Management Report

Combined management report of the Company and the Group

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

1 Group Fundamentals

1.1 Business Model

PATRIZIA AG is a partner for global real assets and one of the leading independent real estate investment companies in Europe. As at 31 December 2020 881 employees (FTE) are on hand for its clients in more than 15 European real estate markets. The company is also represented in New York, Hong Kong, Seoul, Melbourne, Zurich and Tokyo. PATRIZIA provides a wide range of services from asset management, portfolio management and implementation of purchase and sales transactions for almost all investment classes to alternative investments and project developments. As a result, client preferences and requirements can be met extensively and specifically. Its clients include institutional and (semi-)professional investors such as insurance firms, pension fund institutions and sovereign funds from Germany, Europe, the US and Asia in addition to private investors. PATRIZIA develops bespoke products for its clients in line with their individual return expectations, diversification objectives and risk styles.

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

Funds under management

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

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

Funds under management also include co-investments. PATRIZIA uses **co-investments** to participate in real estate investments with its own capital alongside that of its investors, particularly in the value-add and opportunistic segments. In addition to committing to the customer and the transaction, PATRIZIA generates fees and additional investment income. This allows PATRIZIA's shareholders to participate indirectly in the performance of an attractive European property portfolio. Co-investments accounted for EUR 6.1bn of PATRIZIA's assets under management as at 31 December 2020. PATRIZIA has invested EUR 0.1bn of its own equity in co-investments, current market values of these co-investments are significantly above the historic investment costs.

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

Name	Description	AUM EUR m	PATRIZIA equity interest
Dawonia GmbH	Around 28,000 residential properties in southern Germany	4.928,1	5,1%
WohnModul I SICAV-FIS	Residential/commercial real estate and development projects in Europe	597,0	10,1%
TRIUVA/IVG logistics	Portfolio of 13 German and four logistics properties in France and the Netherlands	169,1	2,1%
TRIUVA/IVG commercial	Office properties in Germany		11,0%
Alliance	German retail portfolio comprising approx. 60 supermarkets, discount stores ad specialist stores	231,8	5,1%
Seneca	Portfolio comprising around 80 specialist stores and supermarkets	159,1	5,1%
PATRoffice	Portfolio that is being sold with only one remaining office property		6,3%
Citruz Holding LP (UK)	Office and light industrial portfolio in the United Kingdom that was successively realised following active management and that now only contains one property	2,3	10,0%
First Street Development LTD (UK)	Inner-city development site in Manchester originally used for office, retail, hotel and residential purposes that is being realised and sold in multiple phases		10,0%

Further details can be found in the capital allocation on page 43.

All in all, **funds under management** accounted for EUR 45.9bn of PATRIZIA's assets under management as at 31 December 2020 (31 December 2019: EUR 43.2bn).

Fund of funds

As one of the world's leading investment managers for real estate funds of funds in the small and mid-cap segment, PATRIZIA Global Partners A/S is responsible for managing fund of funds products and provides an attractive product addition for PATRIZIA's clients. Operating with a global network of partners, PATRIZIA Global Partners A/S invests in best-in-class real estate funds in Europe, Asia and the Americas. Assets under management (invested equity) in these funds amounted to EUR 1.1bn as at 31 December 2020 (31 December 2019: EUR 1.2bn).

Principal investments

PATRIZIA operates as an investment manager for institutional, (semi-)professional and private investors, and therefore endeavours to avoid conflicts of interest with its own investments. Principal investments, i.e. own-account transactions, relate to the company's own property portfolio, which is being downsized in line with the strategy. The company also has small residual holdings of properties for resale. Principal investments amounted to just EUR 15.9m as at 31 December 2020, compared to EUR 23.5m in the previous year, and related in particular to real estate in Munich and in London, United Kingdom, which are to be sold in the medium term.

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

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

1.2 Group strategy

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

Expansion and extension of the European platform

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

Expansion of the product range

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

Expansion of the national and international investor base

Relationships with investors have been and continue to be expanded worldwide. Local contacts have been established in Australia, Hong Kong, Japan, South Korea and the USA, and the European support team for institutional investors has been selectively bolstered. The existing national investor base is also being expanded further in Germany. The aim is to build up a long-term, stable client relationship as per that which PATRIZIA already enjoys with its existing predominantly German investors. There is strong demand among these investors for the range of new products as well as advice on reinvesting sales proceeds from existing investments. In the 2020 financial year, around 56% of newly raised institutional equity was attributable to international investors, thereby underlining the success of the strategic international expansion.

Pioneer in technology and innovation

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

1.3 Competitive strengths

Direct access to a broad investor base

Direct access to investors is one of PATRIZIA's strengths. It is built on the trust of clients who have maintained and deepened their 37-year-plus business relationship with PATRIZIA, and who include more than 450 institutional investors in Germany and abroad. They invest with PATRIZIA regularly and recurrently, due to the good performance of the fund products. In addition, PATRIZIA has been offering closed-end funds for private investors and (semi-)professional investors since 2016. As well as attractive new closed-end fund products for national investors, a fund for (semi-)professional investors that can also be subscribed to by investors outside Germany was launched in 2019 for the first time. Overall, investors entrusted PATRIZIA with new equity of EUR 1.9bn in the past financial year. PATRIZIA currently has outstanding equity commitments amounting to around EUR 3.3bn, which as at 31 December 2020 have not yet been invested in real estate or real estate portfolios.

Network established throughout Europe

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

Extensive real estate value chain covered

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

Successful track record attracts further transactions

PATRIZIA's successful transactions build its reputation. Despite the difficult market environment caused by the Covid-19 pandemic, acquisitions and disposals with a volume of EUR 5.4bn were signed for its clients last year (-39.2% year-on-year), and EUR 6.9bn (-9.7%) was closed in 2020. Ongoing high performance fees in the 2020 financial year are testament to the track record of the real estate funds launched for institutional, (semi-)professional and private investors. The long-term value-added within a portfolio is one of the company's core strengths that pays off in the return generated for investors. However, PATRIZIA's clients and business partners also value its professional identification of opportunities in all real estate asset classes throughout Europe and its fast, smooth handling of purchases and sales.

PATRIZIA has the DNA of an investor

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

Reputation breeds trust

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

1.4 Group management and performance indicators

1.4.1 Corporate management by segment

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

1.4.2 Corporate management on the basis of financial performance indicators

PATRIZIA uses the following financial performance indicators for corporate management:

Financial performance indicators	Description
Assets under Management (real estate assets)	The Group's growth is assessed on the basis of assets under management.
Operating income	Operating income is the Group's key management parameter. It is calculated as EBT in accordance with IFRS, adjusted for the non-cash effects like the measurement of investment property and unrealised currency and derivative effects, amortisation on fund management contracts, and net reorganisation income or expense as well as non-capitalisable expenses for investments in the future. It includes changes in value on the disposal of investment property, operating income from participations (IFRS 9), other financial result and realised currency effects.
Cost Coverage Ratio (CCR)	CCR is a profitability indicator based on market-independent recurring fee income. The recurring fee income (Cost Coverage Income) is calculated from the management fees of a current financial year and 25% of the average transaction fees of the last 5 financial years (but at least EUR 14.1 million). This fee income is put in relation to the recurring costs (Cost Coverage Expenses), the sum of personnel expenses (without taking into account variable compensation components) and net operating expenses (without taking into account extraordinary expenses e.g. from M&A transactions or expensed investments in the future).

Investments in the future are project-related (non-capitalisable) one-off expenses in connection with the expansion of digitalization and the use of new technologies that are intended to further increase and improve operational efficiency. These include, for example, the automation of processes and the implementation of software solutions (as "software as a service") for data processing and data provision.

In addition, the following framework parameters support the management of the Group:

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

The development of these indicators is detailed in section 2.2.

1.4.3 Corporate management on the basis of non-financial performance indicators
For direct corporate management, PATRIZIA does not apply any non-financial performance indicators.

1.5 Non-financial statements

Section 1.5 is not checked for content by the auditor in accordance with German legal regulations.

1.5.1 Sustainability Strategy
Real estate plays a pivotal role in society. Across residential, commercial and logistics, it serves basic human needs such as housing, workspaces, infrastructure for healthcare and transportation of goods. The impact it has – both on the natural environment and the people that live within it – cannot be downplayed or ignored. The aim of the Sustainability Strategy is to cement PATRIZIA's commitment to:

- Prudent property stewardship, with the goal of enhancing the sustainability of the managed assets
- A viable and resilient ecological system focused on the preservation of the natural environment
- A society in which economic development is not pursued at the expense of vulnerable groups or future generations
- Good corporate governance with transparent and efficient real estate markets

Real estate contributes as much to society's well-being as they do to global energy consumption. According to the UNEP (United Nations Environment Programme) Finance Initiative, the real estate sector is responsible for about 40% of energy consumption and about 30% of greenhouse gas emissions. As a result, acting to create more energy-efficient properties can have a significant, positive impact on global warming and climate change. This responsibility falls to every individual, but to real estate investment managers' more than most. And PATRIZIA wants to be part of the positive movement towards a more sustainable world.
Source: https://www.unenvironment.org/explore-topics/resource-efficiency/what-we-do/cities/sustainable-buildings

What sustainability means to PATRIZIA is exemplified by the following five target areas of the firm's Sustainability Strategy:

- **Energy efficiency:** Monitor Energy Performance Certificates (EPCs) and obtain certifications to future-proof the managed portfolio. PATRIZIA understands its responsibility as real estate investment manager and closely monitors the efficiency of the managed assets. Where possible, ways to reduce the primary energy demand of those assets are defined. Decreasing energy consumption not only saves valuable resources, but also futureproofs the portfolio, and secures sustainable performance returns for the Group's clients – its institutional, (semi-)professional and private investors.
- **Green energy:** Increase renewable energy usage across the portfolio. PATRIZIA's ongoing commitment to switch large parts of the portfolio to green energy is already bearing positive results. Wherever possible, PATRIZIA also aims to generate renewable energy on-site, by investing in solar panels for assets.
- **Carbon management:** Develop a corporate CO2 footprint reduction and compensation strategy. On the pathway to a net-zero carbon economy by 2050, as per the Paris Agreement, PATRIZIA has started measuring the Group's CO2 footprint in order to develop a strategy to reduce the impact on the environment in the long-term, and to prepare for the transition to a low-carbon economy.

- **ESG KPIs:** Align reporting with international standards and improve environmental impact. PATRIZIA regularly reviews and updates internal governance policies to ensure they reflect topical ESG (Environmental, Social and Governance) issues which affect the corporate oversight of the Group's business and funds. As part of this commitment, PATRIZIA is developing ESG KPIs to quantify sustainability performance and align reporting with internationally established industry standards, namely UN PRI, GRESB and INREV. In alignment with the recommendations by TCFD, PATRIZIA also considers climate and climate change-related risks in investment decisions.
- **Corporate social responsibility:** Work towards the highest standards of professional and personal development of employees. PATRIZIA commits to fair human resource policies and procedures, and leading labour standards towards health, well-being and safety policies. The Group aims for a diverse workforce, fair remuneration and hiring and promoting without any discrimination.

The PATRIZIA Sustainability Strategy covers all topics and processes that are allocated to environmental, social and governance (ESG). Sustainability is the Company's chosen name for the strategy while ESG is used to ensure the whole range of related topics (environmental, social and governance) is addressed.

UN Principles of Responsible Investment (UN PRI)

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

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

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

The annual UN PRI report supports PATRIZIA in assessing the strategic and operational implementation of the Sustainability Strategy. In 2020 the UN PRI score is A for the modules Strategy and Governance and Indirect Investment Property and B for Direct Investment Property. All scores are in line with the median score.

UN Sustainability Development Goals (SDGs)

PATRIZIA's Sustainability Strategy and business activities are aligned with the overall goal of the UN Sustainability Development Goals (SDGs) to create a better future for all. The SDGs are a universal set of goals, targets and indicators for global development that are very important guidelines for the PATRIZIA Sustainability Strategy and the Group's understanding what responsible practices are. The SDGs serve as a blueprint for positively transforming today's world by ending poverty, safeguarding the planet and ensuring prosperity for all by 2030.
Source: Managed portfolio excludes tenant areas where PATRIZIA has only limited or no operational control

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

- **SDG 11 Sustainable Cities and Communities** reflects the core of real estate investment management. PATRIZIA commits to contribute to inclusive and healthy environments with its investments.
- **SDG 7 Affordable and Clean Energy** and **SDG 13 Climate Action** are fundamental to create sustainable cities and communities. PATRIZIA runs the majority of the managed portfolio[1] on renewable energy to contribute to climate change mitigation and reduce the companies CO2 footprint in line with the goals of the Paris Agreement.

[1] Managed portfolio excludes tenant areas where PATRIZIA has only limited or no operational control

– **SDG 3 Good Health** and **SDG 4 Quality Education** are primary values of corporate social responsibility. PATRIZIA and especially the PATRIZIA Foundation commit to facilitate education and a healthy environment for its employees, the wider real estate industry and children in need.

Regulatory Development

PATRIZIA prepares for regulatory and market development in alignment with global climate targets to contribute to climate change mitigation, future proof the portfolio and ensure compliance and value preservation for investors. The Group is actively preparing to report and disclose information in alignment with the EU Taxonomy and Sustainable Finance Disclosure Regulation.

1.5.2 Systematic Integration of Sustainability

Stable, market-leading and performance-oriented investment vehicles require sustainability to be embedded in the philosophy and process from the start. Sustainable investments mean promoting and safeguarding the environmental, social and economic interest of stakeholders, including clients, tenants, employees and the communities in which PATRIZIA operates.

That is why the PATRIZIA ESG Committee has instituted a systematic approach ensuring just that. Responsible Investment Guidelines have been formulated and consideration checklists are to be followed throughout the investment process, from acquisition to disposal.

Responsible Investment Guidelines

The PATRIZIA Responsible Investment Guidelines are the foundation for integrating ESG considerations into investment decision-making and real estate operations. They describe the principles and minimum standards for all employees, regarding environmental and social engagement, in each phase of the real estate investment lifecycle. The purpose of these guidelines is to create and protect long-term stakeholder and asset value. For every investment vehicle, dedicated sustainability strategies are defined in alignment with client interests, and relevant targets are set. Progress is disclosed in regular reporting and, if required by clients, fund-level ESG performance is assessed by reporting to the Global Real Estate Sustainability Benchmark (GRESB).

Environmental Management System (EMS)

PATRIZIA has implemented an EMS in line with the international DIN ISO 14000 to ensure the implementation of the Sustainability Strategy. The EMS includes the planning of activities, considerations of ESG and climate-related risks and opportunities, allocation of responsibilities and resources, and the development of practices and processes, on corporate as well as fund level. The EMS organises the approval process between the ESG Committee and internal fund reviews.

ESG Screening and Exclusion

The PATRIZIA ESG Screening and Exclusion policy ensures clients' and shareholders' money is aligned with the Group's broader beliefs in order to mitigate reputational risk. As a signatory to UN PRI, PATRIZIA respects the UN Global Compact principles on human rights, labour conditions, the environment and anti-corruption. As a result, the Group does not enter into any kind of business relationship or transaction with corporate entities, governments, joint ventures or individuals with clear, direct links to controversial weapons, nor with countries that deem to have serious violations on political stability and peace, human rights and religious freedoms.

Sustainability during Deal-Sourcing and Acquisition

PATRIZIA's goal is to bring together the economic interests of clients with wider environmental and social prosperity. The Group therefore analyses how investments can contribute to the creation of a sustainable future and strong communities, as well as how future trends will impact the real estate sector. All potential acquisitions undergo an ESG assessment to evaluate risks and opportunities, as well as the propensity to deliver the best service to clients and provide tenants with modern and healthy spaces. When considering the ESG credentials of investments, PATRIZIA assesses factors such as:

Environmental	Social	Governance
Biodiversity and habitat	Community and engagement	Anti-bribery and money laundering
Climate change	Health and safety	Cybersecurity
Land contamination	Human rights	Data protection and privacy
Energy consumption	Inclusion and diversity	Legal and regulatory fines
Greenhouse gas emissions	Labour standards and working conditions	ESG clauses in existing leases
Indoor environment	Social enterprise partnering	
Location and connectivity	Stakeholder relations	
Materials	Occupier amenities – showers, changing rooms	
Pollution	Controversial tenants	
Resilience to catastrophe/disaster		
Renewable energy		
Sustainable procurement		
Waste management		
Water consumption		

Active Ownership Approach

The Group's fund and asset management teams work closely together to manage the properties in a sustainable way. PATRIZIA appoints property managers who are responsible for managing the compliance of operational assets, and management teams meet regularly to review the relevant sustainability strategy and process and compliance requirements.

Sustainability policies and the targets for their implementation are defined in line with client requirements. Such policies describe the implementation of ESG elements during the operational stages of the asset lifecycle, including individual strategies to enhance environmental performance through asset-specific sustainability capex measures, refurbishment and development. Strong emphasis is put on stakeholder engagement and investigating new ways to co-operate with tenants to stimulate the adoption of environmentally sound practices and to positively contribute to social aspects and local communities.

PATRIZIA's 4 step approach to active ownership is described below:

- **Active management**
  PATRIZIA considers environmental performance indicators such as energy, water, waste and greenhouse gas emissions to improve sustainability performance.
- **Active assessment**
  PATRIZIA regularly evaluates the portfolio to identify sustainability measures and reduce operating expenses to increase efficiency and long-term asset value.
- **Active diligence**
  PATRIZIA integrates environmental indicators into fund strategies to enhance the position of assets in their markets, reduce obsolescence and promote resilience.
- **Active co-operation**
  PATRIZIA considers the benefit of third-party green real estate and health and well-being certifications such as LEED, BREEAM, HQE, WELL and Fitwel.

Real Estate Development

PATRIZIA's impact is highest when committing to sustainability from the ground up. That is why sustainable building practices beyond regulatory requirements and beyond the timeline of the individual business plan are considered. Properties may stand for hundreds of years, so sustainability is considered from the very beginning: into real estate development strategies, design and construction, with a view on lifecycle and operation. PATRIZIA employs architects and engineering consultants with a proven track record on sustainability, and integrates ESG requirements in the sourcing and appointing of general contractors in alignment with the PATRIZIA Supplier Code of Conduct reflecting the Group's commitment to protection of the environment, protection of employees and workers, community involvement and compliance and ethics.

1.5.3 Employees

PATRIZIA's clients benefit from the variety of skills, experience and talents of PATRIZIA's employees. Their qualifications, experience and subject matter expertise form the basis for business success. Investing in the Group's people and striving to attract, retain and promote a unique and capable workforce is therefore at the forefront of the Group's people strategy.

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

Attracting Employees

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

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

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

Employee Development

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

- Regular feedback and employee development meetings
- Goal setting and quarterly check-in conversations
- Cross-departmental interdisciplinary project work
- An attractive internal job market and transfer opportunities
- Targeted succession planning
- Leadership and Management programme
- Targeted individual career planning with appropriate training options
- A wide range of in-house training options in the PATRIZIA Academy

The options offered by the PATRIZIA Academy were again expanded in 2020 in order to both increase the breadth of learning opportunities and to support the pandemic with an accelerated move to more mobile working In 2020, many of the extensive training options were moved from classroom-based training to virtual learning and LinkedIn Learning was introduced to give PATRIZIAns a flexible on-demand learning solution to meet their bespoke needs . As a matter of principle, various subject-specific, methodical and soft skills training programmes are available to employees. Individual employees may also obtain external professional education in the form of seminars and part-time study.

As 2020 was an unprecedented year due to the pandemic, further new learning was also introduced to support the well-being of employees and managers to help them remain productive, motivated and resilient. This was accompanied by various measures such as intact team workshops, personal coaching and development on topics such as compassionate and inclusive management and dealing professionally with leadership challenges.

Health and Well-Being

PATRIZIA places great importance on the mental, physical and social health of its employees in an employment world that is rapidly changing. Ordinarily, employees are offered burnout prevention and mindfulness training, "active breaks", yoga and mobile massages and in 2020 following a well-being survey being conducted, further specific guidance and stress management training was available for all employees.

To improve employees' work-life balance, various forms of part-time work are available at all locations. The overall level of part-time workers is 13.3%. Two of the top-five PATRIZIA countries with most employees have an above average level of part-time workers: Germany with 15.8% and the Netherlands with 17.9%.

PATRIZIA Culture

An open, empowering and inclusive culture is a priority for PATRIZIA, as is regular reviews and investment that enhance the employee experience. In 2020 PATRIZIA used the greater prevalence of hybrid working to accelerate the transition to new ways of working, with the introduction of more efficient digital systems and equipment for employees, upgrades to certain offices and a toolkit and policy to support mobile working practices.

Further employee network groups were established to drive a number of cultural and working related initiatives so employees can bring their whole self to work and feel comfortable:

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

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

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

Diversity and Inclusion

PATRIZIA's values include innovation and diversity. The international and multicultural Group thrives on the combination of different perspectives that contribute to its long-term success. Employees are given equal opportunities regardless of race or ethnic origin, gender, religion or ideology, disability, sexual identity or age. Appointments, promotions and level of remuneration are based solely on employees' mindset, qualifications and experience. In addition, on signing their employment contract, all managers and employees are obliged to refrain from discrimination on the above grounds. PATRIZIA recognises and accommodates many personal working circumstances and has a comprehensive Family Leave policy that covers maternity, paternity, adoption, shared parental, parental, time off for dependents, flexible working, compassionate, additional paid, jury service and unpaid leave circumstances.

The number of employees (FTEs) was 881 as at 31 December 2020. There is a balanced age structure: just under 6% of employees are under 25 years old, approximately 26% are aged between 25 and 34, 35% are aged between 35 and 44, little over 23% are aged between 45 and 54, and a good 9% are aged 55 or above. The diversity of nationalities, cultures and languages is also a major strategic advantage for PATRIZIA. In the reporting year, the workforce had a total of 35 different nationalities.

The share of women in the workforce is 48%. The share of women in the Management Board in 2020 is 14%, while 13% of the managers in the top management team, i.e. the first management level below the Management Board, are female. Looking at the total number of managers within the Group, over 24% are female.

PATRIZIA has initiatives aimed at supporting a more gender balanced representation and talent pipeline with the introduction of a talent programme.

1.5.4 PATRIZIA Foundation

PATRIZIA's social responsibility is particularly evident in the company's attitude that part of its success must be shared with those who are in desperate need. A proof of impact of this responsibility is the support of the PATRIZIA Foundation (PF) for more than 20 years, which provides education, accommodation and medical care to children in need.

By establishing the foundation in 1999, Wolfgang Egger created the basis for realising his desire to give children access to education. Since then, a total of 19 PATRIZIA KinderHaus facilities have been initiated, located in eleven countries on four continents: Germany, Cameroon, India, Kenya, Nepal, Peru, Rwanda, South Africa, Tanzania, Uganda and Zimbabwe. So far, about 220,000 children and young adults have benefited from the foundation's facilities around the world.
Source: https://www.patrizia.foundation/en/

In 2020, all PATRIZIA KinderHaus facilities had to be temporarily closed due to the coronavirus pandemic. Some have still not reopened one year after the first lockdown. Thanks to the “Corona Fund Education Healthcare”, the PATRIZIA Foundation was able to provide immediate aid on site. The relief fund was launched in April 2020 to provide quick, unbureaucratic support. By the end of 2020, around 170,000 euros had been distributed from the fund.
Source: https://www.patrizia.foundation/en/corona-fund/

The PATRIZIA Foundation is a legally independent organisation and is supported in its work by PATRIZIA. Up to 1% of the operating income is spent on social projects such as the foundation. In addition to financial support, employees of the Group have the opportunity to dedicate 1% of their working hours to charitable causes. Around two days per person per year can be used to support the foundation's goal of building better futures for children.

1.5.5 Sustainability risk analysis

PATRIZIA commits to promote more informed investment decisions and therefore aims to understand better its exposure to climate-related risks. To inform its stakeholders PATRIZIA aims to align with the framework of the Task Force on climate related Financial Disclosures (TCFD) and the four recommendations for effective climate-related financial disclosures:

- **Governance:** Disclosure of the organisation’s governance around climate-related risks and opportunities.
- **Strategy:** Disclosure of the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.
- **Risk Management:** Disclosure of the processes used by the organisation to identify, assess, and manage climate-related risks.
- **Metrics and Targets:** Disclosure of the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Governance

Sustainability is most successful when implemented at both corporate level and investment level. Sustainable investment management requires that ESG responsibilities are integrated across all business functions and are part of the day-to-day operations of the Group. This is why PATRIZIA employs over 40 specialists with ESG knowledge globally, across the entire scope of operations: fund and asset management, real estate development, transactions and client services.

Sustainability is a Management Board responsibility, with the ESG Committee established as one of the Group’s six Executive Committees, directly reporting to the Management Board and being chaired by PATRIZIA’s Co-CEO Thomas Wels who holds responsibility for assessing and managing climate-related risks and opportunities.

Head of Strategy and Sustainability reporting to Co-CEO, directs the business strategy and the systematic development and implementation of the PATRIZIA Sustainability Strategy. He also ensures proper coordination of ESG initiatives across business functions. To ensure strong alignment between sustainability implementation at the strategic Group level and the operational investment level, the ESG Committee includes team leaders from Asset and Fund Management, Real Estate Development, Transactions, Capital Markets and corporate functions such as Human Resources, Digitalisation, Technology & Innovation and Legal & Compliance. The ESG Committee delegates operative tasks to dedicated ESG working groups made up of relevant teams within the organisation in order to fulfil specific sustainability initiatives.

Risk Strategy

Environmental risks

PATRIZIA’s assets under management pose a physical risk to the environment by contributing to global greenhouse gas emissions. To minimise such adverse impact the Sustainability Strategy is constantly reviewed and aligned with energy-saving measures throughout the portfolio. Environmental KPIs are integrated in decision-making and property managers as well as tenants are engaged to increase data coverage of ESG data. To analyse the environmental impact PATRIZIA has analysed and measured the CO2 footprint including scope 1 and 2 of its operations in 2020 following identification of reduction potentials.
Source: https://ghgprotocol.org/calculationg-tools-faq, The GHG Protocol further categorizes these direct and indirect emissions into three broad scopes: Scope 1: All direct GHG emissions, Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam, Scope 3: Other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. T&D losses) not covered in Scope 2, outsourced activities, waste disposal, etc.

Climate change risks

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

- **Changing market behaviour:** PATRIZIA sees the shift of demand towards sustainable and responsible investments as an opportunity to future-proof its portfolio by demonstrating responsibility towards stakeholders, the environment and communities.
- **Mandates on and regulation of existing products and services:** PATRIZIA secures that the portfolio is prepared for, amongst others, required EPC levels.
- **Enhanced emissions-reporting obligations:** PATRIZIA is taking steps to improve the Group's abilities to report its carbon footprint with a first CO2 footprint analysis including scope 1 and 2 of the Group's operations. Furthermore, PATRIZIA has set carbon emission reduction targets in line with the targets of the Paris Agreement to ensure resilience of its managed portfolio. In 2020 PATRIZIA has initiated designated carbon reduction pathways for a part of its discretionary investment portfolio including asset specific planning.
- **Physical risks** to the Group's assets under management resulting from severe weather conditions and events are analysed during the due diligence process at time of acquisition. Additionally, the risks of possible structural damages are assessed and appropriately insured. Potential physical risks monitored include, but are not limited to, the following: higher operating costs. PATRIZIA monitors the risk of higher operating costs due to higher insurance premiums to cover risk of climate change. However, up to today no increased insurance costs attributable to environmental or climate change risks has been recorded.
- **Increased capital costs:** Possible higher maintenance and capex costs due to facilities damages and/or inadequate technical facilities to be substituted.

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

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

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

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

Anti-corruption and -fraud and related risks
PATRIZIA is committed to high ethical standards and expects the same from its employees and third-party service providers. Anti-corruption and -fraud laws around the world explicitly require the implementation of policies and procedures designed to ensure compliance with anti-corruption and -fraud requirements. PATRIZIA has a Code of Values and a Compliance Manual that contain extensive regulations and standards relating to anti-bribery and corruption. In addition, compliance training sessions that particularly cover these two issues have been held globally for all employees in 2020.

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

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

ESG Risk Management

The identification and management of climate-related risks are part of the ESG Committee's scope and fall under the responsibilities of the Co-CEO as chair of the committee. The risk assessment is embedded in the organisation's overall risk management processes along the investment chain, starting with screening and exclusion and due diligence, active asset management and appropriate consideration in investment specific business plans.

Metrics and Targets

PATRIZIA has identified climate-related and ESG metrics of material impact for its business and the resilience of its investment portfolio in alignment with established industry standards, amongst others TCFD, GRESB, and INREV. The metrics are integrated in asset level reporting and aggregated on portfolio and corporate level. PATRIZIA has set CO2 reduction targets in line with the targets of the Paris Agreement and sets individual portfolio reduction targets for energy and water consumption and waste generation. In 2020 PATRIZIA has analysed the Group's CO2 footprint including scope 1 and 2 and follows up with a reduction strategy in development for 2021.

2 Economic report

2.1 Economic environment

The markets in general: The year 2020 was marked by the outbreak of the Covid-19 pandemic. The first lockdown in spring 2020 resulted in a massive slump in mobility and almost complete stagnation of economic activity in Europe. Economic performance plummeted in almost all European countries. Late spring and the summer brought recovery, but the recovery phase was slowed down by renewed lockdowns in some European countries in autumn 2020. The extent of the recession varied widely from one country to another. The southern European economies, the United Kingdom and France recorded a much higher decline in gross domestic product than the northern European countries. The Covid-19 pandemic will continue to accompany in 2021, as many countries started the year in lockdown. Despite that Europe is expected to experience a significant economic recovery compared to the previous year. Households and businesses have now adapted to the situation, so the impact of lockdowns and restrictions on mobility is less serious. In addition, vaccination campaigns have been launched throughout Europe to limit the number of infections in the course of the year. The unemployment rate will rise, albeit in a relatively moderate extent, as European and national aid packages support labour markets. The economic recovery, and thus the recovery of labour markets, is expected to accelerate in the northern European countries, which have experienced a smaller decline in gross domestic product. Due to the high economic challenges posed by the impact of the Covid-19 pandemic, the ECB is continuing its low interest rate policy, leaving fixed-income investments unattractive to investors looking for an ongoing attractive return.
Sources: PATRIZIA, PATRIZIA House View, IPE REIM Guide

Real estate markets: The European real estate investment market in 2020 was marked by uncertainties created by the Corona pandemic. As a result, the investment volume of EUR 255 billion was significantly lower (-27%) compared to the EUR 347 billion in the previous year. However, the continuation of central banks' low interest rate policies means that demand for real estate investments remains high, or even increases. Thus, a higher investment volume can be expected in 2021, especially as companies and investors have adapted to the new situation.

The pandemic affects the individual real estate sectors differently. The retail sector has been hit hardest, while residential and logistics have been very resilient. Last year, it became clear that investors are taking this into account and shifting their capital from heavily affected sectors to resilient sectors. Such shifts were evident not only between, but also within the sectors. In 2020, the trend was mainly towards core investments with stable yields. However, the current crisis poses not only many challenges for investors, but also opportunities, for example, from price corrections and/or structural changes. This could provide a lot of movement in the real estate investment market in 2021.
Sources: PATRIZIA, PATRIZIA House View, IPE REIM Guide

Structural growth market: According to the industry consensus, the real estate investment management market will continue to grow in the coming years, regardless of the short or medium term market effects of the Covid-19 pandemic. On the one hand, an aging society is leading to further increases in capital inflows for private product providers. In addition, according to many economists, the low interest rate environment will persist for a few more years, which is why institutional investors on the look-out for returns are increasing their allocations to real estate. At the same time, large investors are increasingly looking for investment managers with a wide range of products, which leads to an ongoing consolidation in the global investment management market. Whereas in 2012 only EUR 15bn in assets under management were needed to be among the top ten real estate investment managers in Europe, by 2019 this had risen to EUR 39bn (+160%).
Sources: IREI, Ifo Institute, INREV, German Federal Ministry for Family Affairs, Senior Citizens, Women and Youth

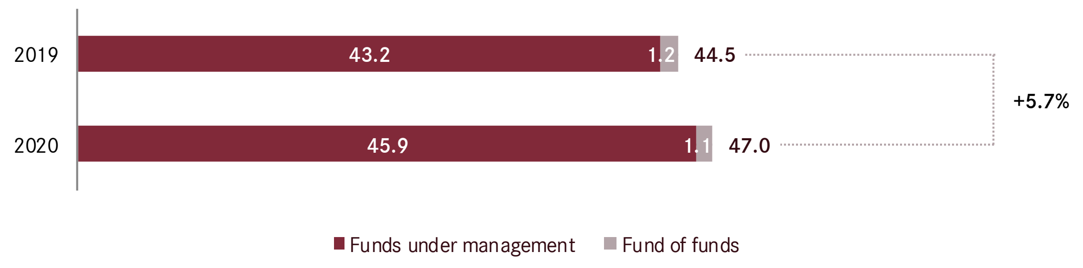
2.2 Business performance | Development of financial performance indicators

Assets under management

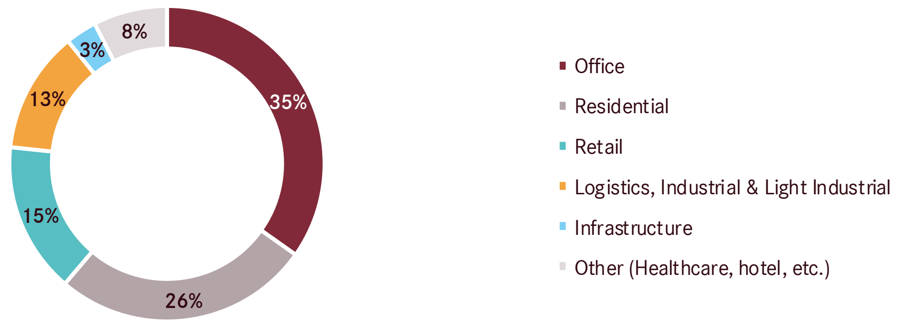
PATRIZIA had real assets under management of EUR 47.0bn as at 31 December 2020, as against EUR 44.5bn as at the end of the previous year. EUR 27.8bn of this related to Germany and EUR 19.2bn to other countries. In total, assets under management rose by EUR 2.5bn or 5.7% in the reporting period and were positively influenced mainly by organic growth, measurement effects, as well as new mandates. The last published forecast of increasing assets under management to between EUR 46.5bn and EUR 48.0bn in 2020 was thus achieved. This forecast was adjusted from the original range of EUR 48.0bn to EUR 49.0bn in the financial report for the first three months of 2020 to reflect uncertainties about the potential impact of the Covid-19 pandemic on European real estate investment markets.

In the 2020 financial year, the definition of assets under management (AUM) was adjusted to the best-practice definitions of the industry standards. According to this definition, financial resources managed for clients in funds are included in addition to pure real estate assets, which positively influenced the calculation of AUM in the 2020 financial year by around EUR 0.8bn. Adjusted for this effect, AUM stood at EUR 45.2bn at 31.12.2019.

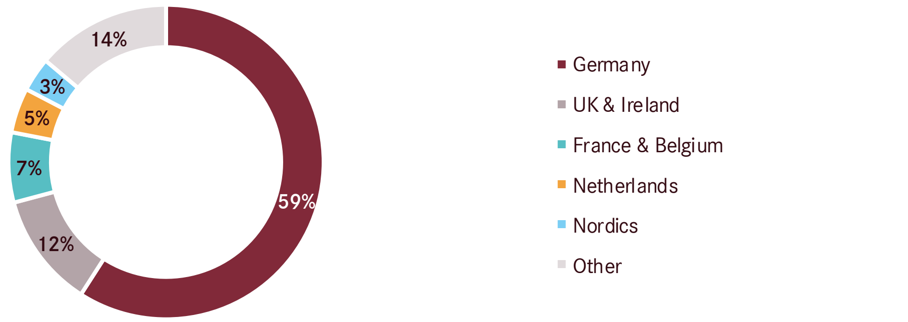
Assets unter management (EUR bn)



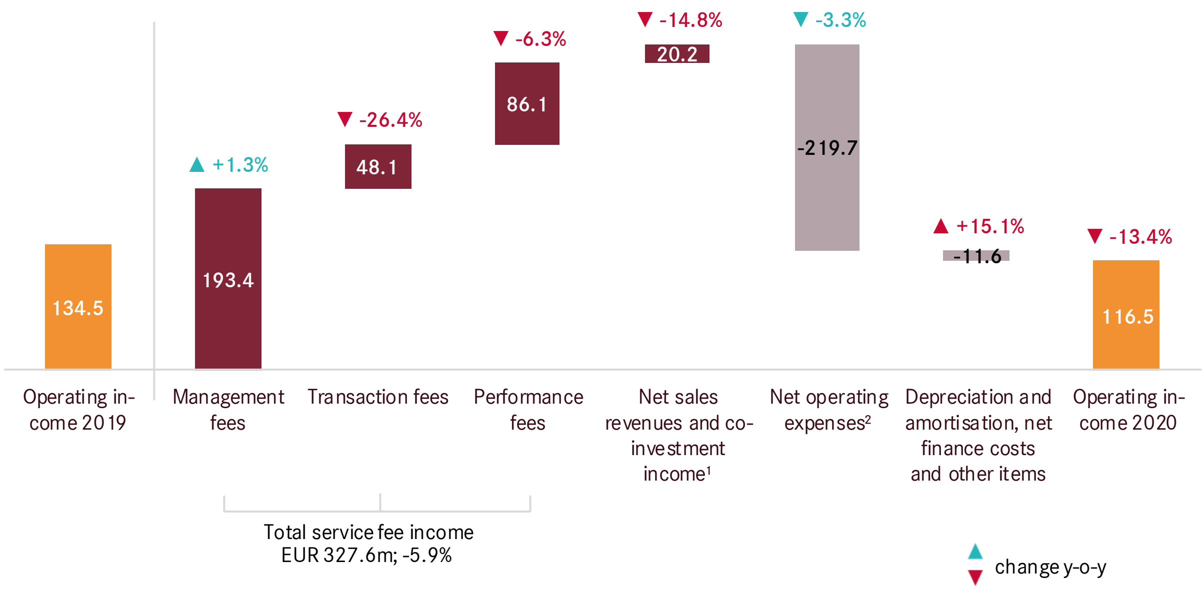
Assets under management as at 31 December 2020 | Sectoral distribution



Assets under management as at 31 December 2020 | Geographical distribution



Composition of operating income (EUR m)



[1] Including EUR 3.1m operating income from participations (IFRS 9)
[2] Inter alia netted against other operating income of EUR 16.5 m

Operating income is the Group's key management parameter. It represents the total of all of the operating items in the income statement adjusted for extraordinary and non-cash effects. In the 2020 financial year, operating income of EUR 116.5m was generated, in line the forecast range of EUR 110.0m to EUR 130.0m.

PATRIZIA had originally expected an operating income in a range of EUR 120.0m to EUR 140.0m.

The forecast for the operating income was extended to EUR 100.0m to EUR 140.0m as part of the quarterly statement for the first three months of the 2020 fiscal year to reflect the uncertainties surrounding the potential impact of the Covid-19 pandemic on the European real estate investment markets.

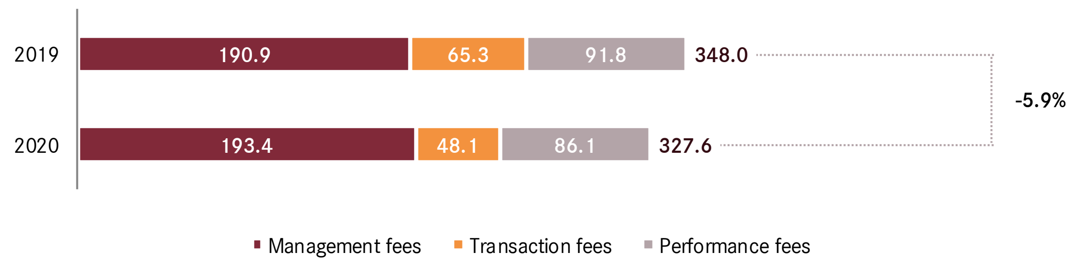
As part of the publication of the quarterly statement on the first nine months of 2020, the forecast for the operating income was refined to EUR 110.0m to 130.0m, as PATRIZIA now had sufficient visibility over the remainder of the fiscal year. All comparisons of the forecast range for the 2020 fiscal year in the remainder of this report therefore refer to the most recently published forecast range.

In line with the strategy, quality of earnings remained on a high level. Net sales revenues and co-investment income only contributed EUR 2.4m to earnings (2019: EUR 13.0m).

A detailed reconciliation of the individual components of operating income to their respective line items in the consolidated income statement in particular can be found from page 41 onwards in this report.

Development of the parameters supporting the management of the company:

Total service fee income (EUR m)



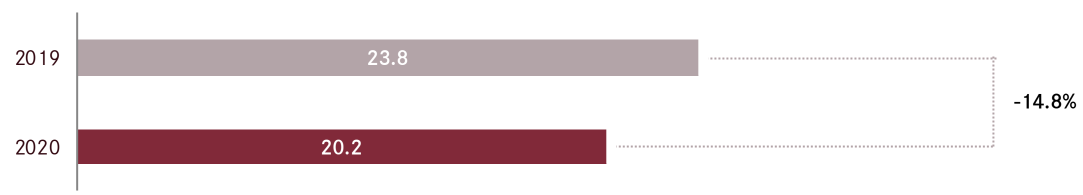
Total service fee income decreased by -5.9% to EUR 327.6m in 2020 (2019: EUR 348.0m). The individual components of total service fee income are discussed below:

Management fees: All services performed by PATRIZIA are compensated in the form of fees. Management fees comprise the company's remuneration for real estate services such as asset, fund and portfolio management and are mostly recurring in nature. Management fees of EUR 193.4m were received in 2020 (2019: EUR 190.9m). This increase of 1.3% was primarily due to organic growth in assets under management and new mandates.

Transaction fees: PATRIZIA receives transaction fees for the implementation of acquisition and disposal transactions. These fees amounted to EUR 48.1m in the past year (2019: EUR 65.3m; -26.4%). Acquisitions accounted for EUR 31.9m of this figure (2019: EUR 41.4m; -22.9%) and disposals for EUR 16.2m (2019: EUR 23.9m; -32.4%). In the same period, the transaction volume on the European market as a whole recorded a Covid-19-related decline from EUR 347.1bn to EUR 254.9bn.

Performance fees: PATRIZIA receives performance fees if defined target investment yields are met or exceeded. Due to the sustained positive development of the real estate assets under management by PATRIZIA, performance fees also remained at a high level of EUR 86.1m and are stable contributor to operating income (2019: EUR 91.8m). In the consolidated income statement, these fees are reported partly as revenues (EUR 60.5m; 2019: EUR 82.8m) and partly as income from participations (EUR 16.6m; 2019: EUR 18.3m) and operating income from participations (EUR 9.0m).

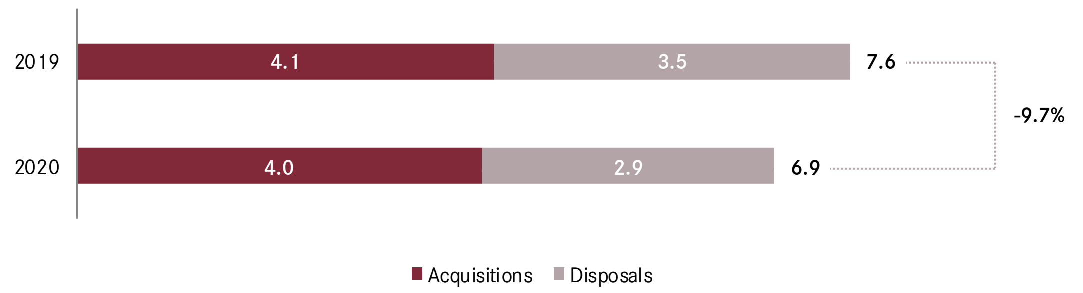
Net sales revenues and co-investment income (EUR m)



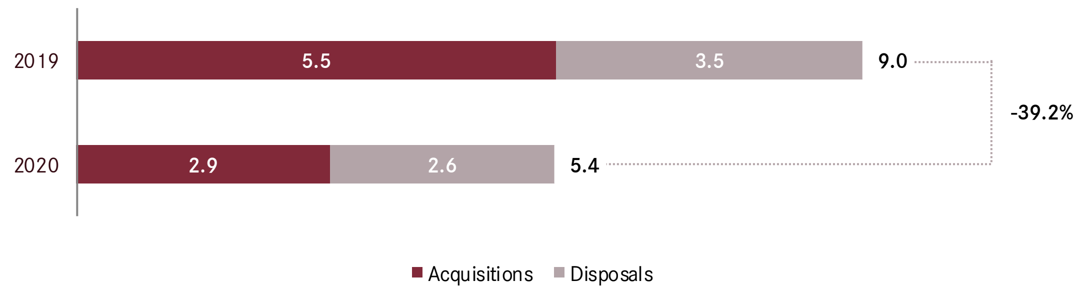
In the 2020 reporting year, PATRIZIA generated net sales revenues and co-investment income of EUR 20.2m after EUR 23.8m in the same period of the previous year. This result shows revenues from the strategic sale of principal investments, which contributed EUR 2.4m to net income (2019: EUR 13.0m) and revenues from co-investments, which contributed EUR 17.1 (2019: EUR 10.8m).

Net operating expenses decreased by 3.3% from EUR 227.2m in the previous year to EUR 219.7m in the reporting year 2020. In the reporting year 2020, investments in the future amounting to EUR 10.7m were excluded from net operating expenses for the first time. Investments in the future are project-related (non-capitalisable) one-off expenses in connection with the expansion of digitalisation and the use of new technologies that are intended to further increase and improve operational efficiency. These include, for example, the automation of processes and the implementation of software solutions (as "software as a service") for data processing and provision.

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



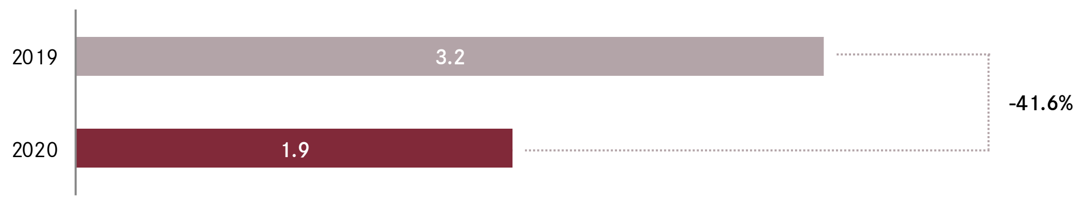
Transaction volume on the basis of signed transactions (EUR bn)



The transaction volume consists of the realised property acquisitions and disposals. Acquisitions closed in 2020 amounted to EUR 4.0bn (signed in 2020: EUR 2.9bn; signed in 2019: EUR 5.5bn) while disposals closed amounted to EUR 2.9bn (signed in 2020: EUR 2.6bn; signed in 2019: EUR 3.5bn). All in all, PATRIZIA closed a volume of transactions at EUR 6.9bn, corresponding to a year-on-year decrease of 9.7%.

PATRIZIA signed transactions in the amount of EUR 5.4bn in the 2020 financial year (2019: EUR 9.0bn, -39.2%). The difference between signing and closing results from the fact that the transfer of ownership, benefits and obligations does not take place until the purchase price is paid. This payment is initiated as soon as certain predefined conditions have been met after the signing.

Equity raised (EUR bn)



In the period under review, equity of EUR 1.9bn was raised from institutional, private and (semi-)professional investors for various national and international investments, as against EUR 3.2n in the previous year (-41.6%).

Cost Coverage Ratio

CCR is a profitability indicator based on market-independent recurring fee income. The recurring fee income (Cost Coverage Income) is calculated from the management fees of a current financial year and 25% of the average transaction fees of the last 5 financial years (but at least EUR 14.1 million). This fee income is put in relation to the recurring costs (Cost Coverage Expenses), the sum of personnel expenses (without taking into account variable compensation components) and net operating expenses, without taking into account extraordinary expenses (e.g. from M&A transactions or expensed investments in the future).

In FY 2020 the cost coverage ratio improved to 119.8% from 111.3% in the previous year.

2.3 Economic situation

2.3.1 General statement by the Management Board

In the 2020 financial year, PATRIZIA again enjoyed considerable success on the European real estate markets despite the challenging market environment due to the Covid-19 pandemic. The financial position of PATRIZIA AG continues to provide a solid basis for the mid-term strategy.

The **operating income** of EUR 116.5m was in line with the last published forecast for the financial year 2020 of between EUR 110.0m and EUR 130.0m. The business model of PATRIZIA AG proved to be resilient and resistant to the crisis. Recurring management fees increased 1.3% to EUR 193.4m. Despite the challenging market environment, PATRIZIA was able to do selective attractive transactions for the global client base. The resulting transaction fees decreased -26.4% y-o-y to EUR 48.1m. Performance fees remained a stable contributor to operating income at EUR 86.1m (change compared to the previous year: -6.3%). Total service fee income decreased by 5.9% to EUR 327.6m. Through strict cost discipline, net operating expenses decreased by 3.3% to EUR 219.7m. Net operating expenses also adjusted for expenses of EUR 10.7m (2019: EUR 0) for the development and application of new technologies to equip the PATRIZIA platform for the future.

Total service fee income

EUR m	2020	2019	Change
Management fees	193.4	190.9	1.3%
Performance fees	86.1	91.8	-6.3%
Transaction fees	48.1	65.3	-26.4%
Total service fee income	**327.6**	**348.0**	**-5.9%**

Assets under management increased by 5.7% year-on-year to EUR 47.0bn, partly due to acquisitions on the European real estate market for national and international clients and the acquisition of new asset management mandates.

Dividend payment

In 2020, a dividend of EUR 0.29 per share was paid in cash, an increase of 7.4% on the previous year. The HGB unappropriated profit in the amount of EUR 500.8m was used to pay the dividend, with the remaining amount being carried forward to new account. By way of resolution of the Annual General Meeting on 1 July 2020 a cash dividend of EUR 26.0m in total was paid. Based on the share of the IFRS consolidated net profit for 2019 attributable to shareholders of EUR 52.9m, this corresponded to a pay-out ratio of 50.7%. The dividend was paid on 6 July 2020.

2.3.2 Results of operations of the Group

Operating income

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

In the 2020 financial year, PATRIZIA generated operating income of EUR 116.5m, thus exceeding the forecast for 2020 of between EUR 110.0m and EUR 130.0m (previous year: EUR 120.0m to EUR 130.0m). The forecast range was extended from the original EUR 120.0m to EUR 140.0m to EUR 100.0m to EUR 140.0m with the report on the first three months of 2020 due to the uncertainties caused by the Covid-19 pandemic and specified to the stated range with the report on the first nine months of 2020. In line with strategy, the quality of earnings remains on a high level. The strategic sale of principal investments only contributed EUR 2.4m to operating income.

A detailed reconciliation of the development of the operating income can be found in the table below.

Reconciliation of operating income

EUR k	2020	2019	Change
EBITDA	**115,686**	**136,922**	**-15.5%**
Amortisation of other intangible assets[1], software and rights of use, depreciation of property, plant and equipment as well as financial investments	-42,309	-55,562	-23.9%
EBIT	**73,377**	**81,360**	**-9.8%**
Finance income/expenses	-3,735	-4,015	-7.0%
Other financial result	0	300	-100.0%
Result from currency translation	-7,595	-234	>1,000.0%
EBT	**62,046**	**77,411**	**-19.8%**
Amortisation of fund management contracts and licenses as well as financial investments	25,848	40,242	-35.8%
Changes in value of investment property	-4	791	-100.4%
Realised changes in value of investment property (net)	0	3,972	-100.0%
Reorganisation result	0	7,961	-100.0%
Other financial result	0	-300	-100.0%
Non-cash currency effects	5,738	-459	< - 1,000.0%
Operating income from participations (IFRS 9)	12,102	4,905	146.7%
Investments in the future	10,721	0	/
Operating income	**116,453**	**134,523**	**-13.4%**

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

The decrease in operating income is essentially due to the lower transaction fees resulting from the lower transaction activity in European real estate markets. Income from the sale of remaining principal investments and the corresponding income are declining steadily in line with strategy, i.e. improving the quality of earnings.

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

Revenues and earnings

EUR k	2020	2019	Change
Revenues	301,693	398,703	-24.3%
Total operating performance	316,275	363,611	-13.0%
EBITDA	115,686	136,922	-15.5%
EBIT	73,377	81,360	-9.8%
EBT	62,046	77,411	-19.8%
Net profit for the period	40,678	56,347	-27.8%
Operating income[1]	116,453	134,523	-13.4%

[1] Please see page 18 for the definition of operating income

Revenues

Revenues decreased in the 2020 reporting year, from EUR 398.7m to EUR 301.7m (-24.3%). Due to the challenging market environment due to Covid-19, revenues from management services decreased because of lower transaction activity for clients. Proceeds from the sale of principle investments also decreased, in line with strategy.

Revenues

EUR k	2020	2019	Change
Revenues from management services	292,503	329,504	-11.2%
Proceeds from the sale of principal investments	3,746	60,828	-93.8%
Rental revenues	3,500	2,970	17.8%
Revenues from ancillary costs	955	2,099	-54.5%
Other	989	3,302	-70.0%
Revenues	**301,693**	**398,703**	**-24.3%**

Revenues from management services decreased in the reporting period by 11.2% year-on-year from EUR 329.5m to EUR 292.5m. However, revenues alone have only limited information value; certain profit and loss items below revenues must also be taken into account in order to fully assess the Group's performance.

Taking into account the income from the Dawonia GmbH co-investment, which is reported in income from participations, **total service fee income** amounted to EUR 327.6 down 5.9% on the previous year's figure of EUR 348.0m. As a result of the organic growth in AUM and the acquisition of new mandates, management fees increased by 1.3% year-on-year to EUR 193.4m (2019: EUR 190.9m). Transaction fees decreased due to the Covid-19 related challenging market environment by -26.4% to EUR 48.1m (2019: EUR 65.3m). Performance fees remained stable at a high level of EUR 86.1m (2019: EUR 91.8m; -6.3%) and included, among other things, operating income from participations (IFRS 9) of EUR 9.0m (2019: EUR 0.0m).

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

Reconciliation of total service fee income

EUR k	2020	2019	Change
Management fees (excluding income from participations)	183,904	181,361	1.4%
Performance fees (excluding income from participations, excluding operating income from participations (IFRS 9))	60,508	82,815	-26.9%
Transaction fees	48,091	65,328	-26.4%
Revenues from management services	**292,503**	**329,504**	**-11.2%**
Performance fees (in income from participations)	16,571	18,254	-9.2%
Shareholder contribution for management services (in income from participations)	9,490	9,490	0.0%
Operating income from participations (IFRS 9)[1]	9,001	0	/
Performance fee label funds	0	-9,231	-100.0%
Total service fee income	**327,565**	**348,018**	**-5.9%**

[1] Includes only the portion attributable to service fee income

Proceeds from the sale of principal investments amounted to EUR 3.7m after EUR 60.8m in the previous year and resulted from the strategic sale of principal investments. The reduction of principal investments is consistent with the stronger strategic focus on investment management services.

PATRIZIA generated **rental revenues** of EUR 3.5m in the period under review after EUR 3.0m in the 2019 financial year. The increase in comparison to the previous year is mainly due to the temporary consolidation of properties for the closed-end fund business.

Revenues from ancillary costs relate to rental ancillary costs and amounted to EUR 1.0m in the period under review (2019: EUR 2.1m).

Other essentially comprises transaction costs that are charged on to the corresponding investment vehicles. This item decreased from EUR 3.3m in the previous year to EUR 1.0m in the 2020 financial year.

Total operating performance

Total operating performance reflects PATRIZIA's operating performance more comprehensively than revenues. Other relevant parameters, such as changes in inventories – which must be viewed in relation to proceeds from the sale of principal investments, among other things – are taken into account in total operating performance. PATRIZIA's total operating performance decreased by -13.0% to EUR 316.3m in 2020 after EUR 363.6m in the previous year.

Reconciliation of total operating performance

EUR k	2020	2019	Change
Revenues	301,693	398,703	-24.3%
Income from the sale of investment property	0	252	-99.9%
Changes in inventories	-2,242	-50,535	-95.6%
Other operating income	16,522	14,607	13.1%
Income from the deconsolidation of subsidiaries	302	585	-48.4%
Total operating performance	**316,275**	**363,611**	**-13.0%**

Income from the sale of investment property

PATRIZIA generated income of EUR 0.0m from the sale of investment property in the 2020 financial year after EUR 0.3m in the previous year.

Changes in inventories

Changes in inventories consist of the carrying amount of principal investments sold from inventories (-) and the capitalised cost of materials assigned to inventories (+). Changes in inventories of EUR -2.2m were reported in 2020 (2019: EUR -50.5m). The carrying amount of inventories decreased by EUR 2.8m compared to the previous year (2019: EUR 52.8m, -94.5%). Inventories were increased by the capitalisation of EUR 0.5m (2019: EUR € 2.3m, -77.3%), primarily relating to construction and maintenance work on principal investments.

Other operating income

Other operating income amounted to EUR 16.5m in financial year 2020 (2019: EUR 14.6m). Income from discontinued obligations essentially results from the final settlement of bonuses, variable salaries from 2019 and remaining holiday entitlements in the amount of EUR 3.6m (2019: EUR 4.0m), from the reversal of provisions for outstanding invoices in the amount of EUR 2.7m (2019: EUR 3.7m) as well as from the release of other tax provisions in the amount of EUR 1.4m (2019: EUR 0). The income from bargain purchase results from the acquired subsidiary Silver Swan S.a.r.l. from the current 2020 financial year (See also item 2.1 in the notes to the financial statements). In 2019 litigation costs/risks that were no longer applicable after the conclusion of a court settlement in the amount of EUR 0.6m were included. The “Other” item mainly includes other agency fees of EUR 0.5m (2019: EUR 0) and income from other charges of EUR 0.4m (2019: EUR 0.5m). In 2019 income from the recalculation of the liability remuneration from the years 2014 to 2019 (EUR 1.2m) was also included.

Income from the deconsolidation of subsidiaries

Income from the deconsolidation of subsidiaries was EUR 0.3m in the financial year 2020 (2019: EUR 0.6m). This item primarily results from the deconsolidation of property companies, in which assets are temporarily held on the balance sheet. These are intended for placement in a closed-end fund of PATRIZIA GrundInvest KVG for private and (semi-) professional investors.

EBITDA

Reconciliation of EBITDA

EUR k	2020	2019	Change
Total operating performance	316,275	363,611	-13.0%
Cost of materials	-3,568	-6,601	-46.0%
Cost of purchased services	-16,066	-28,036	-42.7%
Staff costs	-143,759	-131,769	9.1%
Change in value of investment property	4	-791	-100.4%
Other operating expenses	-76,678	-84,718	-9.5%
Impairment result for trade receivables and contract assets	418	-429	-197.5%
Result from participations	31,624	32,891	-3.9%
Earnings from companies accounted for using the equity method	9,181	725	>1,000.0%
Cost from the deconsolidation of subsidiaries	1,746	0	/
EBITDAR	**115,686**	**144,883**	**-20.2%**
Reorganisation result	0	-7,961	-100.0%
EBITDA	**115,686**	**136,922**	**-15.5%**

Cost of materials

The cost of materials includes construction and maintenance work for principal investments that are typically capitalised and must be considered in conjunction with changes in inventories. The cost of materials declined by 46.0% year-on-year from EUR 6.6m to EUR 3.6m.

Costs for purchased services

In particular, the cost of purchased services comprises the purchase of fund management services for the label funds for which PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH is the service asset management company. To improve the presentation of performance, transaction costs which are incurred to generate revenue and can generally be charged on have also been included in this item since 2018.

Staff costs

PATRIZIA employed a total of 881 full-time equivalents (FTE) as at 31 December 2020, compared to 814 in the previous year.

Staff costs

EUR k	2020	2019	Change
Fixed salaries	79,686	70,555	12.9%
Variable salaries	36,568	37,193	-1.7%
Social security contributions	18,331	15,943	15.0%
Sales commission	1,020	1,801	-43.4%
Effect of long-term variable remuneration[1]	1,742	833	109.1%
Share-based payment	1,085	0	/
Other	5,327	5,444	-2.1%
Total	**143,759**	**131,769**	**9.1%**

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

Correlating to the rise in the price of PATRIZIA AG shares, staff costs of EUR 1.7m (2019: EUR 0.8m) arose in connection with the remeasurement of the value of phantom shares in the reporting period.

The rise of staff costs is primarily due to the need for additional personnel because of the growth in assets under management. Considering the economies of scale that can be achieved using new technologies, the product-related and strategically important functional areas have essentially been strengthened to strengthen operational efficiency and further improve service quality. The annual inflation adjustment and a review of the compensation components in connection with the introduction of a new compensation model also contributed to the increase.

An expense of EUR 1.1m was recognised for the share-based payment agreement for executives introduced in the 2020 financial year. Further information on the determination of the fair value of this remuneration component can be found in section 9.1.2 of the notes to the consolidated financial statements.

Changes in value of investment property

This item contains the result of the annual revaluation of investment property. Changes in the value of investment property amounted to EUR 0.0m (income) in the 2020 financial year after EUR -0.8m (income) in the previous year.

Other operating expenses

Other operating expenses decreased by 9.5% to EUR 76.7m in 2020 after EUR 84.7m in the previous year. This item breaks down as follows:

Other operating expenses

EUR k	2020	2019	Change
Tax, legal, other advisory and financial statement fees	22,348	26,146	-14.5%
IT and communication costs and cost of office supplies	17,956	15,979	12.4%
Rent, ancillary costs and cleaning costs	3,331	2,707	23.0%
Other taxes	1,638	6,969	-76.5%
Vehicle and travel expenses	4,599	7,075	-35.0%
Advertising costs	3,915	5,890	-33.5%
Recruitment and training costs and cost of temporary workers	7,510	4,779	57.1%
Contributions, fees and insurance costs	4,450	3,721	19.6%
Commission and other sales costs	729	1,981	-63.2%
Costs of management services	186	513	-63.7%
Indemnity / reimbursement	572	846	-32.5%
Donations	1,493	1,084	37.8%
Other	7,951	7,026	13.2%
Total	**76,678**	**84,718**	**-9.5%**

Tax, legal, other advisory and financial statement fees in the amount of EUR 22.3m (2019: EUR 26.1m) inter alia include:

- Project-related consulting services in the context of digitalisation as well as costs of initial testing, acquisition and use of new technologies in the amount of EUR 5.8m (2019: EUR 2.1m).
- Costs for consulting services in connection with the introduction of the new remuneration structure and a human resources management software in the amount of EUR 1.3m (2019: EUR 0m)
- Costs related to the management consulting of BrickVest amounting to EUR 1.4m (2019: 0m)
- Costs related to the acquisition of companies (in 2020 mainly BrickVest, in 2019 TRIUVA & Kenzo) amounting to EUR 1.8m (2019: EUR 0.6m and EUR 0.5m, respectively)

The increase in IT, communication costs and costs for office supplies results from the increased use of technological innovations and the further expansion of the degree of digitization.

The decrease in the item “Other taxes” results mainly from additional sales tax payments made in the previous year, which did not arise in the current reporting year.

The decrease in car and travel costs as well as advertising costs is due to the travel and contact restrictions in connection with the Covid-19 pandemic.

The increase in recruitment, training and temporary employment costs results primarily from the increased use of recruitment agencies and interim management services to support project-related work in the context of digitization.

The rise in premiums, fees and insurance costs resulted in an increase in the coverage of risks for the Asian and US regions.

The donations include donations to charitable organizations such as the PATRIZIA Foundation. In 2018, the company's Management Board decided to support non-profit organizations with up to 1% of the company's operating profit annually.

Impairment losses for trade receivables and contract assets

This item includes impairment losses for other trade receivables and other assets in the amount of EUR 0.4m (2019: EUR -0.4m).

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

PATRIZIA generated result from participations of EUR 31.6m in 2020 (2019: EUR 32.9m, -3.9%). This decrease was mainly due to lower performance fees from the Dawonia co-investment. Investment income totalling EUR 29.3m was received for the Dawonia co-investment (2019: EUR 31.0m).

Earnings from companies accounted for using the equity method, which primarily contains the co-investment WohnModul I SICAV-FIS, generated EUR 9.2m (2019: EUR 0.7m). The year-on-year increase is due to higher income from the WohnModul co-investment. Overall, income from participations and earnings from companies accounted for using the equity method represent the investment income from co-investments and, for Dawonia GmbH, management and performance fees as well.

Result from participations

EUR k	2020	2019	Change
Dawonia GmbH	29,284	30,967	-5.4%
Harald-Portfolio	0	777	-100.0%
Co-investments in the UK (Aviemore and Citruz)	-0	516	-100.1%
Seneca	854	438	95.0%
TRIUVA	80	183	-56.0%
Closed-end funds business	1,060	12	>1,000.0%
Other	346	0	< - 1,000.0%
Result from participations	**31,624**	**32,891**	**-3.9%**
Earnings from companies accounted for using the equity method	**9,181**	**725**	**>1,000.0%**
Total	**40,805**	**33,616**	**21.4%**

Net reorganisation expenses

In the previous year, the reorganisation income/expense arose as part of the integration of TRIUVA and Rockspring. This mainly concerned expenses for severance payments, current salaries during the release phase, material costs and consulting costs in connection with the reorganization. Since the reorganisation has been completed, there is no corresponding expense in the reporting year.

Consolidated net profit

In the 2020 financial year, PATRIZIA's consolidated net profit decreased to EUR 40.7m (2019: EUR 56.3m; -27.8%), primarily due to the effects of the Covid-19 pandemic on European real estate markets.

Reconciliation of consolidated net profit

EUR k	2020	2019	Change
EBITDA	**115,686**	**136,922**	**-15.5%**
Amortisation of other intangible assets[1], software and rights of use, depreciation of property, plant and equipment as well as financial investments	-42,309	-55,562	-23.9%
Earnings before interest and taxes (EBIT)	**73,377**	**81,360**	**-9.8%**
Finance income	2,971	2,096	41.8%
Financial expenses	-6,707	-6,111	9.7%
Other financial result	0	300	-100.0%
Result from currency translation	-7,595	-234	>1,000.0%
Net finance costs	**-11,330**	**-3,950**	**186.9%**
Earnings before taxes (EBT)	**62,046**	**77,411**	**-19.8%**
Income taxes	-21,369	-21,064	1.4%
Net profit for the period	**40,678**	**56,347**	**-27.8%**

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

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

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

Amortisation of other intangible assets, software and rights of use, depreciation of property, plant and equipment decreased to EUR 42.3m (2019: EUR 55.6m; -23.9%) and chiefly consisted of amortisation of fund management contracts (see note 4.1.2 or 6.11 in the notes to the consolidated financial statements for further information) and licences of EUR 24.4m (2019: EUR 40.2m), amortisation of rights of use of EUR 10.4m (2019: EUR 9.9m), and amortisation of software and depreciation of operating and office equipment of EUR 6.0m (2019: EUR 5.4m). The statement of changes in fixed assets is discussed in detail in note 4 of the notes to the consolidated financial statements.

Net finance costs

Financial income increased to EUR 3.0m after EUR 2.1m in the previous year (+41.8%), and essentially resulted from the shareholder loans to co-investments, interest on late purchase price payments and interest refunds from the tax office. Financial income was offset by financial expenses of EUR 6.7m (2019: EUR 6.1m, +9.7%), including in particular interest for bonded loans and interest accrued on retirement benefit obligation. “Other financial result” includes income from the write-up in connection with the remeasurement of financial assets in the amount of EUR 0.0m (2019: EUR 0.3m).

Result from currency translation

The result from currency translation amounted to EUR -7.6m as at 31 December 2020 (2019: EUR -0.2m). It is composed of realised currency effects of EUR -1.9m (2019: EUR -0.7m) and unrealised non-cash currency effects of EUR -5.7m (2019: EUR 0.5m).

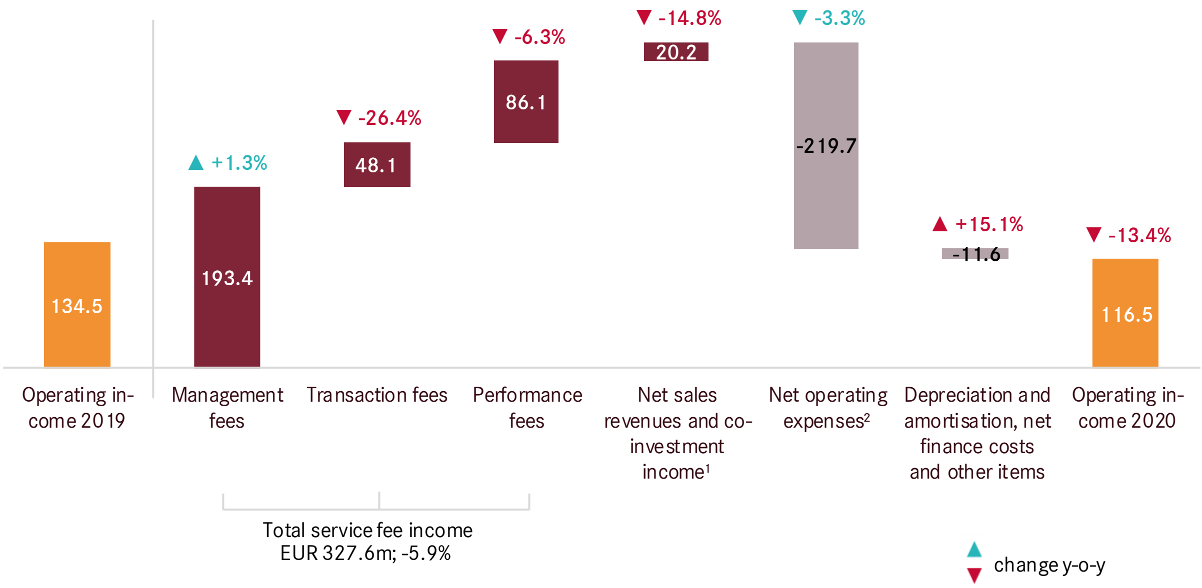
Income taxes

Tax expenses amounted to EUR 21.4m in the 2020 financial year after EUR 21.1m in the previous year (+1.4%).

Detailed reconciliation to operating income

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

Composition of operating income (EUR m)



[1] Including EUR 3.1m operating income from participations (IFRS 9)
[2] Inter alia netted against other operating income of EUR 16.5m

The **management fees** of EUR 193.4m are predominantly derived from "Revenues from management services", which includes EUR 183.9m in management fees (excluding income from participations). In addition, there are management services provided as a shareholder contribution for Dawonia in the amount of EUR 9.5m, which is included in "Income from participations" (see page 35).

Transaction fees of EUR 48.1 are also included in "Revenues from management services", as shown in the overview of service fee income on page 35.

Like management fees, **performance fees** of EUR 86.1m derive partly from "Revenues from management services" and partly from "Income from participations". The breakdown was as follows in 2020: EUR 60.5m in performance fees (excluding income from participations) and a performance-based shareholder contribution of EUR 16.6m included in "Income from participations". Further EUR 9.0m from operating income from participations are also included (see page 35).

These three fee streams add up to **total service fee income** of EUR 327.6m.

Net sales revenues and co-investment income of EUR 20.2m consists of the following items: "Proceeds from the sale of principal investments" of EUR 3.7m (page 35) plus "Changes in inventories" of EUR -2.2m and "Costs of materials" of EUR -3.6m (page 74); also "Rental revenues" of EUR 3.5m "Revenues from ancillary costs" of EUR 1.0m (page 35), and "Income from the sale of investment property" of EUR 0.0m (page 74). Finally "Realised changes in the value of investment property" (net) of EUR -0.0m were also included in the calculation (page 34) – bringing the total to EUR 2.4m. The net income from co-investments contributes a total of EUR 17.8m and results from "Earnings from companies accounted for using the equity method" of EUR 9.2m and EUR 5.6m from return on equity invested. In addition, "Operating income from participations (IFRS 9)" in the amount of EUR 3.1m is taken into account.

Net operating expenses of EUR 219.7m include staff costs of EUR 143.8m (page 73) and the following non-staff operating costs and other income items of EUR 86.7m in total: "Other operating expenses" of EUR 76.7m, "Cost of purchased services" in a net amount of EUR 16.1m and "Impairment on trade receivables and contract assets " of EUR -0.4m and "Expenses from the deconsolidation of subsidiaries" of EUR 1.7m. Offsetting income items consist of "Other operating income" of EUR 16.5m, "Income from the deconsolidation of subsidiaries" of EUR 0.3m (all page 74) and other revenues of EUR 1.0m (page 35). An amount of EUR 10.4m from amortisation of rights of use (page 40) from the item "Amortisation of other intangible assets, software and rights of use, depreciation of property, plant and equipment" is also included here as an item that increases expense. Costs for investments in the future of EUR 10.7m were adjusted in the end which include costs for temporary work of EUR 2.7m, IT-costs of EUR 4.4m and advisory costs of EUR 3.6m.

Depreciation and amortisation, financial result and other items of EUR -11.6m includes "Amortisation of software and depreciation of operating and office equipment and other" in the amount of EUR -6.0m (page 128) as well as "Financial income" of EUR 3.0m and "Financial expenses" of EUR -6.7m (page 128). The "Result from currency translation" (EUR -7.6m) is adjusted for the expense/income from non-cash currency translation (EUR 5.7m; page 34) and thus included in the calculation in the amount of EUR -1.9m. "Amortisation of fund management contracts and licences" of EUR -24.4 are also included in this item, but are neutralized (page 128).

2.3.3 Financial position of the PATRIZIA Group

PATRIZIA's key asset and financial data at a glance

EUR k	31.12.2020	31.12.2019	Change
Total assets	1,962,083	1,987,080	-1.3%
Equity (excl. non-controlling interests)	1,237,240	1,206,391	2.6%
Equity Ratio	**63.1%**	**60.7%**	**2.3 PP**
Cash and cash equivalents	495,454	449,084	10.3%
+ Term deposits	180,797	185,000	-2.3%
+ Securities	0	1,000	-100.0%
- Bank loans	-43,200	-93,194	-53.6%
- Bonded loans	-300,000	-300,000	0.0%
= Net cash (+) / net debt (-)	333,051	241,891	37.7%
Net Equity Ratio[1]	**76.4%**	**75.7%**	**0.7 PP**

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

Total assets

The Group's total assets were relatively stable at EUR 2.0.bn as at 31 December 2020.

Equity

Equity (excluding non-controlling interests) was relatively stable at EUR 1.2bn as at the end of 2020. This small increase was partly due to the remeasurement of participations and performance fee claims, which increased equity by EUR 51.5m year-on-year. In addition, the share of the consolidated net profit attributable to the shareholders of the parent company less the dividend payment to the shareholders had a positive impact on equity. A share buy-back programe carried out in the 2020 financial year with a volume of EUR 27.9m had a reducing effect. Please see the statement of changes in equity for further information on changes in equity. The equity ratio increased slightly accordingly.

Investment property and inventories

PATRIZIA's property assets decreased by -85.7% in the reporting period, from EUR 115.0m as at 31 December 2019 to EUR 16.5m as at 31 December 2020. This decrease was mainly attributable to a temporary rise in inventories in the previous year. This item contained real estate only temporarily held for subsequent contribution to a fund product for private and (semi-)professional investors (EUR 91.6m). By contrast, investment property remained on a low level at in line with the strategy from EUR 1.8m as at 31 December 2019 to EUR 1.8m at the end of 2020.

Investment property and inventory

EUR k	31.12.2020	31.12.2019	Change
Inventories	14,647	113,208	-87.1%
Investment property	1,838	1,835	0.2%
Real estate assets	**16,485**	**115,043**	**-85.7%**

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

PATRIZIA's capital allocation as at 31 December 2020

	Assets under Management EUR m	Invested capital (fair value) EUR m	Invested capital (at cost) EUR m	Participations in %
Third-party business	**40,905.2**	**0.0**		
Co-Investments	**6,087.3**	**510.5**	**87.1**	
Residential	**5,525.1**	**496.4**	**75.6**	
Dawonia GmbH	4,928.1	163.4 [1]	51.7	5.1
Dawonia performance fee claims		309.0 [1]	0.0	0.1
WohnModul I SICAV-FIS	597.0	23.9	23.9	10.1
Other		0.1	0.1	0.0
Commercial Germany	**559.9**	**11.7**	**8.6**	
Alliance	231.8	5.6 [1]	5.1	5.1
Seneca	159.1	3.6 [1]	1.8	5.1
PATRoffice		0.3 [1]	0.2	6.3
TRIUVA/IVG logistics	169.1	1.1 [1]	0.8	2.1
TRIUVA/IVG commercial		1.2 [1]	0.7	11.0
Commercial International	**2.3**	**2.4**	**2.8**	
Citruz Holding LP (UK)	2.3	0.0 [1]	0.4	10.0
First Street Development LTD (UK)		2.4	2.4	10.0
Principal investments	**15.9**	**16.5**		
Other balance sheet items		**365.2** [2]		
Tied-up investment capital	**47,008.5**	**892.2**		
Available liquidity		645.0		
Total investment capital	**47,008.5**	**1,537.2**		
of which debt (bonded loans)		300.0		
of which equity PATRIZIA (without non-controlling interests)		1,237.2		

[1] After deduction of deferred taxes from the valuation according to IFRS 9

[2] Including goodwill and fund management contracts

Capital structure

Financial liabilities

The Group's financial liabilities decreased from EUR 393.2m as at 31 December 2019 to EUR 343.2m as at 31 December 2020. The bonded loan of EUR 300.0m raised in 2017 consists of tranches of five, seven and ten years, and bears interest at both fixed and floating rates averaging 1.5% p.a. This bonded loan is partly recognised under non-current liabilities (EUR 234.0m) and partly under current liabilities (EUR 66.0m). The short-term bank loans of EUR 43.2m relate to temporary interim financing for properties for one of the funds managed by PATRIZIA.

Financial liabilities developed as follows as against the end of 2019:

Financial liabilities

EUR k	31.12.2020	31.12.2019	Change
Non-current bonded loans	234,000	300,000	-22.0%
Current bonded loans	66,000	0	0.0%
Short-term bank loans	43,200	93,194	-53.6%
Total financial liabilities	**343,200**	**393,194**	**-12.7%**

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

Liquidity

PATRIZIA has available liquidity of EUR 645.0m as at 31 December 2020 compared to EUR 607.0m at the end of 2019.

Liquidity

EUR k	31.12.2020	31.12.2019
Cash and cash equivalents	495,454	449,084
Term deposits	180,797	185,000
Securities	0	1,000
Liquidity	**676,251**	**635,084**
Regulatory reserve for asset management companies	-31,229	-22,266
Transaction related liabilities and blocked cash	0	-5,469
Liquidity in closed-end funds business property companies	-15	-388
Available liquidity	**645,007**	**606,961**

Liquidity amounts to EUR 676.3m in total (31 December 2019: EUR 635.1m). However, PATRIZIA cannot freely access this amount. A total of EUR 180.8m is invested in securities and deposits with a withdrawal notice period of more than three months. Furthermore, cash and cash equivalents of EUR 31.2m in total must be permanently retained for asset management companies and closed-end funds in order to comply with the relevant regulatory requirements. Accordingly, PATRIZIA has directly available cash funds of EUR 645.0m (31 December 2019: EUR 607.0m).

Consolidated cash flow statement

Cash flow from operating activities amounted to EUR 82.9m in the year under review after EUR 56.6m in 2019.

The cash flow from operating activities (operating cash flow) may reflect certain distortions from year to year due to the regulatory and temporary inclusion of the closed-end investment KGs of PATRIZIA GrundInvest KVG mbH (closed-end funds business). The purchase of properties for subsequent placement as part of the closed-end funds business reduces the operating cash flow as an addition to inventories. From the Group's point of view, these properties are accounted for as inventories, as these recur in the context of the deconsolidation of closed-end investment companies when investors join. The financing of this measure is included in the cash flow from financing activities. When the corresponding companies are added to/removed from the Group, the operating cash flow is not affected. No such transaction has taken place in FY 2020.

Cash flow from investing/disinvesting activities resulted in a cash outflow of EUR -15.3**m** in the reporting year (2019: inflow of EUR 42.1m) and is mainly due to payments from loans as a result of short-term interim financing for properties for a fund managed by PATRIZIA (EUR 61.7m). Offsetting items are mainly equity repayments in the Co-Investment WohnModul I SICAV-FIS in the amount of EUR 41.5m.

Added to this is the **cash flow from financing activities** of EUR -18.3**m**, compared to EUR 17.8**m** in the previous year. The most important components of financing activities in 2020 included various loan borrowings and repayments, including for the short-term interim financing of properties for PATRIZIA AG funds in the amount of EUR 43.2m described above, as well as the dividend distribution of EUR 26.0m to PATRIZIA AG shareholders. In addition, a share buyback programme with a volume of EUR 27.9m was carried out.

Accordingly, the change in **cash and cash equivalents** amounted to EUR 49.3m (2019: EUR 116.5m), meaning that cash and cash equivalents increased from EUR 449.1m at the end of 2019 to EUR 495.5m as at 31 December 2020.

Abridged consolidated statement of cash flow for the Period from 1 January to 31 December 2020

EUR k	2020	2019
Cash flow from operating activities	82,870	56,620
Cash flow from investing/divesting activities	-15,312	42,106
Cash flow from financing activities	-18,296	17,771
Change in cash and cash equivalents	49,262	116,497
Cash and cash equivalents as at 01.01.	**449,084**	**330,598**
Effects of changes in foreign exchange rates on cash and cash equivalents	-2,892	1,989
Cash and cash equivalents as at 31.12.	**495,454**	**449,084**

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

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

As the financial and management holding company for these operating companies, PATRIZIA AG generated **sales revenues** of EUR 31.9m (2019: EUR 22.4m; 42.6%), which mainly resulted from management fees paid to the subsidiaries. The item **other own work capitalised and other operating income** increased to EUR 9.8m in 2020 (2019: EUR 3.9 m). This increase is mainly attributable to income from realised (EUR 3.2m; 2019: EUR 0.6m) and unrealised exchange rate fluctuations (EUR 1.9m; 2019: EUR 0.0m) as well as income from the reduction of the general bad debt allowance (EUR 1.0m; 2019: EUR 0.0m).

The **cost of materials** increased to EUR 0.7m. **Staff costs** increased by 11.0% to EUR 33.3m (2019: EUR 30.0m). This results from the annual wage adjustment and the increase in the number of employees (annual average: 223 FTEs; 2019: 207 FTEs). **Depreciation, amortization and write-downs and other operating expenses** show an increase of 4.2% to EUR 60.2m (2019: EUR 57.8m), mainly due to higher IT and software costs. At EUR 98.2m, the **income from participations, financial assets, profit transfers and loss absorption** is below that of the previous year (2019: EUR 148.7m). This is mainly the result of lower income from profit transfers. At EUR -5.0m, **net interest income** in 2020 was up on the previous year (2019: EUR -8.0m). This was primarily due to lower interest expenses from affiliated companies. Taxes were reduced by EUR 7.9m to EUR 12.2m in the financial year 2020.

This results in an HGB **net profit** for the past year of EUR 28.5m (2019: EUR 58.7m) at PATRIZIA AG. Together with the profit carried forward of EUR 474.8m this forms the company's unappropriated profit and the offsetting of the difference between the calculated value and the acquisition costs for the purchase of treasury shares of EUR -26.6m. This **unappropriated profit** decreased from EUR 500.8m in 2019 to EUR 476.7m in 2020.

PATRIZIA AG is expected to enjoy positive development in the 2021 financial year. Further information can be found in the Group forecast (note 5).

Abridged consolidated balance sheet of PATRIZIA AG

EUR k	31.12.2020	31.12.2019
Fixed assets	502,745	670,368
Current assets	809,064	710,055
Prepaid expenses	4,466	2,516
Total assets	**1,316,275**	**1,382,939**
Equity	750,168	775,630
Provisions	31,584	29,667
Liabilities	534,523	577,642
Total equity and liabilities	**1,316,275**	**1,382,939**

Abridged income statement of PATRIZIA AG

EUR k	2020	2019	Change
Revenues	31,881	22,351	42.6%
Other own work capitalised and other operating income	9,842	3,868	154.4%
Cost of materials (cost of purchased services)	-729	-349	109.2%
Staff costs	-33,255	-29,960	11.0%
Depreciation, amortisation and write-downs and other operating expenses	-60,224	-57,804	4.2%
Income from participations, financial assets, profit transfers and loss absorption	98,181	148,716	-34.0%
Net interest expense	-4,954	-8,030	-38.3%
Taxes	-12,248	-20,081	-39.0%
Net profit for the year	**28,494**	**58,711**	**-51.5%**
Profit carried forward	474,746	442,042	7.4%
Purchase of treasury shares	-26,571	0	-100.0%
Unappropriated profit	**476,668**	**500,754**	**-4.8%**

3 Other disclosures

3.1 Acquisition-related disclosures

The aim of all arrangements is to meet the standards for capital market-oriented German companies.

Composition of share capital, share classes

The company's share capital amounts to EUR 92,351,476.00 divided into 92,351,476 shares. These are no-par value bearer shares; there are no other share classes. The company held 2,668,545 treasury shares as at 31 December 2020. The company's share capital shown in the consolidated balance sheet amounts to EUR 89,682,931.00 accordingly. Further details can be found in the notes to the consolidated financial statements under 5.1 Equity and 5.1.4 Treasury shares.

Restrictions on voting rights and the transfer of shares

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

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

As at 31 December 2020, Wolfgang Egger, CEO of PATRIZIA AG, held an interest in the company's share capital totalling 51.81% via First Capital Partner GmbH, in which he directly and indirectly holds a 100% equity interest via we holding GmbH & Co. KG.

Shares with special rights conferring powers of control

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

Controls in respect of voting rights for shares held by employees

There are no controls in respect of voting rights.

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

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

Authorisation of the Management Board to issue and buy back shares

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

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

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

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

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

There are, with the exception of the LTI Plan, no agreements contingent upon a change of control following a takeover bid.

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

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

3.2 Remuneration report

The remuneration report details the principles and the essential features of the remuneration system for the Management Board and Supervisory Board of PATRIZIA AG. It explains the remuneration which is granted to the individual members of the Management Board and Supervisory Board for the financial year 2020 and discloses the amount of the payments made.

The remuneration system of the Management Board aims to follow the same principles and clear line of vision as the system implemented for all other employees and Senior Leaders of PATRIZIA, especially considering the remuneration structure and remuneration elements but also considering the target setting approach behind performance related remuneration elements.

Remuneration of the Management Board

Over the last few years, four companies have come together to become ONE PATRIZIA. As part of the integration process of the acquisitions carried out since 2017, PATRIZIA has implemented a new remuneration system for the entire company including the Management Board.

The Supervisory Board approved the new remuneration system for the Management Board. The following principles were considered for the design of the new remuneration system:

- Harmonizing the remuneration structure and elements of the Management Board with the employees of PATRIZIA and PATRIZIA's Senior Leaders.

- Supporting the achievement of PATRIZIA's corporate strategy and vision of becoming the global partner for real assets and ensuring continued long-term success, which is reflected in PATRIZIA's mid-term strategy "Strategy 2023". Especially the structure and design of PATRIZIA's annual Short-Term Incentive Plan (STI) and Long-Term Incentive Plan (LTI) including its target setting approach aims to support the delivery and fulfilment of the targets set in "Strategy 2023".
- Addressing the variety of PATRIZIA's stakeholder interests by demanding the attainment of a diverse set of targets including a focus on sustainability.
- Ensuring market competitiveness and being in line with legal requirements and recommendations (i.e. §87a AktG, German Corporate Governance Code).
- Enabling a clear performance orientation by focusing on the achievement of collective and individual objectives.

The new remuneration system contributes to the strategy, long-term interest and sustainable success of PATRIZIA and its stakeholders through the following principles:

- A diverse set of individual and corporate targets to reflect the company's strategy with focus on long-term value creation.
- Full alignment with key performance indicators used in strategic decision making and regular financial reporting (e.g. Operating income, Assets under Management and Cost Coverage Ratio).
- Focus on further improving recurring profitability, efficiency and growth of the company's platform to stay competitive and safeguard PATRIZIA's leading market position.

Additionally, due to the new legal requirements pursuant to §120a, Paragraph 1 AktG, the first-time consultative vote on the new remuneration system for the Management Board will take place at the Annual General Meeting in 2021.

Already six of in total seven Management Board Members are participating in the new remuneration system for the Management Board which is described in what follows. Only the new remuneration system will be applied to future contract extensions or new contracts for members of the Management Board.
The structure of the remuneration and the amounts paid to the members of the Management Board are defined and regularly reviewed by the Supervisory Board. The review considers all the assessment criteria recommended in Section G of the German Corporate Governance Code and the requirements according to §87 AktG to the extent no deviation is declared. It also includes a market benchmark of the compensation levels against the market practice of key competitors in the same industry. Due to PATRIZIA's increasing international footprint, diverse portfolio and Management Board Members' background, the benchmark is based on two comparative peer groups, one German and one European peer group. An external independent expert was consulted for the determination of the peer groups. The European peer group focuses primarily on investment management firms and is complemented by financial services organisations with a focus on real estate financing. Since the number of comparable investment management firms is limited in Germany, the German peer group focuses on the real estate industry and firms that are comparable with PATRIZIA regarding its business model and size, the number of their employees as well as their geographic and industry or business focus.

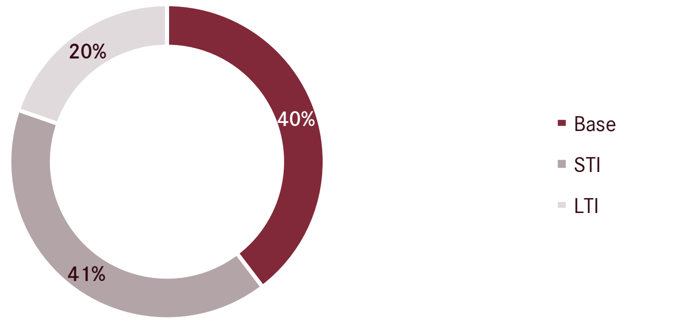
The remuneration paid to the members of the Management Board is based on their respective area of responsibility, the individual performance, the performance of the Management Board as a whole, as well as on the economic and financial position and success of PATRIZIA. The remuneration paid to the members of the Management Board has the aim to be appropriate, performance-based and consistent with market conditions. It is composed of the following non-performance-related and performance-related components with a short-term and long-term incentive effect:

- Fixed annual remuneration (base salary, pension contribution, benefits)
- Short Term Incentive (STI)
- Long Term Incentive (LTI)

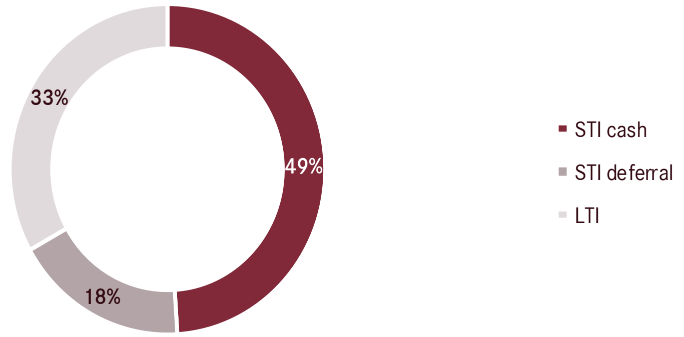
Variable component as a proportion of the total remuneration of the Management Board
Taking into account the different target percentages for each Management Board Member due to their area of responsibility, the total variable compensation resulting from the annual Short Term Incentive accounts for 70-140% of base salaries assuming the company's and personal targets are met in full (100% target attainment). The variable compensation resulting from the Long Term Incentive accounts for 36-60% of base salaries assuming targets are met in full (100% target attainment). Hence in total 54-65% of the total remuneration (base pay + STI + LTI) is subject to performance related remuneration elements.

This leads to the following average pay mix structure of non-performance related (base) and performance related (STI + LTI) remuneration elements in 2020:

Structure total remuneration



Structure varibale remuneration



In accordance with the recommendations of the German Corporate Governance Code, the variable element of target compensation at PATRIZIA has a predominantly long-term character. Thus, more than 50% of the yearly variable remuneration (variable remuneration understood as STI and LTI Award together) ("deferral threshold") is granted in share-based instruments awarded as deferrals from the short-term incentives and/or through the long-term incentive plan. These awards are subject to multi-year performance periods.

In order to meet the requirement of the German Corporate Governance Code, Performance Shares are granted subject to a three-year performance period and two-year holding period as part of PATRIZIA's Long Term Incentive Plan; furthermore, the portion of the short-term incentive required to meet the deferral threshold is granted in Phantom Shares and deferred for four years. The values of the Performance Shares and Phantom Shares are subject to PATRIZIA's share price development.

The predominantly long-term character of the variable remuneration is facilitated by a structure with more than 50% of the variable remuneration being based on the achievement of long-term targets. The target metrics as such applied under the STI and LTI, such as "Growth in Assets under Management (AuM)" or "Cost Coverage Ratio (CCR)" have a long-term success character. AuM correlates with a long product maturity and ensures stable and recurring management fees for several years. The CCR reflects the profitability ratio of the company with revenues primarily based on management fees. Furthermore, the Performance Shares granted under the LTI are subject to the development of PATRIZIA's CCR and the development of the company's Total Shareholder Return (TSR) compared to peer indices. Both, CCR and TSR, stand for long-term sustainable success for PATRIZIA.

Non-performance-related remuneration

Non-performance-related remuneration components are the fixed annual remuneration, which consists of a base salary being paid as a monthly salary reflecting the Board Member's role in the Management Board, pension contributions, benefits in kind and other benefits, which primarily comprise the amounts permitted to be recognised under tax law for insurance premiums and the use of a company car.

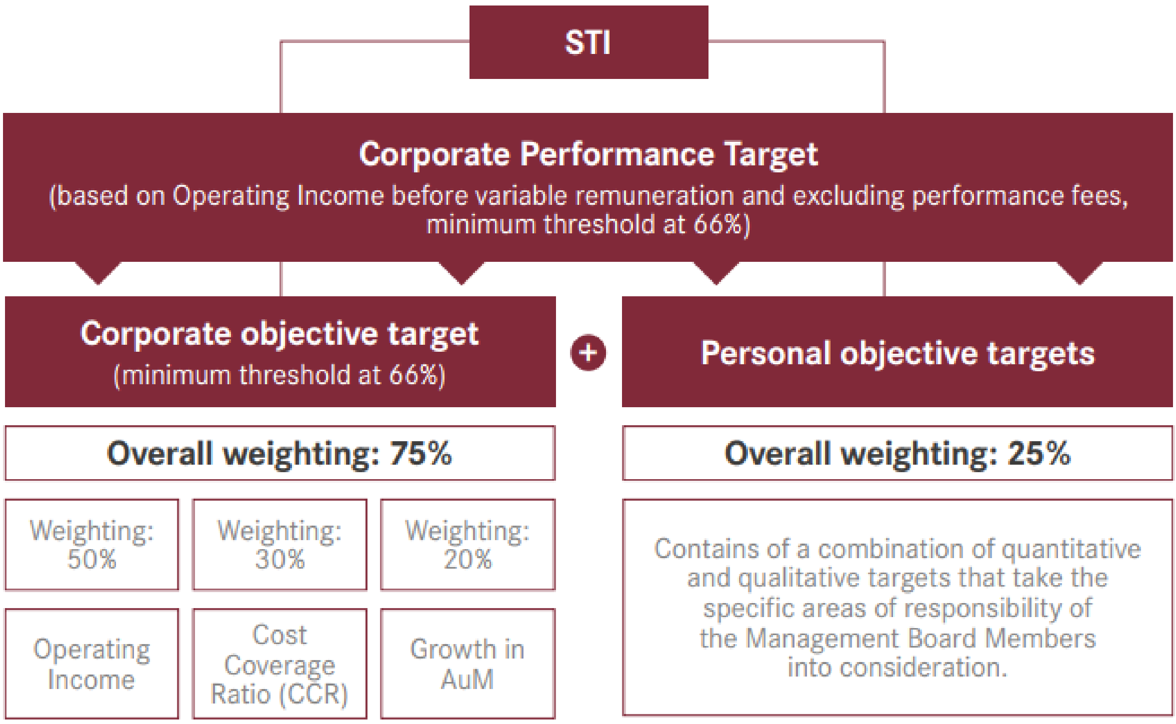
Performance-related remuneration

Short-term variable remuneration components

The Short-Term Incentive (STI) rewards for the achievement of PATRIZIA's short- to mid-term business objectives set as part of the objective setting agreement of the performance for the respective financial year performance.

The absolute and relative amount of the STI remuneration differs between the members of the Management Board and is based on a contractually agreed target rate between 70-140% of base salary. The award of the Short-Term variable remuneration component is determined based on qualitative and quantitative targets defined at the start of the financial year.

Overview of the Short Term Incentive (STI)



For the Management Board to receive any STI in respect of the financial year, a minimum threshold of 66% must be achieved for the Corporate Performance Target, which is measured on PATRIZIA's Operating Income (before variable remuneration and excluding performance fees). There is no additional minimum threshold for the Personal objective targets to be reached.

Provided that the Corporate Performance Target meets its minimum threshold, the annual pay-outs are determined by the target attainment of two subcomponents – a Corporate objective target and the Personal objective targets – whereas the Corporate objective target is weighted with 75% and the Personal objective targets with 25% in the performance evaluation. The performance evaluation considers both positive and negative developments.

The Corporate objective target is set by the Supervisory Board at the beginning of every performance year and is defined and applied consistently to all Management Board Members. For 2020, the Corporate objective target includes the following financial KPIs:

– Operating Income	- 50% weighting
– Cost coverage ratio (CCR)	- 30% weighting
– Growth in assets under management (AuM)	- 20% weighting

The performance achieved against these objectives will be assessed at the end of the financial year. Depending on the performance achieved, pay-outs for the corporate component (Corporate objective target) can vary between 0%-200% of the Target Bonus.

In accordance with the German Corporate Governance Code, more than 50% of the variable remuneration is based on the achievement of long-term targets ("long-term threshold"). To follow this guideline, the portion of the STI award required to achieve this long-term threshold (in addition to the LTI Award) is being deferred and converted into Phantom Shares. The value of a “Phantom Share” corresponds to the value of one PATRIZIA AG share based on the average of the Xetra closing price in the period starting 30 days before and ending 30 days after 31 December of the relevant performance year. The equivalent value of the “Phantom Shares” is paid to the member of the Management Board after a “lock-up period” of four years following the relevant financial year. The value of a “Phantom Share” relevant for the payment corresponds to the value of one PATRIZIA AG share according to the average of the Xetra closing prices in the period starting 30 days before and ending 30 days after 31 December of the fourth year following the “lock-up period”. This ensures that the above-mentioned portion of the STI delivers value by fully mirroring PATRIZIA’s long-term share price development. The Performance Shares do not carry any voting or dividend rights

For 2020, the following target values for the Corporate objective target were set and achieved:

Corporate objective target

Objectives[1]	Weighting	Min	Target	Max	Attainment[2]
Operating Income	50%	80%	100%	140%	117%
CCR	30%	96%	100%	110%	103%
AuM Growth	20%	80%	100%	120%	61%

[1] Performance corridor translates into Corporate objective target achievement levels of 0% - 200%
[2] The attainment of the above targets is subject to the Supervisory Board’s final decision. Final figures are being published in the following remuneration report

This led to an overall 111% target attainment for the Corporate objective target for all Management Board Members.

The target attainment of the corporate performance objective was measured at 110% for the financial year 2020. As the final target attainment is above 66%, an STI award will be granted to the members of the Management Board.

For the Personal objective targets, the target attainment is individually evaluated following the end of the financial year. In the following an overview of the topic areas taken into account for the Personal objective targets is provided:

Topic areas taken into account for the personal objective targets FY2020

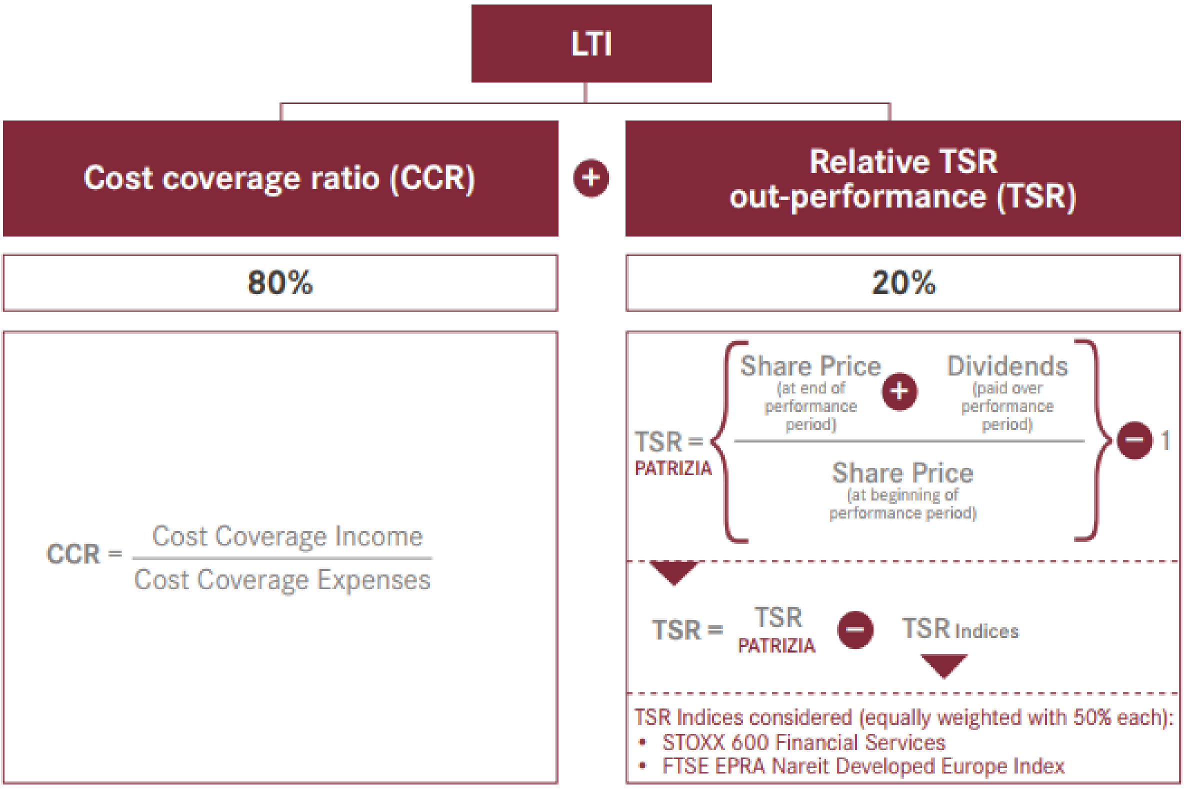
Member of the Management Board	Topic areas for individual targets - FY2020	Alignment with purpose, vision & strategy
Wolfgang Egger	- Develop PATRIZIA's strategy further - Leading the Company to deliver on Strategy 2023 development targets - Increase client satisfaction and retention; broaden and diversify client base	- Deliver on Company purpose: "Building communities & sustainable futures"
Thomas Wels	- Focus on diversifying sources of growth incl. search for suitable M&A opportunities to enhance and complement product offering and service to clients - Advancing the operating model	- Become the leading partner for global real assets
Alexander Betz	- Simplify processes, digitalise and automate workflows - Harmonise and optimise system landscape - Develop and provide an online portal as well as API to better serve clients and property managers	- Simplification – we make things simple to unleash our strengths
Karim Bohn	- Enhance company-wide tax compliance and risk management through implementation of state-of-the art systems and tools - Driving forward the capital markets activities - Implement system-based profit contribution analysis and reporting	- Stability – we will be a stable and reliable partner for our clients and shareholders
Dr Manuel Käsbauer	- Driving PATRIZIA's T&I investments - Global T&I trend scouting	- Services – we create value with best-in-class services for our clients, tenants and employees
Anne Kavanagh	- Securing investment performance - Strengthening research and innovation to support product development	- Scope – we create investment opportunities with attractive return profiles
Simon Woolf	- Introduce and implement a companywide performance management and reward program - Further development of software-based HR management systems	- Becoming the employer of choice

The individual attainments of the Personal objective targets are subject to the Supervisory Board's decision but can be expected to broadly lie in the range of 100%. Final target attainments will be published in the following remuneration report. For the former member of the Management Board Klaus Schmitt an individual target attainment of 100% was fixed as part of the settlement agreement.

Long-term variable remuneration components

The new Long-Term Incentive plan (LTI) was introduced as part of the overall remuneration structure in 2020 and aligns the interests of shareholders, PATRIZIA´s Management Board Members and Senior Leaders of the company. The plan aims to put the focus of the Management Board Members on the long term and sustainable success of the company by measuring performance on the achievement of multiyear objectives and considering the company performance relative against the development of the market environment. It also supports equity ownership of the individual Board Members.

Overview of the Long Term Incentive (LTI)



Cost Coverage Income: Calculated from the management fees of a current financial year and 25% of the average transaction fees of the last 5 financial years (but at least EUR 14.1m)
Cost Coverage Expenses: The sum of personnel expenses (without taking into account variable compensation components) and net operating expenses, without taking into account extraordinary expenses (e.g. from M&A transactions or expensed investments in the future).

The LTI remuneration component is based on a contractually agreed yearly target value that lies between a range starting at EUR 150,000 up to EUR 224,756 (equivalent to GBP 200,000) for every Management Board Member.

Participants of the LTI plan are awarded with annual grants in every financial year, which gives the opportunity to participate in a new performance schedule every year. The LTI plan uses Performance Shares to measure the company's success over a period of three financial years which defines one LTI plan performance period.

The initial grant of 2020 will be subject to the following performance conditions measures over three financial years up to the end of 2022:

- Development of the company's Cost Coverage Ratio (CCR) - 80% of the award
- Development of the relative Total Shareholder Return (TSR) - 20% of the award

The company's target CCR is defined based on the company's business plan. For the LTI grant in 2020, the targets are in line with the overall strategy of PATRIZIA and targets set out in the company's mid-term business plan. The company's TSR development is measured against two indices (STOXX 600 Financial Services Index and FTSE EPRA/NAREIT Developed Europe Index) that are weighted equally. A performance corridor is being defined to determine how much of the Performance Shares vest depending on the three-year performance of the two performance measures CCR and TSR. Therefore, a threshold, a target and maximum level (cap) of vesting are defined. No Performance Shares vest below the threshold level, and the number vesting between threshold and target, and target and maximum, is determined on a straight-line basis. Delivery can be settled in company shares or as a cash equivalent.

For 2020, the following values were set:

LTI KPIs

2020 Grant Performance Corridor[1]	Threshold	Target	Max
CCR	91%	100%	117%
TSR	80%	100%	120%

[1] Performance Corridor translates into target achievement of 50% - 200%

The LTI awards granted relate to a specified nominal number of shares in the capital of the company which are described as Performance Shares. The granted Performance Shares relate to a nominal value on the grant date which is equal to a specified cash amount. The Performance Shares can be seen as a right to receive a cash equivalent or as a right to receive company shares when the performance conditions are met at the end of the performance period.

The Performance Shares vest after the three-year performance period to the Management Board Members and are transferred to them after the end of the additional two-year holding period – in sum the shares are transferred to the plan participants after a total of five years. At the end of the holding period, a pay-out will be made in cash or by transferring the vested shares to the participant.

2020 is the first time the LTI award was granted to the Management Board Members. Therefore, no pay-out is due until 2025.

LTI-Award

Members of the Management Board	Award date	Performance period	Performance period	End of holding	Total number of performance shares granted
Wolfgang Egger	02.01.2020	3 years	31.12.2022	31.12.2024	10,541
Thomas Wels	01.05.2020	3 years	31.12.2022	31.12.2024	10,541
Alexander Betz	02.01.2020	3 years	31.12.2022	31.12.2024	7,906
Karim Bohn	0	0 years	0	0	0
Dr Manuel Käsbauer	02.01.2020	3 years	31.12.2022	31.12.2024	7,906
Anne Kavanagh	02.01.2020	3 years	31.12.2022	31.12.2024	12,459
Simon Woolf	02.01.2020	3 years	31.12.2022	31.12.2024	9,344
Klaus Schmitt	0	0 years	0	0	0

Relevant provisions governing the vesting of outstanding awards connected to the cessation of employment is contained in the Terms & Conditions of the LTI plan. Subject to the nature of cessation, outcome could typically be vesting in full, vesting partially, or lapsed entirely. Discretion, if applied, will be determined by the Supervisory Board.

For the LTI plan a change of control clause is provided. In the event of a change of control, where the company underlies a takeover by an acquiring company, Performance Shares will vest on a pro-rata basis or continue to be invested depending on the acquiring company. In case a takeover result in a winding-up of the company, unvested awards will vest on a time pro-rated basis, i.e. the number of shares granted apportioned by number of years accumulated over the vesting period. Performance Shares will be scaled back by reference to the number of years completed from the date of grant to the date of the change of control relative to the length (in years) of the vesting period. In case a takeover results in the company being organized under a new holding parent, no immediate vesting of awards takes place and a “Replacement Award” will be offered to the participants by the acquiring company.

Maximum Remuneration

According to the new remuneration system, the total remuneration to be granted for a financial year (sum of all remuneration amounts spent for the relevant financial year including fixed annual salary, variable remuneration (STI and LTI Award) and fringe benefits) of a member of the Management Board is limited to a maximum amount. This applies regardless of whether the remuneration amounts are paid out in the respective financial year or at a later point in time. Under this system, the total remuneration of the CEO may not exceed an amount of EUR 7.0m gross for a financial year. The same applies to the total remuneration of the Co-CEO. The total remuneration for any other member of the Management Board may not exceed an amount of EUR 6.2m gross or GBP 5.4m gross, in the event that a service agreement provides for remuneration in GBP, for a financial year under this system.

For the following Management Board Members a maximum remuneration to be granted for a financial year (sum of all remuneration components paid for the financial year in question including fixed annual salary, variable remuneration (STI and LTI Award) and fringe benefits) (gross), has been agreed:

- Wolfgang Egger: EUR 6.1m
- Thomas Wels: EUR 6.1m
- Alexander Betz: EUR 3.0m
- Dr Manuel Käsbauer: EUR 2.2m
- Anne Kavanagh: GBP 4.5m
- Simon Woolf: GBP 2.2m

For the financial year 2020 the maximum remuneration limit has not been exceeded for any of the aforementioned Management Board Members.

Malus and clawback

Following the recommendation of the German Corporate Governance Code, malus and clawback provisions have been implemented, which ensure a further alignment of interest with the company's shareholders. PATRIZIA is entitled to reclaim an appropriate amount of the variable remuneration paid pursuant to the STI or LTI component if a malus or clawback event take place. This could refer, inter alia, to a material misstatement in the financial results of the company or a violation of any relevant external or internal rules relating to conduct. In the financial year 2020, no malus or clawback provision was applied for the Management Board of PATRIZIA AG.

Pension entitlements

PATRIZIA AG provides allowances for a statutory pension insurance or contributions to a personal pension plan, insofar the member of the Management Board takes out a corresponding policy. The allowances will be made on a monthly or annual basis and paid in gross amounts depending on the plan.

Directors & officers liability insurance (D&O)

The company has purchased insurance for the members of the Management Board to cover their personal liability arising from their service on the Management Board. The D&O insurance provides for a deductible of 10% of the damage up to 150% of the Management Board Member's fixed annual remuneration.

Total remuneration for the 2020 financial year

The total remuneration granted to serving and former members of the Management Board for the 2020 financial year based on 100% target attainment amounts to EUR 8.6m (2019: EUR 5.2m), comprising EUR 3.4m in non-performance-related remuneration and EUR 5.2m in performance-related remuneration. Some of this amount was not yet paid out. The specifications for 2020 contain EUR 2.4m of Phantom Shares and Performance Share units granted to the members of the Management Board. Of the Phantom Shares the cash value equivalent will be paid out in the 2025 financial year, whilst the Performance Shares will be delivered to the Management Board Members in 2025 or will be paid out as cash value equivalent following completion of the combined vesting and holding period.

The total remuneration paid out to the serving and former members of the Management Board in the year under review amounted to EUR 6.9m (2019: EUR 4.9m).

The overview below provides the remuneration granted to the members of the Management Board for the financial year 2020. In addition, the actual remuneration paid in the 2020 financial year is shown, which also includes work performed in previous years.

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

EUR k	2019	2020	2020 (min)	2020 (max)
Fixed remuneration	420	420	420	420
Fringe benefits[1]	0	0	0	0
Sub-total	**420**	**420**	**420**	**420**
Short-term variable remuneration (STI)	926	588	0	1,176
STI in cash	617	386	0	772
STI Deferral (in phantom shares)[2]	309	202	0	404
Long-term variable remuneration (LTI)[2]	0	200	0	400
Total	**1,346**	**1,208**	**420**	**1,996**
Service cost[3]	12	12	12	12
Total remuneration	**1,358**	**1,220**	**432**	**2,008**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] STI Deferral and LTI maximum amounts based on average share price at award date
[3] The item primarily includes pension contributions

Remuneration granted Thomas Wels, Co-CEO
Appointed: 01.05.2020
Appointed until: 30.04.2023

EUR k	2019	2020	2020 (min)	2020 (max)
Fixed remuneration	0	433	433	433
Fringe benefit[1]	0	16	16	16
Sub-total	**0**	**450**	**450**	**450**
Short-term variable remuneration (STI)	0	607	0	1,213
STI in cash	0	395	0	791
STI Deferral (in phantom shares)[2]	0	211	0	423
Long-term variable remuneration (LTI)[2]	0	200	0	400
Total	**0**	**1,256**	**450**	**2,063**
Service cost[3]	0	44	44	44
Total remuneration	**0**	**1,300**	**493**	**2,107**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] STI Deferral and LTI maximum amounts based on average share price at award date
[3] The item primarily includes pension contributions

Remuneration granted Alexander Betz, CDO
Appointed: 01.01.2020
Appointed until: 31.12.2022

EUR k	2019	2020	2020 (min)	2020 (max)
Fixed remuneration	0	420	420	420
Fringe benefits[1]	0	18	18	18
Sub-total	**0**	**438**	**438**	**438**
Short-term variable remuneration (STI)	0	336	0	672
STI in cash	0	238	0	476
STI Deferral (in phantom shares)[2]	0	98	0	196
Long-term variable remuneration (LTI)[2]	0	150	0	300
Total	**0**	**924**	**438**	**1,410**
Service cost[3]	0	12	12	12
Total remuneration	**0**	**936**	**450**	**1,422**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] STI Deferral and LTI maximum amounts based on average share price at award date
[3] The item primarily includes pension contributions

Remuneration granted Karim Bohn, CFO

Appointed: 01.11.2015
Appointed until: 31.10.2023

EUR k	2019	2020	2020 (min)	2020 (max)
Fixed remuneration	420	420	420	420
Fringe benefits[1]	18	18	18	18
Sub-total	**438**	**438**	**438**	**438**
Short-term variable remuneration (STI)	718	750	375	1,125
STI in cash	479	500	250	750
STI Deferral (in phantom shares)[2]	239	250	125	375
Long-term variable remuneration (LTI)[2]	0	0	0	0
Total	**1,156**	**1,188**	**813**	**1,563**
Service cost[3]	12	12	12	12
Total remuneration	**1,168**	**1,200**	**825**	**1,575**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] STI Deferral and LTI maximum amounts based on average share price at award date
[3] The item primarily includes pension contributions

Remuneration granted Dr Manuel Käsbauer, CTIO

Appointed: 01.01.2020
Appointed until: 31.12.2022

EUR k	2019	2020	2020 (min)	2020 (max)
Fixed remuneration	0	250	250	250
Fringe benefits[1]	0	14	14	14
Sub-total	**0**	**264**	**264**	**264**
Short-term variable remuneration (STI)	0	175	0	350
STI in cash	0	159	0	319
STI Deferral (in phantom shares)[2]	0	16	0	32
Long-term variable remuneration (LTI)[2]	0	150	0	300
Total	**0**	**589**	**264**	**914**
Service cost[3]	0	24	24	24
Total remuneration	**0**	**613**	**288**	**938**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] STI Deferral and LTI maximum amounts based on average share price at award date
[3] The item primarily includes pension contributions

Remuneration granted Anne Kavanagh, CIO

Appointed: 15.04.2017
Appointed until: 15.04.2022

EUR k	2019	2020	2020 (min)	2020 (max)
Fixed remuneration	418	472	472	472
Fringe benefits[1]	5	0	0	0
Sub-total	**423**	**472**	**472**	**472**
Short-term variable remuneration (STI)	869	661	0	1,322
STI in cash	579	434	0	868
STI Deferral (in phantom shares)[2]	290	227	0	454
Long-term variable remuneration (LTI)[2]	0	225	0	450
Total	**1,292**	**1,358**	**472**	**2,243**
Service cost[3]	47	45	45	45
Total remuneration	**1,340**	**1,402**	**517**	**2,288**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] STI Deferral and LTI maximum amounts based on average share price at award date
[3] The item primarily includes pension contributions

Remuneration granted Simon Woolf, CHRO

Appointed: 01.01.2020
Appointed until: 31.12.2022

EUR k	2019	2020	2020 (min)	2020 (max)
Fixed remuneration	0	281	281	281
Fringe benefits[1]	0	16	16	16
Sub-total	**0**	**297**	**297**	**297**
Short-term variable remuneration (STI)	0	197	0	393
STI in cash	0	179	0	358
STI Deferral (in phantom shares)[2]	0	18	0	35
Long-term variable remuneration (LTI)[2]	0	169	0	337
Total	**0**	**662**	**297**	**1,028**
Service cost[3]	0	28	28	28
Total remuneration	**0**	**690**	**325**	**1,056**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] STI Deferral and LTI maximum amounts based on average share price at award date
[3] The item primarily includes pension contributions

Remuneration granted Klaus Schmitt, COO

Appointed: 01.01.2006
Appointed until: 30.06.2020

EUR k	2019	2020	2020 (min)	2020 (max)
Fixed remuneration	420	420	420	420
Fringe benefits[1]	22	22	22	22
Sub-total	**442**	**442**	**442**	**442**
Short-term variable remuneration (STI)	864	750	375	1,125
STI in cash	576	500	250	750
STI Deferral (in phantom shares)[2]	288	250	125	375
Long-term variable remuneration (LTI)[2]	0	0	0	0
Total	**1,306**	**1,192**	**817**	**1,567**
Service cost[3]	24	24	24	24
Total remuneration	**1,330**	**1,216**	**841**	**1,591**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] STI Deferral and LTI maximum amounts based on average share price at award date
[3] The item primarily includes pension contributions

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

Remuneration paid out Wolfgang Egger, CEO

EUR k	2019	2020
Fixed remuneration	420	420
Fringe benefits[1]	0	0
Sub-total	**420**	**420**
STI in cash	642	617
STI Deferral (in phantom shares)		
Tranche 2017-2019	0	386
Tranche 2016-2018	220	0
Long-term variable remuneration (LTI)	0	0
Total	**1,282**	**1,423**
Service cost[2]	12	12
Total remuneration	**1,294**	**1,435**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] The item primarily includes pension contributions

Remuneration paid out Thomas Wels, Co-CEO

EUR k	2019	2020
Fixed remuneration	0	433
Fringe benefits[1]	0	16
Sub-total	**0**	**450**
One-time sign-on bonus	0	0
STI in cash	0	0
STI Deferral (in phantom shares)		
Tranche 2017-2019	0	0
Tranche 2016-2018	0	0
Long-term variable remuneration (LTI)	0	0
Total	**0**	**450**
Service cost[2]	0	44
Total remuneration	**0**	**493**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] The item primarily includes pension contributions

Remuneration paid out Alexander Betz, CDO

EUR k	2019	2020
Fixed remuneration	0	420
Finge benefits[1]	0	18
Sub-total	**0**	**438**
STI in cash	0	0
STI Deferral (in phantom shares)		
Tranche 2017-2019	0	0
Tranche 2016-2018	0	0
Long-term variable remuneration (LTI)	0	0
Total	**0**	**438**
Service cost[2]	0	12
Total remuneration	**0**	**450**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] The item primarily includes pension contributions

Remuneration paid out Karim Bohn, CFO

EUR k	2019	2020
Fixed remuneration	420	420
Fringe benefits[1]	18	18
Sub-total	**438**	**438**
STI in cash	513	479
STI Deferral (in phantom shares)		
Tranche 2017-2019	0	284
Tranche 2016-2018	19	0
Long-term variable remuneration (LTI)	0	0
Total	**971**	**1,201**
Service cost[2]	12	12
Total remuneration	**983**	**1,213**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] The item primarily includes pension contributions

Remuneration paid out Dr Manuel Käsbauer, CTIO

EUR k	2019	2020
Fixed remuneration	0	250
Fringe benefits[1]	0	14
Sub-total	**0**	**264**
STI in cash	0	0
STI Deferral (in phantom shares)		
Tranche 2017-2019	0	0
Tranche 2016-2018	0	0
Long-term variable remuneration (LTI)	0	0
Total	**0**	**264**
Service cost[2]	0	24
Total remuneration	**0**	**288**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] The item primarily includes pension contributions

Remuneration paid out Anne Kavanagh, CIO

EUR k	2019	2020
Fixed remuneration	418	472
Fringe benefits[1]	5	0
Sub-total	**423**	**472**
STI in cash	604	579
STI Deferral (in phantom shares)		
Tranche 2017-2019	0	0
Tranche 2016-2018	0	0
Long-term variable remuneration (LTI)	0	0
Total	**1,027**	**1,051**
Service cost[2]	47	45
Total remuneration	**1,074**	**1,096**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] The item primarily includes pension contributions

Remuneration paid out Simon Woolf, CHRO

EUR k	2019	2020
Fixed remuneration	0	281
Fringe benefits[1]	0	16
Sub-total	**0**	**297**
STI in cash	0	0
STI Deferral (in phantom shares)		
Tranche 2017-2019	0	0
Tranche 2016-2018	0	0
Long-term variable remuneration (LTI)	0	0
Total	**0**	**297**
Service cost[2]	0	28
Total remuneration	**0**	**325**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] The item primarily includes pension contributions

Remuneration paid out Klaus Schmitt, COO

EUR k	2019	2020
Fixed remuneration	420	420
Fringe benefits[1]	22	22
Sub-total	**442**	**442**
STI in cash	642	576
STI Deferral (in phantom shares)	0	0
Tranche 2017-2019	0	346
Tranche 2016-2018	225	0
Long-term variable remuneration (LTI)	0	0
Total	**1,084**	**1,018**
Service cost[2]	24	24
Total remuneration	**1,108**	**1,042**

[1] The item primarily contains benefits for insurance premiums and the use of a company car or car allowance
[2] The item primarily includes pension contributions

In addition former Management Board member Arwed Fischer received a payment for 10,424 Phantom Shares in financial year 2020, equivalent to EUR 210k, as well as a pension payment of EUR 6k.

The following two tables show a comparative presentation of the annual change in target compensation for Management Board members compared with the average target compensation (assuming 100% target achievement) of employees on a full-time equivalent basis. The figures for employees only include fixed and variable salary components and no other benefits (e.g. non-cash benefits).

With regard to the annual changes in employee target compensation, it should be noted that these are based on a very heterogeneous employee population due to the strong inorganic growth of the Company in the past (particularly outside Germany) and therefore do not allow a complete view on a comparable basis ("like for like").

In addition, the target compensation of the Management Board members is compared with the Company's earnings performance over the last five financial years.

Development of average total target compensation of the Management Board and Employees

EUR k	2016	Change 2016/17	2017	Change 2017/18	2018	Change 2018/19	2019	Change 2019/20	2020[1]
Management Board	849	12.4%	954	16.8%	1,115	1.5%	1,132	-8.6%	**1,034**
Employees[2]	73	14.0%	83	9.0%	91	3.0%	93	24.6%	**116**

[1] Introduction of LTI programme
[2] Employees until 2019 only based on German employees, based on FTE

Development of individual total target compensation of members of the Management Board and Financial KPIs

EUR k	2016	Change 2016/17	2017	Change 2017/18	2018	Change 2018/19	2019	Change 2019/20	2020[1]
Serving members of the Management Board as at 31 December 2020									
Wolfgang Egger	990	3.0%	1,020	14.7%	1,170	0.0%	1,170	3.2%	**1,208**
Thomas Wels	0	0.0%	0	0.0%	0	0.0%	0	0.0%	**1,240**
Alexander Betz	0	0.0%	0	0.0%	0	0.0%	0	0.0%	**906**
Karim Bohn	780	0.0%	780	30.8%	1,020	0.0%	1,020	14.7%	**1,170**
Dr Manuel Käsbauer	0	0.0%	0	0.0%	0	0.0%	0	0.0%	**575**
Anne Kavanagh	0	0.0%	998	10.3%	1,101	6.1%	1,168	16.2%	**1,358**
Simon Woolf	0	0.0%	0	0.0%	0	0.0%	0	0.0%	**646**
Former members of the Management Board									
Klaus Schmitt	1,020	0.0%	1,020	14.7%	1,170	0.0%	1,170	0.0%	**1,170**
Arwed Fischer	607	0.0%	0	0.0%	0	0.0%	0	0.0%	**0**
Financial KPIs									
Operating Income	344,658	-76.2%	82,185	72.0%	141,373	-4.8%	134,523	-13.4%	**116,453**

[1] Introduction of LTI programme

Remuneration of the Supervisory Board

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

If a Supervisory Board member is not a member of the Supervisory Board during the entire financial year, the respective fixed remuneration is paid on a pro rata basis. Supervisory Board members are also reimbursed for their expenses and any VAT payable on their remuneration and expenses.

The Supervisory Board was granted the following remuneration in the 2020 financial year:

Remuneration of the Supervisory Board

EUR k	2020	2019
Dr Theodor Seitz, Chairman	60	40
Alfred Hoschek, Deputy Chairman	45	30
Uwe Reuter, Deputy Chairman	45	30
Total	**150**	**100**

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

On 28 January 2021, the Management Board and the Supervisory Board of PATRIZIA AG issued a Corporate Governance Statement in accordance with section 289f HGB and section 315d HGB and made this statement publicly available on the Company's website at:
https://www.patrizia.ag/en/shareholders/corporate-governance/corportate-governance-statement/.

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

On 16 December 2020, the Management Board and the Supervisory Board adopted the statement of conformity with the recommendations of the German Corporate Governance Code in accordance with Section 161 AktG (German Stock Corporation Act; GCGC 2017 and GCGC 2020). The recommendations were complied, with a few exceptions. This declaration and all previous declarations of conformity are also permanently available on the PATRIZIA website at:
https://www.patrizia.ag/en/shareholders/corporate-governance/declarations-of-conformity/.

3.5 Transactions with related companies and individuals

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

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

4 Development of opportunities and risks

4.1 Management of opportunities and risks

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

The aim is to proactively collect relevant information about potential and actual risks and their direct and indirect financial consequences for PATRIZIA at an early stage in order to manage them and sustainably secure enterprise value. Overall responsibility for risk management lies with the Management Board of PATRIZIA AG. The monitoring and ongoing development of the risk management system is the responsibility of the Risk Management function. Opportunity management is handled in parallel to risk management. The aim is also to collect relevant information about opportunities and their potential direct and indirect financial upside at an early stage and pursue and manage them to sustainably secure and increase enterprise value.

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

To further strengthen governance, PATRIZIA established a group wide Risk Management function during 2020 to bundle activities relating to risk management. This established central responsibility for further development of suitable risk management processes. The existing processes, which are based among other things on the regular exchange of knowledge between operational functions and Risk Management, were further developed, optimised and supplemented with additional procedures for early risk detection, reporting and risk-bearing capacity. The role concept within PATRIZIA's Risk Management is designed to ensure optimum interaction between operational functions and the monitoring functions.

PATRIZIA has also set up a committee structure to provide the Management with the best possible support. Particular importance is attached to the consideration of potential risks and future opportunities. The committee structure ensures that all important parties are informed and involved in due time and thus forms a central element of risk identification and management. The main committees are:

- Investment Committee
- Products & Fundraising Committee
- Capital Allocation Committee
- Fund Review Committee
- Technology & Innovation Committee
- Risk Committee
- Ad-hoc Committee
- Environmental, Social and Governance (ESG) Committee
- Global Projects and Development (GPD) Committee
- Remuneration Committee

The establishment of risk management functions in PATRIZIA's regulated companies (AIFM, MiFID) follows the separate legal requirements and supervisory regulation and is carried out by all regulated entities. The Risk Management of PATRIZIA and the regulated entities is in permanent cooperation, among other things through a joint management function. This supports the optimal exchange of knowledge between the risk management functions at all levels and ensures the efficient consideration of PATRIZIA's core risks.

Environmental, social and governance (ESG) issues are another key element in the overall assessment of PATRIZIA's opportunity and risk Management and the importance has increased in recent years. For details please refer to chapter 1.5 on all ESG matters.

The Corporate Reporting & Planning department reports Group financial data on a monthly basis to the Management and the Operational Board and Risk Management. The reporting helps to identify potential risks at an early stage and to initiate relevant countermeasures.

Within the framework of risk management, the identified risks are evaluated with regard to their probability of occurrence and potential loss at the Group level. This is used to determine the necessary actions to manage and if needed limit the impact of the respective risks by operational countermeasures e.g. change in process and, where deemed necessary, accounting related precautions such as the recognition of provisions, etc. In principle, the risk assessment considers the risk effect over one year and is aligned with PATRIZIA's fiscal year and thus the budget period.

The identified and assessed risks are taken into account in a risk-bearing capacity calculation at the Group level. The identified significant risk areas, the results of the risk-bearing capacity calculation as well as the results of the implemented risk indicator system are included in the periodic reporting of the risk management function to the Management Board.

PATRIZIA's Internal Audit regularly reviews the risk management system for efficiency and effectiveness as part of an internal risk audit. In addition to the Risk Management function, all other key PATRIZIA business areas are included in the audit planning in a risk-oriented approach. The Management Board receives an annual report on the results of the internal audit. In accordance with Section 317 (4) of the German Commercial Code (HGB), the risk early warning system in accordance with Section 91 (2) Stock Corporation Act (AktG) is also audited by the auditor of PATRIZIA AG. The alignment of PATRIZIA's risk management organisation with the three lines of defence model forms the basis for stable corporate governance.

4.2 Internal control and risk management system with regard to the accounting process - disclosures in accordance with sections 289 (4), section 315 (4) HGB

The central risk of accounting and financial reporting is that the annual and quarterly financial statements could contain inaccurate representations. In order to avoid sources of error, PATRIZIA has set up an internal control system (ICS) for the accounting process. It is designed to provide sufficient security for the reliability of financial reporting and the preparation of annual and quarterly financial statements in accordance with regulatory and capital market requirements. Nevertheless, the ICS cannot guarantee absolute security. The members of the Management Board of PATRIZIA AG sign the Responsibility Statement on a quarterly basis. In doing so, they confirm that the accounting standards have been complied with and that the figures represent the actual net assets, financial position and results of operations.

The Budget is the starting point of the controlling process as a central component of the ICS, which is based on the targets set by the Management Board and the expectations for operational business development. This serves as a guideline for the budget of the entire group and the upcoming business year. The actual figures and possible deviations from the budget are reviewed, analysed and reported on a monthly basis. For the current business year, regular updates, forecasts and projections are prepared based on the actual results achieved compared to the budget and the identified opportunities and risks.

The ICS also comprises measures and processes for the timely recording of all business movements and positions in the accounting and financial statements. It examines changes in legislation and accounting standards and their effects on the Group's accounting and financial statements. The consistent implementation of the dual control principle ensures compliance with legal requirements in the accounting-related processes. The basis for the ICS is formed by guidelines on the separation of functions and release regulations, which are supported by standardised control and reconciliation processes. All releases are documented and archived.

Accounting for all operating companies in Germany is organised centrally at PATRIZIA. Accounting for the operating subsidiaries outside Germany is generally carried out by the respective local company under the supervision of the central function. The basis for accounting is formed by uniform Group wide requirements within a central, largely SAP based IT environment. The data is consolidated in the Group Reporting & Consolidation department. The employees involved in the preparation of the financial statements are trained accordingly and the responsibilities and controls within the preparation process are clearly defined.

The effectiveness of the accounting related ICS is assessed as part of the preparation of the financial statements. Accounting is also included in the audit plan of the internal audit department. The focus on corporate governance contributes overall to the further stabilisation and optimisation of existing processes including the ICS for accounting.

4.3 Significant opportunity and risk categories

4.3.1 Market opportunities and -risks in the economic environment

Opportunities and risks of overall economic development: Almost all economic forecasts in 2020 were turned upside down by the outbreak of the Covid-19 pandemic. The severe lockdown measures in March 2020 led to an almost complete standstill of economic life in almost all European countries and in North America. As a result, economic growth collapsed on an unprecedented scale and governments decided on extensive rescue packages to support the economy and labour markets. During the spring and especially the summer, the situation increasingly recovered and a solid upswing was expected until the end of the year, which then slowed down significantly in late autumn with the start of the "second wave". However, the negative effects of the second lockdown were less severe than those of the first, as households and businesses adjusted to the situation based on their experience from the spring. Nevertheless, a recession of historic proportions is expected in most European economies in 2020. A significant upswing is expected for 2021, especially since Covid-19 vaccinations have already started in many countries at the end of 2020, much earlier than expected in the autumn, and it can be assumed that the incidence of infection will be contained during the course of the year. The lockdown at the beginning of 2021 will possibly dampen this development, but not reverse it. The Covid-19 pandemic has also left its mark on the European real estate markets, albeit to very different degrees. The residential and logistics sectors have been extremely resilient, while the retail and hotel sectors have been particularly hard hit.

Interest rates remain at extremely low levels due to the economic consequences of the pandemic, underlining that fixed-income investments are a dying asset class for investors seeking an attractive current yield. This will lead to a further increase in demand for real estate investments. Within the real estate investment market, shifts were already evident last year, away from crisis or pandemic-prone types of use, such as retail, towards crisis-resistant sectors such as residential. Polarisation is also becoming stronger within the individual sectors, such as in retail, where food retail is booming, while the textile sector in particular is struggling. In the office sector, the trend is towards modern flexible space, while vacancies in outdated and inflexible space are on the rise. It is therefore more important than ever to have profound knowledge of local markets and market trends in order to implement successful investment strategies.

Residential real estate market: The residential sector has been relatively resilient during the Covid-19 pandemic and has lived up to its reputation for stable cash flows even in these uncertain times. Nonetheless, this sector is not completely immune and there are clear differences between the individual segments within the residential real estate universe. The multi-family sector can be described as the most resilient segment. The fundamental factors such as urbanisation, high construction costs and increasing regulation persist and have not fundamentally changed the supply and demand situation. Rental income continued to flow here almost unaffected despite the tense overall economic situation. There were greater effects on the student housing segment. There was a temporary slump in demand here, against the backdrop that universities do not offer face-to-face seminars and foreign students stayed away, also due to travel restrictions. However, since education is one of the most important resources in today's world, stable demand for student housing can be expected in the medium to long term. A similar development is emerging for the co-living segment. Currently, the challenges are high, but a normalisation of the situation will lead to more demand again, with a clear focus on the large prosperous cities, as this segment appeals to young, mobile workers for whom there is a high job offer in these cities. In addition, senior living continues to offer attractive investment opportunities, from assisted living to nursing homes. Overall, it is immensely important to carefully analyse and reflect the realities of the different markets as well as the (politically induced) changes in order to be successful in this sector.

Commercial real estate market - retail: There was an unprecedented decline in consumer spending due to the lockdowns introduced by governments during 2020. This intensified and accelerated many of the structural change processes that the retail sector was already undergoing before the Covid-19 pandemic, such as the rise of online retail and the decline in profit margins in brick-and-mortar retail. The speed of change in the retail sector has increased significantly and depends on how fast consumer spending recovers. The slower consumer spending recovers, the more this will manifest itself in retail rents, especially for high street and shopping centres. Despite all the challenges, there will be no vibrant city centres without vibrant shopping streets. As long as the skills to adjust or even reposition are there, the major challenges for the retail sector also hold opportunities, especially if there are price corrections. Within the retail sector, there are also winners despite the structural changes. One of these winners is food anchored retail, which has not been so badly affected by lockdowns and is proving relatively resilient to the rise of online retailing and therefore brings attractive investment opportunities.

Commercial real estate market - office: The fundamentals for office employment in Europe were very robust prior to the recession triggered by the Covid-19 pandemic, with low vacancy rates, moderate new space additions and an increasing concentration of economic activity in the major cities. As 2020 progressed, it became increasingly apparent that the impact of this crisis will, on the one hand, accelerate structural changes and create headwinds for space demand in the medium term and, on the other hand, lead to greater polarisation within individual markets, with large differences between them. For example, a decline in space turnover. More and more employees are working from home and factors such as health and well-being, technical equipment and flexibility are increasingly determining demand profiles. Thus, modern, flexible space continues to enjoy high demand, while older space that does not meet the "new" requirements is increasingly vacant. Northern European cities, which are less affected by the economic crisis and have stable demand, will prove more resilient in the medium term than Southern European markets such as Italy. In this environment, good knowledge of the individual markets as well as flexibility and operational excellence will be crucial for successful investments.

Commercial real estate - logistics: Logistics is one of the winners of the Covid-19 pandemic. This is primarily due to the strong increase in online trade during the crisis. However, the production logistics sector could also benefit from a restructuring of supply and production chains in a less globalised world. The Covid-19 pandemic has led to a renewed boom in online trade in 2020 and strong demand for both large logistics hubs and urban delivery centres. Nevertheless, hub logistics may experience greater polarisation and longer vacancy periods in markets that have higher levels of new space and/or are more affected by the recession. In contrast, limited vacancy and competition from alternative uses in urban areas with lower supply should continue to offer rental growth potential.

4.3.2 Operational risks

Acquisition and disposition of real estate: The trend of strong demand for real estate has continued in 2020. However, due to the Europe-wide Covid-19 pandemic, investors have strongly differentiated by type of use. The types of use that were significantly more affected by the crisis, due to closures and the associated loss of turnover, such as shopping centres and hotels, have been traded significantly less. The transaction volume remains at a very high level on a ten-year average. In a continuous environment of loose monetary policy, national and international investors continue to invest more in the European real estate markets. This means that it remains challenging for PATRIZIA to acquire suitable properties with risk-adjusted returns for its clients in a very competitive market. However, even in this market environment PATRIZIA has succeeded in using its experience and market knowledge to acquire attractive properties and portfolios for its clients - partly by approaching sellers directly and bypassing competitive situations - and to enable its clients to take profits and optimise their portfolios through targeted sales in this market environment.

The ongoing strategic development of PATRIZIA's European platform is intended to provide additional, broader access to attractive investment opportunities. PATRIZIA should thus be seen not only across Europe, but increasingly also internationally as a reliable and professional partner in the trustworthy and rapid implementation of large individual and portfolio investments. Despite the currently prevailing seller's market, there is a fundamental risk that the sale of real estate may not be realised at the intended price.

For further information, please refer to point 1.5.5.

IT security: Almost all essential business processes in the company rely on IT systems. Any disruption in the operation of IT systems has an impact on business operations. Significant data loss and breaches of data protection requirements could result in serious financial damage, but also have a negative impact on the public's perception of the company. To ensure the availability of business applications, all systems have been operated redundantly in two physically separate data centers. In addition, the ERP (Enterprise Resource Planning) systems are also operated in parallel and mirrored. Both measures ensure a significant reduction in downtime in the event of an emergency. Other protective measures, such as desktop virtualisation and the operation of a NAC solution (Network Access Control) as well as other supplementary anti-malware mechanisms reduce the risk of damage from viruses, Trojans and ransomware (malware - especially extortion software). Regular information activities to raise staff awareness (e.g. on topics such as phishing, social engineering or CEO fraud - but also on the requirements of the GDPR) round off the system-based protection and security precautions. A password policy also ensures the use of secure access passwords and their regular change. Another component of the security concept is the two-factor authentication for remote dial-in - especially in view of the intensive mobile use of the infrastructure. To prevent the technical loss of company data and to ensure the reliability of IT operations, data backups are carried out regularly. Annual emergency tests with changing focal points are intended to ensure that in the event of a crisis, organisation and technology mesh and systems and data can be made available again in accordance with the service levels. The measures described have proven their worth, especially in the changed risk situation caused by the Covid-19 pandemic.

Financing risks: Debt financing is currently of secondary importance for PATRIZIA's business model due to the solid balance sheet structure. The remaining portfolio of managed own real estate (principal investments) is no longer financed with debt capital. The risk of PATRIZIA not having debt capital available for any new principal investments - generally only as interim financing for public funds or as early-stage investments with the purpose of later contribution to institutional funds - is currently low. In May 2017, PATRIZIA raised an unsecured promissory note loan totaling EUR 300m via the capital market. Due to high demand, the issue was significantly oversubscribed. Together with substantial existing liquid funds, PATRIZIA is in a position to respond to capital requirements of new investments at any time. Potential principal investments are also always financed at property or portfolio level. As part of the funds under management, PATRIZIA AG takes on the procurement of debt capital as a service. This service is fundamentally exposed to financing risks in the event of a deterioration in market conditions. The current Covid-19 pandemic has put pressure on the financing market, which is mainly reflected in increased liquidity costs. The situation is not expected to ease before the end of the crisis. However, there are no significant risks associated with this. However, a further downturn could have an impact on access to liquidity and thus influence new investment opportunities for PATRIZIA's clients.

As business development in recent years has shown, PATRIZIA was able to achieve its annual and growth targets without having to draw on the entire liquidity buffer built up for inorganic growth. In addition, the cash balance was further expanded due to the positive business development. The Management Board of PATRIZIA AG has therefore decided to repay the variable tranches of the promissory note loan ahead of schedule.

Credit terms: An equity covenant has been agreed in the existing promissory note loan, compliance with which is monitored on an ongoing basis. In some cases, key figures have been agreed in the loan agreements for the property and portfolio financing of the funds under management, compliance with which is also monitored on an ongoing basis. However, there are no direct effects on PATRIZIA from these ratios.

Interest rate risks: The promissory note loan for a total of EUR 300m contains EUR 66m, which bears variable interest on the basis of 3-month Euribor and does not include an agreement on interest rate hedging. The interest rate development is monitored continuously. PATRIZIA is not exposed to any further interest rate risks from the promissory note loan, as the remaining tranches of EUR 234m have a fixed interest rate.

Liquidity risks: The risk of a liquidity shortage is currently not discernible: As at 31 December 2020, PATRIZIA had bank balances and cash in hand of EUR 495.5m and short-term investments of EUR 180.8m available to cover its operating liquidity requirements and for refinancing. In order to avoid a possible counterparty risk, the investments of liquidity are distributed among 57 financial institutions. The maximum investment volume per bank is EUR 50m. These banks must have at least an S&P rating of BBB+. In addition, PATRIZIA expects further liquidity surpluses from the operating business, which will be used in the investment planning with matching maturities. The equity released through sales of residual holdings of Principal Investments also contributes to the increase in existing liquidity. PATRIZIA optimizes and manages Group wide liquidity as part of a cash pooling process. Early warning indicators and comprehensive rolling planning also serve as a preventative measure and ensure that unexpected liquidity requirements can be met.

Exchange rate risks: Most of the Group's subsidiaries and property companies are located in the European Monetary Union, so there is no currency risk here. The foreign branches in the USA, Hong Kong, Japan, South Korea, Denmark, Sweden, Poland and Great Britain, which carry out investment management mandates as well as purchases and sales for the funds and invest within the scope of co-investments, are an exception. As at the balance sheet date, PATRIZIA had EUR 181.0m invested in foreign currency. As the investments in these companies and the granting of shareholder loans are in the respective national currency, the subsidiaries and property companies are subject to the risk of fluctuating exchange rates. With increasing expansion outside the Eurozone, this position could increase further in the future. The Group's overall currency risk is regularly monitored and assessed in order to promptly identify any need for action and to be able to initiate countermeasures such as currency hedging.

Legal risks: PATRIZIA is represented in various legal circles. Individual companies are involved in various court proceedings and arbitration proceedings as a result of their business operations. Sometimes claims are also asserted against them out of court. By monitoring our contractual obligations and involving legal experts in contractual matters, we aim to minimise any legal risks. Provisions have been made for potential losses from pending proceedings. Serious legal risks that would be decisive for the future development of the company are currently not discernible.

Accounting risks: In the application of accounting policies, judgements have to be made that can significantly affect the amounts recognised in the financial statements. The consolidation, accounting and valuation methods applied on the basis of the discretionary decisions made are presented in sections 1 to 3 of the notes to the consolidated financial statements.

The enforcement proceedings concerning the consolidated financial statements of the company as at 31 December 2016 were discontinued by the German Federal Financial Supervisory Authority (BaFin, letter dated 3 June 2020) without a finding of incorrect accounting. The focus of the proceedings was the valuation of investments for which there is no price quoted on an active market. The proceedings have been conducted at BaFin level since January 2019.

4.3.3 Partner opportunities and risks

Funds under Management: In connection with the fund structures set up by PATRIZIA, there are opportunities and risks from fee income, which depends on the value of the real estate assets under management, purchases and sales and the return achieved by the funds. These revenues can be negatively influenced by the reduction in value of real estate, rental defaults as well as a reduced transaction volume. However, PATRIZIA serves a large number of different funds and can access a diverse range of suitable properties in Germany and abroad. As the properties held in the funds must be backed by appropriate equity, debt financing can be obtained quickly and cheaply in this constellation. In principle, a reduction in investment activity is not to be expected at present. The risk of a reduction in planned distributions to investors is currently considered to be very low. Instead, the Company sees the opportunity to acquire further new customers and expand its fund business thanks to the fund's performance and PATRIZIA's reputation. Further opportunities arise from the placement of retail funds, a business model that was established operationally at the beginning of 2016 and has now successfully launched fifteen real estate funds with properties across Europe.

As an investment manager, PATRIZIA is also responsible for managing and optimising its clients' properties. Inadequately performed services could lead to dissatisfaction among clients or financial claims up to and including the loss of mandates and burden the Group's earnings situation. Group wide, as described above, there is an opportunity due to the favourable market conditions, which have also triggered the repeated generation of performance-based fees in recent years. Nevertheless, PATRIZIA is taking precautionary measures in its business model to prepare for potentially declining growth and thus for the potential occurrence of the negative influences mentioned above.

Funds under Management | Co-investments: Via co-investments, PATRIZIA participates with its own money in up to 10% of the fund equity. Acquiring clients and with them the necessary equity capital is not currently a limiting factor. Securing financing is also not considered a risk. The challenge at present is rather, as already described under "Acquisition and sale of real estate", the acquisition of suitable real estate that meets PATRIZIA's and the customers' criteria.

Equity raising: Due to the high availability of liquidity on the investor side, combined with investment pressure and few alternatives to real estate investments, the risk of a default by business partners/investors or fundamental problems in acquiring new ones is low. However, it can be observed that due to the attractiveness of real estate investments, new competitors are increasingly entering the market. This assessment is based on the current market situation and must be re-evaluated in the event of a change in market conditions. With the expansion of the international fund business, PATRIZIA's dependence on large international institutional clients is increasing. The continued persistence of the Covid-19 pandemic may lead to delays in planned product fundraisings and will also have an impact on connecting new investors/investor groups to the Company. In addition to approaching further, especially international institutional investors, the focus is also increasingly on approaching private and (semi-)professional investors in Germany and Europe. More than 450 institutional investors now invest through PATRIZIA - from savings banks to insurance companies and pension funds to sovereign wealth funds. More than 50% of the customers are invested in several PATRIZIA products. Through the acquisition of PATRIZIA Multi Managers, TRIUVA and Rockspring, PATRIZIA has significantly expanded its investor base. The increased diversification enables PATRIZIA to further reduce sales risks and potential margin pressure. The expansion of the product range with so-called "discretionary funds" also increases sales opportunities and opens up further customer acquisition possibilities for PATRIZIA. In order to improve its risk position, PATRIZIA plans to sustainably further expand its global client relationships.

4.4 Overall view of the opportunities and risks

PATRIZIA's risk management process is designed to ensure that relevant risk positions are identified, recorded and monitored and that suitable control measures are defined and implemented. The primary objective is to create comprehensive transparency regarding the current risk situation and thus enable risk-oriented decisions to be made. To achieve this, it is crucial that the risk management function maintains direct contact with all operational areas and that the operational areas themselves are integrated into the risk management procedures. In this way, a continuous exchange of knowledge takes place within the Group and enables the early identification of potential risks and the timely initiation of appropriate countermeasures. Taking into account all individual risks and a possible cumulative effect, the overall risk to which PATRIZIA is currently exposed is limited. Based on the information available and the medium-term planning for key investments, there is no indication as at 31 December 2020 that the existing risk situation could endanger the future development or continued existence of PATRIZIA alone and the PATRIZIA Group.

5 Forecast

5.1 Future economic conditions

For 2021, we expect a significant upturn compared to the previous year. The Covid-19 pandemic will continue to accompany us and we are in a second lockdown at the beginning of the year, but the impact is less severe than at the first lockdown, as households and businesses have now adapted to the situation. In addition, Covid-19 vaccinations have started earlier than expected in many countries at the end of 2020 to curb new infections over the course of the year. Supportive measures by both national governments and the EU cannot prevent, but significantly cushion, a decline in employment, leading to a relatively moderate rise in unemployment and the economic impact of the pandemic is prompting central banks to continue their low-interest-rate policies.

The continuation of the low interest rate policy underlines that fixed income investments remain a difficult asset class for investors looking for attractive returns. Thus, the demand for real estate investments will remain high or even increase in our estimation.

The Covid-19 crisis is clearly reflected in the European real estate markets by creating new structural challenges and accelerating those that had already existed. Last year, investment activity has shifted away from crisis-prone sectors such as retail to crisis-resistant sectors such as residential. Polarization is also evident within the sectors.

In the office sector, the demand for modern flexible spaces is increasing, also to meet the new requirements for health and well-being, as well as greater flexibility. In the retail sector, which has been badly affected by the crisis, structural change has accelerated significantly. The share of online retail is rising significantly due to Covid-19 and Lockdowns and the brick-and-mortar segment, especially in the textile sector, is facing major challenges. At the same time, food retailing is a beneficiary of the crisis. The logistics sector can also be described as the winner of the Covid-19 crisis. Booming online trade is leading to increased demand for space, and industrial logistics is also expected to gain new impetus in a less globalised world.

In the residential sector, multi-family housing is proving to be particularly resilient to crises. Segments such as student housing or co-living have short-term demand challenges but will also develop positively in the medium to long term in our estimation. However, the current crisis poses not only many challenges for investors, but also opportunities for successful investments, provided that market changes and rent-increase potentials are identified and exploited. This applies to all real estate sectors and is only possible through in-depth market knowledge and penetration.
Sources: PATRIZIA, PATRIZIA House View, IPE REIM Guide

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

The Group in general

The company has entered the 2021 financial year in a spirit of optimism and expects to successfully exploit market opportunities for its institutional, (semi-)professional and private investors once again in the form of attractive real estate fund products. On this basis, PATRIZIA is again anticipating strong transaction performance and growth in assets under management, with fee income from investment management continuing to increase and stabilise as a result.

Assets under management are expected to see organic growth of between EUR 3.0bn and EUR 6.0bn in the 2021 financial year. All in all, the company expects its assets under management to increase to EUR 50.0bn to EUR 53.0bn by the end of 2021.

PATRIZIA is forecasting **operating income** of between EUR 100.0m and EUR 145.0m in 2020 after EUR 116.5m in 2020.

PATRIZIA expects the **cost coverage ratio** to remain stable or increase slightly in 2021.

EUR bn	Last forecast 2020	Actual figures 2020	Forecast 2021
Assets under management (organic growth)	Growth of EUR 2.0-3.5bn	**Growth of EUR 2.6bn**	Growth of EUR 3.0-6.0bn
Operating income	EUR 110.0-130.0m	**EUR 116.5m**	EUR 100.0-145.0m
Cost Coverage Ratio (CCR)	n/a	**119.8%**	Stable to slightly increasing

Assumptions concerning the operating income forecast

Operating income of between EUR 100.0m and EUR 145.0m is expected for 2021. The following section discusses the assumptions and expectations underlying this forecast.

PATRIZIA is anticipating **management fees** for asset and portfolio management services of between EUR 204.0m and EUR 208.0m. The company expects the majority of net growth in assets under management to have a positive impact on management fees only in the second half of 2021 as the respective transactions are closed.

The company expects the transaction market to remain active in 2021 and is forecasting **transaction fees** of between EUR 50.0m and EUR 60.0m based on a signed transaction volume of between EUR 6.0bn and EUR 9.0bn.

Income from **performance fees** is determined by the yields achieved in excess of the agreed target yields. These result from the realisation of value-adding measures in particular. PATRIZIA expects to generate performance fees of between EUR 60.0m and EUR 90.0m in 2021.

Total service fee income is expected to amount to between EUR 314.0m and EUR 358.0m.

In 2021, **net sales revenues and co-investment income** are expected to lie between EUR 5.0m and EUR 20.0m.

Net operating expenses, which primarily comprise staff costs and non-staff operating expenses, are forecast at between EUR -209.0m and EUR -223.0m.

Depreciation and amortisation, financial result and other items of around EUR -10.0m are forecast for 2021.

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

5.3 Expected development of net assets and financial position

PATRIZIA does not currently anticipate any significant changes in its net assets and financial position in 2021. However, PATRIZIA expects to have substantial cash and cash equivalents that are significantly in excess of the liabilities from the bonded loan once again in 2021.

5.4 Dividend policy

The Management Board and Supervisory Board of PATRIZIA AG are proposing that the HGB unappropriated profit for the 2020 financial year in the amount of EUR 476.7m can be used to pay a dividend of EUR 0.30 per share, with the remaining amount being carried forward to new account. Based on the share of the IFRS consolidated net profit for 2020 attributable to shareholders of EUR 37.7m, this corresponds to a pay-out ratio of 73.5%. The year-on-year growth rate of management fees compared to the previous year of 1.3% and the year-on-year growth rate of assets under management compared to the previous year of 5.7% form the basis for the dividend proposal of the Management Board and Supervisory Board of PATRIZIA AG, which corresponds to an increase in the dividend of 3.4% as against the previous year.

5.5 Management's overall assessment of the outlook for 2021

PATRIZIA set to enjoy further positive development in 2021

The results for the 2020 financial year confirmed PATRIZIA's strong market positioning as a partner for global real assets investments. With the market environment expected to remain positive and in light of the planned organic growth of the international platform, PATRIZIA is anticipating a further increase in recurring income compared with the previous year and operating income of between EUR 100.0m and EUR 145.0m.

The outlook for 2021 and the statements concerning subsequent years take into account all events that could affect PATRIZIA's business development that were known when the consolidated financial statements were prepared. At the time of publication of this report, it is not possible to conclusively assess the effects that the further spread of the Covid-19 virus will have on the general economic situation as well as on the markets relevant to PATRIZIA.

Augsburg, 16 March 2021

The PATRIZIA Management Board

Wolfgang Egger
Chairman of the
Management Board,
CEO

Thomas Wels
Member of the
Management Board,
Co-CEO

Alexander Betz
Member of the
Management Board,
CDO

Karim Bohn
Member of the
Management Board,
CFO

Dr Manuel Käsbauer
Member of the
Management Board,
CTIO

Anne Kavanagh
Member of the
Management Board,
CIO

Simon Woolf
Member of the
Management Board,
CHRO

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