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 is a leading partner for global real assets and one of the leading independent real estate investment companies in Europe. As at 31 December 2021, 946 employees (FTE) are on hand for its clients in 24 locations worldwide. PATRIZIA provides a wide range of services, from asset and portfolio management to the execution of acquisitions and disposal transactions for almost all real estate sectors and in future also infrastructure sectors 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 and recurring income in the form of management fees for managing assets and project developments 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 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 7.0bn of PATRIZIA’s assets under management as at 31 December 2021. 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 largest co-investment is Dawonia GmbH with EUR 5.3bn in assets under management.

Further details on co-investments can be found in the capital allocation in chapter 2.3.3.

All in all, **funds under management** accounted for EUR 47.5bn of PATRIZIA’s assets under management as of 31 December 2021 (31 December 2020: EUR 45.9bn).

Fund of funds

PATRIZIA Global Partners A/S is responsible for managing fund of funds products. 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 2021 (31 December 2020: EUR 1.1bn).

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 EUR 18.1m as at 31 December 2021, compared to EUR 15.9m 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 short- to 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 funds.

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

1.2 Group strategy

PATRIZIA aims to be a leader in all real asset classes for its investors. As an independent real asset investment manager, PATRIZIA operates for large institutional investors from all over the world and for (semi-)professional and private investors from Germany, providing extensive value added mainly in all real estate segments. This position is to be expanded further. Assets under management and recurring fee income are supposed to rise steadily every year in the future, thereby sustainably increasing profitability and further improving 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 and selected international 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. 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. From 2022, products can also be offered in a wide variety of infrastructure sectors. PATRIZIA's platform, which is well established throughout Europe and is growing globally, provides the pre-requisites 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 should facilitate the establishment of PATRIZIA as an internationally successful brand among investors. In addition to broadening its existing product range, PATRIZIA also plans to expand its business with infrastructure and debt finance products as part of its mid-term strategy. The acquisition of Whitehelm Capital, an Australian infrastructure investment manager in September 2021 (closing 1 February 2022), and the launch of a debt financing product in 2021 are the latest evidence of this strategy.

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 US, 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 a long-term, stable relationship with international clients similarly to the relationship 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 2021, around 52% 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 recognised the growing influence of technology and innovation in 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, 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 38-year-plus business relationship with PATRIZIA, and who include more than 500 institutional investors in Germany and abroad. They invest with PATRIZIA regularly and repeatedly as a result of the good performance delivered by the fund products. In addition, PATRIZIA has been offering closed-end funds for private investors and (semi-)professional investors since 2016. Besides, in 2019 a fund for (semi-)professional investors was launched outside Germany for the first time. Overall, investors entrusted PATRIZIA with new equity of EUR 2.6bn in the past financial year. PATRIZIA currently has outstanding equity commitments amounting to around EUR 4.0bn, which as at 31 December 2021 have not yet been invested in real estate or real estate portfolios.

Globally established network

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 26 locations at the time of publication of this report. 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 infrastructure and real estate asset classes as well as 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 real asset investments. Of course, individual components can also be selected from this range.

Successful track record attracts further transactions

PATRIZIA's successful investments build its reputation. Despite the persistently challenging market environment caused by the Covid-19 pandemic, acquisitions and disposals with a volume of EUR 6.8bn were signed for its clients last year (+24.0% year-on-year), and EUR 5.9bn (-14.8%) were closed in 2021. Ongoing high performance fees in the 2021 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 is one of the company's core strengths that generates attractive returns for its investors. However, PATRIZIA's clients and business partners also value its professional identification of opportunities in all real estate and future infrastructure asset classes as well as its fast, smooth handling of purchases and sales.

PATRIZIA has the DNA of an investor

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

Whitehelm Capital reinforces strengths

With the acquisition of Whitehelm Capital, PATRIZIA will further expand its existing competencies and competitive advantages. In doing so, PATRIZIA will not only gain additional global reach, new clients and new product offerings, but also sustainably strengthen its expertise in the area of infrastructure. Whitehelm Capital's complementary and diversified product range opens up new opportunities to benefit from the long-term growth market of infrastructure and decarbonisation.

1.4 Group management and performance indicators

1.4.1 Corporate management by segment

PATRIZIA's corporate segments are Management Services and Investments. 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 chapter 5 of the notes to the consolidated financial statements.

1.4.2 Corporate and Group management on the basis of financial performance indicators

PATRIZIA used the following financial performance indicators for corporate management in the past fiscal year 2021:

Financial performance indicators	Description
Assets under Management	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 non-cash effects such as valuation effects 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 five 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).

From the 2022 financial year onwards, the financial performance indicators will be partly replaced to allow for better international comparability with other listed companies. Assets under Management remains as a financial performance indicator. Operating income will be replaced by EBITDA, while the Cost Coverage Ratio (CCR) will be replaced by the EBITDA margin as the new financial performance indicator. This report contains a description of the development of the two new performance indicators for the 2021 and 2020 financial years, as well as a guidance for the 2022 financial year.

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 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 real 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 capital employed.
Equity raised	For the various investments, equity is raised from institutional, (semi-)professional and private investors worldwide.

Due to the change to new financial performance indicators, EBIT and EBT will also support the management of the Group as additional framework parameters from the beginning of the 2022 financial year.

The development of these indicators is further explained in chapter 2.2.

Within the guidance section of this report, a guidance is given for the financial performance indicators. In addition, a guidance is also given for management fees, transaction fees, performance fees, total service fee income, net sales revenues and co-investment income, net operating expenses as well as for EBIT and EBT.

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

PATRIZIA does not apply any non-financial performance indicators for the steering of the company.

1.5 Non-financial statements

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

1.5.1 Sustainability Strategy

The real assets sector plays a pivotal role in society. Across residential, commercial, logistics, and infrastructure they serve basic human needs such as housing, workspaces, healthcare, energy, connectivity, and transportation. The impact it has – both on the 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 assets managed
- 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 assets markets

The real estate sector contributes as much to society's well-being as it does 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 and infrastructure that supports the transition to a low carbon economy can have a significant, positive impact on global warming and climate change. This responsibility falls to every individual, but to real asset investment managers' more than most, and PATRIZIA strives 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 focus areas of the firm's sustainability approach:

- **Energy efficiency**: Monitor Energy Performance Certificates (EPCs) and obtain certifications to future-proof the managed portfolio. PATRIZIA understands its responsibility as real assets 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 future-proofs 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**: On the pathway to a net-zero carbon economy by 2050, as per the Paris Agreement, PATRIZIA has created an initial, estimated firmwide CO_2 footprint and continues to develop and enhance a decarbonisation 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 (United Nations Principles of Responsible Investment), GRESB (Global Real Estate Sustainability Benchmark) and INREV (European Association for Investors in Non-Listed Real Estate Vehicles). In alignment with the recommendations by TCFD (Task Force on Climate-Related Financial Disclosures), 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.

PATRIZIA has developed the following four corporate sustainability goals as part of the Group's Sustainability Strategy aligned with the above focus areas:

- Become a leading sustainable investor in real assets with a consistent UN PRI (UN Principles of Responsible Investment) five-star rating from 2025 onward and a majority of our assets certified under our Create Better[1] programme.
- Be an employer of choice in the Real Asset sector.
- Become a leading global impact investor in the real assets sector with a meaningful part of our assets under management in impact investments[2] by 2035.
- Achieve net zero carbon[3] status across our corporate operations and real asset portfolio by 2040 or earlier, with a clear ambition to execute as fast as external and our stakeholder requirements permit.

[1] Create Better is an example of PATRIZIA's culture of innovation and was implemented as an internal campaign. In the near future, this will be defined as a certification framework, representing best practice approaches in the sector.
[2] As defined in the PATRIZIA Impact Investing policy, which broadly aligns to Article 9 of the EU Sustainable Finance Disclosure Regulation (2019/2088) and equivalents in other jurisdictions.
[3] Includes operational emissions and embodied carbon for new developments and major refurbishments, excluding the 'sunk' embodied carbon of the standing portfolio. Further details of the commitment, including a granular breakdown of the scope of the target, can be found in the PATRIZIA Net Zero Carbon Strategy paper which will be published on the Group's website during H1 2022.

The PATRIZIA Sustainability Strategy covers all topics and processes that are allocated to environmental, social and governance (ESG). Sustainability is the Group'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 the 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 recognizes, 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 manager/owner and to incorporate ESG issues into management/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 most recent reporting cycle, 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 of responsible practices. 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: https://sdgs.un.org/goals

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. 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. We invest in cities and developments to create inclusive, safe, resilient, and sustainable communities. Since we started developing and managing residential properties when the company was founded, we have focused on healthy communities from the very beginning. When we invest or develop, we aim to fulfil this human need for community and maintain it for the long-term.

- **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 CO_2 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 asset industry, and children in need.

- **SDG 5 Gender Equality and SDG 10 Reduced Inequalities** Acting responsibly has always been an important part of how we do business at PATRIZIA. To make a meaningful difference in the communities where we live and work, we have started out on a new journey to advance Equity, Diversity, and Inclusion (ED&I) in our organisation, industry and more widely in society. Diversity and equality are key targets for board and management composition. PATRIZIA actively promotes equality and inclusion initiatives.

Regulatory Development

PATRIZIA prepares for regulatory and market development in alignment with global climate commitments to future-proof the portfolio and ensure compliance and value preservation for investors.

EU Taxonomy

A key objective of the European Commission's action plan on financing sustainable growth is to reorient capital flows towards sustainable investment and ensure market transparency. To achieve this, the Commission called for the creation of an EU Classification system for sustainable activities, i.e., an EU Taxonomy.

In accordance with Article 8 of Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment ('Taxonomy regulation'), PATRIZIA is required to disclose information on how and to what extent its activities are eligible to qualify as environmentally sustainable under Articles 3 and 9 of the same regulation.

Our current understanding of the regulation is that PATRIZIA AG is classified as a non-financial undertaking and is therefore obligated to disclose the proportion of Taxonomy eligible and Taxonomy non-eligible economic activities in its total turnover, capital and operational expenditure ('CapEx' and 'OpEx'). However, PATRIZIA Group's primary business activity of Asset Management is a financial activity, for which a more relevant metric for assessing eligibility is the proportion of assets under management ('AUM').

Our understanding of the intent of the regulation is to increase transparency in the market by helping investors to understand the environmental performance of our underlying activities. Accordingly, we opt to disclose AUM on a voluntary basis, as a more meaningful KPI that better reflects the eligibility of our activities, alongside the obligatory KPIs.

In the context of PATRIZIA's business activities, CapEx, OpEx and turnover are considered to be of lower relevance (*de minimis)* in comparison to AUM. During the course of 2022, a review will be undertaken, based on expected clarifications in the regulatory guidelines, as to whether process change is required to amend PATRIZIA's reporting to refine future disclosures.

The technical screening criteria published in association with the Taxonomy regulation defines the economic activities that are in scope to be eligible as environmentally sustainable, which includes those relating to construction and real estate. PATRIZIA's activities relate primarily to real asset investment and infrastructure management for which no specific criteria are available at this stage.

			KPI		
Economic Activity	% Eligibility	AUM (EUR bn)	CapEx	OpEx	Turnover
Construction and real estate	100	45.7	*de minimis*	*de minimis*	*de minimis*
Other	0	2.9	*de minimis*	*de minimis*	*de minimis*
Overall	94	48.6	*de minimis*	*de minimis*	*de minimis*

We consider that further clarification is required in regulatory guidelines regarding the disclosures of companies with differing legal structures, such as that of PATRIZIA AG, which we will respond to appropriately. Accordingly, PATRIZIA adopts a precautionary approach for this initial Taxonomy statement, seeking to align with the intent of the 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. PATRIZIA has also developed a fund policy matrix to incorporate ESG requirements within the fund strategy of each fund.

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 asset investment lifecycle, in addition to PATRIZIA's criteria for impact investing. 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 14001 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 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 assets 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.

PATRIZIA's Investment Committee process now includes a climate risk analysis which is considered for each potential transaction. 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 four 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 have a lifespan of several hundred 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 regarding 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 – a leading partner for global real assets.

Attracting Employees

To ensure that PATRIZIA is optimally positioned for the future, it is essential that it is an attractive employer that offers interesting and varied challenges for early career talents and experienced specialists and 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. In 2021 PATRIZIA's presence was extended internationally. During the year the team visited trade fairs (e.g. EXPO REAL and the IZ Careers Forum, Real Estate Finance Day), universities (e.g. IREBS, IE University Madrid) 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.

Horizons: Early Careers Talent Programme

In 2021 we launched Horizons, our two-track early careers talent development programme. Horizons "Step In" focuses on supporting new talent stepping into PATRIZIA and Horizons "Step Up" focuses on developing existing employees stepping their game up. When this diverse and ambitious group of early career professionals comes together, they have the dedicated time and space to learn from each other, grow together and make a positive impact on the industry – making Horizons our most inclusive approach to developing talent.

By nurturing our early career professionals, we are future-proofing our Group's success, the diversity of our employee community and the positive impact we have around the world.

Horizons "Step In" is a two-year programme dedicated to four six-month rotations across the business, offering Analysts a well-rounded view of PATRIZIA before they commit to a particular career path. The Step In Analysts will also participate in a comprehensive learning and development programme that supports their technical and personal growth.

Horizons "Step Up" shows our commitment to developing our existing early careers professionals as we recognise the value and contribution our existing Analyst & Specialist population brings to our organisation. Our most curious, open minded and high performing Analysts with at least one year of service are invited to apply for Horizons: "Step Up". They too have access to a curriculum of learning and development opportunities and mentorship.

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 2021 to both increase the breadth of learning opportunities and to support the pandemic with an accelerated move to more mobile learning. 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.

Next to the usual generic curriculum of the PATRIZIA Academy we launched the Accelerator Programme in 2021. The bite-sized workshops are exclusively focused on getting the best out of each other - covering important topics like well-being, building relationships and high performing mobile teams. Through the programme we promoted to all offices 'New Work', the programme aims at upskilling all employees in the new ways of working – be it mobile, hybrid or in the office. With this programme further skills were built and the confidence about this enables change and a positive impact. This programme continues to be rolled out in 2022 to all of PATRIZIA.

Additionally, LinkedIn Learning has continued to be a great support in the digital learning world which is accessible to every PATRIZIAn whenever and wherever they like to learn as a flexible on-demand learning solution.

As 2021 continued in the shadow of the Covid-19 pandemic, we offered various measures such as interactive 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. In 2021 we continued to offer an online version of various health and fitness classes which are accessible for the whole company.

To improve employees' work-life balance, various forms of part-time work are available at all locations. The overall level of parttime workers is 11.7%. Two of the top-five PATRIZIA countries with most employees have an above average level of part-time workers: Germany with 14.6% and the Netherlands with 16.1%.

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 2021 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 careers 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 946 as of 31 December 2021. There is a balanced age structure: just under 5% of employees are under 25 years old, approximately 29% are aged between 25 and 34, 33% are aged between 35 and 44, little over 24% are aged between 45 and 54, and a good 10% 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 47%. With effect from 1 July 2019, the Supervisory Board of PATRIZIA AG has set a target of 25% for its own composition, as well as for the composition of the Management Board, in accordance with Article 111 (5) of the German Stock Corporation Act (AktG), to be achieved by 30 June 2024. Currently, the Supervisory Board has one female member and four male members, while the Management Board consists of one female and six males. With effect from 1 July 2019, the Management Board has set a target of 20% for the share of women in the first management level below the Management Board and a target of 30% for the share of women in the second management level below the Management Board in accordance with Article 76 (4) of the German Stock Corporation Act (AktG), to be achieved by 30 June 2024. Currently, the share of women in the first management level is 19% and in the second management level 30%. 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 21 years now, 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 250,000 children and young adults have benefited from the foundation's facilities around the world.
Source: https://www.patrizia.foundation/en/

The global covid-19 pandemic has dramatically exacerbated the educational deficit of many children and young people. Schools were closed for a long time, and some children are still cut off from access to education.

In 2021, the PATRIZIA Foundation has therefore launched a digitalisation initiative to make teaching possible even in times of crisis. But it's not enough to just provide digital infrastructures – students and teachers also need to be shown how to apply digital media and learning methods. The "Ready for the Future" concept has currently been launched as a pilot project in three countries (Cameroon, Nepal, and Rwanda) with the aim to be implemented across all PATRIZIA Foundation KinderHaus facilities in the near future.
Source: https://www.patrizia.foundation/en/ready-for-the-future/

The PATRIZIA Foundation is a legally independent organisation and is supported in its work by PATRIZIA. Up to 1% of the Group's operating income is spent on social projects such as the foundation. In addition to financial support, employees of the Group 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 engages with internal and external 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. The 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 the 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 CO_2 footprint including scope 1, 2 and 3 of its operations in 2021 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 assets investing, climate change risks must be considered, 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 (Energy Performance Certificate) levels.

- **Enhanced emissions-reporting obligations:** PATRIZIA is taking steps to improve the Group's abilities to report its carbon footprint with a first CO_2 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 2021 PATRIZIA created a Net Zero Carbon strategy with mid-term targets aligned to the abovementioned longer term sustainability goals for PATRIZIA. Specific carbon reduction pathways for parts of its discretionary investment portfolio including asset specific planning have also continued to be developed in where appropriate in 2021.
- **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. Failure to retain or recruit key 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.

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.

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.

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 ESG 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 CO_2 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 2021 PATRIZIA has implemented a comprehensive ESG data strategy which encompasses the implementation of ESG Data Management Plans for centralised collation and analysis of relevant ESG data. PATRIZIA measured the Group's CO_2 footprint including scope 1, 2 and 3 and has developed a decarbonisation strategy which includes pathway targets to support the achievement of PATRIZIA's overall goal to achieve a climate neutral status by 2040 as well as decarbonisation measures. Details will be published in the Group's Sustainability report during H1 2022.

2 Economic report

2.1 Economic environment

The markets in general: The beginning of the second Covid-19 pandemic year was also marked by lockdowns, which dampened the economic recovery in Europe, at least in the first quarter of 2021. In 2021, there were again extensive aid packages from governments. With the end of the lockdown measures and a progression of vaccination campaigns, a strong recovery period started in spring 2021, which was mainly driven by rising consumer spending and the service sector. In addition, travel activity returned in summer, which benefited the hotel and tourism industry. The manufacturing industry has faced and continues to face supply (chain) problems triggered by the pandemic, which are slowing down the upswing in this sector. In addition, energy prices rose over the course of the year, which led to a significant price increase and a sharp increase in inflation. Further risks arose from a fourth wave of infections, which has caused the number of infections to explode since autumn 2021, especially in countries where it was not possible to achieve a sufficient vaccination rate. This led to further uncertainty among consumers and is likely to lead to a further decline in consumer spending in the fourth quarter of 2021. Despite all risks and adversities, a significant year-on-year increase in European gross domestic product was observed for the full year 2021. The main driver of this development is private consumption. The ECB continued its course of bond purchases, so that interest rates remained at a low level. For investors searching for an attractive current yield, it once again became clear that fixed-interest investments are a challenging asset class, so that the demand for investments in real assets – such as real estate and infrastructure – continued to rise. In addition, the high level of uncertainty among investors with regard to the effects of the pandemic, which was noticeable in the previous year, has largely disappeared in 2021.
Sources: PATRIZIA, PATRIZIA House View, RCA

Real estate markets: In the course of 2020 and 2021, it became obvious which real estate sectors proved to be resilient, which came out of the crisis well and which continue to struggle with problems. Thus, the division of the market into sectors and subsectors that do not perform well, such as high-street retail or hotel, and good-performing ones such as food retail, multi-family housing or logistics, also continued. Competition for investable assets has increased, so market presence and good knowledge of regional market conditions and intelligent, targeted asset management are crucial for the successful construction and management of portfolios. On the transaction market, this was reflected in a transaction volume of EUR 271bn, an increase of almost 7% in 2021 compared to the previous year's figure. A further increase in the transaction volume is expected for 2022. At the time of publication of this report, it is however not possible to conclusively assess the effects that increased geopolitical risks like the Russian invasion of Ukraine as well as the further development of the Covid-19 pandemic will have on the general economic situation as well as on the markets relevant for PATRIZIA.

The individual real estate sectors and their subsectors develop differently, and, in some areas, emerging sub-sectors are increasingly in the focus of investors, as they offer a premium over the traditional subsectors that compensates for a higher risk. Nevertheless, core investments with stable returns are still in focus of investors. The shift towards sectors with better performance also continued in 2021, accelerating competition for investable assets. In addition, opportunities opened up in some countries due to price corrections and progressive structural adjustments.
Source: PATRIZIA House View, RCA

Structural growth market: According to the industry consensus, the investment management market for real assets will continue to grow in the coming years, irrespective of the short- to medium-term market effects due to uncertainties caused by the Covid-19 pandemic. An aging society leads to further increasing capital inflows into private pension products. 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. While in 2012 EUR 15bn of assets under management were needed to be among the top 10 investment managers for real estate in Europe, by 2020 it has risen to EUR 42bn (+181%).
Sources: INREV Investment Intentions Survey 2022, IPE

Infrastructure markets: 2021 has again highlighted the resilience of the infrastructure sector. The pandemic has cemened high speed broadband as the fourth utility alongside water, gas and electricity networks. However, whilst infrastructure investments with contracted cash flows or returns from predictable regulatory frameworks thrived in 2021, the continuation of the pandemic again challenged infrastructure investments within the transport sector – most notably airports with rolling global lockdowns.

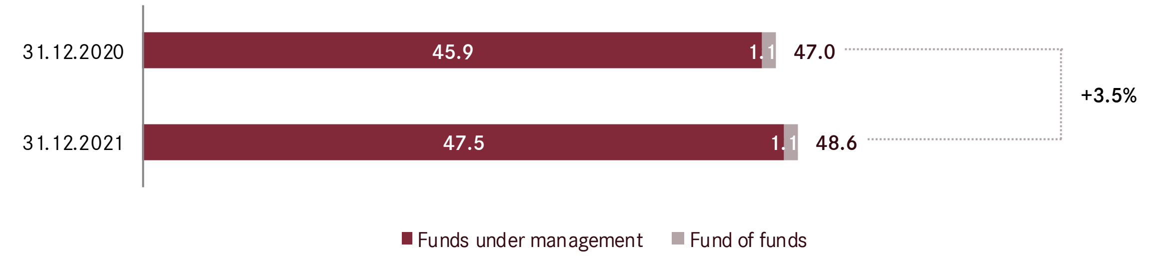
The disruptions in energy and commodity markets in 2021 has led to the emergence of inflation across all economies, most notably the US, setting the scene for a hastened reduction in quantitative easing and earlier than expected interest rate hikes from global central banks. Whilst tightening monetary policy typically cause valuation headwinds for long duration investments such as infrastructure assets, a key attribute of core infrastructure assets is inflation resilience, resulting from pre-negotiated revenue contracts or a regulatory pricing formula with inflation indexation, which have inbuilt step-ups at set periods of time based on prevailing inflation rates. Such investment returns are therefore correlated to inflation, providing a hedge for investors.

2.2 Business performance | Development of financial performance indicators

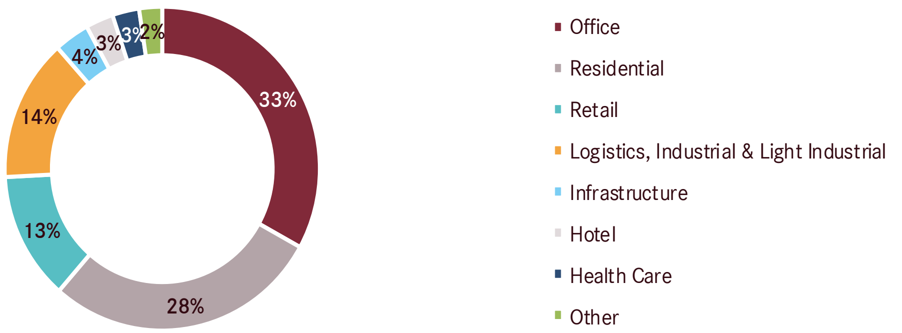
Assets under Management

As at 31 December 2021, PATRIZIA managed **Assets under Management** (AUM) of EUR 48.6bn, pro-forma including the acquisition of Whitehelm Capital (announced in 2021 and closed on 1 February 2022) EUR 52.0bn, compared to EUR 47.0bn as at the previous year's reporting date. Of the EUR 48.6bn in real assets under management, EUR 29.0bn were related to Germany and EUR 19.7bn to other countries. In total, assets under management rose by EUR 1.6bn or 3.5% in the reporting period, pro-forma by EUR 5.0bn or 10.6%, and were positively influenced mainly by organic growth, valuation effects, as well as new mandates. The lower growth in assets under management compared to previous years results, among other things, stems from an increased number of forward deals (e.g. project developments that are handed over turnkey) signed for PATRIZIA's clients in 2021. These will not be closed until the next two years and will not lead to growth in assets under management (AUM) with high-quality real estate portfolios until then. The issued guidance of EUR 50.0bn to EUR 53.0bn is therefore expected to be achieved with a delay.

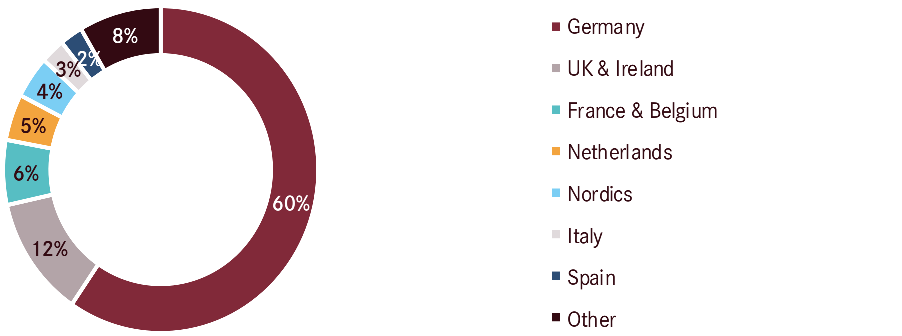
Assets under Management (EUR bn)



Assets under Management as at 31 December 2021 | Sectoral distribution

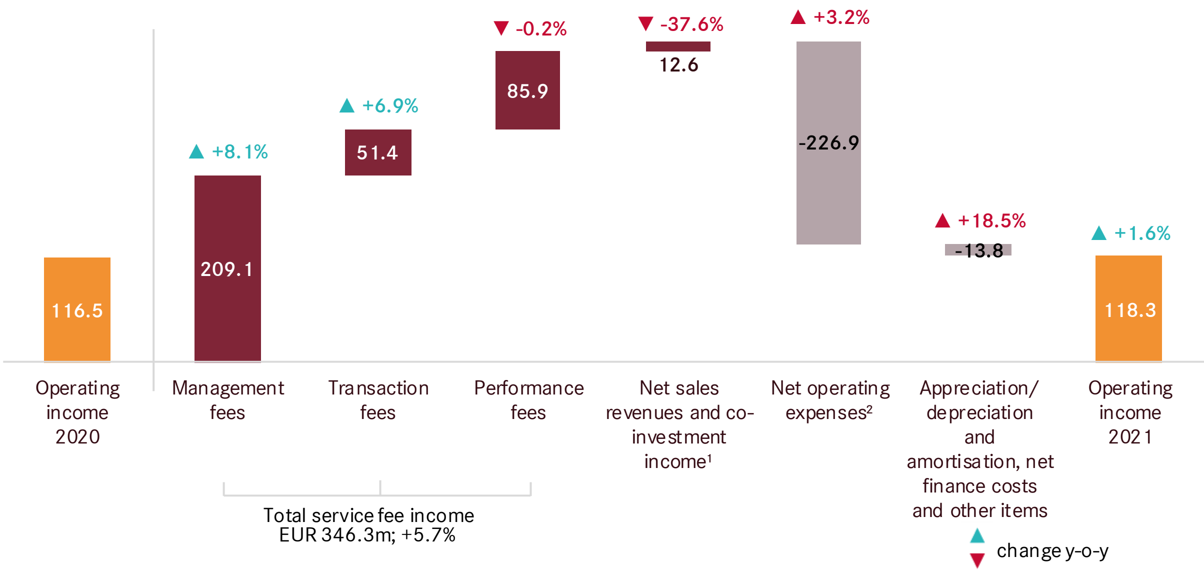


Assets under Management as at 31 December 2021 | Geographical distribution



Operating income

Composition of operating income (EUR m)



[1] Inclusive EUR 1.4m for investments in the future
[2] Among other things, netted with other operating income of EUR 14.8m; excluding EUR 12.9m in non-capitalisable expenses for investments in future technologies.

Composition of the operating income

EUR m	2021	2020	Change
Management fees	209.1	193.4	8.1%
Transaction fees	51.4	48.1	6.9%
Performance fees	85.9	86.1	-0.2%
Total service fee income	**346.3**	**327.6**	**5.7%**
Net sales revenues and co-investment income[1]	12.6	20.2	-37.6%
Net operating expenses[1]	-226.9	-219.7	3.2%
Depreciation and amortisation, net finance costs and other items	-13.8	-11.6	18.5%
Operating income	**118.3**	**116.5**	**1.6%**

[1] 2020 and 2021 excluding non-capitalisable expenses for investments in the future

Operating income was to date the key management parameter of the Group and comprises the total of all of the operating positions in the income statement, adjusted for extraordinary and non-cash effects. From 1 January 2022, it will be replaced by **EBITDA**, which can be derived directly from the IFRS income statement.

In the 2021 financial year, despite partial lockdowns due to the covid-19 pandemic and one-off costs in connection with acquisition activities, an operating income of EUR 118.3m (2020: EUR 116.5m; +1.6%) was achieved. Thus the guidance range of EUR 115.0m to EUR 135.0m (previously EUR 100.0m to EUR 140.0m) specified in 9M 2021 was reached. All comparisons of the guidance range for the 2021 financial year in the remainder of this report therefore refer to the most recently published guidance range.

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 in chapter 2.3.2 of this report.

In the 2021 reporting year, **total service fee income** increased overall by 5.7% to EUR 346.3m (2020: EUR 327.6m) due to the continued growth of recurring management and transaction fees and a stable development of performance fees. The individual components of fee income are explained below:

Management fees: All services provided by PATRIZIA are remunerated in form of fees. Management fees include remuneration for real asset services such as asset, fund and portfolio management and are highly recurring. Management fees of EUR 209.1m were received in the financial year 2021 (2020: EUR 193.4m). The growth of 8.1% is mainly due to higher assets under management (AUM) and an increase in management fees for project development services for the Group's clients.

Transaction fees: PATRIZIA receives transaction fees for the execution of acquisition and disposal transactions. These fees increased to EUR 51.4m in the past year (2020: EUR 48.1m; +6.9%), which is due to a higher level of transactions signed for PATRIZIA's global client base. In this context, acquisitions accounted for EUR 38.6m of this figure (2020: EUR 31.9m; 20.8%) and disposals for EUR 12.8m (2020: EUR 16.2m; -20.5%). Total European market transactions also increased by 20.0% to EUR 340.2bn in 2021 (2020: EUR 283.6bn), however, partly due to large M&A transactions. Total European market activity in 2021 was thus only slightly below the record level of EUR 349.1bn in 2019, confirming the ongoing recovery in the market.

Performance fees: PATRIZIA receives performance fees if defined target investment yields are met or exceeded. Due to the active management of the portfolios managed for our clients, performance fees also remained at a high level of EUR 85.9m in 2021 despite the market environment characterised by the Covid-19 pandemic and thus made a stable contribution to the operating income, similar to the previous year (2020: EUR 86.1m; -0.2%). In the consolidated income statement, these fees are reported partly as revenues (EUR 59.9m; 2020: EUR 60.5m) and partly as income from participations (EUR 22.0m; 2020: EUR 16.6m) and operating income from participations (IFRS 9) of EUR 4.0m (2020: EUR 9.0m).

In the 2021 reporting year, PATRIZIA generated EUR 12.6m in **net sales revenues and co-investment income**, compared to EUR 20.2m in the same period of the previous year. This decrease in net sales revenues and co-investments is entirely in line with PATRIZIA's strategy and was more than offset by an overall increase in fee income.

Net operating expenses increased by 3.2% from EUR 219.7m in the previous year to EUR 226.9m in the reporting year 2021, mainly due to one-off costs related to acquisition activities. In the reporting year 2021, investments in the future amounting to EUR 12.9m (2020: EUR 10.7m) were excluded from net operating expenses. 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.

From 1 January 2022, PATRIZIA will adjust the financial performance indicators relevant to the Group. EBITDA replaces operating income and EBITDA margin replaces the Cost Coverage Ratio (CCR). The growth in assets under management (AUM) will continue as the third financial performance indicator. The new financial performance indicators align with the completed transformation of PATRIZIA's business model into a fully-fledged real asset investment manager. It serves the simplification of financial reporting, increases transparency and aligns the reporting structure with international market standards.

EBITDA

EBITDA increased by 11.4% year-on-year to EUR 128.9m (2020: EUR 115.7m).

Cost Coverage Ratio

The **Cost Coverage Ratio** was to date another key performance indicator of the company and will be replaced by the EBITDA margin from 1 January 2022. The Cost Coverage Ratio 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 five financial years (but at least EUR 14.1m). This fee income is put in relation to 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 investments in the future that are recognised as expenses).

In FY 2021, the Cost Coverage Ratio improved to 120.7% compared to 119.8% in the previous year.

Cost Coverage Ratio

in %	2021	2020	Change
Cost Coverage Ratio[1]	120.7%	119.8%	0,9 PP

[1] PATRIZIA introduced new key financial performance indicators for the Group as at 01.01.2022 - Cost Coverage Ratio (CCR) will be replaced by EBITDA margin.
PP = percentage points

EBITDA Margin

As at 1 January 2022, the EBITDA margin is one of the Group's key financial performance indicators. The EBITDA margin compares the EBITDA of the financial year with the sum of total service fee income and net sales revenues and co-investment income. The EBITDA margin increased slightly year-on-year to 35.9% (2020: 33.3%).

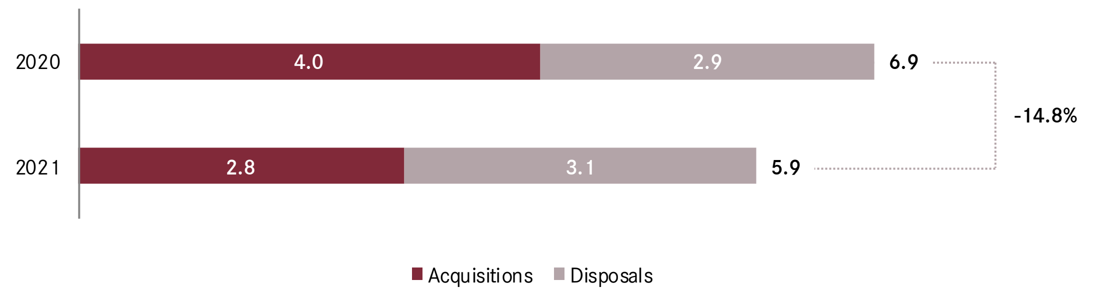
EBITDA margin

in %	2021	2020	Change
EBITDA margin[1]	35.9%	33.3%	2.6 PP

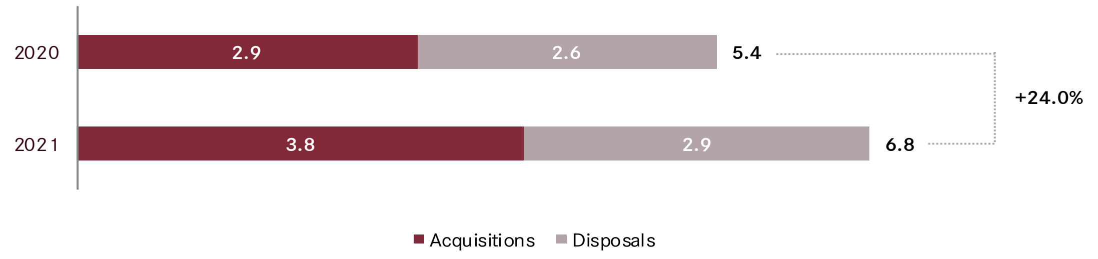
[1] PATRIZIA introduced new key financial performance indicators for the Group as at 01.01.2022 - Cost Coverage Ratio (CCR) will be replaced by EBITDA margin.
PP = percentage points

Further KPIs

Transaction volume based on closed transactions (EUR bn)



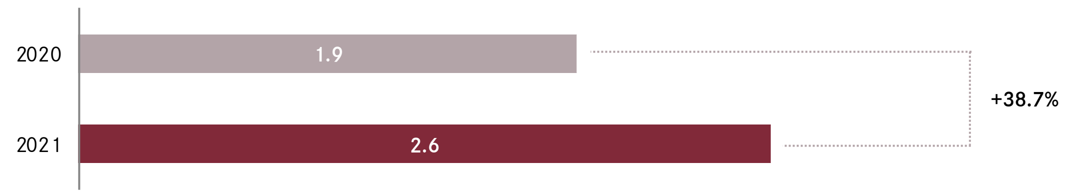
Transaction volume based on signed transactions (EUR bn)



The **transaction volume** is made up of realised real asset acquisitions and disposals. In 2021, **“closed”** acquisitions of EUR 2.8bn (2021 signed: EUR 3.8bn; 2020 signed: EUR 2.9bn) and closed disposals of EUR 3.1bn (2021 signed: EUR 2.9bn; 2020 signed: EUR 2.6bn) took place. In total, PATRIZIA closed a volume of EUR 5.9bn in transactions, which corresponds to a reduction of -14.8% compared to the previous year. The reason for this is a large number of forward deals that were signed but will not be completed until the next two years. Against this background, the transaction volume based on signed transactions is more meaningful.

Based on signed transactions **("signed")**, the **transaction volume** was EUR 6.8bn in the financial year 2021 (2020: EUR 5.4bn; +24.0%). The difference between signing and final closing results from the fact that the transfer of ownership, benefits and burdens only takes place upon payment of the acquisition price. This is triggered as soon as certain predefined conditions have been met after signing.

Equity raised (EUR bn)



In the reporting period 2021, EUR 2.6bn in equity was raised from global institutional, private and (semi-)professional investors for national and international investments in real assets (2020: EUR 1.9bn). A strong increase in **equity raised** of 38.7% compared to the previous year.

2.3 Economic situation

2.3.1 General statement by the Management Board

The ongoing Covid-19 pandemic continued to negatively impact the company's business activities in the 2021 financial year, but to a limited extent. Market participants have now adapted to temporary or regional lockdowns and adjusted their business processes. However, there is still a high level of risk aversion among a large proportion of global clients, which limits the investment focus to only selected asset classes, risk classes and markets. Travel restrictions as well as a more intensive examination of investment proposals lead to longer decision-making processes, especially in global cross-border transactions.

However, the 2021 transaction volume in the European real estate market recovered overall compared to the previous year and is only slightly below the highs of 2019 - also due to larger M&A transactions.

PATRIZIA was also able to offer attractive products in different types of use, risk classes and markets in the past fiscal year due to its international platform and globally diversified clients. This is reflected in an increase in signed transaction volume and further growth in AUM compared to the previous year.

PATRIZIA's strong balance sheet and financial situation continue to provide a good basis for the successful implementation of its mid-term strategy.

The **operating income** of EUR 118.3m is within the most recently published guidance range for the 2021 fiscal year of EUR 115.0m to EUR 135.0m. PATRIZIA's business model proved to be crisis-proof and resilient during the Covid-19 pandemic. Management fees increased by 8.1% to EUR 209.1m. Despite the continued difficult market environment, PATRIZA was able to execute attractive transactions for its global client base. The resulting transaction fees increased by 6.9% to EUR 51.4m. Performance fees made a stable contribution to the operating income at EUR 85.9m (change compared to the previous year: -0.2%). Total service fee income increased by 5.7% to EUR 346.3m.

Total service fee income

EUR m	2021	2020	Change
Management fees	209.1	193.4	8.1%
Performance fees	85.9	86.1	-0.2%
Transaction fees	51.4	48.1	6.9%
Total service fee income	**346.3**	**327.6**	**5.7%**

Net operating expenses increased slightly by 3.2% to EUR 226.9m. Net operating expenses are adjusted for expenses of EUR 12.9m for investments in the future.

Assets under management (AUM) increased by 3.5% year-on-year to EUR 48.6bn, partly due to acquisitions on the European real estate market for national and international clients, positive valuation effects and the acquisition of new asset management mandates.

The lower growth in assets under management compared to previous years results, among other things, stems from an increased number of forward deals (e.g. project developments that are handed over turnkey) signed for PATRIZIA's clients in 2021. These will not be completed until the next two years and will not lead to growth in assets under management with high-quality real estate portfolios until then.

Dividend payment

In 2021, a dividend of EUR 0.30 per share was paid in cash for the 2020 financial year, which represented an increase of 3.4% to the previous year. The unappropriated profit according to the German Commercial Code (HGB) of EUR 476.7m was used to pay the dividend and the remaining amount was carried forward to new account. By way of resolution of the Annual General Meeting on 14 October 2021, a cash dividend of EUR 26.7m in total was paid. Based on the share of the IFRS consolidated net profit for 2020 attributable to shareholders of EUR 37.7m, this corresponded to a pay-out ratio of 70.8%. The dividend was paid on 19 October 2021.

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 non-cash effects like the valuation of investment property and unrealised currency and derivative effects, amortisation of 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 2021 financial year, PATRIZIA generated an operating income of EUR 118.3m, thus reaching the most recently published guidance for 2021 of between EUR 115.0m and EUR 135.0m. The guidance range was specified with the report on the first nine months of 2021 from the original EUR 100.0m to EUR 145.0m to the stated range. In line with strategy, the quality of earnings remains on a high level.

Net sales revenues contributed only EUR 2.1m to the result. This includes proceeds from the sale of principal investments (EUR 1.5m), changes in inventory (EUR 0.6m), cost of materials (EUR -3.9m), rental revenues (EUR 3.2m) and revenues from ancillary costs (EUR 0.6m).

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

Reconciliation of operating income

EUR k	2021	2020	Change
EBITDA	**128,922**	**115,686**	**11.4%**
Appreciation/amortisation of other intangible assets[1], software and rights of use, depreciation of property, plant and equipment as well as financial investments	-35,611	-42,309	-15.8%
EBIT	**93,311**	**73,377**	**27.2%**
Finance income/expenses	-4,854	-3,735	30.0%
Other financial result	194	0	/
Result from currency translation	-942	-7,595	-87.6%
EBT	**87,708**	**62,046**	**41.4%**
Appreciation/amortisation of fund management contracts and licenses as well as financial investments	17,428	25,848	-32.6%
Changes in value of investment property	0	-4	-100.0%
Reorganisation result	2,833	0	/
Other financial result	39	0	/
Non-cash currency effects	-1,569	5,738	-127.3%
Operating income from participations (IFRS 9)	3,795	12,102	-68.6%
Investments in the future	14,312	10,721	33.5%
Earn-out Kenzo	-6,204	0	/
Operating income	**118,342**	**116,453**	**1.6%**

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

The increase in operating income essentially results from the significant increase in EBT by 41.4% to EUR 87.7m (2020: EUR 62.0m). However, the increase in operating income is lower relative to the increase in EBT due to significantly fewer positive effects from the adjustment of amortisation of fund management contracts and licenses as well as financial investments, non-cash currency effects as well as contributions from the operating income from participations (IFRS 9) in the 2021 financial year. Furthermore, a non-cash one-off effect (earn-out Kenzo) was adjusted, which reduced the operating income 2021 accordingly. Income from the sale of the remaining owned properties (principal investments) is steadily declining in line with the strategy, which increases the quality of the income.

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	2021	2020	Change
Revenues	318,163	301,693	5.5%
Total operating performance	339,856	316,275	7.5%
EBITDA	128,922	115,686	11.4%
EBIT	93,311	73,377	27.2%
EBT	87,708	62,046	41.4%
Consolidated net profit	51,808	40,678	27.4%

Revenues

Revenues increased in the 2021 reporting year from EUR 301.7m to EUR 318.2m (5.5%). The increase is based on higher AUM as well as additional management fees for project development services for the Group's clients. Sale of principle investments also decreased, in line with strategy.

Revenues

EUR k	2021	2020	Change
Revenues from management services	310,919	292,503	6.3%
Proceeds from the sale of principal investments	1,477	3,746	-60.6%
Rental revenues	3,234	3,500	-7.6%
Revenues from ancillary costs	645	955	-32.5%
Other	1,888	989	90.8%
Revenues	**318,163**	**301,693**	**5.5%**

Revenues from management services increased in the reporting period by 6.3% year-on-year from EUR 292.5m to EUR 310.9m. 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 346.3m, which corresponds to an increase of 5.7% on the previous year's figure of EUR 327.6m. As a result of the organic growth in AUM and the acquisition of new mandates, management fees increased by 8.1% year-on-year to EUR 209.1m (2020: EUR 193.4m). Transaction fees increased by 6.9% to EUR 51.4m (2020: EUR 48.1m) despite the Covid-19 related uncertainty. Performance fees of EUR 85.9m remained almost at the previous year´s level (2020: EUR 86.1m; -0.2%) and included, among other things, operating income from participations (IFRS 9) of EUR 4.0m (2020: EUR 9.0m).

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

Reconciliation of total service fee income

EUR k	2021	2020	Change
Management fees (excluding result from participations)	199,561	183,904	8.5%
Performance fees (excluding result from participations, excluding operating income from participations (IFRS 9))	59,932	60,508	-1.0%
Transaction fees	51,427	48,091	6.9%
Revenues from management services	**310,919**	**292,503**	**6.3%**
Performance fees (in result from participations)	21,969	16,571	32.6%
Shareholder contribution for management services (in result from participations)	9,490	9,490	0.0%
Operating income from participations (IFRS 9)[1]	3,967	9,001	-55.9%
Total service fee income	**346,345**	**327,565**	**5.7%**

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

Proceeds from the sale of principal investments amounted to EUR 1.5m after EUR 3.7m 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 3.2m in the period under review after EUR 3.5m in the 2020 financial year.

Revenues from ancillary costs relate to rental ancillary costs and amounted to EUR 0.6m in the period under review (2020: EUR 1.0m).

Other essentially comprises transaction costs that are charged on to the corresponding investment vehicles. In the 2021 financial year, this item increased to EUR 1.9m compared to EUR 1.0m in the same period of the previous 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. PATRIZIA's total operating performance increased by 7.5% to EUR 339.9m in 2021 after EUR 316.3m in the previous year.

Reconciliation of total operating performance

EUR k	2021	2020	Change
Revenues	318,163	301,693	5.5%
Changes in inventories	603	-2,242	-126.9%
Other operating income	21,027	16,522	27.3%
Income from the deconsolidation of subsidiaries	63	302	-79.1%
Total operating performance	**339,856**	**316,275**	**7.5%**

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 (+). The accounting effects of the sale as well as the maintenance and construction costs of properties held for sale are recognised in profit or loss under changes in inventories. Changes in inventories of EUR 0.6m were reported in 2021 (2020: EUR -2.2m).

Other operating income

Other operating income increased to EUR 21.0m in the financial year 2021 (2020: EUR 16.5m). The income from discontinued obligations essentially results from the reversal of other tax provisions in the amount of EUR 3.7m (2020: EUR 1.4m), remaining holiday entitlements and settlements of bonuses in the amount of EUR 2.2m (2020: EUR 3.6m) and from the reversal of provisions for outstanding invoices in the amount of EUR 1.7m (2020: EUR 2.7m).

The "Other" item mainly includes cancelled earn-out liabilities in connection with the acquisition of Kenzo in the amount of EUR 6.2m (2020: EUR 0m) and refunds of real estate transfer tax in the amount of EUR 1.7m (2020: EUR 0m). In the previous year, payments from other agency fees of EUR 0.5m and income from other oncharges of EUR 0.5m were also included.

In 2020, the income from bargain purchase results from the acquired subsidiary Silver Swan C 2018 S.à r.l. in the amount of EUR 3.9 million.

Income from the deconsolidation of subsidiaries

Income from the deconsolidation of subsidiaries was EUR 0.1m in the financial year 2021 (2020: EUR 0.3m). 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 closed-end funds for private and (semi-)professional investors.

EBITDA

EBITDA rose by 11.4% to EUR 128.9m (2020: EUR 115.7m). The EBITDA increase was supported by a higher total operating performance, lower staff costs and a higher result from participations. Due to lower depreciation and amortisation compared to the previous year, EBIT also increased significantly by 27.2% to EUR 93.3m (2020: EUR 73.4m).

From the 2022 financial year onwards, the financial performance indicators will be adjusted to allow investors and financial analysts better international comparability with other listed companies. As at 1 January 2022, operating income will be replaced by EBITDA, while the Cost Coverage Ratio (CCR) will be replaced by the EBITDA margin as the new financial performance indicator.

Reconciliation of EBITDA

EUR k	2021	2020	Change
Total operating performance	339,856	316,275	7.5%
Cost of materials	-3,881	-3,568	8.8%
Cost of purchased services	-17,971	-16,066	11.9%
Staff costs	-139,224	-143,759	-3.2%
Change in value of investment property	0	4	-100.0%
Other operating expenses	-87,822	-76,678	14.5%
Impairment result for trade receivables and contract assets	627	418	49.9%
Result from participations	35,638	31,624	12.7%
Earnings from companies accounted for using the equity method	5,138	9,181	-44.0%
Cost from the deconsolidation of subsidiaries	-608	-1,746	-65.2%
EBITDAR	**131,755**	**115,686**	**13.9%**
Reorganisation result	-2,833	0	/
EBITDA	**128,922**	**115,686**	**11.4%**

Cost of materials

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. Cost of materials increased by 8.8% year-on-year from EUR 3.6m to EUR 3.9m.

Cost of purchased services

Cost of purchased services in the amount of EUR 18.0m (2020: EUR 16.1m) essentially comprises the purchase of fund management services for label funds in the amount of EUR 12.5m (2020: EUR 13.8m), for which PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH is the service capital management company. Due to the increase in AUM managed by the label funds and the significant rise in prices in the service sector, expenses increased by EUR 1.9m compared to the previous year.

Staff costs

PATRIZIA employed a total of 946 full-time equivalents (FTE) as at 31 December 2021, compared to 881 in the previous year.

Staff costs

EUR k	2021	2020	Change
Fixed salaries	84,423	79,686	5.9%
Variable salaries[1]	33,451	37,588	-11.0%
Social security contributions	17,120	18,331	-6.6%
Effect of long-term variable remuneration[2]	-1,221	1,742	-170.1%
Share-based payment	1,393	1,085	28.4%
Other	4,058	5,327	-23.8%
Total	**139,224**	**143,759**	**-3.2%**

[1] The previous year's values were adjusted to the new table structure in the report, the item "Variable salaries" includes sales commissions of EUR 1,100k in the financial year and of EUR 1,020k in in the previous year

[2] Valuation changes of the long-term variable remuneration (phantom shares) due to changes in the share price

Valuation effects in connection with phantom shares had a positive effect on staff costs in the fiscal year due to the fall in PATRIZIA AG's share price. Staff costs decreased accordingly by 3.2% to EUR 139.2m (2020: EUR 143.8m).

Despite the need for additional staff as a result of the Company's further growth, fixed salaries and variable salaries together were kept almost stable compared to the previous year. 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.

An expense of EUR 1.4m was recognised for the share-based payment agreement (LTI) 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 chapter 7.1.2 of the notes to the consolidated financial statements.

Other operating expenses

Other operating expenses increased by 14.5% to EUR 87.8m in 2021 after EUR 76.7m in the previous year. This item breaks down as follows:

Other operating expenses

EUR k	2021	2020	Change
Tax, legal, other advisory and financial statement fees	28,110	22,348	25.8%
IT and communication costs and cost of office supplies	19,895	17,956	10.8%
Rent, ancillary costs and cleaning costs	3,490	3,331	4.8%
Other taxes	2,465	1,638	50.5%
Vehicle and travel expenses	3,062	4,599	-33.4%
Advertising costs	4,524	3,915	15.6%
Recruitment and training costs and cost of temporary workers	6,122	7,510	-18.5%
Contributions, fees and insurance costs	4,801	4,450	7.9%
Commission and other sales costs	1,561	729	114.2%
Costs of management services	2,003	186	975.1%
Indemnity/reimbursement	37	572	-93.6%
Donations	1,209	1,493	-19.0%
Other	10,543	7,951	32.6%
Total	**87,822**	**76,678**	**14.5%**

Tax, legal, other advisory and financial statement fees in the amount of EUR 28.1m (2020: EUR 22.3m) 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 4,834k (2019: EUR 5,822k).
- Costs for consulting services in connection with the introduction of the new, global concept of mobile working “NEW Work” in the amount of EUR 2,171k (2020: EUR 1,545k)
- Costs related to the management consulting of BrickVest amounting to EUR 1,909k (2019: EUR 1,440k)
- Costs related to the acquisition and integration of companies (in 2021 Whitehelm, in 2020: BrickVest) amounting to EUR 4,041k (2020: EUR 1,752k)
- Project-related consulting services to identify potential efficiency improvements in operating activities and realise them in the future amounting to EUR 1,932k (2020: EUR 0k)

The increase in IT, communication and office supplies costs results from the increased use of technological innovations and the further expansion of the level of digitalisation. This item also includes expenses from cloud computing contracts. In this case, access to user software in a cloud environment is granted by an external service provider for a limited contract term in return for payment ("software rental"). The service model Software as a Service (SaaS) as well as the deployment model Public Cloud are typically agreed as contract conditions. Under these conditions, cloud computing agreements are regularly regarded as service contracts and recognised as current expenses. Related implementation costs are also generally recognised as expenses in the period in which they are incurred.

The increase in the item "Other taxes" is mainly the result of additional VAT payments and wealth tax (Luxembourg) regarding previous years.

The increase in costs of management services in 2021 mainly refers to the purchase of external project management services as part of the RED projects Carossa (EUR 1.9m).

The decrease in vehicle and travel costs is due to the travel and contact restrictions in connection with the Covid19- Pandemic.

Donations include grants to charitable organisations such as the PATRIZIA Foundation. In 2018, the Management Board had decided to support charitable organisations annually with up to 1% of the Company's operating income.

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 0.6m (2020: EUR 0.4m).

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

PATRIZIA generated a result from participations of EUR 35.6m in 2021 (2020: EUR 31.6m, +12.7%). This increase mainly relates to the continued positive development of the Dawonia co-investment. Investment income totalling EUR 34.7m (2020: EUR 29.3m) was received for the Dawonia co-investment).

Earnings from companies accounted for using the equity method, which primarily contains the co-investment WohnModul I SICAV-FIS, generated EUR 5.1m (2020: EUR 9.2m). The reduction compared to the previous year results from the planned lower income from the co-investment WohnModul I SICAV-FIS and the valuation of technology investments.

The result 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	2021	2020	Change
Dawonia GmbH	34,682	29,284	18.4%
Co-investments in the UK (Aviemore and Citruz)	69	0	/
Seneca	153	854	-82.1%
TRIUVA	21	80	-73.3%
Closed-end funds business	168	1,060	-84.2%
Other	545	346	57.5%
Result from participations	**35,638**	**31,624**	**12.7%**
Earnings from companies accounted for using the equity method	**5,138**	**9,181**	**-44.0%**
Total	**40,776**	**40,805**	**-0.1%**

Net reorganisation result

Reorganisation expenses recognised in the current period mainly result from the realignment of the Real Estate Development and Fund Services divisions. These were mainly expenses for severance payments, current salaries during the release phase, material costs and consulting costs in connection with defined reorganisation measures. Provisions from the reorganisation that are no longer required are released to the income statement.

Consolidated net profit

In the 2021 financial year, PATRIZIA's consolidated net profit increased to EUR 51.8m (2020: EUR 40.7m; 27.4%).

Reconciliation of consolidated net profit

EUR k	2021	2020	Change
EBITDA	**128,922**	**115,686**	**11.4%**
Appreciation/amortisation of other intangible assets[1], software and rights of use, depreciation of property, plant and equipment as well as financial investments	-35,611	-42,309	-15.8%
Earnings before interest and taxes (EBIT)	**93,311**	**73,377**	**27.2%**
Finance income	1,898	2,971	-36.1%
Financial expenses	-6,753	-6,707	0.7%
Other financial result	194	0	/
Result from currency translation	-942	-7,595	-87.6%
Net finance costs	**-5,603**	**-11,330**	**-50.5%**
Earnings before taxes (EBT)	**87,708**	**62,046**	**41.4%**
Income taxes	-35,900	-21,369	68.0%
Consolidated net profit	**51,808**	**40,678**	**27.4%**

[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[1], 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 as well as financial investments decreased to EUR 35.6m (2020: EUR 42.3m; -15.8%) and mainly consisted of amortisation of fund management contracts (see chapter 4.3 in the notes to the consolidated financial statements for further information) and licences of EUR 15.8m (2020: EUR 24.4m) amortisation of rights of use of EUR 11.5m (2020: EUR 10.4m), and amortisation of software and depreciation of operating and office equipment of EUR 6.5m (2020: EUR 6.0m).

Net finance costs

Financial income decreased to EUR 1.9m after EUR 3.0m in the previous year (-36.1%) and essentially relates to temporary loans granted to investment vehicles, interest on late purchase price payments and interest refunds from the tax office. Financial income was offset by financial expenses of EUR 6.8m (2020: EUR 6.7m, 0.7%), including in particular interest for bonded loans and interest accrued on retirement benefit obligation.

Result from currency translation

The result from currency translation amounted to EUR -0.9m as at 31 December 2021 (2020: EUR -7.6m). It is composed of realised currency effects of EUR -2.5m (2020: EUR -1.9m) and non-cash currency effects of EUR 1.5m (2020: EUR -5.7m).

Income taxes

Tax expenses amounted to EUR 35.9m in the 2021 financial year after EUR 21.4m in the previous year (68.0%). The largest items included are income taxes for the current year (EUR 28.0m), income taxes for the previous year (EUR 4.7m) and deferred taxes (EUR 3.2m).

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. Some of the figures shown in the following table are netted in the other tables in the current report.

Detailed reconciliation to operating income

EUR k	2021	Table in the current report
Management fees (excluding result from participations)	199,561	Reconciliation of total service fee income
Shareholder contribution for management services (in result from participations)	9,490	Reconciliation of total service fee income
Management fees	**209,051**	
Transaction fees	**51,427**	Reconciliation of total service fee income
Performance fees (excluding result from participations, excluding operating income from participations (IFRS 9))	59,932	Reconciliation of total service fee income
Performance fees (in result from participations)	21,969	Reconciliation of total service fee income
Operating income from participations (IFRS 9)	3,967	Reconciliation of total service fee income
Performance fees	**85,868**	
Total service fee income	**346,345**	Reconciliation of total service fee income
Revenues from the sale of principal investments	1,477	Revenues
Changes in inventories	603	Consolidated income statement
Cost of materials	-3,881	Consolidated income statement
Rental Revenues	3,234	Revenues
Revenues from ancillary costs	645	Revenues
Net sales revenues	**2,078**	
Earnings from companies accounted for using the equity method	5,138	Consolidated income statement
Investments in the future	1,401	Reconciliation of operating income
Remaining result from participations	4,007	Consolidated income statement & Reconciliation of total service fee income
Co-investment result	**10,546**	
Net sales revenues and co-investment income	**12,624**	
Personnel expenses	-139,224	Consolidated income statement
Other operating expenses	-87,822	Consolidated income statement
Cost of purchased services	-17,971	Consolidated income statement
Addition of amortisation of rights of use (IFRS 16)[1]	-11,541	
Investments in the future	12,911	Reconciliation of operating income
Other operating income	21,027	Consolidated income statement
Other revenues	1,888	Revenues
Income from the deconsolidation of subsidiaries	63	Consolidated income statement
Cost from the deconsolidation of subsidiaries	-608	Consolidated income statement
Derecognition of earn-out liability Kenzo (in other operating income)	-6,204	Consolidated income statement
Impairment result for trade receivables and contract assets	627	Consolidated income statement
Net operating expenses	**-226,853**	
Appreciation/amortisation of other intangible assets, software and right of use, depreciation of property, plant and equipment	-35,611	Consolidated income statement
Amortisation of fund management contracts	11,340	Reconciliation of operating income
Neutralisation amortisation of rights of use (IFRS 16)[1]	11,541	
Extraordinary value adjustment in associated participations	2,374	Reconciliation of operating income
Finance income	1,898	Consolidated income statement
Finance costs	-6,753	Consolidated income statement
Other financial result	233	Reconciliation of operating income
Currency result	-942	Reconciliation of operating income
Unrealised currency effects	-1,569	Reconciliation of operating income
Extraordinary amortisation of fund management contracts	4,423	Reconciliation of operating income
Extraordinary appreciation in associated participations	-709	Reconciliation of operating income
Appreciation/depreciation and amortisation, net finance costs and other items	**-13,775**	
Operating income	**118,342**	

[1] IFRS 16 reduces other operating expenses in the income statement and burdens depreciation. This effect is neutralised here for the transparent allocation of expenses. The amounts are not directly visible in the income statement.

2.3.3 Financial position of PATRIZIA Group

PATRIZIA's key asset and financial data at a glance

EUR k	31.12.2021	31.12.2020	Change
Total assets	2,061,457	1,962,083	5.1%
Equity (excl. non-controlling interests)	1,282,809	1,237,240	3.7%
Equity Ratio	**62.2%**	**63.1%**	**-0.8 PP**
Cash and cash equivalents	341,260	495,454	-31.1%
+ Term deposits	210,831	180,797	16.6%
- Bank loans	-171,095	-43,200	296.1%
- Bonded loans	-234,000	-300,000	-22.0%
= Net cash (+) / net debt (-)	146,995	333,051	-55.9%
Net Equity Ratio[1]	**74.6%**	**76.4%**	**-1.9 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 increased to EUR 2.1bn as at 31 December 2021 (31 December 2020: EUR 2.0bn).

Equity

Equity (excluding non-controlling interests) increased moderately to EUR 1.3bn as at the end of 2021 (31 December 2020: EUR 1.2bn). The increase is due to, among other things, the subsequent measurement of participations and entitlements to performance fees in accordance with the IFRS 9 accounting standard, which increased equity by EUR 49.5m compared to the previous year. In addition, the share of the consolidated net profit attributable to the shareholders of the parent company less the dividend payment to shareholders had a positive impact on equity. A share buy-back programme carried out in the 2021 financial year with a volume of EUR 23.5m had a reducing effect. Please see the statement of changes in equity for further information on changes in equity. The equity ratio changed only slightly.

Investment property and inventories

PATRIZIA's real estate assets increased by 941.1% in the reporting period, from EUR 16.5m as at 31 December 2020 to EUR 171.6m as at 31 December 2021. This strong increase is mainly the result of the temporary warehousing of properties for the purpose of placement via public funds in Inventories. In line with the strategy, investment property remained at a very low level of EUR 1.8m at the end of 2021.

Investment property and inventory

EUR k	31.12.2021	31.12.2020	Change
Inventories	169,796	14,647	>1.000,0%
Investment property	1,838	1,838	0.0%
Real estate assets	**171,634**	**16,485**	**941.1%**

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

PATRIZIA's capital allocation as at 31 December 2021

	Assets under Management EUR m	Invested capital (fair value) EUR m	Invested capital (at cost) EUR m	Participations in %
Third-party business	**41,667.0**	**0.0**		
Co-Investments	**6,952.8**	**551.7**	**85.1**	
Residential	**5,399.0**	**533.0**	**70.1**	
Dawonia GmbH	5,256.1	175.5 [1]	51.7	5.1
Dawonia performance fee claims		339.2 [1]	0.0	0.1
WohnModul I SICAV-FIS	142.9	18.2	18.3	10.1
Other		0.1	0.1	0.0
Balanced Europe	**942.4**	**3.6**	**3.6**	
TransEuropean VII	942.4	3.6	3.6	1.0
Commercial Germany	**611.4**	**11.7**	**8.0**	
Alliance	232.7	5.7	5.0	5.1
Seneca	159.1	4.1	1.7	5.1
PATRoffice		0.3 [1]	0.2	6.3
TRIUVA/IVG logistics	219.6	0.8 [1]	0.7	2.1
TRIUVA/IVG commercial		0.9 [1]	0.5	11.0
Commercial International	**0.0**	**3.4** [1]	**3.4**	
First Street Development LTD (UK)		3.4	3.4	10.0
Principal investments	**18.1**	**18.1**		
Other balance sheet items		**434.3** [2]		
Tied-up investment capital	**48,637.9**	**1,004.1**		
Available liquidity		512.7		
Total investment capital	**48,637.9**	**1,516.8**		
of which debt (bonded loans)		234.0		
of which equity PATRIZIA (without non-controlling interests)		1,282.8		

[1] After deduction of deferred taxes according to IFRS 9
[2] Including goodwill and fund management contracts

Capital structure

Financial liabilities

The Group's financial liabilities increased from EUR 343.2m as at 31 December 2020 to EUR 405.1m as at 31 December 2021. The bonded loan of EUR 300.0m raised in 2017 consisted of tranches of five, seven and ten years. This bonded loan is partly recognised under non-current liabilities (EUR 158.0m) and partly under current liabilities (EUR 76.0m). The short-term bank loans of EUR 171.1m are mainly short-term loans for temporarily held properties that will leave the Group via mutual funds.

Compared to year-end 2020, financial liabilities developed as follows:

Financial liabilities

EUR k	31.12.2021	31.12.2020	Change
Non-current bonded loans	158,000	234,000	-32.5%
Current bonded loans	76,000	66,000	15.2%
Short-term bank loans	171,095	43,200	296.1%
Total financial liabilities	**405,095**	**343,200**	**18.0%**

A detailed maturity profile of the financial liabilities can be found in chapter 4.1.9 of the notes to the consolidated financial statements.

Liquidity

PATRIZIA has available liquidity of EUR 512.7m as at 31 December 2021 compared to EUR 645.0m at the end of 2020.

Liquidity

EUR k	31.12.2021	31.12.2020
Cash and cash equivalents	341,260	495,454
Term deposits	210,831	180,797
Liquidity	**552,090**	**676,251**
Regulatory reserve for asset management companies	-37,548	-31,229
Liquidity in closed-end funds business property companies	-1,859	-15
Available liquidity	**512,683**	**645,007**

Liquidity amounts to EUR 552.1m in total (31 December 2020: EUR 676.3m). However, PATRIZIA cannot freely access the full amount. Cash and cash equivalents of EUR 37.5m 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 available liquidity of EUR 512.7m (31 December 2020: EUR 645.0m).

Consolidated cash flow statement

Cash flow from operating activities amounted to EUR 29.3m in the reporting year, compared to EUR 82.9m in 2020. The change compared to the previous year mainly results from the “Change in inventories, receivables and other assets not attributable to investing activities”. The increase in receivables relates to accrual effects from the invoicing for fees that are only paid in subsequent quarters. Furthermore, other non-cash effects as well as temporary consolidation of properties of the mutual fund business were responsible for the decrease.

Cash flow from investing/disinvesting activities resulted in a cash outflow of EUR -42.5m in the reporting year (2020: outflow of EUR -15.3m) and is mainly due to payments for the acquisition of securities and short-term investments as well as other loans. Compensating items are essentially payments received from the repayment of other loans.

The **cash flow from financing activities** amounts EUR -144.6m, compared to EUR -18.3m in the previous year. The most important components of financing activities in 2021 included loan repayments, including the bonded loan in the amount of EUR 66.0m as well as the dividend distribution of EUR 26.7m to PATRIZIA AG shareholders. In addition, a share buyback programme with a volume of EUR 24.0m was carried out.

The cash-effective change in **cash and cash equivalents** amounted in total to EUR -157.8m (2020: EUR 49.3m) resulting in a decrease of cash and cash equivalents from EUR 495.5m at the end of 2020 to EUR 341.3m as at 31 December 2021.

Abridged consolidated statement of cash flow for the period from 1 January to 31 December 2021

EUR k	2021	2020
Cash flow from operating activities	29,341	82,870
Cash flow from investing/divesting activities	-42,497	-15,312
Cash flow from financing activities	-144,633	-18,296
Change in cash and cash equivalents	-157,789	49,262
Cash and cash equivalents as at 01.01.	**495,454**	**449,084**
Effects of changes in foreign exchange rates on cash and cash equivalents	3,595	-2,892
Cash and cash equivalents as at 31.12.	**341,260**	**495,454**

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

The financial situation of 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 the operating companies, PATRIZIA AG generated **revenues** of EUR 39.1m (2020: EUR 31.9m; 22.6%), which mainly resulted from management fees charged to subsidiaries. The item **other own work capitalised and other operating income** fell slightly to EUR 9.6m in 2021 (2020: EUR 9.8m) and consists primarily of income from the reversal of provisions (EUR 5.5m; 2020: EUR 2.6m), income from realised (EUR 0.5m; 2020: EUR 3.2m) and unrealised exchange rate fluctuations (EUR 2.6m; 2020: EUR 1.9m).

Cost of materials decreased to EUR 0.4m. **Staff costs** increased by 12.7% to EUR 37.5m (2020: EUR 33.3m). This results from adjustments and the increase in the number of employees (annual average: 233 FTEs; 2020: 223 FTEs). **Amortisation of intangible assets and depreciation of property, tangible assets as well as other operating expenses** increased by EUR 19.1m (31.7%) to EUR 79.3m (2020: EUR 60.2m). This increase is mainly due to a one-off effect from the impairment of a receivable from a subsidiary in the amount of EUR 15.3m. The **income from participations, amortisation of financial assets and profit and loss agreements** decreased by EUR -13.4m to EUR 84.4m (2020: EUR 98.2m). This was mainly due to impairment losses on investments in subsidiaries amounting to EUR -42.1m (previous year: EUR -4.6m) partly compensated by a higher balance from profit transfers amounting to EUR 107.1m (previous year: EUR 83.9m). **Net interest expense** improved to EUR -3.1m (2020: EUR -5.0m). This was primarily due to lower interest expenses to affiliated companies. Taxes increased by EUR 2.5m to EUR 14.7m in 2021.

This results in a **net loss** for the reporting year 2021 of EUR -1.5m (2020: net profit EUR 28.5m) at PATRIZIA AG according to HGB. Together with the profit carried forward of EUR 450.0m and the offsetting of the difference between the calculated value and the acquisition costs for the purchase of treasury shares of EUR -22.4m forms the unappropriated profit. **Unappropriated profit** decreased from EUR 476.7m in 2020 to EUR 426.1m in 2021.

PATRIZIA AG is expected to develop positively in the 2022 financial year. For further information, please refer to the Group's guidance report (chapter 5).

Abridged consolidated balance sheet of PATRIZIA AG

EUR k	31.12.2021	31.12.2020
Fixed assets	460,774	502,745
Current assets	702,069	809,064
Prepaid expenses	3,828	4,466
Total assets	**1,166,671**	**1,316,275**
Equity	698,490	750,168
Provisions	32,580	31,584
Liabilities	434,738	534,523
Accrued expenses and deferred income	863	0
Total equity and liabilities	**1,166,671**	**1,316,275**

Abridged income statement of PATRIZIA AG

EUR k	2021	2020	Change
Revenues	39,094	31,881	22.6%
Other own work capitalised and other operating income	9,639	9,842	-2.1%
Cost of materials (cost of purchased services)	-374	-729	-48.7%
Staff costs	-37,485	-33,255	12.7%
Amortisation of intangible assets and depreciation of property, tangible assets as well as other operating expenses	-79,316	-60,224	31.7%
Income from participations, amortisation of financial assets and profit and loss transfer agreements	84,760	98,181	-13.7%
Net interest expense	-3,132	-4,954	-36.8%
Taxes	-14,676	-12,248	19.8%
Net profit/loss for the year	**-1,491**	**28,494**	**-105.2%**
Profit carried forward	449,986	474,746	-5.2%
Purchase of treasury shares	-22,442	-26,571	-15.5%
Unappropriated profit	**426,053**	**476,669**	**-10.6%**

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 3,731,301 treasury shares as at 31 December 2021. The company's share capital shown in the consolidated balance sheet amounts to EUR 88,620,175.00 accordingly. Further details can be found in note 4.10 Equity of the notes to the consolidated financial statements.

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 2021, 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 section 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 section 16 of the Articles of Association.

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 14 October 2021, the Management Board of the Company was authorised, with the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or before 13 October 2026 (inclusive) by up to a total of EUR 17,470,295.00 by issuing up to 17,470,295 new no-par value registered shares in return for cash contributions and/or contributions in kind (Authorised Capital 2021/I). The Management Board is authorised, with the consent of the Supervisory Board, to disapply shareholders' statutory pre-emption rights in certain cases. The full authorisation derives from section 4 (3) of the Articles of Association.

The Annual General Meeting on 14 October 2021 also authorised the Management Board, with the consent of the Supervisory Board, to increase the Company's share capital by up to a total of EUR 1,000,000.00 by 13 October 2026 (inclusive) by issuing up to 1,000,000 new no-par value registered shares against cash contributions for the purpose of issuing them to employees of PATRIZIA AG and its affiliated companies, excluding the members of the Management Board and Supervisory Board of the Company as well as the Management Board, Supervisory Board and other officers of affiliated companies (employee shares) on one or more occasions (Authorised Capital 2021/II). The full authorisation derives from section 4 (3a) of the Articles of Association.

Furthermore, the Management Board by resolution of the Annual General Meeting on 14 October 2021 was authorised, with the consent of the Supervisory Board, to issue bearer or registered convertible bonds and/or bonds with warrants and/or profit participation rights with conversion or option rights and/or conversion or option obligations and/or participating bonds (or a combination of these instruments) on one or more occasions until 13 October 2026 (inclusive) in a total nominal amount of up to EUR 500,000,000.00 with or without a limited term and to grant or impose upon the creditors of Bonds conversion or option rights and/or conversion or option obligations to subscribe for a total of up to 18,470,295 new registered no-par value shares of the Company with a pro rata amount of the share capital of up to EUR 18,470,295.00 in total in accordance with the respective terms and conditions of the Bonds. Details can be found in section 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 Combined Corporate Governance Statement – disclosures in accordance with section 289f HGB and section 315d HGB (German Commercial Code)

On 15 March 2022, 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 (German Commercial Code) and made this statement publicly available on the Company's website at: https://www.patrizia.ag/en/shareholders/corporate-governance/corportate-governance-statement/.

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

On 15 December 2021, the Management Board and the Supervisory Board adopted the Declaration of Conformity with the recommendations of the German Corporate Governance Code in accordance with section 161 AktG (German Stock Corporation Act; GCGC 2020). The recommendations were complied with during the year, with a few exceptions. With the reorganisation of the Supervisory Board and the formation of the Audit Committee and the Nomination and Remuneration Committee, the final deviations were eliminated in the fourth quarter of 2021, so that PATRIZIA now fully complies with the Code. The current 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/.

3.4 Related party transactions

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, according to the circumstances known to us at the time when the legal transactions listed in the report on relationships with affiliated companies were carried out, the company received appropriate consideration for each legal transaction. There were no measures subject to reporting requirements in the financial year."

Extensive information on related party transactions can be found in chapter 7.2 of the notes to the consolidated financial statements.

4 Development of opportunities and risks

4.1 Management of opportunities and risks

Entrepreneurial decisions are fundamentally based on opportunities and risks. In order to be able to successfully achieve the entrepreneurial goals, opportunities and risks must be constantly reviewed and considered so that risks can be consciously taken on this basis. A Group-wide risk management system ensures that risks are systematically identified, recorded, managed and communicated both internally and externally when deemed necessary. The aim of the risk management system 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 Product Development 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 Management Board of PATRIZIA, the Strategic Corporate M&A department and the Alternative Investments team. In addition, opportunities are seen in digitalisation, automisation and technology & innovation, which are equally pursued to ensure continued growth and strategic development as well as ongoing operational optimisation.

As part of the corporate governance program, PATRIZIA has established a Group-wide Risk Management function that bundles activities relating to risk management. This assigns responsibility for the further development of suitable risk management processes to a central unit. The processes implemented as part of the risk management system include risk identification mechanisms with the participation of all key business areas, early risk detection and indicator systems, risk-bearing capacity analyses and regular risk reporting to the Management Board and Supervisory Board of PATRIZIA AG. The role concept within PATRIZIA's risk management is designed to ensure best 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. The consideration of potential risks and future opportunities is of particular relevance. 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 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 exchange of knowledge between risk management functions at all levels and ensures the efficient consideration of PATRIZIA's core risks.

The Corporate Financial Planning & Analysis department reports Group financial data on a monthly basis to Senior Management 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 considered in a differentiated manner according to possible occurrence scenarios and evaluated at the Group level by estimating the probability of occurrence and the potential loss. 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. process changes 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 of PATRIZIA.

PATRIZIA's risk management process is designed to identify, record and monitor relevant risk positions and to define and implement suitable control measures. The primary objective is to create comprehensive transparency regarding the current risk situation and thus enable risk-oriented decisions to be made. In order 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 initiation of appropriate countermeasures in time.

PATRIZIA's Internal Audit regularly reviews the risk management system for efficiency and effectiveness. 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) and 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, guidance 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 of the Company and the Group. 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: The beginning of the second Covid-19 pandemic year was also marked by lockdowns, which dampened the economic recovery in Europe, at least in the first quarter of 2021. In 2021, there were again extensive aid packages from governments. With the end of the lockdown measures and a progression of vaccination campaigns, a strong recovery period started in spring 2021, which was mainly driven by rising consumer spending and the service sector. In addition, travel activity returned in summer, which benefited the hotel and tourism industry. The manufacturing industry has faced and continues to face supply (chain) problems triggered by the pandemic, which are slowing down the upswing in this sector. In addition, energy prices rose over the course of the year, which led to a significant price increase and a sharp increase in inflation. Further risks arose from a fourth wave of infections, which has caused the number of infections to increase significantly since autumn 2021, especially in countries where it was not possible to achieve a sufficient vaccination rate. This led to further uncertainty among consumers and is likely to lead to a further decline in consumer spending in the fourth quarter of 2021. Despite all risks and adversities, a significant increase in European gross domestic product compared to the previous year is expected for 2021 as a whole. The main driver of this development is private consumption. The ECB continued its course of bond purchases, so that interest rates remained at a low level. For investors searching for an attractive current yield, it once again became clear that fixed-interest investments are a challenging asset class, so that the demand for investments in real assets – such as real estate and infrastructure – continued to rise. In addition, the high level of uncertainty among investors with regard to the effects of the pandemic, which was noticeable in the previous year, has largely disappeared in 2021.
Source: PATRIZIA, PATRIZIA House View, RCA

In the course of 2020 and 2021, it became obvious which real estate sectors proved to be resilient, which came out of the crisis well and which continue to struggle with problems. Thus, the division of the market into sectors and subsectors that do not perform well, such as high-street retail or hotel, and good-performing ones such as food retail, multi-family housing or logistics, also continued. Competition for investable assets has increased, so market presence and good knowledge of regional market conditions and intelligent, targeted asset management are crucial for the successful construction and management of portfolios.
Source: PATRIZIA, PATRIZIA House View, RCA

Residential real estate market: As one of the most resilient sectors, the European residential market continued to be very attractive and popular with investors in 2021. Fundamental factors such as urbanisation and the demand overhang are still relevant and guarantee a stable cash flow. However, the high demand for residential investments caused continued yield compression and market regulation increased in some markets, with the corresponding impact on returns. Alternatives to the traditional rental sector therefore increasingly came into focus for many investors. Student housing showed high occupancy rates in 2021 and enjoyed increased investor demand. In the thriving metropolises, co-living emerged as another option offering stable cash flows and, due to the ageing population in many European countries, senior housing also proved to be a good complement or alternative to the private rental sector. All housing alternatives offer a yield premium over the multi-family sector that compensates for higher operator risks; moreover, these sub-sectors are subject to much lower rent regulation. However, good market penetration and accurate knowledge of regional and local market conditions remain crucial for success in residential investment.

Commercial real estate market - retail: After the end of the lockdowns in spring 2021, mobility among the population also returned in European countries. This had a positive effect on the shopping streets in European cities. Nevertheless, institutional interest in retail properties in the high-street segment remained rather subdued. Overall, however, an adaptation of retailers in the form of new shop concepts can be observed and the structural change is progressing. In some markets, this change is already far advanced, so that the high-street segment is already becoming attractive again for the first investors who are more willing to take risks. Food retailing continued to enjoy high popularity in 2021, and there was also a significant yield compression here. Retail parks with food anchors were also on the shopping list of many institutional investors. Shopping centres, on the other hand, are still in a consolidation phase. Online retailing continues to advance, but the limits to growth are slowly becoming visible. This manifests itself, among other things, in the fact that pure online retailers, such as Zalando or Amazon, are opening physical shops in order to create new points of contact with customers and open up new segments. Online retail will therefore not make the brick-and-mortar shop or the high-street obsolete. However, there will be far-reaching structural changes. In order to be able to assess their effects, it is necessary to have good market knowledge and a profound understanding of the market mechanisms on the ground. On this basis, attractive investments can be made in the retail sector.

Commercial real estate market - office: The European market for office property was robust in 2021. Although the improvement in the pandemic situation in the course of the year led to more employees returning to their offices, investors remained cautious and transaction activity did not reach the level seen before Covid-19. According to surveys, some companies still expect to need less office space in the future. However, the regional differences in Europe are very large. Consequently, the structural changes and polarisation within the European office markets will continue in 2021. Flexible spaces, a high level of technology in the spaces, health and well-being as well as sustainability are increasingly becoming the focus of tenants. Offices are becoming "greener". All of this strengthens the core locations and core sites. Second and third-tier properties, especially those in poor technical condition, will increasingly struggle with vacancies.

Commercial real estate market - logistics: The high resilience of the logistics sector also led to more and more investors seeking to realign their core portfolios in favour of logistics in 2021. The share of logistics properties in the total transaction volume increased significantly and reached a record level. The growing importance of online trade gave the sector a structural tailwind. One focus was on "last mile" logistics, as higher rental growth was observed here. In hub logistics, there was a lot of movement in take-up, but the price environment in this segment has become very competitive, so many investors took profits and sold properties in secondary locations. Urban logistics and alternative types of logistics in particular promise good and sustainable investment opportunities.

Infrastructure markets: 2021 has again highlighted the resilience of the infrastructure sector. The pandemic has cemented high speed broadband as the fourth utility alongside water, gas and electricity networks. However, whilst infrastructure investments with contracted cash flows or returns from predictable regulatory frameworks thrived in 2021, the continuation of the pandemic again challenged infrastructure investments within the transport sector – most notably airports with rolling global lockdowns.

The disruptions in energy and commodity markets in 2021 has led to the emergence of inflation across all economies, most notably the US, setting the scene for a hastened reduction in quantitative easing and earlier than expected interest rate hikes from global central banks. Whilst tightening monetary policy typically cause valuation headwinds for long duration investments such as infrastructure assets, a key attribute of core infrastructure assets is inflation resilience, resulting from pre-negotiated revenue contracts or a regulatory pricing formula with inflation indexation, which have inbuilt step-ups at set periods of time based on prevailing inflation rates. Such assets are therefore correlated to inflation, providing a natural hedge for investors.

4.3.2 Operational risks

Acquisitions and disposals of real estate: The trend of strong demand for real estate has continued in 2021. 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 disposals of real estate may not be realised at the intended price.

For further information, please refer to chapter 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). Cloud services are also being increasingly used and as required are adequately integrated into the existing security mechanisms. 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, especially in the changed risk situation caused by the Covid-19 pandemic.

Financing risks: Debt financing on Group level 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 only exception is an asset in Nagoya/Japan, which has local financing. This asset is expected to be sold in Q2 2022. 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 totalling 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, although these are currently stable. However, there are no significant risks associated with this. Nevertheless, 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.

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: Interest rate risks are avoided or minimised by agreeing mainly fixed interest rates and by active liquidity management. Due to the ECB's ongoing low interest rate policy and PATRIZIA's own assessments of the overall economic situation in Europe, financing is currently being taken out without interest rate hedging instruments. The Group is therefore subject to an interest rate risk from financial liabilities. The repayment of the variable tranches of the promissory note loan of EUR 66m eliminated any interest rate risks, as the remaining tranches of EUR 234m have a fixed interest rate.

Liquidity risk: The risk of a liquidity shortage is currently not discernible: As at 31 December 2021, PATRIZIA had bank balances and cash in hand of EUR 341.3m and short-term investments of EUR 210.8m 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 optimises 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, Singapore and Great Britain, which carry out investment management mandates as well as acquisitions and disposals for the funds and invest within the scope of co-investments, are an exception. As at 31 December 2011, PATRIZIA had EUR 199.3m in foreign currency on its balance sheet. 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 local legal experts in contractual matters and changes in the law, we aim to minimise any legal risks. Provisions have been made for potential losses from pending proceedings. Serious legal risks that would be material for the future development of the Company are currently not observed.

Accounting risks: In the application of accounting policies, judgements have to be made that can significantly affect the amounts recognised in the financial statements. Major discretionary decisions are presented in chapter 3 of the notes to the consolidated financial statements.

Tax risks: There are specific tax risks for the PATRIZIA Group which are based on uncertainties regarding the tax assessment of certain payment flows from real estate transactions and administrative activities. As a preventive measure, analyses have been obtained from external law firms which confirm the existing tax assessments of the relevant circumstances. The remaining residual risk is assessed as moderate.

Operational risks: The PATRIZIA Group provides a range of different services for their clients. Regulated fund management activities play a significant role in this. The PATRIZIA Fund Management companies regularly act as trustees and manage the invested client funds in their exclusive interest. The framework conditions for these activities are regularly specified in contractual agreements. This gives rise to operational risks, which are expressed in particular in possible claims for compensation by the investment assets managed on a fiduciary basis, e.g. due to management errors. However, other operational risks, such as risks from inadequate organisation or lack of resources, are also latent. PATRIZIA counters operational risks with appropriate organisational structures, procedural instructions and process documentation so that existing risks are effectively contained.

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, acquisitions and disposals 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 in this constellation must be obtained promptly and in line with market conditions. 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 since then successfully launched various real estate funds with properties across Europe. This business is also to be further expanded internationally. The organisational and personnel requirements were created in 2021.

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 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.

Fund under management | Co-investments: Via co-investments, PATRIZIA participates in the fund equity with its own money via co-investments. 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 "Acquisitions and disposals of real estate", the acquisition of suitable real estate that meets PATRIZIA's and the customers' criteria. The further decline in yields for real estate of all types of use can have a limiting effect here.

Equity raising: The liquidity in the market and thus the investment pressure on the investor side remains high. Thus, the risk of a default by business partners/investors or fundamental problems in acquiring new business is low. However, the yield level that has now been reached, the partially well-filled real estate quotas in conjunction with the market entry of further competitors, makes the market environment more challenging. As one of the market leaders with a very broad range of products, PATRIZIA is well positioned here. With the expansion of the international fund business and the offering for private clients, the customer base has broadened further. More than 500 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. In recent years, infrastructure in particular has established itself alongside real estate in the area of alternative investments. The expansion of the product range through the acquisition of Whitehelm Capital opens up new opportunities here and has been very well received by investors. However, the continued persistence of the Covid-19 pandemic may still lead to delays in the planned product placements and has an influence on the connection of new investors/investor groups to the Company.

4.4 Overall view of the opportunities and risks

Risk aggregation and risk-bearing capacity: As part of PATRIZIA's risk management process, existing risks are continuously identified, assessed, evaluated and aggregated. The aggregated, assessed risks are included in the Company's risk-bearing capacity analysis, the results of which are subsequently brought to the attention of both the Management Board and the Supervisory Board. The basis for the risk-bearing capacity calculation is the calculation of a theoretical default risk, which is based on the Company's earnings and balance sheet figures. The theoretical default risk is not linearly related to the earnings and balance sheet ratios used. The Company's risk-bearing capacity is defined as the maximum risk potential which, in the Company's opinion, would sustainably impair the Company's refinancing on the capital market if it were to occur and is expressed as the upper limit of the theoretical default risk. It thus defines the limit of risks that can be borne overall and therefore do not yet endanger the Company's existence. PATRIZIA has also defined a risk tolerance limit, which is also expressed as a theoretical default risk and is set below the upper limit of the risk-bearing capacity. Finally, as part of the risk-bearing capacity calculation, the potential effects of existing risks on the theoretical default risk are determined and compared to the risk tolerance and risk-bearing capacity.

At the end of 2021, no significant risk potentials were identified that exceed the risk tolerance and thus also the risk-bearing capacity of the Company. The calculated theoretical probability of default is less than one percent of the defined limit for risk-bearing capacity. The probability of risks endangering the Company's existence is therefore considered to be extremely low. Based on the information available and the medium-term planning for key investments, there is no indication as at 31 December 2021 that the existing risk situation could endanger the future development or continued existence of PATRIZIA alone and the PATRIZIA Group.

5 Guidance

5.1 Future economic conditions

In 2021, there was a significant economic upswing, but growth was repeatedly slowed down by the Covid-19 pandemic. For 2022, we expect that the vaccination rate will continue to increase significantly, and the pandemic effects will weaken. We therefore expect robust growth in gross domestic products in Europe. As the economic recovery progresses, the labour market should also continue its positive development. At the time of publication of this report, it is however not possible to conclusively assess the effects that increased geopolitical risks like the Russian invasion of Ukraine as well as the further development of the Covid-19 pandemic will have on the general economic situation as well as on the markets relevant for PATRIZIA.

Interest rates in the euro area are not expected to rise significantly in 2022, even if the ECB's programme of bond purchases was to expire. Thus, fixed-income investments are expected to remain unattractive for investors searching for stable income, which further increases the demand for real estate from institutional investors.

In the real estate markets, it is becoming clearer which sectors and which sub-sectors offer sustainable investment opportunities with attractive returns. In the office sector, demand is moving towards modern, flexible spaces in top locations. Sub-sectors such as life science (real estate for science and research) will see increasing demand in the coming years.

In the retail sector, inner-city retail in particular has been affected by structural changes and the pandemic, but here too it seems evident that some markets are already offering investment opportunities again due to price corrections and returning investor’s activity. More resistant sub-sectors such as food retail or retail parks with food anchor are expected to continue to be on top of institutional investors' shopping lists despite yield compressions.

The logistics sector will also continue to face high demand. There is a trend towards the sub-sectors of cold storage, self-storage, urban logistics (last mile/last hour) or data centers, all of which are experiencing higher rental growth than the traditional hub logistics sector.

In the living sector, there is a trend towards alternative sub-sectors such as student housing, senior living and co-living, all of which are less subject to regulation. The demand for classic multi-family house investments remains high, but many European markets are increasingly exposed to regulations that limit rental growth. Alternative sectors, on the other hand, offer a return premium and thus compensate for higher (management) risks.

Overall, the European real estate markets are expected to offer numerous investment opportunities across all sectors. However, the regional sub-markets are very diverse. In order to identify where, when, which investment is target-oriented, market presence, profound market knowledge and operational excellence are indispensable for the successful development of portfolios and the implementation of successful investment strategies.
Source: PATRIZIA, PATRIZIA House View

For the infrastructure sector, we expect to see a continuation in energy transition in 2022 as nations look to honor their commitments to reach net zero carbon emissions by 2050. Whilst this transition will include continued investments in traditional renewable infrastructure such as wind and solar generation assets, we expect to see accelerated investment in broader renewable and energy transition assets, such as energy-from-waste, heat networks, distribution, carbon capture and storage, as well as hydrogen.

Furthermore, the persistence of Covid-19 has further cemented the continued need for digital infrastructure, with fast, reliable internet now considered an essential service, and the pandemic accelerating the structural shift towards digitalisation. Alongside expansive global public investment in infrastructure, such as President Biden’s newly signed flagship US$ 1.2 trillion infrastructure bill, we expect to see growing private infrastructure investment opportunities not only in broadband networks but also in data centers and smart city technology to help accommodate the global trend of urbanisation by increasing city efficiencies and sustainability.

5.2 Expected development of results of operations and assumptions concerning target attainment in 2022

PATRIZIA is entering the 2022 fiscal year with optimism and expects to once again successfully exploit market opportunities for its institutional, (semi-)professional and private investors in the form of attractive real estate and infrastructure fund products. On this basis, PATRIZIA expects another strong transaction performance, an increase in assets under management and thus a further increase in fee income from investment management as well as an even higher quality of total service fee income. At the time of publication of this report, it is however not possible to conclusively assess the effects that increased geopolitical risks like the Russian invasion of Ukraine as well as the further development of the Covid-19 pandemic will have on the general economic situation as well as on the markets relevant for PATRIZIA.

From the 2022 fiscal year, the financial performance indicators will be adjusted to allow investors and financial analysts better international comparability with other listed companies. Assets under Management will remain unchanged as a financial performance indicator. As of 1 January 2022, operating income will be replaced by EBITDA in reporting, while the Cost Coverage Ratio (CCR) will be replaced by the EBITDA margin as a new financial performance indicator. In addition, a guidance is also provided for management fees, transaction fees, performance fees, total service fee income, net sales revenues and co-investment income, net operating expenses, EBIT and EBT.

A guidance for operating income, Cost Coverage Ratio (CCR), depreciation and amortisation, net finance costs and other items and transaction volume (signed) is no longer provided as part of the adjustment of the financial performance indicators for the 2022 financial year.

The details of the guidance for the 2022 financial year are shown in the following table.

Guidance overview

		Last guidance 2021		Actual figures 2021	Actual figures 2021 adjusted[1]	Guidance 2022	
		min	max			min	max
Assets under Management	**EUR bn**	**50.0**	**53.0**	**48.6**		**57.0**	**60.0**
Management fees	EUR m	208.0	210.0	209.1	209.1	245.0	260.0
Transaction fees	EUR m	45.0	55.0	51.4	51.4	50.0	55.0
Performance fees	EUR m	80.0	90.0	85.9	81.9	50.0	60.0
Total service fee income	**EUR m**	**333.0**	**355.0**	**346.3**	**342.4**	**345.0**	**375.0**
Net sales revenues and co-investment income	EUR m	7.0	15.0	12.6	11.2	2.0	5.0
Net operating expenses	EUR m	-215.0	-225.0	-226.9	-224.7	-227.0	-235.0
Depreciation and amortisation, net finance costs and other items	EUR m	-10.0	-10.0	-13.8	-41.2	n.a.	n.a.
Operating income[2]	**EUR m**	**115.0**	**135.0**	**118.3**	**n.a.**	**n.a.**	**n.a.**
EBITDA[2]	**EUR m**			**128.9**	**128.9**	**120.0**	**145.0**
Earnings before interest and taxes (EBIT)	EUR m			93.3	93.3	81.5	106.5
Earnings before taxes (EBT)	EUR m			87.7	87.7	78.2	103.2
Cost Coverage Ratio (CCR)[3]	**%**			**120.7%**	**n.a.**	**n.a.**	**n.a.**
EBITDA margin[3]	**%**			**35.9%**	**36.5%**	**34.6%**	**38.2%**

[1] Not as previously adjusted for IFRS 9 and IFRS 16 items, non-capitalisable expenditure on forward investments and amortisation of fund management contracts.
[2] PATRIZIA introduced new key financial performance indicators for the Group as at 01.01.2022 - Operating income will be replaced by EBITDA. Please see chapter 1.4.2 for the definition of operating income and the derivation of the EBITDA.
[3] PATRIZIA introduced new key financial performance indicators for the Group as at 01.01.2022 - Cost Coverage Ratio (CCR) will be replaced by EBITDA margin. Please see chapter 1.4.2 for the definition of Cost Coverage Ratio (CCR) and the derivation of the EBITDA margin.

5.3 Expected development of net assets and financial position

PATRIZIA does not currently expect any significant changes in the Company's and Group's net assets and financial position in 2022. However, PATRIZIA also expects to have substantial cash and cash equivalents in 2022, which will significantly exceed the financial liabilities from the bonded loan.

5.4 Dividend policy

The Management Board and Supervisory Board of PATRIZIA AG are proposing that the unappropriated profit in accordance with the German Commercial Code (HGB) for the 2021 financial year in the amount of EUR 426.1m can be used to pay a dividend of EUR 0.32 per share, with the remaining amount being carried forward to new account. Based on the share of the IFRS consolidated net profit for 2021 attributable to shareholders of EUR 47.9m, this corresponds to a pay-out ratio of 61.7%. The year-on-year growth rate of management fees of 8.1% and the year-on-year growth rate of Assets under Management of 3.5% form the basis for the dividend proposal of the Management Board and Supervisory Board of PATRIZIA AG, which corresponds to a dividend increase of 6.7% compared to the previous year.

5.5 Management's overall assessment of the outlook for 2022

PATRIZIA set to enjoy further positive development in 2022

The results for the 2021 financial year confirmed PATRIZIA's strong market positioning as a partner for global real assets investments. Based on the planned organic and inorganic growth of the international platform, PATRIZIA is anticipating a further increase in recurring income compared to the previous year and an EBITDA of between EUR 120.0m and EUR 145.0m.

The outlook for 2022 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 and the combined management report were prepared.

At the time of publication of this report, it is not possible to conclusively assess the effects that increased geopolitical risks like the Russian invasion of Ukraine as well as the further development of the Covid-19 pandemic will have on the general economic situation as well as on the markets relevant for PATRIZIA.

Augsburg, 15 March 2022

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