Management Report

MANAGEMENT REPORT OF THE COMPANY AND THE GROUP

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

1 BUSINESS, STRUCTURE AND ENVIRONMENT

1.1 BUSINESS ACTIVITIES OF PATRIZIA

Company Profile

PATRIZIA manages real estate assets totaling more than EUR 5 billion

PATRIZIA Immobilien AG has been active as an investor and service provider on the real estate market for almost 30 years and with a focus on residential property, has seen continuous growth. It has been listed in the Prime Standard of the Deutsche Börse and is a member of the SDAX since 2006. Its business activities include the purchase of residential and commercial properties, value enhancement and subsequent placement. As a recognized business partner of large institutional investors and public authorities, the company operates nationally and internationally, covering the entire value chain relating to all fields of real estate. PATRIZIA's current portfolio of managed real estate comprises 30,000 residential and commercial units. The company also launches special real estate funds in accordance with investment law via its subsidiaries PATRIZIA WohnInvest KAG mbH and PATRIZIA GewerbeInvest KAG mbH and is today one of the leading companies in the German specialist fund market. PATRIZIA currently manages real estate assets totaling more than EUR 5 billion.

Strategy and Implementation

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

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

The acquisition of LB Immo Invest GmbH – today's PATRIZIA GewerbeInvest KAG mbH – at the beginning of 2011 was a significant step towards realizing our strategy. With the specialist fund provider, we have achieved considerable expansion in the field of commercial real estate and indirect investment and advanced the internationalization of your company. The acquisition has also opened up access to new groups of investors such as the savings banks. By expanding our fund business we will be able to generate higher regular income and reduce the influence of fluctuations in demand in real estate trading. In addition to funds in which PATRIZIA has no equity stake of its own, we intend offering a larger number of co-investments in future that will increasingly replace our own 100% investments. PATRIZIA's aim in this is a stake up to 10% depending on the investment and the partners.

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

Value-added Chain

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

We operate at all stages of the value-added chain

PARTNER FOR THE COMPLETE REAL-ESTATE LIFECYCLE

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

1.2 ORGANIZATIONAL STRUCTURE

Legal Structure of the Group

PATRIZIA Immobilien AG is the PATRIZIA Group’s management holding company and performs central management and service functions. The holding company encompasses nine subsidiaries that are active on the market and responsible for the operating business of PATRIZIA. They are generally wholly owned subsidiaries of PATRIZIA Immobilien AG and have profit transfer agreements with it. PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH (formerly LB Immo Invest GmbH) was acquired as a 94.9% subsidiary of the PATRIZIA Group with effect from January 3, 2011. The real estate portfolios are managed via real estate companies and round off the Group. A detailed list of shareholdings can be found in the Notes to the Consolidated Financial Statements.

PATRIZIA Business Segments

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

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

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

Business Segment Residential

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

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

PATRIZIA Wohnen GmbH handles asset management for the residential portfolio, structural engineering and residential property resale. Asset Management generates the best possible added value for our own residential real estate in every phase of use. Structural Engineering devises solutions relating to the structural substance of buildings. Residential Property Resale manages sales of individual apartments to tenants, owner-occupiers and private investors. Subdivided properties are generally sold off completely within two to five years. Third-party residential property portfolios are also resold as a service.

PATRIZIA WohnInvest Kapitalanlagegesellschaft mbH offers special real estate funds to domestic institutional investors and is responsible for the entire fund management. It establishes special theme funds that invest in German and European residential real estate. PATRIZIA invests the investor equity in real estate without an equity interest and manages it pursuant to the German Investmentgesetz (InvG – Investment Act). In this process, the asset management company has access to the services of the PATRIZIA Group, such as real estate research, the acquisition of suitable properties, financing at fund level, asset management and property management. In addition to theme funds, institutional investors are also offered individually optimized investment opportunities through companies based in Luxembourg.

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

Business Segment Commercial

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

PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH was acquired as LB Immo Invest GmbH from HSH Real Estate AG, a subsidiary of HSH Nordbank AG, with effect from January 3, 2011. The asset management company establishes funds that invest primarily in office and commercial property as well as in care facilities and hotels. Besides its principal German market, it also invests in France, UK, USA, Scandinavia and Benelux. The customer group of institutional investors principally consists of savings banks, insurance companies and pension funds. PATRIZIA GewerbeInvest KAG currently manages 13 special funds, namely four individual funds, two label funds and seven modular funds.

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

The primary task of **PATRIZIA Investmentmanagement GmbH** is to manage the commercial real estate assets of institutional and private investors, assuming responsibility for the value-oriented asset management of the real estate and supervising all areas associated with the optimization process. It assists clients in the purchase of real estate and offers them a wide range of possible investment vehicles.

Business Segment Special Real Estate Solutions

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

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

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

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

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

Major Locations

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

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

Management

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

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

1.3 ECONOMIC ENVIRONMENT

Macroeconomic Development

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

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

Performance of the German Real Estate Market

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

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

The German market is regarded as highly attractive by international investors

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

1.4 BUSINESS DEVELOPMENT

Business Development in the Residential Segment

Own investments

Residential Property Resale

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

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

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

RESIDENTIAL PROPERTY RESALE IN 2011 BY QUARTER

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

Individual sales in 2011 by region were as follows:

RESIDENTIAL PROPERTY RESALE IN 2011

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

Block sales

Block sales benefited from a strong fourth quarter

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

GLOBAL SALES IN 2011 BY QUARTER

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

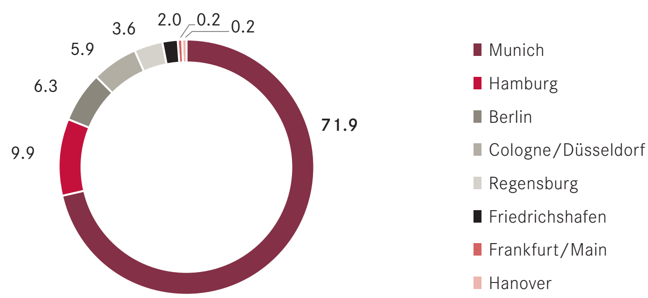
Global sales in 2011 by region were as follows:

GLOBAL SALES IN 2011

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

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

SALES IN 2011 BY REGION[1] (%)



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

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

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

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

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

Co-investments

First co-investment in the Residential segment

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

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

Residential funds

Assets under management grow steadily

PATRIZIA WohnInvest KAG is raising additional equity capital for new funds

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

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

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

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

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

Business Development in the Commercial Segment

PATRIZIA's own investments

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

Initial consolidation of PATRIZIA GewerbeInvest Kapitalanlagegesellschaft mbH

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

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

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

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

PATRoffice Real Estate GmbH & Co. KG

Our co-investment with pension funds APG of the Netherlands and ATP Real Estate of Denmark, PATRoffice Real Estate GmbH & Co. KG, is fully invested with a volume of EUR 355 million. Various properties in the actively managed co-investment were successfully re-sold in 2011. PATRIZIA Immobilien AG owns 6.25% of PATRoffice's equity.

Business Development in the Special Real Estate Solutions Segment

Award for PATRIZIA Immobilienmanagement

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

PATRIZIA Projektentwicklung is concentrating on premium new residential construction

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

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

PATRIZIA'S OWN PROJECT DEVELOPMENTS

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

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

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

2 NET ASSET, FINANCIAL AND EARNINGS SITUATION

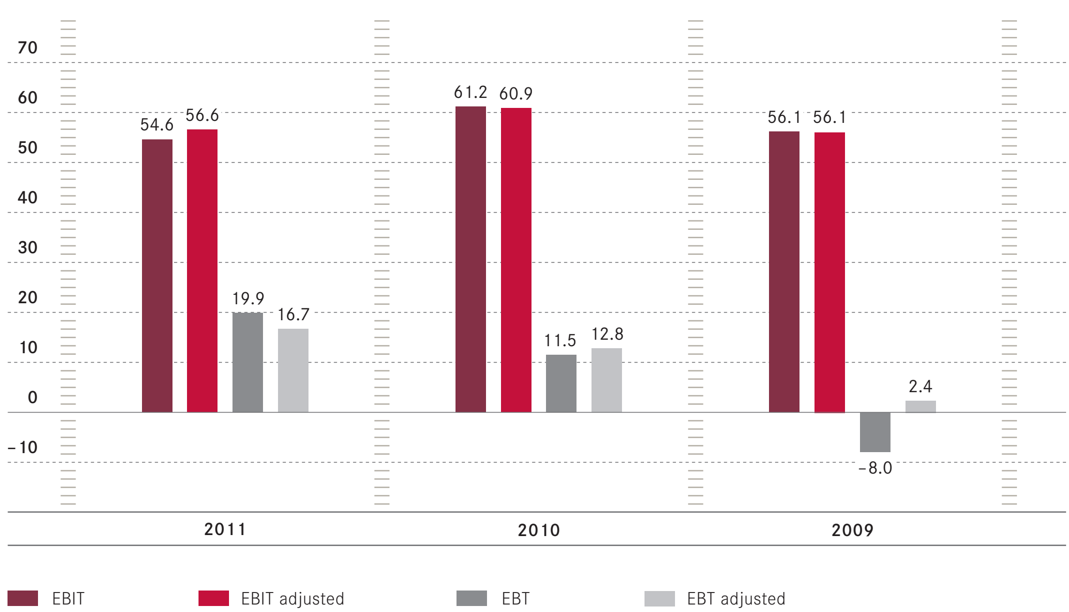
You will find a five-year overview of the consolidated income statement and consolidated balance sheet on pages 154 ff. of the Annual Report 2011.

2.1 GENERAL STATEMENT BY THE MANAGING BOARD

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

2.2 EARNINGS SITUATION OF THE GROUP

DEVELOPMENT OF KEY EARNINGS INDICATORS (IN EUR MILLION)



Revenue volume continues to lose significance as an indicator of business success

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

Revenues generated by residential property resales from inventory thus decreased to EUR 95.9 million (2010: EUR 142.2 million) and sales revenues from block sales to EUR 63.0 million. The sale of around 20% of our real estate holding (approx. 119,000 sqm) resulted in a planned reduction in associated rental income of 13.3% to EUR 55.3 million, which could nevertheless be made up in part by rental increases in the remaining portfolio. Set against rental income, annual administrative costs of EUR 240 – 270 are incurred per apartment. The average monthly rent per square meter for the overall portfolio fell to EUR 7.69 as of December 31, 2010, as a result

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

A breakdown of consolidated sales revenues is shown below:

CONSOLIDATED REVENUES

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

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

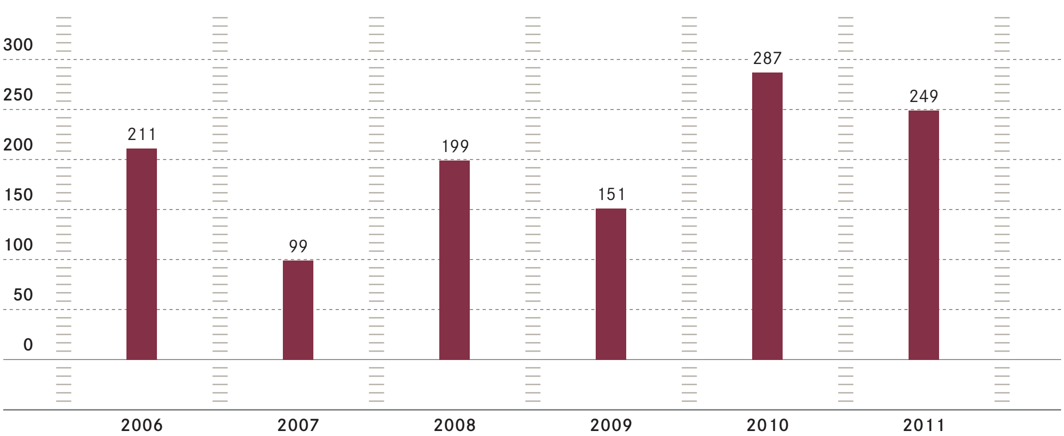
However, as already indicated, sales revenues have only limited significance for PATRIZIA since the selling prices of properties reported in non-current assets are not reflected in sales revenues. Profits from sales are reported under item “Loss from/gain on the disposal of investment property”. In the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

PURCHASE PRICE REVENUES

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

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

SALES VOLUMES 2006 – 2011 (IN EUR MILLION)



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

Continuing high investments in our portfolio

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

Staff costs increase due to acquisitions

The recruitment of new employees involved additional staff expenses. These amounted to EUR 35.7 million (2010: EUR 28.6 million), an increase of 24.8%. Average headcount over the year rose from 364 to 455 employees, primarily through the acquisition of PATRIZIA GewerbeInvest KAG, which alone accounted for more than 50 employees. Commission payments to sales staff were slightly above the previous year owing to a higher number of notarizations. The provisions to cover the variable salary entitlements determined for managers for the 2011 fiscal year were also considerably higher than in the previous year.

Staff costs also include the remuneration of the Managing Board, which consists of non-performance-related and performance-related components. The non-performance-related components comprise fixed basic compensation that is paid as a monthly salary, pension contributions and other agreed payments. Performance-related compensation components include one-time as well as annually payable components linked to the performance of the Company and its shares. The total remuneration paid out to the Managing Board was EUR 1.6 million in the reporting year (2010: EUR 1.1 million). The reason for the increase is the variable share of remuneration, which in contrast to 2010 was granted to all members of the Managing Board. In the same way, higher provisions were posted for variable remuneration granted in 2011 and paid out in 2012 than in the previous year. The Supervisory Board's remuneration is reported under other operating expenses and also comprises fixed and variable components. Detailed information on the remuneration structure for the Managing Board and the Supervisory Board can be found in the 2011 Corporate Governance Report on page 30 f. and under item 9.4 of the Notes to the Consolidated Financial Statements.

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

OTHER OPERATING EXPENSES

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

Positive change in market value improves the financial result

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

MARKET VALUATION OF INTEREST RATE HEDGES 2011

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

In order to judge the productive efficiency of the portfolio and the cash inflow from the properties during the holding period it is important to determine to what degree rental income covers the financing costs. To this end, net rental income, i. e. after deducting expenses for current maintenance, is compared with the adjusted, cash-related financial result. This results in an excess balance of 29.9% (2010: 18.2%). This indicator is significant for us since defined interest service coverage ratios and debt service coverage ratios (ISCR, DSCR) are covenants in our loan agreements.

Earnings situation even firmer

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

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

EBT adjusted reflects PATRIZIA's operating result

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

CALCULATION OF EBT ADJUSTED 2011

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

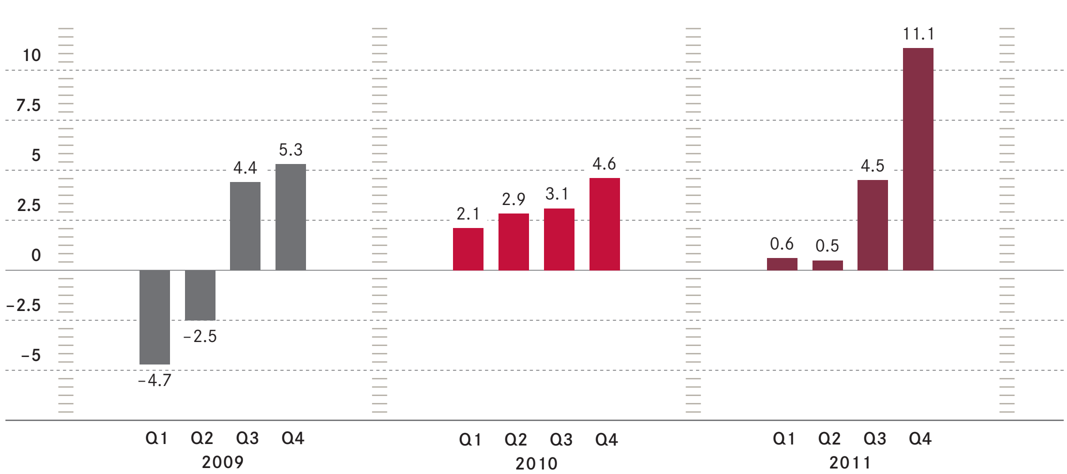
[1] Adjusted for amortization on other intangible assets (fund management contracts) and change in the value of investment property
[2] Additionally adjusted for non-cash-related results from interest hedging transactions and change in the value of fund shares

CALCULATION OF EBT ADJUSTED 2010

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

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

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



Additional tax burden resulting from interest barrier

It should be noted with regard to income taxes that our companies located in Luxembourg are affected by the so-called interest barrier. The tax expense accounted for by these companies totaling EUR 3.2 million (2010: 1.9 million) includes interest barrier effects amounting to EUR 0.7 million.

Positive result for 2011 even in accordance with IFRS

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

OVERVIEW OF KEY ITEMS IN THE CONSOLIDATED INCOME STATEMENT

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

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

2.3 NET ASSET AND FINANCIAL SITUATION OF THE GROUP

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

Significant improvement in the balance sheet structure

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

Repayment of bank loans

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

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

PATRIZIA NET ASSET AND FINANCIAL KEY FIGURES

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

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

Net asset value

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

CALCULATION OF NAV

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

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

Liquidity analysis

Central responsibility for the financing of the PATRIZIA Group is borne by PATRIZIA Immobilien AG. As of December 31, 2011, there were loan agreements with seven different German banks, concluded exclusively in euros. In accordance with the loan agreements and our business model, we reduce loans during the project depending on the status of sales. When selling real estate or individual units, up to approximately 90% of the sales proceeds flow into repayment. Interest rate change risks are largely hedged using interest swaps and collars. Detailed explanations in this respect can be found under items 4.4 and 5.8 of the Notes to the Consolidated Financial Statements. The main credit terms are presented in the Risk Report.

Liquidity management ensures that PATRIZIA is solvent at all times. Most of the individual Group companies are directly linked to and monitored by the automatic cash pooling system of the Group. On a same-day basis, account surpluses are transferred to the parent company and account deficits are offset by it. Payment receipts from operating companies represent the most important source of liquidity within the Group and ensure that financing requirements are met as well as bank loans. A liquidity reserve is maintained in the form of cash to ensure the Group's solvency.

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

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

SUMMARY OF THE 2011 CASH FLOW STATEMENT

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

2.4 NON-RELEVANT SUBAREAS

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

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

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

SUMMARY OF THE PATRIZIA IMMOBILIEN AG BALANCE SHEET

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

SUMMARY OF THE PATRIZIA IMMOBILIEN AG INCOME STATEMENT

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

2.6 DISCLOSURES IN ACCORDANCE WITH ARTICLE 289 (4) AND ARTICLE 315 (4) OF THE HANDELSGESETZBUCH (HGB – GERMAN COMMERCIAL CODE)

Composition of subscribed capital

The Company's subscribed capital (share capital) of EUR 52,130,000 is divided into 52,130,000 no-par value registered shares each representing a notional portion of the share capital of EUR 1.00. All shares are of the same class. The same rights and obligations are associated with all shares. Each share confers the right to one vote. All shares are admitted for trading on the official market of the Prime Standard of the Frankfurt Stock Exchange.

Restrictions relating to voting rights and transfer of shares

The shareholders in the Company are not restricted with regard to the acquisition or disposal of shares by legislation or by the Company's Articles of Association. The Managing Board is unaware of any contractual restrictions relating to voting rights or to the transfer of shares.

Direct or indirect share of voting rights of more than 10%

As of December 31, 2011, Wolfgang Egger, CEO of PATRIZIA Immobilien AG, held a total stake of 51.55% indirectly and directly in the Company via First Capital Partner GmbH, in which he directly and indirectly holds a 100% stake via WE Vermögensverwaltung GmbH & Co. KG.

Shares with special rights conferring powers of control

There are no shares with special rights conferring powers of control.

System of control of voting rights when employees have a stake in the capital and do not exercise their rights of control directly

Employees who have a stake in the capital of PATRIZIA Immobilien AG exercise control rights like any other shareholder in accordance with legal provisions and the Articles of Association.

The appointment and dismissal of members of the Managing Board, changes to the Articles of Association

The provisions governing the appointment and dismissal of members of the Managing Board are contained in Article 84 f. of the Aktiengesetz (AktG – German Stock Corporation Act) and in Article 16 of the Company's Articles of Association. Changes to the Articles of Association take place in accordance with Article 179 ff. of the AktG in combination with Articles 16 and 21 of the Articles of Association of PATRIZIA Immobilien AG.

Powers of the Managing Board to issue and buy back shares

By resolution of the Annual General Meeting of June 23, 2010, the Managing Board is entitled to acquire shares in the Company with a volume of up to 10% of the share capital until June 23, 2015. The entitlement may be exercised by the Company in full or for partial amounts, on one or more occasions and in pursuit of one or more purposes, but also by its subsidiaries for its own account or for the account of the latter by third parties. Acquisition can be effected at the discretion of the Managing Board via the stock exchange, by means of a public bid made to the shareholders, through the use of derivative instruments or through an individually negotiated repurchase. The acquired shares may subsequently be used for all legally permissible purposes; in particular they may be canceled, sold in exchange for a contribution in kind or to shareholders or used to meet subscription or conversion rights.

Furthermore, the Managing Board was authorized by resolution of the Annual General Meeting on June 13, 2007 to increase the share capital on one or more occasions with the consent of the Supervisory Board by up to a total of EUR 26,065,000 in exchange for cash contributions and/or contributions in kind by issuing new, registered no-par value shares (authorized capital) by June 12, 2012. The Management Board is authorized, with the consent of the Supervisory Board, to exclude shareholders' subscription rights in certain cases. The complete authorization results from Article 4 (3) of the Articles of Association. In addition, the Managing Board is authorized on one or more occasions, with the approval of the Supervisory Board to grant until June 12, 2012, in accordance with strict conditions of the bonds, convertible bonds, and/or bonds with warrant, made out to the bearer or registered and/or participatory rights with or without conversion privileges or option right or conversion obligation (referred to together in the following as the "bonds") in the aggregate principal amount of up to EUR 750,000,000 with a term of up to 20 years and to grant the bearer or the creditor of bonds, conversion privileges or option rights to new, registered no-par value registered shares of the Company with a pro rata amount of the share capital of up to EUR 26,065,000. At the same time, the Company's share capital was contingently increased by resolution of the Annual General Meeting by up to EUR 26,065,000 by the issue of 26,065,000 new registered no-par value shares. The details relating to the contingent capital increase result from Article 4 (4) of the Articles of Association.

Significant agreements by the Company contingent upon a change in control subsequent to a takeover bid

No agreements contingent upon a change in control subsequent to a takeover bid exist.

Compensation agreements by the Company with the members of the Managing Board or employees for the event of a takeover bid

No compensation agreements with the members of the Managing Board or employees for the event of a takeover bid exist.

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

The Managing Board of PATRIZIA Immobilien AG issued a declaration on January 17, 2012, concerning corporate governance in accordance with Article 289a of the Handelsgesetzbuch (HGB – German Commercial Code) and has made this available to the public on the Company's website at
www.patrizia.ag/en/investor-relations/corporate-governance/declaration-on-corporate-management.html

2.8 TRANSACTIONS WITH RELATED COMPANIES AND INDIVIDUALS

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

"As the Managing Board of the Company, we hereby declare that to the best of our knowledge at the time when the legal transactions listed in the report on relationships with affiliated companies were carried out, the Company received appropriate consideration."

Detailed information on business relationships with related companies and persons can be found in the Notes to the Consolidated Financial Statements under item 9.3.

3 NON-FINANCIAL PERFORMANCE INDICATORS

3.1 MANAGEMENT RESPONSIBILITY

Among other things, PATRIZIA is an active member of DGNB

PATRIZIA Immobilien AG supports various organizations in the real estate industry that are committed to sustainability and environmentally conscious actions. PATRIZIA Projektentwicklung GmbH, for example, is a member of the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen e. V., DGNB) and is involved in a working group that is developing a certificate for new housing construction. As an authorized DGNB auditor, a project manager from PATRIZIA Projektentwicklung accompanies the design of new buildings managed by PATRIZIA – both for own investments and for external clients. We participate in various working groups to make a contribution to the subject of sustainability in the real estate sector through our membership in other associations of national and international property companies, for example in defining reporting standards for residential property.

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

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

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

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

We optimize the energy standards of our existing real estate by employing modern, efficient technologies and also make a lasting contribution to protecting the environment and climate by extending the life cycle of the buildings. The construction measures undertaken to enhance the value of our buildings include the installation of new windows and heating systems and heat insulation to facades, ceilings and roofs. In addition, our tenants and buyers also benefit from lower ancillary costs. We are conscious of the fact that we have only limited influence on our tenants' energy consumption beyond the design of the structures. Besides the ecological aspects, we also think that the economic efficiency of the measures should not be disregarded. To evaluate which measures are sensible in terms of energy savings, PATRIZIA examines the entire value creation process and life cycle of the property, e.g. the energy consumption tied to construction and the energy requirements for the use of the building are taken into equal consideration. The layout of the housing areas with their green spaces and playgrounds is also a part of the ecological assessment.

Sustainability involves the entire life cycle of the property

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

PATRIZIA Immobilienmanagement GmbH also conducts surveys among its tenants on a regular basis in order to involve them in the optimization process. The ideas and suggestions that we gain from this process are included in the property management process, contributing to a long-term tenant relationship and low tenant fluctuation rates. The tenant portal on PATRIZIA's website also provides comprehensive services to the tenants directly. They can find information, tips and important online services. If, for example, a tenant's bank details change or if a tenant discovers a fault in an apartment, he/she can send a message at any time from the comfort of his/her home using the appropriate online form. This not only saves time for both parties, but costs as well. In 2011, PATRIZIA Immobilienmanagement was often able to achieve better conditions for its tenants in the regular renegotiation of framework agreements, for example for building insurance. We help raise tenant awareness of sustainability with an information program and practical tips on saving energy at home, along with ideas for conserving energy elsewhere, such as the workplace.

PATRIZIA Immobilienmanagement conducts regular tenant surveys

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

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

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

Targeted and sustainable on principle – PATRIZIA KinderHaus Foundation aid projects

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

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

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

3.2 EMPLOYEES

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

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

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

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

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

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

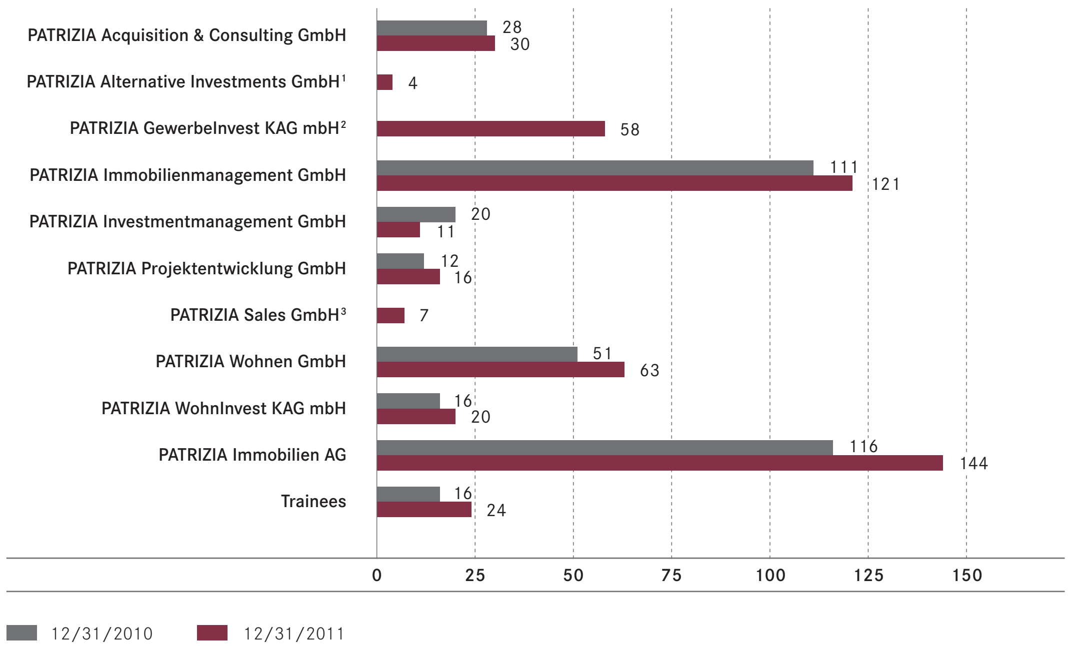
Despite the significant increase in the number of staff, the average period of employment, excluding trainees, is far in excess of four years. We attach great importance to recruiting new managers from within our own ranks wherever possible. Despite growth and eight locations around Germany, we filled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

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

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

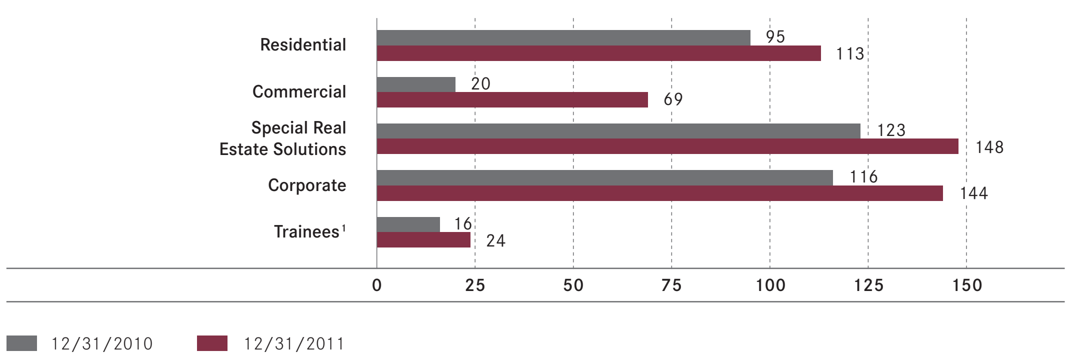
The attractiveness of the Company as an employer is also noticeable on the job market. In 2011 PATRIZIA was voted one of the top 15 employers in real estate by Immobilien Zeitung magazine for the first time and is thus the only company in residential real estate represented in the rankings.

CHANGES IN STAFF NUMBERS BY OPERATING COMPANY



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

CHANGES IN STAFF NUMBERS BY BUSINESS LINE/SEGMENT



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

4 OPPORTUNITY AND RISK REPORT

4.1 OPPORTUNITY AND RISK MANAGEMENT

Risk Policy Principles

PATRIZIA's risk policy principles are oriented towards safeguarding the continued existence and sustainable growth of the Group. To ensure that these objectives are attained, we have implemented a unified risk management system throughout the Company that is defined and monitored by the Managing Board. A systematic risk management process ensures that risks are identified, recorded, assessed, controlled and monitored at an early stage. Opportunities are also analyzed at the same time in order to identify and utilize their associated potential for success. PATRIZIA's business model and strategy coupled with the Group's business, financial and social objectives determine how opportunities and risks are dealt with.

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

Without the willingness to take risks, we would pass up potential opportunities as well. A balanced relationship between opportunities and risks is essential in this respect. Our method is to enter into appropriate risks if there is a strong likelihood of realizing the associated sustained value enhancement potential for PATRIZIA. We do not enter into risks with which we do not expect sustained value enhancement or which appear unlikely to result in value enhancement. As a matter of principle, transactions of a speculative nature are prohibited. If risks are unavoidable or arise unforeseeably, we hedge them via risk instruments and appropriate countermeasures.

Risk Management Organization

The task of group-wide risk management and its representation for all affiliated entities is assigned to PATRIZIA Immobilien AG as the holding company. A risk management working group, which is organizationally assigned to the Controlling and Legal departments, is responsible for implementing the risk management processes introduced throughout the Company and reports directly to the Managing Board on a regular basis. It designs the identification process, monitors compliance with the processes and allocates responsibilities for the individual risks. Risks can also take the form of missed or insufficiently exploited opportunities. All employees in the PATRIZIA Group are required to take account of all possible risks that might be involved in their actions. The direct responsibility for early detection of risks and for reporting these is assigned to the operating supervisors and managing directors of the relevant companies. At Managing Board level, responsibility for risk management falls within the remit of the Chief Financial Officer of PATRIZIA Immobilien AG.

In addition, both asset management companies of PATRIZIA maintain their own separate risk management system to ensure that legal supervisory requirements are met. It is specially designed to deal with risks associated with the managed special real estate funds.

Risk Management Process

Both the efficiency and effectiveness of the risk management system are assessed twice a year by means of an internal risk audit as well as through regular monitoring of compliance with the risk management processes. This involves asking the managers from the various operating business segments about possible individual risks, allowing new risks to be identified and existing ones to be monitored, quantified and assessed with regard to the probability of their occurrence. Measures are determined for reducing each risk and managers are assigned responsibility for implementing them. The results appear in a risk report which presents the organizational measures and regulations regarding risk recognition, quantification, communication, control and supervision. Risk reporting has been integrated into the planning and controlling process. At the same time, the comprehensive

Risk reporting has been integrated into the planning and controlling process

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

documentation of this report ensures an orderly assessment which can be conducted both externally by the auditor and internally by the responsible departments as well as by the Supervisory Board. In addition to the Managing Board, the directors of the operating companies are also informed of the risk inventory's results.

Risks are quantified according to their probability of occurrence of between 0% and 100% and the magnitude of potential damage. Overall risk is calculated and updated over a specific period of time by linking the various parameters. We are able to adjust and improve internal structures and processes by continuously analyzing risks and regularly monitoring the effectiveness of our risk management system.

4.2 RISK-RELATED DEVELOPMENTS

Individually, or in conjunction with other situations, occurrence of the individual risks described below can impair the operating activities of PATRIZIA and negatively impact the net asset, financial and earnings situation of the Company and the Group. The risks listed may not be the only risks to which PATRIZIA is exposed. Other risks that are not currently known or risks that we regard as immaterial at present could also impair our business activities.

Market and Industry Risks

MACROECONOMIC DEVELOPMENT

Where its own investments are concerned, PATRIZIA only acts on the German market. Special asset funds also invest in selected European countries. European and/or global economic developments could affect PATRIZIA's business performance. In particular, the effects of the debt crisis in countries on the periphery of the EU are likely to represent a potential risk for the real economy in Germany in 2012. A spread of the crisis to the core states of the eurozone is likely to have a negative effect on economic growth. On the other hand, continuing expansionary monetary policy with its low interest rates could again lead to a significant jump in global demand with correspondingly positive effects for strongly export-oriented countries like Germany. With such a development, long-term mortgage rates are also likely to remain at a historically low level at the same time. This provides PATRIZIA with an opportunity to increase the sale of residential properties. Positive effects could also be expected if the banks were to increase their lending. The emerging inflationary tendencies could also raise demand for assets with stable value such as residential real estate.

PRICE CHANGES IN THE GERMAN RESIDENTIAL REAL ESTATE MARKET

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

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

SUPPLY SITUATION FOR REAL ESTATE PURCHASES

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

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

COMPETITIVE SITUATION

In view of the anticipated high demand for indirect residential real estate investments, we consider it very probable that further new funds focusing on German and European residential real estate will be launched in the near future. This could make it more difficult to make purchases for our own fund products and also to win new investors. We expect increased competition in the service sector relating to real estate for asset and property management services. The emergence of new providers could lower the prices for such services, or existing customers could be lost to competitors. We do not consider it probable that foreign service providers will expand into the German market in the current market climate. To strengthen its own competitive position, PATRIZIA Immobilienmanagement GmbH obtained certification according to ISO 9001:2000 in 2007. We do not expect any new competitors in the area of residential property resale. We regard the complexity and regulations that must be observed in residential property resale as a barrier to entry into the market.

REGULATORY AND LEGAL PROCEEDINGS

In the context of our operating activities, PATRIZIA could become involved in legal disputes, particularly with tenants or with regard to project developments. At present, there are no major legal disputes and/or claims for compensation. We consider the potential impact of a legal dispute on PATRIZIA’s financial position to be minor, irrespective of whether such disputes were to arise on an individual or cumulative basis. Amendments to laws and regulatory requirements such as tenancy or tax law or construction permit procedures could negatively impact our business development in the future. The importance of the German Investmentgesetz (InVG – Investment Act) also grows through the expansion of our asset management companies.

Business Risks

PROPERTY RISKS

Although as a real estate trading company PATRIZIA usually only holds properties in its portfolio for a short time, it is important for us to optimize the structural condition of the properties in our portfolios. We invest in maintenance and modernization on an ongoing basis to enhance rentability and salability. The optimization measures we carry out while holding the real estate increase its attractiveness and consequently also purchase prices. Inadequate maintenance and renovations, delays in construction, failure to meet deadlines or cost overruns could burden the Group's earnings position. As an asset and property manager, we are also responsible for managing and optimizing external properties for third parties. Poor service could lead to customer dissatisfaction and even to the loss of contracts. Furthermore, risks exist due to conditions upon which PATRIZIA has no influence, such as damage to buildings caused by bad weather or technical failure. We assume a low probability of occurrence with negligible financial consequences for 2012 and beyond.

REAL ESTATE SALES

PATRIZIA still currently generates a large proportion of its revenues from the resale of real estate, so that we are faced with marketing risks. We consider it improbable that the market attractiveness of our properties could decline. Nevertheless, events and conditions could make acquisition of a property appear unattractive regardless of the product. A decline in interest in buying for both individual and block sales could result in the calculated sales prices not being obtained and planning targets not being met. Additional risks could arise from warranties assured in purchase agreements.

CHARACTERISTICS OF LARGE-SCALE PROJECTS

Global sales of residential units of various sizes are part of a marketing strategy which is embedded in PATRIZIA's business model. If a global sale does not succeed or is delayed, this can have an impact on the Group's financial and earnings situation. As the real estate is retained for future transactions, the potential level of damage can be classified as low over the long term, although there may be negative budget variances in the short term. We also count our project development in Frankfurt/Main as a large-scale project. Delays in construction could have an impact on our financial situation and earnings position.

CUSTOMERS AND BUSINESS PARTNERS

Partner risks are those arising from business relationships with customers and suppliers. Non-adherence to supplier deadlines and/or inadequate quality of supplier services pose risks that could make it more difficult, for example, to rent or sell property. A delay in construction would result in cost and sales risks, in particular for project development. Loss of rent and subsequent bad-debt losses could negatively impact PATRIZIA's revenues and earnings as well. We limit defaults on payments by means of active receivables management. Impairments that exceed the ordinary extent are thus unlikely, particularly as the receivables are generally hedged to the customary extent by deposit payments. The risk of bad-debt losses is very low in real estate sales, as ownership only passes to the purchaser upon receipt of the purchase price. However, withdrawal from a purchase agreement would mean that the planned income could only be realized at a later time and that negative budget variances could arise in the short term.

Dissatisfaction on the part of the customer with the services we provide could lead to financial demands and even to the loss of the contract. As regards joint venture and co-investment, there is the risk that partner companies could withdraw from the market or delay making investments in the volumes originally intended. The loss of business partners or problems with acquiring new business and joint venture partners could jeopardize the financing and implementation of the respective joint projects. Extending co-investment and fund business activity increases PATRIZIA's dependence on large clients such as insurance companies and pension funds.

EMPLOYEES

The skills and motivation of our employees are decisive factors in PATRIZIA's success. A risk of knowledge loss exists from staff fluctuations as well as from not recruiting sufficiently qualified specialists to fill vacancies in good time. In both cases, we would thus sacrifice competitive advantage on the market. In view of the average time our employees have been with the Group and as a result of the experience of the past few years, we categorize the probability of increased fluctuation arising as high. We minimize this risk by means of qualified promotion of junior staff and implement focused employee-retention measures, primarily with respect to key positions. Our aim is to fill management positions wherever possible internally with our own staff.

IT SECURITY

Almost all of our business processes are conducted using efficient IT systems. Any fault affecting the reliability or security of the IT system could lead to delays or interruptions to operating activities and thus to unscheduled costs. A substantial loss of data could lead to considerable financial losses and also adversely affect tenants' and business partners' perception of the Company. To protect our IT-based business processes, the information technology deployed is constantly subject to examination and enhancement. In order to limit risks we invest considerable amounts in hardware and software. These preventive measures are intended to ensure that the probability of system failure occurring is extremely low. Nevertheless, the magnitude of damage would be considerable. Access rights restricted to each individual user are defined in order to ensure data security.This is coupled with a password change every 40 days and only allowing reuse after 25 password generations. Furthermore, we also perform emergency disaster recovery exercises on a regular basis. When we switched over to our new ERP system on July 1, 2011, we also put a mirrored ERP system into operation, significantly reducing any possible downtime in central business processes.

Financial Risks

FINANCING

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

INTEREST RISKS

The extensive use of external financing in connection with our acquisitions of real estate exposes us to interest rate fluctuation risks. We employ interest rate derivatives to hedge the risk. We have entered into interest rate hedges for 84% of our bank liabilities, which expire as of June 30, 2014, at the latest. Most of our interest hedge agreements were concluded at the end of 2006/beginning of 2007 in parallel to our conclusion of larger financing volumes. The acquisition interest rate hedged averaged 4.00% at the end of 2011. The revised market valuation of interest rate hedges as of the reporting date can have a considerable influence on net profit in accordance with IFRS in the event of major interest rate fluctuations, even if these effects do not constitute income or expenses that impact liquidity. Derivative financial instruments are not used for the purpose of trading or speculation.

Our continuous planning takes account of all changes in financing costs. Increased expenses for existing variable-rate loans and non-capped rate loans as well as for future financing would have to be reckoned with if a rise in the interest rate level in Germany were to occur. Based on the current volume of non-capped rate loans amounting to EUR 109 million (16% of all bank liabilities), we continue to assess the potential extent of financial loss as minor. If interest rates were to rise, we would conclude interest hedges for this portion.

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

CREDIT TERMS

Depending on the loan agreement, there is a risk that PATRIZIA will breach the underlying covenants. The banks could modify the terms of such loans or call in parts of them as a result. The covenants generally relate to the rental basis, i. e. a portfolio must generate a certain percentage of the interest expenses via the net rental income. The credit terms are ISCR (interest service cover ratio) and DSCR (debt service cover ratio) ISCR specifies what percentage of the interest cost is covered by net annual basic rent, while DSCR specifies what percentage of expected interest cost plus repayment (service of capital) is covered by rental income. There are also loan agreements that are linked to the loan to value ratio (LTV), i. e. the ratio of the loan amount to the fair value of the financed property. The observance of covenants is continuously monitored by Corporate Finance as part of the risk management process. Shares of PATRIZIA Immobilien AG do not serve as security or an indicator in any of our loan agreements, thus the price of PATRIZIA shares is not relevant for either the calling in of loans or margins. Loans are always concluded at real estate company level, i. e. the real estate contained within them serves as security. Interest is more than covered by rental revenues while sales proceeds are chiefly used for repayment. Significant vacancies or losses of rent as well as delayed sales could negatively impact the conditions of our loans. We do not currently see this as a risk.

RATING

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

LIQUIDITY

As of December 31, 2011, bank balances and cash posted amounting to EUR 31.8 million were available to PATRIZIA in order to cover its refinancing and operating liquidity requirements. Unexpected cost increases, delays in the sales process or rising vacancy levels could adversely affect free liquidity within the Group. In order to minimize refinancing and liquidity risks, PATRIZIA optimizes and manages liquidity by means of cash pooling. Early warning indicators and comprehensive continuous planning also serve to prevent risks. We consider the risk of insufficient internal financing power and debt retirement capability to be very low in terms of probability and effect.

FLUCTUATIONS IN FOREIGN EXCHANGE RATES

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

4.3 DEVELOPMENTS RELATING TO OPPORTUNITIES

Macroeconomic development, mortgage rates

The continuing expansionary monetary policy with its low interest rates could lead to a significant jump in global demand with correspondingly positive effects for strongly export-oriented countries like Germany. With such a development, long-term mortgage rates are also likely to remain at a historically low level at the same time. This presents PATRIZIA with the opportunity to increase the sale of residential units to tenants, owner-occupiers and private investors. Positive effects could also be expected if the banks were to increase their lending. Furthermore, the emerging inflationary tendencies could also raise demand for assets with stable value such as residential real estate and thus also have a positive effect on PATRIZIA's sales activities.

Demographic developments, demand for living space

According to forecasts by the Statistisches Bundesamt (German Federal Statistical Office), the country's population will decrease to 80 million from its current level of 82 million by the year 2020. In the long term, the reduction in population could result in a risk of higher levels of vacancy and a lower demand for residential real estate. However, research data tend to qualify this assumption. Despite the decline in population, demand for housing will rise by 2020 since the number of households will grow by 650,000 to 40.5 million. The reasons for this are, first, the growing trend toward smaller, older households due to the increasing number of single people and second, people's increased living requirements leading to a steady rise in living space per person. We see an opportunity in the persistent demand for the successful implementation of our business model over the long term.

Demand for housing

Building activity continues to lag behind demand despite a rise in the number of building permits and completions. We anticipate regional bottlenecks, entailing rising rents and prices, particularly in the conurbations where growth is strong, primarily in the west of Germany. PATRIZIA's portfolio is located in these economically attractive metropolitan areas. We regard the trends described as an opportunity to attain stable to rising prices and higher rent levels than in previous years. The low home ownership rate in Germany in relation to the number of households – 43%, of which 19% are households with an owner-occupied apartment – provides great potential for the residential property resales we offer, both from our own stock as well as a service on behalf of third parties.

Special real estate funds

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

Real estate investment company

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

4.4 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE REPORTING PROCESS – DISCLOSURES IN ACCORDANCE WITH ARTICLE 289 (5) AND ARTICLE 315 (2) NO. 5 OF THE HANDELSGESETZBUCH (HGB – GERMAN COMMERCIAL CODE)

The risks relating to accounting and financial reporting are that our annual financial statements and quarterly reports could contain misrepresentations. In order to identify sources of error and to limit risks that might result from them, PATRIZIA Immobilien AG has established appropriate internal control systems (ICS) for the process of its accounting to provide sufficient security for the reliability of its financial reporting and creation of the published annual financial statements and quarterly reports throughout the year. However, the ICS cannot provide absolute certainty with regard to avoiding errors or misstatements in reporting and auditing.

The starting point for the ICS is the planning drawn up once each year specifying for each company and cost center budgetary values for the coming fiscal year and target figures for the following fiscal year. Differences between the actual and target figures are determined and analyzed on a monthly basis. A revised forecast is made for the current year which ties actual values already achieved with open budget values.

The ICS includes all measures and processes to ensure that all transactions are entered uniformly, correctly and quickly into the bookkeeping and financial statements. It ensures compliance with legal regulations and standards while examining the effect of amendments to laws and standards and other notices on accounting and auditing. Separate functions and authorization regulations, which are reinforced by ongoing, standardized control and coordination systems, are a significant part of our ICS.

Accounts payable accounting is located centrally in the holding, while accounts receivable accounting is centrally organized and currently processed at four locations. The basis is provided by group-wide standards within a central IT environment for which there are defined access rights. The annual financial statements are prepared almost exclusively for all Group companies at the head office of PATRIZIA Immobilien AG. The employees involved in the annual financial statements are properly trained, and responsibilities and controls are clearly defined for these statements.

The effectiveness of our accounting-related ICS is evaluated as part of the final reporting procedures and also examined by our auditor as part of its auditing remit.

4.5 OVERALL ASSESSMENT OF OPPORTUNITIES AND RISKS

Risk management at PATRIZIA is a continuous process which identifies changes in risk and defines appropriate countermeasures. In 2011, as in previous years, PATRIZIA examined the evaluation categories for the potential magnitude of damage of all known risks and where necessary, increased or reduced them. The risk management system illustrated here enables PATRIZIA to counteract the specified risks and to exploit the opportunities that present themselves. Considering all relevant individual risks and a possible cumulative effect, PATRIZIA’s overall risk is limited at present. No significant risks to the future development and continued existence of the Company and the Group have been identified based on our current knowledge and medium-term planning.

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

5 SUPPLEMENTARY REPORT

Business Segment Residential

Residential Property Resale

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

Block Sales

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

New funds of PATRIZIA WohnInvest KAG

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

Business Segment Commercial

PATRIZIA GewerbeInvest KAG

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

Business Segment Special Real Estate Solutions

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

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

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

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

Project development

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

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

6 REPORT ON EXPECTED DEVELOPMENTS

6.1 FUTURE ECONOMIC FRAMEWORK

Future General Economic Situation in Germany

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

Future Situation in the German Residential Real Estate Market

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

6.2 STRATEGIC DIRECTION

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

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

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

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

6.3 GENERAL BUSINESS DEVELOPMENT

Business Segment Residential

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

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

Business Segment Commercial

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

Business Segment Special Real Estate Solutions

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

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

6.4 EXPECTED DEVELOPMENT OF THE EARNINGS SITUATION

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

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

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

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

6.5 EXPECTED DEVELOPMENT OF THE FINANCIAL SITUATION

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

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

6.6 DIVIDEND POLICY

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

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

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

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

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

2012 forecast: Repeated growth of EBT adjusted

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

The prospects for 2012 and 2013 include all the events that were known at the time the consolidated financial statements were prepared and that could influence the business performance of PATRIZIA.

Augsburg, March 22, 2012



Wolfgang Egger
Chairman of the Board

Arwed Fischer
Member of the Board

Klaus Schmitt
Member of the Board

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

Consolidated Financial Statements

Consolidated Balance Sheet

AS OF DECEMBER 31, 2011

ASSETS

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

EQUITY AND LIABILITIES

EUR '000	Notes	12/31/2011	12/31/2010
A. Equity			
Share capital	5.1.1	52,130	52,130
Capital reserves	5.1.2	215,862	215,862
Retained earnings			
Legal reserves	5.1.3	505	505
Non-controlling shareholders	5.1.4	1,563	832
Valuation results from cash flow hedges	4.4	−1,331	−2,372
Consolidated net profit		41,346	27,775
Total equity		**310,075**	**294,732**
B. Liabilities			
NON-CURRENT LIABILITIES			
Deferred tax liabilities	5.3	26,314	9,701
Long-term financial derivatives	4.4	33,470	39,715
Retirement benefit obligations	5.4	371	368
Long-term bank loans	5.2	417,685	0
Non-current liabilities	9.2	2,410	1,202
Total non-current liabilities		**480,250**	**50,986**
CURRENT LIABILITIES			
Short-term bank loans	5.2	275,667	841,380
Short-term financial derivatives	4.4	233	363
Other provisions	5.5	1,092	666
Current liabilities	5.6	22,644	17,008
Tax liabilities	5.7	12,323	9,413
Total current liabilities		**311,959**	**868,830**
TOTAL EQUITY AND LIABILITIES		**1,102,284**	**1,214,548**

Consolidated Income Statement

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

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

Consolidated Statement of Comprehensive Income

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

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

Consolidated Cash Flow Statement

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

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

Consolidated Statement of Changes in Equity

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

EUR '000	Share capital	Capital reserve	Valuation result from Cash Flow Hedges	Retained earnings (legal reserve)	Consolidated net profit/loss	Shareholders of the parent company	Non-controlling shareholders	Total
Balance January 1, 2010	**52,130**	**215,862**	**–6,079**	**505**	**21,529**	**283,947**	**877**	**284,824**
Net amount recognized directly in equity, where applicable less income taxes			3,707			3,707		3,707
Net profit/loss for the period					6,246	6,246	–45	6,201
Full overall result for the fiscal year			3,707			9,953	–45	9,908
Balance December 31, 2010	**52,130**	**215,862**	**–2,372**	**505**	**27,775**	**293,900**	**832**	**294,732**
Additional non-controlling shareholders which originated in the course of the PATRIZIA Gewerbe-Invest KAG mbH acquisition							1,889	1,889
Reclassification of guaranteed dividend							–1,080	–1,080
Net amount recognized directly in equity, where applicable less income taxes			1,041			1,041		1,041
Net profit/loss for the period					13,571	13,571	–78	13,493
Full overall result for the fiscal year			1,041			14,612	–78	14,534
BALANCE DECEMBER 31, 2011	**52,130**	**215,862**	**–1,331**	**505**	**41,346**	**308,512**	**1,563**	**310,075**