MANAGEMENT REPORT OF THE COMPANY AND THE GROUP

B

MANAGEMENT REPORT OF THE COMPANY AND THE GROUP

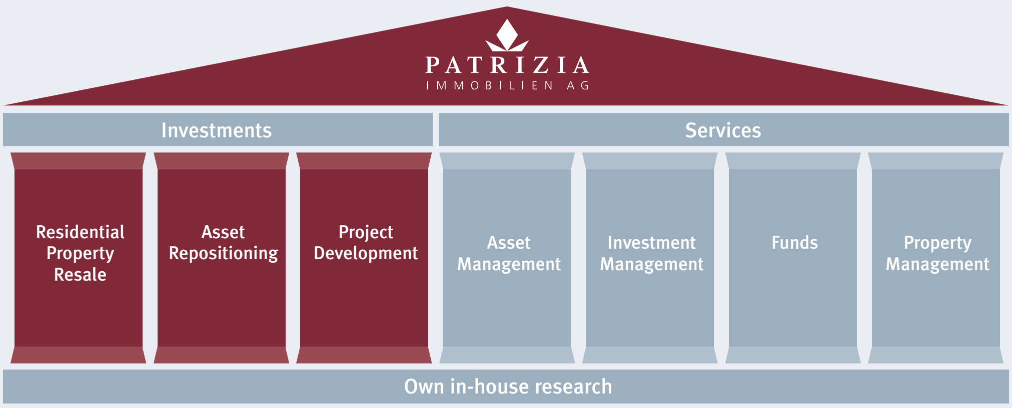
The Group management report was subsumed into the management report of PATRIZIA Immobilien AG in accordance with Article 315 (3) of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with Article 298 (3) of the HGB. The subsumed management report contains all presentations of the net asset, financial and earnings situation of the Company and the Group as well as other details that are required according to German commercial law. All monetary amounts are stated in euro.

1. BUSINESS SEGMENTS AND ENVIRONMENT

1.1 BUSINESS ACTIVITIES AND STRUCTURE OF PATRIZIA

PATRIZIA Immobilien AG, along with its subsidiaries (hereafter referred to as PATRIZIA), is a real estate agent and investment house. It specializes in buying high-quality residential real estate at commercially attractive locations in Germany and Europe with the aim of increasing their value and subsequent reselling the real estate. With its headquarters in Augsburg and branches in Berlin, Cologne, Dresden, Frankfurt/Main, Hamburg and Munich, PATRIZIA has served the residential real estate sector throughout Germany for more than 25 years. Our regional orientation ensures that we have direct contact to our customers and local market expertise.

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



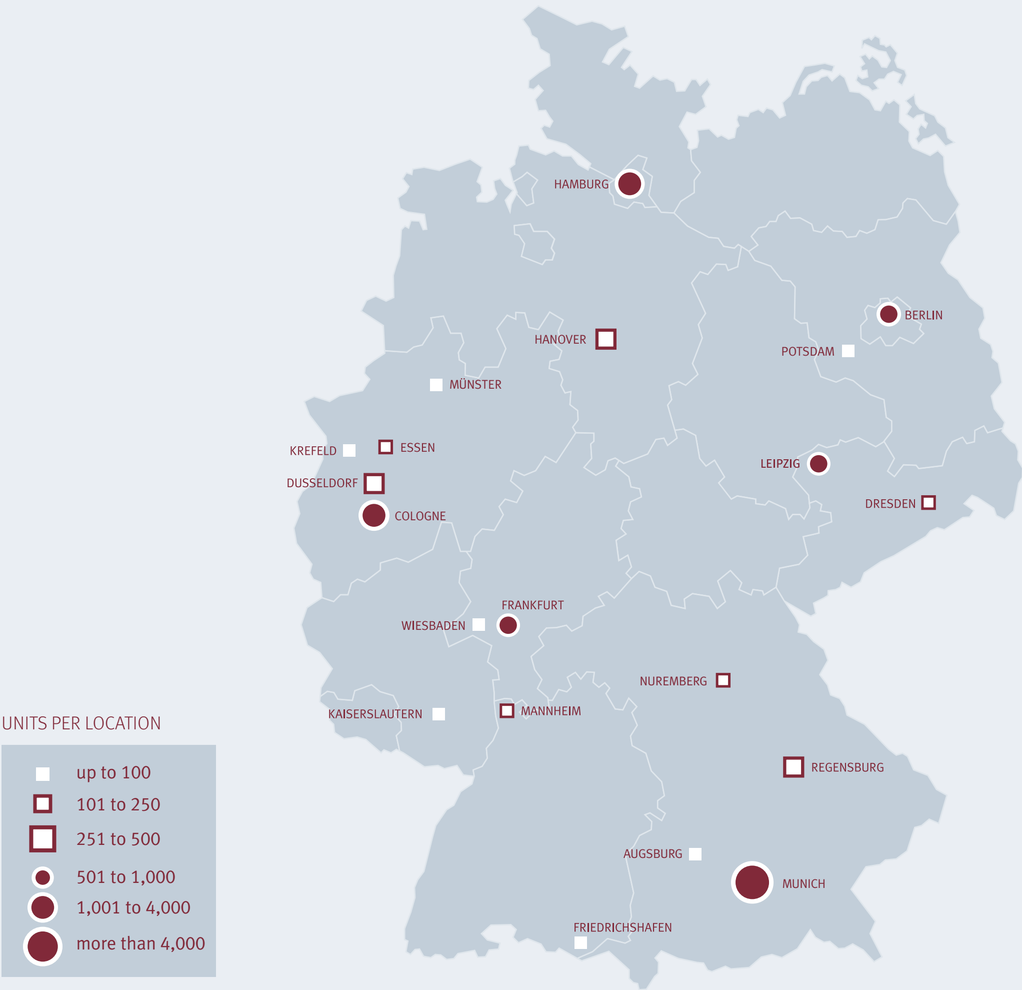
In the **Investments segment**, PATRIZIA Immobilien buys real estate, raises the value by working on the real estate itself – e.g. by implementing construction projects or by reducing vacancy – and sells the improved real estate, regardless of whether they are posted as non-current or current assets. Comprising the lines of Residential Property Resale, Asset Repositioning and Project Development, PATRIZIA thus generally works for its own portfolio or via joint ventures on project development plans. Approximately 80 % of the around 11,100 residential and commercial units in our portfolio are located in the top five locations in Germany: in Berlin, Cologne/Dusseldorf, Frankfurt/Main, Hamburg and Munich.

In the **Services segment**, PATRIZIA performs all services relating to real estate. The service range thus covers advice on purchase, asset management and property management and the sale of real estate. We act as owner representatives, optimizing real estate portfolios as though they were our own. Through PATRIZIA Immobilien Kapitalanlagegesellschaft mbH we establish theme funds, offering institutional investors the opportunity to invest indirectly in German and European residential real estate. PATRIZIA invests the investor equity in real estate without an equity interest and manages it pursuant to the Investment Act. PATRIZIA offers key services for the funds, so we are able to offer our customers tailored solutions for individual investor requirements.

INVEST. OPTIMIZE. REALIZE.

Our aim as an investor and service provider is to create end-to-end solutions for return-oriented optimization of real estate portfolios. Our investment horizon is generally short-term to medium-term, usually two to five years. Within this time frame, we increase the property's profitability and arrange for its resale. There are a number of methods to do this: Vacancy rates are reduced and rental cash flow is increased with professional management. Value can also be created with asset repositioning, depending on the quality of the real estate, thereby justifying a later sale at much higher prices. Different measures are required depending on the real estate portfolio, but we service the entire real estate value-added chain using our own employees. We then sell the property as individual apartments to tenants, owner-occupiers and private investors, or in parcels to private and institutional investors.

Locations covered by the PATRIZIA portfolio



STRUCTURE

PATRIZIA Immobilien AG is the PATRIZIA Group's management holding company and performs central management and service functions. The holding company covers six subsidiaries that are active on the market and responsible for the operating business of PATRIZIA. They are wholly-owned subsidiaries of PATRIZIA Immobilien AG and have profit transfer agreements with it. The real estate portfolios are managed via special purpose vehicles (real estate companies) and round off the Group. A detailed list of shareholdings can be found in the Notes to the Consolidated Financial Statements.

PATRIZIA IMMOBILIEN AG

- PATRIZIA Acquisition & Consulting GmbH
- PATRIZIA Immobilien Kapitalanlagegesellschaft mbH
- PATRIZIA Immobilienmanagement GmbH
- PATRIZIA Investmentmanagement GmbH
- PATRIZIA Projektentwicklung GmbH
- PATRIZIA Wohnen GmbH

PATRIZIA Acquisition & Consulting GmbH is responsible for purchasing residential real estate including the necessary research for our own investments; it conducts the review of the fund products for purchase and also acts as a service provider for external customers.

PATRIZIA Immobilien Kapitalanlagegesellschaft mbH establishes special real estate funds for domestic and international institutional investors and is responsible for the entire fund management. The funds invest in German and European residential real estate. In this process, PATRIZIA Immobilien Kapitalanlagegesellschaft mbH has access to the services of the PATRIZIA Group, such as real estate research, acquisition of suitable properties, financing at fund level, asset management and property management.

PATRIZIA Immobilienmanagement GmbH specializes in professional property management of residential and commercial real estate of all sizes of its own or in third-party ownership. It currently manages around 18,600 units, 7,500 of which are administered for third parties as a supplement to its own portfolios.

PATRIZIA Investmentmanagement GmbH manages the real estate assets of institutional and private investors, assuming the value-oriented asset management of the real estate and supervising all areas associated with the optimization process. It assists clients in the purchase of real estate and offers them a wide range of possible investment vehicles, which are individually tailored to investors' requirements. The company markets individual properties and real estate portfolios from its own portfolio or provides sales consultation for transactions of third parties. Furthermore, our commercial real estate team is integrated here, which implements all services from purchase consultation and processing through asset management to resale of a commercial property.

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

PATRIZIA Wohnen GmbH handles asset management for the resale portfolio, structural engineering and residential property resale. Asset management generates the best possible added-value for our own residential real estate in every phase of use. The structural engineering area devises solutions relating to the structural substance of buildings and implements these solutions cost-effectively. Residential Property Resale manages sales of individual apartments to tenants, owner-occupiers and private investors. Its clear objective is to provide tenants and other interested parties with comprehensive advice on tailored residential ownership options. Each property is divested in full.

1.2 GENERAL CONDITIONS AND THE MARKET

In 2009, the German economy experienced the biggest recession of the post-war era. According to information of the Statistisches Bundesamt (German Federal Statistical Office) gross domestic product (GDP) contracted by 5.0 % year-on-year (2008: +1.3 %).

In the wake of the global financial market crisis, the economy slumped in the winter of 2008/2009. However, over the course of the year, the outlook for the German economy recovered significantly.

Supported by an extensive range of monetary and fiscal policy measures, the recovery process began in spring 2009 before grinding to a halt in the last three months of the year. Economic output stagnated in the fourth quarter of 2009. Consumption provided the only positive impetus in 2009: Consumer spending totaled 0.7 %, most of which was attributed to the state (0.5 %).

Contrary to the previous two years, in 2009 consumer spending of private households rose somewhat higher than disposable income. The savings rate for private households remained at 2008's high level, 11.2 %. Investments in construction declined only slightly, 0.7 %.

Since the beginning of 2009, the European Central Bank has lowered the key rate in four phases from 2.5 % to its current level of 1.0 %, in order to make financing for necessary investments more affordable and to counteract the effects of the financial market crisis on the real economy.

Consumer prices rose by a very moderate 0.4 % on annual average. However, this price trend was due almost exclusively to price drops, some of which were very marked, in mineral oil products. In terms of core inflation, i.e. price changes without energy and seasonal foodstuffs, the annual inflation is 1.1 %, equivalent to the average of the last ten years.

According to a survey of the Immobilienverband Deutschland (German Real Estate Association – IVD) of 390 German cities, residential rent has risen nationally by 0.9 % year-on-year. The highest national average rent increase, as reported by the IVD, was for first-occupancy new construction (1.2 %). Rent increases were higher in major metropolitan areas than in small- and medium-sized cities. The average rent increase in cities with over 100,000 residents was 1.9 %. The Deutscher Mieterbund (the German Tenant Association) calculated a rent increase on a national level of 1.2 %; according to the German Federal Statistical Office, net rent (without utilities) rose by 1.1 % year-on-year. According to all three sources, rent increases surpassed the 0.4 % inflation rate. New construction in particular was subject to extreme rent increases. While prices were up for purchases of new residences, existing condominiums were cheaper on a national average. Prices were stable in major metropolitan regions, while rural areas and regions with residential decline were subject to price drops. We consider the price advantages of "used" real estate to be a purchasing incentive for residential property resales.

The German real estate market differs from other European residential markets both with regard to ownership structure and price development. With a share of house and apartment ownership of 43 %, Germany occupies one of the lowest ranks in a European comparison. Of special note is the extremely stable price trend in residential property – in contrast to other European countries like Ireland, the UK, France and Spain. However, various surveys confirm enormous regional differences in German prices and rents. Prices are chiefly driven by intensified demand for residential space in metropolitan areas, combined with the low vacancy rate in these regions.

More and more, private and institutional investors are recognizing the value of real estate assets, and are using them to build up their investment portfolios. Of special note, residential properties in particular are popular with conservative and long-term investors, while buyers are generally German investors with high equity. While a residential property portfolio costs more to manage, it is less risky in a poor economy than office or commercial property. Housing is a basic need. Rental properties offer a stable, dependable cash flow.

1.3 KEY EVENTS IN THE INVESTMENTS SEGMENT

RESIDENTIAL PROPERTY RESALE

Residential Property Resale manages individual sales of residential real estate to tenants, owner-occupiers and private investors.

Revived demand for residential property resales in 2009 resulted in higher sales figures than the prior year. While in 2008 just 476 apartments were sold to private individuals, in the year under review, it was 657 apartments – 38 % growth. We attribute this to attractive conditions for real estate purchases and the higher appeal of investments in fixed assets. It must be noted that due to the impact of the financial market crisis and unusually poor sales, figures from 2008 are only suitable for comparison to a limited extent. As a steady trend, more and more private investors (60 %) and owner-occupiers (37 %) represent the majority of buyers. At 3 %, the number of tenants was much lower than the prior year (2008: 19.4 %). This is due to the fact that no new properties were put up for sale in the year under review.

Residential Property Resale in 2009 by quarter

	1st quarter	2nd quarter	3rd quarter	4th quarter	2009	2008	Change
Privatized units	110	147	216	184	657	476	38.0 %
Average sales price	EUR 2,276 per sqm	EUR 2,355 per sqm	EUR 2,341 per sqm	EUR 2,395 per sqm	EUR 2,351 per sqm	EUR 2,322 per sqm	1,2 %

ASSET REPOSITIONING

A further sales channel is bundling residential properties into portfolios for sale to private and institutional investors. The latter remained reserved with regard to German residential properties in 2009 due to uncertainties about the general economic environment. Despite many investors expressing an interest in acquiring residential real estate, few transactions were concluded in 2009. Until year-end, we completed four block sales with a total of 289 residential units that were recognized in income. In Hamburg, Cologne and Wiesbaden, smaller portfolios of 26 to 36 units were sold; a block sale in Munich comprised 194 units. Net actual rent multiples of between 18 and 26 were generated.

Block sales in 2009 by quarter

	1st quarter	2nd quarter	3rd quarter	4th quarter	2009	2008	Change
Units via block sales	0	0	33	256	289	722	–60.0 %
Number of transactions	–	–	1	3	4	5	–20.0 %
Average sales price	–	–	EUR 1,803 per sqm	EUR 2,221 per sqm	EUR 2,177 per sqm	EUR 1,912 per sqm	13.9 %

In 2009, a total of 946 units were placed via residential property resale and block sales. This corresponds to 7.8 % of our entire real estate portfolio as of January 1, 2009. Sales by region were as follows:

Region/city	Number of units sold 2009	Share of sales 2009	Area sold in sqm	Average size per unit in sqm
Munich	642	67.9 %	43,196	67
Cologne/Dusseldorf	83	8.8 %	6,693	81
Hamburg	90	9.5 %	5,775	64
Leipzig	0	0 %	0	–
Berlin	14	1.5 %	998	71
Frankfurt/Main	50	5.3 %	3,624	72
Hanover	5	0.5 %	333	67
Regensburg	41	4.3 %	2,581	63
Dresden	0	0 %	0	–
Friedrichshafen	21	2.2 %	1,261	60
TOTAL	**946**	**100 %**	**64,461**	**68**

Taking into account the sales concluded in 2009 and subsequent redensification measures, our portfolio included 11,100 at year-end. We anticipate that around one-third of the units will be residential property resales and the remaining two-thirds block sales.

The PATRIZIA portfolio – breakdown by region as of December 31, 2009:

Region/city	Number of units	Share of portfolio	Area in sqm	Share of portfolio
Munich	4,489	40.4 %	309,354	39.8 %
Cologne/Dusseldorf	1,482	13.3 %	129,333	16.7 %
Hamburg	1,260	11.3 %	83,832	10.8 %
Leipzig	981	8.8 %	64,391	8.3 %
Berlin	943	8.5 %	60,622	7.8 %
Frankfurt/Main	896	8.1 %	55,973	7.2 %
Hanover	432	3.9 %	29,834	3.8 %
Regensburg	416	3.7 %	28,700	3.7 %
Dresden	152	1.4 %	10,284	1.3 %
Friedrichshafen	69	0.6 %	4,539	0.6 %
TOTAL	**11,120**	**100 %**	**776,862**	**100 %**

NO GROWTH WITHOUT FOUNDATION.

PROJECT DEVELOPMENT

PATRIZIA manages its own project development while also offering this service to third parties.

As part of PATRIZIA's own projects, 32 exclusive condominiums are to be created in two houses in Augsburg, where the company is headquartered. The total investment volume of the apartments in the centrally located residential area “Am Schwalbeneck”, planned according to KfW energy efficiency house 50 standards amounts to EUR 10 million including the purchase price. Construction started in spring 2009 and we are estimating that it will be completed at the end of the third quarter of 2010. The property will be entirely resold; more than 70 % of the apartments have already found buyers.

PATRIZIA will also build the "Isartor Palais" in a premium inner-city location, in close proximity to Munich’s Viktualienmarkt. The mixed use construction – which also complies with the standards of a KfW energy efficiency house 50 – includes some 470 sqm of retail space, 1,400 sqm of office space and 15 residential units with between 50 and 260 sqm of living space each. More than half of the space to be constructed is already rented, and rentals for the remaining space are progressing on schedule. The Zwingerstrasse project is scheduled for completion in fall 2010 and will be sold en bloc. We will begin our search for investors in spring 2010.

In a second Munich project, PATRIZIA is building an apartment block with 11 apartments on Herthastrasse in the neighborhood of Nymphenburg. All units are likely to have been resold by completion in the fourth quarter of 2010. Sales to date are 55 %.

A joint venture (F 40 GmbH) was launched in 2007 with LBBW Immobilien Development Beteiligungen GmbH, a subsidiary of Landesbank Baden-Württemberg, to execute the development project on Feuerbachstrasse, Frankfurt/Main. In December 2009, our joint venture partner exited for strategic reasons. PATRIZIA has purchased an additional 44.9 % stake in F 40 GmbH for the nominal sum of EUR 0.90. The remaining 5.1 % has been acquired by the PATRIZIA KinderHaus Foundation. For more information about the balance sheet, please see the section Net Assets, Financial and Earnings Situation and the Notes.

On the property of F 40 GmbH, which was fully consolidated for the first time, in Frankfurt's Westend neighborhood, new construction is starting on an office building and residential quarters with premium-segment condominiums. The property, to be constructed using the KfW energy efficiency house 50 standard, will have geothermic technology. More specifically, six city villas and a residential building with a total of 64 apartments and total living space of around 16,350 sqm will be built here, together with a ten-story office building with approximately 5,500 sqm of office space. Because obtaining the required planning and building permits took longer than originally expected, in 2010 the deconstruction of the existing buildings will begin; the final construction phase is scheduled for completion in mid-2013.

PATRIZIA's own project developments:

City, project	Size of site	Gross floor, space planned	Planned investment volume	Start of construction	Planned completion
Augsburg, Am Schwalbeneck	2,800 sqm	3,300 sqm	EUR 10 million	Q1 2009	Q3 2010
Munich, Zwingerstrasse	900 sqm	4,200 sqm	EUR 25–30 million	Q1 2009	Q3 2010
Munich, Herthastrasse	1,310 sqm	1,100 sqm	EUR 3.7 million	Q3 2009	Q4 2010
Frankfurt/Main, Feuerbachstrasse	8,000 sqm	29,500 sqm	EUR 150 million	Q3 2010	2013

PATRIZIA is assuming responsibility for project development, management and supervision of two projects on behalf of third-party clients: first, the extension to the company's headquarters in Augsburg with additional commercial space and a public underground garage, and second the Hanse Cube in Hamburg, which has earned silver pre-certification from the German Sustainable Building Council. Wolfgang Egger or companies indirectly or directly attributable to him have commissioned both projects. For more information, see item 9.3 of the Notes.

1.4 KEY TRANSACTIONS IN THE SERVICES SEGMENT

The Services segment saw a weak transaction market for larger properties due to the financial market crisis. Services were primarily performed for our funds.

FUNDS

PATRIZIA Immobilien Kapitalanlagegesellschaft mbH
By establishing the subsidiary PATRIZIA Immobilien Kapitalanlagegesellschaft mbH (KAG) in 2007, PATRIZIA Immobilien AG added special real estate funds to its range of services for institutional real estate investors. Through the end of 2009 our KAG managed three funds: PATRIZIA German Residential Fund I, a portfolio manager of high-profit residential properties in Germany, had secured equity commitments of EUR 130 million as of the end of 2009. PATRIZIA Euro City Residential Fund I, which invests in European residential properties, secured equity commitments of EUR 200 million and is thus fully subscribed. The investment focus lies on Germany and other select European regions such as Sweden, Denmark and France. The investment volume of both funds totals EUR 400 million. 2009 proved difficult for the acquisition of further properties; one restricting investment factor was the short supply of premium real estate at fair market prices.

Apart from these funds, PATRIZIA also offers tailored solutions to institutional investors: Individual and transfer funds can be used to design and realize portfolios with tax advantages, taking into account personal needs with regard to risk preference, fungibility, return and holding period of the properties. Our KAG launched a transfer fund with a volume of EUR 185 million at the end of 2009. The fund assets are derived from the real estate portfolio of VPV Lebensversicherungs-AG (VPV), which comprises a total of 39 residential and commercial properties with floor space of approximately 148,000 sqm. As of December 31 , 2009 PATRIZIA Immobilien KAG managed real estate assets of approximately EUR 430 million.

Funds of PATRIZIA Immobilien Kapitalanlagegesellschaft mbH as of December 31, 2009:

	Investment volume	Committed equity	Invested volume
PATRIZIA German Residential Fund I	EUR 400 million	EUR 130 million	EUR 120 million
PATRIZIA EuroCity Residential Fund I	EUR 400 million	EUR 200 million (fully subscribed)	EUR 125 million
VPV Immo PATRIZIA I	EUR 185 million	Transfer fund	EUR 185 million

The individual PATRIZIA Group companies act as service providers for the investment company's special funds, thus generating fees. There are no conflicts of interest between purchases for the funds and proprietary purchases by PATRIZIA, since the purchase criteria for the real estate are different from one another. In most cases, the portfolio real estate purchased for the funds is already fully developed and is intended to be held as fund assets over a long period. We will also avoid conflicts of interest when initiating future fund products.

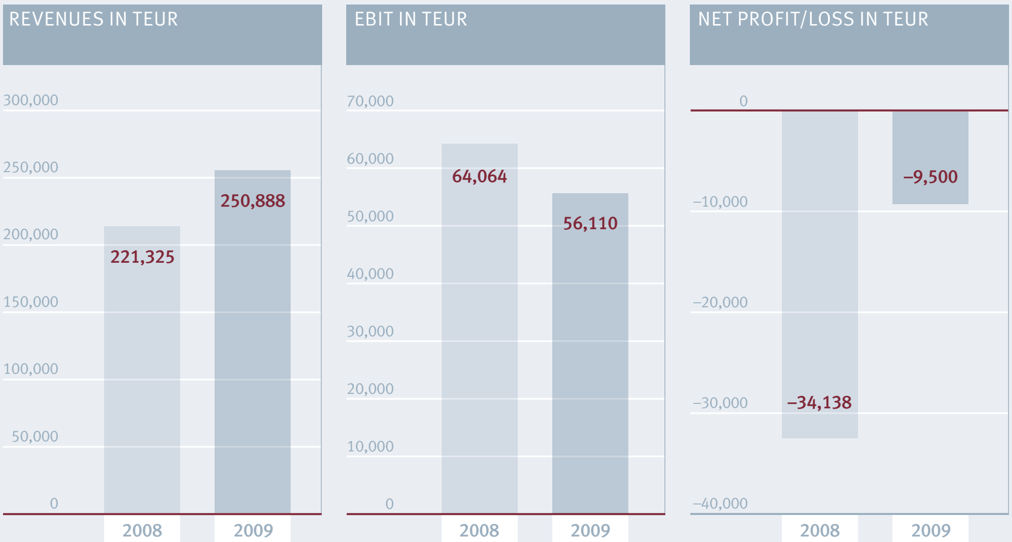
INVESTMENT MANAGEMENT

PATRoffice Real Estate GmbH & Co. KG
Our co-investment with pension funds APG of the Netherlands and ATP Real Estate of Denmark, PATRoffice Real Estate GmbH & Co. KG, had fully invested the tranche of EUR 355 million as of the end of 2008. Thus, in 2009 no other investments were made. However, in 2009, the first value-added property of the actively managed co-investment was successfully resold. PATRIZIA Immobilien AG owns 6.25 % of PATRoffice's equity.

2. NET ASSET, FINANCIAL AND EARNINGS SITUATION

2.1 EARNINGS SITUATION OF THE GROUP

Development of key items in the consolidated profit and loss account:



In 2009, PATRIZIA generated consolidated revenues of EUR 250.9 million. In the previous year, revenues were EUR 221.3 million. The increase of EUR 29.6 million or 13.4 % is due to contradictory effects: on the one hand, higher sales revenues of EUR 33.5 million were generated than in the prior year and revenues for services by the Services segment grew by EUR 4.2 million. On the other hand, rental revenues declined along with operating costs that could be passed on due to the sales of rental properties, totaling EUR 8.0 million.

Increased revenues for sales include growth in individual sales of rental units by EUR 25.1 million and an increase in block sales by EUR 8.4 million. The increase in residential property resales – 181 more apartments were sold than in 2008 – translated into sales proceeds of EUR 99.0 million (2008: EUR 74.0 million). Three block sales with a total of 263 units resulted in revenues of EUR 49.0 million (2008: EUR 40.6 million).

Due to ongoing sales of rented property, rental revenues did not meet 2008 levels. Rental revenues declined by 3.9 % to EUR 70.1 million (2008: EUR 73.0 million). Some rents were increased in the remaining portfolio. Average rent per square meter for the overall portfolio as of December 31, 2009 was EUR 7.82 per month (December 31, 2008: EUR 7.31). Annual administrative costs for real estate management accounted for EUR 240–270 per apartment.

The Services segment achieved very satisfactory results, significantly increasing revenues by 67.9 % to EUR 10.5 million (2008: EUR 6.2 million). This is primarily due to higher administration and commission proceeds from the fund area. Other revenues chiefly comprise rental ancillary costs, which declined parallel to the rental revenues.

A breakdown of consolidated revenues is shown below:

	2009	Percentage of Group revenues 2009	2008	Change
	EUR '000	%	EUR '000	%
Purchase price revenues from Residential Property Resale	98,981	39.5 %	73,906	33.9 %
Purchase price revenues from Asset Repositioning	48,985	19.5 %	40,605	20.6 %
Purchase price revenues from Project Development	0	0 %	0	0 %
Rental revenues	70,132	28.0 %	73,011	–3.9 %
Revenues from the Services segment	10,492	4.2 %	6,249	67.9 %
Other	22,298	8.8 %	27,554	–19.1 %
CONSOLIDATED REVENUES	**250,888**	**100 %**	**221,325**	**13.4 %**

Proceeds from the sale of investment properties were significantly below the prior year's levels at EUR 0.4 million (2008: EUR 21.7 million), as larger real estate sales were generated in 2008 from non-current assets. This has contributed significantly to the fact that 2009 fell short of 2008's total operating performance.

Changes in inventories in the year under review were EUR –106.2 million. These related exclusively to decreases in the book value of real estate held in inventories (EUR –127.6 million) and capitalized renovation services (EUR 21.2 million) due to acquisitions that were not made. For the first time, this position includes EUR 0.2 million of capitalized construction period interest for projects of Project Development.

Other operating income rose sharply in 2009 from EUR 4.1 million to EUR 14.2 million. This is mainly due to the acquisition of an additional 44.9 % stake in F 40 GmbH, our former joint venture in Project Development, for a nominal fee of EUR 0.90. Since December 21, 2009 F 40 GmbH is a fully consolidated subsidiary in PATRIZIA's consolidated financial statements. The positive result from discontinuation of the equity method as well as the surplus in market value of the shares from the purchase costs increased the result by EUR 8.0 million, taking into account deferred tax liabilities. For more details, please see the Notes to the Consolidated Financial Statements.

The reduced real estate portfolio is also reflected in the cost of materials, which dropped year-on-year by EUR 5.1 million or 7.8 % to EUR 60.9 million. Besides renovation and maintenance costs, this includes rental ancillary costs for which we posted cost transfer to tenants in the Other revenues item. In 2009, the posted renovation costs for our residential real estate portfolio amounted to EUR 15.2 million, while maintenance costs were EUR 8.8 million. In total, EUR 21.4 million were capitalized. It is important to us to optimize the structural condition of the properties in our portfolio to make them more attractive to renters and buyers. The modernization measures we carry out while holding the real estate (generally for a brief time period) increase its appeal and consequently also purchase prices.

Despite lower employee numbers (357 on average), staff costs rose by 6.5 % year-on-year to EUR 23.9 million (2008: EUR 22.4 million; average of 374 employees for the year). This was due to higher sales commission for employees following higher sales proceeds and the inclusion of variable, performance-based salary components for management. In 2008, some managers did not receive variable, performance-based salary components.

Staff costs also include the remuneration of the Managing Board. This consists of non-performance-related and performance-related components. The non-performance-related components comprise fixed basic compensation that is paid as a monthly salary, pension contributions and other agreed payments. Performance-related compensation components include one-time as well as annually payable components linked to the performance of the Company and its shares. The total remuneration of the Managing Board was EUR 1.0 million in the reporting year (2008: EUR 1.1 million). In 2009 and 2008, there were no variable components paid out to management based on the performance of the company or its shares. The Supervisory Board's remuneration is reported under other operating expenses and also comprises fixed and variable components. Detailed information on the remuneration structure for the Managing Board and the Supervisory Board can be found in the Corporate Governance Report and the Notes to the Consolidated Financial Statements.

Other operating expenses rose slightly by EUR 0.4 million to EUR 17.6 million. Offsetting effects had an impact. While administration and selling expenses, which were lowered by EUR 2.6 million with cost-cutting measures in 2009, helped reduce operating expenses, other expenses were EUR 2.9 million higher. This includes amongst others additional risk provisioning for receivables in the amount of EUR 1.5 million.

	2009	2008	Change
	EUR '000	EUR '000	%
Administrative expenses	9,138	10,538	–13.3 %
Selling expenses	4,263	5,454	–21.8 %
Other expenses	4,152	1,207	244.0 %
Other operating expenses	**17,553**	**17,199**	**2.1 %**

EBIT calculated in accordance with IFRSs dropped from EUR 64.1 million to EUR 56.1 million (–12.5 %). This absolute reduction of EUR 8.0 million is due to the fact that while income from the sale of investment property was EUR 21.7 million in 2008, income from the sale of investment property was EUR 0.4 million in 2009; the gain from the initial consolidation of F 40 GmbH was EUR 8.0 million.

The Investments segment contributed the most to EBIT at EUR 67.0 million. The Services segment contributed only EUR 2.8 million or 5.0 % to Group EBIT, but was EUR 3.4 million above the previous year's loss (2008: EUR –0.6 million). In the medium term the aim is to increase the contribution to earnings to 10 % in order to generate stable earnings for PATRIZIA from recurrent income. In the Services segment there is no impact from interest hedge developments since external financing within the Group is only deployed at property level for real estate financing. With a positive financial result, the Services segment generated earnings before taxes of EUR 4.1 million. After deduction of the negative financial result from the Investments segment, EBT is EUR 5.5 million. Further information on the Investments and Services segments can be found in Segment Reporting in item 7 of the Notes.

The financial result is significantly influenced by the market valuation of interest rate hedges as of the closing date. The market valuation is recognized in the financial result as income or expense depending on changes in the interest rate level, causing the results to fluctuate substantially.

Financial income declined year-on-year from EUR 30.0 million to EUR 12.3 million. The sharp decrease of 59 % is primarily due to the market valuation of the interest rate hedging instruments. In 2009 this resulted in earnings of just EUR 5.8 million, down from EUR 21.1 million in the prior year.

Of the financial expenses totaling EUR 76.3 million, EUR 16.2 million are from market valuation of the interest rate hedges. This is EUR 37.7 million less than the prior year (2008: EUR –53.9 million). Pure interest expenses for bank loans plus expenses from interest hedges dropped from EUR 72.5 million in 2008 to EUR 60.1 million. The elimination of interest rate hedges in Q1 2009 for an underlying loan volume of EUR 90 million had a positive impact: over the year, we profited from low interest on this loan. Despite these savings and the considerably lower measurement effect, financing costs for the 2009 financial year were only slightly lower than in 2008.

Higher bank margins largely balanced out the advantages of lower interest on our renewals. Of special note, however, our rental income for 2009 (EUR 70.1 million) exceeds our financing result adjusted by effects from interest rate hedges measurement (EUR –53.6 million) by 30.6 %. This is significant for us, as defined interest service coverage ratios and debt service coverage ratios (ISCR, DSCR) are covenants in our loan agreements.

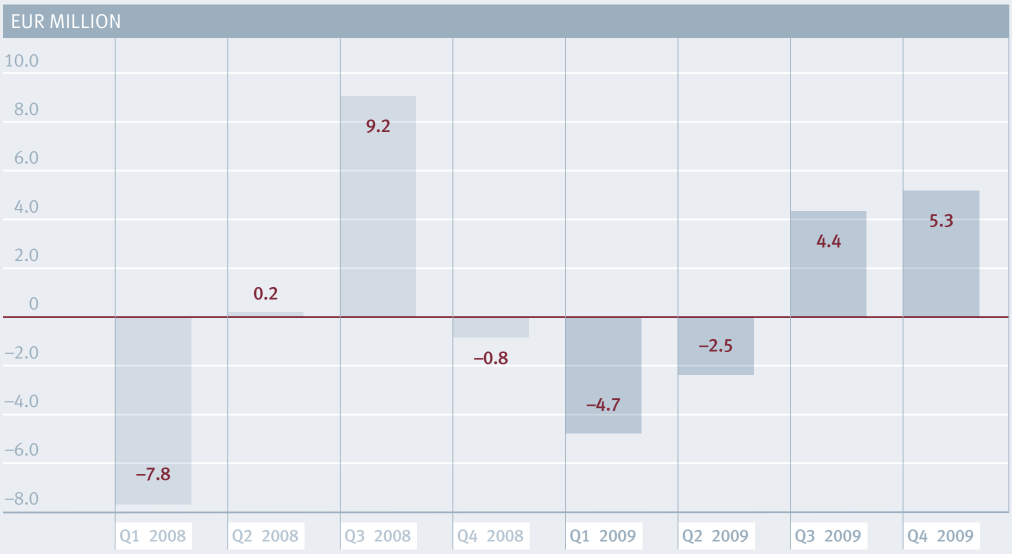
Because the interest rate changed over the year, the market valuation of the interest rate hedges in 2009 was EUR –10.4 million. In 2008, this resulted in a negative impact of EUR –32.8 million. The following table shows the valuation during 2009 (hedged interest rate 4.15 %):

	1st quarter March 31, 2009	2nd quarter June 30, 2009	3rd quarter Sept. 30, 2009	4th quarter Dec. 31, 2009	2009	2008
	EUR MILLION	EUR MILLION	EUR MILLION	EUR MILLION	EUR MILLION	EUR MILLION
Loss from/gain on the market valuation of interest rate hedges	–11.3	3.0	–4.3	2.2	–10.4	–32.8

After deduction of the financial result, PATRIZIA's EBT under IFRSs was EUR -8.0 million (2008: EUR –32.4 million). The significant improvement on year-on-year financial result was impacted, as stated above, by EUR –10.4 million due to market valuation of the interest rate hedges. However, because this change in fair value has no cash effect and no impact on PATRIZIA's operating business, we are posting the adjusted operating pre-tax earnings as EBT adjusted.

"Adjusted" is being added to reflect the operating earnings power of PATRIZIA, without being influenced by measurement-related, non-cash effects. In the year under review, this criterion only pertained to the results of market valuation for interest rate hedges. Further effects were not eliminated.

Overview of EBT (adjusted) by quarter



Adjusted operating pre-tax earnings improved in 2009, rising to EUR 2.4 million (2008: EUR 0.8 million). During 2009, our operating result increased from quarter to quarter, so that EBT adjusted in the fourth quarter of EUR 5.3 million, more than compensated for the pre-tax loss of the first nine months (EUR –2.8 million).

Calculation of EBT adjusted:

2009	1st quarter	2nd quarter	3rd quarter	4th quarter	2009
	EUR MILLION	EUR MILLION	EUR MILLION	EUR MILLION	EUR MILLION
EBT posted in accordance with IFRSs	–16.0	0.5	0.1	7.5	–8.0
Elimination of effects from market valuation of interest rate hedges	11.3	–3.0	4.3	–2.2	10.4
EBT adjusted	**–4.7**	**–2.5**	**4.4**	**5.3**	**2.4**

2008	1st quarter	2nd quarter	3rd quarter	4th quarter	2008
	EUR MILLION	EUR MILLION	EUR MILLION	EUR MILLION	EUR MILLION
EBT posted in accordance with IFRSs	–18.6	21.3	–0.8	–34.3	–32.4
Elimination of effects from reversal of 165 residential units	0.5	0.0	0.0	0.0	0.5
Elimination of effects from the market valuation of interest rate hedges	10.3	–21.1	10.0	33.5	32.8
EBT adjusted	**–7.8**	**0.2**	**9.2**	**–0.8**	**0.8**

After deduction of income taxes, the net loss for 2009 was EUR –9.5 million (2008: EUR –34.1 million). With regard to taxes, it should be noted that in 2008, there was no interest barrier with use of escape clause. In the year under review, our companies located in Luxembourg were negatively impacted by the interest barrier, resulting in tax expenses of EUR 1.7 million.

Earnings per share rose in 2009 from EUR –0.65 to EUR –0.18.

An overview of the key items in the profit and loss account:

	2009	2008	Change
	EUR '000	EUR '000	%
Revenues	250,888	221,325	13.4 %
Total operating performance	159,253	171,558	–7.2 %
EBIT	56,110	64,064	–12.4 %
EBT	–7,961	–32,408	75.4 %
EBT adjusted*	2,419	842	187.3 %
Consolidated net loss	–9,500	–34,138	72.2 %

* adjusted for profit/loss from interest hedges without cash effect

2.2 NET ASSET AND FINANCIAL SITUATION OF THE GROUP

The development of our consolidated balance sheet was shaped by the sale of real estate assets and the reduction of bank liabilities in 2009. As a result, our total assets decreased by 6.0 % from EUR 1,517.2 million to EUR 1,426.4 million.

Our real estate investments, consisting of investment properties and inventories, decreased in the year under review from EUR 1,388.9 million to EUR 1,333.3 million as of December 31, 2009. This absolute reduction of EUR 55.6 million stems from disposals through the sale of investment properties in the amount of EUR 2.7 million and changes in inventories for real estate held in inventory in the amount of EUR –106.2 million. The Frankfurt Feuerbachstrasse property was also added upon the initial consolidation of F 40 GmbH with a fair value of EUR 51.5 million.

This investment property is recognized at fair value in profit or loss in accordance with IAS 40 and amounted to EUR 657.3 million as of December 31, 2009. No value adjustments were posted on portfolio level. The Munich-Ludwigsfeld property, which was posted in 2008 under investment properties under construction, was transferred to inventory as of December 31, 2009. The property's book value was EUR 12.9 million as of the year-end.

The real estate intended for sale as part of ordinary business operations is reported in the inventories and measured at amortized cost. Owing to decreases in carrying value and the balance sheet reclassifications, inventories decreased by EUR 41.8 million to EUR 676.0 million.

Current receivables and other current assets dropped to EUR 29.4 million (2008: EUR 41.6 million). Bank balances and cash also decreased from EUR 67.9 million in 2008 to EUR 56.2 million as of December 31, 2009.

On the **liabilities** side of the balance sheet, the Company's equity had decreased by EUR 6.7 million to EUR 284.8 million by the end of the 2009 fiscal year. In the process, measurement results from existing cash flow hedges reduced equity by EUR 6.1 million. Due to the consolidated net loss for the year of EUR –9.5 million calculated in accordance with IFRSs, consolidated net profit fell to EUR 21.5 million as at December 31, 2009. Equity per share dropped slightly to EUR 5.46 (December 31, 2008: EUR 5.59). The equity ratio increased to 20.0 % (previous year: 19.2 %). For the medium term, the Group is aiming for an equity ratio of at least 25 %.

Due to the initial full consolidation of F 40 GmbH, as mentioned several times previously, current bank liabilities rose to EUR 27.0 million. In 2009, loans of EUR

14.3 million were taken up; repayment of loans was EUR 127.7 million. Since a large part of cash inflows from real estate sales was used to repay loans, amounts due to banks dropped EUR 91.5 million to EUR 1,070.2 million over the course of the year. Regardless of the actual terms, loans which serve to finance the inventories are reported as short-term bank loans in the balance sheet – in line with inventories – in accordance with IFRSs. Bank loans due in less than 12 months amounted to EUR 171.7 million (16.1 %) of all bank liabilities as of the reporting date of December 31, 2009. The terms of our bank loans were thus structured as follows as of December 31, 2009.

Residual term	Total floating-rate financial liabilities as of December 31, 2009		Total floating-rate financial liabilities as of December 31, 2008	
	EUR '000	%	EUR '000	%
Less than 1 year	171,727	16.1 %	597,884	51.5 %
1 to 2 years	551,307	51.5 %	117,673	10.1 %
2 to 5 years	347,173	32.4 %	269,753	23.2 %
More than 5 years	0	0 %	176,425	15.2 %
TOTAL	**1,070,207**	**100 %**	**1,161,735**	**100 %**

Maturity of loans by fiscal year (January 1 to December 31)

Year of maturity	Amount of loans due	Portion of loans due
	EUR '000	%
2010	171,727	16.1 %
2011	551,307	51.5 %
2012	0	0 %
2013	182,472	17.0 %
2014	164,701	15.4 %

As at December 31, 2009, there were loan agreements with nine different German banks, concluded exclusively in euro. In accordance with the loan agreements with the lending banks and our business model, we will reduce some loans during the project – according to the sales status. When selling the real estate or individual units, between 85-90 % of the sales proceeds flow into repayment. Interest rate change risks are largely hedged using interest swaps and collars. Detailed explanations in this respect can be found in points 4.4 and 5.8 of the Notes to the Consolidated Financial Statements. The main credit terms are presented in the Risk Report.

Liquidity management ensures that PATRIZIA is solvent at all times. Most of the individual Group companies are directly linked to and monitored by the automatic cash pooling system of the Group. On a same-day basis, account surpluses are transferred to the parent company and account deficits are offset by it. To ensure the solvency of the Group, a liquidity reserve is maintained in the form of cash.

From the current business activities, we posted cash inflows of EUR 101.8 million; in 2008 we had generated cash inflows of just EUR 29.0 million. Cash outflows from investing activity were EUR –0.2 million. In the previous year, cash flow from investing activities amounted to EUR 78.2 million due to extensive sales of real estate for investment purposes. Cash outflows from financing activities was EUR –113.4 million, as more loans were repaid than taken up. In 2008, borrowing and repayment of bank loans resulted in cash outflows of EUR –93.3 million. The change in cash thus amounted to EUR –11.7 million (previous year: EUR 13.9 million), with the result that cash, which totaled EUR 67.9 million at the end of 2008, decreased to EUR 56.2 million as of December 31, 2009.

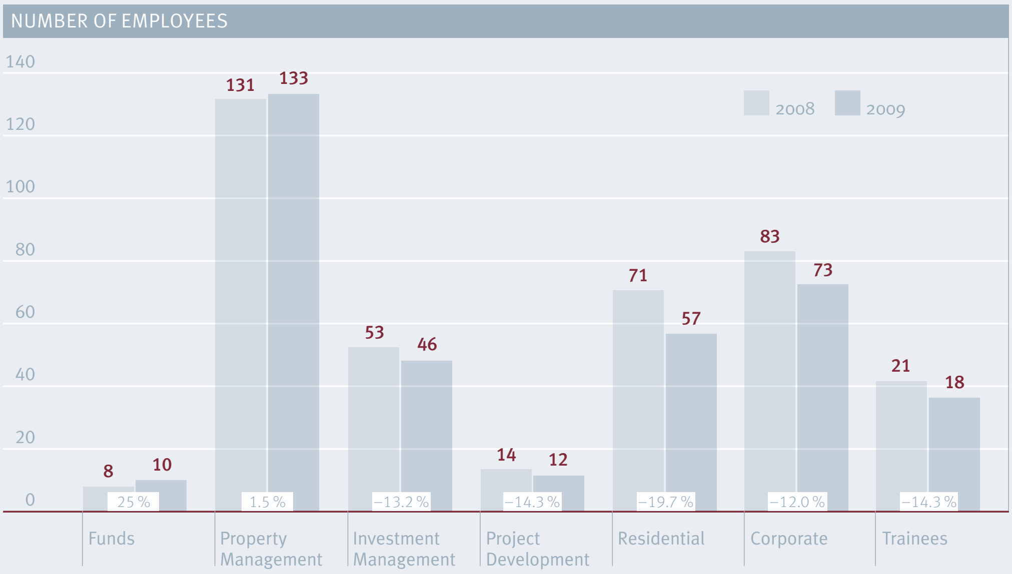
Summary of the 2009 Cash Flow Statement

	2009	2008	Change
	EUR '000	EUR '000	%
Cash inflow from operating activities	101,805	28,958	251,6 %
Cash outflow/inflow from investing activities	–171	78,184	–100.2 %
Cash outflow from financing activities	–113,356	–93,250	–21.6 %
Changes in cash	–11,722	13,892	–184.4 %
Cash and cash equivalents (Jan. 1)	67,905	54,013	25.7 %
Cash and cash equivalents (Dec. 1)	56,183	67,905	–17.3 %

2.3 EMPLOYEES

As of December 31, 2009, the PATRIZIA Group had 349 permanent employees, including 18 trainees and students of Duale Hochschule Stuttgart majoring in real estate (December 31, 2008: 381 employees). In 2009, all trainees received an employment offer from PATRIZIA after passing their examinations. Thirty-six employees are part-time. Over the course of the year, the number of employees dropped by 32. On average during 2009, PATRIZIA employed 357 staff throughout the Group (2008: 374 employees).

Staff changes by business lines



2.4 SUSTAINABILITY

PATRIZIA Immobilien AG supports various organizations in the real estate industry that are committed to sustainability and environmentally-conscious actions. Particularly with regard to new project development, the careful use of resources plays a central role in construction measures. As an approved auditor by the German Sustainable Building Council, a project manager of PATRIZIA Projektentwicklung GmbH assists in the design of new construction. We rate the environmental expertise of the German construction industry as high on an international scale. This also benefits our existing buildings: As part of the construction measures to enhance the value of our real estate, we are optimizing energy standards using modern, efficient technologies, thereby contributing to the protection of the environment and climate over the long term. This includes, for instance, installing new windows and heating systems and heat insulation for façades, ceilings and roofs. Apart from the ecological aspects, the economic efficiency of the measures is important to us. Offering high quality buildings also benefits our renters and buyers, primarily due to lower ancillary costs. To evaluate which measures are sensible in terms of energy savings, PATRIZIA examines the entire value creation process and life cycle of the property, e.g. the energy consumption tied to construction and the energy requirements for the use of the building are taken into equal consideration. To include our tenants in the process, PATRIZIA Immobilienmanagement regularly conducts tenant surveys. We help raise tenant awareness of sustainability with an information program and practical tips on saving energy at home, along with ideas for conserving energy elsewhere, such as the workplace.

2.5 NON-RELEVANT SUBAREAS

The PATRIZIA Immobilien AG Group Management Report does not contain any information on certain subareas, as these are not relevant for the Company. This includes statements on research and development, as this is not carried out within the Group. We have included statements on comparable activities, such as our research. Procurement and production, in the conventional sense, do not apply to PATRIZIA's operating activities as an investor and service provider either. Real estate intended for resale in the short term is reported under inventories. Purchasing due diligence ("procurement") and the implementation of value-enhancing measures ("production") take place on an individual basis according to the property concerned, as this is the only way we can offer tailored solutions.

2.6 NOTES ON THE ANNUAL FINANCIAL STATEMENTS PREPARED UNDER HGB FOR PATRIZIA IMMOBILIEN AG (HOLDING)

The position of the parent company PATRIZIA Immobilien AG is essentially determined by the activities of the operating companies of the Group. As a purely holding and service company for these companies, PATRIZIA Immobilien AG generated revenues of EUR 6.4 million (2008: EUR 9.6 million), generated mostly from management cost allocations to the subsidiaries. This allocation was reduced in 2009. The AG's revenue also benefits from commission income for services performed by the subsidiaries. These services are invoiced by the AG and handled internally and booked under cost of materials. This rose in 2009 to EUR 2.4 million (2008: EUR 0 million) and includes the purchasing and sales commissions in connection with the purchase or establishment of special funds of PATRIZIA Immobilien Kapitalanlagegesellschaft mbH. The prior year's other operating income resulted from the sale of shares in a subsidiary amounting to EUR 16.4 million. There were no comparable one-off effects in 2009, which reduced this item considerably to EUR 0.2 million. Staff costs rose by 6.5 % to EUR 6.1 million (2008: EUR 5.7 million), while the number of employees dropped from 83 to 73 over the year. Other operating expenses declined year-on-year from EUR 5.0 million to EUR 4.5 million. The EUR 1.0 million decrease in net interest income results from such factors as lower interest on fixed term deposits and interest expenses for backpayment of taxes after a completed tax audit. The parent company's profit/loss consists of the operating profit/loss of the Company itself and profits and losses of the subsidiaries with which profit and loss transfer agreements exist. Income from profit transfers totaled EUR –2.3 million (previous year: EUR –7.6 million). PATRIZIA Immobilien AG's net loss under HGB for the 2009 financial year of EUR –2.8 million (2008: Net profit of EUR 11.6 million), combined with the profits carried forward of EUR 31.1 million represents the Company's distributable profit. Unappropriated profits amounted to EUR 28.3 million, a decline of 8.9 % in comparison with the previous year:

Summary of the PATRIZIA Immobilien AG balance sheet:

	December 31, 2009	December 31, 2008
	EUR '000	EUR '000
Non-current assets	150,002	150,136
Current assets	158,090	161,827
Prepaid expenses	87	95
Total assets	**310,014**	**314,203**
Equity	303,330	306,102
Provisions	2,194	2,103
Liabilities	4,490	5,998
Total equity and liabilities	**310,014**	**314,203**

Summary of the PATRIZIA Immobilien AG profit and loss account:

	2009	2008
	EUR '000	EUR '000
Revenues	6,392	9,605
Other operating income	238	16,549
Cost of materials	–2,435	0
Staff costs	–6,088	–5,716
Deprecation, amortization and write-downs and other operating expenses	–5,234	–5,769
Profit/loss from profit transfers and loss absorption	–2,275	–7,635
Net interest income	6,370	7,328
Result from ordinary activities	**–3,031**	**14,362**
Taxes	259	–2,809
Net profit/loss	**–2,772**	**11,553**
Profit carried forward	31,064	19,511
Unappropriated profit	**28,292**	**31,064**

TRANSACTIONS WITH REALTED COMPANIES AND INDIVIDUALS

The Managing Board submitted a dependent company report to the Supervisory Board, to which it adds the following final statement:

"As the Managing Board of the Company, we hereby declare that to the best of our knowledge at the time when the legal transactions listed in the report on relationships with affiliated companies were carried out and when measures were taken, the Company received appropriate consideration and was not disadvantaged as a result of any action taken."

Detailed information on business relationships with related companies and persons can be found in the notes to the consolidated financial statements under point 9.3.

DISCLOSURES IN ACCORDANCE WITH ARTICLE 289 (4) AND ARTICLE 315 (4) HGB (GERMAN COMMERCIAL CODE)

Disclosure under merger laws

As at December 31, 2009, the share capital of the Company consisted of 52,130,000 no-par-value registered shares. There are no restrictions, special rights or similar agreements with regard to the shares. All shares are admitted for trading in the Prime Standard of the Frankfurt Stock Exchange.

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

The appointment and dismissal of the members of the Managing Board conforms to Article 84 f. of the Aktiengesetz (AktG – German Stock Corporation Act); changes to the Articles of Association take place in accordance with Article 179 ff. of the AktG in connection with Article 16 of the Articles of Association of PATRIZIA Immobilien AG.

The Managing Board was authorized by resolution of the Annual General Meeting on June 23, 2009 to acquire shares in the Company valued at up to 10 % of share capital by December 23, 2010. The authorization may be exercised in whole or in partial amounts, on one or more occasions and in pursuit of one or more objectives by the Company and also by its Group companies or implemented for its or their account by third parties. At the option of the Managing Board, the acquisition will be made via the stock exchange, by way of a public purchase offer aimed at the shareholders of the Company, through the use of derivatives or through individually negotiated reacquisition. The acquired shares may subsequently be used for any legally permissible purpose; in particular, they may be redeemed, sold in exchange for non-cash contributions or to the shareholders or used to comply with subscription and conversion rights.

With the consent of the Supervisory Board, the Managing Board is also entitled to increase the share capital on one or more occasions by up to a total of EUR 26,065,000 in exchange for cash contributions or contributions in kind by issuing new no-par-value registered shares (Authorized Capital) until June 12, 2012. In certain cases, the Managing Board is authorized, with the approval of the Supervisory Board, to exclude the legal subscription rights of the shareholders. Furthermore, the Managing Board is authorized on one or more occasions, with the approval of the Supervisory Board to grant until June 12, 2012, in accordance with strict conditions of the bonds, convertible bonds, and/or bonds with warrant, made out to the bearer or registered and/or participatory rights with or without conversion privileges or option right or conversion obligation (referred to together in the following as the 'bonds') in the aggregate principal amount of up to EUR 750,000,000 with a term of up to 20 years and to grant the bearer or the creditor of bonds, conversion privileges or option rights to new, registered no-par-value registered shares of the Company with a pro rata amount of the share capital of up to EUR 26,065,000.

No agreements contingent upon a change in control subsequent to a takeover bid or compensation agreements made with the members of the Managing Board or employees for the event of a takeover bid exist.

DISCLOSURES IN ACCORDANCE WITH ARTICLE 289 (5) AND ARTICLE 315 (2) NO. 5 HGB (GERMAN COMMERCIAL CODE)

Primary characteristics of the internal control and risk management system with regard to the reporting process

PATRIZIA Immobilien AG has established the appropriate internal control systems for its reporting to offer sufficient security for the reliability of its financial reporting and creation of the published annual financial statements and quarterly reports throughout the year. However, the internal control system cannot offer absolute certainty with regard to avoiding errors or misstatements in reporting and auditing.

The internal control system includes all measures and processes to ensure that all transactions are entered uniformly, correctly and quickly into the bookkeeping and financial statements. It ensures compliance with legal regulations and standards while examining the effect of amendments to laws and standards and other notices on reporting and auditing. Separate functions and authorization regulations, which are reinforced by ongoing, standardized control and coordination systems, are a significant part of our internal control procedure. Moreover, our risk management system helps identify risks and to evaluate them relative to our company.

Bookkeeping is performed at each site based on Group-wide standards within a central IT environment; there are defined access rights for the system. The annual financial statements are produced almost exclusively for all Group companies at the head office of PATRIZIA Immobilien AG. The employees involved in the annual financial statements are properly trained; responsibilities and control are clearly defined for these statements.

The effectiveness of our accounting-related, internal control system, is evaluated as part of the final reporting procedures and also examined by our auditor as part of its audit engagement.

NO END WITHOUT A BEGINNING.

DISCLOSURES IN ACCORDANCE WITH ARTICLE 289a HGB (GERMAN COMMERCIAL CODE)

Declaration on corporate governance

PATRIZIA Immobilien AG disclosures about corporate governance are available to the public at www.patrizia.ag. Our Investor Relations pages include all key information under the navigation bar "Corporate Governance."

This includes

- the declaration of conformity pursuant to Article 161 AktG, available at http://www.patrizia.ag/en/investor_relations/corporate_governance/declaration_of_conformity.html
- relevant information about corporate management practices that extend beyond the legal requirements, and a description of the working methods of the Managing Board and Supervisory Board, available at http://www.patrizia.ag/en/investor_relations/corporate_governance/declaration_on_corporate_management.html

3. OPPORTUNITY AND RISK REPORT

3.1 RISK MANAGEMENT

Risk policy principles

The PATRIZIA Group's risk management system has proven to be most effective, even in the instable economic environment following the financial market crisis. Our risk policy principles are oriented toward safeguarding the continued existence and sustainable growth of the Group. To ensure that these objectives are attained, we have implemented a unified risk management system throughout the Company that is defined and monitored by the Managing Board. Our systematic risk management process ensures that risks are identified and recorded, assessed, controlled and monitored at an early stage. Opportunities are also analyzed at the same time in order to identify and utilize their associated potential for success. The corporate target system is a key basis for analyzing opportunities and risks.

We place great importance on a balanced ratio of opportunity to risk. Without the willingness to take risks, we would pass up potential opportunities as well. Our method is to enter into appropriate risks if there is a strong likelihood of realizing the associated sustained value enhancement potential of PATRIZIA. We do not enter into risks with which we do not expect sustained value enhancement or which appear unlikely to result in value enhancement. Transactions of a speculative nature are strictly prohibited. If risks are unavoidable or arise unforeseeably, we hedge them via risk instruments and appropriate countermeasures.

The risk management organization

The task of Group-wide risk management and its uniform representation for all affiliated entities is assigned to PATRIZIA Immobilien AG as the holding company. A risk management working group which is organizationally assigned to the Controlling and Legal departments is responsible for implementing the risk management processes introduced throughout the Company and reports directly to the Managing Board on a regular basis. It designs the identification process, monitors compliance with the processes and allocates responsibilities for the individual risks. Each employee of PATRIZIA Immobilien AG and its subsidiaries is obliged to be mindful of potential risk in the course of his or her dealings. Risks can also take the form of missed or insufficiently utilized opportunities. The direct responsibility for early detection of risks and for reporting these to the next level of management is assigned to the operating supervisors and managing directors of the relevant entities. At Managing Board level, responsibility for risk management falls within the remit of the Chief Financial Officer of PATRIZIA Immobilien AG.

The risk management process

Both the efficiency and effectiveness of the PATRIZIA risk management system are assessed twice a year by means of an internal risk audit as well as through regular monitoring of compliance with the risk management processes. During the internal risk audit, the managers of the various operating business segments are surveyed in order to monitor and quantify risks and assess the probability of their occurrence on an ongoing basis. Furthermore, measures are determined for reducing each risk and managers are assigned responsibility for implementing them. The results appear in a risk report which presents the organizational measures and regulations regarding risk recognition, quantification, communication, supervision and control. At the same time, the comprehensive documentation of this report ensures an orderly assessment which can be conducted both externally by the auditor and internally by the responsible departments as well as by the Supervisory Board. In addition to the Managing Board, the directors of the operating companies are also informed of the risk inventory's results.

All employees are instructed to report all risks to risk management. Risks are quantified according to their probability of occurrence of between 0 % and 100 % and the magnitude of potential damage. Overall risk is calculated and updated over a specific period of time by linking the various parameters. By systematically analyzing risks and regularly monitoring our risk management system, we are able to advance and improve internal structures and processes on an ongoing basis.

3.2 RISK-RELATED DEVELOPMENTS

Individually, or in conjunction with other situations, occurrence of the individual risks described below can impair the operating activities of PATRIZIA and negatively impact the net asset, financial and earnings situation of the Company and the Group. The risks listed may not be the only risks to which PATRIZIA is exposed. Other risks that are not currently known or risks that we regard as immaterial at present could also impair our operating activities. From the current perspective, all risks are limited and do not pose a threat to PATRIZIA's continued existence.

MARKET AND INDUSTRY RISKS

Macroeconomic development

Although PATRIZIA only operates within the German real estate market in respect of its own investments, pan-European and/or global economic developments could impact the Company's performance in a positive as well as a negative manner. The effects of the financial market crisis on the goods and services industry will persist in 2010. In line with various forecasts for 2010, we expect a slight upturn in economic growth within the German economic area. Despite the slight economic revival, a rise in unemployment seems probable. The continuing liquidity squeeze on the financial markets and the resulting restricted lending policies of the banks could hinder necessary investments. Any decline in consumption or investments on the part of private households could result in lower demand for private residential real estate or high prices for rented apartments; an increase in uncollected rent is also possible. By contrast, the volatility on the stock markets and lower financing interest rates for private investors could boost the propensity to invest in tangible assets such as residential real estate. In general, it remains the case that residential real estate portfolios are less exposed to cyclical risks than office or commercial real estate.

Price changes in the German residential real estate market

In contrast to other European countries, residential real estate prices in Germany have remained relatively stable over the years. This fact could bring about stronger interest in German residential real estate on the part of institutional investors. More intense competition could hamper PATRIZIA's acquisition of suitable real estate at reasonable prices and lead to lower margins subsequent to relatively higher purchase prices. This could also cause PATRIZIA to lose market shares. We estimate market entry barriers for new domestic and international demand to be low. With respect to its own investments, PATRIZIA is currently fully invested, which means that we would be in a position to benefit from price increases via our sales. Our asset management company could be exposed to the risk of finding less suitable properties in terms of return on investment.

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

Competitive situation

Competitors are represented in all the business areas in which we operate and new competitors could also enter the market. In view of the anticipated high demand for indirect residential real estate investments, we consider it very probable that further new funds focusing on German and European residential real estate will be launched in the near future. This could make it more difficult to make purchases for our own fund products.

We expect increased competition in the service sector encompassing real estate, particularly with respect to asset and property management services. The emergence of new providers could lower the prices for such services or existing customers could be lost to competitors. We do not consider it probable that foreign service providers will expand into the German market in the current market climate. To strengthen its own competitive position, PATRIZIA Immobilienmanagement GmbH obtained certification according to ISO 9001:2000 in 2007. We do not expect any new competitors in the area of residential property resale. We regard the complexity and regulations that must be observed in residential property resale as a barrier to entry into the market. Competitive risks could have a negative impact on the earnings position of both the Investment and Services segments.

Regulatory and legal proceedings

In the context of our operating activities, PATRIZIA could become involved in legal disputes, particularly with tenants. At present, there are no major legal disputes and/or claims for compensation. Although it is by all means probable that legal disputes will arise, the potential impact on PATRIZIA's financial position can be regarded as minor, irrespective of whether such disputes were to arise on an individual or cumulative basis.

Amendments to laws and regulatory requirements such as tenancy or tax law or construction permit procedures could negatively impact our business development in the future. PATRIZIA is affected by the interest barrier (Zinsschranke) introduced as part of the corporate taxation reform on January 1, 2008 and modified by the Wachstumsbeschleunigungsgesetz (WBG – German Growth Acceleration Act) in the 2009 reporting year, only with regard to its special pupose vehicles based in Luxembourg.

BUSINESS RISKS

Due to the risks already illustrated which could arise from shifts in the market or in prices, from competition and/or political-influence factors, we are exposed to internal and external risks in every segment of the value-added chain. We limit business risks by means of insurance to the extent that this is possible and economically reasonable.

Property risks

Although as a real estate trading company PATRIZIA usually only holds properties in its portfolio for a short time, it is important to us to optimize the structural condition of the properties in our portfolios. We invest in maintenance and modernization on an ongoing basis to enhance rentability and salability. The optimization measures we carry out while holding the real estate increase its attractiveness and consequently also purchase prices. Such measures also enhance the fungibility of the real estate, enabling us to make better use of market opportunities. Insufficient maintenance and renovations, delays in construction, failure to meet deadlines or cost overruns could burden the Group's earnings position. Furthermore, risks exist due to conditions upon which PATRIZIA has no influence, such as damage to buildings caused by bad weather or technical failures. We see the quality and location of our real estate as providing us with a clear competitive advantage.

Real estate sales

PATRIZIA is a real estate agent. Due to the timely placement of our properties on the market, we are exposed to marketing risks. For the most part, PATRIZIA's stringent acquisition criteria circumvent the risk of poor marketability of properties to be marketed. We consider it improbable that the market attractiveness of our properties could decline. Nevertheless, regardless of the product, events and conditions could make acquisition of a property appear unattractive. If residential property resales fall, longer periods may be required to sell properties in full. In both individual and block sales there is the risk that the calculated sales prices are not attained and planning targets are not met. Any weakening of the transaction market could lead to the Company not achieving the forecasts. In addition, risks could arise from warranted characteristics contained in purchase agreements.

Customer structure

With regard to buyers, opportunistic foreign investors have largely turned their backs on the German residential real estate market and German institutional investors continued to take a very cautious stance in 2009. However, we expect this particular investor group to show renewed interest in the next few months. The predominance of equity-strong investors and managers of large family assets (family offices) may make it necessary to adapt our products to their requirements, e.g. by breaking portfolios down into smaller components. Our branch offices nationwide provide us with the market access and local know-how to acquire and market both smaller portfolios of 50 units and more as well as large portfolios. With regard to Residential Property Resale, we are currently observing partly considerable caution on the part of tenants, although this is being compensated by the private investor customer group and owner-occupiers. Due to the partial change in customer structure, there is the risk that we must increase our marketing expenditure in order to address owner-occupiers and investors.

Characteristics of large-scale projects

Global sales of residential units of various sizes are part of a marketing strategy which is embedded in PATRIZIA's business model. If a global sale does not succeed or is delayed, this can have an impact on the Group's financial and earnings situation. As the real estate is retained for future transactions, the potential level of damage can be classified as low over the long term, although there may be negative budget variances in the short term. Our large-scale projects also include our Project Developments, each of which is subject to its own stringent time schedule. Delays in drawing up and accepting construction projects can also impact the financial and earnings situation.

Customers and business partners

Partner risks are those arising from business relationships with customers and suppliers. In order to diversify risks, we maintain a comprehensive stock of clients and suppliers. Monitoring on a regular basis as well as purchasing-policy measures are intended to minimize risk in this area. In this respect, we highly value the creditworthiness and reliability of our business partners. Even so, non-adherence to supplier deadlines and/or insufficient quality of supplier services, for example, pose risks that could negatively impact PATRIZIA's business development. Particularly in Project Development, a delay in construction would result in cost and sales risks. As regards joint venture and co-investment, there is the risk that partner companies withdraw from the market or delay making investments in the volumes originally intended. Default on the part of business and joint venture partners or problems with acquiring new business and joint venture partners could jeopardize the financing and implementation of the respective joint projects.

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

Employees

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

IT security

The majority of our business processes are supported by efficient IT systems. Any fault affecting the reliability or security of the IT system could lead to delays or interruptions to operating activities and thus to unscheduled costs. A substantial loss of data could lead to considerable financial losses and also adversely effect tenants' and business partners' perception of the Company. To protect our IT-based business processes, the information technology deployed is constantly subject to examination and enhancement. In order to limit risks we regularly invest in hardware and software.

Access rights restricted to each individual user are defined in order to ensure data security. Based on these precautionary measures, we may assume that the probability of a system failure occurring is very low, although the magnitude of damage would be considerable. This is coupled with a password change every 40 days and only allowing reuse after 25 password generations.

FINANCIAL RISKS

Interest rate fluctuations

The extensive use of external financing in connection with our acquisitions of real estate means that we are exposed to interest rate fluctuations and refinancing risks. Our continuous planning takes account of all changes in financing costs. Increased expenses for existing variable-rate loans and non-capped rate loans as well as for future financing would have to be reckoned with if a rise in the interest rate level in Germany were to occur. This would negatively impact the financing costs of the Group. Based on the current volume of non-capped rate loans amounting to EUR 366 million, we continue to assess the potential extent of financial loss as minor. If interest rates were to rise, we would conclude interest hedges for this portion. The current interest rate is low by historical standards. The interest rate forecasts for the next few months give us no reason to assume that significant changes could occur in the short term. However, in spite of low interest rates we do not expect overall financing costs to decrease significantly on account of the shortage of financial resources.

Increasing interest rates could also negatively impact the sale of individual apartments in Residential Property Resale since the interest burden would rise for interested purchasers and our customers could find themselves in financing difficulties. On the other hand, the prevailing low interest rates benefit real estate investments.

Interest hedges

We employ interest rate derivatives in order to reduce the interest rate risk. We have entered into interest rate hedges for around 66 % of our bank loans, more than 84 % of which have a term of three to five years or more. The reviewed market valuation of interest rate hedges as of the reporting date can exert a considerable influence on net profit in accordance with IFRSs due to the extent of the underlying financing volume with greater interest rate fluctuations – even if these effects do not constitute income or expenses that impact liquidity. Most of our interest hedge agreements were concluded at the end of 2006/beginning of 2007 in parallel to our conclusion of larger financing volumes. The acquisition interest rate hedged on the basis of these interest hedge agreements averaged 4.15 % at the end of 2009. However, particularly with the low interest rates we are currently observing, the assessment of these interest hedge agreements prescribed in accordance with IFRSs results in a not inconsiderable negative effect. Nevertheless, this valuation effect, which does not affect liquidity, can impact the financial result to a disproportionate degree. Derivative financial instruments are employed only in the hedging of risks from operating business activities and not for the purpose of trading or speculation.

Credit terms

Depending on the loan agreement, there is a risk that PATRIZIA will breach the underlying covenants. As a result, the banks could modify the terms of such loans or call in parts of them. The covenants generally relate to the rental basis, i.e. a portfolio must generate a certain percentage of the interest expenses via the net rental income. The credit terms are the ISCR (Interest Service Cover Ratio) and DSCR (Debt Service Cover Ratio). The ISCR specifies what percentage of the interest cost is covered by net annual basic rent, while the DSCR specifies what percentage of expected interest cost plus repayment (service of capital) is covered by rental income. There are also loan agreements that are linked to the ratio of the loan proceeds to the fair value of the financed property. The loan to value (LTV) sets the loan proceeds in proportion to the fair value of the real estate, which is calculated on agreed valuation dates. Shares of PATRIZIA Immobilien AG do not serve as security or an indicator in any of our loan agreements, thus the price of PATRIZIA shares is not relevant for either the calling in of loans or margins. Furthermore, the loans are always concluded at real estate company level, i.e. the real estate contained within them serves as security. Repayment is chiefly covered by rental revenues and sales proceeds. Vacancies or losses of rent as well as delayed sales could negatively impact our ability to make repayments.

Financing

The continuing liquidity squeeze experienced by some banks could result in further financial risks for the Group: with regard to its financing from short-term loans, PATRIZIA will need to extend or refinance these loans. Despite stricter lending policies by banks, additional bank loans amounting to EUR 14 million could be borrowed and existing bank loans amounting to EUR 582 million could be extended in the 2009 fiscal year. Loans of EUR 172 million are due in the 2010 fiscal year. The acquisition of further real estate portfolios would be linked to additional borrowing. Due to restricted lending by the banks including greater hedging of risks, financing options could be hampered in light of the increasing size of the volume to be financed. In both of the cited cases, there is a risk that external capital may not be available to PATRIZIA at all times to the necessary extent and at financially attractive conditions or that the equity required for financing increases significantly. This could adversely affect PATRIZIA's competitiveness, as well as its net asset, financial and earnings situation.

Rating

Besides the external components of market interest rate volatility, assessments of PATRIZIA's credit standing also influence financing options. At present, a credit check in the sense of a rating by an external rating agency does not exist with regard to PATRIZIA on account of the associated costs. Our stable financing structure has benefited from long-term, trustworthy cooperation with exclusively German banks.

Liquidity

As of December 31, 2009, bank balances and cash posted amounting to EUR 56.2 million were available to PATRIZIA in order to cover its refinancing and operating liquidity requirements. Unexpected cost increases, delays in the sales process or rising vacancy levels could adversely affect the free liquidity within the Group. In order to minimize refinancing and liquidity risks, PATRIZIA optimizes and supervises liquidity by means of a cash pool procedure. Early warning indicators and comprehensive continuous planning also serve to prevent risks. We assess the risk of insufficient internal financing power and debt retirement capability to be very low.

Fluctuations in foreign exchange prices

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

3.3 DEVELOPMENTS RELATING TO OPPORTUNITIES

The basis for a meaningful and reliable assessment of the real estate markets is gathering, evaluating and interpreting market data. The PATRIZIA Research team produces forecasts with regard to the German residential and commercial real estate market and conducts analyses on defined locations in European countries other than Germany. This intensive observation of the market and competition assists us in identifying opportunities relevant to corporate strategy at an early stage and avoiding or minimizing risks. Our in-house Research department is essential for our investment decisions and the development of our real estate products. Opportunities primarily arise from the acquisition of selected real estate in the recommended micro locations. As, despite strict property and location-specific criteria, acquiring new real estate portfolios is associated with risks due to the employment and commitment of capital, our purchasing team, PATRIZIA Acquisition & Consulting GmbH, is tightly integrated in the strategic orientation of the Group.

Services segment

In order to respond to the requirements of the market and our customers and to further diversify risks, we have expanded our Services segment so as to be less dependent on transaction business in the future due to stable, recurrent service fees. As it is generally assumed that indirect real estate investments will increase and PATRIZIA has been represented on the market by its own asset management company since 2007 and has a track record to match, we see good opportunities here for gaining further customers and thus strengthening our income base.


NO FOREFRONT
WITHOUT
A BACKGROUND.

Demographic developments, demand for living space

According to forecasts by the Statistisches Bundesamt (German Federal Statistical Office), the country's population figure will decrease to 80 million from its current level of 82 million by the year 2020. The calculations point to a population of between 77 and 79 million in 2030. In the long term, the reduction in population could result in a risk of higher levels of vacancy and a lower demand for residential real estate. However, research data revises this assumption: despite the decline in population, demand for housing will rise by 2020 since the number of households will grow by 650,000 to 40.5 million. The reasons for this are firstly the growing trend toward smaller, older households due to the increasing number of single people and secondly people's increased living requirements leading to a steady rise in living space per person. According to information from LBS Research, the living space per person in western Germany will grow from 46 sqm in 2005 to 56 sqm in 2030. In the new German states the rate of increase is more than twice that: the previous deficit will be reduced from 38 sqm to 55 sqm in the same period. We see an opportunity in the persistent demand for successfully implementing our business model over the long term.

Demand for housing

The low level of new construction and the necessity of demolishing old buildings will also put pressure on supply. While it was expected that building permits would be granted for around 176,000 residential units in 2009, most residential real estate experts estimate the actual requirement for new construction in the period to 2025 to be 270,000 to 350,000 residential units per year – i.e. approx. 50 % to 100 % more. We anticipate regional bottlenecks, entailing rising rents and prices as a result of the trend toward reurbanization and increasing travel costs. Strong waves of internal migration to regions undergoing strong growth in and around the cities will intensify demand for housing in these locations. The PATRIZIA portfolio is located in these economically appealing metropolitan areas. We regard the trends described as an opportunity to attain stable to rising prices and higher rent levels than in previous years.

In view of the low home ownership rate in Germany in relation to the number of households – 43 %, of which 19 % are households with an owner-occupied apartment – we see great potential in the area of residential property resale and thus also the opportunity to realize value enhancements.

Mortgage interest rates

Rates for longer term mortgage interest remain at a low level and were significantly below the 5 % mark at the beginning of 2009. The comparison with the long-term average continues to be favorable – owner-occupiers of private residential real estate in particular are benefiting from the ongoing phase of low interest rates, especially as they are not able to claim their financing costs as a deduction from taxable income. Low interest rates and long-term certainty as regards interest rates provide PATRIZIA with the opportunity to strengthen sales of residential units to tenants and owner-occupiers as well as private investors. Increased lending by banks would also be expected to provide positive impetus.

In addition, inflationary tendencies could boost demand for tangible assets such as residential real estate that hold their value.

3.4 OVERALL ASSESSMENT OF OPPORTUNITIES AND RISKS

Risk management at PATRIZIA is a continuous process which identifies changes in risk and defines appropriate countermeasures. In 2009, as in previous years, PATRIZIA examined the evaluation categories for the potential magnitude of damage of all known risks and increased or reduced them as necessary. The risk management system illustrated here enables PATRIZIA to counteract the specified risks and to exploit the opportunities that present themselves. Under consideration of all relevant individual risks and a possible cumulative effect, PATRIZIA's overall risk is limited at present. Based on our current knowledge and medium-term planning, no significant risks to the future development and continued existence of the Company and the Group have been identified.

Despite institutional investors' continuing caution with regard to investments, we are of the opinion that our risk profile has decreased compared to the previous year. Our financing situation has stabilized considerably as a result of the loan extensions agreed in 2009. Furthermore, thanks to increased sales we are able to repay loans and to reduce our gearing ratio and strengthen our liquidity. The Managing Board also rates the probability of occurrence of other individual risks as low and/or the extent of loss to be minimal. Thanks to the location and quality of our real estate portfolio, we believe that we are well positioned to exploit the individual regional growth markets to our advantage.

4. SUPPLEMENTARY REPORT

At the beginning of 2010, PATRIZIA Immobilien Kapitalanlagegesellschaft mbH launched its fourth fund. This is an individual fund for a large-scale investor with a long-term focus and a planned investment volume of EUR 300 million. New or recently built residential property in the target markets of Berlin/Potsdam, Hamburg, Cologne/Dusseldorf/Bonn, the Rhine-Main region and the Munich and Stuttgart areas is the focus. An initial property for EUR 10 million has been notarized.

5. REPORT ON EXPECTED DEVELOPMENTS

5.1 STRATEGIC FOCUS

The sale of individual residential units to private individuals is and remains a key pillar for PATRIZIA. Tenants and owner-occupiers have been stable buyer segments for two years. In the last twelve months, private investors have become the number one buyer group due to personal experiences with the financial market crisis. Everything indicates that this trend will continue.

Approximately two-thirds of our residential portfolio will be realized as asset repositioning properties. Developing and bundling individual residential properties to portfolios for sale to private and institutional investors is a key component of PATRIZIA's business model. In the last two to three years, a significant part of these properties has undergone the optimization process and is ready for sale.

With the launch of additional funds, we are well on our way to becoming an investment house and asset manager for the real estate investment category. We offer investors customized investment solutions using funds and other indirect and direct real estate products. The required administration and management expertise is covered by our subsidiaries. Our vision is to become "the" investment house for the residential property asset class in Europe.

5.2 FUTURE ECONOMIC FRAMEWORK

Future general economic situation in Germany
While leading indicators have recently shown that the economy looks set to continue its recovery, there are also signals that it is losing momentum again. Current forecasts for Germany's GDP development are between 0.3 % and 2.3 %, depending on the research group. The federal government and the majority of economic research institutes expect that after the economy contracts, growth will return in 2010 to 1.2 %. This should help the German economy pick up speed, leaving the effects of the financial market crisis behind. But the opposite could also be true: The global economy may lose its momentum as economic stimulus programs begin to run out. With regard to consumer prices, the Bundesbank anticipates a 0.9 % increase in 2010 and a 1.0 % increase in 2011. The expected

rise in unemployment could result in sluggish consumer sentiment; buyers are likely to be very cost aware, and hesitate to make purchases, in 2010. At the same time, the government must get the national debt under control. State economic stimulus programs will be followed by savings plans and tax increases to finance the budget deficit. Banks may also be more restrictive in granting loans due to the intended more restrictive equity requirements, which would give consumers less money for consumption and companies less funds for capital expenditure. However, continued low interest rates and high capital market liquidity should promote investment. An environment of moderate growth and lower inflation points to continued low interest rates. Nonetheless, financing experts expect a 0.3 % increase for 10-year real estate loans in the second half of 2010; for loans with 15-year fixed interest they expect an average rise of up to 0.5 %. The European Central Bank did not change its fiscal policy in January 2010 and kept the key rate at the historic low of 1 %. Since May 2009, the Central Bank has kept this key rate for providing funds to the banking industry at a low level.

Future situation in the German residential real estate market

Depending on the region, the German residential market exhibits sharply divergent trends. Some regions have excess supply while others have excess demand. Demand for residential real estate in the main economic centers is characterized by immigration from economically weaker regions and a rising trend toward city living, due to good infrastructure and shorter commuting distances. On the other hand, rural regions are characterized by a trend toward outward migration, which has a corresponding effect on demand and therefore also the rent and ultimately the price level.

Various studies have forecast total demand for new construction in Germany of between 270,000 and 350,000 residential units per year for the next years. After years of continually declining new construction rates, in 2009 it unexpectedly started to show signs of recovery. According to estimates of the Landesbausparkassen (LBS) an estimated 176,000 residential units were approved through the end of 2009 – about 0.6 % more than 2008 (175,000). For 2010, LBS anticipates growth of 10.8 % to 195,000 approved apartments. This increase, however, will not make up for the shortfall. Most of the construction permits were issued for metropolitan areas with growing numbers of residents. In cities like Hamburg, Munich and Stuttgart, where new apartments are needed, supply is short and rents are on the rise, new construction of apartment blocks is still profitable. In the past, new construction rose greatly in price. Existing property, however, offers a significant price advantage, which is beneficial to asset repositioning and thus PATRIZIA's business model.

In metropolitan areas, more and more apartments are no longer suitable for renovation, which decreases the number of available residences over time. More than one-fourth of Germany's apartments are over 60 years old; approximately 46 % were built between 1949 and 1979, another 22 % were built in the 1980s and 1990s and only 3 % were built after 2000. It is estimated that up to 200,000 apartments a year need to be demolished. The German Real Estate Association (IVD) expects that net rent will rise an average of 1.0-1.5 % nationwide; thus the trend of moderately increasing rents would continue. IVD has forecast this for all regions, with the greatest increases being in big cities and economically strongest metropolitan areas. The purchase prices for condominiums are expected to rise by 1-2 %; higher figures are expected only for properties in good to moderate locations in metropolitan regions.

5.3 EXPECTED DEVELOPMENT OF THE EARNINGS AND FINANCIAL SITUATION

PATRIZIA's economic success will depend in the immediate future largely on the number of condominiums sold and the amount of rental income. Thanks to the quality and locations of our real estate, we are confident that prices and rents will continue to rise, though this will vary by region. As of January 1, 2010, PATRIZIA's portfolio included some 11,100 units, one-third of which was for individual privatization. For 2010, we expect privatization sales to reach at least the prior year's levels. We are optimistic that these sales figures will constantly evolve.

PATRIZIA has taken advantage of recent years to optimize its asset repositioning properties purchased in 2006 and 2007. Construction and real estate measures have been concluded for many properties, so that around 70 % of our asset repositioning portfolio will be for sale from 2010 on. We are confident that in 2010, more investors will be less hesitant, ready to make investment decisions. As we continue to sell our properties, we will repay loans and increase our equity. There are some EUR 172 million in loans for repayment or extension. The size of the loans do not pose any financing bottlenecks. Currently, there are loans scheduled for repayment in 2011 in the amount of EUR 551 million; some will be repaid as properties are sold. Experience in loan negotiations during 2009, combined with our improved portfolio quality, shows that extending loan agreements will not pose any difficulty. To optimize the rest of our portfolio we will continue to invest in construction measures going forward, even surpassing last year's high level. To renovate our apartment complex Munich-Ludwigsfeld, which dates back to the 1950s, we plan to invest some EUR 20 million by mid-2011.

In the Project Development line, all properties are in the development phase. Higher costs will arise in 2010 as construction progresses. At the end of the third quarter of 2010, we will complete the "Am Schwalbeneck" project in Augsburg with an investment volume of some EUR 10 million. The apartment complex is being privatized and 70 % of the units are notarized. The "Isartor Palais" on Munich's Zwingerstrasse, with an investment volume of EUR 30 million, is scheduled for completion in fall 2010 and will then be sold to an investor. Investor canvassing will begin in spring 2010. For our Herthastrasse Munich project, we plan to have sold all condominiums by their completion in the fourth quarter of 2010.

The recovery in the transaction market will bring about higher earnings contributions from the Services segment. We launched two new funds, seizing an early opportunity to take advantage of institutional investors' increased demand for indirect real estate investments. Here, we profit from additional fees from fund, asset and property management along with higher assets under management. We will purchases in a targeted manner. The low interest rates should produce investment opportunities, but it remains to be seen if owners of suitable residential properties are ready to sell. By continually expanding our Services segment, its contribution of 5 % to EBIT should keep growing in years to come.

As regards presentation of our income, we will differentiate between earnings under IFRS and operating profit/loss. We define operating profit/loss as adjusted EBT, i.e. EBT adjusted for substantial non-cash items. From today's perspective, i.e. provided that the general economy will continue to recover and the financial markets will not experience another breakdown, the objective is that the 2010 figures will be better than those of 2009. As the financial and economic crisis subsides, the transaction market for real estate should continue to grow. Once the banks are less restrictive in their lending, this should enable larger transactions, so that we can strive to increase earnings beyond 2010.

Dividend policy

Taking into account current equity requirements for the issue of new loans, and the equity situation in general, the Managing Board will propose to the Supervisory Board that the net profit of PATRIZIA Immobilien AG for 2009 be entirely carried forward. However, we want PATRIZIA's shareholders to benefit directly from its success as soon as possible. The amount of a potential dividend will continue to depend on PATRIZIA's results and the general business situation. Given the appropriate profit situation, 20 % to 25 % of the net profit should be used for dividends.

General statement

Germans hold fast to their dream of home ownership. According to a survey by Forsa, three of four tenants in Germany hope to own a home some day. After the critical years of 2008 and 2009, many are less optimistic, although current purchasing conditions are better than ever for residential property. As the general economic situation gradually improves, buyer confidence should return in value stability. The market for portfolio transactions will improve in 2010, though there will not be any radical shifts. We feel it will be sometime after 2010 until the consequences of the worst financial market crisis to date are overcome. We want to improve our operating result in 2010 and conclude the financial year with operating pre-tax earnings higher than that of 2009. For the current year and beyond, our primary goals include reinforcing our operating earnings power, while strengthening our equity base.

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