



ASSET

Residential

PATRIZIA acquired this new apartment building project in Copenhagen in 2017.

The apartments are located in the popular Sydhavnen district. With its harbour location and proximity to the city centre, this district has become one of the most desirable residential areas in Copenhagen.



KEY FIGURES

LETTABLE AREA:
18,660 sqm

START OF CONSTRUCTION:
2017

COMPLETION:
2019

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Management Report

Combined Management Report of the Company and the Group

The Group management report has been combined with the management report of PATRIZIA Immobilien AG in accordance with section 315 (3) of the German Commercial Code (HGB) in conjunction with section 298 (2) HGB because the situation of PATRIZIA Immobilien 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 the euro.

1 Group Fundamentals

1.1 Business Model

PATRIZIA Immobilien AG is one of the leading independent real estate investment companies in Europe. Around 650 employees (FTE) are on hand for our investors in more than 15 European real estate markets. In addition, we are represented in New York, Hong Kong and Melbourne. PATRIZIA provides a wide range of services from asset management, portfolio management and implementation of purchase and sales transactions for almost all investment classes to alternative investments and project developments. As a result, investor preferences and requirements can be met extensively in a investor-specific way. Investors include private and institutional investors with a long-term focus such as insurance firms, pension fund institutions, sovereign funds and savings banks from all over Europe and Asia. PATRIZIA develops bespoke products for investors in line with their individual return expectations, diversification objectives and risk styles.

PATRIZIA's business model is to invest in attractive properties and real estate portfolios throughout Europe for institutional and private investors and, in some cases, in conjunction with institutional investors as a co-investor. As a result PATRIZIA generates fee income and investment income in three different categories:

THIRD-PARTY BUSINESS

In the context of third-party business, investment funds are placed and managed for private and institutional investors via the Group's own investment management companies. The funds are structured in such a way that PATRIZIA does not invest any of its capital. PATRIZIA generates stable, recurrent income through fees from investment management in relation to inter alia asset management as well as purchase and sales transactions. If individually defined return targets are exceeded, PATRIZIA also receives a performance-related fee. Third-party business additionally includes mandates in which PATRIZIA offers individual services from its extensive range.

CO-INVESTMENTS

On the basis of co-investments, PATRIZIA also participates in transactions with its investors using its own capital. Along with its commitment to the investor and the transaction, PATRIZIA generates investment income in addition to its income from management fees. This gives shareholders the opportunity to participate in the performance of an attractive real estate portfolio diversified across Europe.

PRINCIPAL INVESTMENTS

PATRIZIA operates as an investment manager for institutional and private investors, and therefore endeavours to avoid conflicts of interest with its own investments. Consequently, principal investments, i.e. own-account transactions, are generally undertaken either as interim financing for public funds or as early-phase investments with the purpose of subsequent contribution to institutional funds. There is also a residual holding of privatisation properties.

As at 31 December 2017, PATRIZIA managed real estate assets of EUR 21.9bn (31 December 2016: EUR 18.6bn). The volume managed solely on behalf of third parties totalled EUR 15.9bn (31 December 2016: EUR 11.6bn); the portfolio of co-investments in which PATRIZIA has an own-capital share of up to 10% fell to EUR 5.9bn as a result of sales (31 December 2016: EUR 6.9bn). Principal investments remained unchanged from the previous year at EUR 0.1bn (31 December 2016: EUR 0.1bn).

1.2 Group Strategy

PATRIZIA aims to be a leader in all real estate asset classes for its investors – in Germany and Europe. As an independent real estate company, PATRIZIA operates both for large institutional investors from all over the world and for German private investors, and provides extensive value added in all real estate segments. PATRIZIA aims to strengthen its position further, to steadily increase the assets under management and recurring income in future years, resulting in a long-term rise in operating income.

EXPANSION AND EXTENSION OF THE EUROPEAN PLATFORM

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

EXPANSION OF THE PRODUCT RANGE

The product line is subject to targeted expansion and now covers nearly all property asset classes: from residential, office, retail and logistics properties to hotels and care homes. PATRIZIA's Europe-wide platform provides ideal conditions to offer investments within the legal and regulatory framework preferred by the respective investors according to their local regulations. This expertise and its wide-ranging presence in Europe have helped to establish PATRIZIA among investors as an internationally successful brand.

EXPANSION OF THE NATIONAL AND INTERNATIONAL INVESTOR BASE

Relationships with investors have been and continue to be expanded worldwide. Local relationship representatives have been established in Australia, Hong Kong and the USA, and the European investor relationship team has been bolstered specifically for the Southern Europe and Scandinavia regions. The existing national investor base is also being expanded further in Germany. The aim is to build up a long-term, stable investor relationship as per that which PATRIZIA already enjoys with its existing, predominantly German investors. There is strong demand among these investors for the range of new products as well as advice on reinvesting sales proceeds from existing investments.

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 investors who have maintained and deepened their 30-year-plus business relationship with PATRIZIA, and who include more than 200 institutional investors in Germany and abroad. They invest with PATRIZIA regularly and recurrently, as the company outperforms its benchmarks. In addition, PATRIZIA has been offering public funds for private investors and semi-professional investors since 2016. Demand from this new investor group has been above expectations. Equity of EUR 206.5m was invested in six different funds in this sector in the first two years alone. Overall, investors entrusted PATRIZIA with new equity of EUR 2.0bn in the past financial year.

NETWORK ESTABLISHED THROUGHOUT EUROPE

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

EXTENSIVE REAL ESTATE VALUE CHAIN COVERED

PATRIZIA's investors receive an "all-round package" that includes all services and the entire value chain of the investment. Of course, individual components can also be selected from this range.

SUCCESSFUL TRACK RECORD ATTRACTS FURTHER TRANSACTIONS

PATRIZIA's successful transactions build its reputation. For instance, purchases and sales with a total volume of EUR 6.0bn were carried out last year, including EUR 2.5bn outside Germany. The substantially increased performance-related income in the 2017 financial year is testament to the track record of the real estate funds launched for institutional and private investors. The long-term value-added within a portfolio is one of the company's core strengths that pays off in the return generated for our investors. However, PATRIZIA's investors and business partners also value its prudent identification of opportunities in all real estate asset classes throughout Europe and fast, smooth handling of purchases and sales.

PATRIZIA HAS THE DNA OF AN INVESTOR

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

REPUTATION CREATES 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 investors and extending existing business relationships. That is why we firmly believe in fostering the PATRIZIA brand and earning the trust of investors with every investment.

1.4 Group Management and Performance Indicators

1.4.1 CORPORATE MANAGEMENT BY SEGMENT

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

1.4.2 CORPORATE MANAGEMENT ON THE BASIS OF FINANCIAL PERFORMANCE INDICATORS

PATRIZIA uses the following financial performance indicators for corporate management:

01

Financial performance indicators	Description
Assets under management (real estate assets)	The Group's growth is assessed on the basis of assets under management.
Operating income	Operating income is the Group's key management parameter. It is calculated as EBT in accordance with IFRS adjusted for non-cash effects from the measurement of investment property and unrealised currency effects, amortisation of fund management agreements as well as reorganisation expenses. It includes changes in the value of investment property realised on disposal and realised currency effects.

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

02

Further framework parameters	Description
Administrative fees	PATRIZIA receives recurrent service fees for managing the real estate assets.
Transaction fees	PATRIZIA receives a transaction volume-related fee for purchases or sales.
Performance-related fees	PATRIZIA receives performance-related remuneration if defined target returns on individual investments are exceeded.
Transaction volume	The transaction volume is the sum of purchases and sales.
Investment Income	Return on own capital employed.
Equity raised	For the various investments, equity is raised from institutional and private investors.

The development of these indicators is detailed in item 2.2.

1.4.3 CORPORATE MANAGEMENT ON THE BASIS OF NON-FINANCIAL PERFORMANCE INDICATORS

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

1.5 Non-financial Statement

1.5.1 THE PATRIZIA SUSTAINABILITY STRATEGY (ENVIRONMENTAL SOCIAL AND GOVERNANCE – ESG)

PATRIZIA's sustainability strategy is aimed at incorporating social and environmental criteria in the stakeholder dialogue and value creation in order to meet international regulations and be equipped for future challenges in Europe. Our strategy was developed on the basis of international guidelines such as the Global Reporting Initiative (GRI), and the targets of the United Nations Environment Programme (UNEP).

Overview of actions and goals of PATRIZIA's ESG strategy

G01

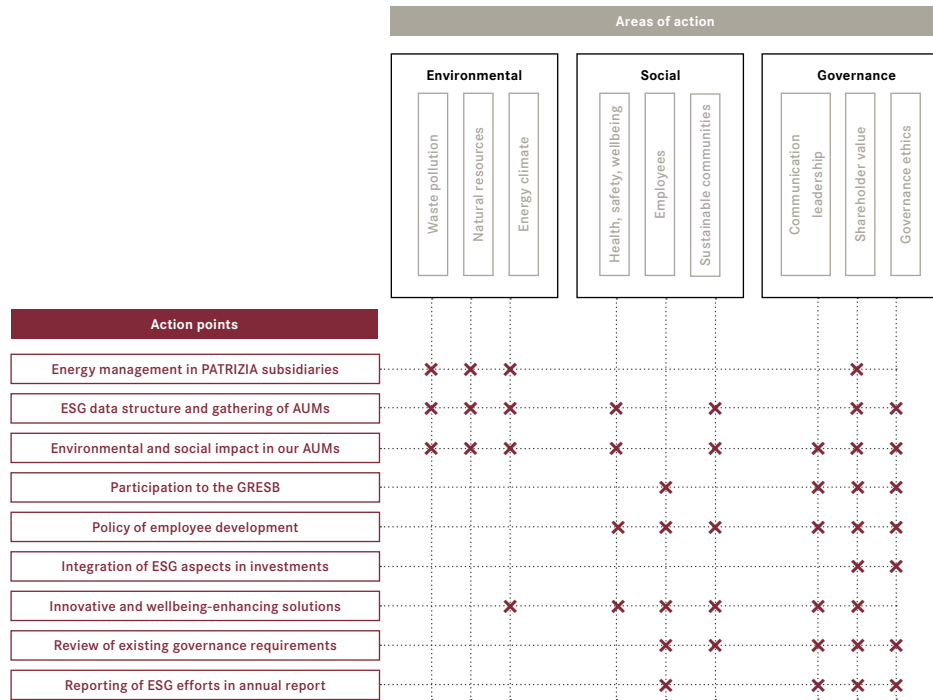
Action points	Description
Energy management in PATRIZIA subsidiaries	Collect and increase energy efficiency in subsidiaries
ESG data structure and gathering of AUMs	Define data scope, collect data on AuM and minimize operative risks
Environmental and social impact in our AUMs	Identify current projects and enhance impact at our AUM
Participation to the GRESB	Participate to GRESB, obtain benchmark and implement recommendations
Policy of employee development	Set boundaries in recruitment, promotion and training of employees
Integration of ESG aspects in investments	Review of operational DD, PM contracting and insurances/legal
Innovative and wellbeing-enhancing solutions	Identification of innovative and wellbeing-enhancing solutions
Review of existing governance requirements	Review of governance requirements including corruption, child labour, etc.
Reporting of ESG efforts in annual report	Report ESG efforts in annual report



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How are the action points transferred to the areas of action?

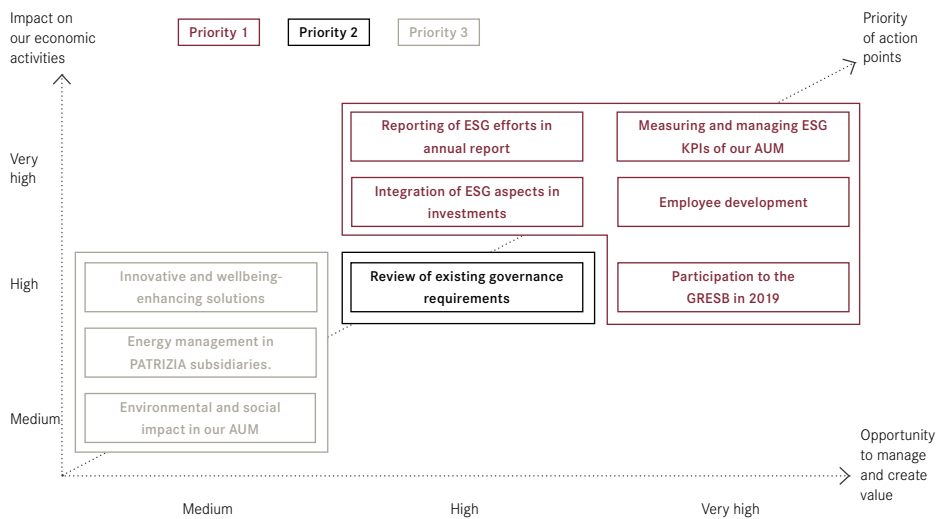
G02



X = The action has an impact on the marked area of action

PATRIZIA Materiality matrix

G03



The ESG strategy is managed by CEO Wolfgang Egger and CIO Anne Kavanagh. In addition, PATRIZIA has an ESG working group that is responsible for dealing with the requirements of internal and external stakeholders, adapting and extending the ESG strategy and identifying relevant interfaces within the PATRIZIA organisational units. A steering committee monitors the results. The working group meets at the end of each quarter and gives the steering committee recommendations for successful implementation of the ESG strategy.

When purchasing properties, PATRIZIA focuses on the risks and opportunities identified by the assessment of sustainability aspects in conjunction with legal, technical and financial due diligence. The sustainability assessment enables the company to identify potential value drivers in asset management and assesses the overall feasibility of investments rather than weighting individual value drivers.

PATRIZIA has developed a sustainability assessment aimed at identifying risks and opportunities in the management of properties. This assessment is based on five aspects with a total of 21 individual criteria:

- Economic aspects
- Environmental aspects
- Cultural and social aspects
- Technical aspects
- Functional aspects

This catalogue is integrated in the due-diligence process when buying properties. The sustainability assessment is based on a simplified version of international guidelines on green-building certificates such as LEED and DGNB, and gives the acquisitions team an initial indication of sustainability performance and the elements to be taken into account when managing real estate assets. It is primarily focused on residential and commercial properties rather than logistics, care homes and hotels.

The acquisition of residential real estate is strictly regulated in Europe. Since around 2009, condominium owners who wish to operate residential buildings have been obliged to show the buyer their energy performance certificate (EPC). EPCs are a key element in assessing a building's energy consumption. Depending on the investment strategy - with regard to buy-to-hold or buy-to-refurbish - PATRIZIA relies on EPCs so that it can assess the property value. In addition, PATRIZIA complies with the building provisions in each country, using specialist local teams and local contractors with knowledge of regional regulations.

1.5.2 EMPLOYEE MATTERS

Our success is founded on the qualifications and strengths of our employees. Our investors benefit from the variety of skills, experience and characters of our employees. We endeavour to create an environment in which everyone can fulfil all their potential and in which differences are acknowledged and respected. We help our employees to perform their tasks as well as possible, and are proud of our partnership-based corporate culture.

As an employer, we delegate a high degree of decision-making authority and responsibility to our employees. Consequently, we give them the scope to evolve and enhance their knowledge, experience and characters. In doing so, we foster their identification with the corporate objectives and

their application for our investors. That is what we mean by “the PATRIZIA spirit”. We help them to find the right place in one of our many business units and Europe-wide locations.

To pursue our business strategy and keep on growing, we rely on attracting and retaining the best talents in a competitive employment market. That is why we invest in training.

We train our young talents and offer them the following options:

- Dual training
- Dual-study courses
- International management trainee programme
- Internships, theses and student employee positions

In Germany, the training rate (dual training and dual-study courses) was just under 5% in the year under review. We work closely with universities and schools, regularly attend university careers fairs and network meetings, and offer numerous internships, theses and student employee positions.

We promote targeted development of our employees through:

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

To help our employees balance family and work and foster their health, PATRIZIA offers flexible working-hours arrangements (the part-time rate is 30% in Germany for instance), and various location-specific services, such as the following at all German locations:

- Kindergarten allowance
- Child care from pme Familienservice
- Health and fitness options

An open culture of discussion is a priority for us, as is a regular exchange between our employees. We promote this exchange in a highly targeted way through various events such as:

- Employee orientation day for all new PATRIZIA staff
- “PATRIZIA Knowledge”
- Annual Employee Day
- “Insights” (seeing how other teams work)

As well as team spirit, this creates synergies for our projects. PATRIZIA's values also include innovation and diversity. Our international and multicultural company thrives on the combination of different perspectives that ensure our long-term success.

We give our employees equal opportunities regardless of race or ethnic origin, gender, religion or ideology, disability, sexual identity or age. Appointments, promotions and level of remuneration are based solely on employees' qualifications and experience. In addition, on signing their employment contract, all managers and employees are obliged to refrain from discrimination on the above grounds.

The share of women in the workforce is 50%. There is a balanced age structure: just under 17% of employees are under 30 years old, 65% are aged between 30 and 50, and just under 18% are over 50 years of age. The diversity of nationalities, cultures and languages is a major strategic advantage for us. In the reporting year we had a total of 28 different nationalities.

With women accounting for just under 6% of first-tier management posts and just under 27% in the second tier, we are close to the targets we set in 2015.

1.5.3 COMBATING CORRUPTION AND FRAUD

Compliance with anti-bribery and corruption legislation is essential to avoiding penalties and reputational damage as well as to ensuring long-term corporate success, and is therefore also hugely relevant to PATRIZIA. For all companies in Germany, PATRIZIA has introduced a code of values and a compliance manual that contain extensive regulations and standards relating to anti-bribery and corruption. In addition, compliance training sessions that particularly cover these two issues have been held for all employees in Germany.

1.5.4 SOCIAL ISSUES

For PATRIZIA, assuming social responsibility outside of the actual business model is part of being a responsible, sustainably operating company. PATRIZIA KinderHaus-Stiftung builds schools, children's hospitals and orphanages all over the world. PATRIZIA Immobilien AG applies its real estate expertise here in order to give children educational, medical and social aid. Corporate giving covers all the foundation's administrative costs, meaning that all donations go entirely towards project work. PATRIZIA KinderHaus-Stiftung currently helps over 15,000 children a year in ten different countries in its 15 projects. Managers from the company serve as Board members of the foundation in a voluntary capacity. In addition, the full-time foundation team is supported by employees from various departments (e.g. HR, Marketing, IT and Accounts). Meaningful performance indicators cover the social impact (including the number of children reached and the number of projects) as well as the volume of donations.

1.5.5 HUMAN RIGHTS

In terms of respecting human rights, PATRIZIA sees no particular relevance to its business model due to its regional focus. PATRIZIA complies with appropriate safety practises and avoids forced and child labour.

1.5.6 SIGNIFICANT RISKS

Significant risks in not pursuing the PATRIZIA sustainability strategy and not complying with the requirements in the areas of employee matters, combating corruption and fraud, social issues and human rights are:

- a. Loss of staff and increased fluctuation
- b. Reputation risks
- c. Increased competitive pressure and loss of market share
- d. Legal risks

For information on further risks, see 4.3.2 Operational risks.

2 Economic Report

2.1 Economic Environment

The markets in general: The upturn in the European economy that was observed in 2016 continued at the same pace in 2017. This was supported by growth in global trade, which was driven by the developed industrialised nations in particular. Employment in Europe increased once again, accompanied by moderate wage growth. This led to an upturn in private consumption that made a significant contribution to economic expansion in the euro zone. Investment activity was also boosted by the ECB's monetary policy measures. In the euro zone, full-year GDP growth of around 2.2% is forecast for 2017, followed by around 2.1% in 2018. Inflation increased to 1.5% in 2017 and is expected to amount to 1.4% in the current year.

Real estate markets: European real estate continues to be an extremely popular investment choice for institutional and private investors alike. The European real estate transaction volume increased by 13.0% to the previous year, from EUR 238.7bn to EUR 269.8bn. The lack of profitable alternative investments and the favourable financing environment led to a high level of investment activity on the real estate markets that was frequently only curbed by limited product availability. With a shortage of suitable products and a continued downturn in yields in the top locations, investors increasingly focused on secondary locations. Although yield compression can also be observed in these secondary locations, they offer higher yields than their more prestigious counterparts. The European real estate markets are expected to see further yield compression, albeit at a significantly reduced level. This applies to the top locations in particular.



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Source: Reuters, EZB



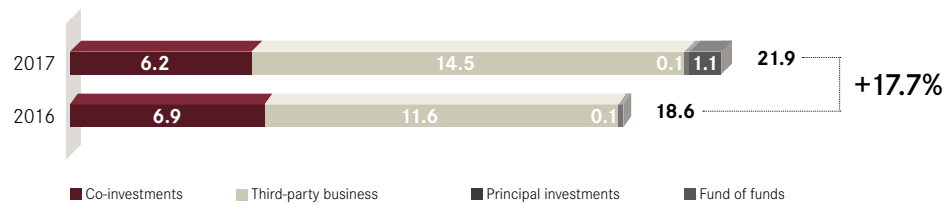
Source: RCA, Reuters, Brokers

2.2 Course of Business

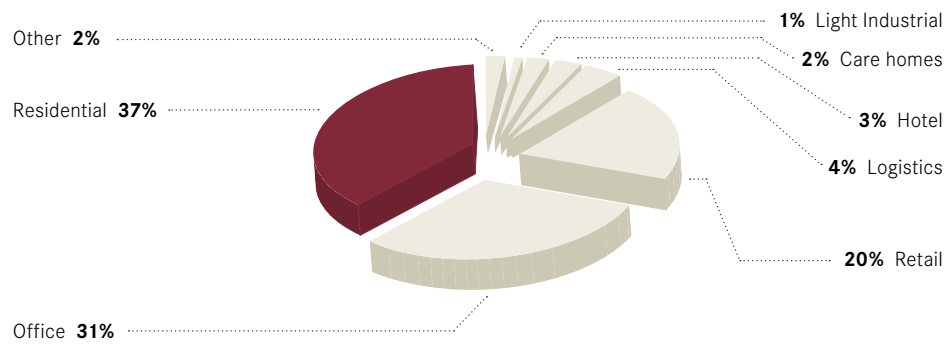
DEVELOPMENT OF FINANCIAL PERFORMANCE INDICATORS

As at 31 December 2017, PATRIZIA had real estate assets under management of EUR 21.9bn compared with EUR 18.6bn at the end of the previous year. EUR 15.5bn of this figure is related to Germany, with assets outside Germany accounting for the remaining EUR 6.4bn. Assets under management increased by a total of EUR 3.3bn or 17.7% in the period under review. Of this figure, EUR 1.1bn was attributable to the acquisition of Sparinvest Property Investors (fund of funds business). This means the target of organic growth of around EUR 2.0bn p.a. was exceeded.

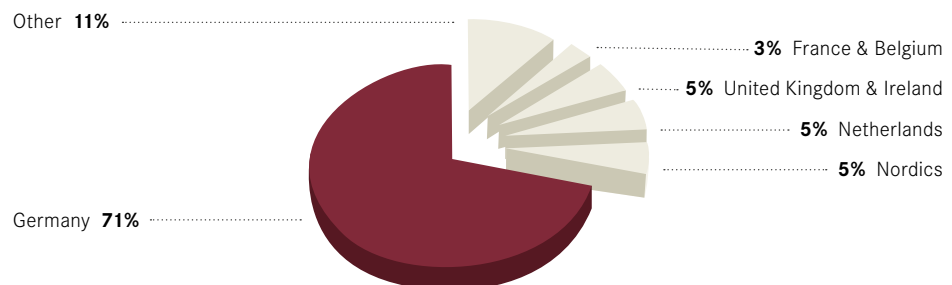
Assets under management (EUR bn) G04



Assets under management as at 31.12.2017 – Sectoral distribution G05



Assets under management as at 31.12.2017 – Geographical distribution G06



Operating income (EUR m)

G07



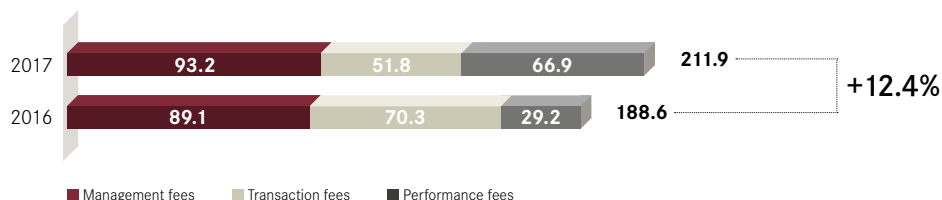
Operating income increased by 13.8% to EUR 82.2m in the 2017 financial year (2016: EUR 72.2m), thereby significantly exceeding the upwardly revised forecast of just over EUR 75.0m issued in November 2017. The increase was attributable to higher than expected performance-based income from two co-investments. The prior-year amount was adjusted for the earnings contribution from the disposal of the Harald portfolio. The Harald portfolio was acquired by PATRIZIA in May 2015 and resold in early 2016 for a net profit of around EUR 200m.

Operating income is the Group's key management parameter. It is calculated as EBT in accordance with IFRS adjusted for non-cash effects from the measurement of investment property and unrealised currency effects, amortisation of fund management agreements as well as reorganisation expenses. It includes changes in the value of investment property realised on disposal and realised currency effects.

Development of the parameters supporting the management of the company:

Total service fee income (EUR m)

G08



Total service fee income increased by 12.4% to EUR 211.9m in the year under review (2016: EUR 188.6m). The individual components of total service fee income are discussed below:

MANAGEMENT FEES

All the services performed by PATRIZIA are compensated in the form of fees. Management fees comprise the company's remuneration for real estate-related services such as asset, fund and portfolio management and are mostly recurring in nature. Management fees of EUR 93.2m were reported in the 2017 financial year (2016: EUR 89.1m; +4.7%). The prior-year figure included EUR 10.5m in property management fees that are no longer recognised following the sale of property management business at the start of 2017. However, the property management fees have already been more than offset by the increase in management fees for the higher volume of real estate assets under management, which rose by around 18.7% as against the previous year on a like-for-like basis.

TRANSACTION FEES

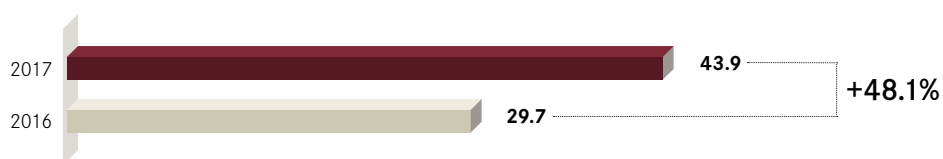
PATRIZIA receives a fee for acquisition and disposal transactions in line with market conditions. At EUR 51.8m, transaction fees for the past year were lower than the extremely strong prior-year figure (2016: EUR 70.3m; -26.4%) but in line with the average for the financial years since 2012 (EUR 54.1m). Acquisitions accounted for EUR 31.4m of the transaction fees recorded (2016: EUR 48.1m; -34.7%), with EUR 20.3m attributable to disposals (2016: EUR 22.2m; -8.6%).

PERFORMANCE FEES

PATRIZIA receives performance-based compensation if defined target investment yields are met or exceeded. In the year under review, performance fees increased significantly by 129.4% to EUR 66.9m (2016: EUR 29.2m).

Investment income (EUR m)

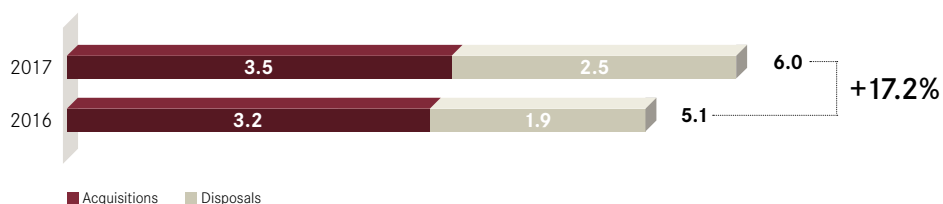
G09



PATRIZIA generated investment income of EUR 43.9m in the year under review after EUR 29.7m in the previous year. This figure includes principal investments (investments for the company’s own account) and co-investments. Income from principal investments includes corresponding net sales as well as rental income included in revenues. Income from co-investments is reported in the result from participations.

Transaction volume (EUR bn)

G10



The transaction volume is composed of the real estate acquisitions and disposals realised. Acquisitions of EUR 3.5bn and disposals of EUR 2.5bn were realised in 2017. The total transaction volume increased by 17.2% compared with the previous year..

Equity raised (EUR bn)

G11



In the period under review, equity of EUR 2.0bn was raised from institutional investors for various national and international investments, compared with EUR 2.2bn in the previous year (-9.1%)

PATRIZIA'S BUSINESS MODEL

PATRIZIA's core business is Europe-wide real estate investment management for institutional and private investors. PATRIZIA generates service fee income for the services performed and investment income from its co-investments and principal investments. Accordingly, the company's activities can be broken down into the following three categories:

2.2.1 THIRD-PARTY BUSINESS

In its third-party business, PATRIZIA uses its own regulated and unregulated platforms to structure, place and manage investment assets for institutional investors and private investors. These funds are launched without any equity investment on the part of PATRIZIA. PATRIZIA generates stable, recurring income in the form of management service fees for property management as well as acquisition and disposal transactions. PATRIZIA also receives a performance-based fee if defined individual yield targets are exceeded. All in all, third-party business accounted for EUR 15.9bn of PATRIZIA's assets under management as at 31 December 2017.

PATRIZIA INVESTMENT MANAGEMENT COMPANIES

The funds act as holding agents. The properties held by the funds have a planned initial holding period of between seven and ten years. Various PATRIZIA operating units act as service providers on behalf of the funds of the three German investment management companies (KVG) and the Luxembourg-based regulated platform (AIFM), thereby generating fee income.

PATRIZIA WohnInvest KVG mbH primarily invests in residential real estate, while **PATRIZIA GewerbeInvest KVG mbH** invests in commercial real estate. Both companies have a European focus and launch special real estate funds for institutional investors.

PATRIZIA GrundInvest KVG mbH bundles the Group's activities in the area of closed-end private investor funds. In its second full financial year after obtaining its licence, it placed four closed-end private investor funds with an equity volume of EUR 131.2m on the market in full. 2017 also saw the launch of two new funds allowing private investors to invest in commercial real estate in Munich and Mainz, as well as real estate acquisitions in the Rhine-Ruhr metropolitan region, Garmisch-Partenkirchen and Dresden with a view to the launch of additional fund products. With these activities, closed-end private investor funds business again made a contribution to PATRIZIA's revenues and earnings and will continue to positively support the Group's development in the future.

PATRIZIA Real Estate Investment Management S.à.r.l. (REIM) acts as a European platform for German and international institutional investors.

SINGLE-ASSET MANDATES FOR THIRD PARTIES

PATRIZIA's third-party business also includes single-asset mandates, which accounted for a total volume of around EUR 3.5bn as at 31 December 2017. The increase as against the previous year is attributable to the acquisition of the Commerzbank Tower in Frankfurt / Main, which was signed in 2016 on behalf of a Korean investor but not closed until mid-2017, as well as the fund of funds business of PATRIZIA Multi Managers (formerly Sparinvest Property Investors), which was acquired in October 2017 and included in this item for the first time at the end of the year.

PATRIZIA third-party business as at 31.12.2017

03

EUR m	Assets under management	Equity commit- ments	of which equity already invested	of which outstanding	Number of vehicles
Third-party business	15,925	11,286	9,682	1,604	59

2.2.2 CO-INVESTMENTS

PATRIZIA uses co-investments to participate in real estate investments in the value-add and opportunistic segments with its own capital alongside that of its investors. As well as committing to the investor and the transaction, PATRIZIA generates service fee income in the same way as from its third-party business in addition to investment income. In this way, PATRIZIA's shareholders are given the opportunity to participate indirectly in the value development of an attractive real estate portfolio. Co-investments accounted for EUR 5.9bn of PATRIZIA's assets under management as at 31 December 2017. PATRIZIA has invested EUR 0.2bn of its own equity in co-investments.

PATRIZIA's co-investments are listed below:

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Name	Description	AUM EUR m	PATRIZIA equity interest
GBW GmbH	GBW, formerly the housing company of BayernLB, was acquired in 2013 for a group of German-speaking investors with a long-term focus for a price of EUR 2.4bn. The aim is the long-term, value-adding management of the portfolio, which contains properties located throughout Bavaria. There were no significant changes in this co-investment in the 2017 financial year.	3,958	5.1%
WohnModul I SICAV-FIS	The investments held by this co-investment include residential and commercial properties throughout Europe. The co-investment developed as follows in the 2017 financial year: <ul style="list-style-type: none"> - Netherlands: In the Netherlands, 61 properties were sold from the existing portfolio of 138 properties. - Munich: A large-scale development of building land in Sendling was sold. - Ireland: A residential building in Dublin containing 62 apartments was sold. - Düsseldorf: A large-scale development of building land in Gerresheim was notarised for sale. - Development projects in Germany: Two projects in two German cities are currently in different phases of development. - Denmark: A residential building in Copenhagen containing 128 apartments and four commercial units was acquired. 	1,438	10.1%
Alliance	German retail portfolio comprising 66 supermarkets, discount stores and specialist stores acquired on 29 December 2017.	205	5.1%
Seneca	Portfolio comprising 78 specialist stores and supermarkets.	201	5.1%
PATROffice Real Estate GmbH & Co. KG	This is an actively managed co-investment together with Dutch and Danish pension funds. The exit phase and the sale of the assets began in 2013. Properties with a value of EUR 157.0m were sold in 2017. The properties not yet sold by the company will be notarised in the near future and the equity returned.	48	6.3%
Co-investments in the United Kingdom	The industrial parks held together with Oaktree Capital Management at key locations, including in the London area, were largely sold in the year under review. The remaining properties of Citruz Holdings LP are also scheduled to be sold in the course of 2018.	11	10.0%
Harald	This involves investments in a real estate portfolio entered into in conjunction with the sale of the Harald portfolio in 2016. The investments are held for at least five years and compensated in the form of a minimum guaranteed dividend.	/	5.1%
sono west	sono west is a development of OFB Projektentwicklung GmbH for an office property in the Westend neighbourhood of Frankfurt / Main. The ground-breaking ceremony took place on 21 July 2017 and the building is expected to be completed by the end of 2018. The buyer is Generali Real Estate.	/	28.3%

2.2.3 PRINCIPAL INVESTMENTS

As an investment manager for institutional investors and private investors, PATRIZIA strives to avoid conflicts of interest with its own investments. Principal investments, i.e. transactions for the company's own account, are therefore only conducted as interim financing for mutual funds or as early-phase investments to be contributed to institutional funds at a later date. The company also has residual holdings of properties for resale. Principal investments amounted to EUR 0.1bn as at 31 December 2017.

Principal investments developed as follows in 2017:

MANCHESTER FIRST STREET

In the year under review, PATRIZIA successfully pressed ahead with restaurants and various leisure facilities at this location, which has now been fully let, and continued work on the pre-development phase for a residential plot. PATRIZIA also held two undeveloped plots at the reporting date.

OTHER PRINCIPAL INVESTMENTS

The resale of the principal investments at Sudermannzentrum and Wildrosenweg in Munich continued, while the other holdings in Munich, Cologne and Mannheim were also reduced further.

Extensive pre-development work took place at the development project acquired in the attractive London borough of Barking in May 2016, where the plan is to develop around 200 smaller residential units in a 28-storey building.

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



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2.3 Economic Situation

2.3.1 GENERAL STATEMENT BY THE MANAGING BOARD

In the 2017 financial year, PATRIZIA again enjoyed considerable success on the European real estate markets. The company's net assets, financial position and results of operations continued to develop extremely positively, thereby providing strong foundations for the further implementation of its strategic objectives.

Operating income increased by 13.8% year-on-year to EUR 82.2m (2016: EUR 72.2m). Following a successful fourth quarter, this meant that operating income exceeded the upwardly revised full-year forecast of "slightly above" EUR 75m issued towards the end of the financial year. This positive development was primarily attributable to the unexpectedly pronounced increase in performance fees to EUR 66.9m.

Fee income totalled EUR 211.9m, up 12.4% on the comparable prior-year figure of EUR 188.6m. Management fees increased by 4.7% to EUR 93.2m despite the fact that fees of around EUR 10.5m were no longer recognised in 2017 following the sale of property management business line. Adjusting the prior-year figure for these property management fees, growth amounted to 18.7% on a like-for-like basis. In other words, increased fee income due to the higher volume of assets under management more than offset the fees lost as a result of the sale of property management. At EUR 51.8m, transaction fees were down on the extremely high prior-year level but were in line with the strong average figure recorded in recent years.

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EUR m	2017	2016	Change
Management fees	93.2	89.1	4.7%
Transaction fees	51.8	70.3	-26.4%
Performance-based fees	66.9	29.2	129.4%
Total fee income	211.9	188.6	12.4%

Assets under management also saw stronger than anticipated growth. Organic growth accounted for a year-on-year increase of EUR 2.2bn or 11.8%. Including the fund of funds provider PATRIZIA Multi Managers (formerly Sparinvest Property Investors), real estate assets under management totalled EUR 21.9bn at the end of 2017. Taking into account the acquisitions of TRIUVA and Rockspring Property Investments Managers, assets under management more than doubled compared with the end of 2016 to around EUR 39bn on a pro forma basis.

A **transaction volume** of EUR 6.0bn was generated in the year under review, up 17.2% on the prior-year figure of EUR 5.1bn. The growth in the transaction volume serves as an impressive demonstration of our ability to identify and take advantage of attractive investment opportunities throughout Europe on behalf of our investors around the world. All in all, real estate acquisitions with a volume of EUR 3.5bn were conducted throughout Europe, an increase of 7.2% as against the previous year (2016: EUR 3.2bn). Disposals amounted to EUR 2.5bn, up 34.8% year-on-year (2016: EUR 1.9bn).

ISSUE OF A BONDED LOAN

On 22 May 2017, PATRIZIA issued a bonded loan with a volume of EUR 300.0m. The issue enjoyed an extremely positive response on the market and was several times oversubscribed. The bond is structured in three tranches of five, seven and ten years and has a partially fixed and partially variable interest rate, corresponding to an average interest rate of 1.50% p.a. The additional liquidity generated from the bonded loan will increase the company's financial flexibility for further organic and inorganic growth. The issue volume and the extremely attractive conditions serve to underline PATRIZIA's earnings strength and robust capital structure. The liquidity available for further growth, including the funds generated from the bonded loan, amounted to EUR 576.2m as at 31 December 2017.

ISSUE OF BONUS SHARES

The Annual General Meeting of PATRIZIA Immobilien AG on 22 June 2017 approved the management's proposal to carry forward the unappropriated profit for 2016 to new account in full and resolved a capital increase from company funds in a ratio of 10:1. The amendment to the Articles of Association was entered in the commercial register of the company on 5 July 2017. The new shares were granted to the qualifying shareholders after the close of trading on 20 July 2017. The first day of trading for the new shares was 21 July 2017. Following the issue of the bonus shares, the company's share capital amounted to EUR 92,351,476, of which parts were used as acquisition currency in the fourth quarter of 2017.

SHARE BUY-BACKS

PATRIZIA announced a public share buy-back offer on 8 August 2017. The acceptance period ended on 7 September 2017. In the course of the share buy-back offer, the company purchased a total of 2,011,980 treasury shares at a purchase price of EUR 17.40 per share. A final share buy-back program announced on 13 September 2017 with a volume of up to EUR 15.0m concluded on 30 October 2017. PATRIZIA therefore bought back a total of 2,860,851 of its own shares in the year under review.

ACQUISITIONS

In the fourth quarter of 2017, PATRIZIA substantially strengthened its business model with the announcement of three strategically important acquisitions and significantly expanded the product and investment opportunities available to its institutional and private investors.

- 1) 12 October 2017: Announcement and closure of the acquisition of Sparinvest Property Investors, a leading provider of fund of funds products domiciled in Copenhagen, Denmark.
- 2) 12 November 2017: Announcement of the acquisition of TRIUVA, a leading provider of real estate investments in Europe domiciled in Frankfurt / Main. The acquisition was closed on 1 January 2018.
- 3) 19 December 2017: Announcement of the acquisition of Rockspring, an international investment manager domiciled in London, United Kingdom. The acquisition is scheduled to be closed at the end of March 2018.

Taken together, these acquisitions represent important steps on PATRIZIA's path to becoming the leading global provider of real estate investments in Europe. They serve to expand product diversity for our institutional and private investors, improve access to the European property market through a substantially stronger European platform and increase our assets under management significantly to EUR 38.7bn on a pro forma basis, more than double the amount reported at the end of 2016.

2.3.2 RESULTS OF OPERATIONS OF THE GROUP

To ensure transparency and comparability, PATRIZIA's results of operations are adjusted for the effects of the sale of the Harald portfolio in 2016. While there were no such effects in 2017, the following section presents the prior-year figures in both adjusted and unadjusted form. The discussion of the development of the Group's results of operations refers solely to the adjusted figures.

OPERATING INCOME

Operating income is the Group's key management parameter. It represents the total of all of the operating items in the income statement adjusted for the extraordinary and non-cash effects presented below. In the 2017 financial year, PATRIZIA again succeeded in increasing its operating income significantly. After EUR 72.2m in the previous year, operating income rose by 13.8% to EUR 82.2m in the year under review. The table below shows the detailed reconciliation and development of operating income:

Reconciliation of operating income – 12 months

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EUR k	2017	2016 adjusted ¹	Change	2017	2016	Change
EBITDA	95,788	56,236	70.3%	95,788	328,114	-70.8%
Amortisation of other intangible assets ² and software, depreciation of equipment	-8,681	-6,134	41.5%	-8,681	-6,134	41.5%
EBIT	87,107	50,102	73.9%	87,107	321,980	-72.9%
Financial income / expenses	-4,232	-2,523	67.7%	-4,232	-4,304	-1.7%
Result from currency translation	-2,747	-5,644	-51.3%	-2,747	-4,029	-31.8%
EBT	80,128	41,935	91.1%	80,128	313,647	-74.5%
+ Amortisation of other intangible assets ²	4,939	1,968	151.0%	4,939	1,968	151.0%
- Changes in value of investment property	-6,748	-431	1,465.7%	-6,748	-431	1,465.7%
Harald - Transaction-related taxes and minority interests	0	0		0	-61,482	-100.0%
Realised changes in value of investment property (net)	386	1,529	-74.8%	386	1,529	-74.8%
Reorganisation expenses	2,330	20,406	-88.6%	2,330	20,406	-88.6%
Expenses / income from unrealised currency translation	1,150	6,812	-83.1%	1,150	7,539	-84.7%
Operating income	82,185	72,219	13.8%	82,185	283,176	-71.0%

¹ adjusted = excluding the Harald portfolio

² In particular fund management agreements transferred as part of the acquisition of PATRIZIA GewerbeInvest KVG mbH

The increase in operating income is primarily due to the higher level of fee income, which has become PATRIZIA's main source of income following the expansion of its investment management business. By contrast, income from the sale of properties held by the company and the corresponding income are declining steadily in line with the strategy adopted.

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

CONSOLIDATED INCOME STATEMENT

PATRIZIA's earnings figures at a glance

07

EUR k	2017	2016 ¹	Change
Revenues	249,574	325,417	-23.3%
Total operating performance	227,651	226,916	0.3%
EBITDA	95,788	56,236	70.3%
EBIT	87,107	50,102	73.9%
EBT	80,128	41,935	91.1%
Operating income	82,185	72,219	13.8%
Consolidated net profit	58,898	27,743	112.3%

¹ adjusted = excluding the Harald portfolio

REVENUES

PATRIZIA's revenues declined from EUR 325.4m in the previous year to EUR 249.6m in the year under review. Revenues from management services, which account for the majority of fee income, increased in line with our more pronounced focus on investment management services. At the same time, rental revenues and revenues from ancillary rental costs declined in line with our strategy of reducing our own property holdings.

Revenues – 12 months

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EUR k	2017	2016 adjusted ¹	Change	2017	2016	Change
Revenues from management services	180,915	161,261	12.2%	180,915	161,261	12.2%
Proceeds from the sale of principal investments	56,680	143,705	-60.6%	56,680	629,799	-91.0%
Rental revenues	7,773	11,992	-35.2%	7,773	18,509	-58.0%
Revenues from ancillary costs	2,252	4,171	-46.0%	2,252	4,021	-44.0%
Other	1,954	4,288	-54.4%	1,954	4,289	-54.4%
Consolidated revenues	249,574	325,417	-23.3%	249,574	817,879	-69.5%

¹ adjusted = excluding the Harald portfolio

Revenues from management services increased by a substantial 12.2%, from EUR 161.3m in the previous year to EUR 180.9m in the period under review. However, revenues alone have only limited information value; the profit and loss items below consolidated revenues must also be taken into account in order to fully assess the Group's performance.

Including the income from the co-investment GBW GmbH and the business parks held together with Oaktree, both reported in income from participations, fee income amounted to EUR 211.9m, an increase of 12.4% on the comparable prior-year figure of EUR 188.6m. Management fees increased by 4.7% to EUR 93.2m despite the fact that fees of around EUR 10.5m were no longer recognised in 2017 following the sale of property management. At EUR 51.8m, transaction fees were down on the extremely high prior-year level but were in line with the strong average figure recorded in recent years. Performance fees increased significantly to EUR 66.9m.

Reporting income from participations as a separate item results in the following breakdown of fee income:

Total fee income – 12 months

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EUR m	2017	2016	Change
Management fees (excluding income from participations)	83.7	79.6	5.2%
Transaction fees	51.8	70.3	-26.4%
Performance-related fees (excluding income from participations)	45.4	11.4	299.7%
Revenues from management services	180.9	161.3	12.2%
Income from participations (pro rata)	31.0	27.3	13.5%
Total fee income	211.9	188.6	12.4%

Proceeds from the sale of principal investments declined from EUR 143.7m in the previous year to EUR 56.7m. In 2017, proceeds were generated from the sale of an office building in Glasgow, United Kingdom, and the ongoing resale of properties from the housing portfolio in Germany in particular. The prior-year figure primarily contained the sale of a principal investment in Manchester, United Kingdom.

PATRIZIA generated **rental revenues** of EUR 7.8m in the period under review compared with EUR 12.0m in the 2016 financial year. The year-on-year decrease is due in particular to the reduction in the number of rental properties held by the company (principal investments) due to disposals, as well as the transfer to mutual funds of properties that were recognised temporarily and hence only generated rental revenues for PATRIZIA on a temporary basis.

Revenues from ancillary costs relate to rental ancillary costs and amounted to EUR 2.3m in the period under review (2016: EUR 4.2m).

Other primarily contains transaction costs oncharged to the respective investment vehicles. This item declined from EUR 4.3m in the previous year to EUR 2.0m in the 2017 financial year.

TOTAL OPERATING PERFORMANCE

Total operating performance reflects PATRIZIA's operating performance more comprehensively than revenues. Relevant parameters, such as changes in inventories – which must be viewed in relation to proceeds from the disposal of principal investments, among other things – are taken into account in total operating performance. PATRIZIA's total operating performance in the year under review was largely unchanged year-on-year at EUR 227.7m (2016: EUR 226.9m).

Reconciliation of total operating performance – 12 months

10

EUR k	2017	2016 adjusted ¹	Change	2017	2016	Change
Revenues	249,574	325,417	-23.3%	249,574	817,879	-69.5%
Income from the sale of investment property	691	1,542	-55.2%	691	1,542	-55.2%
Changes in inventories	-39,909	-115,133	-65.3%	-39,909	-502,018	-92.1%
Other operating income	17,294	9,903	74.6%	17,294	14,252	21.3%
Income from the deconsolidation of subsidiaries	1	5,187	-100.0%	1	194,730	-100.0%
Total operating performance	227,651	226,916	0.3%	227,651	526,385	-56.8%

¹ adjusted = excluding the Harald portfolio

INCOME FROM THE SALE OF INVESTMENT PROPERTY

PATRIZIA generated income of EUR 0.7m from the sale of investment property in the 2017 financial year after EUR 1.5m in the previous year. The significant year-on-year decrease of 55.2% was due to the fact that the number of units sold was lower than in the previous year, as the portfolio has now been almost completely sold off.

CHANGES IN INVENTORIES

Changes in inventories of EUR -39.9m were reported in the year under review (2016: EUR -115.1m; -65.3%). The carrying amount of inventories decreased by EUR -49.3m on account of the properties sold (2016: EUR -125.3m; -60.7%). The largest components of this development were the sale of the office building in Glasgow, United Kingdom, and the deconsolidation of properties for the Group's mutual fund business for private investors. The carrying amount of inventories increased due to the capitalisation of expenses in the amount of EUR 9.4m (2016: EUR 10.1m; -7.8%), which primarily related to construction and maintenance measures for the principal investments.

OTHER OPERATING INCOME

Other operating income increased to EUR 17.3m (2016: EUR 9.9m) and mainly comprised expired obligations in the amount of EUR 11.1m.

INCOME FROM THE DECONSOLIDATION OF SUBSIDIARIES

This item is a result of properties temporarily recognised in the balance sheet prior to their contribution to a mutual fund of PATRIZIA GrundInvest KVG.

EBITDA

Reconciliation of EBITDA – 12 months

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EUR k	2017	2016 adjusted ¹	Change	2017	2016	Change
Total operating performance	227,651	226,916	0.3%	227,651	526,385	-56.8%
Cost of materials	-17,450	-27,708	-37.0%	-17,450	-33,712	-48.2%
Cost of purchased services	-11,450	-14,832	-22.8%	-11,450	-14,832	-22.8%
Staff costs	-87,071	-87,292	-0.3%	-87,071	-101,313	-14.1%
Changes in value of investment property	6,748	431	1,465.7%	6,748	431	1,465.7%
Other operating expenses	-82,228	-61,191	34.4%	-82,228	-68,757	19.6%
Income from participations	49,315	32,667	51.0%	49,315	32,667	51.0%
Earnings from companies accounted for using the equity method	13,353	7,651	74.5%	13,353	7,651	74.5%
Expenses of the deconsolidation of subsidiaries	-750	0		-750	0	
EBITDAR	98,118	76,642	28.0%	98,118	348,520	-71.8%
Reorganisation expenses	-2,330	-20,406	-88.6%	-2,330	-20,406	-88.6%
EBITDA	95,788	56,236	70.3%	95,788	328,114	-70.8%

¹ adjusted = excluding the Harald portfolio

COST OF MATERIALS

The cost of materials includes construction and maintenance measures for the company's own portfolio, which are typically capitalised. The cost of materials declined by 37.0% year-on-year to EUR 17.5m (2016: EUR 27.7m) and is composed of the following expense items:

- Renovation and construction costs of EUR 12.7m (2016: EUR 20.6m; -38.3%)
- Ancillary costs of EUR 4.3m (2016: EUR 6.4m; -32.2%)
- Maintenance costs of EUR 0.4m (2016: EUR 0.8m; -42.9%)

COST OF PURCHASED SERVICES

The cost of purchased services primarily includes expenses for the white-label funds of PATRIZIA GewerbelInvest GmbH, for which PATRIZIA performs asset management as a service. The cost of purchased services declined by 22.8% year-on-year to EUR 11.5m (2016: EUR 14.8m). The service fees attributable to white-label funds fell by 13.9% to EUR 13.4m (2016: EUR 15.5m). The corresponding costs amounted to EUR 10.2m (2016: EUR 12.8m; -20.4%).

STAFF COSTS

As at 31 December 2017, PATRIZIA had a total of 643 employees (FTEs). The decrease compared with the previous year (31 December 2016: 794 FTEs) is due to the sale of Property Management. The reduced workforce is reflected in staff costs as follows:

Staff costs – 12 months

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EUR k	2017	2016 adjusted ¹	Change	2017	2016	Change
Fixed salaries	47,799	50,483	-5.3%	47,799	50,492	-5.3%
Variable salaries	23,025	22,544	2.1%	23,025	36,544	-37.0%
Social security contributions	8,974	10,607	-15.4%	8,974	10,618	-15.5%
Sales commission	2,446	4,212	-41.9%	2,446	4,212	-41.9%
Effect of long-term variable remuneration ²	1,175	-2,824	-141.6%	1,175	-2,824	-141.6%
Other	3,652	2,270	60.9%	3,652	2,271	60.8%
Total	87,071	87,292	-0.3%	87,071	101,313	-14.1%

1 adjusted = excluding the Harald portfolio

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

All in all, staff costs declined by 0.3% to EUR 87.1m in the 2017 financial year (2016: EUR 87.3m). The reduction in the number of employees meant that fixed salaries fell by 5.3%, from EUR 50.5m to EUR 47.8m. Variable salaries increased by 2.1%, from EUR 22.5m to EUR 23.0m, reflecting the company's successful business development in the 2017 financial year. Sales commission declined from EUR 4.2m to EUR 2.4 due to the lower level of resale activity. The company's positive share price performance resulted in expenses for long-term variable remuneration of EUR 1.2m in the period under review following a positive effect of EUR 2.8m in the 2016 financial year. Other staff costs primarily relate to benefits in kind and increased by 60.9% year-on-year, from EUR 2.3m to EUR 3.7m. Further details on long-term variable remuneration can be found in the remuneration report in section 3.2.



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CHANGES IN VALUE OF INVESTMENT PROPERTY

This item contains the result of the annual revaluation of investment property. Changes in the value of investment property amounted to EUR 6.7m in the 2017 financial year after EUR 0.4m in the previous year. The positive change in fair value was due to the inclusion of building rights for the properties held by the company which were notarised during the period under review.

OTHER OPERATING EXPENSES

Other operating expenses increased by 34.4% in 2017, from EUR 61.2m to EUR 82.2m. The composition of other operating expenses is as follows:

Other operating expenses – 12 months

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EUR k	2017	2016 adjusted ¹	Change	2017	2016	Change
Tax, legal and other advisory and year-end closing costs	34,314	14,654	134.2%	34,314	14,953	129.5%
IT and communication costs and cost of office supplies	7,965	7,425	7.3%	7,965	7,425	7.3%
Rent, ancillary costs and cleaning costs	7,010	7,003	0.1%	7,010	7,288	-3.8%
Advertising costs	5,675	4,435	28.0%	5,675	4,488	26.4%
Vehicle and travel expenses	5,209	5,399	-3.5%	5,209	5,399	-3.5%
Recruitment and training costs and cost of temporary workers	2,475	2,577	-4.0%	2,475	2,577	-4.0%
Contributions, fees and insurance costs	2,023	2,347	-13.8%	2,023	2,475	-18.3%
Commission and other sales costs	1,994	2,583	-22.8%	1,994	2,590	-23.0%
Cost of management services	1,390	440	215.9%	1,390	6,300	-77.9%
Other taxes	494	1,218	-59.4%	494	1,218	-59.4%
Indemnity / reimbursement	3,514	6,568	-46.5%	3,514	6,568	-46.5%
Miscellaneous	10,165	6,542	55.4%	10,165	7,476	36.0%
Total	82,228	61,191	34.4%	82,228	68,757	19.6%

¹ adjusted = excluding the Harald portfolio

Tax, legal and other advisory and year-end closing costs in the amount of EUR 34.3m (2016: EUR 14.7m) contain transaction & advisory costs of EUR 23.5m (2016: EUR 6.0m). This includes costs for company acquisitions in the amount of EUR 12.7m (2016: EUR 0.0m) and costs for transactions initiated but not completed in the amount of EUR 6.8m (2016: EUR 0.0m).

Other notable changes compared with the previous year related to advertising costs for an international marketing campaign, the cost of management services in the form of property management fees, and miscellaneous expenses resulting from aperiodic effects.

INCOME FROM PARTICIPATIONS AND EARNINGS FROM COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

PATRIZIA generated income from participations of EUR 62.7m in the 2017 financial year, an increase of 55.4% as against the previous year (2016: EUR 40.3m). Proceeds from the disposals of the co-investment PATRIZIA Projekt 150 GmbH (2017: EUR 2.5m) and the British co-investments with Oaktree Capital Management (2017: EUR 10.5m) had a positive impact on income from participations. At EUR 30.2m, the co-investment GBW GmbH generated almost the same level of income as in the previous year (2016: EUR 30.5m). The co-investment WohnModul I, which is accounted for using the equity method, generated earnings of EUR 13.4m in the 2017 financial year, up significantly on the previous year (2016: EUR 7.7m; +74.5%). Earnings from companies accounted for using the equity method result from the appreciation in the value of the WohnModul I co-investment due to the positive development of its equity. The performance-based fee received for the co-investment WohnModul I is reported in revenues. Income from participations and earnings from companies accounted for using the equity method represent the investment income generated from the co-investments in addition to the corresponding fee income.

Income from participations – 12 months

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EUR k	2017	2016	Change
GBW GmbH	30,171	30,520	-1.1%
Co-investments in the UK (Aviemore Topco, Plymouth Sound Holdings LP and Winnersh Holdings LP)	14,530	848	1,613.4%
PATRIZIA Projekt 150 GmbH	2,453	0	
Mutual fund business	750	0	
Harald portfolio	860	860	0.0%
SENECA	549	434	26.5%
Other	2	5	-60.0%
Income from participations	49,315	32,667	51.0%
Earnings from companies accounted for using the equity method	13,353	7,651	74.5%
Total	62,668	40,318	55.4%

REORGANISATION EXPENSES

The reorganisation process in 2016 resulted in the recognition of follow-up costs of EUR 2.3m in the 2017 financial year (2016: EUR 20.4m). This primarily relates to expenses for severance payments, current salary payments during paid leave of absence, non-staff operating expenses and advisory costs.

CONSOLIDATED NET PROFIT

PATRIZIA generated a consolidated net profit of EUR 58.9m in the 2017 financial year, up significantly on the previous year (2016: EUR 27.7m).

Reconciliation of consolidated net profit

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EUR k	2017	2016 adjusted ¹	Change	2017	2016	Change
EBITDA	95,788	56,236	70.3%	95,788	328,114	-70.8%
Amortisation of other intangible assets and software, depreciation of equipment	-8,681	-6,134	41.5%	-8,681	-6,134	41.5%
Earnings before interest and taxes (EBIT)	87,107	50,102	73.9%	87,107	321,980	-72.9%
Financial income	914	2,682	-65.9%	914	3,057	-70.1%
Financial expenses	-5,146	-5,204	-1.1%	-5,146	-7,361	-30.1%
Result from currency translation	-2,747	-5,644	-51.3%	-2,747	-4,029	-31.8%
Net finance costs	-6,979	-8,166	-14.5%	-6,979	-8,333	-16.2%
Earnings before taxes (EBT)	80,128	41,936	91.1%	80,128	313,647	-74.5%
Income taxes	-21,230	-14,193	49.6%	-21,230	-57,383	-63.0%
Consolidated net profit	58,898	27,743	112.3%	58,898	256,264	-77.0%

¹ adjusted = excluding the Harald portfolio

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

AMORTISATION OF OTHER INTANGIBLE ASSETS AND SOFTWARE, DEPRECIATION OF EQUIPMENT

Amortisation of other intangible assets and software and depreciation of equipment increased by 41.5% to EUR 8.7m (2016: EUR 6.1m). The largest components of this item are amortisation of fund management agreements and licences (EUR 5.0m after EUR 2.0m in the previous year; +149.0%) and amortisation of software and depreciation of equipment (EUR 3.7m after EUR 4.1m in the previous year; -10.2%). The statement of changes in fixed assets is discussed in detail in note 4 of the notes to the consolidated financial statements.

FINANCIAL RESULT

Financial income, which primarily comprises shareholder loans to co-investment companies, declined from EUR 2.7m in the previous year to EUR 0.9m in the year under review. Financial income was offset by financial expenses, such as interest and interest rate hedging costs, in the amount of EUR 5.1m (2016: EUR 5.2m; -1.1%). Further information can be found in note 6.11 of the notes to the consolidated financial statements.

The result from currency translation amounted to EUR -2.7m as at 31 December 2017 (2016: EUR -5.6m). It is composed of realised currency effects in the amount of EUR -1.6m (2016: EUR -8.9m), unrealised currency effects in the amount of EUR -1.2m (2016: EUR -6.8m) and gains on currency hedging in the amount of EUR 0.00 (2016: EUR +10.1m). The development of the pound sterling had a significant influence on the result from currency translation.



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INCOME TAXES

Income tax expense totalled EUR 21.2m in the 2017 financial year after EUR 14.2m in the previous year. The 2016 and 2017 financial years are only comparable to a limited extent on account of the sale of the Harald portfolio and restructuring under company law.

2.3.3 NET ASSETS AND FINANCIAL POSITION OF THE GROUP

PATRIZIA's key asset and financial data at a glance

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EUR k	31.12.2017	31.12.2016	Change
Total assets	1,252,394	993,259	26.1%
Equity (excl. non-controlling shareholders)	754,701	749,342	0.7%
Equity ratio	60.3%	75.4%	-15.1 PP
+ Bank loans	0	53,200	-100.0%
+ Bonded loans	322,000	27,000	1,092.6%
- Cash and cash equivalents	382,675	440,219	-13.1%
- Term deposits	197,000	0	
- Securities	5,000	0	
= Net liquidity (-) / net debt (+)	-262,675	-360,019	-27.0%
Net equity ratio ¹	81.1%	82.1%	-1.0 PP

¹ Net equity ratio: Equity (excl. non-controlling shareholders) 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 from EUR 993.3m in 2016 to EUR 1.3bn in the year under review due to the issue of the bonded loan.

INVESTMENT PROPERTY AND INVENTORIES

In line with its strategy, PATRIZIA's real estate assets declined by 40.7% in the year under review, from EUR 195.2m as at 31 December 2016 to EUR 115.8m as at 31 December 2017.

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EUR k	31.12.2017	31.12.2016	Change
Inventories	99,791	182,931	-45.4%
Investment property	15,979	12,226	30.7%
Real estate assets	115,770	195,157	-40.7%

Of this figure, EUR 99.8m is attributable to **inventories**. This item contains real estate held for sale in the normal course of business or for subsequent contribution to a fund product for private investors. The 45.4% reduction in inventories compared with the previous year is due in particular to the sale of a principal investment in Glasgow, United Kingdom, and the deconsolidation of properties that

were only reported temporarily and have since been transferred to mutual funds. A further EUR 16.0m relates to **investment property** originally purchased to be held for the long term and to generate rental income.

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

PATRIZIA's capital allocation as at 31.12.2017

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EUR m	Assets under management	Invested capital	Participations in %
THIRD-PARTY BUSINESS	15,925.0		
CO-INVESTMENTS	5,861.0	183.7	
Residential	5,396.0	162.2	
GBW GmbH	3,958.0	52.2	5.1
WohnModul I SICAV-FIS	1,438.0	88.7	10.1
Harald	-	21.3	5.1
Other	-	0.1	0.0
Commercial Germany	454.5	20.2	
Alliance	205.0	5.2	5.1
Seneca	201.0	4.9	5.1
PATRoffice	48.0	5.5	6.3
sono west	-	4.6	28.3
Commercial international	11.0	1.4	
Citruz Holdings LP (UK)	11.0	1.4	10.0
Principal investments	116.0	115.8	
Operating companies	-	201.0	
Tied-up investment capital	21,902.6	500.5	
Available liquidity	-	576.2	-
Total investment capital	21,902.6	1,076.7	
of which debt (bonded loans)	-	322.0	-

CAPITAL STRUCTURE

FINANCIAL LIABILITIES

The Group's financial liabilities increased to EUR 322.0m as at 31 December 2017. This was largely due to the issue of the new bonded loan in May 2017. PATRIZIA had no outstanding short-term bank loans at the end of the year (31 December 2016: EUR 53.2m).

BONDED LOANS

A bonded loan issued in 2013 and maturing on 30 June 2018 had a carrying amount of EUR 22.0m and was classified as a current liability. PATRIZIA also issued a bonded loan with a volume of EUR 300.0m on 22 May 2017. The issue enjoyed an extremely positive response in the market and was several times oversubscribed. The bond is structured in three tranches of five, seven and ten years and has a partially fixed and partially variable interest rate, corresponding to an average interest rate of 1.5% p.a.

Financial liabilities developed as follows compared with the end of 2016:

EUR k	31.12.2017	31.12.2016	Change
Non-current bonded loans	300,000	22,000	1,263.6%
Current bonded loans	22,000	5,000	340.0%
Short-term bank loans	0	53,200	-100.0%
Total financial liabilities	322,000	80,200	301.5%

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

LIQUIDITY

As at 31 December 2017, PATRIZIA had available liquidity of EUR 576.2m compared with EUR 394.2m at the end of 2016.

EUR k	31.12.2017	31.12.2016
Cash and cash equivalents	382,675	440,219
Term deposits	197,000	0
Securities	5,000	0
Current liquidity	584,675	440,219
– Harald portfolio transaction liabilities	0	-36,021
– Regulatory reserve for asset management companies	-8,383	-6,900
– Liquidity in mutual funds business property companies	-86	-3,026
– Non-controlling interests	0	-84
= Available liquidity	576,206	394,188



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Current liquidity totalled EUR 584.7m (year-end 2016: EUR 440.2m). However, PATRIZIA does not have direct access to this amount in full. EUR 202.0m is invested in securities and short-term deposits. In addition, cash and cash equivalents totalling EUR 8.4m are required to be held as a permanent reserve for the asset management companies and mutual funds in order to meet the relevant regulatory requirements. Accordingly, PATRIZIA has EUR 576.2m in directly available liquidity.

STATEMENT OF CASH FLOWS

The cash flow from **operating activities** amounted to EUR 17.2m in the year under review after EUR 503.4m in 2016. The high level recorded in the previous year was primarily due to the sale of the Harald portfolio and the No. 1 First Street office building in Manchester, United Kingdom, both of which were principal investments. **Investing activities** resulted in a cash outflow of EUR 411.9m (2016: cash inflow of EUR 268.2m), and included the advance purchase price payment for the acquisition of TRIUVA, the initial consolidation of Sparinvest Property Investors and the medium-term investment of parts of the company's available liquidity. This was offset by a positive cash flow from **financing activities** of EUR 337.1m after almost all financing was repaid in the previous year (2016: cash outflow of EUR 508.2m). The most important elements of the company's financing activities in 2017 were the cash flows received from the bonded loan and a short-term bank loan for a mutual fund, as well as the cash outflow as a result of the share buy-backs. Accordingly, the **change in cash and cash equivalents** amounted to EUR -57.5m (2016: EUR 263.4m), meaning that cash and cash equivalents declined from EUR 440.2m at the end of 2016 to EUR 382.7m as at 31 December 2017.

Abridged consolidated statement of cash flows

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EUR k	2017	2016	Change
Cash flow from operating activities	17,201	503,382	
Cash flow from investing / divesting activities	-411,856	268,191	
Cash flow from financing activities	337,111	-508,185	
Change in cash and cash equivalents	-57,544	263,388	
Cash and cash equivalents at 01.01.	440,219	179,141	145.7%
Cash and cash equivalents at 31.12.	382,675	440,219	15.0%



Consolidated Cash Flow Statement, page 82

2.3.4 NOTES TO THE HGB ANNUAL FINANCIAL STATEMENTS OF PATRIZIA IMMOBILIEN AG (HOLDING COMPANY)

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

As the financial and management holding company for these operating companies, PATRIZIA Immobilien AG generated **revenues** of EUR 16.8m (2016: EUR 20.3m; -17.2%), largely in the form of management fees oncharged to the subsidiaries. Commission for the services performed by the subsidiaries is also invoiced via the parent company, leading to corresponding administrative expenses.

Staff costs increased by 9.7% to EUR 26.3m (2016: EUR 24.0m). This was primarily due to the positive development of long-term variable remuneration as a result of the increase in the company's share price. The **Cost of materials** has now reached almost zero. **Other operating expenses and depreciation, amortisation and write-downs** declined by 12.1% to EUR 37.1m (2016: EUR 42.2m), largely as a result of realised exchange rate losses due to foreign-currency measurement. **Net interest expense** fell to EUR -11.8m as a result of the merger of Harald GmbH into PATRIZIA Immobilien AG (2016: EUR -15.3m). **Income from participations, financial assets, profit transfers and loss absorption** increased significantly year-on-year to EUR 96.8m (2016: EUR 27.1m). This was mainly due to the distribution and the interim dividend acquired in connection with the co-investment WohnModul I.

This resulted in a **net profit for the year** in accordance with the German Commercial Code (HGB) of EUR 270.4m for PATRIZIA Immobilien AG (2016: net loss of EUR -23.1m). Together with the profit carried forward in the amount of EUR 181.0m and deducting the purchase of treasury shares of EUR 46.1m, this represents the company's unappropriated profit, which increased from EUR 181.0m to EUR 405.3m.

PATRIZIA Immobilien AG is expected to enjoy positive development in the 2018 financial year. Further information can be found in the Group forecast (note 5).



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Abridged statement of financial position of PATRIZIA Immobilien AG

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EUR k	31.12.2017	31.12.2016
Fixed assets	575,916	518,274
Current assets	668,452	421,186
Prepaid expenses	1,162	345
Total assets	1,245,531	939,805
Equity	677,599	456,055
Provisions	53,697	29,405
Liabilities	514,235	454,346
Total equity and liabilities	1,245,531	939,805

Abridged income statement of PATRIZIA Immobilien AG

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EUR k	2017	2016	Change
Revenues	16,805	20,303	-17.2%
Other own work capitalised and other operating income	251,436	14,081	1,685.7%
Cost of materials (cost of purchased services)	0	-13	-99.9%
Staff costs	-26,350	-24,012	9.7%
Depreciation, amortisation and write-downs and other operating expenses	-36,197	-42,224	-14.3%
Income from participations, financial assets, profit transfers and loss absorption	95,873	27,066	254.2%
Net interest expense	-11,810	-15,285	-22.7%
Taxes	-19,353	-2,980	549.5%
Net profit for the year	270,405	-23,065	-1,272.4%
Profit carried forward	181,017	204,082	-11.3%
Purchase of treasury shares	-46,091	-	-
Unappropriated profit	405,331	181,017	123.9%

3 Other Disclosures

3.1 Acquisition-related Disclosures

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

COMPOSITION OF SHARE CAPITAL, SHARE CLASSES

The Annual General Meeting on 22 June 2017 approved the management's proposal to carry forward the unappropriated profit to new account in full, as well as approving the issue of bonus shares for the 2016 financial year in a ratio of 10:1. Following the entry of the corresponding capital increase in the commercial register on 5 July 2017, the company's share capital has amounted 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. Owing to treasury shares held at 31 December 2017 the share capital is reduced to EUR 89,555,059.00.

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. The Managing Board is not aware of any corresponding shareholder agreements.

DIRECT OR INDIRECT INTEREST IN THE COMPANY'S SHARE CAPITAL OF MORE THAN TEN PERCENT

As at 31 December 2017, Wolfgang Egger, CEO of PATRIZIA Immobilien AG, held an interest in the company's share capital totalling 51.71% via First Capital Partner GmbH, in which he directly and indirectly holds a 100% equity interest via WE Vermögensverwaltung GmbH & Co. KG.

SHARES WITH SPECIAL RIGHTS CONFERRING POWERS OF CONTROL

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

CONTROLS IN RESPECT OF VOTING RIGHTS FOR SHARES HELD BY EMPLOYEES

There are no controls in respect of voting rights.

APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGING BOARD, AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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

AUTHORISATION OF THE MANAGING BOARD TO ISSUE AND BUY BACK SHARES

By resolution of the Annual General Meeting on 25 June 2015, the Managing Board was authorised to purchase shares of the company amounting to up to 10% of the then existing share capital up to and including 24 June 2020; this corresponds to 6,938,503 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 Managing Board is free to choose whether to purchase the shares on the stock

exchange, by means of a public purchase offer extended to the company's shareholders, through the use of derivatives or through an individually negotiated buy-back. The purchased shares may be subsequently used for all legally permissible purposes; in particular, they may be withdrawn, sold in exchange for non-cash contributions, sold to shareholders or used to meet subscription or conversion rights.

Based on this authorisation, PATRIZIA Immobilien AG announced a public share buy-back offer on 8 August 2017. In the course of this offer, which ran until 7 September 2017, the company purchased a total of 2,011,980 treasury shares at a purchase price of EUR 17.40 per share. A final share buy-back program announced on 13 September 2017 with a volume of up to EUR 15.0m concluded on 30 October 2017. PATRIZIA in total bought back a total of 2,860,851 of its own shares in the year under review. This means PATRIZIA is authorised to buy back a maximum of 4,077,652 additional treasury shares as at 31 December 2017.

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

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

Furthermore, the Managing Board is authorised, with the approval of the Supervisory Board, to issue convertible bonds, bonds with warrants, participation rights and / or participating bonds or combinations of these instruments with a notional amount of up to EUR 950,000,000.00 with a limited or unlimited term on one or more occasions up to and including 15 June 2021 and to grant conversion rights or warrants for shares of the company with a proportionate interest in the share capital of up to EUR 41,800,000.00 to the creditors or bearers of such bonds in accordance with the conditions of the respective convertible bonds, bonds with warrants, participation rights or participating bonds. The details are set out in Article 4 (4) of the Articles of Association.

SIGNIFICANT AGREEMENTS BY THE COMPANY CONTINGENT UPON A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

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

COMPENSATION AGREEMENTS BETWEEN THE COMPANY AND THE MEMBERS OF THE MANAGING BOARD OR EMPLOYEES IN THE EVENT OF A TAKEOVER BID

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

3.2 Remuneration Report

The remuneration report details the principles of the remuneration system for the Managing Board and Supervisory Board of PATRIZIA Immobilien AG and discloses the amount of the payments made to the individual members of the Managing Board and Supervisory Board for the 2017 financial year. The remuneration report takes into account all statutory provisions and complies with the recommendations of the German Corporate Governance Code with the caveat that there is no cap on the amount of the variable remuneration component.

REMUNERATION OF THE MANAGING BOARD

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

NON-PERFORMANCE-RELATED REMUNERATION

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

PERFORMANCE-RELATED REMUNERATION

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

The primary criterion for the achievement of the company targets is operating income, which is the Group's key management parameter. Every year, a specific quantitative target for the consolidated operating income to be achieved is defined on the basis of company planning. If operating income falls below 67% of the defined target, the members of the Managing Board receive no variable remuneration irrespective of which other targets, i.e. company, divisional or individual targets, are achieved. A further criterion for calculating variable remuneration is the development of PATRIZIA's share price relative to the DIMAX share index over a two-year period.

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

SHORT-TERM AND LONG-TERM VARIABLE REMUNERATION COMPONENTS

A variable remuneration amount is calculated for each predefined individual target based on the degree of target attainment. The total of all of these amounts is paid out in two components. Two-thirds of the amount is paid out in the next financial year, which is designated as a short-term component. The remaining one-third of the variable remuneration is paid out in the form of performing share units, i.e. not paid out directly. This is designated as a component with long-term incentive effect. Performing share units are virtual shares that entitle the beneficiaries to receive a monetary amount at the end of a defined performance period. Since the start of the 2014 financial year, PATRIZIA has defined this performance period as three years for all Managing Board members. The performing share units do not carry any voting or dividend rights. The variable remuneration component with long-term incentive effect is initially converted into performing share units at the average Xetra trading price for PATRIZIA's shares 30 days before and 15 days after 31 December of the respective financial year. The cash price equivalent of the shares calculated in this manner is paid out at the average Xetra trading price 30 days before and after 31 December of the third year following the respective financial year, i.e. after the end of the holding period. This serves to tie the variable remuneration component with long-term incentive effect to the company's share price performance. No cap has been defined for the fair value on the payment date.

INDIVIDUAL COMPONENTS AS A PROPORTION OF THE TOTAL REMUNERATION OF THE MANAGING BOARD

Assuming the company, divisional and individual targets for the respective year are met in full (100%), this results in the following approximate remuneration structure for the fair value on the grant date: The non-performance-related remuneration components account for around 41% of the total remuneration paid to Mr Egger and Mr Schmitt. Short-term variable remuneration payable immediately accounts for a further 39%. The long-term remuneration component in the form of performing share units accounts for around 20% of the total remuneration. The ratio for Mr Bohn is 46% / 36% / 18%, while the ratio for Ms Kavanagh is 40% / 40% / 20%.

TOTAL REMUNERATION FOR THE 2017 FINANCIAL YEAR

The remuneration of the members of the Managing Board for the 2017 financial year amounted to EUR 4.5m (2016: EUR 3.7m). Some of this amount was not yet paid out. The figure for 2017 contains 49,061 performing share units granted to the members of the Managing Board whose cash value equivalent will be paid out in the 2021 financial year (52,128 for the 2016 financial year, payment in 2020). The total remuneration paid out for the members of the Managing Board in the year under review was EUR 4.0m (2016: EUR 4.0m).

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

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

Appointed: 21.08.2002 Appointed until: 30.06.2021		Wolfgang Egger, CEO		
Remuneration granted EUR k	2016	2017	2017 (min.)	2017 (max.)
Fixed remuneration	390	420	420	420
Fringe benefits	27 ¹	17 ¹	17 ¹	17 ¹
Total	417	437	437	437
One-year variable remuneration	530 ²	560 ³	0	600 ⁴
Multi-year variable remuneration				
Performing share unit tranche 2018-2020		280 ³		300 ⁴
Performing share unit tranche 2017-2019	265 ²			
Total	1,212	1,277	437	1,337
Service cost	12	12	12	12
Total remuneration	1,224	1,289	449	1,349

1 This item primarily contains non-cash benefits for insurance premiums and the use of a company car.

2 Granted in the 2017 calendar year for 2016 once all of the necessary criteria for determining variable remuneration were known.

3 Corresponds to the liability recognised for monetary target attainment of 140% (exact amount to be determined in the course of settlement).

4 Corresponds to the maximum achievable variable remuneration of 150%.

Appointed: 01.11.2015 Appointed until: 31.10.2023		Karim Bohn, CFO		
Remuneration granted EUR k	2016	2017	2017 (min.)	2017 (max.)
Fixed remuneration	360	360	360	360
Fringe benefits	11 ¹	11 ¹	11 ¹	11 ¹
Total	371	371	371	371
One-year variable remuneration	391 ²	392 ³	0	420 ⁴
Multi-year variable remuneration				
Performing share unit tranche 2018-2020		196 ³		210 ⁴
Performing share unit tranche 2017-2019	195 ²			
Total	957	959	371	1,001
Service cost	12	12	12	12
Total remuneration	969	971	383	1,013

1 This item primarily contains non-cash benefits for insurance premiums and the use of a company car.

2 Granted in the 2017 calendar year for 2016 once all of the necessary criteria for determining variable remuneration were known.

3 Corresponds to the liability recognised for monetary target attainment of 140% (exact amount to be determined in the course of settlement).

4 Corresponds to the maximum achievable variable remuneration of 150%.

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Appointed: 01.01.2006
Appointed until: 31.12.2020

Klaus Schmitt, COO

Remuneration granted EUR k	2016	2017	2017 (min.)	2017 (max.)
Fixed remuneration	420	420	420	420
Fringe benefits	13 ¹	21 ¹	21 ¹	21 ¹
Total	433	441	441	441
One-year variable remuneration	476 ²	560 ³	0	600 ⁴
Multi-year variable remuneration				
Performing share unit tranche 2018-2020		280 ³		300 ⁴
Performing share unit tranche 2017-2019	238 ²			
Total	1,147	1,281	441	1,341
Service cost	24	24	24	24
Total remuneration	1,171	1,305	465	1,365

1 This item primarily contains non-cash benefits for insurance premiums and the use of a company car.

2 Granted in the 2017 calendar year for 2016 once all of the necessary criteria for determining variable remuneration were known.

3 Corresponds to the liability recognised for monetary target attainment of 140% (exact amount to be determined in the course of settlement).

4 Corresponds to the maximum achievable variable remuneration of 150%.

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Appointed: 15.04.2017
Appointed until: 14.04.2020

Anne Kavanagh, CIO

Remuneration granted EUR k	2016	2017	2017 (min.)	2017 (max.)
Fixed remuneration		281	281	281
Fringe benefits		3 ¹	3 ¹	3 ¹
Total		284	284	284
One-year variable remuneration		420 ³		450 ⁴
Multi-year variable remuneration				
Performing share unit tranche 2018-2020		210 ³		225 ⁴
Performing share unit tranche 2017-2019				
Total		914	284	959
Service cost		32	32	32
Total remuneration		946	316	991

1 This item primarily contains non-cash benefits for insurance premiums and the use of a company car.

2 Granted in the 2017 calendar year for 2016 once all of the necessary criteria for determining variable remuneration were known.

3 Corresponds to the liability recognised for monetary target attainment of 140% (exact amount to be determined in the course of settlement).

4 Corresponds to the maximum achievable variable remuneration of 150%.

The individual members of the Managing Board received the following remuneration in the respective financial year:

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	Wolfgang Egger, CEO		Karim Bohn, CFO		Klaus Schmitt, COO		Anne Kavanagh, CIO	
Remuneration received EUR k	Appointed: 21.08.2002 Appointed until: 30.06.2021	Appointed: 01.11.2015 Appointed until: 31.10.2023	Appointed: 01.11.2015 Appointed until: 31.10.2023	Appointed: 01.01.2006 Appointed until: 31.12.2020	Appointed: 01.01.2006 Appointed until: 31.12.2020	Appointed: 15.04.2017 Appointed until: 14.04.2020	Appointed: 15.04.2017 Appointed until: 14.04.2020	Appointed: 15.04.2017 Appointed until: 14.04.2020
	2016	2017	2016	2017	2016	2017	2016	2017
Fixed remuneration	390	420	360	360	420	420		281
Fringe benefits	27 ¹	17 ¹	11 ¹	11 ¹	13 ¹	21 ¹		3 ¹
Total	417	437	371	371	433	441		284
One-time sign-on bonus								496 ⁴
One-year variable remuneration	529	530	47	391	540	476		
Multi-year variable remuneration								
Performing share unit tranche 2014–2016						507 ³		
Performing share unit tranche 2013–2015			–	–	782 ²			
Performing share unit tranche 2015–2016			–	–	–	–		
Performing share unit tranche 2014–2015	863 ²		–	–	–	–		
Total	1,809	967	418	762	1,755	1,424		780
Service cost	12	12	12	12	24	24		32
Total remuneration	1,821	979	430	774	1,779	1,448	0	812

1 This item primarily contains non-cash benefits for insurance premiums and the use of a company car.

2 Amount paid out in 2016 following the conversion of the performing share unit tranches 2014–2015 and 2013–2015 at the average share price of EUR 25.393.

3 Amount paid out in 2017 following the conversion of the performing share unit tranche 2014–2016 at the average share price of EUR 15.251.

4 The sign-on bonus was paid out in the form of an advance and is still subject to the fulfilment of a contractual condition.

REMUNERATION OF THE SUPERVISORY BOARD

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

As the Supervisory Board comprises three members, no committees are formed; this means the committee remuneration recommended by the German Corporate Governance Code is not relevant. If a Supervisory Board member is not a member of the Supervisory Board during the entire financial

year, the respective fixed remuneration is paid on a pro rata basis. Supervisory Board members are also reimbursed for their expenses and any VAT payable on their remuneration and expenses.

The Supervisory Board was granted the following remuneration in the 2017 financial year:

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EUR	Fixed remuneration	
	2017	2016
Dr Theodor Seitz, Chairman	40,000	40,000
Alfred Hoschek	30,000	30,000
Gerhard Steck (until 22.06.2017)	15,000	30,000
Uwe Reuter (from 22.06.2017)	15,000	0
Total	100,000	100,000

3.3 Corporate Governance Statement – Disclosures in Accordance with Section 289f HGB and Section 315d HGB

On 30 January 2018, the Managing Board of PATRIZIA Immobilien AG issued a corporate governance statement in accordance with section 289f HGB and section 315d HGB and made this statement publicly available on the company's website.



www.patrizia.ag/en/shareholders/corporate-governance/corporate-governance-statement/

3.4 German Corporate Governance Code – Disclosures in Accordance with Article 161 AktG (German Stock Corporation Act)

On 18 December 2017 the managing board and the supervisory board issued a statement of conformity in accordance with article 161 of the German stock corporation act and made this statement publicly available on the company's website.



www.patrizia.ag/en/shareholders/corporate-governance/declarations-of-conformity/

3.5 Transactions with Related Companies and Individuals

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

Extensive information on business relationships with related companies and individuals can be found in note 9.3 of the notes to the consolidated financial statements.



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4 Development of Risks and Opportunities

4.1 Risk and Opportunity Management

Group-wide risk management ensures that opportunities and risks are systematically recorded, evaluated, controlled, monitored and communicated, both internally and externally. The aim is to obtain information about actual and potential risks and their financial consequences at an early stage and control them in such a way as to sustainably secure and increase enterprise value. Overall responsibility for risk management lies with the Managing Board of PATRIZIA Immobilien AG. The monitoring and further development of the risk management system is the responsibility of the Risk Management working group, which is composed of employees from the operating units and Controlling.

Opportunity management takes place separately from risk management. The Transactions and Alternative Investments units observe the market in conjunction with the Country Heads in order to identify attractive investment opportunities. The Product Development and Institutional Investors departments develop new products and structures for our investors. Strategic growth opportunities are identified by the PATRIZIA Strategy Committee and systematically pursued. The PATRIZIA asset management companies each have their own risk management system geared towards the special real estate funds they administer and aimed at ensuring compliance with regulatory requirements. The risks and opportunities identified and communicated by PATRIZIA at an early stage – defined as negative / positive deviations from the target values – then go through the downstream management process. This includes the Managing Board's *jour fixe* and the Cooperation Committee, which comprises all of the Country Heads, Group Heads, Operational Group Heads and the COO / CIO.

The reports by Group Controlling provide a regular and reliable basis of information for controlling opportunities and risks. The value drivers of each area of responsibility are subject to a monthly target / actual analysis in order to allow undesirable developments to be identified at an early stage and countermeasures to be initiated. The opportunities and risks identified are taken into account in the planning and update processes. Risks are evaluated in terms of their probability of occurrence and potential loss amount and compiled at Group level. We use this to derive the necessary actions and limit the impact of the respective risks by implementing operational measures and, where necessary, accounting-related precautions such as the recognition of provisions. The analysis generally covers the period of our company planning; in the case of material strategic risks, however, the analysis extends beyond this period.

The risk management system is reviewed for efficiency and effectiveness in an annual internal risk audit. This audit results in a risk report illustrating all of the risks, operational measures and responsibilities previously examined by the responsible departments. In addition to the Managing Board, the relevant contact persons at the individual functions are informed about the results of the risk inventory. In accordance with section 317 (4) of the German Commercial Code (HGB), the risk early detection system is also examined by the auditor.

4.2 Accounting-related Internal Control and Risk Management System – Disclosures in Accordance with Section 289 (5), Section 315 (2) no. 5 HGB

Accounting and financial reporting risk describes the risk that our annual and interim financial statements could contain inaccurate information. To avoid sources of error, PATRIZIA Immobilien AG has established an internal control system (ICS) for the accounting process that ensures the reliability of financial reporting and the preparation of annual and quarterly financial statements to a sufficient extent. At the same time, the ICS cannot provide absolute certainty. The members of the Managing Board of PATRIZIA Immobilien AG sign the quarterly responsibility statement confirming that accounting standards have been complied with and that the figures give a true and fair view of the company's net assets, financial position and results of operations. The starting point for the ICS is company planning based on the targets prescribed by the Managing Board and expectations of operational business development. This serves to define the budgeted values for the coming financial year and the target values for the subsequent year for each company and each cost centre. Deviations between the target and actual figures are determined and evaluated on a monthly basis. Regular updates are prepared for the current financial year based on the actual values already achieved, the opportunities and risks identified and the outstanding budgeted values.

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

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

The effectiveness of our accounting-related ICS is evaluated during the preparation of the financial statements and reviewed by the external auditor as part of its audit activities.

4.3 Significant Opportunity and Risk Categories

4.3.1 MARKET RISKS AND OPPORTUNITIES

Opportunities and risks of macroeconomic development: The European real estate investment market is characterised by a high level of demand that is likely to remain in place due to a lack of alternative investments and favourable financing conditions. This demand is accompanied by a shortage of available investments in top European locations in particular, leading to a greater investment focus on so-called B and C locations. Investments in these locations require a detailed knowledge of the local conditions. Thanks to its presence on the individual European markets and its in-depth knowledge of the regional markets, PATRIZIA Immobilien AG is able to meet this high level of demand with its comprehensive product portfolio, which it optimises through acquisitions, disposals and development projects. As a matter of principle, events such as Brexit or the Catalan independence movement can have a negative impact on economic development and hence

adversely effect the real estate markets. However, such events could also boost demand for real estate as a secure asset class. We do not currently see any signs of a slowdown in PATRIZIA Immobilien AG's business development in the medium term. A sharp rise in interest rates on the financial markets and for government bonds is considered to be relatively unlikely in the current year in light of the sustained expansionary nature of the ECB's monetary policy. At the same time, the current yield premium of real estate compared with long-term government bonds could undoubtedly absorb an interest rate rise of around 100 basis points without this leading to pronounced price corrections. In the longer term, a slight rise in interest rates is expected over the coming years depending on how quickly the normalisation of monetary policy takes place; however, a more precise estimate of the effects of this development will only be possible once the ECB's interest rate path becomes evident.

Residential real estate market: The economic recovery in Europe is making itself felt in the economically strong conurbations in particular. These regions saw substantial population growth once again in 2017, thereby generating significant demand for housing. The number of completions has increased slightly in recent years, but not to a sufficient extent to meet the high level of demand. This excess demand resulted in rising rents, while high private and institutional demand for residential real estate led to purchase price growth. In the top locations in particular, there was such a shortage of suitable products that many investors turned to B, C and D locations and invested in niche segments such as micro-apartments and student accommodation. This trend is set to continue in 2018.

Commercial real estate market – office: The positive economic momentum seen in Europe in 2016 continued in the past financial year. This was reflected on the market in the form of high demand for space. With new construction activity relatively muted, the vacancy rate continued to decline. Prime rents increased in most of the European markets, with Paris recording stable development and London seeing a fall in prime rents. The high level of demand for office real estate among institutional investors resulted in an increased transaction volume compared with the previous year and led to further yield compression. With the economic expansion set to continue in the coming year, demand for space is expected to remain high or increase further, with the vacancy rate remaining at a low level. This is likely to be reflected in a further rise in prime rents. As the high level of investor demand for office real estate is unlikely to decline in the coming year, a large transaction volume is again anticipated in 2018 depending on product availability. Prime yields are likely to remain under pressure.

Commercial real estate market – retail: Positive economic development and the resulting increase in employment had a corresponding effect on consumer confidence and private consumption in the course of 2017. Demand for space in top locations remained high, whereas demand for space at shopping centres declined slightly. The same is true for the investment market, where investor demand primarily concentrated on high street properties. The low availability of high street properties meant the investment volume declined slightly in 2017. Although prime rents in the high street segment increased, major retailers in some locations were no longer prepared to accept rent rises and entered into negotiations aimed at securing more flexible rental agreements. The shopping centre segment also saw moderate rental growth. Prime rents declined slightly once again. The retail market will continue to be driven by the high street in future. However, product availability in this segment is extremely limited, thereby naturally restricting the potential transaction volume. Prime yields will remain under pressure.

Competitive situation: There remains a high level of demand for indirect real estate investments. The unit established in 2016 for the initiation and management of closed-end fund products for private investors successfully placed further funds on the market in the year under review, while the fund platforms for institutional investors again attracted billions of euros in new capital. PATRIZIA is also expanding its service range and increasingly acquiring international investors via its established regional subsidiaries in Germany, Scandinavia, the United Kingdom and Ireland, France, Spain, Luxembourg, the Netherlands and the USA. The workforce in the Institutional Investors unit was expanded in order to serve the markets of Asia in particular. A dedicated subsidiary was established in Hong Kong in 2017. Investors place great value in outstanding management quality at competitive prices. PATRIZIA is well positioned in this respect. PATRIZIA also has long-term investment agreements with its investors, most of which are concluded without a fixed term. This allows it to plan its revenue flows accordingly.

4.3.2 OPERATIONAL RISKS

Acquisition and disposal of real estate: The sustained trend of strong demand for real estate continued in 2017. The transaction volume remained at the extremely high level recorded in the previous years. In a consistently relaxed monetary policy environment, international investors are continuing to make substantial investments in the European real estate markets. As a result, it remains extremely challenging for us to acquire suitable properties with risk-adjusted yields for our investors in an extremely competitive market.

Even in this environment, PATRIZIA succeeded in using its experience and its knowledge of the market in order to acquire attractive properties and portfolios for our investors – in some cases by addressing sellers directly in order to circumvent the competition – thereby enabling our investors to generate profits and optimise their portfolios through targeted disposals.

The continuous strategic enhancement of PATRIZIA's European platforms, including through the acquisitions announced in 2017, is giving us broader access to additional attractive investment opportunities. As a result, PATRIZIA is seen as a reliable and professional partner for the rapid, faithful implementation of large-scale individual and portfolio investments in Europe and, increasingly, around the world.

Although it is a seller's market at present, there is a risk that properties, including the company's own holdings, will not be realisable at the intended price.

Employees: The skills and motivation of PATRIZIA's employees are essential factors in the company's success. Our employees help us to gain the confidence of our investors, tenants, financing banks, business partners and shareholders, thereby creating sustainable business relationships. Our aim is to retain qualified employees within the Group for the long term. We use employee development measures, deputation arrangements and early succession planning to reduce the risk of fluctuation and knowledge drain and fill management positions internally. Being perceived as an attractive employer in a competitive employment market is another important factor in PATRIZIA's continued successful development.



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Further information can be found under Employees in section 1.5.

IT security: Almost all significant business processes within the company are based on IT systems. Every disruption to the operation of the IT systems has consequences for our business activities. Substantial data losses can lead to serious financial losses, as well as adversely affecting the company's public image. To ensure the availability of business applications, almost all systems have been run redundantly in two physically separate data centres since the 2015 financial year. The ERP (enterprise resource planning) systems are also mirrored and run in parallel. These two measures ensure a significant reduction in downtime in the event of an emergency. Further protective measures, such as a NAC (network access control) solution and additional anti-malware mechanisms, serve to reduce the risk of damage from viruses, trojans and malicious software such as ransomware. Data is backed up regularly in order to prevent the technical loss of company data and ensure the reliability of IT operations. A password policy ensures that the passwords used are secure and that they are changed regularly.

Financing risk: Because of the solid structure of its statement of financial position, external financing is currently of only minor significance to the business model of PATRIZIA Immobilien AG and the Group. However, it plays a more important role at the level of the fund vehicles. The properties held and managed (principal investments) are no longer debt-financed. The risk that PATRIZIA Immobilien AG will be unable to obtain external financing for any new principal investments is currently extremely low. In May 2017, PATRIZIA Immobilien AG raised an unsecured bonded loan with a total volume of EUR 300m via the capital markets. The issue met with strong demand and was several times oversubscribed. Following the regular repayment in 2017, the two bonded loans raised in 2013 had a remaining amount outstanding of just EUR 22m. Following an additional unscheduled repayment of EUR 5m on 3 January 2018, this loan will be repaid in full in June 2018 as scheduled. Together with its substantial cash and cash equivalents, this means PATRIZIA is able to respond to the capital requirements of new investments at any time. Furthermore, potential principal investments are always financed at property / portfolio level. As part of its co-investments and third-party business, PATRIZIA Immobilien AG also raises debt finance as a service.

Loan conditions: The existing bonded loans contain various covenants, compliance with which is continuously monitored. Some of the loan agreements for property / portfolio financing as part of co-investments and third-party business contain covenants, compliance with which is also continuously monitored. However, these covenants do not have any direct consequences for PATRIZIA Immobilien AG.

Interest rate risks: The bonded loan with a total volume of EUR 300m contains three tranches with a combined volume of EUR 66m with a variable interest rate based on 3-month Euribor. Interest rate development is continuously monitored. There are no further interest rate risks for PATRIZIA Immobilien AG, as the company no longer has any bank loans and the remaining bonded loans have fixed interest rates.

Liquidity risks: There are no discernible risks of a liquidity bottleneck at present. As at 31 December 2017, PATRIZIA had bank balances and cash in hand amounting to EUR 382.7m and short-term deposits amounting to EUR 202.2m for use in covering its operational liquidity requirements and for refinancing. We also anticipate additional cash surpluses from our operating business, which will be used in investment planning with matching maturities. The equity freed up by disposals also serves to increase the available liquidity. PATRIZIA uses cash pooling to optimise and control its liquidity.

Early warning indicators and comprehensive rolling planning are also used as preventive measures and ensure that the company is able to meet unexpected liquidity requirements.

Exchange rate risks: Most of the Group's subsidiaries and property companies are located in the European Monetary Union and hence are not subject to exchange rate risk. One exception is the regional subsidiaries in Denmark, Sweden and the United Kingdom, which execute asset management mandates and conduct acquisitions and disposals for the funds and as part of co-investments. PATRIZIA had foreign-currency investments of around EUR 67.0m at the reporting date. Since the investments in these companies are made and shareholder loans are granted in the respective local currency, the subsidiaries and property companies are subject to the risk of exchange rate fluctuations. This position could increase further in future as the Group expands outside the euro zone. The Group's overall exchange rate risk is regularly monitored and evaluated in order to immediately identify any need for action and to allow countermeasures such as exchange rate hedging to be initiated.

Legal risks: PATRIZIA is represented in various jurisdictions. Individual companies are involved in various court and arbitration proceedings arising from their business operations. In some cases, out-of-court claims are also asserted against them. We monitor our contractual obligations and consult legal experts on contractual matters in order to minimise any legal risks. Provisions have been recognised for potential losses from pending litigation. The claims asserted exceed the amounts recognised as provisions, in some cases significantly. Following a comprehensive legal appraisal, we consider these claims to be unjustified. With regard to co-investments, there are no contractual risks due to social clauses, for example, as these relate solely to the unconsolidated subsidiaries. Furthermore, no material contractual risks from the investment agreements are discernible.

4.3.3 PARTNER RISKS AND OPPORTUNITIES

Third-party business: Opportunities and risks in connection with special real estate funds depend on fee income, the real estate assets under management, acquisitions and disposals, and the yield generated. This income can be negatively affected by property depreciation and impairment, loss of rent and a reduced transaction volume. However, PATRIZIA serves a wide range of different funds and has access to a diverse range of suitable properties in Germany and abroad. As the properties included in the special funds must be backed with corresponding capital, external financing can be obtained quickly and at favourable conditions in this constellation. The level of investment activity is not currently expected to decline. We consider the risk of a reduction in the planned distributions to investors to be extremely low. Moreover, we see the opportunity to attract new investors and expand our fund business thanks to our fund performance and PATRIZIA's reputation. Additional opportunities are presented by the placement of closed-end private investor funds, a business model that went operational at the start of 2016 and has since successfully launched six real estate funds with properties around Europe. As an asset manager, PATRIZIA is also responsible for the management and optimisation of third-party properties. Inadequate service performance could lead to dissatisfaction among investors or financial claims up to and including the loss of orders, with corresponding consequences for the Group's results of operations. For 2018, we are anticipating an extremely low probability of occurrence with minor financial consequences at worst.

Co-investments: PATRIZIA participates in co-investments with its own capital share of up to 10%. Investors and procuring the necessary equity with institutional investors is considered to represent a negligible limiting factor at most, while ensuring the corresponding financing is not seen as a risk.

As discussed under “Acquisition and disposal of real estate”, the main obstacle at present is acquiring suitable properties that meet the criteria of PATRIZIA and the investors.

Procurement of equity: In light of the high level of investor-side liquidity combined with pressure to invest and the shortage of viable alternatives to real estate investments, we do not believe there is any risk that we will lose business partners / investors or encounter problems in new acquisition. The expansion of our international fund business means PATRIZIA is increasingly dependent on institutional investors, which could put pressure on our margins. However, this is counteracted by our sales strategy. As well as attracting additional institutional investors outside Germany in particular, this increasingly involves addressing private investors in Germany with our closed-end private investors funds. More than 200 institutional investors are now invested via PATRIZIA – from savings banks, insurance companies and pension funds through to sovereign wealth funds. Over 60% of these investors are invested in multiple PATRIZIA products.

4.4 Overall Assessment of Opportunities and Risks

Risk management at PATRIZIA is a process that records risk positions, identifies changes in risk and defines appropriate countermeasures. In 2017, as in previous years, PATRIZIA examined the risk evaluation categories for the potential magnitude of losses from all known risks and increased or reduced them as necessary. The risk management system presented above allows PATRIZIA to counter risks at an early stage and take advantage of the opportunities that arise. Taking into account all individual risks and a potential cumulative effect, the overall risk to which PATRIZIA is currently exposed is limited. Based on the information currently available and our medium-term planning for key investments, there are no serious risks that could endanger the future development or continued existence of the company and the Group.

5 Forecast

5.1 Future Economic Conditions

Macroeconomic development: The economic upturn is expected to continue in 2018, with euro zone GDP set to increase by 2.1%. The ECB’s announcement that its bond purchase programme will continue, albeit scaled back, is likely to mean that interest rates in Europe remain low. At around 1.4%, inflation is expected to remain largely unchanged compared with 2017. Events such as BREXIT or the Catalan independence movement and the unpredictable consequences of the Trump presidency entail certain risks and could lead to turbulence on the financial markets and adversely affect demand for real estate investments among institutional and private investors.

Development on the European real estate market: The positive development on the European real estate market as a whole is expected to continue in 2018. Investors could intensify their focus on B and C locations, leading to limited product availability in some cases due to rising demand. Development or real estate values is also expected to continue its upward trend in 2018. Limited product availability will remain one of the biggest challenges and will result in further yield compression in absolute terms.



Source: PATRIZIA Research

5.2 Expected Development of Results of Operations and Assumptions Concerning Target Attainment in 2018

THE GROUP IN GENERAL

The company has entered the 2018 financial year in a spirit of optimism and expects to successfully exploit market opportunities for its institutional and private investors once again in the form of attractive property fund products. On this basis, PATRIZIA is again anticipating strong transaction performance and growth in assets under management, with fee income from investment management continuing to increase and stabilise as a result.

Assets under management are expected to see organic growth of between EUR 2.0bn and EUR 3.0bn in the 2018 financial year. Taking into account the acquisitions of TRIUVA and Rockspring Property Investment Managers, the company expects its assets under management to increase to just over EUR 40.0bn by the end of 2018.

Including the earnings contributions from the acquired companies, PATRIZIA is forecasting an increase in **operating income** from EUR 82.2m in 2017 to between EUR 85.0m and EUR 100.0m in 2018.

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	Last forecast 2017	Actual figures 2017	Forecast 2018
Assets under management (organic growth)	Growth of EUR 2.0bn	Growth of EUR 2.2bn	Growth of EUR 2.0–3.0bn
Assets under management (including acquisitions)	–	Growth of EUR 3.3bn ¹	Growth of EUR 18.9–19.9bn ²
Operating income	Slightly over EUR 75.0m	EUR 82.2m	EUR 85.0–100.0m

¹ including acquisition of Sparinvest Property Investors

² including acquisition of TRIUVA and Rockspring Property Investment Managers on the basis of pro forma assets under management

ASSUMPTIONS CONCERNING THE OPERATING INCOME FORECAST

Operating income of between EUR 85.0m and EUR 100.0m is expected for 2018. The following section discusses the assumptions and expectations underlying this forecast.

PATRIZIA is anticipating **management fees** for asset and portfolio management services of between EUR 162.5m and EUR 170.0m. The expected organic growth and the initial consolidation of the acquisitions TRIUVA and Rockspring Property Investment Managers are expected to result in a significant increase of 74–82% compared with 2017.

The company expects the transaction market to remain active in 2018 and is forecasting **transaction fees** of EUR 55.0–62.5m based on a transaction volume of EUR 4.5–6.5bn.

Income from **performance fees** is determined by the yields achieved in excess of the agreed target yields. These result from the realisation of value-adding measures in particular. PATRIZIA expects to generate performance fees of between EUR 50.0m and EUR 70.0m in 2018.

Fees from service business are expected to total between EUR 267.5m and EUR 302.5m. In addition, disposals of properties held by the company and co-investments are expected to generate around EUR 39.0m.

Operating costs, which primarily comprise staff costs and non-staff operating expenses, are forecast at between EUR 210.0m and EUR 230.0m. This means the ratio of operating costs to average assets under management is expected to improve from 0.80% in 2017 to between 0.53% and 0.57% in 2018 also as a result of the acquisitions made.

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

5.3 Expected Development of Net Assets and Financial Position

The consolidation of the acquisitions TRIUVA and Rockspring Property Investment Managers in the course of the financial year will result in changes in the company's net assets and financial position that cannot be described conclusively at present. Even after the consolidation of these two companies, however, PATRIZIA expects to have substantial cash and cash equivalents that are significantly in excess of the liabilities from the bonded loan.

5.4 Dividend Policy

The Managing Board and Supervisory Board of PATRIZIA Immobilien AG are proposing that the HGB unappropriated profit for the 2017 financial year in the amount of EUR 405.3m be used to pay a dividend of EUR 0.25 per share, with the remaining amount being carried forward to new account. Shareholders will be given the option of receiving the dividend payment in cash or in the form of shares in PATRIZIA Immobilien AG.

Based on the proportion of IFRS consolidated net profit attributable to the shareholders, which amounts to EUR 55.0m for 2017 and shares outstanding as per 31 December 2017 entitled to receive dividends, this corresponds to a distribution of EUR 22.4m, a distribution ratio of 40.7% and profit carried forward of EUR 382.9m.

Based on the assumption that existing treasury shares are owned by third parties at the time of distribution this corresponds to a distribution of EUR 23.1m, a distribution ratio of 42.0% and profit carried forward of EUR 382.2m.

5.5 Management's Overall Assessment of the Outlook for 2018

PATRIZIA SET TO ENJOY FURTHER POSITIVE DEVELOPMENT IN 2018

The acquisition of Sparinvest Property Investors, TRIUVA and Rockspring Property Investment Managers will lead to a substantial improvement in PATRIZIA's market positioning, the further internationalisation of its business and a significant increase in stable and sustainable income from property management. With the market environment expected to remain positive, PATRIZIA expects its planned organic growth and the positive influence of the companies acquired to allow it to significantly expand its real estate assets under management and achieve a further increase in operating income.

The outlook for 2018 and the statements concerning subsequent years take into account all events that could affect PATRIZIA's business development that were known when the consolidated financial statements were prepared.

Augsburg, 12 March 2018

The PATRIZIA Managing Board



WOLFGANG EGGER
CEO



KARIM BOHN
CFO



ANNE KAVANAGH
CIO



KLAUS SCHMITT
COO

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