponding to a year-on-year increase of 45.8%.

The transactions signed in the amount of EUR 9.0bn in the 2019 financial year (2018: EUR 6.8bn, +32.6%) once again confirm PATRIZIA's solid deal-sourcing capabilities, which also benefit its global client base. The difference between signing and closing results from the fact that the transfer of ownership, benefits and obligations does not take place until the purchase price is paid. This payment is initiated as soon as certain predefined conditions have been met after the signing.

Equity raised (EUR bn) G09

In the period under review, equity of EUR 3.2bn was raised from institutional, private and (semi-)professional investors for various national and international investments, as against EUR 2.6bn in the previous year (+24.6%).

2.3 Economic situation

2.3.1 General statement by the Management Board

In the 2019 financial year, PATRIZIA again enjoyed considerable success on the European real estate markets. Its financial position and performance remained very positive, thereby providing a strong foundation for the further implementation of our strategy for the next three to five years – Strategy 2023.

The **operating income** of EUR 134.5m exceeded the forecast for 2019 of between EUR 120.0m and EUR 130.0m. In the 2018 financial year, operating income had amounted to EUR 141.4m, of which EUR 22.9m came from the strategic sale of principal investments. Adjusted for the strategic sale of principal investments, operating income rose by 2.5% year-on-year in 2019. This good result was due to organic growth throughout 2019 with a solid increase in management fees of 8.8% (adjusted for non-periodic effects: 5.8%) as against 2018 to EUR 190.9m and substantial growth in transaction fees of 24.8% to EUR 65.3m. Performance fees remained almost stable (−0.7%) at a high level of EUR 91.8m (excluding EUR 9.2m in performance fees from label funds). While total service fee income rose by 8.7% to EUR 348.0m, net operating expenses increased by only 8.1% to EUR 227.2m. Net operating expenses also included expenses of EUR 7.6m for the development and application of new technologies to equip the PATRIZIA platform for the future. Adjusted for these investments, net operating expenses increased by only 4.5% compared to the previous year.

Service fee income 04

EUR m	2019	2018	Change
Management fees	190.9	175.3	8.8%
Transaction fees	65.3	52.4	24.8%
Performance fees	91.8[1]	92.5	−0.7%
Total service fee income	**348.0**	**320.2**	**8.7%**

1 Excluding EUR 9.2m in performance fees from label funds

Assets under management increased by 8.4% year-on-year to EUR 44.5bn, partly due to acquisitions on the European real estate market for national and international clients and the acquisition of new asset management mandates.

Dividend payment

In 2019, a dividend of EUR 0.27 per share was paid in cash, an increase of 8% on the previous year. The HGB unappropriated profit in the amount of EUR 466.6m was used to pay the dividend, with the remaining amount being carried forward to new account. By way of resolution of the Annual General Meeting on 22 May 2019, a cash dividend of EUR 24.6m was paid. Based on the share of the IFRS consolidated net profit for 2018 attributable to shareholders of EUR 51.7m, this corresponded to a pay-out ratio of 48%. The dividend was paid on 27 May 2019.

2.3.2 Results of operations of the Group

PATRIZIA AG again enjoyed considerable success for its institutional, (semi-)professional and private investors in the 2019 financial year, especially on the European real estate markets. Its financial position and performance was consistently positive, thereby providing a strong foundation for the further implementation of its strategic objectives.

Operating income

Operating income is the Group's key management parameter. It is calculated as EBT in accordance with IFRS, adjusted for the non-cash effects like the measurement of investment property and unrealised currency and derivative effects, amortisation on fund management contracts, and net reorganisation income or expense. It includes changes in value on the disposal of investment property, operating income from participations (IFRS 9), other financial result and realised currency effects.

In the 2019 financial year, PATRIZIA generated operating income of EUR 134.5m, thus exceeding the forecast for 2019 of between EUR 120.0m and EUR 130.0m. In the 2018 financial year, operating income had amounted to EUR 141.4m, of which EUR 22.9m came from the strategic sale of principal investments. Adjusted for this item, operating income rose by 2.5% year-on-year in 2019. The table below shows the detailed calculation and development of operating income:

Reconciliation of operating income 05

EUR k	2019	2018	Change
EBITDA	**136,922**	**120,781**	**13.4%**
Amortisation of other intangible assets[1], software and rights of use, depreciation of property, plant and equipment	–55,562	–42,235	31.6%
EBIT	**81,360**	**78,546**	**3.6%**
Finance income/expenses	–4,015	–3,415	17.6%
Other financial result	300	0	/
Result from currency translation	–234	1,175	–119.9%
EBT	**77,411**	**76,306**	**1.4%**
Changes in value of derivatives	0	22	–100.0%
Amortisation of other intangible assets[1]	40,242	36,677	9.7%
Changes in value of investment property	791	–3,975	–119.9%
Realised changes in value of investment property (net)	3,972	8,043	–50.6%
Reorganisation result	7,961	22,318	–64.3%
Other financial result	–300	0	/
Expenses/income from unrealised currency translation	–459	–1,775	–74.1%
Operating income from participations (IFRS 9)	4,905	3,757	30.6%
Operating income	**134,523**	**141,373**	**–4.8%**

1 In particular fund management contracts transferred as part of the recent acquisitions

The increase in operating income is essentially due to the higher level of service fee income, which has become PATRIZIA's main source of income following the expansion of its investment management business. By contrast, income from the sale of remaining principal investments and the corresponding income are declining steadily in line with strategy.

The following section discusses the individual components of operating income in greater detail in the order in which they are reported in the consolidated income statement.

Consolidated income statement

Revenues and earnings 06

EUR k	2019	2018	Change
Revenues	398,703	350,628	13.7%
Total operating performance	363,611	343,740	5.8%
EBITDA	136,922	120,781	13.4%
EBIT	81,360	78,546	3.6%
EBT	77,411	76,306	1.4%
Operating income[1]	134,523	141,373	–4.8%
Consolidated net profit	**56,347**	**58,116**	**–3.0%**

1 Please see page 20 for the definition of operating income

Revenues

PATRIZIA achieved another year-on-year increase in consolidated revenues in the 2019 reporting year, from EUR 350.6m to EUR 398.7m (+13.7%). Together with the stronger strategic focus on investment management services, there was growth in revenues from management services, which account for the majority of revenues. At the same time, rental revenues declined in line with the strategic sale of principal investments.

Revenues 07

EUR k	2019	2018	Change
Revenues from management services	329,504	294,565	11.9%
Proceeds from the sale of principal investments	60,828	49,556	22.7%
Rental revenues	2,970	3,713	–20.0%
Revenues from ancillary costs	2,099	1,232	70.3%
Other	3,302	1,562	111.4%
Revenues	**398,703**	**350,628**	**13.7%**

Revenues from management services increased again in the reporting period. The corresponding revenues rose by 11.9% year-on-year from EUR 294.6m to EUR 329.5m. However, revenues alone have only limited information value; certain profit and loss items below revenues must also be taken into account in order to fully assess the Group's performance.

Taking into account the income from the Dawonia GmbH co-investment, which is reported in income from participations, **total service fee income** amounted to EUR 348.0m, up 8.7% on the previous year's figure of EUR 320.2m. As a result of the organic growth in AUM, management fees increased by 8.8% year-on-year to EUR 190.9m (2018: EUR 175.3m). Transaction fees increased significantly by 24.8% to EUR 65.3m (2018: EUR 52.4m). Performance fees remained almost stable at a high level of EUR 91.8m (excluding EUR 9.2m in performance fees from label funds) (2018: EUR 92.5m; –0.7%).

Reporting income from participations separately results in the following breakdown of total service fee income:

Reconciliation of total service fee income 08

EUR m	2019	2018	Change
Management fees (excluding income from participations)	181.4	165.8	9.4%
Transaction fees	65.3	52.4	24.8%
Performance fees (excluding income from participations, excluding operating income from participations (IFRS 9))	82.8	76.4	8.5%
Revenues from management services	**329.5**	**294.6**	11.9%
Shareholder contribution for management services (in income from participations)	9.5	9.5	0.0%
Performance fees (in income from participations)	18.3	12.4	47.2%
Operating income from participations (IFRS 9)[1]	0.0	3.8	–100.0%
Performance fees label funds	–9.2	0.0	/
Total service fee income	**348.0**	**320.2**	**8.7%**

1 Includes only the portion attributable to service fee income

Proceeds from the sale of principal investments amounted to EUR 60.8m after EUR 49.6m in the previous year and resulted from the strategic sale of principal investments. The reduction of principal investments is consistent with the stronger strategic focus on investment management services.

PATRIZIA generated **rental revenues** of EUR 3.0m in the period under review after EUR 3.7m in the 2018 financial year. The decline in comparison to the previous year mainly resulted from the strategic sale of the Company's own rental properties (principal investments).

Revenues from ancillary costs relate to rental ancillary costs and amounted to EUR 2.1m in the period under review (2018: EUR 1.2m).

Other essentially comprises transaction costs that are charged on to the corresponding investment vehicles. This item increased from EUR 1.6m in the previous year to EUR 3.3m in the 2019 financial year.

Total operating performance

Total operating performance reflects PATRIZIA's operating performance more comprehensively than revenues. Other relevant parameters, such as changes in inventories – which must be viewed in relation to proceeds from the sale of principal investments, among other things – are taken into account in total operating performance. PATRIZIA's total operating performance grew by 5.8% to EUR 363.6m in 2019 after EUR 343.7m in the previous year.

Reconciliation of total operating performance 09

EUR k	2019	2018	Change
Revenues	398,703	350,628	13.7%
Income from the sale of investment property	252	828	−69.6%
Changes in inventories	−50,535	−28,731	75.9%
Other operating income	14,607	20,698	−29.4%
Income from the deconsolidation of subsidiaries	585	317	84.3%
Total operating performance	**363,611**	**343,740**	**5.8%**

Income from the sale of investment property

PATRIZIA generated income of EUR 0.3m from the sale of investment property in the 2019 financial year after EUR 0.8m in the previous year.

Changes in inventories

Changes in inventories consist of the carrying amount of principal investments sold from inventories (−) and the capitalised cost of materials assigned to inventories (+). Changes in inventories of EUR −50.5m were reported in 2019 (2018: EUR −28.7m). The carrying amount of inventories decreased by EUR 52.8m as a result of real estate disposals (2018: EUR 31.8m, +65.9%). Inventories were increased by the capitalisation of EUR 2.3m (2018: EUR 3.1m, −26.8%), primarily relating to construction and maintenance work on principal investments.

Other operating income

Other operating income declined to EUR 14.6m (2018: EUR 20.7m) and essentially comprised income from discontinued obligations of EUR 9.7m.

Income from the deconsolidation of subsidiaries

This item primarily results from the deconsolidation of property companies, in which assets are temporarily held on the balance sheet. These are intended for placement in a closed-end fund of PATRIZIA GrundInvest KVG for private and (semi-)professional investors.

EBITDA

Reconciliation of EBITDA

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EUR k	2019	2018	Change
Total operating performance	363,611	343,740	5.8%
Cost of materials	–6,601	–11,699	–43.6%
Cost of purchased services	–28,036	–15,679	78.8%
Staff costs	–131,769	–124,954	5.5%
Change in value of investment property	–791	3,975	–119.9%
Other operating expenses	–84,718	–90,742	–6.6%
Impairment losses for trade receivables and contract assets	–429	–1,059	–59.5%
Income from participations	32,891	28,042	17.3%
Earnings from companies accounted for using the equity method	725	11,852	–93.9%
Cost from the deconsolidation of subsidiaries	0	–377	–100.0%
EBITDAR	**144,883**	**143,099**	**1.2%**
Reorganisation result	–7,961	–22,318	–64.3%
EBITDA	**136,922**	**120,781**	**13.4%**

Cost of materials

The cost of materials includes construction and maintenance work for principal investments that are typically capitalised and must be considered in conjunction with changes in inventories. The cost of materials declined by 43.6% year-on-year from EUR 11.7m to EUR 6.6m.

Costs for purchased services

In particular, the cost of purchased services comprises the purchase of fund management services for the label funds for which PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH is the service asset management company. To improve the presentation of performance, transaction costs which are incurred to generate revenue and can generally be charged on have also been included in this item since 2018. This and the forwarding of performance fees totalling EUR 9.2m to label funds, combined with the increase in real estate assets under management at label funds, caused the cost of purchased services to rise by 78.8% to EUR 28.0m (2018: EUR 15.7m).

Staff costs

PATRIZIA employed a total of 814 full-time equivalents (FTE) as at 31 December 2019, compared to 804 in the previous year.

Staff costs 11

EUR k	2019	2018	Change
Fixed salaries	70,555	71,860	−1.8%
Variable salaries	37,193	32,861	13.2%
Social security contributions	15,943	14,862	7.3%
Sales commission	1,801	2,124	−15.2%
Effect of long-term variable remuneration [1]	833	−628	−232.8%
Other	5,444	3,875	40.5%
Total	**131,769**	**124,954**	**5.5%**

1 Changes in value of long-term variable remuneration due to change in the company's share price For further details, see the remuneration report in section 3.2

In total, staff costs increased by 5.5% to EUR 131.8m in the 2019 financial year (2018: EUR 125.0m). While fixed salaries were stable year-on-year at EUR 70.6m (2018: EUR 71.9m), variable salaries increased by 13.2% as against the previous year to EUR 37.2m. This increase was attributable to the recognition of one-time retention bonuses of EUR 3.0m and a one-time bonus for the strategic sale of principal investments in the amount of EUR 1.1m. Adjusted for these factors, variable salaries remained stable.

As a result of the lower level of sales activity in individual privatisation, sales commission declined from EUR 2.1m to EUR 1.8m. In line with the performance of PATRIZIA AG's shares, the measurement of long-term variable remuneration resulted in expense of EUR 0.8m in the reporting period after income of EUR 0.6m in the 2018 financial year. Other staff costs primarily include benefits in kind. Further details on long-term variable remuneration can be found in the remuneration report in section 3.2.

Changes in value of investment property

This item contains the result of the annual revaluation of investment property. Changes in the value of investment property amounted to EUR −0.8m (expense) in the 2019 financial year after EUR 4.0m (income) in the previous year.

Other operating expenses

Other operating expenses decreased by 6.6% to EUR 84.7m in 2019 after EUR 90.7m in the previous year. This item breaks down as follows:

Other operating expenses 12

EUR k	2019	2018[1]	Change
Tax, legal, other advisory and financial statement fees	26,146	19,498	34.1%
IT and communication costs and cost of office supplies	15,979	12,946	23.4%
Rent, ancillary costs and cleaning costs	2,707	11,092	–75.6%
Other taxes	6,969	10,466	–33.4%
Vehicle and travel expenses	7,075	6,642	6.5%
Advertising costs	5,890	5,700	3.3%
Recruitment and training costs and cost of temporary workers	4,779	4,217	13.3%
Contributions, fees and insurance costs	3,721	3,789	–1.8%
Commission and other sales costs	1,981	2,622	–24.4%
Costs of management services	513	847	–39.4%
Indemnity/reimbursement	846	1,203	–29.7%
Other	8,110	11,720	–30.8%
Total	**84,718**	**90,742**	**–6.6%**

1 Previous year's figures were restated in line with the new table structure in the year under review

Other operating expenses

Tax, legal, other advisory and financial statement fees in the amount of EUR 26.1m (2018: EUR 19.5m) inter alia include:

- follow-up costs from warranty performance management for former project developments in the amount of EUR 3.2m,
- expenses for the first-time testing, acquisition and application of new technologies in the amount of EUR 2.1m,
- follow-up costs for the purchase of a portfolio and for the acquisition of TRIUVA totalling EUR 0.6m as well as
- transaction costs of EUR 0.5m in connection with the acquisition of KENZO.

In 2018, transaction costs amounted to EUR 1.9m and mainly comprised costs for the acquisitions of TRIUVA and Rockspring.

The decrease in rent, ancillary costs and cleaning costs of 75.6% year-on-year was due to the first-time application of IFRS 16.

Impairment losses for trade receivables and contract assets

This item includes impairment losses for other trade receivables and other assets in the amount of EUR 0.4m (2018: EUR 0.6m). In 2018, impairment losses for trade receivables and contract assets with clients were also incurred in the amount of EUR –0.5m.

Income from participations and earnings from companies accounted for using the equity method

PATRIZIA generated income from participations of EUR 32.9m in 2019 (2018: EUR 28.0m, +17.3%). This increase was mainly due to higher performance fees from the Dawonia co-investment. Investment income totalling EUR 31.0m was received for the Dawonia co-investment (2018: EUR 25.1m).

The co-investments Harald (EUR 0.8m; 2018: EUR 1.2m), Aviemore and Citruz (EUR 0.5m; 2018: EUR 1.1m), Seneca (EUR 0.4m; 2018: EUR 0.5m) and the TRIUVA co-investments (EUR 0.2m; 2018: EUR 0.3m) also contributed to income from participations.

Earnings from companies accounted for using the equity method, which primarily contain the co-investment WohnModul I SICAV-FIS and the investment in EVANA AG, generated EUR 0.7m (2018: EUR 11.9m). The year-on-year decrease is due to lower income from the Wohnmodul co-investment. Overall, income from participations and earnings from companies accounted for using the equity method represent the investment income from co-investments and, for Dawonia GmbH, management and performance fees as well.

Income from participations 13

EUR k	2019	2018	Change
Dawonia GmbH	30,967	25,063	23.6%
Harald-Portfolio	777	1,153	−32.6%
Co-investments in the UK (Aviemore and Citruz)	516	1,065	−51.6%
Seneca	438	500	−12.4%
TRIUVA	183	255	−28.4%
Closed-end funds business	12	6	90.7%
Income from participations	**32,891**	**28,042**	**17.3%**
Earnings from companies accounted for using the equity method	**725**	**11,852**	**−93.9%**
Total	**33,616**	**39,894**	**−15.7%**

Net reorganisation expenses

Net reorganisation expenses amounted to EUR 8.0m in 2019 and included expenses of EUR 10.3m that mainly consisted of additions to provisions as part of the integration of TRIUVA and Rockspring (2018: EUR 22.3m). Income from reorganisation amounted to EUR 2.3m (2018: EUR 0.0m).

Consolidated net profit

In the 2019 financial year, PATRIZIA's consolidated net profit decreased slightly to EUR 56.3m (2018: EUR 58.1m; −3.0%), primarily due to a negative result from currency translation and higher income taxes.

Reconciliation of consolidated net profit 14

EUR k	2019	2018	Change
EBITDA	**136,922**	**120,781**	**13.4%**
Amortisation of other intangible assets[1], software and rights of use, depreciation of property, plant and equipment	−55,562	−42,235	31.6%
Earnings before interest and taxes (EBIT)	**81,360**	**78,546**	**3.6%**
Finance income	2,096	3,021	−30.6%
Financial expenses	−6,111	−6,436	−5.0%
Other financial result	300	0	/
Result from currency translation	−234	1,175	−119.9%
Net finance costs	**−3,950**	**−2,240**	**76.3%**
Earnings before taxes (EBT)	**77,411**	**76,306**	**1.4%**
Income taxes	−21,064	−18,190	15.8%
Consolidated net profit	**56,347**	**58,116**	**−3.0%**

1 In particular fund management contracts transferred as part of the recent acquisitions

The following section discusses the relevant items of the reconciliation of consolidated net profit.

Amortisation of other intangible assets, software and rights of use, depreciation of property, plant and equipment

Amortisation of other intangible assets, software and rights of use, depreciation of property, plant and equipment increased to EUR 55.6m (2018: EUR 42.2m; +31.6%) and chiefly consisted of amortisation of fund management contracts (see note 4.1.2 or 6.11 in the notes to the consolidated financial statements for further information) and licences of EUR 40.2m (2018: EUR 36.7m), amortisation of rights of use of EUR 9.9m (2018: EUR 0) arising in connection with the first-time application of IFRS 16, and amortisation of software and depreciation of operating and office equipment of EUR 5.4m (2018: EUR 5.6m). The statement of changes in fixed assets is discussed in detail in note 4 of the notes to the consolidated financial statements.

Net finance costs

Financial income fell to EUR 2.1m after EUR 3.0m in the previous year (−30.6%), and essentially resulted from the discounting of long-term payment obligations, shareholder loans to co-investments, interest on late purchase price payments and interest refunds from the tax office. Financial income was offset by financial expenses of EUR 6.1m (2018: EUR 6.4m, −5.0%), including in particular interest for bonded loans, interest accrued on retirement benefit obligations, and interest expenses for business taxes. “Other financial result” includes income from the write-up in connection with the remeasurement of financial assets in accordance with IFRS 9.

Result from currency translation

The result from currency translation amounted to EUR −0.2m as at 31 December 2019 (2018: EUR 1.2m). It is composed of realised currency effects of EUR −0.7m (2018: EUR −0.6m) and unrealised currency effects of EUR 0.5m (2018: EUR 1.8m).

Income taxes

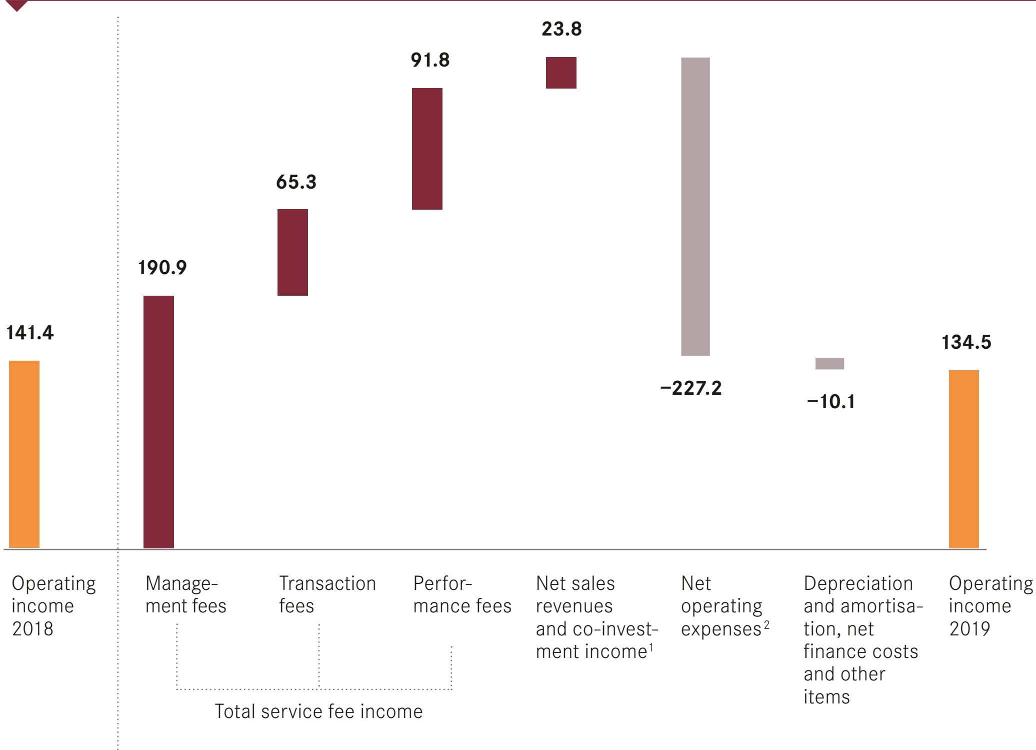
Tax expenses amounted to EUR 21.1m in the 2019 financial year after EUR 18.2m in the previous year (+15.8%).

Detailed reconciliation to operating income

The individual components of operating income and their respective line items, in particular within the consolidated income statement, are explained below.

Operating income – 2019 Composition (EUR m)

G10



1 Including EUR 4.0m realised changes in value from the sale of investment property as well as EUR 4.9m operating income from participations (IFRS 9)
2 Inter alia netted against other operating income of EUR 14.6m

The **management fees** of EUR 190.9m are predominantly derived from “Revenues from management services”, which includes EUR 181.4m in management fees (excluding income from participations). In addition, there are management services provided as a shareholder contribution for Dawonia in the amount of EUR 9.5m, which is included in “Income from participations” (see page 41).

Transaction fees of EUR 65.3m are also included in “Revenues from management services”, as shown in the overview of service fee income on page 41.

Like management fees, **performance fees** of EUR 91.8m derive partly from “Revenues from management services” and partly from “Income from participations”. The breakdown was as follows in 2019: EUR 82.8m in performance fees (excluding income from participations) and a performance-based shareholder contribution of EUR 18.3m included in “Income from participations”. Performance fees from label funds in the amount of EUR −9.2m are deducted (see page 41).

These three fee streams add up to **total service fee income** of EUR 348.0m.

Net sales revenues and co-investment income of EUR 23.8m consists of the following items: “Proceeds from the sale of principal investments” of EUR 60.8m (page 39) plus “Changes in inventories” of EUR −50.5m and “Costs of materials” of EUR −6.6m (page 78); also “Rental revenues” of EUR 3.0m “Revenues from ancillary costs” of EUR 2.1m (page 41), and “Income from the sale of investment property” of EUR 0.3m (page 78). Finally “Realised changes in the value of investment property” (net) of EUR 4.0m were also included in the calculation (page 39) – bringing the total to EUR 13.0m. The net income from co-investments contributes a total of EUR 5.8m and results from “Earnings from companies accounted for using the equity method” of EUR 0.7m and the remaining EUR 5.1m of “Income from participations” (page 78). In addition, “Operating income from participations (IFRS 9)” in the amount of EUR 4.9m is taken into account (see also page 39).

Net operating expenses of EUR 227.2m include staff costs of EUR 131.8m (page 78) and the following non-staff operating costs and other income items of EUR 95.4m in total: “Other operating expenses” of EUR 84.7m, “Cost of purchased services” in a net amount of EUR 18.8m (expense according to income statement of EUR 28.0m less EUR 9.2m from charging on performance fees for label funds, which does not affect net operating expenses) and “Impairment on trade receivables and contract assets” of EUR 0.4m. Offsetting income items consist of “Other operating income” of EUR 14.6m, “Income from the deconsolidation of subsidiaries” of EUR 0.6m (all page 78) and other revenues of EUR 3.3m (page 41). An amount of EUR 9.9m from amortisation of rights of use (page 47) from the item “Amortisation of other intangible assets, software and rights of use, depreciation of property, plant and equipment” is also included here as an item that increases expense.

Depreciation and amortisation, financial result and other items of EUR −10.1m includes “Amortisation of software and depreciation of operating and office equipment and other” in the amount of EUR −5.4m (page 143) as well as “Financial income” of EUR 2.1m and “Financial expenses” of EUR −6.1m (page 143). The “Result from currency translation” (EUR −0.2m) is adjusted for the expense/income from unrealised currency translation (EUR −0.5m) and thus included in the calculation in the amount of EUR −0.7m. Reorganisation expenses of EUR 10.3m, income from reorganisation (EUR 2.4m) (both page 78), the positive “Other financial result” (EUR 0.3m) and “Amortisation of fund management contracts and licences” of EUR 40.2m are also included in this item, but are neutralised (page 143).

2.3.3 Financial position of the PATRIZIA Group

PATRIZIA's key asset and financial data at a glance 15

EUR k	31.12.2019	31.12.2018	Change
Total assets	1,987,080	1,778,446	11.7%
Equity (excl. non-controlling interests)	1,206,391	1,143,106	5.5%
Equity ratio	**60.7%**	**64.3%**	**–3.6PP**
Cash and cash equivalents	449,084	330,598	35.8%
+ Term deposits	185,000	208,000	–11.1%
+ Securities	1,000	3,000	–66.4%
- Bank loans	–93,194	0	/
- Bonded loans	–300,000	–300,000	0.0%
= Net cash (+)/net debt (-)	241,891	241,598	0.1%
Net equity ratio [1]	**75.7%**	**77.3%**	**–1.6PP**

1 Net equity ratio: Equity (excl. non-controlling interests) divided by total net assets (total assets less liabilities covered by cash in hand)
PP = Percentage points

Total assets

The Group's total assets grew to EUR 2.0bn after EUR 1.8bn as at 31 December 2018, particularly due to the significantly positive cash flow of the previous year and the associated increase in cash and cash equivalents, as well as the temporary consolidation of properties for closed-end funds business.

Equity

Equity (excluding non-controlling interests) increased by 5.5% from EUR 1.1bn to EUR 1.2bn as at the end of 2019. This growth was partly due to the remeasurement of participations and performance fee claims in accordance with the accounting standard IFRS 9, which increased equity by EUR 29.2m year-on-year. In addition, the share of the consolidated net profit attributable to the shareholders of the parent company less the dividend payment to the shareholders had a positive impact on equity. Please see the statement of changes in equity for further information on changes in equity. The year-on-year decrease in the equity ratio is due to the temporary consolidation of properties on the company's own balance sheet and to the first-time application of IFRS 16. The former are intended for placement in a closed-end fund of PATRIZIA GrundInvest KVG for private and (semi-) professional investors.

Investment property and inventories

PATRIZIA's property assets grew by 44.1% in the reporting period, from EUR 79.8m as at 31 December 2018 to EUR 115.0m as at 31 December 2019. This increase was entirely attributable to a temporary rise in inventories to EUR 113.2m (31 December 2018: EUR 71.5m). This item contains real estate only temporarily held for subsequent contribution to a fund product for private and (semi-)professional investors (EUR 91.6m). By contrast, investment property declined in line with the strategy from EUR 8.3m as at 31 December 2018 to EUR 1.8m at the end of 2019.

Investment property and inventory

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EUR k	31.12.2019	31.12.2018	Change
Inventories	113,208	71,534	58.3%
Investment property	1,835	8,308	–77.9%
Real estate assets	**115,043**	**79,842**	**44.1%**

An overview of all PATRIZIA's participations, assets under management and invested capital can be found in the following table.

PATRIZIA's capital allocation as at 31 December 2019

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	Assets under management EUR m	Invested capital (fair value) EUR m	Invested capital (at cost) EUR m	Participations in %
Third-party business	**37,956.8**	**0.0**		
Co-investments	**6,473.7**	**510.4**	**124.9**	
Residential	**5,623.1**	**492.1**	**108.8**	
Dawonia GmbH	4,647.8	152.0[1]	51.7	5.1
Dawonia performance fee claims		283.0[1]	0.0	0.1
WohnModul I SICAV-FIS	975.3	57.0	57.0	10.1
Other		0.1	0.1	0.0
Commercial Germany	**848.3**	**16.9**	**14.3**	
Alliance	201.0	5.6[1]	5.2	5.1
Seneca	183.5	6.0[1]	4.9	5.1
PATRoffice	/	0.5[1]	0.2	6.3
TRIUVA/IVG logistics	463.8	4.0[1]	3.4	2.1
TRIUVA/IVG commercial	/	0.8[1]	0.7	11.0
Commercial international	**2.3**	**1.4**	**1.8**	
Citruz Holdings LP (UK)	2.3	0.0[1]	0.4	10.0
First Street Development LTD (UK)	/	1.4	1.4	10.0
Principal investments	**23.5**	**23.5**		
Other balance sheet items		**365.5[2]**		
Tied-up investment capital	**44,454.0**	**899.4**		
Available liquidity		607.0		
Total investment capital	**44,454.0**	**1,506.4**		
of which debt (bonded loans)		300.0		
of which equity PATRIZIA (excl. non-controlling interests)		1,206.4		

1 After deduction of deferred taxes from the valuation according to IFRS 9
2 Including goodwill and fund management contracts

Capital structure

Financial liabilities

The Group's financial liabilities increased from EUR 300.0m as at 31 December 2018 to EUR 393.2m as at 31 December 2019. The bonded loan of EUR 300.0m raised in 2017 consists of three tranches of five, seven and ten years, and bears interest at both fixed and floating rates averaging 1.5% p.a. This bonded loan is recognised under non-current liabilities. The short-term bank loans of EUR 93.2m relate to temporary interim financing for properties of PATRIZIA GrundInvest KVG (closed-end funds business).

Financial liabilities developed as follows as against the end of 2018:

Financial liabilities 18

EUR k	31.12.2019	31.12.2018	Change
Non-current bonded loans	300,000	300,000	0.0%
Short-term bank loans	93,194	0	/
Total financial liabilities	**393,194**	**300,000**	**31.1%**

A detailed maturity profile of the liabilities can be found in note 5.4 of the notes to the consolidated financial statements.

Liquidity

PATRIZIA has available liquidity of EUR 607.0m as at 31 December 2019 compared to EUR 506.9m at the end of 2018.

Liquidity 19

EUR k	31.12.2019	31.12.2018
Cash and cash equivalents	449,084	330,598
Term deposits	185,000	208,000
Securities	1,000	3,000
Liquidity	**635,084**	**541,598**
- Regulatory reserve for asset management companies	−22,266	−26,185
- Transaction related liabilities and blocked cash	−5,469	−8,466
- Liquidity in closed-end funds business property companies	−388	−61
= Available liquidity	**606,961**	**506,886**

Liquidity amounts to EUR 635.1m in total (31 December 2018: EUR 541.6m). However, PATRIZIA cannot freely access this amount. A total of EUR 186.0m is invested in securities and deposits with a withdrawal notice period of more than three months. In addition, the acquisition of a property for closed-end funds business gave rise to transaction-related liabilities, EUR 5.5m of which were not yet due as at the end of the reporting period. Furthermore, cash and cash equivalents of EUR 22.3m in total must be permanently retained for asset management companies and closed-end funds in order to comply with the relevant regulatory requirements. Accordingly, PATRIZIA has directly available cash funds of EUR 607.0m (31 December 2018: EUR 506.9m).

Consolidated cash flow statement

Cash flow from operating activities amounted to EUR 56.6m in the year under review after a cash outflow of EUR 53.3m in 2018.

The cash flow from operating activities (operating cash flow) may reflect certain distortions from year to year due to the regulatory and temporary inclusion of the closed-end investment KGs of PATRIZIA GrundInvest KVG mbH (closed-end funds business). The purchase of properties for subsequent placement as part of the closed-end funds business reduces the operating cash flow as an addition to inventories. From the Group's point of view, these properties are accounted for as inventories, as these recur in the context of the deconsolidation of closed-end investment companies when investors join. The financing of this measure is included in the cash flow from financing activities. When the corresponding companies are added to/removed from the Group, the operating cash flow is not affected.

Due to the fact that these items are apportioned to the various cash flow positions, these – in total cash-neutral business transactions – resulted in a burden on the operating cash flow of EUR 27.5m in 2019 (2018: EUR 70.7m). If the cash flow from operating activities is adjusted for this effect, it would have shown a cash inflow of EUR 84.1m in the 2019 financial year (2018: EUR 17.4m).

In addition, it should be noted that at the end of 2018 the Group recognised a not inconsiderable portion of the fees earned and received in 2018 (mainly from performance fees) within profit or loss. These fees thus had a positive effect on the consolidated net profit in 2018, but did not increase the operating cash flow until 2019 (when paid).

Cash flow from investing/divesting activities led to a cash inflow of EUR 42.1m in the year under review (2018: outflow of EUR 0.8m) and was mainly influenced by proceeds from disposals of participations and by the reclassification of term deposits with a term of more than three months. The assets and liabilities for the Living Cities Residential Fund, which still had a significant negative impact on cash flow from investing/divesting activities in the third quarter of 2019, were deconsolidated again as expected in the fourth quarter of 2019.

In addition, there was **cash flow from financing activities** of EUR 17.8m after EUR 2.1m in the previous year. The most important elements of the company's financing activities in 2019 included borrowings and repayments of various loans, including for the above-mentioned transaction for the short-term consolidation of properties for closed-end funds business in the amount of EUR 93.2m and the dividend distribution of EUR 24.6m to the shareholders of PATRIZIA AG. Principal and interest payments relating to lease liabilities (IFRS 16) were also recognised in the cash flow from financing activities for the time in the period under review.

Accordingly, the change in **cash and cash equivalents** amounted to EUR 116.5m (2018: EUR –52.1m), meaning that cash and cash equivalents increased from EUR 330.6m at the end of 2018 to EUR 449.1m as at 31 December 2019.

Abridged consolidated statement of cash flow, for the period from 1 January to 31 December 2019 20

EUR k	2019	2018
Cash flow from operating activities	56,620	−53,347
Cash flow from investing/divesting activities	42,106	−779
Cash flow from financing activities	17,771	2,050
Change in cash and cash equivalents	116,496	−52,077
Cash and cash equivalents as at 01.01.	330,598	382,675
Cash and cash equivalents as at 31.12.	449,084	330,598

2.3.4 Notes to the HGB annual financial statements of PATRIZIA AG (holding company)

The situation at the parent company PATRIZIA AG is largely determined by the activities of the Group's operating companies.

As the financial and management holding company for these operating companies, PATRIZIA AG generated **revenues** of EUR 22.4m (2018: EUR 20.9m; 7.1%), essentially in the form of management fees charged to the subsidiaries. **Other own work capitalised and other operating income** declined to EUR 3.9m in 2019 (2018: EUR 11.3m). In the previous year, higher book profits from disposals of financial assets (EUR 3.0m) and higher income from unrealised price fluctuations (EUR 2.0m) were shown.

The **cost of materials** rose to EUR 0.3m. **Staff costs** increased by 2.8% to EUR 30.0m (2018: EUR 29.1m). This corresponds to the annual wage adjustment. **Depreciation, amortisation and write-downs and other operating expenses** recorded an increase of 14.8% to EUR 57.8m (2018: EUR 50.4m), chiefly due to higher IT and software costs and expenses from unrealised price fluctuations. **Income from participations, financial assets, profit transfers and loss absorption** increased to EUR 148.7m (2018: EUR 126.0m). This increase essentially results from higher income from profit transfers. At EUR 8.0m, **net interest expense** was slightly higher than in the previous year (2018: EUR 7.4m). This was primarily on account of lower interest income from affiliated companies.

This resulted in an HGB **net profit** for the past year of EUR 58.7m (2018: EUR 58.0m) at PATRIZIA AG. Together with the profit carried forward of EUR 442.0m this makes up the company's unappropriated profit. This **unappropriated profit** increased from EUR 466.6m in 2018 to EUR 500.8m in 2019.

PATRIZIA AG is expected to enjoy positive development in the 2020 financial year. Further information can be found in the Group forecast (note 5).

Abridged consolidated balance sheet of PATRIZIA AG 21

EUR k	31.12.2019	31.12.2018
Fixed assets	670,368	688,337
Current assets	710,055	612,722
Prepaid expenses	2,516	1,082
Total assets	**1,382,939**	**1,302,141**
Equity	775,630	741,495
Provisions	29,667	35,415
Liabilities	577,642	525,232
Total equity and liabilities	**1,382,939**	**1,302,141**

Abridged income statement of PATRIZIA AG 22

EUR k	2019	2018	Change
Revenues	22,351	20,872	7.1%
Other own work capitalised and other operating income	3,868	11,298	−65.8%
Cost of materials (cost of purchased services)	−349	−10	3,249.9%
Staff costs	−29,960	−29,131	2.8%
Depreciation, amortisation and write-downs and other operating expenses	−57,804	−50,373	14.8%
Income from participations profit transfers and loss absorption	148,716	126,023	18.0%
Net interest expense	−8,030	−7,438	9.5%
Taxes	−20,081	−13,212	52.0%
Net profit for the year	**58,711**	**58,028**	**1.0%**
Profit carried forward	442,042	430,108	7.8%
Purchase of treasury shares	0	−21,517	0.0%
Unappropriated profit	**500,754**	**466,619**	**7.3%**

3 Other disclosures

3.1 Acquisition-related disclosures

All of the arrangements are consistent with the standards for capital market-oriented German companies.

Composition of share capital, share classes

The company's share capital amounts to EUR 92,351,476.00, divided into 92,351,476 shares. These are no-par value bearer shares; there are no other share classes. The company held 1,291,845 treasury shares as at 31 December 2019.

Restrictions on voting rights and the transfer of shares

Each share grants the holder one vote. There are no restrictions on the voting rights or the transfer of shares (with the exception of individual shares transferred to third parties by PATRIZIA AG in connection with company acquisitions with the condition that they may not be sold within a defined lock-up period). The Management Board is not aware of any corresponding shareholder agreements. Treasury shares do not entitle the company to voting rights.

Direct or indirect interest in the Company's share capital of more than ten percent

As at 31 December 2018, Wolfgang Egger, CEO of PATRIZIA AG, held an interest in the company's share capital totalling 51.81% via First Capital Partner GmbH, in which he directly and indirectly holds a 100% equity interest 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.

Controls in respect of voting rights for shares held by employees

There are no controls in respect of voting rights.

Appointment and dismissal of members of the Management Board, amendments to the Articles of Association

The appointment and dismissal of members of the Management Board is governed by section 84 of the German Stock Corporation Act (AktG) and supplemented by Article 6 of the Articles of Association of PATRIZIA AG. Amendments to the Articles of Association are made in accordance with section 179 et seq. AktG in conjunction with Articles 16 and 21 of the Articles of Association. This makes use of the option granted by law of specifying a different capital majority.

Authorisation of the Management Board to issue and buy back shares

By resolution of the Annual General Meeting on 20 June 2018, the Management Board was authorised to purchase shares of the company amounting to up to 10% of the then existing share capital up to and including 19 June 2023; this corresponds to 9,235,147 shares. The authorisation may be exercised in whole or in part, on one or more occasions and in pursuit of one or more objectives by the company and its Group companies or by third parties acting on behalf of the company and its Group companies. The Management Board is free to choose whether to purchase the shares on the stock exchange, by means of a public purchase offer extended to all of the company's shareholders, by means of a public invitation to sell or through the use of derivatives. The purchased shares may be subsequently used for all legally permissible purposes; in particular, they may be withdrawn, sold in exchange for cash or non-cash contributions or used to meet subscription or conversion rights.

By resolution of the Annual General Meeting on 16 June 2016, the Management Board of the company was also authorised, with the approval of the Supervisory Board, to increase the share capital by a total of up to EUR 37,000,000.00 by issuing new no-par value bearer shares in exchange for cash and/or non-cash contributions on one or more occasions up to and including 15 June 2021 (Authorised Capital 2016/I). The Management Board is authorised, with the approval of the Supervisory Board, to disapply shareholders' statutory pre-emption rights in certain cases. The full authorisation derives from Article 4 (3) of the Articles of Association.

The Annual General Meeting on 16 June 2016 also authorised the Management Board, with the approval of the Supervisory Board, to increase the share capital by a total of up to EUR 1,000,000.00 by issuing new no-par value bearer shares to be granted to employees of PATRIZIA AG and its affiliated companies in exchange for cash contributions on one or more occasions up to and including 15 June 2021 (Authorised Capital 2016/II). The full authorisation derives from Article 4 (3a) of the Articles of Association.

Furthermore, the Management Board is authorised, with the approval of the Supervisory Board, to issue convertible bonds, bonds with warrants, profit participation certificates, participating bonds or combinations of these instruments, dated or undated, of a nominal amount of up to EUR 950,000,000, and to grant the creditors or bearers of bonds conversion or option rights to shares in the company of a pro rata amount of share capital of up to EUR 41,800,000 in accordance with the terms and conditions of the respective convertible bonds, bonds with warrants, profit participation certificates or participating bonds on one or more occasions by 15 June 2021. Details can be found in Article 4 (4) of the Articles of Association.

Significant agreements by the Company contingent upon a change of control following a takeover bid

There are no agreements contingent upon a change of control following a takeover bid.

Compensation agreements between the Company and members of the Management Board or employees in the event of a takeover bid

There are no compensation agreements with the members of the Management Board or employees in the event of a takeover bid.

3.2 Remuneration report

The remuneration report details the principles of the remuneration system for the Management Board and Supervisory Board of PATRIZIA AG and discloses the amount of the payments made to the individual members of the Management Board and Supervisory Board for the 2019 financial year. The remuneration report takes into account all statutory provisions and complies with the recommendations of the German Corporate Governance Code with the caveat that there is no cap on the amount of the variable remuneration component.

Remuneration of the Management Board

The remuneration system for the Management Board was adopted by resolution of the Annual General Meeting on 23 June 2010. The amount and structure of the remuneration paid to the members of the Management Board is defined and regularly reviewed by the Supervisory Board. The remuneration paid to the members of the Management Board is based on their area of responsibility, the personal performance of the individual members and the Management Board as a whole, and the economic and financial position and success of PATRIZIA. The remuneration paid to the members of the Management Board is appropriate, performance-based and consistent with market conditions. It is composed of performance-related and non-performance-related components with a short-term and long-term incentive effect. There are no change of control clauses.

Non-performance-related remuneration

Non-performance-related remuneration components are the fixed remuneration, which is paid as a monthly salary, pension contributions and benefits in kind and other benefits, which primarily comprise the amounts permitted to be recognised under tax law for insurance premiums and the use of a company car.

Performance-related remuneration

As a matter of principle, the performance-related variable remuneration components are calculated on the basis of the qualitative and quantitative targets defined at the start of the financial year. Three categories are defined: company targets, divisional targets and individual targets. The amount of variable remuneration depends on the degree to which the predefined targets are achieved, missed or exceeded.

The primary criterion for the achievement of the company targets is operating income, which is the Group's key management parameter. Every year, a specific quantitative target for the consolidated operating income to be achieved is defined on the basis of company planning. If operating income falls below 67% of the defined target, the members of the Management Board receive no variable remuneration irrespective of which other targets, i.e. company, divisional or individual targets, are achieved. Further criteria for the achievement of the company targets are the development of PATRIZIA's share price relative to the FTSE EPRA Nareit Developed Europe Index (50% weighted) and the STOXX EUROPE 600 FINANCIAL SERVICES INDEX (50% weighted) over a two-year period and the cost coverage ratio, the target for which is determined on the basis of company planning.

The figure defined for each target corresponds to a target attainment level of 100%. If the actual amount is 120% or more of the defined target, 150% of the variable remuneration is paid out; this also represents the defined cap for the maximum payable variable remuneration. In the event of target attainment of up to 80%, 50% of the variable remuneration is paid out (floor).

Short-term and long-term variable remuneration components

A variable remuneration amount is calculated for each predefined individual target based on the degree of target attainment. The total of all of these amounts is paid out in two components. Two-thirds of the amount is paid out in the next financial year, which is designated as a short-term component. The remaining one-third of the variable remuneration is paid out in the form of performing share units, i.e. not paid out directly. This is designated as a component with long-term incentive effect. Performing share units are virtual shares that entitle the beneficiaries to receive a monetary amount at the end of a defined performance period. Since the start of the 2014 financial year, PATRIZIA has defined this performance period as three years for all Management Board members. The performing share units do not carry any voting or dividend rights. The variable remuneration component with long-term incentive effect is initially converted into performing share units at the average Xetra trading price for PATRIZIA's shares 30 days before and 30 days after 31 December of the respective financial year. The cash price equivalent of the shares calculated in this manner is paid out at the average Xetra trading price 30 days before and after 31 December of the third year following the respective financial year, i.e. after the end of the holding period. This serves to tie the variable remuneration component with long-term incentive effect to the company's share price performance. No cap has been defined for the fair value on the payment date.

Individual components as a proportion of the total remuneration of the Management Board

Assuming the company, divisional and individual targets for the respective year are met in full (100%), this results in the following approximate remuneration structure for the fair value on the grant date: The non-performance-related remuneration components account for around 36% of the total remuneration paid to Mr Egger, Mr Schmitt and Ms Kavanagh. Short-term variable remuneration payable immediately accounts for a further 43%. The long-term remuneration component in the form of performing share units accounts for around 21% of the total remuneration. The ratio for Mr Bohn is 41%/39%/20%.

Total remuneration for the 2019 financial year

The total remuneration granted to the members of the Management Board for the 2019 financial year amounted to EUR 5.5m (2018: EUR 5.4m[1]). Some of this amount was not yet paid out. The figure for 2019 contains 62,468 performing share units granted to the members of the Management Board whose cash value equivalent will be paid out in the 2023 financia l year (71,247 for the 2018 financial year, payment in 2022). The total remuneration paid out to the members of the Management Board in the year under review amounted to EUR 4.5m (2018: EUR 4.4m).

The overview below corresponds to the model tables recommended in the German Corporate Governance Code, broken down into benefits granted to the members of the Management Board for the financial year but not yet paid out in full and benefits actually paid out.

1 Excludes the one-time sign-on bonus of EUR 496k received by Anne Kavanagh in 2018

The individual members of the Management Board were granted the following remuneration for the respective financial year:

Remuneration granted Wolfgang Egger, CEO
Appointed: 21.08.2002
Appointed until: 30.06.2021

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EUR k	2018	2019	2019 (min)	2019 (max)
Fixed remuneration	420	420	420	420
Fringe benefits	1[1]	0	0	0
Total	**421**	**420**	**420**	**420**
One-time sign-on bonus	0	0	0	0
One-year variable remuneration	642[2]	650[3]	0	750[4]
Performing share units tranche 2020–2022	0	325[3]	0	375[4]
Performing share units tranche 2019–2021	321[2]	0	0	0
Total	**1,383**	**1,395**	**420**	**1,545**
Service cost	12	12	12	12
Total remuneration	**1,395**	**1,407**	**432**	**1,557**

1 This item primarily contains non-cash benefits for insurance premiums and the use of a company car
2 Granted in the 2019 calendar year for 2018 once all of the necessary criteria for determining variable remuneration were known
3 Corresponds to the liability recognised for monetary target attainment of 130% (exact amount to be determined in the course of settlement)
4 Corresponds to the maximum achievable variable remuneration of 150%

Remuneration granted Karim Bohn CFO
Appointed: 01.11.2015
Appointed until: 31.10.2023

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EUR k	2018	2019	2019 (min)	2019 (max)
Fixed remuneration	420	420	420	420
Fringe benefits	12[1]	18[1]	18[1]	18[1]
Total	**432**	**438**	**438**	**438**
One-time sign-on bonus	0	0	0	0
One-year variable remuneration	513[2]	520[3]	0	600[4]
Performing share units tranche 2020–2022	0	260[3]	0	300[4]
Performing share units tranche 2019–2021	257[2]	0	0	0
Total	**1,202**	**1,218**	**438**	**1,338**
Service cost	12	12	12	12
Total remuneration	**1,214**	**1,230**	**450**	**1,350**

1 This item primarily contains non-cash benefits for insurance premiums and the use of a company car
2 Granted in the 2019 calendar year for 2018 once all of the necessary criteria for determining variable remuneration were known
3 Corresponds to the liability recognised for monetary target attainment of 130% (exact amount to be determined in the course of settlement)
4 Corresponds to the maximum achievable variable remuneration of 150%

Remuneration granted Klaus Schmitt, COO

Appointed: 01.01.2006
Appointed until: 31.12.2020

25

EUR k	2018	2019	2019 (min)	2019 (max)
Fixed remuneration	420	420	420	420
Fringe benefits	23[1]	22[1]	22[1]	22[1]
Total	**443**	**442**	**442**	**442**
One-time sign-on bonus	0	0	0	0
One-year variable remuneration	642[2]	650[3]	0	750[4]
Performing share units tranche 2020–2022	0	325[3]	0	375[4]
Performing share units tranche 2019–2021	321[2]	0	0	0
Total	**1,405**	**1,417**	**442**	**1,567**
Service cost	24	24	24	24
Total remuneration	**1,429**	**1,441**	**466**	**1,591**

1 This item primarily contains non-cash benefits for insurance premiums and the use of a company car
2 Granted in the 2019 calendar year for 2018 once all of the necessary criteria for determining variable remuneration were known
3 Corresponds to the liability recognised for monetary target attainment of 130% (exact amount to be determined in the course of settlement)
4 Corresponds to the maximum achievable variable remuneration of 150%

Remuneration granted Anne Kavanagh, CIO

Appointed: 15.04.2017
Appointed until: 15.04.2022

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EUR k	2018	2019	2019 (min)	2019 (max)
Fixed remuneration	395	418	418	418
Fringe benefits	6[1]	5[1]	5[1]	5[1]
Total	**401**	**423**	**423**	**423**
One-time sign-on bonus	496	0	0	0
One-year variable remuneration	432[2]	650[3]	0	750[4]
Performing share units tranche 2020–2022	0	325[3]	0	375[4]
Performing share units tranche 2019–2021	216[2]	0	0	0
Total	**1,545**	**1,398**	**423**	**1,548**
Service cost	43	47	47	47
Total remuneration	**1,588**	**1,446**	**471**	**1,596**

1 This item primarily contains non-cash benefits for insurance premiums
2 Granted in the 2019 calendar year for 2018 once all of the necessary criteria for determining variable remuneration were known
3 Corresponds to the liability recognised for monetary target attainment of 130% (exact amount to be determined in the course of settlement)
4 Corresponds to the maximum achievable variable remuneration of 150%

The individual members of the Management Board were paid the following remuneration for the respective financial year:

Remuneration of the Management Board 27

	Wolfgang Egger, CEO		Karim Bohn, CFO		Klaus Schmitt, COO		Anne Kavanagh, CIO	
Cash inflow EUR k	2018	2019	2018	2019	2018	2019	2018	2019
Fixed remuneration	420	420	420	420	420	420	395	418
Fringe benefits[1]	1	0	12	18	23	22	6	5
Summe	**421**	**420**	**432**	**438**	**443**	**442**	**401**	**423**
One-time sign-on bonus	0	0	0	0	0	0	0	0
One-year variable remuneration	546	642	382	513	546	642	410	432
Performing Share Units Tranche 2016–2018[2]	0	220	0	19	0	225	0	0
Performing Share Units Tranche 2015–2017[3]	415	0	0	0	357	0	0	0
Total	**1,382**	**1,282**	**814**	**971**	**1,346**	**1,309**	**811**	**856**
Service cost	12	12	12	12	24	24	43	47
Total remuneration	**1,394**	**1,294**	**826**	**983**	**1,370**	**1,333**	**854**	**903**

1 This item primarily contains non-cash benefits for insurance premiums and the use of a company car
2 Amount paid out in 2019 following the conversion of the performing share unit tranche 2016-2018 at the average share price of EUR 17.495
3 Amount paid out in 2018 following the conversion of the performing share unit tranche 2015-2017 at the average share price of EUR 19.900

Remuneration of the Supervisory Board

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

As the Supervisory Board comprises three members, no committees are formed; this means the committee remuneration recommended by the German Corporate Governance Code is not relevant. If a Supervisory Board member is not a member of the Supervisory Board during the entire financial year, the respective fixed remuneration is paid on a pro rata basis. Supervisory Board members are also reimbursed for their expenses and any VAT payable on their remuneration and expenses.

The Supervisory Board was granted the following remuneration in the 2019 financial year:

Remuneration of the Supervisory Board 28

EUR	2019	2018
Dr Theodor Seitz, Chairman	40,00	40,00
Alfred Hoschek	30,00	30,00
Uwe H. Reuter	30,00	15,00
Total	**100,00**	**100,00**

3.3 Corporate Governance Statement – disclosures in accordance with section 289f HGB and section 315d HGB

On 28 January 2020, the Management Board of PATRIZIA AG issued a Corporate Governance Statement in accordance with section 289f HGB and section 315d HGB and made this statement publicly available on the Company's website at www.patrizia.ag/en/shareholders/corporate-governance/corporate-governance-statement/.

3.4 German Corporate Governance Code – disclosures in accordance with section 161 AktG (German Stock Corporation Act)

On 17 December 2019, the Management Board and the Supervisory Board issued a statement of conformity with the recommendations of the German Corporate Governance Code in accordance with Section 161 AktG (German Stock Corporation Act). This declaration was subsequently made permanently available to shareholders on the Company's website at www.patrizia.ag/en/shareholders/corporate-governance/declarations-of-conformity/.

3.5 Transactions with related companies and individuals

The Management Board presented a dependent company report to the Supervisory Board with the following closing statement: "As the Management Board of the Company, we hereby declare that the Company received adequate compensation for each of the transactions contained in the dependent company report based on the circumstances known to us at the time those transactions were conducted. No measures subject to a reporting obligation were taken during the financial year."

Extensive information on business relationships with related companies and individuals can be found in note 9.2 of the notes to the consolidated financial statements.

4 Development of opportunities and risks

4.1 Management of opportunities and risks

A Group wide risk management system ensures that opportunities and risks are systematically identified, recorded, managed and communicated both internally and externally when deemed necessary.

The aim is to proactively collect relevant information about potential and actual risks and their direct and indirect financial consequences for PATRIZIA at an early stage in order to manage them and to sustainably secure enterprise value. Overall responsibility for risk management lies with the Management Board of PATRIZIA AG. The monitoring and ongoing development of the risk management system is the responsibility of the Risk Management working group, which consists of employees from the operating units and Corporate Reporting & Planning (CRP).

Opportunity management is handled in parallel to risk management. The aim is also to collect relevant information about opportunities and their potential direct and indirect financial upside at an early stage and pursue and manage them to sustainably secure and increase enterprise value.

The main opportunities for PATRIZIA lie in expanding the current product and client base as well as sourcing M&A (Mergers & Acquisitions) and other alternative investment opportunities. The Product Development and Capital Markets departments (responsible for fund raising and client services) develop new products and investment structures for clients. Strategic growth opportunities are identified and systematically pursued by the Operational Board (which has replaced the Executive Committee and consists of the operational core functions) as well as the Management Board of PATRIZIA, the Strategic Corporate M&A department and the Alternative Investments team. In addition, opportunities are seen in digitalisation and technology & innovation which are equally pursued to ensure continued growth and strategic development as well as ongoing operational optimisation.

In 2018 following the acquisitions of Sparinvest, TRIUVA and Rockspring, PATRIZIA moved into a new pan-European operating model with an aligned functional cross border and collaborative set-up. This results in a strengthened local presence. Risk Management in all subsidiaries is part of the pan-European function's responsibility and has been centralised in the Operational Board as forum for ongoing discussion and managing relevant matters at an early stage. This is to ensure timely and proactive identification of opportunities and risks through clearly defined channels. Hence alignment and central knowledge sharing as well as management of risks is brought together through these functions and procedures and shared with the Risk Management working group as part of a continued focus on improved governance structures.

To further strengthen the set-up, a new committee structure is in place to best compliment the Operational and Management Board and to keep the information flow about potential risks and future opportunities. This also ensures that all relevant parties are informed and involved in due time. The relevant committees are:

– Investment Committee
– Product Development & Fundraising Committee
– Fund Review Committee
– Technology & Innovation Committee
– Environmental, Social and Governance (ESG) Committee

AIFM risk management is a separate legislative requirement and handled across all regulated entities to share best practises in AIFM risk management. Risk management for all regulated entities is centralised in one function to ensure alignment and efficiency.

Environmental, Social and Governance (ESG) issues are a further key element of the overall opportunity and risk management assessment of PATRIZIA and its importance has increased over the last year. For details please refer to chapter 1.5 on all ESG matters.

CRP reports Group financial data on a monthly basis to both the Management and the Operational Board. The reporting helps to identify potential risks at an early stage and to initiate relevant countermeasures. Risks are evaluated in terms of their probability of occurrence and potential loss on a Group level. This is used to determine the necessary actions to manage and if needed limit the impact of the respective risks by operational countermeasures e.g. change in process and, where deemed necessary, accounting related precautions such as the recognition of provisions etc. Further, operational risks are discussed in the Operational Board on a bi-weekly basis. General risk assessment follows PATRIZIA's financial year and hence the budget period, however in the case of strategic material risks, the analysis can be extended beyond this period.

The risk management system is reviewed for efficiency and effectiveness in an annual internal risk audit. This audit results in a risk report illustrating all the risks, operational measures and responsibilities previously examined by the responsible departments. In accordance with section 317 (2) of the German Commercial Code (HGB), the early risk detection system is also examined by the auditor of PATRIZIA AG. This risk audit, a review of opportunities as well as a general outlook form the basis for the summary below conducted by the relevant and responsible function as part of the Risk Management working group and the overall ongoing Risk Management at PATRIZIA in line with good corporate governance.

4.2 Accounting-related internal control and risk management system – disclosures in accordance with section 289 (4), section 315 (4) HGB

Accounting and financial reporting risk describes the risk that the annual and quarterly financial statements could contain inaccurate information. To avoid sources of error, PATRIZIA has established an internal control system (ICS) for the accounting process that ensures the reliability of financial reporting and the preparation of annual and quarterly financial statements in line with regulatory and capital markets law requirements. At the same time, the ICS cannot provide absolute certainty. The members of the Management Board of PATRIZIA AG sign the quarterly responsibility statement confirming that accounting standards have been complied with and that the figures give a true and fair view of the company's net assets, financial position and results of operations. The starting point for the ICS is company budgeting based on the targets set by the Management Board and expectations of operational business development. This serves to define the budget for the next financial year across the Group. Actual figures and potential deviations to said budget are reviewed, reported and analysed on a monthly basis. Regular updates and forecasts are prepared for the current financial year based on the actual results achieved compared to the budget and the opportunities and risks identified.

The ICS encompasses measures and processes for timely recording of all business movements and positions in the accounting and the financial statements. It investigates changes in legislation and accounting standards and their consequences for the Group's accounting and financial statements. The consistent implementation of the principle of dual control ensures compliance with statutory provisions in the accounting related processes. The basis for the ICS is provided by functional separation and approval guidelines supported by standardised control and coordination processes. All approvals are documented and archived.

Accounting for all operating companies in Germany is performed centrally at PATRIZIA headquarters. Accounting for the operating subsidiaries outside Germany is generally performed by the respective regional subsidiary aligned with and centrally supervised by the Accounting headquarter. The basis for accounting is provided by uniform Group wide requirements within a central IT environment largely based on SAP. The data is consolidated in the Group Reporting & Consolidation department. The employees involved in preparing the financial statements have received corresponding training and the responsibilities and controls within the preparation process are clearly defined.

The effectiveness of our accounting related ICS is evaluated during the preparation of the financial statements and reviewed by the external auditor of PATRIZIA AG as part of the annual audit. Further, attention on general good governance has in recent years increased also at PATRIZIA. This results overall in more and more focus on optimising existing processes including the ICS for accounting.

4.3 Significant opportunity and risk categories

4.3.1 Market opportunities and – risks in the economic environment

Opportunities and risks of overall economic development

A year ago, it was speculated whether the end of the ECB's government bond purchase program would lead to an increase in interest rates and whether this would have a negative effect on the capital flow to the European real estate markets. But the course of 2019 quickly proved this wrong. Political uncertainty as well as the trade war between the US, China and several other countries led to a weakening in the global economy and had a negative impact on the overall sentiment of corporations. As a result, the Fed reduced US interest rates for the first time in many years. Also the ECB announced to support the weakening economies of the European Union with a continued loose monetary policy (quantitative easing). Investors now face the scenario of "lower-for-much-longer". Investments in real estate will continue to be an attractive alternative to equities or bonds in this marked environment and it is likely that more capital and not less will flow into the real estate markets. Consequently, the competition for suitable investment assets increases. The prices should hence continue to increase, and yields continue to decrease. Therefore, good market positioning, profound market insights and targeted investment strategies will be increasingly important and an essential success factor. At the time of publication of this report, it is not possible to conclusively assess the effects that the further spread of the Covid-19 virus will have on the general economic situation as well as on the markets relevant to PATRIZIA.

Residential real estate market: Urbanisation is the dominant topic when it comes to demand for residential areas in Europe. The prospering urban metropolitan regions are attracting more and more people from domestic and international locations because of the good job opportunities they offer, but also because of their quality of life, cultural diversity and range of leisure activities. Even a weakening economy will not change this. High construction costs and risks from political regulatory activities restrict the development of additional residential areas, and hence only a few submarkets could possibly face the risk of oversupply. Overall, the European residential property markets will continue to be characterised by a surplus in demand, and rents and purchase prices will continue to rise. However, in many cities and regions, prices and above all rents have now reached a level which has led to an increasingly heated public debate on the affordability of residential property. More and more politicians are addressing the issue. In the coming years, focus will be even more on this topic, but residential property will nevertheless continue to be in the focus of national and international investors. This is because it will remain an important diversification factor for portfolios and, against the background of the low interest rate environment, it offers an attractive yield premium over government bonds and an almost secure rental cash flow.

Commercial real estate market – office: Despite the economic downturn in 2019, demand for office space remained high. In general, the effects of periods of economic weakness only become apparent with a certain delay. In 2020, therefore, there is a possibility that demand for office space will decline somewhat, but not to the extent that the economic downturn of recent quarters might suggest. The large cities in particular are proving relatively resistant to such developments due to urbanisation and a high proportion in the service sector. The vacancy rate fell to a record low by the end of 2019. This and the reasonably low level of construction activity should mean that vacancies are not likely to rise promptly in 2020 either. The high demand for office space and declining vacancy rates have resulted in rent increases in recent years. Rents are expected to continue rising in the coming years, albeit at a slower pace. Last year, the investment market was characterised by a high level of competition between investors, a development that will continue in the current year. Accordingly, prime net yields will also continue the general downward trend of recent years, although here too the momentum is likely to slow down in 2020.

Commercial real estate market – retail: On a macroeconomic level, the European retail market remained robust in 2019 with rising retail sales. However, this growth is largely driven by online shopping. The structural change that has been taking place for several years now as a result of the rise of online shopping is hence continuing. Sales margins in the retail stores continue to decline and retailers are still required to invest in new store and distribution concepts in order to create a symbiosis of presence stores and online shopping. However, retail space in prime locations (high street) continues to be in high demand. Outside the high street locations and on their edges, however, demand is declining, and vacancies are rising. The structural change in the retail trade is also reflected in the development of top rents. Many retailers are no longer willing to accept rent increases or are even demanding rent reductions. As a result, prime rents remained stable or declined slightly in most European markets. As a result, institutional interest in retail properties has also continued to fall in 2019. The most important exception to this development is the food retail sector, which is much less affected by online shopping and the resulting structural change. In general, however, it can be assumed that in the coming years until the completion of the structural change a slight increase in prime yields can be expected, even if individual sub-segments such as food retailing are likely to be spared. Transaction volumes will therefore remain limited because institutional investors will only concentrate on selected high street properties and sub-segments of the retail market.

Commercial property market – logistics: Despite weaker economic expectations, the positive development of the logistics markets continued in 2019 and the demand for space remained high. One important driver for the European logistics markets is online shopping and the associated supply chains. Another driver is urbanisation and the concentration of more and more people in the economically successful urban agglomerations. This in turn puts pressure on retailers and logistics companies to adapt and optimise their supply chains. Despite the positive development, prime rents remained stable and only rose slowly in some markets. Interest from institutional investors remains very high because logistics still offers a more attractive yield premium over other types of use, despite the decline in returns in recent years. The transaction volume in 2019 was lower than in previous years due to limited product availability. For the current year, we assume that the European market for logistics properties will continue to develop positively. Yields will continue to fall due to the high level of investor interest, and transaction activity will be very strongly influenced by product availability.

4.3.2 Operational risks

Acquisition and disposition of real estate: The ongoing trend of strong demand for real estate continued in 2019. The transaction volume remained at the extremely high level recorded in the previous years. In a continued easy monetary policy environment, domestic and international investors are still making substantial investments in the European real estate markets. As a result, it remains challenging to acquire suitable properties with risk adjusted yields for PATRIZIA's clients in an extremely competitive market.

However even in this environment, PATRIZIA succeeded in using experience and knowledge of the market in order to acquire attractive properties and portfolios for its clients – in some cases by addressing sellers directly in order to circumvent competitive situations – and in said markets enabling clients to generate profits and optimise their portfolios through targeted disposals.

The continuous strategic enhancement of PATRIZIA's European platforms enables broader access to additional attractive investment opportunities. As a result, PATRIZIA is seen as a reliable and professional partner for the rapid, trustful implementation of large-scale single asset and portfolio investments not just in Europe, but increasingly international as well.

Although it is a seller's market at present, there is a risk that real estate disposals, including PATRIZIA's phase-out own balance sheet investments, will not be possible at the envisaged price.

Employees: The skills and motivation of PATRIZIA's employees are essential factors in the company's success. They help gain the confidence of clients, tenants, financing banks, business partners and shareholders, thereby creating sustainable business relationships. The aim is to retain qualified employees within the Group for the long term. But also to attract new talents and young professionals and give them relevant development opportunities. Employee development measures, deputy arrangements and early succession planning are used to reduce the risk of fluctuation and knowledge drain, and to fill management positions internally. Being perceived as an attractive employer in a competitive employment market is another important factor in PATRIZIA's continued successful development.

Further information can be found in section 1.5.3.

IT security: Almost all significant business processes within the company are based on IT systems. Every disruption to the operation of the IT systems has consequences for business activities. Substantial data losses and violations of the date protection requirements can lead to significant financial losses, as well as adversely affecting the company's public image. To ensure the availability of business applications, all systems have been run redundantly in two physically separate data centres since 2015. The ERP (Enterprise Resource Planning) systems are also mirrored and run in parallel. These two measures ensure a significant reduction in downtime in the event of an emergency. Further protective measures, such as a NAC (Network Access Control) solution and additional anti-malware mechanisms, serve to reduce the risk of damage from viruses, trojans and malicious software such as ransomware. System protection and security precautions are rounded off by regular information activities to raise employee awareness (e.g. phishing, social engineering or CEO fraud – but also of the GDPR requirements). A password guideline further ensures use of strong and secure passwords as well as regular changes of these. A further part of the security concept is the two-factor-authentication when using remote access – especially in face of the intensive mobile use of the infrastructure. Data is backed up regularly in order to prevent the technical loss of company data and ensure the reliability of IT operations. Annual emergency tests with changing focal points are intended to ensure that, in the event of a crisis, organisation and technology can interlock and systems such as data can be made available again according to the service levels. Annual emergency tests with changing focal points are intended to ensure that, in the event of a crisis, organisation and technology can interlink and systems and data can be made available according to the service levels.

Financing risk: Because of the solid structure of its balance sheet, external financing is currently only of minor significance to the business model of PATRIZIA as a Group. The remaining phase-out real estate held and managed (principal investments) is no longer debt-financed. The risk that PATRIZIA will not be able to raise outside capital for any new principal investments – usually only as interim financing for closed-end funds or as early-stage investments with the intention of subsequent contribution to institutional funds – is currently very low. In May 2017, PATRIZIA raised an unsecured bonded loan with a total volume of EUR 300m via the capital markets. The issuance met strong demand and was significantly oversubscribed. Together with the substantial cash funds at its disposal, PATRIZIA is able to respond to the capital requirements of new investments at any time. Furthermore, potential principal investments are always financed at property/portfolio level. PATRIZIA AG raises debt finance as a service for its funds under management. This service is generally affected by financing risks in case market conditions change. And therefore, a downturn could have influence on the availability of liquidity in order to finance new investment opportunities.

Loan conditions: The existing bonded loan contains an equity covenant, which is continuously being monitored. Some of the loan agreements for property and portfolio financing as part of funds under management contain covenants, which are also continuously monitored. However, these covenants do not have any direct consequences for PATRIZIA.

Interest rate risks: The bonded loan with a total volume of EUR 300m contains EUR 66m with a variable interest rate based on 3-month Euribor and no interest hedging agreement. Interest rate development is continuously monitored. PATRIZIA AG is not exposed to any further interest rate risks from the bonded loan, as the remaining tranches of the EUR 234m have a fixed interest rate. As of 31 December 2019, EUR 93.2m in loans from PGK units which at the time are consolidated are reported in the balance sheet. As the term of these loans is generally up to a maximum of 2 years and they are also deconsolidated in a timely manner, and since there is currently not expect any significant increase in interest rates, no interest rate risk is seen in this regard.

Liquidity risks: There are no risks of a liquidity shortage at present. As at 31 December 2019, PATRIZIA had cash and cash equivalents amounting to EUR 449.1m and short-term deposits amounting to EUR 186.0m for use in covering its operational liquidity requirements and for refinancing. PATRIZIA also anticipates additional cash surpluses from its operating business, which will be used in investment planning with matching maturities. The equity freed up by disposals from the residual phase-out principal investments also serves to increase the available liquidity. PATRIZIA uses cash pooling to optimise and control its Group wide liquidity. Early warning indicators and comprehensive rolling planning are also used as preventive measures and ensure that unexpected liquidity requirements can be met.

Exchange rate risks: Most of the Group's subsidiaries and property companies are located in the European Monetary Union and hence are not subject to exchange rate risk. Exceptions are the regional subsidiaries in the US, Hong Kong, Japan, South Korea, Denmark, Sweden, Poland and the United Kingdom, which execute investment management mandates and conduct acquisitions and disposals for the funds and as part of co-investments. PATRIZIA had foreign-currency investments of EUR 213.0m as at the end of the reporting period. Since the investments in these companies are made and shareholder loans are granted in the respective local currency, the subsidiaries and property companies are subject to the risk of exchange rate fluctuations. This position could increase further in future as the Group expands outside the euro zone. The Group's overall currency risk is regularly monitored and assessed in order to identify any need for action early on and to take countermeasures such as currency hedging.

Legal risks: PATRIZIA is represented in various jurisdictions. Individual companies are involved in various court and arbitration proceedings arising from their business operations. In some cases, out-of-court claims are also asserted against them. Contractual obligations are monitored, and legal experts consulted where deemed necessary in order to minimise any legal risks. Provisions are recognised for potential losses from pending litigation. Serious legal risks that would be critical to the company's future development are not discernible at the current time.

Accounting risks: When applying the accounting methods, discretionary decisions must be taken that can significantly influence the amounts in the financial statements. The consolidation, accounting and valuation methods used based on the discretionary decisions made are presented in sections one through three of the notes to the consolidated financial statements.

Especially for the valuation of PATRIZIA's participations, various discretionary decisions applied in accordance with IFRS 9 give rise to different fair values that must be recognised in the consolidated financial statements. The valuation of PATRIZIA's participation in the Dawonia Group (previously 2019: GBW Group) has been discussed and scrutinised in enforcement proceedings that are currently pending with the German Financial Reporting Enforcement Panel (FREP, German: DPR). These proceedings concern the consolidated financial statements as at 31 December 2016 and specifically the valuation of participations for which there is no quoted price on an active market. The proceedings were referred to the German Federal Financial Supervisory Authority (German: BaFin) as of January 2019. In the context of the initial application of IFRS 9, the existing equity investment of 5.1% and the investment through a carry vehicle were valued at fair value taking into account the additional investment income that can be calculated today as regards the planned recognition of additional investment income from a potential disposal of the participation. This gave rise to a revaluation effect in equity totalling EUR 291.9m.

The revaluation, taking deferred taxes into account, was recognised directly in the equity not affecting net income. The German FREP is arguing that the revaluation effect relating to the carry should not be classified as a valuation gain of a participation investment in the accounting sense, but rather as performance-based remuneration in accordance with IFRS 15. If the German FREP's opinion prevails, consolidated group equity would be reduced by EUR 283.0m (without affecting net income) as at 31 December 2019. The additional investment income would then have to be recognised in profit or loss in the year it is actually received. As PATRIZIA still considers the method currently applied to be appropriate and the enforcement proceedings have not yet been concluded, said method has been retained in the consolidated financial statements as at 31 December 2019.

If the German FREP is successful and the German Federal Financial Supervisory Authority concurs with its opinion, the ongoing enforcement proceedings for the 2016 financial year could give rise to an increase in equity through other comprehensive income of around EUR 75.0m for 2016. However, this effect was already recognised in 2018 on account of the initial application of IFRS 9.

4.3.3 Partner opportunities and risks

Funds under management: In conjunction with the fund structures set up by PATRIZIA, there are risks and opportunities from service fee income, which is dependent on the value of the real estate assets under management, acquisitions and disposals and the yield generated on funds. This income can be negatively affected by depreciation and impairment on real estate, loss of rent and a reduced transaction volume. However, PATRIZIA serves a wide range of different funds and has access to a diverse range of suitable properties in Germany and abroad. As the properties included in the funds must be backed with corresponding equity, external financing can be obtained quickly and at favourable conditions. The level of investment activity is not currently expected to decline. The risk of a reduction in the planned dividend payments to fund investors is currently considered very low. Moreover, the company anticipates the opportunity to attract further new clients and to expand its fund business thanks to current fund performance and PATRIZIA's reputation. Additional opportunities are presented by the placement of closed-end funds to retail clients, a business model that was introduced at the beginning of 2016 and has since successfully launched ten real estate funds with properties across Europe.

As a real estate investment manager, PATRIZIA is also responsible for the management and optimisation of third-party properties. Inadequate service performance could lead to dissatisfaction among clients or financial claims and the loss of mandates, with corresponding consequences for the Group's results of operations. As described above, there is an opportunity across the Group caused by the favourable market conditions, which have also repeatedly triggered performance fees in recent years. Nevertheless, PATRIZIA's business model is cautiously prepared for a potential slowdown in growth, and therefore the potential occurrence of the negative effects outlined above.

Funds under management | Co-investments: Through co-investments, PATRIZIA holds up to 10% in fund capital on its own balance sheet. Attracting clients and raising the necessary equity is not seen as a limiting factor. Ensuring the corresponding financing is also not considered a risk. As mentioned in the part "Acquisition and disposition of real estate", the main challenge is acquiring suitable real estate that meets the investment criteria of PATRIZIA and its clients.

Equity raising: Due to the high availability of liquidity from investor side, combined with challenge of good investment placement and few profitable alternatives to real estate investments, the risk of an omission by business partners/investors or fundamental issues with new acquisitions are seen as limited. However, it is worth noticing that due to the attractiveness of real estate investments new competitors are increasingly entering the market. This assessment is based on the current market situation and must be reassessed if market conditions change. The expansion of the international fund business increases PATRIZIA's dependence on large international institutional clients. Further the focus of fund raising is addressing additional, particularly international institutional investors but also increasingly addressing private and (semi-)professional investors in Germany and in Europe. More than 400 institutional investors are now investing through PATRIZIA – from savings banks, insurance companies and pension funds to sovereign wealth funds. More than 50% of the customers are invested in several PATRIZIA products. Through the acquisition of PATRIZIA Multi Managers, TRIUVA and Rockspring, PATRIZIA has significantly expanded its investor base. The increased diversification enables PATRIZIA to further reduce distribution risks and potential margin pressure. The expansion of the product range through so-called "discretionary funds" also increases equity raising opportunities and opens up further opportunities for PATRIZIA to acquire new clients.

4.4 Overall assessment of opportunities and risks

Risk Management at PATRIZIA is a process that records risk positions, identifies changes in risk and defines appropriate countermeasures. In 2019, as in previous years, PATRIZIA examined the risk evaluation categories for the potential magnitude of losses were deemed relevant from known risks across all operations. However, most of the potential risks PATRIZIA is facing are neither foreseeable nor something which can be proactively mitigated in advance e.g. changing market environment, political environment etc. It is therefore key to have the Risk Management working group in place to review and manage all operational areas as well as ongoing knowledge sharing across the Group to enable an early awareness of potential risks and timely initiation of relevant countermeasures. Considering all individual risks and a potential cumulative effect, the overall risk to which PATRIZIA is currently exposed is limited. Based on the information available and the medium-term planning for key investments, there is currently no evidence that crucial risks that could endanger the future development or continued existence of PATRIZIA stand alone and the PATRIZIA Group.

5 Forecast

5.1 Future economic conditions

In 2020, we expect economic momentum to slow slightly in comparison to 2019. At the time of publication of this report, it is not possible to conclusively assess the effects that the further spread of the Covid-19 virus will have on the general economic situation as well as on the markets relevant to PATRIZIA. Despite a slight decline in employment momentum, domestic demand in Europe should remain stable and global trade will most likely record a sound development in spite of the trade disputes. However, the economic development will be impacted by geopolitical risks, as in the previous year, and no significant changes in monetary policy are expected either, meaning that the yield on fixed-income investments is likely to remain low.

The relative attractiveness of real estate thus remains high. Despite historic lows, the yield compression for office properties will continued at a slower pace. Rents are also expected to rise further, as demand for space – particularly for new space – remains at a high level in major agglomeration markets. The structural change in retail is continuing, which is why clearly diverging rent and yield trends can be observed here compared to those of other sectors, as all market participants are acting cautiously. Logistics and housing will see continued strong interest from investors again in 2020, although current political activities on the housing markets are causing slight uncertainty among investors with shorter investment horizons.

Sources: PATRIZIA, Refinitiv, PMA

5.2 Expected development of results of operations and assumptions concerning target attainment in 2020

The Group in general

The company has entered the 2020 financial year in a spirit of optimism and expects to successfully exploit market opportunities for its institutional, (semi-)professional and private investors once again in the form of attractive real estate fund products. On this basis, PATRIZIA is again anticipating strong transaction performance and growth in assets under management, with fee income from investment management continuing to increase and stabilise as a result.

Assets under management are expected to see organic growth of between EUR 3.5bn and EUR 4.5bn in the 2020 financial year. All in all, the company expects its assets under management to increase to EUR 48.0bn to EUR 49.0bn by the end of 2020.

PATRIZIA is forecasting **operating income** of between EUR 120.0m and EUR 140.0m in 2020 after EUR 134.5m in 2019. Compared to the previous year, PATRIZIA anticipates a significant decline in net sales revenues and co-investment income in line with the strategy. This decline should be more than compensated by continuing organic growth, driven in particular by further growth in recurring management fees.

Abridged income statement of PATRIZIA AG 29

	Last forecast 2019	Actual figures 2019	Forecast 2020
Assets under management (organic growth)	Growth of EUR 3.0–4.0bn	**Growth of EUR 3.4bn**	Growth of EUR 3.5–4.5bn
Operating income	EUR 120.0–130.0m	**EUR 134.5m**	EUR 120.0–140.0m

Assumptions concerning the operating income forecast

Operating income of between EUR 120.0m and EUR 140.0m is expected for 2020. The following section discusses the assumptions and expectations underlying this forecast.

PATRIZIA is anticipating **management fees** for asset and portfolio management services of between EUR 195.0m and EUR 205.0m. The company expects the majority of net growth in assets under management to have a positive impact on management fees only in the second half of 2020 as the respective transactions are closed.

The company expects the transaction market to remain active in 2020 and is forecasting **transaction fees** of between EUR 56.0m and EUR 66.0m based on a signed transaction volume of between EUR 7.0bn and EUR 8.0bn.

Income from **performance fees** is determined by the yields achieved in excess of the agreed target yields. These result from the realisation of value-adding measures in particular. PATRIZIA expects to generate performance fees of between EUR 85.0m and EUR 100.0m in 2020.

Total service fee income is expected to amount to between EUR 336.0m and EUR 371.0m.

In 2020, **net sales revenues and co-investment income** will be considerably lower than in the previous year at EUR 7.0m. This is particularly due to the sale of the remainder of the company's own property portfolio in line with the strategy.

Net operating expenses, which primarily comprise staff costs and non-staff operating expenses, are forecast at between EUR 214.0m and EUR 229.0m. Non-capitalisable expenses for investments in future technologies of approximately EUR 11.6m are not included in this range.

Depreciation and amortisation, financial result and other items of EUR –9.0m are forecast for 2020.

A more precise forecast will be issued in the course of the year based on the company's operating performance.

5.3 Expected development of net assets and financial position

PATRIZIA does not currently anticipate any significant changes in its net assets and financial position in 2020. However, PATRIZIA expects to have substantial cash and cash equivalents that are significantly in excess of the liabilities from the bonded loan once again in 2020.

5.4 Dividend policy

The Management Board and Supervisory Board of PATRIZIA AG are proposing that the HGB unappropriated profit for the 2019 financial year in the amount of EUR 500.8m can be used to pay a dividend of EUR 0.29 per share, with the remaining amount being carried forward to new account. Based on the share of the IFRS consolidated net profit for 2019 attributable to shareholders of EUR 52.9m, this corresponds to a pay-out ratio of 50.7%. The year-on-year growth rate of management fees (2019: 5.8% adjusted for non-periodic effects) and the year-on-year growth rate of assets under management (2019: around 8%) form the basis for the dividend proposal of the Management Board and Supervisory Board of PATRIZIA AG, which corresponds to an increase in the dividend of around 7% as against the previous year.

5.5 Management’s overall assessment of the outlook for 2020

PATRIZIA set to enjoy further positive development in 2020

The results for the 2019 financial year confirmed PATRIZIA’s strong market positioning as a leading global partner for pan-European real estate investments. With the market environment expected to remain positive and in light of the planned organic growth of the international platform, PATRIZIA is anticipating a further increase in recurring income compared with the previous year and operating income of between EUR 120.0m and EUR 140.0m.

The outlook for 2020 and the statements concerning subsequent years take into account all events that could affect PATRIZIA’s business development that were known when the consolidated financial statements were prepared. At the time of publication of this report, it is not possible to conclusively assess the effects that the further spread of the Covid-19 virus will have on the general economic situation as well as on the markets relevant to PATRIZIA.

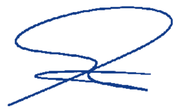
Augsburg, 13 March 2020

The PATRIZIA Management Board

Wolfgang Egger
Chairman of the
Management Board,
CEO

Alexander Betz
Member of the
Management Board,
CDO

Karim Bohn
Member of the
Management Board,
CFO



Dr Manuel Käsbauer
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Klaus Schmitt
Member of the
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Simon Woolf
Member of the
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This report contains certain forward-looking statements that relate in particular to the business development of PATRIZIA, 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 statement or estimate inaccurate, or cause actual results to differ from the results currently expected.