Consolidated financial statements

Consolidated balance sheet

as at 31 December 2019

Assets

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EUR k	Note	31.12.2019	31.12.2018
A. Non-current assets			
Goodwill	4.1.1	210,292	201,109
Other intangible assets	4.1.2	131,895	166,562
Software	4.1.3	10,326	11,396
Rights of use	4.1.4	24,988	0
Investment property	4.1.5	1,835	8,308
Equipment	4.1.6	6,056	5,890
Associated companies accounted for using the equity method	4.1.7	69,035	76,141
Participations	4.1.8	525,716	499,241
Non-current borrowings and other loans	4.1.9	28,276	27,513
Deferred taxes	5.2	17,305	6,102
Total non-current assets		**1,025,724**	**1,002,262**
B. Current assets			
Inventories	4.3	113,208	71,534
Securities	4.5	1,011	3,011
Current tax assets	4.2	17,318	15,585
Current receivables and other current assets	4.4	380,735	355,456
Cash and cash equivalents	4.5	449,084	330,598
Total current assets		**961,356**	**776,184**
Total assets		**1,987,080**	**1,778,446**

Equity and liabilities

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EUR k	Note	31.12.2019	31.12.2018
A. Equity			
Share capital	5.1.1	91,060	91,060
Capital reserves	5.1.2	155,222	155,222
Retained earnings			
Legal reserves	5.1.3	505	505
Currency translation difference	2.5	−4,818	−15,605
Remeasurements of defined benefit plans according to IAS 19		−3,459	0
Revaluation reserve according to IFRS 9		78,721	49,503
Consolidated unappropriated profit	5.1.5	889,160	862,421
Non-controlling interests	5.1.6	30,359	10,682
Total equity		**1,236,750**	**1,153,788**
B. Liabilities			
NON-CURRENT LIABILITIES			
Deferred tax liabilities	5.2	112,178	110,387
Retirement benefit obligations	5.3.1	27,564	21,724
Bonded loans	5.4	300,000	300,000
Non-current liabilities	5.5	25,094	16,836
Leasing liabilities	5.6	15,841	0
Total non-current liabilities		**480,677**	**448,947**
CURRENT LIABILITIES			
Short-term bank loans	5.4	93,194	0
Other provisions	5.7	9,254	23,530
Current liabilities	5.9	101,186	99,963
Short-term leasing liabilities	5.6	9,328	0
Tax liabilities	5.10	56,692	52,218
Total current liabilites		**269,653**	**175,711**
Total equity and liabilities		**1,987,080**	**1,778,446**

Consolidated income statement

for the period from 1 January to 31 December 2019

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EUR k	Note	31.12.2019	31.12.2018
Revenues	6.1	398,703	350,628
Income from the sale of investment property	4.1.5	252	828
Changes in inventories	6.2	−50,535	−28,731
Other operating income	6.3	14,607	20,698
Income from the deconsolidation of subsidiaries	2.1	585	317
Total operating performance		**363,611**	**343,740**
Cost of materials	6.4	−6,601	−11,699
Cost of purchased services	6.5	−28,036	−15,679
Staff costs	6.6	−131,769	−124,954
Change in value of investment property	4.1.5	−791	3,975
Other operating expenses	6.7	−84,718	−90,742
Impairment losses for trade receivables and contract assets	5.8	−429	−1,059
Income from participations	6.8	32,891	28,042
Earnings from companies accounted for using the equity method	6.9	725	11,852
Cost from the deconsolidation of subsidiaries	2.1	0	−377
EBITDAR		**144,883**	**143,099**
Reorganisation Income	6.10	2,377	0
Reorganisation expenses	6.10	−10,339	−22,318
EBITDA		**136,922**	**120,781**
Amortisation of other intangible assets, software and rights of use, depreciation of property, plant and equipment	6.11	−55,562	−42,235
Earnings before interest and taxes (EBIT)		**81,360**	**78,546**
Financial income	6.12	2,096	3,021
Financial expenses	6.12	−6,111	−6,436
Other financial result	6.12	300	0
Result from currency translation	6.12	−234	1,175
Earnings before taxes (EBT)		**77,411**	**76,306**
Income taxes	6.13	−21,064	−18,190
Consolidated net profit		**56,347**	**58,116**
Earnings per share (undiluted/diluted) in EUR	6.14	0.58	0.57
CONSOLIDATED NET PROFIT ATTRIBUTABLE TO:			
Shareholders of the parent company		52,869	51,660
Non-controlling interests	5.1.6	3,478	6,456
		56,347	**58,116**

Consolidated statement of comprehensive income

for the period from 1 January to 31 December 2019

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EUR k	31.12.2019	31.12.2018
Consolidated net profit	**56,347**	**58,116**
Items of other comprehensive income reclassified to net profit for the period		
Profit/loss arising on the translation of the financial statements of foreign operations	10,101	−4,019
Items of other comprehensive income without reclassification to net profit for the period		
Value adjustments resulting from equity instruments measured including capital gains (IFRS 9)	45,471	49,503
Value adjustments resulting from remeasurements of defined benefit plans (IAS 19)	−3,639	0
Other comprehensive income	**51,933**	**45,484**
Total comprehensive income for the reporting period	**108,280**	**103,600**
Total comprehensive invome attributable to:		
Shareholders of the parent company	88,681	97,144
Non-controlling interests	19,599	6,456
	108,280	**103,600**

Consolidated cash flow statement

for the period from 1 January to 31 December 2019

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EUR k	2019	2018
Consolidated net profit	56,347	58,116
Income taxes recognised through profit or loss	21,064	18,190
Financial expenses recognised through profit or loss	6,111	6,436
Financial income recognised through profit or loss	–2,096	–3,021
Income from unrealised currency translation recognised through profit or loss	–459	0
Income from the disposal of other intangible assets, software, rights of use and equipment recognised through profit or loss	256	0
Income from divestments of financial assets recognised through profit or loss	0	68
Amortisation of other intangible assets and software, rights of use, depreciation of property, plant and equipment	55,562	42,235
Results from fair value adjustments to investment property	791	–3,975
Income from the sale of investment property	–252	–828
Results from fair value adjustments to securities	–300	0
Expenses of the deconsolidation of subsidiaries	0	377
Income from the deconsolidation of subsidiaries	–585	–317
Other non cash-items	–17,654	–23,378
Changes in inventories, receivables and other assets that are not attributable to investment activities	–15,979	–111,450
Changes in liabilities that are not attributable to financing activities	–16,385	–4,156
Interest paid	–5,355	–5,888
Interest received	900	475
Income tax payments	–25,346	–26,231
Cash flow from operating activities	**56,620**	**–53,347**
Investments in Goodwill	–1,491	0
Investments in other intangible assets, software and equipment	–8,262	–4,263
Payments received from the disposal of intangible assets and equipment	32	386
Payments received from the sale of investment property	6,533	12,588
Payments for the development of investment property	–600	–56
Payments for the acquisition of securities and short-term investments	0	–11,000
Payments received from the disposal of securities and short-term investments	25,000	2,000
Payments for the acquisition of participations	–3,957	–2,348
Payments received from the equity reduction of participations	8,446	4,614
Payments received from the disposal of participations	23,382	2,733
Payments for investments in companies accounted for using the equity method	–4,386	–5,278

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EUR k	2019	2018
Payment received through distributions of companies accounted for using the equity method	9,090	9,732
Payments received from the repayment of shares of companies accounted for using the equity method	6,565	16,766
Payments received from the disposal of companies accounted for using the equity method	0	3,393
Payments received from the repayment of loans to companies	221	0
Payments for loans to companies	−1,685	−4,222
Payments received from the disposal of consolidated companies and other business units	278,077	5,600
Payments for the disposal of consolidated companies and other business units	0	−595
Payments for the acquisition of consolidated companies and other business units	−294,861	−30,828
Cash flow from investing/divesting activities	**42,106**	**−779**
Borrowing of loans	173,194	70,764
Repayment of loans	−120,916	−24,827
Repayment of leasing liabilities	−9,747	0
Interest paid	−225	0
Payments for purchase of shares of non-controlling interests	0	−23,431
Payments of profit shares to non-controlling interests	−213	0
Payments of dividends to shareholders	−24,576	−21,197
Payments received from the disposal of treasury shares	0	740
Payments received from increase of capital stock	255	0
Cash flow from financing activities	**17,771**	**2,050**
Change in cash and cash equivalents	116,496	−52,077
Cash and cash equivalents as at 01.01.	**330,598**	**382,675**
Effects of changes in foreign exchange rates on cash and cash equivalents	1,989	0
Cash and cash equivalents as at 31.12.	**449,084**	**330,598**

Consolidated statement of changes in equity

for the period from 1 January to 31 December 2019

EUR k	Share capital	Capital reserve	Retained earnings (legal reserves)
As at 01.01.2018	**89,555**	**129,545**	**505**
Net amount recognised directly in equity, where applicable less income taxes	0	0	0
Disposal and transfer of shares	1,408	24,249	0
Non-controlling interests arising from the inclusion of new companies	0	0	0
Purchases of shares of non-controlling interests	0	0	0
Payout of profit shares to non-controlling interests	0	0	0
Reclassification of guaranteed dividend			
Changes in course of revaluation of IFRS 9 financial instruments	0	0	0
Dividend distribution to shareholders in cash	0	0	0
Dividend distribution to shareholders by issuing treasury shares	96	1,428	0
Net profit for the period	0	0	0
As at 31.12.2018	**91,060**	**155,222**	**505**
As at 01.01.2019	**91,060**	**155,222**	**505**
Net amount recognised directly in equity, where applicable less income taxes	0	0	0
Non-controlling interests arising from the inclusion of new companies	0	0	0
Disposal of shares of non-controlling shareholders arising from sale	0	0	0
Capital increase, outside contribution	0	0	0
Changes in course of revaluation of IFRS 9 Financial Instruments	0	0	0
Changes in course of revaluation of IAS 19 Employee Benefits	0	0	0
Dividend distribution to shareholders in cash	0	0	0
Purchases of shares of non-controlling interests	0	0	0
Payout of profit shares to non-controlling interests	0	0	0
Net profit of the period	0	0	0
As at 31.12.2019	**91,060**	**155,222**	**505**

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Currency translation difference	Remeasurements of defined benefit plans according to IAS 19	Revaluation reserve according to IFRS 9	Consolidated unappropriated profit	Equity of the shareholders of the parent company	Equity of non-controlling interests	Total
−11,586	**0**	**0**	**843,994**	**1,052,012**	**1,691**	**1,053,704**
−4,019	0	0	0	−4,019	0	**−4,019**
0	0	0	0	25,658	0	**25,658**
0	0	0	0	0	15,437	**15,437**
0	0	0	−10,512	−10,512	−5,600	**−16,112**
0	0	0	0	0	−2,819	**−2,819**
			0		−4,500	**−4,500**
0	0	49,503	0	49,503	17	**49,520**
0	0	0	−21,197	−21,197	0	**−21,197**
0	0	0	−1,524	0	0	**0**
0	0	0	51,660	51,660	6,456	**58,116**
−15,605	**0**	**49,503**	**862,421**	**1,143,106**	**10,682**	**1,153,788**
−15,605	**0**	**49,503**	**862,421**	**1,143,106**	**10,682**	**1,153,788**
10,787	0	0	−734	10,053	47	**10,101**
0	0	0	0	0	4,378	**4,378**
0	0	0	0	0	−4,378	**−4,378**
0	0	0	0	0	255	**255**
0	0	29,217	0	29,217	16,254	**45,471**
0	−3,459	0	0	−3,459	−180	**−3,639**
0	0	0	−24,576	−24,576	0	**−24,576**
0	0	0	−820	−820	371	**−448**
0	0	0	0	0	−548	**−548**
0	0	0	52,869	52,869	3,478	**56,347**
−4,818	**−3,459**	**78,721**	**889,160**	**1,206,391**	**30,359**	**1,236,750**

Notes to the consolidated financial statements

IFRS – Notes to the consolidated financial statements

for the period from 1 January to 31 December 2019

General information

PATRIZIA AG (formerly PATRIZIA Immobilien AG and hereinafter also referred to as PATRIZIA or the Group) is a listed German stock corporation. The registered office of the company is Fuggerstrasse 26, 86150 Augsburg (Augsburg Local Court, HRB 19478). PATRIZIA is a global partner for pan-European real estate investments and one of the leading independent real estate investment companies in Europe. As at 31 December 2019, around 814 employees (FTE) are on hand for its clients in more than 15 European real estate markets. The company is also represented in New York, Hong Kong, Seoul, Melbourne and Tokyo. PATRIZIA provides a wide range of services from asset management, portfolio management and implementation of purchase and sales transactions for almost all real estate asset classes to alternative investments and project developments. As a result, client preferences and requirements can be met extensively in a client-specific manner. Its clients include institutional and (semi-)professional investors such as insurance firms, pension fund institutions and sovereign funds from Germany, Europe, the US and Asia in addition to private investors. PATRIZIA develops bespoke products for its clients in line with their individual return expectations, diversification objectives and risk styles.

1 Principles applied in the preparation of the consolidated financial statements

The consolidated financial statements of PATRIZIA AG as at 31 December 2019 have been prepared in accordance with IFRS and in compliance with the provisions of German commercial law in line with section 315e of the Handelsgesetzbuch (HGB – German Commercial Code). All effective official announcements of the International Accounting Standards Board (IASB) have been applied, i.e. those adopted by the EU in the context of the endorsement process and published in the Official Journal of the EU by the end of the reporting period.

Reporting in the statement of financial position is based on the maturity of the corresponding assets and liabilities. Assets and liabilities are considered current if they are expected to be realised or repaid within the Group's normal operating cycle. The income statement was prepared in line with the nature of expense method.

The financial year is the calendar year. The consolidated financial statements are prepared in Euro. The amounts, including the previous year's figures, are shown in thousands of Euro (EUR k) unless stated otherwise. Please note that differences can occur when using rounded amounts and percentages.

1.1 New financial reporting standards effective in the financial year

As at the time of the preparation of the consolidated financial statements, the following new and amended standards and interpretations are effective for the first time in the reporting year:

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Standard	Title
IFRS 16	Leases
Amendments IFRS 9	Amendments IFRS 9 Prepayment Features with Negative Comensation
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments IAS 28	Amendments IAS 28 Long-term Interests in Associates and Joint Ventures
Amendments IAS 19	Amendments IAS 19 Plan Amendment, Curtment or Settlement
AIP 2015–2017	Improvements IFRS 3, IFRS 11, IAS 12 und IAS 23

With the exception of IFRS 16, the standards and interpretations effective for the first time as at 1 January 2019 had no effect on the consolidated financial statements.

1.2 Changes in key accounting policies in the financial year

The Group applied IFRS 16 for the first time as at 1 January 2019.

IAS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

IFRS 16 sets out the principles for the recognition, measurement, reporting and disclosures in the notes for leases, thus ensuring that lessees and lessors provide all relevant information on the effects of leases.

Assets (from the right of use) and liabilities (from the lease obligation) are now shown in the statement of financial position of the **lessee** for all leases identified in accordance with IFRS 16.

The right of use is measured at cost. At the acquisition date, this comprises the amount from the initial measurement of the lease liability plus any initial direct costs of the lessee.

The lease liability is measured as the present value of the lease payments to be made over the term of the lease. In the PATRIZIA Group, the payments are discounted at the incremental borrowing rate. The incremental borrowing rate is based on the interest rate that the company would have to use for borrowing under comparable economic conditions.

In subsequent measurement, the right of use is written down over the term of the lease. The lease liability is amortised using the effective interest method, taking account of the lease payments made.

The PATRIZIA Group utilises the exemptions under IFRS 16 for short-term leases (with a remaining term of 12 months or less) and low-value leases (with an underlying asset of low value). Neither the lease liability nor the right of use is recognised for these leases. Instead, the lease instalments are expensed on a straight-line basis over the lease term.

Extension and termination options are taken into account if they are sufficiently likely to be exercised, particularly due to economic incentives. Assessing whether an extension or termination option is sufficiently likely to be exercised regularly requires significant judgements.

The rights of use are presented separately in the consolidated statement of financial position under non-current assets. The lease liabilities are also shown separately in the statement of financial position under current and non-current liabilities.

For **lessors,** IFRS 16 does not result in any significant accounting changes as compared to IAS 17. They will continue to classify leases as operating or finance leases and apply similar principles to those in IAS 17. IFRS 16 therefore has no effects on leases in which the Group acts as the lessor.

For the **first-time application** of IFRS 16 as at 1 January 2019 (date of first-time application), the Group chose the modified retrospective approach. As a result of the transition method chosen, the comparative information in these financial statements has not been restated in line with the requirements of the new Standard.

The Group also chose to apply the practical expedient of IFRS 16.C3 for lessees, whereby an entity does not have to reassess whether or not a contract is a lease as at the date of initial application. For these leases, IFRS 16 is applicable from the date of first-time application.

For leases whose remaining term ended within 12 months of the date of first-time application, the application simplification for short-term leases was applied, i.e. the lease instalments were recognised as expenses.

The term of leases with an extension or termination option was determined retroactively based on the known development.

As at the date of first-time application, 1 January 2019, rights of use and liabilities were recognised for leases previously classified as operating leases.

Lease liabilities were recognised at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of first-time application of 0.99%. For portfolios of similar leases (e.g. similar assets, similar remaining terms, similar economic environment), uniform discounting rates were applied.

As at the transition date on 1 January 2019, the rights of use were measured on a simplified basis at the amount of the respective lease liability, adjusted for prepaid or deferred lease payments. The rights of use were not tested for impairment as at the date of first-time application, as there were no indications of impairment as at 31 December 2018. Initial direct costs are not taken into account when measuring the right of use at the date of first-time application.

There were thus no effects on equity from the first-time application of IFRS 16.

The application of IFRS 16 changes the presentation of expenses in connection with these leases in the consolidated income statement. IFRS 16 replaces the previous non-staff operating expenses under other operating expenses with amortisation expenses for rights of use and interest expenses for lease liabilities.

The effects of the first-time application of IFRS 16 in the 2019 financial year were as follows:

- In the opening statement of financial position as at 1 January 2019, rights of use of EUR 29,978k were capitalised for the first time and current and non-current liabilities were recognised in the same amount.
- As at 1 January 2019, the change in deferred tax assets/liabilities as a result of IFRS 16 amounted to EUR 8,993k.
- Amortisation expenses from the rights of use capitalised for the first time in the 2019 financial year amounted to EUR 9,927k.
- The repayment portion of EUR 9,747k and the interest paid from the lease liabilities in the amount of EUR 225k are shown under financing activities in the cash flow statement in the 2019 financial year.

The reconciliation of the obligations from operating leases reported as at 31 December 2018 with the figure for lease liabilities in the opening statement of financial position as at 1 January 2019 is as follows:

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EUR k	01.01.2019
Obligations from operating leases as at 31 December 2018	16,140
Less short-term leases and leases of low-value assets recognised as an expense on a straight-line basis	–1,040
Discounting using the incremental borrowing rate at the date of first-time application of IFRS 16	728
Adjustments due to extension and termination options and changes in contract conditions	13,537
Currency translation difference	613
As at 1 January 2019 leasing liabilities	**29,978**
thereof: Short-term leasing liabilities	5,106
Non-current leasing liabilities	24,872
	29,978

The effects of the first-time application of IFRS 16 on the consolidated statement of financial position as at 1 January 2019 were as follows:

38

EUR k	01.01.2019
Additions in rights of use	29,978
Additions in deferred tax assets	8,993
Additions total assets	**38,971**
Changes of equity	0
Disposals in trade liabilities and other current- and non-current liabilities	0
Additions in deferred tax liabilities	8,993
Additions in short-term- and non-current leasing liabilities	29,978
Additions total equity and liabilities	**38,971**

The effects of the first-time application of IFRS 16 on the consolidated income statement for the 2019 financial year were as follows:

39

EUR k	01.01.–31.12.2019
Disposals in other operating expenses (leasing expenses from previously operating leases)	10,098
Additions in amortisation and depreciation (amortisation of rights of use)	–9,927
Earnings before interest and taxes (EBIT)	**171**
Additions in financial expenses (interest expenses in leasing liabilities)	–225
Earnings before taxes (EBT)	**–54**
Income taxes (deferred taxes IFRS 16)	–884
Consolidated net profit	**–938**

The effects of the first-time application of IFRS 16 on the consolidated cash flow statement for the 2019 financial year were as follows:

40

EUR k	01.01.–31.12.2019
Disposals in lease payments for previous operating leases[1]	9,972
Cash flow from operating activities	**9,972**
Additions in repayments of leasing liabilities	−9,747
Additions interest paid (interest expenses of leasing liabilities)	−225
Cash flow from financing activities	**−9,972**

1 Includes various items of the indirect reconciliation of cash flow from operating activities

1.3 New financial reporting standards effective in future periods

The following standards, amendments to standards and interpretations had already been published by the IASB at the time the consolidated financial statements were prepared, but will only become effective in later reporting periods and will not be applied early by the Group:

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Standard	Title	Date of adoption[1]	Planned adoption
Endorsed			
Amendments IAS 1/IAS 8	Definition of Material	01.01.2020	01.01.2020
Amendments Framework	Amendments to References to the Conceptual Framework in IFRS Standards	01.01.2020	01.01.2020
Amendments IFRS 9/IAS 39 and IFRS 7	Amendments IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform	01.01.2020	01.01.2020
Endorsement pending			
Amendments IFRS 3	Definition of a Business	01.01.2020	01.01.2020
IFRS 17	Insurance contracts	01.01.2021	01.01.2021
IAS 1	Classification of Liabilities as current or non-current	01.01.2022	01.01.2022

1 Adjusted by EU endorsement, if applicable

2 Consolidated group and consolidation methods

2.1 Consolidated group

The consolidated financial statements of PATRIZIA AG include the financial statements of the parent company and the companies it controls (its subsidiaries). The company achieves control when:

– it can exercise control over the investee;
– whose return is dependent on the performance of the equity investment; and
– it can use its control to influence the amount of returns.

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three criteria for control.

Consolidation of a subsidiary begins from the date the company obtains control of the investee and ceases when the company loses control of the investee. The results of subsidiaries acquired or disposed of during the year are recognised in the consolidated income statement and in other comprehensive income from the actual date of acquisition or until the actual date of disposal.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between Group companies are eliminated in full on consolidation.

All companies included in the consolidated financial statements of PATRIZIA AG are listed in the list of shareholdings (annex to the notes). The subsidiaries shown in the list with a profit transfer agreement – except PATRIZIA Augsburg Kapitalverwaltungsgesellschaft mbH, PATRIZIA GrundInvest Kapitalverwaltungsgesellschaft mbH, PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH and PATRIZIA Frankfurt Kapitalverwaltungsgesellschaft mbH – use the practical expedient of section 264(3) HGB. The partnerships also shown in the list of shareholdings use the practical expedient of section 264b HGB.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control over an economic arrangement. This exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement.

An associate is an entity over which the investor has significant influence. Significant influence is presumed if a direct or indirect share of the voting rights of at least 20% is held in another company. The presumption of significance is rebuttable if, despite a share of voting rights of 20% or more, the ability to influence operating and financial policies is prevented by contractual regulations and the exercisable rights are merely protective rights.

Under the equity method, investments in associates or joint ventures are included in the consolidated statement of financial position at cost, reflecting changes in the Group's share of the profit or loss and other comprehensive income of the associate or joint venture after the acquisition date. Losses of an associate or joint venture that exceed the Group's interest in that associate or joint venture are not recognised.

The basis of consolidation comprises 119 subsidiaries (31 December 2018: 113) in addition to the parent company. They are included in the consolidated financial statements in line with the rules of full consolidation. There are also six (31 December 2018: three) equity investments, listed below, that are accounted for using the equity method in the consolidated financial statements.

Associated entities

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Participations in entities accounted for using the equity method	Head office
PATRIZIA WohnModul I SICAV-FIS	Luxemburg
Evana AG	Saarbrücken
Cognotekt GmbH	Köln
control.IT Unternehmensberatung GmbH	Bremen
TIKKURILAN ASEMAKESKUSPYSÄKÖINTI OY	Helsinki
ASK PATRIZIA (GQ) LLP	Manchester

Furthermore, there are holdings of 28.3% in the limited liability capital of a project development company (legal form: GmbH & Co. KG) and 30.0% in the associated general partner (GmbH). There is no significant influence over this company as it cannot be managed or significantly influenced on account of company law regulations and there is no right to make appointments to its executive bodies. The shares in this project development company are measured at fair value through other comprehensive income (FVTOCI).

The reporting dates of the subsidiaries included in the consolidated financial statements are the same as that of the parent company. Their financial statements were prepared using uniform accounting policies.

43 companies (31 December 2018: 45) have not been included in the consolidated group as at the end of the reporting period as they have only minor or no business operations, and are immaterial to the Group and a true and fair view of its financial position and performance.

Business combinations, disposals and intragroup restructuring

The number of Group companies included in the consolidated financial statements developed as follows in the reporting period:

Group companies

Transactions material to the Group are explained below under business combinations, disposals and intragroup restructuring.

Group companies 43

As at 01.01.2019	**113**
Companies acquired	11
Companies founded	9
Mergers	−4
Companies deconsolidated	−10
As at 31.12.2019	**119**

Acquisitions of subsidiaries

PATRIZIA Living Cities Residential Fund

Effective 30 September 2019, PATRIZIA AG acquired 100.0% in PATRIZIA Living Cities Residential Fund SICAV SIF SCS (PATRIZIA Living Cities Residential Fund), Luxembourg, Luxembourg, indirectly through a subsidiary.

In preparing the quarterly statement as at 30 September 2019, the acquisition of PATRIZIA Living Cities Residential Fund was shown as an acquisition of assets, as a “business” as defined by IFRS 3.3 was not acquired in this case. Instead, the transaction focused exclusively on the acquisition of real estate assets held by the companies. The purchase prices for the companies were allocated to the individually identifiable assets and liabilities at the acquisition date on the basis of their fair values.

They were deconsolidated in connection with the successful placement of units in PATRIZIA Living Cities Residential Fund (see also “Company disposals”).

Dixin Toimistot KY

As at 31 October 2019, an office property with an adjacent car park in Helsinki was acquired indirectly via a subsidiary of PATRIZIA AG that has acquired 100.0% of the shares in Dixin Toimistot KY, Helsinki, Finland.

The acquisition of Dixin Toimistot KY is shown in these consolidated financial statements as a purchase, since a “business” as defined by IFRS 3.3 was not acquired in this case. Instead, the transaction focused exclusively on the acquisition of real estate assets held by the companies. The purchase prices for the companies were allocated to the individually identifiable assets and liabilities at the acquisition date on the basis of their fair values.

The acquisition was made in order to expand the range of closed-end fund products. These companies are to be temporarily included in consolidation in the PATRIZIA Group in the fund formation phase and during the placement of the respective shares.

KENZO

By way of a purchase agreement dated 23 December 2018, PATRIZIA AG and its subsidiary PATRIZIA Institutional Clients & Advisory GmbH acquired contractual relationships of KENZO Capital Corporation and KENZO Japan Real Estate GmbH with effect from 1 November 2019.

KENZO is a Japanese investment manager based in Tokyo and managed by a German CEO. The company manages European capital through an existing PATRIZIA asset management company structure.

The company mainly invests in Japanese residential real estate in prime cities of Japan (core/core plus). KENZO had nine team members as at the acquisition date and specialises in consulting and other services in support of real estate investments.

It was included in consolidation for the first time as at 1 November 2019.

a) Acquired assets

The following assets were acquired in the asset deal (including deferred taxes):

Fair value 44

EUR k	2019
Goodwill	6,062
Other intangible assets	3,506
Deferred taxes	2,040
Total non-current assets	**11,608**

This results in goodwill of EUR 6,062k. The main reasons for both the acquisition itself and the recognition of goodwill were the opportunity to enter a new and unfamiliar market environment, the acquisition of corresponding staff expertise and the establishment of sustainable business on this market.

b) Consideration transferred and transaction costs

The purchase price as at the acquisition date consisted of a fixed purchase price of EUR 5,000k, which was paid in equal parts by each of the acquiring companies, and a variable purchase price component (earn-out) of EUR 6,608k.

Ancillary acquisition costs of approximately EUR 502k were incurred in connection with the asset deal. These are reported under other operating expenses in the income statement.

c) Variable purchase price component

The variable purchase price component mainly depends on the contractually agreed EBIT of PATRIZIA Japan KK. The earn-out has a contractual minimum term of four years, which can also be extended. The amount is contractually fixed at a maximum of EUR 10,000k.

e) Effects of the acquisition on consolidated profit

The acquisition of KENZO in the form of an asset deal as at 1 November 2019 does not have any material effects on the consolidated profit for 2019.

Disposal of subsidiaries

In the 2015 financial year, PATRIZIA AG expanded its product range to include closed-end funds. These companies are to be temporarily included in consolidation in the PATRIZIA Group in the fund formation phase and during the placement of the respective shares. The companies listed below again left the PATRIZIA consolidated group with income from deconsolidation of EUR 585k (2018: EUR 234k) and an expense on deconsolidation of EUR 0k (2018: EUR 376k) in the 2019 financial year.

Companies – result from deconsolidation 45

EUR k	2019
PATRIZIA GrundInvest Augsburg eins GmbH & Co. KG	516
PATRIZIA GrundInvest Objekt Mühlheim Die Stadtmitte GmbH & Co. KG	68
Total	**585**

Intragroup restructuring

Various PATRIZIA subsidiaries were merged as intragroup restructuring in the reporting period. TRIUVA France was merged with PATRIZIA France S.A.S as at 31 May 2019, PATRIZIA IBERIA PROPERTY INVESTMENT MANAGEMENT SL with PATRIZIA ACTIVOS IMMOBILIARIOS ESPANA S.L.U. as at 31 July 2019, and SPF IV Management Partners ApS with PATRIZIA Multi Managers A/S as at 30 November 2019.

The above restructuring activities were recognised in other comprehensive income within the consolidated financial statements.

2.2 Acquisition accounting by way of consolidation

All subsidiaries are included in the consolidated financial statements by way of consolidation. Acquired subsidiaries have been accounted for using the acquisition method in accordance with IFRS 3 since 1 January 2002. Acquisitions of interests in companies before this date were effected using the practical expedients of IFRS 1 on the basis of the purchase method of accounting in accordance with the regulations of the German Commercial Code. Under the acquisition method, the consideration transferred in a business combination is measured at fair value. This is calculated as the total of the fair values, as at the acquisition date, of the assets transferred, the liabilities assumed from the former owners of the acquiree and the equity instruments issued by the Group in exchange for the control of the acquiree. Transaction costs associated with the business combination are recognised in profit or loss when incurred.

Consolidation of a subsidiary begins from the date the company obtains control of the investee and ceases when the company loses control of the investee. The cost consists of the cash paid for the acquisition. Goodwill is the excess of the total of the consideration transferred and the amount of all non-controlling interests in the acquiree over the net fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date. Any negative difference – even after reassessment – is recognised in profit and loss. Profit or loss and each component of other comprehensive income are attributed to the shareholders of the parent and to the non-controlling interests. This applies even if this results in the non-controlling interests having a deficit balance.

2.3 Inclusion of joint ventures and associates using the equity method

The equity method is used to present joint ventures and associates in the consolidated financial statements. By contrast to consolidation, the assets, liabilities, expenses and income of the company accounted for using the equity method (pro rata) are not included in the consolidated financial statements when applying the equity method. Instead, the carrying amount of the equity investment is adjusted quarterly in line with the development of the pro rata equity of the investee.

The equity method is applied for the first time when the investee is classified as a joint venture or associate. The cost of the acquired shares is initially compared to the equity attributable to them. Any difference is examined for hidden reserves or hidden liabilities in accordance with consolidation regulations and any remaining difference is accounted for as goodwill or negative goodwill. The carrying amount of the equity investment is adjusted for the pro rata change in equity at the associate in subsequent periods.

2.4 Consolidation of intragroup balances, income and expenses and elimination of intragroup profits

Intragroup balances and transactions, gains and expenses of the companies included in consolidation are eliminated in full on consolidation. Deferred taxes are recognised for temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.

2.5 Currency translation

Transactions in foreign currencies are translated at the relevant exchange rates as at the transaction date. In subsequent periods, monetary assets and liabilities are measured as at the end of the reporting period and the resulting translation differences are recognised in profit or loss. Non-monetary items are measured in terms of historical cost in a foreign currency and translated using the exchange rate at the date of the transaction.

The annual financial statements of the foreign Group companies with a functional currency other than the euro (Group presentation currency) are translated using the modified closing rate method, whereby assets and liabilities are translated at the respective closing rate. Income and expenses are translated at the annual average exchange rate. Exchange differences resulting from this are reported separately in equity.

3 Summary of key accounting policies

The financial statements included in the consolidated financial statements were prepared using uniform accounting policies.

3.1 Goodwill

The goodwill resulting from a business combination is recognised at cost less any impairment and reported separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from the synergies of the combination.

The cash-generating units to which part of the goodwill has been allocated are tested for impairment annually. If there are indications that a CGU is impaired, it is tested more frequently. If the recoverable amount of a cash-generating unit is less than its carrying amount, the impairment loss is initially allocated to the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. The recoverable amount is the higher of the value in use and the fair value less costs to sell.

3.2 Other intangible assets

Other intangible assets essentially include fund management contracts.

Fund management contracts acquired as part of the business combinations with PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH, PATRIZIA UK Ltd., PATRIZIA Multi Managers, PATRIZIA Frankfurt Kapitalverwaltungsgesellschaft mbH, PATRIZIA PROPERTY INVESTMENT MANAGERS LLP and as part of the acquisition of KENZO are recognised separately and measured at fair value as at the acquisition date.

In subsequent periods, like individually acquired intangible assets, these fund management contracts are measured at cost less accumulated amortisation and any accumulated impairment.

The amortisation period for the fund management contracts is based on the expected terms of the fund contracts (one to 27 years). The straight-line method was chosen as their development cannot be reliably determined in advance.

3.3 Software

a) Acquired software

Purchased software, i.e. the granting of an exclusive and generally indefinite right of use for a software licence, is carried at cost at the time of acquisition. In subsequent periods, this is measured at cost less accumulated amortisation and any accumulated impairment.

The cost includes the directly attributable acquisition and provision costs.

Software is amortised using the straight-line method. It begins as soon as the asset can be used and ends on expiry of the useful life or disposal of the asset. The amortisation period is based on the expected useful life. Purchased software is amortised over three to ten years.

b) Cloud computing
Cloud computing contracts grant access to user software in a cloud environment provided by a supplier for a limited contractual term in exchange for a fee ("software rent"). The software as a service (SaaS) service model or the public cloud delivery model are usually agreed as the contract conditions. In these circumstances, cloud computing agreements are regularly viewed as service contracts and recognised as ongoing expenses. Associated implementation costs are generally recognised as an expense in the period in which they are incurred.

3.4 Leases

The PATRIZIA Group has primarily concluded leases for

- business and office premises
- motor vehicles
- IT equipment
- operating and office equipment

Before the first-time application of IFRS 16, the leases were classified as either operating or finance leases as at the date when they were concluded. With the transition to the new leasing standard IFRS 16 as at 1 January 2019, the Group recognised and measured all leases using a uniform model – with the exception of short-term leases and low-value leases. IFRS 16 contains specific transitional provisions and practical expedients that have been utilised by PATRIZIA. For further information on the new accounting provisions applied since 1 January 2019 in relation to leases, please refer to note 1.2 Changes in Key Accounting Policies in the Financial Year (information on IFRS 16).

3.5 Investment property

The qualification of investment property as such is based on a corresponding management resolution to use it to generate rental income and to realise its potential for rent increases and the associated appreciation over a longer period of time. The share used by the company does not exceed 10% of the rental area. Unlike real estate reported under inventories, investment property is not intended for sale in the ordinary course of business or in the construction or development process. It is measured at fair value taking into account the current use, which is the highest and best use. Changes in value affect the results of the Group.

The market value is the fair value. Fair value is measured in accordance with IFRS 13 and is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition has the same content as the definition of market value in accordance with section 194 of the Baugesetzbuch (BauGB – German Federal Building Code). This estimate specifically excludes price assumptions inflated or deflated by special terms or circumstances.

The residential privatisation process for investment property was initiated in previous years and successfully continued in 2019. The assets are valued internally using a detailed project calculation. The key inputs used in this valuation include comparative values from market transactions within the property or its immediate environment, in addition to assumptions regarding the realisation period, potential types of buyer and intended renovation and modernisation measures yet to be implemented.

Fair value measurement of investment property is therefore allocated to level 3 of the IFRS 13 measurement hierarchy. The values calculated are entry prices as defined by IFRS 13, hence the deduction of buyer-side transaction costs is not required in this case.

As at the end of the reporting period, real estate with a total area of 590 square metres an average selling price of EUR 3,373 per square metre is planned for privatisation. In the event of a change in this average potential selling price per square metre, the fair value calculated would be altered accordingly (example: If the average selling price per square metre increases by EUR 100, this would result in an increase in fair value of EUR 55k).

All investment property held by the Group is let. The resulting rental income and the directly related expenses are recognised in the consolidated income statement.

3.6 Operating and office equipment

Equipment is carried at cost at the time of acquisition. In subsequent periods, this is measured at cost less accumulated amortisation and any accumulated impairment.

The cost includes the directly attributable acquisition and provision costs.

Software is amortised using the straight-line method. It begins as soon as the asset can be used and ends on disposal of the asset. The amortisation period is based on the expected useful life. Operating and office equipment is depreciated over three to thirteen years. Low-value assets are written off in full in the year of acquisition.

3.7 Impairment of assets

If there is an indication of impairment, assets that are subject to amortisation or depreciation are tested for impairment. If the reason for impairment no longer applies, the impairment loss is reversed. Assets that are not subject to amortisation or depreciation are tested for impairment as at the end of each reporting period.

3.8 Participations in associated companies

Associates are companies in which PATRIZIA has significant influence on the financial and operating policies (usually on account of direct or indirect voting rights of between 20% and 50%). They are accounted for in the consolidated financial statements using the equity method (see note 4.1.7).

PATRIZIA's share of the results of the associate is recognised in the consolidated income statement after acquisition. The cumulative changes after the acquisition date increase or reduce the carrying amount of the associate. If PATRIZIA's share of the losses of an associate equals or exceeds its interest in the associate, no further shares of losses are recognised. Distributions received from an investee reduce the carrying amount of the investment.

The interest in an associate is the carrying amount of the equity investment together with any long-term interests that, in substance, form part of the owner's net investment in the associate. At the end of each reporting period, PATRIZIA checks for objective evidence of impairment on its investment in the associate. If there is such evidence, PATRIZIA calculates the impairment requirement as the difference between the recoverable amount and the carrying amount of the associate. Any remaining interests are remeasured at fair value when significant influence over the associate is lost. The difference between the carrying amount of the associate and the fair value of the remaining interest, plus any proceeds from the sale, is recognised in profit or loss.

3.9 Classification and measurement of financial assets and financial liabilities

IFRS 9 introduces three basic categories for the classification of financial assets:

- amortised cost;
- fair value through other comprehensive income (FVTOCI); and
- fair value through profit or loss (FVTPL).

Under IFRS 9, financial assets are classified on the basis of the entity's business model for managing financial assets and the characteristics of contractual cash flows. Under IFRS 9, derivatives embedded in contracts where the underlying financial asset falls within the Standard's scope are never accounted for separately. Instead, the hybrid financial instrument as a whole is considered for classification.

Financial assets are not reclassified after initial recognition unless the Group changes its business model for the management of financial assets. In this case, all financial assets concerned are reclassified on the first day of the reporting period following the change in the business model.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

Equity investments are investments that the Group intends to hold for the long term for strategic reasons. In accordance with IFRS 9, the Group has therefore classified these participations as FVTOCI as at the date of initial application. The Group believes that designation as FVTOCI allows more meaningful accounting for its strategic investments in the statement of financial position. Subsequent changes in the fair value of the investment are recognised in other comprehensive income.

Long-term loans whose cash flows do not consist solely of payments of principal and interest are measured at FVTPL in accordance with IFRS 9.

Other loans, trade receivables and other receivables are classified at amortised cost, as are securities that were previously classified as held to maturity.

Impairment of financial assets

In accordance with IFRS 9, the expected credit losses (ECL) method is used. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt instruments measured at FVTOCI, but not to equity investments held as investment securities. In the Group, the following classes of financial instruments are subject to the IFRS 9 impairment model:

- Other loans
- Trade receivables and other financial assets
- Securities
- Cash and cash equivalents

Credit losses are recognised sooner under IFRS 9 than under IAS 39.

Hedge accounting

The Group did not use hedging accounting as at the end of the reporting period.

Financial liabilities

Interest-bearing loans are initially measured at fair value less any transaction costs directly attributable to borrowing. They are not designated as at amortised cost. After initial recognition, interest-bearing loans are measured at amortised cost using the effective interest method less impairment.

Derecognition of financial assets and financial liabilities

A financial asset (or part of a financial asset or part of a group of financial assets) is derecognised when the requirements of IFRS 9 are met.

A **financial liability** is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

If a financial liability is exchanged for a different financial liability to the same lender with substantially different terms or if the terms of an existing financial liability are substantially changed, such an exchange or change of terms is treated as the derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognised in profit or loss.

3.10 Inventories

Real estate assets intended for sale in the ordinary course of business or acquired for development and resale is reported under “Inventories”. Development also includes purely modernisation and renovation work. Such properties are assessed and qualified as inventories in the context of the purchase decision, and this is implemented accordingly in financial reporting as at the acquisition date.

PATRIZIA has defined a normal operating cycle as three years, as experience shows that a majority of the units intended for sale are sold in this time. However, it is still intended to sell inventories directly even if they are not sold within three years (e.g. due to unforeseen or foreseen changes in economic conditions).

Inventories are measured at the lower of cost and net realisable value. Cost includes the directly attributable acquisition and provision costs, including in particular the cost of assets in addition to incidental costs of acquisition (notary fees, etc.). Cost also includes the costs directly attributable to the real estate asset development process, including renovation costs in particular. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Borrowing costs not directly attributable to the acquisition, construction or production of a qualifying asset are recognised as an expense when incurred. Net realisable value is the estimated selling price in the ordinary course of business less the renovation and modernisation costs and the costs to make the sale.

3.11 Cash and cash equivalents

The cash and cash equivalents shown in the statement of financial position comprise cash in hand and bank balances with an original term of less than three months.

3.12 Retirement benefit obligations

Defined benefit pension plans are measured using the projected unit credit method on the basis of an actuarial pension report. Retirement benefit obligations in the statement of financial position are calculated from the present value of the defined benefit obligation at the end of the reporting period. The Group recognises actuarial gains and losses on defined benefit pension plans in profit or loss in the period in which they occur.

3.13 Other provisions

Provisions are liabilities of uncertain timing or amount. The recognition of a provision requires a present obligation arising from a past event, that a corresponding outflow of resources is probable and that the amount of this outflow of resources can be reliably estimated. Provisions are measured as the best possible estimate of the amount of the obligation. Provisions are discounted where the effect of the time value of money is material.

3.14 Taxes

Current income taxes

Current tax assets and tax liabilities for the current and earlier period are measured at the amount expected to be refunded by the tax authority/paid to the tax authority. The calculation of this amount is based on the tax rates and tax laws in effect as at the end of the reporting period.

Tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities and these relate to the same taxable entity and taxes levied by the same taxation authority.

Deferred taxes

Deferred taxes are recognised on temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax base using the liability method as at the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences, unutilised tax loss carryforwards and unused tax credits to the extent that it is likely that future taxable income will be generated against which these deductible temporary differences and the unutilised tax loss and interest carryforwards and unused tax credits can be offset.

The carrying amount of deferred tax assets is assessed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred tax asset can be at least partially utilised. Unrecognised deferred tax assets are assessed at the end of each reporting period and recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled. The tax rates and tax laws in effect as at the end of the reporting period apply. Future tax rate changes are taken into account at the end of the reporting period if material effectiveness requirements have been met in legislation.

Deferred taxes on items recognised in other comprehensive income are not recognised in the income statement but rather in other comprehensive income as well.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities and these relate to the same taxable entity and income taxes levied by the same taxation authority.

3.15 Borrowing costs

Borrowing costs that relate to the production of a qualifying asset are capitalised. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. This requirement is fulfilled by all project developments carried out by the Group. All other borrowing costs are recognised as an expense when incurred.

3.16 Performance obligations and methods of revenue recognition

Revenue is measured on the basis of the consideration agreed in a contract with a client. The Group recognises revenue when control of a good or service is transferred to a client.

Revenues from management services

Revenues from management services typically break down as follows:

- Management fees
- Transaction fees (services in connection with the acquisition, construction or disposal of assets or shares in them)
- Performance fees

These performance obligations are distinct as the investor typically receives a distinct benefit from the fulfilment of a performance obligation and the services promised are separable from other services under the same contract.

PATRIZIA typically receives a monthly/quarterly management fee for its (asset) management services and a (e.g. annual) performance fee if a defined investment yield is exceeded. (Asset) management is a service performed over time.

Management fees are typically based on the fund volume as at the end of the month, which fluctuates depending on the market values of the assets regularly determined by external experts. Any uncertainty regarding consideration is typically resolved when the fund volume is determined as at the end of the month.

Among other scenarios, PATRIZIA receives a performance fee if the investment vehicle has outperformed its benchmark or if defined investment yields are exceeded. The performance fee can relate to one or more years and also constitutes consideration subject to uncertainty. Owing to potential clawback agreements, even performance fees already received can still be subject to uncertainty. Clawback obligations are measured based on the most likely future performance of a portfolio, taking consideration already received for past performance into account.

Transaction fees are typically for performance obligations fulfilled at a point in time, namely the acquisition or disposal of assets or portfolios. In some cases, there can also be performance-based consideration depending on a portfolio's performance.

Revenues from management services are invoiced on revenue recognition. Invoices for management fees are typically payable within 14 days, while invoices for transaction fees are typically due within zero to 60 days.

Proceeds from the sale of principal investments

Proceeds from the sale of principal investments are recognised when control of assets has transferred to the buyer.

Buyers achieve control of real estate when ownership, rights and liabilities are transferred to them. An enforceable right to payment arises at this time. The amount of revenues is the contractually agreed transaction price. Most of the consideration is due when legal title has transferred. The transaction price therefore does not include a significant financing component.

Revenues from incidental costs

Revenues from incidental costs are recognised over the period in which the services are rendered. The tenant typically receives and consumes the services at the same time. Revenues are recognised using input-based methods, whereby revenues are recognised based on the costs incurred or resources consumed in proportion to the total inputs expected to be required to fulfil the performance obligation. The agreed consideration is due monthly.

3.17 Accounting assumptions and estimates

When preparing consolidated financial statements, to a certain extent assumptions and estimates are made that affect the amount and reporting of assets and liabilities, income and expenses and contingent assets and liabilities in the period under review. Estimation involves judgements based on the latest available, reliable information. The assets, liabilities, income, expenses and contingent assets and liabilities recognised on the basis of estimates can differ from the amounts recognised in future. Changes are taken into account when new information is available. Estimates are essentially made for the following:

- measurement of investment property
- calculation of the recoverable amount to assess the necessity and amount of impairment losses, in particular on real estate reported under “Inventories”
- determination of the transaction price for variable consideration
- recognition and measurement of provisions
- measurement of bad debts
- recoverability of deferred tax assets
- measurement of equity investments
- measurement of goodwill
- measurement of fund management contracts

Assumptions made for the valuation of real estate portfolios could subsequently prove to be partially or wholly inaccurate, or there could be unexpected problems or undetected risks in connection with real estate portfolios. Such developments, which are also possible at short notice, could negatively affect the result of operations, reduce the value of the assets acquired and significantly reduce revenues generated from the privatisation of apartments and current rents. In addition to the specific factors for each property, the recoverability of real estate assets is primarily determined by the development of the real estate asset market and the general economic situation. There is the risk that the Group’s valuations would have to be corrected in the event of a negative development on the real estate market or in the general economic situation. Please see note 3.16 for information on judgement in determining the transaction price for variable consideration.

Especially for the measurement of participations held by PATRIZIA, various judgements applied in accordance with IFRS 9 give rise to different fair values that must be recognised in the consolidated financial statements. The measurement of PATRIZIA’s participation in Dawonia has been discussed and scrutinised in enforcement proceedings that are currently pending before the German Financial Reporting Enforcement Panel (FREP). These proceedings concern the consolidated financial statements as at 31 December 2016 and specifically the measurement of participations for which there is no quoted price on an active market. The proceedings were referred to the German Federal Financial Supervisory Authority (BaFin) in January 2019 and were not yet concluded at the time this report was prepared. Details regarding the impact on the financial statements can be found in the notes to the 2018 consolidated financial statements of PATRIZIA AG (formerly PATRIZIA Immobilien AG).

4 Notes the consolidated balance sheet – assets

4.1 Non-current assets

The breakdown and development in non-current assets, and amortisation and depreciation, in the financial year and the previous year are shown below

4.1.1 Goodwill

The PATRIZIA Group has recognised goodwill of EUR 210,292k (31 December 2018: EUR 201,109k). The goodwill will not be deductible in future tax periods, and is therefore treated as a permanent difference in the calculation of deferred taxes.

In the 2019 financial year, there was organisational restructuring at PATRIZA involving a change in corporate management and monitoring. On this basis, the segment structure was redefined and new cash-generating units were identified accordingly.

As at 31 December 2018, goodwill was allocated to the following cash-generating units as follows:

- PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH: EUR 610k
- PATRIZIA Multi Managers: EUR 6,756k
- TRIUVA: EUR 132,942k
- Rockspring: EUR 60,801k

Reorganisations and changes in corporate management and monitoring constitute an indication of impairment and require an impairment test before the reallocation of goodwill.

Goodwill is to be tested for impairment on the basis of the previous cash-generating units. This was done as at 31 August 2019 and did not give rise to any impairment requirement.

Following the implemented reorganisation, corporate management and monitoring take place on the basis of functions. This functional management is carried out in the “Management Services” and “Investments” segments. Within the segments, the cash-generating units are defined as follows:

“Management Services” segment:

- Core business
- Multi Managers
- Retail business
- Alternative investments
- KENZO Japan

“Investments” segment:

- Co-investments
- Principal investments
- Retail business assets (warehousing)

As at 31 December 2019, goodwill was allocated to the cash-generating units as follows:

- Core business: EUR 198,582k
- Multi Managers: EUR 6,752k
- KENZO Japan: EUR 4,958k

The previous year's separate cash-generating and goodwill-bearing units PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH, TRIUVA and Rockspring have been merged in the newly defined Core Business cash-generating unit.

The goodwill from the acquisition of KENZO is divided between the Core Business segment with EUR 1,104k and the KENZO Japan segment with EUR 4,958k.

The Group tests these figures for impairment at least once per year in accordance with IAS 36.

The recoverable amount of the cash-generating units was determined by calculating the value in use using measurement methods based on discounted cash flows. These discounted cash flows are based on five-year forecasts derived from financial planning approved by the Management Board. The cash flow forecasts take into account past experience and are based on management estimates of future developments and external economic data. The cash flows were derived from forecasts of future cash flows from the respective fund management contracts and realised synergies. Cash flows beyond the planning period are extrapolated at a growth rate of 1.0% p.a.

The weighted average cost of capital (WACC) was used to discount the cash flows applying costs of capital before income taxes specific to the cash-generating units.

In 2018, the following cost of capital rates (before taxes) were derived for the respective cash-generating units:

- PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH: 8.1%
- PATRIZIA Multi Managers: 7.2%
- TRIUVA: 8.1%
- PATRIZIA Real Estate Investment Management S.à r.l.: 8.0%
- Rockspring: 8.2%

The following cost of capital rates (before taxes) were derived for the new goodwill-bearing cash-generating units:

- Core business: 7.0%
- Multi Managers: 6.0%
- KENZO Japan: 7.0%

As in the previous year, the impairment test performed in 2019 did not give rise to any impairment requirement as the recoverable amount exceeds the carrying amount of the respective cash-generating unit.

These premises and the underlying method can have a significant influence on the respective values and ultimately on the amount of possible goodwill impairment.

Sensitivity analyses were carried out for the key assumptions used in the impairment testing of cash-generating units. These confirm that no impairment is required.

4.1.2 Other intangible assets

Other intangible assets 46

	2019			2018		
EUR k	Cost	Amortisation	Carrying amounts	Cost	Amortisation	Carrying amounts
As at 01.01.	**222,048**	**–55,486**	**166,562**	**52,499**	**–17,275**	**35,224**
Additions	3,561	–40,250	–36,689	0	–36,683	–36,683
Changes in the consolidated group	0	0	0	169,549	0	169,549
Disposals	–2,809	2,802	–7	0	0	0
Foreign exchange differences	3,272	–1,244	2,028	0	–1,528	–1,528
As at 31.12.	**226,072**	**–94,178**	**131,895**	**222,048**	**–55,486**	**166,562**

In the purchase price allocation for PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH, PATRIZIA UK Ltd., PATRIZIA Multi Managers, TRIUVA and Rockspring from the previous year and for KENZO from the current year, hidden reserves on other intangible assets were identified. Amortisation in the amount of EUR 40,242k (2018: EUR 29,853k) was recognised on other intangible assets and in the amount of EUR 8k (2018: EUR 6k) on licenses in the reporting year. Impairment testing of fund management contracts as at 31 December 2019 resulted in impairment losses on seven fund management contracts of EUR 9,285k (2018: EUR 6,824k).

Currency translation for Rockspring's fund management contracts as at the end of the reporting period resulted in a negative currency effect of EUR 2,028k (2018: EUR 1,528k).

The addition in the financial year includes fund management contracts of EUR 3,505k in connection with the KENZO asset deal.

Significant portions of the other intangible assets reported as at the end of the reporting period relate to the fund management contracts of TRIUVA at EUR 65,260k (31 December 2018: EUR 83,116k), Rockspring at EUR 33,448k (31 December 2018: EUR 52,691k) and PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH at EUR 23,960k (31 December 2018: EUR 26,949k).

Please also see the accounting policies under 3.2 Other intangible assets.

4.1.3 Software

Software 47

	2019			2018		
EUR k	Cost	Amortisation	Carrying amounts	Cost	Amortisation	Carrying amounts
As at 01.01.	**29,852**	**−18,456**	**11,396**	**26,456**	**−15,249**	**11,207**
Additions	2,531	−3,601	−1,070	2,493	−3,327	−834
Changes in the consolidated group	0	0	0	1,071	0	1,071
Disposals	0	0	0	−168	120	−48
Foreign exchange differences	477	−477	0	0	0	0
As at 31.12.	**32,860**	**−22,534**	**10,326**	**29,852**	**−18,456**	**11,396**

4.1.4 Rights of use

The Group applied IFRS 16 for the first time as at 1 January 2019.

For the first-time application of IFRS 16 as at 1 January 2019 (date of first-time application), the Group chose the modified retrospective approach. As a result of the transition method chosen, the comparative information in these financial statements has not been restated in line with the requirements of the new Standard. See note 1.2 for further details.

Rights of use 48

	2019		
EUR k	Cost	Amortisation	Carrying amounts
As at 01.01.	**0**	**0**	**0**
Additions	34,807	−9,927	24,879
Disposals	−25	10	−14
Foreign exchange differences	153	−30	123
As at 31.12.	**34,935**	**−9,946**	**24,988**

The rights of use broke down as follows

Rights of use 49

EUR k	2019
Rental contracts for business and office premises	21,656
Motor vehicles	1,705
Information Technology (IT)	1,627
Total	**24,988**

4.1.5 Investment property

Investment property 50

	2019	2018
EUR k	Investment property	Investment property
As of 01.01.	**8,308**	**15,979**
Foreign exchange differences	0	0
Addition	599	58
Disposal	–2,310	–11,704
Disposal Depreciation	–3,972	0
Positive changes in market value	0	3,980
Negative changes in market value	–791	–5
As at 31.12.	**1,835**	**8,308**

There are still two investment properties in Munich as at the end of the reporting period.

On the basis of the fair value of the portfolio as a whole as at 31 December 2019, the average fair value is EUR 3,110 (31 December 2018: EUR 2,304) per square metre, with a multiplier of 14 (2018: 29) in relation to the target rent. The change in these average values is due to further sales from the portfolio.

There were no loan agreements for which investment property was pledged as at 31 December 2019.

Including non-periodic effects, investment property gave rise to rental revenues of EUR 114k (2018: EUR 41k) and a cost of materials of EUR 1,227k (2018: EUR 1,900k) in the reporting period.

4.1.6 Operating and office equipment

Equipment 51

	2019			2018		
EUR k	Cost	Amortisation	Carrying amounts	Cost	Amortisation	Carrying amounts
As at 01.01.	**16,139**	**–10,249**	**5,890**	**11,509**	**–7,026**	**4,483**
Additions	2,170	–1,784	386	1,770	–2,226	–456
Changes in the consolidated group	0	0	0	4,220	–2,014	2,206
Disposals	–1,198	910	–287	–1,360	1,022	–338
Foreign exchange differences	150	–83	67	0	–5	–5
As at 31.12.	**17,261**	**–11,206**	**6,056**	**16,139**	**–10,249**	**5,890**

4.1.7 Participations in companies accounted for using the equity method

Participations in companies accounted for using the equity method 52

	2019			2018		
EUR k	Cost	At equity adjustment	Carrying amounts	Cost	At equity adjustment	Carrying amounts
As at 01.01.	**65,571**	**10,570**	**76,141**	**80,455**	**8,450**	**88,905**
Additions	4,386	725	5,111	5,278	11,852	17,130
Changes in the consolidated group	3,416	0	3,416	0	0	0
Disposals	–6,565	–9,090	–15,655	–20,159	–9,732	–29,891
Foreign exchange differences	22	0	22	–3	0	–3
As at 31.12.	**66,830**	**2,205**	**69,035**	**65,571**	**10,570**	**76,141**

The item “Participations in companies accounted for using the equity method” breaks down as follows:

53

Participations in companies accounted for using the equity method	Head office	Equity investment
PATRIZIA WohnModul I SICAV-FIS	Luxemburg	10.10%
EVANA AG	Saarbrücken	25.01%
Cognotekt GmbH	Köln	13.07%
control.IT Unternehmensberatung GmbH	Bremen	10.00%
TIKKURILAN ASEMAKESKUSPYSÄKÖINTI OY	Helsinki	45.00%
ASK PATRIZIA (GQ) LLP	Manchester	50.00%

The companies listed above are included in the consolidated financial statements of PATRIZIA AG in accordance with the equity method.

The investments in the companies Cognotekt GmbH, control.IT Unternehmensberatung GmbH and TIKKURILAN ASEMAKESKUSPYSÄKÖINTI OY were acquired in the 2019 financial year.

Ask PATRIZIA (GQ) LLP is a joint venture for a real estate project development in Newcastle/Gateshead in the north of England.

For reasons of materiality, additional information on this joint venture Ask PATRIZIA (GQ) LLP will be dispensed with below and information will only be provided on the associates PATRIZIA WohnModul I SICAV-FIS, EVANA AG, control.IT Unternehmensberatung GmbH, Cognotekt GmbH and TIKKURILAN ASEMAKESKUSPYSÄKÖINTI OY.

The strategy of PATRIZIA WohnModul I SICAV-FIS is primarily the acquisition of project developments and revitalisation properties. Its intended exit strategy is block sales and individual privatisation. Through its investment in PATRIZIA WohnModul I SICAV-FIS, PATRIZIA is subject to the usual risks specific to properties such as market developments in the privatisation of residential properties and project developments in addition to interest rate fluctuations.

A summary of the financial information on PATRIZIA WohnModul I SICAV-FIS is shown below.

Summary of the financial information of the PATRIZIA WohnModul I SICAV-FIS 54

EUR k	2019	2018
Current assets	1,072,365	1,376,833
Non-current assets	2,320	4,578
Current liabilities	91,623	71,772
Non-current liabilities	417,236	606,770
Revenues	57,748	202,344
Net income/Total comprehensive income	**22,292**	**115,334**

The share of the profits of PATRIZIA WohnModul I SICAV-FIS attributable to the PATRIZIA Group amounts to EUR 2,251k (2018: EUR 12,054k) in the reporting period.

Statement of reconciliation from the financial information presented to the carrying amount of the equity investment in PATRIZIA WohnModul I SICAV-FIS:

55

EUR k	2019	2018
Net assets of associated company[1]	562,671	700,468
Group shareholding	10.10%	10.10%
Other adjustments	165	150
Carrying amount of the equity investment	**56,995**	**70,898**

1 The net assets of the associate have been adjusted for non-controlling interests

Other adjustments include income from participations in companies that, based on their substance, are attributable to the associate.

PATRIZIA WohnModul I SICAV-FIS paid total distributions of EUR 15,655k (2018: EUR 26,498k) to PATRIZIA AG in the reporting period. The distributions were recognised in other comprehensive income against the participation in associated companies.

EVANA AG is a provider of data management services and artificial intelligence in the real estate industry. EVANA AG's strategy is the development of self-learning algorithms for the processing and evaluation of large data volumes.

Through its investment in EVANA AG, PATRIZIA is subject to the risk of delays in the product's market launch and sales success.

A summary of the financial information on EVANA AG is shown below.

Summary of the financial information of the EVANA AG 56

EUR k	2019	2018
Current assets	825	3,405
Non-current assets	694	962
Current liabilities	2,247	811
Non-current liabilities	0	0
Revenues	1,172	33
Net income/Total comprehensive income	**−4,284**	**−1,032**

The share of the loss of EVANA AG attributable to the PATRIZIA Group amounts to EUR 1,071k (2018: EUR 202k) in the reporting period.

Statement of reconciliation from the financial information presented to the carrying amount of the equity investment in EVANA AG:

57

EUR k	2019	2018
Net assets of associated company	3,855	8,139
Group shareholding	25.01%	25.01%
Goodwill	2,964	2,964
Other adjustments	40	−177
Carrying amount of the equity investment	**3,968**	**4,823**

Cognotekt GmbH is a provider of data management services in connection with artificial intelligence.

Through its investment in Cognotekt GmbH, PATRIZIA is subject to the risk of delays in the product's market launch and sales success.

A summary of the financial information on Cognotekt GmbH is shown below.

Summary of the financial information of the Cognotekt GmbH 58

EUR k	2019
Current assets	1,812
Non-current assets	1,233
Current liabilities	1,864
Non-current liabilities	386
Revenues	2,330
Net income/Total comprehensive income	**−2,138**

The share in the loss of Cognotekt GmbH attributable to the PATRIZIA Group amounts to EUR 140k in the reporting period.

Statement of reconciliation from the financial information presented to the carrying amount of the equity investment in Cognotekt GmbH:

59

EUR k	2019
Net assets of associated company	5,153
Group shareholding	13.07%
Goodwill	1,675
Other adjustments	120
Carrying amount of the equity investment	**2,468**

control.it Unternehmensberatung GmbH is a provider of asset and portfolio management systems with comprehensive digitalisation strategies. Through its investment in control.IT Unternehmensberatung GmbH, PATRIZIA is subject to the risk of general competition and demand for IT projects in the context of digitalisation in the real estate industry.

A summary of the financial information on control.IT Unternehmensberatung GmbH is shown below.

Summary of the financial information of the control.IT Unternehmensberatung GmbH 60

EUR k	2019
Current assets	5,734
Non-current assets	358
Current liabilities	329
Non-current liabilities	147
Revenues	6,765
Net income/Total comprehensive income	**1,262**

The share in the profits of control.IT Unternehmensberatung GmbH attributable to the PATRIZIA Group amounts to EUR 43k in the reporting period.

Statement of reconciliation from the financial information presented to the carrying amount of the equity investment in control.IT Unternehmensberatung GmbH:

61

EUR k	2019
Net assets of associated company	11,316
Group shareholding	10.00%
Goodwill	391
Other adjustments	223
Carrying amount of the equity investment	**1,746**

TIKKURILAN ASEMAKESKUSPYSÄKÖINTI OY is a car park operator company that operates the car park for the entire Dixi building complex comprising a shopping centre and an office building near Helsinki with a total of 500 parking spaces.

This participation results from the addition of an office property through the acquisition of Dixin Toimistot KY, Helsinki, Finland (see note 2.1) for the purposes of contribution to a closed-end fund and subsequent placement of the respective units in the following year.

Through its investment in TIKKURILAN ASEMAKESKUSPYSÄKÖINTI OY, PATRIZIA is subject to the usual risks specific to real estate assets such as market developments.

A summary of the financial information on TIKKURILAN ASEMAKESKUSPYSÄKÖINTI OY is shown below.

Summary of the financial information of the TIKKURILAN ASEMAKESKUSPYSÄKÖINTI OY 62

EUR k	2019[1]
Current assets	109
Non-current assets	14,390
Current liabilities	106
Non-current liabilities	0
Revenues	292
Net income/Total comprehensive income	**0**

1 The financial information of the associated company is based on values at the time of acquisition

The share in the net income of TIKKURILAN ASEMAKESKUSPYSÄKÖINTI OY attributable to the PATRIZIA Group amounts to EUR 0k in the reporting period.

Statement of reconciliation from the financial information presented to the carrying amount of the equity investment in TIKKURILAN ASEMAKESKUSPYSÄKÖINTI OY:

63

EUR k	2019
Net assets of associated company	7,591 [1]
Group shareholding	45.00%
Other adjustments	0
Carrying amount of the equity investment	**3,416**

1 The net assets of the associated company are based on values at the time of acquisition

4.1.8 Participations

Participations

64

EUR k	2019				2018			
	Cost	First-time application IFRS 9	Revaluation IFRS 9	Carrying amounts	Cost	First-time application IFRS 9	Revaluation IFRS 9	Carrying amounts
As at 01.01.	**98,059**	**347,666**	**53,516**	**499,241**	**89,114**	**0**	**0**	**89,114**
Additions	3,982	0	**0**	3,982	355	0	0	355
Changes in the consolidated group	0	0	**0**	0	11,284	0	0	11,284
Disposals	−26,656	0	−267	−26,924	−2,801	0	0	−2,801
Positive changes in market value	0	0	58,471	58,471	0	347,666	53,516	401,182
Negative changes in market value	0	0	−9,388	−9,388	0	0	0	0
Foreign exchange differences	−2	0	337	335	107	0	0	107
As at 31.12.	**75,383**	**347,666**	**102,668**	**525,716**	**98,059**	**347,666**	**53,516**	**499,241**

The item “Participations” contains the following material shares:

- PATRoffice Real Estate GmbH & Co. KG 6.25% (31 December 2018: 6.25%)
- Sono west Projektentwicklung GmbH & Co. KG 30.0% (31 December 2018: 28.3%)
- Projekt Feuerbachstraße Verwaltung GmbH 30.0% (31 December 2018: 30.0%)
- Seneca Holdco SCS 5.1% (31 December 2018: 5.1%)
- Dawonia GmbH 5.1% (31 December 2018: 5.1%)
- OSCAR Lux Carry SCS 0.1% (31 December 2018: 0.1%)
- TRIUVA/IVG logistics 11.0% (31 December 2018: 11.0%)
- TRIUVA/IVG commercial 2.1% (31 December 2018: 2.1%)
- Alliance 5.1% (31 December 2018: 5.1%)

4.1.9 Loans

Loans 65

EUR k	2019 Cost	2019 Amortisation	2019 Carrying amounts	2018 Cost	2018 Amortisation	2018 Carrying amounts
As at 01.01.	**27,513**	**0**	**27,513**	**23,291**	**0**	**23,291**
Additions	685	300	985	4,222	0	4,222
Changes in the consolidated group	0	0	0	0	0	0
Disposals	−221	0	−221	0	0	0
Foreign exchange differences	0	0	0	0	0	0
As at 31.12.	**27,977**	**300**	**28,276**	**27,513**	**0**	**27,513**

Loans were repaid and granted as a result of investments in and divestments of non-current investment securities.

Loans classified at amortised cost have interest rates of 2.5% to 5.0% (2018: 3.0% to 5.0%) and a remaining term of 1 to 19 years. Long-term loans at fair value through profit or loss have an agreed interest rate of 1.25% (2018: 1.25%) and a remaining term of up to one year.

4.2 Tax assets

Current tax assets of EUR 17,318k (31 December 2018: EUR 15,585k) are essentially recognised for receivables due to excess payment of taxes and refunds of capital gains tax in the financial year.

4.3 Inventories

Inventories include assets held for sale in the normal course of business.

Inventories are composed as follows:

Inventories 66

EUR k	2019	2018
Property intended for sale	100,170	57,724
Properties in the development phase	13,038	13,810
Total	**113,208**	**71,534**

The “Real estate assets in the development phase” item includes the Trocoll House property, which was acquired by a subsidiary of PATRIZIA AG in Greater London in 2016.

The change in inventories of EUR 41,674k chiefly results from the addition from the acquisition of Dixin Toimistot KY, Finland, in the amount of EUR 64,090k and other real estate assets newly acquired and held temporarily for the purposes of placement via closed-end funds in the amount of EUR 27,465k, as well as from the disposal of various real estate asset units in the privatisation portfolio.

4.4 Current receivables and other current assets

Current receivables and other current assets break down as follows:

Current receivables and other current assets 67

EUR k	31.12.2019	31.12.2018
Trade receivables	**168,773**	**127,618**
Receivables from services	92,862	97,736
Receivables from property sales	19,072	16,690
Other	56,838	13,192
Other current assets	**211,963**	**227,838**
Total	**380,735**	**355,456**

The increase in other trade receivables is chiefly due to deferred acquisition and performance fees that were generated on the basis of a high transaction volume as at the end of the year and will affect cash flow in subsequent periods.

Other current assets break down as follows:

Other current assets 68

EUR k	31.12.2019	31.12.2018
Term deposits	185,000	208,000
Receivables from other investees and investors	5,354	3,884
Other	21,608	15,954
As at 31.12.	**211,963**	**227,838**

As term deposits of EUR 185,000k (31 December 2018: EUR 208,000k) have terms of more than three months, as at the end of the reporting period they were reclassified from cash and cash equivalents to current receivables and other current assets.

The “Other” item essentially comprises deposits, creditors with debit balances, loan receivables and prepaid expenses. The increase mainly results from the acquisition of Dixin Toimistot KY, Helsinki, Finland.

Receivables and other current assets have a remaining term of less than one year. The carrying amount of the receivables and other current assets is their fair value.

4.5 Securities, cash and cash equivalents

“Cash and cash equivalents” comprises cash and short-term bank deposits held by the Group. The carrying amount of these assets is their fair value.

Cash funds were invested in short-term, money market securities in the context of active liquidity management. An amount of EUR 1,000k (31 December 2018: EUR 3,000k) was invested in short-term securities. These are reported separately in the statement of financial position. A further amount of EUR 185,000k (31 December 2018: EUR 208,000k) was invested in short-term term deposits with a maturity of more than three months. These term deposits are reported in the consolidated balance sheet under current receivables and other current assets.

Available liquidity 69

EUR k	31.12.2019	31.12.2018
Cash and cash equivalents	449,084	330,598
Term deposits	185,000	208,000
Securities	1,000	3,000
Liquidity	**635,084**	**541,598**
- Regulatory reserve for asset management companies	–22,266	–26,185
- Transaction related liabilities and blocked cash	–5,469	–8,466
- Liquidity in closed-end funds business property companies	–388	–61
= Available liquidity	**606,961**	**506,886**

5 Notes to the consolidated balance sheet – equity and liabilities

5.1 Equity

Please see the statement of changes in equity for information on changes in equity.

5.1.1 Share capital

As in the previous year, the share capital of the company amounted to EUR 91,059,631 as at the end of the reporting period and was divided into 91,059,631 no-par-value registered shares. Changes in equity are shown in the statement of changes in equity.

First Capital Partner GmbH holds 47,844,484 no-par-value shares in PATRIZIA AG (31 December 2018: 47,755,907), corresponding to a shareholding of 51.81% (31 December 2018: 51.71%).

For information on the authorisation of the Management Board to issue and buy back shares, see section 3.1 of the Group management report.

5.1.2 Capital reserves

The capital reserves of EUR 155,222k as at 31 December 2019 were unchanged as compared to the prior period.

5.1.3 Retained earnings

The legal reserves reported under retained earnings in the amount of EUR 505k as at 31 December 2019 were unchanged as compared to the prior period.

5.1.4 Treasury shares

As at 31 December 2019, the number of treasury shares and their total value were unchanged year-on-year at 1,291,845 and EUR 21,678,892.

5.1.5 Consolidated unappropriated profit

The consolidated unappropriated profit increased from EUR 862,421k to EUR 889,160k as at 31 December 2019.

A cash dividend of EUR 24,576k (2018: EUR 21,197k) was distributed to the company's shareholders in the reporting year.

5.1.6 Non-controlling interests

There were non-controlling interests of EUR 30,359k as at 31 December 2019 (31 December 2018: EUR 10,682k).

Please also see the comments on "Business combinations, disposals and intragroup restructuring" under 2.1 Consolidated Group.

A profit share of EUR 3,478k (31 December 2018: EUR 6,456k) was allocated to non-controlling interests in the reporting period.

As at 31 December 2019, profit shares of EUR 548k (31 December 2018: EUR 2,819k) had been withdrawn by non-controlling interests. These are payments to non-controlling interests, some of whom are also employed by the company.

As part of the internal restructuring of the Group, PATRIZIA acquired non-controlling interests of EUR 364k.

Subsequent purchase price costs of EUR 456k were incurred for non-controlling interests in PATRIZIA Investment Management S.C.S that were already acquired in the 2018 financial year.

During the year under review, a capital increase was implemented at PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH, in which non-controlling interests participated in the amount of EUR 255k.

A total of EUR 16,254k (31 December 2018: EUR 17k) in connection with the remeasurement of financial instruments pursuant to IFRS 9 and a total of EUR −180k (31 December 2018: EUR 0k) for the measurement of the defined benefit obligation (DBO) pursuant to IAS 19 are reported in the 2019 financial year.

The addition and disposal of non-controlling interests in the amount of EUR 4,378k results from the indirect acquisition of PATRIZIA Living Cities Residential Fund SICAV SIF SCS (PATRIZIA Living Cities Residential Fund), Luxembourg, and the successful placement of units in the PATRIZIA Living Cities Residential Fund (see note 2.1 Acquisitions of Subsidiaries).

5.2 Deferred tax liabilities

The material deferred tax assets and liabilities, and changes in them, are shown below:

Deferred tax assets/liabilities 70

EUR k	31.12.2019 Assets	31.12.2019 Liability	31.12.2018 Assets	31.12.2018 Liability
Investment property	0	144	0	948
Participations	1,714	66,400	1,697	57,800
Liabilities/Provisions	6,905	262	4,021	0
Fund management contracts due to company acquisitions[1]	0	36,439	0	47,876
Leasing	6,948	7,839	0	0
Other	629	990	202	2,010
Consolidation	1,108	104	182	1,754
Total	**17,304**	**112,178**	**6,102**	**110,387**

1 Primarily consisting of deferred taxes from fund management contracts of TRIUVA, Rockspring and PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH

Owing to the uncertainty of the dissolution of the tax group, deferred tax assets were not recognised for losses prior to joining the tax group of EUR 50k (31 December 2018: EUR 50k). The losses can be carried forward indefinitely.

In addition, deferred tax assets were not recognised for income tax loss carryforwards of EUR 149,795k (31 December 2018: EUR 103,528k) at 46 companies (31 December 2018: 24 companies) as their eligibility for tax purposes is uncertain. These losses can also be carried forward indefinitely.

The temporary differences from participations in subsidiaries for which no deferred taxes were recognised amount to EUR 195,185k (31 December 2018: EUR 132,993k).

5.2.1 Deferred income tax relating to components of other comprehensive income

Deferred income tax relating to components of other comprehensive income are shown below:

Deferred income tax relating to components of other comprehensive income 71

EUR k	2019 before Tax	2019 Tax	2019 Net	2018 before Tax	2018 Tax	2018 Net
Profit/loss arising on the translation of the financial statements of foreign operations	10,101	0	10,101	−4,019	0	−4,019
Value adjustments resulting from equity instruments measured including capital gains (IFRS 9)	53,682	−8,211	45,471	57,329	−7,825	49,503
Value adjustments resulting from remeasurements of defined benefit plans (IAS 19)	−4,855	1,216	−3,639	0	0	0
Total	**58,928**	**−6,995**	**51,933**	**53,310**	**−7,825**	**45,484**

5.3 Employee benefits

5.3.1 Retirement benefit obligations

The Group has no defined benefit plans. There are exceptions to this for plans that were taken on in past financial years in connection with business combinations. Furthermore, defined benefit plans were transferred to the Group in connection with the acquisition of TRIUVA in the 2018 financial year. Defined benefit plans can expose the Group to actuarial risks such as longevity risk, interest rate risk and currency risk.

There were defined benefit obligations for 81 persons in total as at the end of the reporting period. 28 of these persons are retired and already receive ongoing pension benefits. The projected unit credit method was used as the calculation method as defined by IAS 19. The calculations are based on the current 2018 G Heubeck mortality tables.

The development of retirement benefit obligations and plan assets for defined benefit plans is as follows:

Defined benefit obligation (DBO)

72

EUR k	2019	2018
As at 01.01.	**22,021**	**22,897**
Current expenses of employment period	639	390
Remeasurements	5,473	–1,016
thereof adjustments of financial assumptions	5,669	–1,246
thereof adjustments of demographical assumptions	0	110
thereof other/experience adjustments	–196	120
Interest expenses	432	390
Pension payments/scheduled payments made	–696	–640
As at 31.12.	**27,869**	**22,021**

Plan assets at fair value

73

EUR k	2019	2018
As at 01.01.	**297**	**289**
Income/expenses from plan assets (without interests)	2	3
Interest income/interest expenses	6	5
As at 31.12.	**305**	**297**

Composition of net liability from defined benefit plans

74

EUR k	2019	2018
Defined benefit obligation (DBO)	27,869	22,021
Plan assets at fair value	305	297
Net debt	**27,564**	**21,724**

Actuarial assumptions

75

%	2019	2018
Discounting interest rate	0.69	1.75/2.00
Salary trend	2.25	2.25
Pension trend	1.00/1.65	1.65/2.00

A change in one of the actuarial assumptions, with all other assumptions remaining constant, would alter the defined benefit obligation as follows:

Sensitivity analyses 76

		31.12.2019		31.12.2018	
EUR k	Sensitivity	Increase	Decrease	Increase	Decrease
Discounting interest rate	+/−0.50%	−2,457	2,835	−886	948
Salary trend	+/−0.50%	67	−63	101	−96
Pension trend	+/−0.50%	1,948	−1,510	1,042	−956
Life expectancy	+/−1 Jahr	1,586	−1,539	/	/

The above analysis was performed based on an actuarial method that shows the impact on the defined benefit obligation as a result of changes in key assumptions.

In the 2019 financial year, the Group anticipates payments due to retirement benefit obligations of EUR 695k (2018: EUR 646k) and contributions to plan assets of EUR 0k (2018: EUR 0k).

The average term of retirement benefit obligations is 18.6 years (2018: 16.2 years).

5.3.2 Other employee benefits

The Group makes payments to defined contribution plans for employees. The cost recognised in the financial statements for defined contribution plans (e.g. direct insurance policies, provident funds) amounts to EUR 3,649k for the 2019 financial year (2018: EUR 2,132k).

In addition, there are pension plans for the Management Board in the form of a provident fund. The Group pays set contributions to an independent entity (fund) in this context. This pension benefit involves a risk of subsidiary liability for the Group if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The commitment of the provident fund is covered on the basis of life insurance policies. The commitment was granted in 2003. A total of EUR 43.7k (2018: EUR 43.7k) was paid in contributions to the provident fund for members of the Management Board in 2019. Furthermore, contributions of EUR 47k (2018: EUR 43k) were paid to a self-invested personal pension for a member of the Management Board. Please see the remuneration report in the Group management report for further information.

5.4 Financial liabilities

The maturity profile of financial liabilities is as follows:

Financial liabilities 31.12.2019 77

EUR k	2020	2022	2024	2027	Total
Bank loans	93,194	0	0	0	93,194
Bonded loans	0	91,500	124,000	84,500	300,000
Total financial liabilities	**93,194**	**91,500**	**124,000**	**84,500**	**393,194**

Financial liabilities 31.12.2018 78

EUR k	2022	2024	2027	Total
Bonded loans	91,500	124,000	84,500	300,000
Total financial liabilities	**91,500**	**124,000**	**84,500**	**300,000**

Financial liabilities amounted to EUR 393,194k in total as at 31 December 2019.

The bonded loan of EUR 300,000k issued in 2017 is divided into three tranches with terms of five, seven and ten years. This bonded loan is recognised under non-current liabilities.

As part of the first-time consolidation of Dixin Toimistot KY, Helsinki, Finland, bank and mortgage loans of EUR 40,916k were temporarily added in the reporting period. The reported bank and mortgage loans relate to the temporarily held real estate assets that will leave the company as part of the planned placement of units in the investment funds of several Group companies via closed-end funds.

5.5 Non-current liabilities

Non-current liabilities of EUR 25,094k (31 December 2018: EUR 16,836k) essentially consist of the long-term component of the management participation model, which is described in more detail under note 9.1, liabilities from the acquisition of KENZO (see note 2.1 Acquisitions) and the TRIUVA guaranteed dividend to non-controlling interests.

5.6 Lease liabilities

Lease liabilities mainly comprise leases for

- business and office premises
- motor vehicles
- IT equipment
- operating and office equipment

and have the following maturity profile:

Maturity of leasing liabilities 31.12.2019 79

EUR k	2022	2021–2024	2025+	Total
Leasing liabilities	**9,328**	**14,297**	**1,544**	**25,169**

The remaining terms of the undiscounted lease liabilities including interest payments after the end of the reporting period are shown below:

Maturity of undiscounted leasing liabilities including interest payments 31.12.2019 80

EUR k	Carrying amount	Total amount	2020	2021–2024	2025+
Leasing liabilities	**25,169**	**25,641**	**9,573**	**14,513**	**1,555**

5.7 Other provisions

Other provisions developed as follows:

Other provisions 2019 81

EUR k	01.01.2019	Addition	Changes to the scope of consoli-dation	Unused amounts reversed	Utilisation	Time value of money	Foreign exchange differences	31.12.2019
Litigation risks	1,487	1,672	0	−5	−169	0	0	2,985
Indemnification obligation	4,017	0	0	−270	−3,747	0	0	0
Employee benefits	3,771	4,219	0	−357	−3,760	0	17	3,905
Reorganisation costs	14,255	2,470	0	−2,431	−11,918	2	0	2,364
Total	**23,530**	**8,361**	**0**	**−3,063**	**−19,594**	**2**	**17**	**9,254**

The provisions for employee benefits listed under other provisions relate to holiday not taken, employer's liability insurance contributions and the compensation levy for non-employment of the severely handicapped.

The reorganisation provisions were recognised for the integration of TRIUVA and Rockspring within the reporting period. These are essentially provisions for severance payments, ongoing salaries during time off work, non-staff operating costs and consulting costs in connection with the reorganisation.

5.8 Objectives and methods of financial risk management

The key risks to the Group arising from financial instruments include cash flow interest rate risk, liquidity, credit and market risks (including exchange rate risks).

Credit risk

The Group's credit risk primarily results from trade receivables. Corresponding loss allowances have been recognised for these financial assets. For trade receivables, there is collateral for outright sales in the form of a right to reclaim the real estate sold in the event of default by the client. When selling individual apartments, ownership is transferred only after the purchase price has been paid in full, hence there is no risk of default here.

Impairment losses on financial assets are recognised in profit or loss as follows:

Impairment losses on financial assets 82

EUR k	2019	2018
Impairment losses for trade receivables and contract assets with clients	0	475
Impairment losses for other trade receivables and other assets	429	584
Total impairment losses IFRS 9	**429**	**1,059**

The development of impairment losses on trade receivables is as follows:

Impairment losses on trade receivables 83

EUR k	2019	2018
Value adjustment for sales as at 01.01.	1,244	1,039
Value adjustment for rent receivables as at 01.01.	961	2,015
As at 01.01.	**2,205**	**3,054**
Changes in the consolidated group	0	0
Net revaluation of value adjustment	–289	–849
As at 31.12.	**1,916**	**2,205**

The Group's credit risk is mainly determined by receivables past due. The nature of the revenue from which the receivables result also plays a role.

The following table provides information on the credit risk and the expected credit losses for receivables from disposals of various project developments and fund management services.

Credit risk and expected credit losses 84

EUR k	Loss rate (weighted average) 31.12.2019	Gross carrying amount 31.12.2019	Value adjustment 31.12.2019	Affected credit rating 31.12.2019
Low risk Maturity up to 90 days	0%	133,000	0	no
Medium risk Maturity up to 180 days	0%	6,304	0	no
Doubtful Maturity over 180 days	3%	25,699	892	yes
Total Default Risk/Credit Losses		**165,003**	**892**	

The Group uses corresponding provision matrices to measure the expected credit losses on trade receivables from rentals, real estate disposals and other services (with and without fund management).

The loss rates are based on past values adjusted for prospective expectations.

The following table provides information on the credit risk and the expected credit losses for receivables from rentals, real estate disposals and other services (not including fund management).

Loss rate (weighted average) 31.12.2019 85

EUR k	not yet due	due up to 30 days	due up to 60 days	due up to 90 days	due up to 120 days	due up to 180 days	due up to 365 days	due since 365 days	
Rent receivables	3%	3%	25%	25%	75%	75%	100%	100%	
Receivables from sales	0%	0%	0%	0%	75%	75%	100%	100%	
Receivables from other services (without fund management)	0%	0%	25%	25%	75%	75%	100%	100%	
Gross carrying amount	**19,672**	**1,211**	**22**	**15**	**23**	**0**	**136**	**1,763**	**22,842**
Value adjustment	**3**	**0**	**4**	**0**	**9**	**0**	**136**	**1,763**	**1,916**

Impairment is not calculated for cash funds as the reporting entity does not anticipate impairment. Cash funds in foreign currency are measured in accordance with IAS 21. The credit risk on cash funds invested with banks is ruled out by risk diversification (large number of banks) and the selection of banks of good credit standing.

Investigations by the Group found that loss allowances do not have to be recognised for other loans or securities recognised at amortised cost. The risk has not changed since the acquisition date; there are no indications of a deterioration in borrowers’ ratings. The risk was assessed as insignificant as at the acquisition date.

There is currently no clustering of risks within the Group thanks to its broad counterparty structure. For all financial assets of the Group, the maximum credit risk in the event of counterparty default is equal to the carrying amount of these instruments.

Exchange rate risks

The transactions of the international branches in Denmark, Sweden, Poland, Japan, Hong Kong, South Korea, the US and the UK are performed in the respective national currencies, which gives rise to exchange rate risks. Such risks could increase as the Group continues its expansion outside the euro area. The Group’s overall currency risk is regularly monitored and assessed in order to identify any need for action early on and to take countermeasures such as currency hedging.

Interest rate risk

Interest rate risks are avoided or minimised by agreeing predominantly fixed interest rates and by active liquidity management.

Overview of interest rate risk

On the basis of the ECB's ongoing low interest rate policy and PATRIZIA's own assessments of the overall economic situation in Europe, financing is currently being raised without interest rate hedging instruments. The Group is thus exposed to interest rate risk from financial liabilities.

Liquidity risk

The Group uses liquidity planning to monitor the risk of a liquidity bottleneck on an ongoing basis. This liquidity planning takes into account the terms of the financial liabilities and expected cash flows from operating activities.

The Group's goal is to ensure the consistent coverage of funding requirements with existing liquidity and by using overdrafts and loans.

The maturity structure of financial liabilities is shown under note 5.4 Please also see the information in section 4.3.2 of the management report.

Capital management

The Group monitors its capital structure using its equity and net equity ratios as follows:

Capital management 86

EUR k	31.12.2019	31.12.2018
Interest-bearing loans	93,194	0
Bonded loans	300,000	300,000
Less cash and cash equivalents and short-term deposits, not exceeding the total amount of the above debt	–393,194	–300,000
Net financial liabilities	**0**	**0**
Total Assets	1,987,080	1,778,446
Net total assets	1,593,887	1,478,446
Equity (excl. non-controlling interests)	1,206,391	1,143,106
Equity ratio [1]	**60.7%**	**64.3%**
Net equity ratio [2]	**75.7%**	**77.3%**

1 Equity ratio: Equity (excl. non-controlling interests) divided by total assets
2 Net equity ratio: Equity (excl. non-controlling interests) divided by net total assets (Total assets less interest-bearing loans and bonded loans covered by cash and short-term deposits)

5.9 Current liabilities

Current liabilities break down as follows:

Current liabilities 87

EUR k	31.12.2019	31.12.2018[1]
Trade payables	3,575	4,161
Contract liabilities	12,943	13,866
Other liabilities	84,669	81,936
Total	**101,186**	**99,963**

1 The previous year's figures were restated in line with the new table structure in the year under review

Current liabilities have a remaining term of less than twelve months. Given their short term, there are no material differences between the carrying amount and fair value of the liabilities.

Other liabilities break down as follows:

Other liabilities 88

EUR k	31.12.2019	31.12.2018[1]
Liabilities from outstanding invoices	24,419	16,454
Liabilities from variable salary components and other personnel costs	31,531	32,770
Liabilities to companies with a participating interest	2,869	199
Acquisition and production costs for sold properties arising after the balance sheet date	4,985	4,007
Liabilities from company acquisitions	5,290	8,466
Liabilities to non-controlling interests	0	4,580
Liabilities for reimbursements in connection with the sale of the structure of the Harald portfolio	2,349	3,261
Liabilities from capital contribution	0	2,606
Liabilities from ongoing legal proceedings	1,411	1,447
Interest on loans	2,379	2,379
Deferred revenue liabilities	29	340
Debtors with credit balances	264	621
Accounting and auditing costs	1,297	1,205
Other	7,844	3,601
Total	**84,669**	**81,936**

1 The previous year's figures were restated in line with the new table structure in the year under review

5.10 Tax liabilities

Tax liabilities include obligations for income taxes, VAT and other types of taxes.

The income taxes essentially comprise EUR 41,117k (31 December 2018: EUR 27,984k) in corporation and trade tax on the profits of German and non-German subsidiaries. In addition, obligations from VAT, wage taxes and miscellaneous other taxes were recognised in the amount of EUR 15,575k (31 December 2018: EUR 24,234k).

5.11 Financial assets and liabilities

The effect of the adoption of IFRS 9 on the consolidated financial statements is explained in note 1.1 Comparative figures have not been restated on account of the transition method chosen.

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not contain information on the fair value for financial assets and financial liabilities not measured at fair value when the carrying amount is a reasonable approximation of fair value.

Financial assets and liabilities – 31.12.2019 89

EUR k	Carrying amounts: Mandatory FVTPL	Carrying amounts: FVTOCI-equity instruments	Carrying amounts: Financial assets at amortised cost	Carrying amounts: Other financial liabilities	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3
Financial assets at fair value							
Participations		525,716					X
Other non-current financial assets	10,440						X
Current loans	1,000						X
	11,440	**525,716**					
Financial assets not measured at fair value							
Other loans			17,837				
Trade receivables and other financial assets			379,735				
Securities			1,011				
Cash and Cash Equivalents			449,084				
			847,667				
Financial liabilities not measured at fair value							
Financial liabilities (bank, mortgage and bonded loans)				393,194			
Trade payables				3,575			
Liabilities from services purchased before the end of the reporting period				33,469			
Contractual liabilities of prepayments from property sales				130			
Liabilities from settled performance fees owed attributable to future periods				0			
Leasing liabilities IFRS 16				25,169			
Subtotal financial liabilities				**455,536**			
Other liabilities				39,472			
Total financial liabilities				**495,008**			

Assessment of the fair value of financial assets

The following tables show the valuation techniques used to assess level 3 fair values and the significant unobservable inputs used.

Valuation technique fair value 90

Type	Valuation technique	Important non-observable input factors	Context between Important non-observable input factors and the valuation at fair value
Equity investments	Valuation model considers individual shares of participations as well as the assessment basis particularly of NAVs or – if known – potential sales prices of participations	– Shares of participations (5.0%–30.0%) – important assessment basis: NAV/sales prices of participations (EUR 0m–EUR 3.021m)	Estimated fair value would increase (decrease), if: – the assessment basis increase (decrease)
Non-current loans	Valuation model considers net assets at fair value of the borrower	– Net assets (2019: EUR 10m–EUR 12m)	Estimated fair value would increase (decrease), if: –the assessment basis increase (decrease)

Sensitivity analysis of level 3 fair values

A 10% increase (reduction) in the basis of measurement for equity investments with all other inputs remaining constant would result in an increase (reduction) of EUR 44,995k (2018: EUR 66,307k).

An increase (reduction) of net assets would result in an increase (reduction) of EUR 30k (2018: EUR 660k) in the fair value of long-term loans.

Reconciliation of level 3 fair values

The following table shows the reconciliation from opening to closing level 3 fair values.

Reconciliation of level 3 fair values 2019

91

EUR k	Equity investments	Convertible loans
As at 1 January	**499,241**	**10,140**
Profit/loss, including in the other comprehensive income (Position - Revaluation reserve according to IFRS 9)		
changes of the fair value	49,082	300
Additions in the financial year	3,982	0
Disposals in the financial year	–26,924	0
Foreign exchange differences	335	0
As at 31 December	**525,716**	**10,440**

Net gains/losses by category

92

EUR k	31.12.2019	31.12.2018
Financial assets and liabilities, which are mandatory measured at FVTPL	300	94
Financial assets, which are measured at amortized cost	156	749
Financial liabilities, which are measured at amortized cost	–5,224	–5,191
Equity investments, which are measured at FVTOCI (without recycling)	48,773	53,516

Equity investments measured at fair value through other comprehensive income

Dividend income from equity investments measured at fair value through other comprehensive income amounted to EUR 32,891k in the financial year (2018: EUR 6,203k). The dividends received result exclusively from participations still held at the end of the reporting period. The fair value of equity investments disposed of as at the date of disposal is EUR 26,656k (2018: EUR 2,801k). Gains of EUR 268k (2018: EUR 0k) were recognised in the consolidated statement of comprehensive income in connection with the disposal of equity investments.

6 Notes to the consolidated income statement

The consolidated income statement is prepared in accordance with the nature of expense method.

The comparability of the figures of the consolidated income statement for the current year and the previous year are limited on account of the acquisition of Rockspring during the previous year.

6.1 Revenues

Revenues break down as follows

Revenues 93

EUR k	2019	2018[1]	Change
Germany			
Revenues from management services	209,275	207,764	0.7%
Proceeds from the sale of principal investments	14,501	26,998	−46.3%
Rental revenues	578	1,836	−68.5%
Revenues from ancillary costs	445	−143	−410.2%
Other	1,132	942	20.2%
Revenues	**225,931**	**237,396**	**−4.8%**
International[2]			
Revenues from management services	120,229	86,801	38.5%
Proceeds from the sale of principal investments	46,327	22,558	105.4%
Rental revenues	2,392	1,877	27.4%
Revenues from ancillary costs	1,654	1,376	20.2%
Other	2,170	620	250.0%
Revenues	**172,772**	**113,233**	**52.6%**
Group			
Revenues	**398,703**	**350,628**	**13.7%**

1 To ensure comparability with the current reporting year, the previous year's figures have been adjusted as part of the new segment reporting
2 The international revenues in the amount of EUR 172,772k were largely generated in Western Europe, in particular in Luxembourg and the United Kingdom

Geographical allocation is based on the registered office of the unit performing the services.

In accordance with its business model, revenue from contracts with clients at PATRIZIA results from service fee income (revenues from management services), disposals of principal investments, rental revenues and incidental costs.

In 2019, performance-based remuneration of EUR 9,231k (2018: EUR 0k) was generated from white-label funds and recognised under revenues from management services. Almost 100% of this performance-based remuneration was passed on to investors on the basis of the contractual framework. The amounts passed on are recognised in the “Cost of purchased goods” item.

Revenue from contracts with clients breaks down as follows as regards the timing of revenue recognition:

Revenues from contracts with customers 94

EUR k	2019	2018
Transferred products/services at a period of time	208,971	178,271
Transferred products/services over a period of time	189,732	172,357
Revenues from customer contracts	**398,703**	**350,628**

Revenue from contracts with clients that relates to transaction fees (for acquisitions and disposals) qualifies as revenue recognised at a point in time. Ongoing management fees are classified as revenue recognised over time.

Due to structural adjustments to the disclosures on the distribution of revenue from contracts with clients, the amounts for 2018 have been adjusted accordingly.

6.1.1 Contract balances

The following table provides information on receivables, contract assets and contract liabilities from contracts with clients.

Contract balances 95

EUR k	31.12.2019	31.12.2018[1]
Receivables from contracts with clients	168,773	127,618
Contract liabilities	12,943	13,866

1 Previous year's figures were adjusted to the new table structure in the reporting year

There were no contract assets, i.e. services already rendered but not yet invoiced, as at either the start or end of the financial year.

Contract liabilities essentially relate to prepayments received from clients in connection with asset disposals. The amount of EUR 13,866k reported at the start of the period was recognised as revenue in the 2019 financial year. The contract liabilities in place as at the end of the reporting period have an expected remaining term of one year or less.

Due to structural adjustments to the disclosures on contract balances, the amounts for 2018 have been restated accordingly.

6.2 Changes in inventories

The accounting impact of the disposal and renovation and construction costs of real estate assets intended for sale are reported in profit or loss under changes in inventories.

6.3 Other operating income

Other operating income essentially relates to:

Other operating income 96

EUR k	2019	2018[1]	Change
Income from discontinued obligations	9,712	14,480	−32.9%
Income from payments in kind	1,245	1,126	10.6%
Income from reimbursement of lawyers' fees, court costs and transaction costs and compensation	59	31	90.4%
Insurance compensation	71	89	−20.2%
Own work capitalized self-created intangible assets	0	615	−100.0%
Realisation of badwill IFRS 3	0	2,152	−100.0%
Other	3,519	2,204	59.7%
Total	**14,607**	**20,698**	**−29.4%**

1 Previous year's figures were adjusted to the new table structure in the reporting year

Income from discontinued obligations essentially results from the final settlement of bonuses, variable salaries from 2018 and remaining holiday entitlements in the amount of EUR 4,031k (2018: EUR 2,415k), from the reversal of provisions for outstanding invoices in the amount of EUR 3,708k (2018: EUR 2,592k) and from litigation costs/risks no longer applicable following the conclusion of arbitration proceedings in the amount of EUR 640k (2018: EUR 4,238k). In 2018, it also included income from unused reorganisation expenses (EUR 224k), which is now reported separately in the income statement under net reorganisation expenses (see note 6.10).

The "Other" item mainly includes income from the subsequent billing of liability remuneration from the years 2014 to 2019 (EUR 1,242k) and from other costs passed on in the amount of EUR 521k (2018: EUR 468k).

In 2018, it also included income from the recognition of differences from business combinations (EUR 2,152k) and income from the capitalisation of internally generated software (EUR 615k).

6.4 Cost of materials

The cost of materials includes the direct costs incurred in connection with the performance of services and breaks down as follows:

Cost of materials 97

EUR k	2019	2018	Change
Renovation and construction costs	3,860	8,955	–56.9%
Incidental costs	2,664	2,468	7.9%
Maintenance costs	77	276	–72.1%
Total	**6,601**	**11,699**	**–43.6%**

6.5 Costs for purchased services

The “Cost of purchased services” item totalling EUR 28,036k (2018: EUR 15,679k) essentially comprises the purchase of fund management services for label funds in the amount of EUR 22,334k (2018: EUR 12,224k) for which PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH is the service asset management company.

To improve the presentation of performance, transaction costs which are incurred to generate revenue and are generally charged on have also been included in this item since 2018. These costs amounted to EUR 3,090k in 2019 (2018: EUR 1,961k).

6.6 Staff costs

Staff costs break down as follows:

Staff costs 98

EUR k	2019	2018
Wages and salaries	115,826	110,093
of which valuation of long-term incentives	833	–628
of which sales commission	1,801	2,124
Social security contributions	15,943	14,861
Total	**131,769**	**124,954**

Correlating to the rise in the price of PATRIZIA AG shares, staff costs of EUR 833k (2018: reduction of EUR 628k) arose in connection with the remeasurement of long-term incentives in the reporting period.

6.7 Other operating expenses

Other operating expenses break down as follows:

Other operating expenses 99

EUR k	2019	2018[1]	Change
Tax, legal, other advisory and financial statement fees	26,146	19,498	34.1%
IT and communication costs and cost of office supplies	15,979	12,946	23.4%
Vehicle and travel expenses	7,075	6,642	6.5%
Other taxes	6,969	10,466	−33.4%
Advertising costs	5,890	5,700	3.3%
Recruitment and training costs and cost of temporary workers	4,779	4,217	13.3%
Contributions, fees and insurance costs	3,721	3,789	−1.8%
Rent, ancillary costs and cleaning costs	2,707	11,092	−75.6%
Commission and other sales costs	1,981	2,622	−24.4%
Indemnity/reimbursement	846	1,203	−29.7%
Costs of management services	513	847	−39.4%
Other	8,110	11,720	−30.8%
Total	**84,718**	**90,742**	**−6.6%**

1 The previous year's figures were restated in line with the new table structure in the year under review

Tax, legal, other advisory and financial statement fees in the amount of EUR 26,146k (2018: EUR 19.498k) inter alia include:

- follow-up costs from warranty performance management for former project developments in the amount of EUR 3,239k,
- expenses for the first-time testing, acquisition and application of new technologies in the amount of EUR 2,124k,
- follow-up costs for the purchase of a portfolio and for the acquisition of TRIUVA totalling EUR 608k as well as
- transaction costs of EUR 502k in connection with the acquisition of KENZO.

In 2018, transaction costs amounted to EUR 1,881k and mainly comprised costs for the acquisitions of TRIUVA and Rockspring.

The increase in the "IT and communication costs and cost of office supplies" item is primarily due to the strategic focus on digitalisation and the increased application of technological innovations.

The decrease in rent, ancillary costs and cleaning costs was due to the first-time application of IFRS 16.

The "Other taxes" item mainly comprises VAT arrears from previous years, property tax payments and real estate transfer tax payments.

The "Other" item mainly comprises provisions for various obligations, donations and costs for work events.

6.8 Income from participations

Income from participations of EUR 32,891k in the reporting period (2018: EUR 28,042k) results from the participations in Dawonia GmbH (formerly: GBW GmbH), the Harald portfolio, Aviemore Bidco 1 Sàrl, Seneca Holdco SCS and TRIUVA/IVG Logistik (2018: Dawonia GmbH, the Harald portfolio, Winnersh Holdings LP, Plymouth Sound Holdings LP, Aviemore Topco, Citruz Holdings LP, Seneca Holdco SCS and TRIUVA) and from closed-end funds business.

Income from participations breaks down as follows:

Income from participations 100

EUR k	2019	2018	Change
Performance-based shareholder remuneration	9,490	9,490	0.0%
Services provided as shareholder contributions	18,254	12,350	47.8%
Return on equity employed	5,148	6,203	–17.0%
Total	**32,891**	**28,042**	**17.3%**

Please refer to 2.3.2 Result of operations of the Group in the management report for a detailed presentation.

6.9 Earnings from companies accounted for using the equity method

Earnings from companies accounted for using the equity method break down as follows:

Earnings from companies accounted for using the equity method 101

EUR k	2019	2018	Change
PATRIZIA WohnModul I SICAV-FIS	1,723	12,054	–85.7%
EVANA AG	–855	–202	323.3%
Cognotekt GmbH	–131	0	/
control.IT Unternehmensberatung GmbH	–12	0	/
TIKKURILAN ASEMAKESKUSPYSÄKÖINTI OY	0	0	/
Total	**725**	**11,852**	**–93.9%**

The decline in earnings from the equity investment in “PATRIZIA Wohnmodul I SICAV-FIS” is attributable to the strategic ongoing reduction of the underlying portfolio, which mostly took place in 2018 and made a positive contribution to earnings.

6.10 Reorganisation income/expenses

Reorganisation income/expenses arose for the integration of TRIUVA and Rockspring in the reporting period. These are essentially costs for severance payments, ongoing salaries during time off work, non-staff operating costs and consulting costs in connection with the reorganisation. In the 2019 financial year, provisions from the reorganisation that were no longer required were reversed through profit or loss in the amount of EUR 2,377k.

6.11 Depreciation and amortisation

Depreciation and amortisation break down as follows:

Amortisation and depreciation 102

EUR k	2019	2018	Change
Amortisation of fund management contracts and licenses	40,242	36,683	9.7%
Amortisation of rights of use	9,927	0	/
Depreciation of software and fixed assets	5,385	5,552	–3.0%
Amortisation of other rights and assets	8	0	/
Total	**55,562**	**42,235**	**31.6%**

Amortisation of fund management contracts includes impairment losses of EUR 9,285k (2018: EUR 6,824k). Please also see the accounting policies under 3.2 Other intangible assets.

Amortisation of rights of use in accordance with IFRS 16 breaks down by asset class as follows:

Amortisation of rights of use 103

EUR k	2019
Rental contracts for business and office premises	7,896
Motor Vehicle contracts	1,180
IT contracts	851
Total	**9,927**

6.12 Net finance costs

Net finance costs 104

EUR k	2019	2018	Change
Interest on bank deposits	474	445	6.5%
Other interest	1,622	2,576	–37.0%
Financial income	**2,096**	**3,021**	**–30.6%**
Interest on overdraft facilities and loans	–479	–149	221.0%
Interest expenses – Leasing IFRS 16	–225	0	/
Other financial expenses	–5,407	–6,287	–14.0%
Financial expenses	**–6,111**	**–6,436**	**–5.0%**
Other financial result	**300**	**0**	**/**
Result from currency translation	**–234**	**1,175**	**–119.9%**
Net finance costs	**–3,950**	**–2,240**	**76.3%**

Financial income of EUR 2,096k (2018: EUR 3,021k) was recognised on financial assets measured at amortised cost in line with the effective interest method. This essentially results from discounting long-term payment obligations, shareholder loans to co-investments, interest on late purchase price payments and interest refunds from the tax office.

The other financial expenses particularly include interest for bonded loans, interest accrued on retirement benefit obligations, and interest expenses for business taxes.

"Other financial result" includes income from the write-up in connection with the remeasurement of financial assets in accordance with IFRS 9.

In 2019, the result from currency translation amounted to EUR −234k (2018: EUR 1,175k). This includes realised exchange rate losses of EUR −693k (previous year: EUR −600k).

6.13 Income taxes

Income taxes break down as follows:

Income taxes 105

EUR k	2019	2018	Change
Current income taxes	−35,835	−27,615	29.8%
Deferred taxes	14,771	9,425	56.7%
Income tax	**−21,064**	**−18,190**	**15.8%**

The deferred taxes in the income statement essentially resulted from temporary differences, most of which were caused by amortisation of fund management contracts.

Tax reconciliation statement

The tax reconciliation statement describes the relationship between the actual tax expense and the expected tax expense based on the IFRS consolidated net profit before income taxes by applying the income tax rate of 30.825% (2018: 30.825%). The income tax rate consists of 15% corporate income tax, a 5.5% solidarity surcharge on this and 15% trade tax:

Tax reconciliation statement 106

EUR k	2019	2018
IFRS consolidated net profit before income taxes	**77,411**	**76,306**
Income tax expense expected on the above	–23,862	–23,522
Tax exemption of income from participations	7,878	8,526
Tax additions and deductions	149	–2,920
International subsidiaries with differing tax rates	4,839	2,279
Deferred tax assets on losses not capitalised	–8,918	–7,291
Use of loss carryforwards not capitalised	2,199	2,112
Trade tax effects from income subject to limited taxation	249	212
Prior-period effects	–3,620	2,940
Other tax effects	22	–526
Income tax	**–21,064**	**–18,190**
Actual tax expenses in percent	**27.2%**	**23.8%**

6.14 Earnings per share

Earnings per share 107

EUR k	2019 adjusted[1]	2018 adjusted[1]	2019	2018
Share of earnings attributable to shareholders of the Group	58,664	68,658	52,869	51,660
Number of shares[2]	91,059,631	91,059,631	91,059,631	91,059,631
Weighted number of shares[2]	91,059,631	90,736,783	91,059,631	90,736,783
Earnings per share (undiluted/diluted) in EUR	**0.64**	**0.76**	**0.58**	**0.57**

1 Adjusted – not including reorganisation expenses
2 Outstanding after share buybacks

In the reporting period, the weighted number of shares increased by 322,848 in accordance with IAS 33.19 et seq. as a result of the time-weighted sale of shares and dividend distributions to shareholders in return for the issue of treasury shares.

7 Segment reporting

Segment reporting categorises the segments according to whether PATRIZIA acts as a service provider or an investor. In line with the Group's reporting for management purposes and in accordance with the definition of IFRS 8 "Operating Segments", two segments have been identified based on functional criteria: Investments and Management Services.

Compared to the previous year, three aspects of segment reporting were changed.

The Corporate operating segment with the reported PATRIZIA AG (Group management) including the management of the international subsidiaries, which was not reportable in the previous year, has been allocated to the Management Services segment since the 2019 financial year, as it also contributes to generating management service income.

In addition, the introduction of new consolidation software in 2019 means that all relevant consolidation items to be eliminated, such as intragroup revenues, intercompany transactions and intragroup transfers, can be shown within the segments, allowing the "Consolidation" column required in the previous year to be omitted. This results in a more appropriate presentation of the respective segments' performance.

Finally, the operating units are no longer managed on the basis of geographical criteria as in the previous year.

The Investments segment bundles principal investments and participations.

The Management Services segment covers a broad range of property services such as the acquisition and sale of residential and commercial properties or portfolios, value-oriented property management (asset management), strategic consulting on investment strategy, portfolio planning and allocation (portfolio management) and the execution of complex, non-standard investments (alternative investments). Special funds through the Group's own asset management companies are also set up and managed according to individual client requests. The service fee income generated from both co-investments and third-party business is reported in the Management Services segment. This also includes income from participations that takes the form of services rendered as a shareholder contribution for the asset management of the co-investment Dawonia GmbH (formerly: GBW GmbH).

Internal controlling and reporting in the PATRIZIA Group is based on IFRS principles. The Group measures the success of its segments using segment earnings indicators, which are referred to for the purpose of internal controlling and reporting as EBT and operating EBT.

Segment EBT is the net total of revenues, income from the sale of investment property, changes in inventories, the result from the deconsolidation of subsidiaries, the cost of materials and staff costs, the cost of purchased services, other operating income and expenses, changes in the value of investment property, reorganisation income and expenses, depreciation and amortisation, net income from participations (including companies accounted for using the equity method), net financial income and the result from currency translation.

Certain adjustments are made to calculate operating EBT, namely for non-cash effects from the valuation of investment property, exchange rate effects, impairment losses on fund management contracts, reorganisation income and expenses, and other financial result. The items added included changes in value on the disposal of investment property, realised currency effects, and operating income from participations (IFRS 9).

Revenue is generated between reportable segments. These intragroup transactions are settled at market prices.

Segment information is calculated in line with the accounting policies applied when preparing the consolidated financial statements.

To ensure comparability with the current reporting year, the segment reporting for 2018 has been retroactively adjusted in line with the new structure.

The individual operating segments are set out below. The reporting of amounts in thousands of euro (EUR k) may result in rounding differences based on the unrounded figures.

Segment reporting – 2019 (01.01.–31.12.2019)

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EUR k	Investments	Management Services	Group
Revenues	65,851	332,852	398,703
Total operating performance	**17,402**	**346,209**	**363,611**
Cost of materials and cost of purchased services	–6,465	–28,171	–34,637
Results from fair value adjustments to investment property	–791	0	–791
Other operating expenses	–4,688	–80,030	–84,718
Impairment losses for trade receivables and contract assets	258	–688	–429
Staff costs	0	–131,769	–131,769
Income from participations and earnings from companies accounted for using the equity method	5,231	28,385	33,616
Reorganisation Income	0	2,377	2,377
Reorganisation expenses	0	–10,339	–10,339
Amortisation of other intangible assets, software and rights of use, depreciation of property, plant and equipment	0	–55,562	–55,562
Other financial result	0	300	300
Financial income/expenses	256	–4,272	–4,015
Result from currency translation	11	–245	–234
Earnings before taxes (EBT)	**11,213**	**66,197**	**77,411**
+ Amortisation of other intangible assets[1]	0	40,242	40,242
- Changes in value of investment property	791	0	791
Realised changes in value of investment property (net)	3,972	0	3,972
Reorganisation Income	0	–2,377	–2,377
Reorganisation expenses	0	10,339	10,339
Other financial result	0	–300	–300
Expenses/income from unrealised currency translation	–11	–449	–459
Operating income from participations (IFRS 9)	4,600	305	4,905
Operating income	**20,565**	**113,957**	**134,523**

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

Segment reporting – 2018 (01.01.–31.12.2018)

109

EUR k	Investments	Management Services	Group
Revenues	54,323	296,359	350,682
Total operating performance	**28,644**	**315,096**	**343,740**
Cost of materials and cost of purchased services	−11,607	−15,771	−27,378
Results from fair value adjustments to investment property	3,975	0	3,975
Other operating expenses	−6,209	−84,533	−90,742
Impairment losses for trade receivables and contract assets	−732	−327	−1,059
Staff costs	−7	−124,947	−124,954
Income from participations and earnings from companies accounted for using the equity method	12,340	27,554	39,894
Cost from the deconsolidation of subsidiaries	−377	0	−377
Reorganisation Income	0	0	0
Reorganisation expenses	0	−22,318	−22,318
Amortisation of other intangible assets, software and rights of use, depreciation of property, plant and equipment	0	−42,235	−42,235
Other financial result	0	0	0
Financial income/expenses	445	−3,860	−3,415
Result from currency translation	−15	1,190	1,175
Earnings before taxes (EBT)	**26,457**	**49,849**	**76,306**
Changes in value of derivatives	0	22	22
+ Amortisation of other intangible assets[1]	0	36,677	36,677
- Changes in value of investment property	−3,975	0	−3,975
Realised changes in value of investment property (net)	8,043	0	8,043
Reorganisation Income	0	0	0
Reorganisation expenses	0	22,318	22,318
Other financial result	0	0	0
Expenses/income from unrealised currency translation	13	−1,788	−1,775
Operating income from participations (IFRS 9)	0	3,757	3,757
Operating income	**30,538**	**110,835**	**141,373**

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

8 Information on the consolidated cash flow statement

The consolidated cash flow statement was prepared in accordance with the provisions of IAS 7.

In the consolidated cash flow statement, cash flows are presented according to cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. The effects of changes in the consolidated group are eliminated in the respective items. The cash flow from operating activities was calculated using the indirect method.

Other non-cash effects mainly result from deferred taxes, income from participations, at-equity adjustment, currency effects, changes in provisions and fair value changes in accordance with IFRS 9 and IAS 19.

When deriving the operating cash flow from corrections to net profit, only changes that were recognised in the income statement are taken into account.

The cash flow from investing activities contains the effects of investments and disposals, in particular relating to investment securities, investment property and property, plant and equipment.

“Payments for the disposal of consolidated companies and other business units” essentially shows cash outflows due to the deconsolidation of closed-end funds (placement of shares).

Payments for acquisitions are also reported under “Payments for the acquisition of consolidated companies and other business units” in addition to intra-year acquisitions of subsidiaries.

The cash flow from financing activities includes loan receipts and repayments for the financing of current and non-current assets and payments of principal and interest on lease liabilities.

Interest paid in the area of finance consists entirely of interest for lease liabilities.

The amounts shown in the consolidated cash flow statement correspond only partially to the changes in the statement of financial position observable from one reporting period to the next, as they do not include non-cash factors such as changes in foreign exchange rates or changes in the consolidated group.

Financial liabilities developed as follows over 2019:

Financial liabilities 2019 110

EUR k	01.01.2019	Cash	Non-cash			Reclassification	31.12.2019
			Changes in the consolidated group	Exchange rate effects	Fair value changes		
Long-term borrowings	300,000	0	0	0	0	0	300,000
Short-term borrowings	0	52,277	40,916	0	0	0	93,194
Total financial liabilities	**300,000**	**52,277**	**40,916**	**0**	**0**	**0**	**393,194**

The following table shows the comparative information for 2018:

Financial liabilities 2018 111

EUR k	01.01.2018	Cash	Non-cash			Reclassification	31.12.2018
			Changes in the consolidated group	Exchange rate effects	Fair value changes		
Long-term borrowings	300,000	0	0	0	0	0	300,000
Short-term borrowings	22,000	48,764	–70,764	0	0	0	0
Total financial liabilities	**322,000**	**48,764**	**–70,764**	**0**	**0**	**0**	**300,000**

9 Notes

9.1 Management participation model

PATRIZIA's management participation model focuses on the aspects of market conformity, performance and sustainability. It was developed in line with the requirements of the German Corporate Governance Code.

The fundamental requirement of PATRIZIA's management participation model is a consistent target system the supports the company's strategy. The system assigns quantitative and qualitative targets at company, division and individual levels to members of the Management Board and members of first line management. The first line consists of senior managing directors and other direct reports to the Management Board.

The degree to which the quantitative targets are achieved is determined by reference to projected figures in line with company planning. The key targets are operating income (for definition see Group management report, section 1.4.2 Corporate management on the basis of financial performance indicators), the performance of PATRIZIA's share price relative to benchmark indices, and other relevant performance indicators for the respective financial year. At division level, the basic structure of PATRIZIA's provision of services is mapped in the form of value contributions to processes and the interdependencies among process participants. Members of the

Management Board and the first line involved in the provision of services or qualitative projects are set common targets.

At individual level, the quantitative results or qualitative project results for which members of the Management Board and the first line are individually responsible are taken into account.

The degree to which the individual targets are achieved determines the amount of the variable remuneration component. The amount of the variable remuneration components possible is capped. Members of the Management Board and the first line lose their entire variable remuneration component if the Group achieves less than two thirds of the planned operating income as defined above.

The variable share of remuneration is divided into a short-term and a long-term incentive component. The short-term incentive is paid out immediately after it has been established that targets have been achieved. The long-term incentive is a salary commitment with a virtual link to PATRIZIA's share price.It is only paid out two or three years after confirmation that targets have been achieved.

A long-term incentive of EUR 2,527k (31 December 2018: EUR 2,166k) was taken into account for the first and second management levels for the 2019 financial year. This corresponds to the liability recognised on the basis of average target achievement of 130% (2018: 130%). The liability as at 31 December 2019 is converted at the average closing price in Xetra trading for PATRIZIA shares for the 30 days prior to and 15 days after 31 December of the financial year in question. The shortened 15-day period is due to PATRIZIA's closing process. The final calculation can only be made after all data required for the calculation is known, which is only the case after the 2019 consolidated financial statements have been approved. The monetary amount earned is converted into performance share units at the average closing price in Xetra trading for PATRIZIA shares for the 30 days prior to and 30 days after 31 December of the financial year in question. The equivalent value of the shares (adjusted for bonus shares in the past) is paid out in cash at the average closing price in Xetra trading 30 days prior to and after 31 December of the second/third year (vesting period).

Based on the 30 days prior to and 15 days after 31 December 2019, the average price of PATRIZIA's shares is EUR 19.77 (2018: EUR 17.07), thus amounting to 127,796 shares for 2019 (2018: 126,892 shares). Expenses for share-based payment of EUR 3,491k (2018: EUR 967k) were incurred in the reporting period. These consist of exchange rate effects of EUR 833k, additions to shared-based payment transactions of EUR 2,527k and corrections due to the final settlement in the reporting period of EUR 131k. In the previous year, the income from share price development of EUR –628k, the addition to shared-based payment transactions of EUR 2,166k and the corrections due to the final settlement in the reporting period of EUR –571k came to a total of EUR 967k.

The fair value is as follows:

Components with long-term incentive effect 112

	Number of performance shares 2019	Fair Value 31.12.2019 EUR k	Number of performance shares 2018	Fair Value 31.12.2018 EUR k	Paid out EUR k
Tranche of the performance share units in the 2019 fiscal year [1]	127,796	2,527	0	0	0
Tranche of the performance share units in the 2018 fiscal year [1]	134,581	2,661	126,892	2,166	0
Tranche of the performance share units in the 2017 fiscal year [1]	81,906	1,619	81,906	1,413	0
Tranche of the performance share units in the 2016 fiscal year [1]	60,790	1,202	109,395	1,875	850
Tranche of the performance share units in the 2015 fiscal year [1]	0	0	37,764	645	661
Total	**405,073**	**8,008**	**355,957**	**6,099**	**1,511**

1 Corresponds to the liability recognised for 130% target achievement. The final calculation of this variable remuneration and the allocation to the individual beneficiaries will be performed after the 2019 consolidated financial statements have been approved

The performance share units outstanding at the end of the reporting period are as follows::

Performance share units 113

	01.01.-31.12.2019	01.01.-31.12.2018
Outstanding at the start of the reporting period	355,957	371,089
Granted in the reporting period	127,796	126,892
Correction due to final settlement in the reporting period	7,689	−28,999
Paid out in the reporting period	−86,369	−113,025
Outstanding at the end of the reporting period	**405,073**	**355,957**

9.2 Related party transactions

The related parties of the company include the members of the Management Board and the Supervisory Board and the members of executive bodies of subsidiaries, including their close relatives, and companies that the members of the Management Board and the Supervisory Board, and their close relatives, can significantly influence, or in which they hold a significant share of voting rights. Furthermore, related companies include companies with which the company forms an affiliated group or in which it holds an investment that allows it to significantly influence the business policy of the investee in addition to the main shareholders of the company, including its affiliated companies.

PATRIZIA maintains the following business relationships with related parties:

Shareholdings in PATRIZIA of members of the Management Board and persons related to Management Board members

Wolfgang Egger, CEO, holds a total interest of 51.81% (31 December 2018: 51.71%) in the company through First Capital Partner GmbH, in which he directly and indirectly holds a 100% interest through WE Vermögensverwaltung GmbH & Co. KG as at the end of the reporting period.

Wolfgang Egger also holds 5.1% in Projekt Wasserturm Grundstücks GmbH & Co. KG. A further 45.9% is held indirectly by PATRIZIA, while the remaining 49% is held by Mr Ernest-Joachim Storr. There were no changes here in comparison to the previous year.

Remuneration to a former member of the Management Board

Mr Arwed Fischer is granted earnings and performance based remuneration that he earned in the context of his employment.

Rental agreements between members of the Management Board and PATRIZIA

Wolfgang Egger (lessor) has concluded a rental agreement with the company (lessee) for the building, including parking spaces, used by the company as its headquarters (Fuggerstrasse 18 to 24 and Fuggerstrasse 26 in Augsburg) for a current rent of EUR 1,660k (2018: EUR 1,609k). The lease was agreed as at arm's length.

Activities of Management Board Members in companies outside PATRIZIA

CEO Wolfgang Egger is the Managing Director of Wolfgang Egger Verwaltungs-GmbH (general partner of Wolfgang Egger GmbH & Co. KG) and the general partner of Friedrich List Vermögensverwaltungs KG.

CFO Karim Bohn is a member of the Supervisory Board of Dawonia Real Estate GmbH & Co. KG (formerly: GBW Real Estate GmbH & Co. KG), Grünwald, and Managing Director of Blitz 13-309 GmbH, Augsburg.

Activities of Supervisory Board Members in companies outside PATRIZIA

The Chairman of the Supervisory Board, Dr Theodor Seitz, is the Chairman of the Supervisory Board of CDH AG, Augsburg.

In addition to being a member of the Supervisory Board at PATRIZIA, Uwe H. Reuter holds the following mandates:

Intra-Group mandates within VHV Holding AG (Chairman of the Supervisory Board):

– VHV Allgemeine Versicherung AG, Hanover
– Hannoversche Lebensversicherung AG
– VHV solutions GmbH
– VHV Vermögensanlage AG
– VAV Versicherungs-AG, Vienna/Austria

Non-Group mandates (Member of the Supervisory Board):

– E + S Rückversicherung AG (subsidiary of Hannover Rückversicherung AG), Hanover
– Hannover Impuls GmbH (Business Development Agency of City of Hanover)

Asset management agreement with Wohnungsgesellschaft Ludwigsfeld GmbH

By way of a cancellation agreement dated 14 December 2018, the asset management service agreement between PATRIZIA Deutschland and Wohnungsgesellschaft Ludwigsfeld GmbH, in which AHO Beteiligungs-GmbH holds an interest, was terminated. Alfred Hoschek is the Managing Director of AHO Beteiligungs-GmbH and also a member of the Supervisory Board of PATRIZIA AG. Subsequent invoices for the previous year in a total net amount of EUR 27k (2018: EUR 22k) were issued for these services in the year under review. All services provided satisfy customary market standards for comparative arm's length transactions.

Payment to AHO Beteiligungs-GmbH to settle a tax exemption claim

In accordance with the agreement dated October 10, 2019 between PATRIZIA and AHO Beteiligungs-GmbH, a payment of EUR 3,747k was made by PATRIZIA to AHO Beteiligungs-GmbH to settle a tax exemption claim.

9.3 Supervisory Board and Management Board

Members of the Management Board of the parent company

The following are members of the Management Board:

– Wolfgang Egger, CEO
– Karim Bohn, CFO
– Anne Kavanagh, CIO
– Klaus Schmitt, COO

– Alexander Betz, CDO (since 1 January 2020)
– Dr Manuel Käsbauer, CTIO (since 1 January 2020)
– Simon Woolf, CHRO (since 1 January 2020)

The members of the Management Board were granted total remuneration of EUR 5,523k (2018: EUR 5,932k) and were paid total remuneration of EUR 4,512k (2018: EUR 4,444k) in the 2019 financial year. This comprised EUR 1,818k (2018: EUR 1,788k) in current salary payments and fringe benefits, EUR 2,229k (2018: EUR 1,884k) in short-term incentives and EUR 465k (2018: EUR 772k) in long-term incentives under the management participation model.

The former member of the Management Board Arwed Fischer was granted total remuneration of EUR 6k (2018: EUR 6k) and was paid total remuneration of EUR 202k (2018: EUR 387k) in the 2019 financial year.

Please refer to the remuneration report in the management report (3.2) for detailed information on the remuneration of the Group management report.

Members of the Supervisory Board of the parent company

The following are members of the Supervisory Board:

– Dr Theodor Seitz, Chairman, lawyer and tax consultant, Augsburg
– Uwe H. Reuter, First Deputy Chairman, Chairman of the Management Board of VHV Holding AG, Hanover
– Alfred Hoschek, Second Deputy Chairman, Managing Director of AHO Verwaltungs GmbH, Gräfelfing

The Supervisory Board received fixed remuneration of EUR 100k (2018: EUR 100k) in the 2019 financial year.

Further information on the remuneration of the Supervisory Board can be found in the remuneration report in the Group management report under 3.2

9.4 Other financial obligations and contingent liabilities

The obligations from existing rental and leasing agreements amount to:

Obligations from existing rental and leasing agreements 2019 114

Years	EUR k
2020	1,040
2021–2024	0
2025 and later	0
Total	**1,040**

Obligations from existing rental and leasing agreements 2018 115

Years	EUR k
2019	9,018
2020–2023	6,744
2024 and later	378
Total	**16,140**

Obligations from leases and rental agreements in 2019 do not include any leases or subleases as defined in IFRS 16 Leases. This first-time application of the standard as at 1 January 2019 is also the reason for the decrease as compared to the previous year (see also note 1.2).

9.5 Employees

The average headcount of full-time employees at the Group in 2019 (not including the Management Board or trainees) was 803 (2018: 856). The Group also had 19 trainees (2018: 21).

9.6 Auditor's fees

The auditor's expenses calculated for the 2019 financial year amount to EUR 453K (2018: EUR 561k) for audits of financial statements and EUR 36k for other assurance services for an audit in accordance with the German Securities Trading Act (WpHG) (2018: EUR 30k for an audit in accordance with WpHG).

9.7 Events after the end of the reporting period

Acquisition of BrickVest

By way of the purchase agreement signed on 3 February 2020, PATRIZIA acquired the digital platform for investments in real assets of BrickVest Ltd. (BrickVest), London, and the shares in BrickVest IM Ltd. and BrickVest Reim Europe SAS in a combined share and asset deal. The individual companies and the acquired assets will be consolidated when the rights and liabilities of the acquired assets and company shares are transferred in 2020. As at the current time when these financial statements were prepared, closing has taken place only for the acquired assets of BrickVest.

Founded in 2014, BrickVest is a global online platform for real estate investment opportunities from various investment companies for institutional, (semi-)professional and private investors. As well as digital access to a wide range of real asset investments, the platform also offers debt and equity solutions for real assets and the financial services sector.

PATRIZIA will promote the further development of BrickVest as an open, independent industry platform that brings together various different investor groups with deal sponsors and product providers. With this investment, PATRIZIA is continuing its strategic technology and innovation investments with the aim of advancing the transformation of the sector.

The fair value of the total consideration transferred as at the acquisition date cannot be conclusively determined at this time. In accordance with the purchase agreement, the final purchase price will be calculated only after all transactions have been closed. No advance payments were made in connection with the acquisition in the past financial year.

Because the acquisition took place close to the reporting date and accounting for the business combination has not yet been completed at present, further details cannot be provided and a purchase price allocation has not yet been carried out.

9.8 German corporate governance code

In December 2019, the Management Board and the Supervisory Board of PATRIZIA AG approved the declaration of conformity in accordance with section 161 of the Aktiengesetz (AktG – German Corporation Act) and made it permanently available on the Group's website.

10 Responsibility statement

The Management Board of PATRIZIA AG is responsible for the preparation, completeness and accuracy of the consolidated financial statements and the combined management report of the company and the Group.

The Management Board approved the financial statements for submission to the Supervisory Board on 13 March 2020.

It is the responsibility of the Supervisory Board to examine the consolidated financial statements and to state whether it adopts them.

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

The combined management report of the company and the Group contains analyses of the financial position and financial performance of the Group and other disclosures required under section 315 HGB.

Augsburg, 13 March 2020

The PATRIZIA Management Board

Wolfgang Egger
Chairman of the
Management Board,
CEO

Alexander Betz
Member of the
Management Board,
CDO

Karim Bohn
Member of the
Management Board,
CFO

Dr Manuel Käsbauer
Member of the
Management Board,
CTIO

Anne Kavanagh
Member of the
Management Board,
CIO

Klaus Schmitt
Member of the
Management Board,
COO

Simon Woolf
Member of the
Management Board,
CHRO

Annex to the notes to the consolidated financial statements

List of shareholdings

PATRIZIA holds **direct** interests in the following companies:

List of shareholdings – direct 116

Name of the company	Domicile	Entity currency	Shares in %	Equity in entity currency as at 31.12.2019 (in k)	Net result 2019 in entity currency (in k)
PATRIZIA Augsburg Kapitalverwaltungsgesellschaft mbH[1]	Augsburg	EUR	100.00	2,964	0
PATRIZIA Institutional Clients & Advisory GmbH[1]	Augsburg	EUR	100.00	50	0
PATRIZIA Hong Kong Limited	Hong Kong	HKD	100.00	8,024[4]	589[4]
PATRIZIA Japan KK	Tokio	JPY	100.00	277,876[5]	–38,637[5]
PATRIZIA Property Inc.	Wilmington	USD	100.00	937[6]	594[6]
PATRIZIA Sweden AB	Stockholm	SEK	100.00	4,662[7]	246[7]
PATRIZIA DENMARK A/S	Kopenhagen	DKK	100.00	52,506[8]	28,252[8]
PATRIZIA Finland Oy	Helsinki	EUR	100.00	368	183
PATRIZIA UK LIMITED	Swindon	GBP	100.00	–7,815[9]	–2,944[9]
PATRIZIA France	Paris	EUR	100.00	1,400	–505
PATRIZIA IRELAND LIMITED	Dublin	EUR	100.00	32	19
PATRIZIA Netherlands B.V.	Amsterdam	EUR	100.00	9,076	607
PATRIZIA Logistics Management Europe B.V.	Amsterdam	EUR	100.00	1,866	3,138
PATRIZIA ACTIVOS INMOBILIARIOS ESPAÑA S.L.U.	Madrid	EUR	100.00	674	268
PATRIZIA Multi Managers Holding A/S	Kopenhagen	DKK	100.00	21,777[8]	48[8]
PATRIZIA Deutschland GmbH[1]	Augsburg	EUR	100.00	2,058	0
PATRIZIA GrundInvest Kapitalverwaltungsgesellschaft mbH[1]	Augsburg	EUR	100.00	3,000	0
Mondstein 402. GmbH	München	EUR	100.00	7,269	151
PATRIZIA Real Estate Investment Management S.à r.l.	Luxemburg	EUR	100.00	18,542	11,879
PATRIZIA Innovation Management S.à r.l.	Luxemburg	EUR	100.00	10	–2
PATRIZIA Acquisition Holding alpha GmbH	Augsburg	EUR	100.00	1,484	2,676
PATRIZIA Acquisition Holding gamma GmbH	Augsburg	EUR	100.00	7,515	–7
PATRIZIA Acquisition Holding delta GmbH	Augsburg	EUR	100.00	1,624	–1
PATRIZIA Acquisition Holding epsilon GmbH	München	EUR	100.00	25	0

List of shareholdings – direct

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Name of the company	Domicile	Entity currency	Shares in %	Equity in entity currency as at 31.12.2019 (in k)	Net result 2019 in entity currency (in k)
PATRIZIA Acquisition Holding beta GmbH[1]	Augsburg	EUR	100.00	25	0
PATRIZIA Real Estate Corporate Finance und Service GmbH	Augsburg	EUR	100.00	14	–1
PATRIZIA Investment Management Coop S.A.	Luxemburg	EUR	100.00	9	3
PATRIZIA Harald Fund Investment S.C.S. in Liquidation	Luxemburg	EUR	100.00	31	–29
PATRIZIA Projekt 170 GmbH[1]	Augsburg	EUR	100.00	201,804	0
PATRIZIA Projekt 180 GmbH[1]	Augsburg	EUR	100.00	10,072	0
PATRIZIA Projekt 230 GmbH[1]	Augsburg	EUR	100.00	19	0
PATRIZIA Projekt 260 GmbH[1]	Augsburg	EUR	100.00	24	0
PATRIZIA Alternative Investments GmbH[1]	Augsburg	EUR	100.00	25	0
Stella Grundvermögen GmbH[1]	Augsburg	EUR	100.00	7,538	0
Wohnungsgesellschaft Olympia mbH	Augsburg	EUR	100.00	257	18
PATRIZIA Acquisition GmbH	Augsburg	EUR	100.00	10	–5
PATRIZIA Projekt 710 GmbH	Augsburg	EUR	100.00	187,301	15,751
SCAN Deutsche Beteiligungsmanagement GmbH	Berlin	EUR	100.00	2	–9
SCAN Deutsche Beteiligungsverwaltungs GmbH & Co. KG	Berlin	EUR	100.00	8,929	2,398
Carl Carry Verwaltungs GmbH	Frankfurt am Main	EUR	100.00	40	2
PATRIZIA Carry GmbH & Co. KG	Augsburg	EUR	73.53	–627	–3,413
Carl A-Immo Verwaltungs GmbH	Augsburg	EUR	100.00	156	11
Carl Offshore Limited[3]	St Peter Port	GBP	100.00	–10[9]	–10[9]
Carl Two Offshore Limited[3]	St Peter Port	GBP	100.00	–9[9]	–10[9]
Pearl AcquiCo Zwei GmbH & Co. KG	Augsburg	EUR	100.00	56,934	3,217
Carl HR GmbH & Co. KG	München	EUR	3.61	–8	–9
PATRIZIA WohnModul I SICAV-FIS[2]	Luxemburg	EUR	10.10	662,921	10,060
PATRIZIA Projekt 430 GmbH	Augsburg	EUR	14.68	2,312	–349
PATRIZIA Projekt 440 GmbH	Augsburg	EUR	14.68	–3,420	–3,686
Carl A-Immo GmbH & Co. KG	München	EUR	12.50	–5	0

1 As a result of the existing control and profit transfer agreements, the results are adopted by PATRIZIA
2 Provisional financial statements
3 Not included in the scope of consolidation as of the balance sheet date (see Note 2.1)
4 Currency translation into EUR: Equity as at 31.12.2019: HKD 8.75/Net result at the average rate for 2019: HKD 8.77
5 Currency translation into EUR: Equity as at 31.12.2019: 121.94 JPY/Net result at the average rate for 2019: 122.00 JPY
6 Currency translation into EUR: Equity as at 31.12.2019: 1.12 USD/Net result at the average rate for 2019: 1.12 USD
7 Currency translation into EUR: Equity as at 31.12.2019: 10.45 SEK/Net result at the average rate for 2019: 10.59 SEK
8 Currency translation into EUR: Equity as at 31.12.2019: 7.47 DKK/Net result at the average rate for 2019: 7.47 DKK
9 Currency translation into EUR: Equity as at 31.12.2019: 0.85 GBP/Net result at the average rate for 2019: 0.88 GBP

PATRIZIA holds **indirect** interests in the following companies:

List of shareholdings – indirect 117

Name of the company	Domicile	Entity currency	Shares in %	Equity in entity currency as at 31.12.2019 (in k)	Net result 2019 in entity currency (in k)
LB Invest GmbH	Hamburg	EUR	94.90	30	–3
PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH[3]	Hamburg	EUR	94.90	10,000	0
PATRIZIA FINANCIAL SERVICES LIMITED	Edinburgh	GBP	100.00	548[10]	58[10]
PATRIZIA EUROPE LIMITED	London	GBP	94.90	–610[10]	51[10]
PATRIZIA PROPERTY ASSET MANAGEMENT	London	GBP	94.90	6,306[10]	–562[10]
PATRIZIA PIM LIMITED	London	GBP	94.90	3,977[10]	738[10]
PATRIZIA PROPERTY INVESTMENT MANAGERS LLP	London	GBP	94.90	10,344[10]	842[10]
PATRIZIA P.I.M. (REGULATED) LIMITED	London	GBP	94.90	12,354[10]	3,715[10]
PATRIZIA GRB (GENERAL PARTNER) LIMITED[8]	London	GBP	94.90	0[10]	0[10]
PATRIZIA PROPERTY INVESTMENT MANAGERS FRANCE SAS	Paris	EUR	94.90	639	–32
ROCKSPRING POLAND SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ	Warschau	PLN	94.90	19[11]	2[11]
Patrizia Multi Managers I A/S under frivillig likvidation	Hellerup	DKK	100.00	1,136[12]	–6[12]
PATRIZIA Multi Managers A/S	Hellerup	DKK	100.00	13,637[12]	6,499[12]
BMK 1 ApS	Hellerup	DKK	100.00	404[12]	108[12]
BMK 2 ApS under frivillig likvidation	Hellerup	DKK	100.00	156[12]	–6[12]
BMK 3 ApS	Hellerup	DKK	100.00	496[12]	146[12]
BMK 4 ApS under frivillig likvidation	Hellerup	DKK	100.00	62[12]	–20[12]
SPF III GP ApS	Hellerup	DKK	100.00	58[12]	–9[12]
SPF III US HUH GP ApS	Hellerup	DKK	100.00	15[12]	–10[12]
SPF III MPC I GP ApS	Hellerup	DKK	100.00	21[12]	–9[12]
PMM V GP ApS	Kopenhagen	DKK	100.00	132[12]	65[12]
PMM Global V Feeder GP ApS	Hellerup	DKK	100.00	37[12]	–13[12]
PATRIZIA GrundInvest Fonds-Treuhand GmbH[8]	Augsburg	EUR	100.00	22	–3
PATRIZIA Frankfurt Kapitalverwaltungsgesellschaft mbH[5]	Frankfurt am Main	EUR	94.00	21,549	0
PMG – Property Management Gesellschaft mit beschränkter Haftung	Frankfurt am Main	EUR	94.00	224	3
Angerhof Verwaltungs- und Beteiligungs GmbH in Liquidation[8]	Frankfurt am Main	EUR	94.00	16	1
TRIUVA Angerhof und Zeil 94 Verwaltungs GmbH[8]	Frankfurt am Main	EUR	94.00	49	–4
PATRIZIA HANOVER REAL ESTATE INVESTMENT MANAGEMENT LIMITED[8]	St Helier	GBP	94.90	25[10]	0[10]

List of shareholdings – indirect

Name of the company	Domicile	Entity currency	Shares in %	Equity in entity currency as at 31.12.2019 (in k)	Net result 2019 in entity currency (in k)
PATRIZIA PORTUGUESE PROPERTY PARTNERSHIP (GENERAL PARTNER SCOTLAND) LIMITED[8]	Edinburgh	GBP	94.90	0[10]	0[10]
PATRIZIA PORTUGUESE PROPERTY PARTNERSHIP (GENERAL PARTNER) LIMITED[8]	London	GBP	94.90	0[10]	0[10]
TRANSEUROPEAN PROPERTIES (SLP) IV LIMITED[8]	Edinburgh	GBP	94.90	0[10]	0[10]
TRANSEUROPEAN PROPERTIES (GENERAL PARTNER) IV LIMITED[8]	London	GBP	94.90	0[10]	0[10]
PATRIZIA UK VALUE SLP (SCOTLAND) LIMITED[8]	Edinburgh	GBP	94.90	0[10]	0[10]
PATRIZIA TRANSEUROPEAN PROPERTIES (GENERAL PARTNER) V LIMITED[8]	London	GBP	94.90	0[10]	0[10]
TRANSEUROPEAN PROPERTIES (SLP) V LIMITED[8]	Edinburgh	GBP	94.90	0[10]	0[10]
PATRIZIA SINGLE EUROPE (GENERAL PARTNER) LIMITED[8]	London	GBP	94.90	0[10]	0[10]
ROCKSPRING SINGLE CLIENT FUND (GENERAL PARTNER) LIMITED[8]	London	GBP	94.90	0[10]	0[10]
PATRIZIA SINGLE CLIENT II (GENERAL PARTNER) LLP[8]	London	GBP	94.90	0[10]	0[10]
PATRIZIA SINGLE CLIENT II SLP (GENERAL PARTNER) LLP[8]	Edinburgh	GBP	94.90	0[10]	0[10]
TRANSEUROPEAN PROPERTIES (SLP) VI LLP[8]	Edinburgh	GBP	94.90	0[10]	0[10]
PATRIZIA TRANSEUROPEAN PROPERTIES (GENERAL PARTNER) VI LLP[8]	London	GBP	94.90	0[10]	0[10]
PATRIZIA PANEUROPEAN GP LLP[8]	London	GBP	94.90	0[10]	0[10]
PATRIZIA PERIPHERAL EUROPE SLP (GENERAL PARTNER) LLP[8]	Edinburgh	GBP	94.90	0[10]	0[10]
PATRIZIA PERIPHERAL EUROPE GP LLP[8]	London	GBP	94.90	–17[10]	–11[10]
PATRIZIA UK VALUE 2 SLP (GENERAL PARTNER) LLP[8]	Edinburgh	GBP	94.90	0[10]	0[10]
PATRIZIA UK VALUE 2 (GENERAL PARTNER) LLP[8]	London	GBP	94.90	0[10]	0[10]
PATRIZIA GRB (GP2) LLP[8]	London	GBP	94.90	0[10]	0[10]
PATRIZIA SPITFIRE CARRY LLP[8]	London	GBP	94.90	0[10]	0[10]
PATRIZIA SINGLE EUROPE (GP2) LLP[8]	London	GBP	94.90	0[10]	0[10]
PATRIZIA TRANSEUROPEAN PROPERTIES (GP2) V LLP[8]	London	GBP	94.90	0[10]	0[10]
TRANSEUROPEAN PROPERTIES (GP2) IV LLP[8]	London	GBP	94.90	0[10]	0[10]
PATRIZIA SINGLE CLIENT (GP2) LLP[8]	London	GBP	94.90	0[10]	0[10]
PATRIZIA RIMBAUD SLP (GP) LLP[8]	Edinburgh	GBP	94.90	0[10]	0[10]
PATRIZIA SPREE (GP) LIMITED[8]	London	GBP	94.90	0[10]	0[10]
ROCKSPRING EUROPEAN PROPERTY II (SCOTS) LP[8]	Edinburgh	GBP	94.90	0[10]	0[10]
TRANSEUROPEAN PROPERTY (SCOTS) VI LIMITED PARTNERSHIP[8]	Edinburgh	GBP	94.90	0[10]	0[10]

List of shareholdings – indirect

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Name of the company	Domicile	Entity currency	Shares in %	Equity in entity currency as at 31.12.2019 (in k)	Net result 2019 in entity currency (in k)
ROCKSPRING PERIPHERAL EUROPE (SCOTLAND) LIMITED PARTNERSHIP[8]	Edinburgh	GBP	94.90	0[10]	0[10]
ROCKSPRING UK VALUE 2 (SCOTLAND) LIMITED PARTNERSHIP[8]	Edinburgh	GBP	94.90	0[10]	0[10]
ROCKSPRING RIMBAUD (SCOTLAND) LIMITED PARTNERSHIP[8]	Edinburgh	GBP	94.90	0[10]	0[10]
ROCKSPRING UK VALUE SLP (SCOTLAND), L.P.[8]	Edinburgh	GBP	94.90	0[10]	0[10]
TRANSEUROPEAN PROPERTY (SCOTS) V LIMITED PARTNERSHIP[8]	Edinburgh	GBP	94.90	0[10]	0[10]
Rockspring Transeuropean Properties (General Partner) VII S.à r.l.[8]	Luxemburg	EUR	94.90	12	0
PATRIZIA MONTCLAIR SLP (GP) LLP[8]	Edinburgh	GBP	94.90	0[10]	0[10]
PATRIZIA MONTCLAIR (SCOTLAND) LIMITED PARTNERSHIP[8]	Edinburgh	GBP	94.90	0[10]	0[10]
PATRIZIA Luxembourg S.à r.l.	Luxemburg	EUR	100.00	158,432	15,588
PATRIZIA Investment Management HoldCo S.à r.l.	Luxemburg	EUR	100.00	99,215	18,951
Alliance Real Estate HoldCo S.à r.l.	Luxemburg	EUR	100.00	1,146	–122
PATRIZIA Ivanhoe 10 S.à r.l.	Luxemburg	EUR	100.00	12,373	159
PATRIZIA REAL ESTATE 10 S.à r.l.	Luxemburg	EUR	100.00	171	–533
PATRIZIA Lux 10 S.à r.l.	Luxemburg	EUR	100.00	1,263	976
PATRIZIA REAL ESTATE 20 S.à r.l.	Luxemburg	EUR	100.00	11,153	7,964
PATRIZIA Lux 20 S.à r.l.	Luxemburg	EUR	100.00	1,995	15,310
PATRIZIA Lux 30 N S.à r.l.	Luxemburg	EUR	100.00	655	–91
PATRIZIA Real Estate 50 S.à r.l.	Luxemburg	EUR	100.00	6,204	2,411
PATRIZIA Lux 50 S.à r.l.	Luxemburg	EUR	100.00	18,014	1,630
PATRIZIA Real Estate 60 S.à r.l.	Luxemburg	EUR	100.00	–612	24
PATRIZIA Lux 60 S.à r.l.	Luxemburg	EUR	100.00	4,947	102
PATRIZIA Investment Management S.C.S.	Luxemburg	GBP	100.00	18,841[10]	1,659[10]
Seneca Topco S.à r.l.	Luxemburg	EUR	100.00	5,595	355
First Street Topco 1 S.à r.l.	Luxemburg	GBP	100.00	–18,681[10]	–17,914[10]
PATRIZIA FIRST STREET LP	London	GBP	100.00	44,017[10]	3,391[10]
PATRIZIA FIRST STREET GP LIMITED	Swindon	GBP	100.00	5[10]	2[10]
FIRST STREET PROPCO LIMITED	Swindon	GBP	100.00	12,803[10]	698[10]
SOUTHSIDE REAL ESTATE LIMITED	Swindon	GBP	100.00	7[10]	16,211[10]
SOUTHSIDE REGENERATION LIMITED	Swindon	GBP	100.00	24,384[10]	3,120[10]
FIRST STREET MANAGEMENT COMPANY LIMITED	Swindon	GBP	17.36	9[10]	0[10]
PATRIZIA Facility Management GmbH[4]	Augsburg	EUR	100.00	25	0
PATRIZIA Projekt 380 GmbH	Augsburg	EUR	100.00	–30	–4
Alte Haide Baugesellschaft mit beschränkter Haftung München[1]	Augsburg	EUR	100.00	9,288	0
F 40 GmbH	Augsburg	EUR	100.00	–31,652	3,059

List of shareholdings – indirect

Name of the company	Domicile	Entity currency	Shares in %	Equity in entity currency as at 31.12.2019 (in k)	Net result 2019 in entity currency (in k)
Projekt Wasserturm Grundstücks GmbH & Co. KG	Augsburg	EUR	45.90	–779	–15
Projekt Wasserturm Bau GmbH & Co. KG	Augsburg	EUR	51.00	–2,293	–91
Projekt Wasserturm Verwaltungs GmbH	Augsburg	EUR	51.00	63	–2
PATRIZIA European Real Estate Management GmbH	Gräfelfing	EUR	100.00	373	1,038
PATRIZIA Projekt 600 GmbH [2]	Augsburg	EUR	100.00	16,666	0
Sudermann S.à r.l.	Luxemburg	EUR	100.00	13,541	597
Dover Street S.à r.l.	Luxemburg	GBP	100.00	–2,793 [10]	718 [10]
Wildrosen S.à r.l.	Luxemburg	EUR	100.00	3,645	159
Trocoll House No. 1 S.à r.l.	Luxemburg	GBP	99.90	12,415 [10]	–139 [10]
PATRIZIA TROCOLL HOUSE GP LIMITED	Swindon	GBP	100.00	3 [10]	1 [10]
PATRIZIA TROCOLL HOUSE LP	London	GBP	99.90	–81 [10]	–11 [10]
Edgbaston S.à r.l.	Luxemburg	GBP	100.00	3,412 [10]	–48 [10]
PATRIZIA GQ LIMITED	Swindon	GBP	100.00	384 [10]	–7 [10]
PATRIZIA GrundInvest Beteiligungs GmbH & Co. KG	Augsburg	EUR	100.00	–138	–87
PATRIZIA GrundInvest Europa Wohnen Plus GmbH & Co. geschlossene Investment-KG	Augsburg	EUR	100.00	183	–17
PATRIZIA Grundinvest Augsburg Fünf GmbH & Co. KG	Augsburg	EUR	100.00	–18	–38
PATRIZIA GrundInvest Augsburg Sechs GmbH & Co. KG	Augsburg	EUR	100.00	–58	–59
PATRIZIA GrundInvest Helsinki GmbH & Co. geschlossene Investment-KG	Augsburg	EUR	100.00	–18	–48
PATRIZIA GrundInvest Objekt Helsinki GmbH	Augsburg	EUR	100.00	17	–8
Dixin Toimistot KY	Helsinki	EUR	100.00	34,850	426
KOY Tikkurilan Toimistokiinteistö 1 [9]	Helsinki	EUR	100.00	0	0
KOY Tikkurilan Toimistokiinteisto 2A [9]	Helsinki	EUR	100.00	0	0
PGK KOY Tikkurilan 2B [9]	Helsinki	EUR	100.00	0	0
PATRIZIA Lux TopCo S.à r.l. en liquidation volontaire	Luxemburg	EUR	10.00	88	–4
Carl Lux SCS	Luxemburg	EUR	10.22	–540	0
PATRoffice Real Estate GmbH & Co. KG	Gräfelfing	EUR	6.25	17,598	30,661
sono west Projektentwicklung GmbH & Co. KG [6]	Frankfurt am Main	EUR	30.00	772	18,852
LB Immo PIB GmbH	Hamburg	EUR	4.93	286	–19
Opportunitäten Europa 1 S.à.r.l.	Luxemburg	EUR	5.10	1,614	–34
Opportunitäten Europa 2 S.à.r.l.	Luxemburg	EUR	5.10	–1,997	75
Opportunitäten Europa 3 S.à.r.l.	Luxemburg	EUR	5.10	–2,150	12
Opportunitäten Europa 4 S.à.r.l.	Luxemburg	EUR	5.10	–1,672	57
Opportunitäten Europa 5 S.à.r.l.	Luxemburg	EUR	5.10	–718	165
Opportunitäten Europa 6 S.à.r.l.	Luxemburg	EUR	5.10	–1,538	295

List of shareholdings – indirect

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Name of the company	Domicile	Entity currency	Shares in %	Equity in entity currency as at 31.12.2019 (in k)	Net result 2019 in entity currency (in k)
Opportunitäten Europa 7 S.à.r.l.	Luxemburg	EUR	5.10	–1,931	200
Opportunitäten Europa 8 S.à.r.l.	Luxemburg	EUR	5.10	–1,490	114
Opportunitäten Europa 9 S.à.r.l.	Luxemburg	EUR	5.10	–3,928	–80
Opportunitäten Europa 10 S.à.r.l.	Luxemburg	EUR	5.10	–3,167	22
Opportunitäten Europa 11 S.à.r.l.	Luxemburg	EUR	5.10	–2,415	53
Seneca Holdco SCS	Luxemburg	EUR	5.10	104,543	7,438
Projekt Feuerbachstraße Verwaltung GmbH[6]	Frankfurt am Main	EUR	30.00	31	1
Dawonia GmbH (formerly: GBW GmbH)[7]	Grünwald	EUR	5.10	441,077	0
PATRIZIA Real Estate 30 S.à r.l.	Luxemburg	EUR	14.68	298	301
ASK PATRIZIA (GQ) LLP	Manchester	GBP	50.00	–6[10]	–1[10]
Evana AG[6]	Saarbrücken	EUR	25.01	–728	–4,284
Cognotekt GmbH[6]	Köln	EUR	13.07	795	–2,138
control.IT Unternehmensberatung GmbH[6]	Bremen	EUR	10.00	5,616	1,262
PATRIZIA GrundInvest Die Stadtmitte Mülheim GmbH & Co. geschlossene Investment-KG	Augsburg	EUR	0.07	–496	–516
PATRIZIA GrundInvest Objekt Mühlheim Die Stadtmitte GmbH & Co. KG	Augsburg	EUR	25.15	–1,417	–1,437
TIKKURILAN ASEMAKESKUSPYSÄKÖINTI OY[6]	Helsinki	EUR	45.00	14,393	0

1 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder Stella Grundvermögen GmbH
2 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder Alte Haide Baugesellschaft mbH München
3 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 600 GmbH
4 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 180 GmbH
5 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 710 GmbH
6 Provisional financial statements
7 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder Dawonia Real Estate GmbH & Co.KG (formerly: GBW Real Estate GmbH & Co.KG). The specified values are previous year values
8 Not included in the scope of consolidation as at the balance sheet date (comments on 2.1)
9 Values of equity and net profit for the last financial year are included in the subgroup Dixin Toimistot KY
10 Currency translation into EUR: Equity as at 31.12.2019: 0.85 GBP/Net result at the average rate for 2019: 0.88 GBP
11 Currency translation into EUR: Equity as at 31.12.2019: 4.26 PLN/Net result at the average rate for 2019: 4.30 PLN
12 Currency translation into EUR: Equity as at 31.12.2019: 7.47 DKK/Net result at the average rate for 2019: 7.47 DKK

PATRIZIA holds **direct** and **indirect** interests in the following companies:

List of shareholdings – direct and indirect 118

Name of the company	Domicile	Entity currency	Shares in %	Equity in entity currency as at 31.12.2019 (in k)	Net result 2019 in entity currency (in k)
PATRIZIA PROPERTY HOLDINGS LIMITED	London	GBP	94.90	5,181 [2]	–1,970 [2]
PATRIZIA Innovation Fund I SCSp	Luxemburg	EUR	100.00	1,803	–11
PATRIZIA Vermögensverwaltungs GmbH [1]	Augsburg	EUR	100.00	688	0

1 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 180 GmbH
2 Currency translation into EUR: Equity as at 31.12.2019: 0.85 GBP/Net result at the average rate for 2019: 0.88 GBP

Responsibility statement

by the legal representatives of PATRIZIA AG (Group)

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the combined management report for the Company and the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Augsburg, 13 March 2020

The Management Board

Wolfgang Egger
Chairman of the Management Board, CEO

Alexander Betz
Member of the Management Board, CDO

Karim Bohn
Member of the Management Board, CFO

Dr Manuel Käsbauer
Member of the Management Board, CTIO

Anne Kavanagh
Member of the Management Board, CIO

Klaus Schmitt
Member of the Management Board, COO

Simon Woolf
Member of the Management Board, CHRO

Auditor’s opinion

To PATRIZIA AG, Augsburg

Report on the Audit of the Consolidated Financial Statements and the Combined Management Report

Audit Opinions

We have audited the consolidated financial statements of PATRIZIA AG, Augsburg, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2019 in addition to the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of PATRIZIA AG for the financial year from 1 January to 31 December 2019. In accordance with German statutory provisions, we did not audit the content of the combined non-financial statement in accordance with sections 289b to 289e of the *Handelsgesetzbuch* (HGB – German Commercial Code) and sections 315b to 315e HGB, which can be found in the “Non-financial statement” section of the combined management report, or the corporate governance declaration in accordance with section 289f and section 315d HGB or the corporate governance report in accordance with item 3.10 of the German Corporate Governance Code, which is referred to in the combined management report.

In our opinion based on the findings of our audit

– the accompanying consolidated financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of German commercial law in accordance with section 315e(1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2019, and its financial performance for the financial year from 1 January to 31 December 2019, and

– the accompanying combined management report as a whole provides a suitable view of the Group’s position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and suitably presents the risks and opportunities of future development. Our opinion on the combined management report does not extend to the content of the combined non-financial statement in accordance with sections 289b to 289e HGB and sections 315b to 315e HGB, which can be found in the “Non-financial statement” section of the combined management report, or the corporate governance declaration in accordance with section 289f and section 315d HGB or the corporate governance report in accordance with item 3.10 of the German Corporate Governance Code, which is referred to in the combined management report.

In accordance with section 322(3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and the combined management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated financial statements and the Combined Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10(2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5(1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the key audit matters we have determined in the course of our audit:

1. Valuation of participations
2. Recoverability of goodwill
3. Recoverability of fund management contracts

Our presentation of these key audit matters is structured as follows:

a) Description (including reference to corresponding information in the consolidated financial statements)
b) Auditor’s response

1. Valuation of participations

a) In the consolidated financial statements of PATRIZIA AG, shares in companies totalling EUR 525.7, corresponding to 26.5% of the consolidated balance sheet total or 42.5% of consolidated equity. Since 1 January 2018, investments have been measured at fair value in accordance with IFRS 9, whereby changes in value are recognised in other comprehensive income (FVTOCI). PATRIZIA AG uses a valuation model for the valuation of these investments which is essentially based on the net asset values (NAV) or – if known – expected selling prices of the investment companies and which takes into account the relevant share of PATRIZIA AG in its investment. The NAV of the associated companies is largely determined by the market values of the properties held by them, for which appraisals are generally available.

The assessment of the legal representatives with regard to the measurement of the reported participations is subject to uncertainties and incorrect valuations would have a material impact on other comprehensive income and thus on the overall result for the respective reporting period and the equity ratio. In light of this fact, we have classified the valuation of participations as a key audit matter for our audit of the financial statements.

The information provided by the legal representatives on the valuation of investments is contained in notes 1.1, 4.1.7 and 5.11 of the notes to the consolidated financial statements.

b) As part of our audit of participations, we have first of all reperformed the valuation model and the methodological approach used by PATRIZIA AG to value the equity investments. On this basis, we examined the net assets, financial position and results of operations of selected significant investments in the respective companies in more detail and, in particular, assessed the annual audit reports, valuation reports and other documents and information on these companies. With regard to the NAV, we first examined whether these were determined methodically appropriate and on the basis of suitable data. By questioning the legal representatives or third parties nominated by them, we satisfied ourselves of the appropriateness of the material underlying assumptions. In addition, we conducted reconciliations with general and industry-specific market expectations. With regard to the share of the NAV of the associated companies allocated to PATRIZIA AG within the framework of the valuation model, we verified on the basis of the contractual documents that this allocation corresponds to the contractual regulations on the distribution of earnings and assets for the respective associated companies.

Due to the possible material impact mentioned above and due to the fact that the valuation of the investments also depends on general conditions and external effects that are beyond the control of PATRIZIA AG, we have also critically assessed the sensitivity analyses carried out by the legal representatives in order to be able to assess possible risks of changes in value in the event of a change in key input factors.

2. Recoverability of goodwill

a) Goodwill of EUR 210.3m was reported in the consolidated financial statements of PATRIZIA AG, accounting for 10.6% of total consolidated assets and 17.0% of total consolidated equity and liabilities. Goodwill is tested for impairment by PATRIZIA during the financial year or on an ad hoc basis as necessary. Impairment testing is performed using company valuations in accordance with the discounted cash flow method. The valuations are based on the present values of future cash flows taken from the five-year plan (detailed planning period) valid when the impairment tests are performed. Thereafter, this detailed planning period is extrapolated on the assumption of long-term growth rates. Cash flows are discounted using the weighted average cost of capital. The recoverable amount is calculated on the basis of the value in use, which is compared to the carrying amount to determine whether impairment is required. The result of this valuation is highly dependent on the officers' assessment of the future cash flows, long-term growth rates and the WACC rates used for discounting, and therefore subject to uncertainty and discretion. In light of this, we classified the recoverability of goodwill as a key audit matter for our audit.

The disclosures by the officers of the parent company on goodwill can be found in note 4.1.1 of the notes to the consolidated financial statements.

b) As part of our audit, in particular we re-performed the methods used in impairment testing. We looked at whether the measurement model used fairly reflects the design requirements of the relevant standards, whether the necessary inputs were fairly and fully determined and applied, and whether the calculations in the model were correct. In particular, we examined whether the future cash flows used in the calculations form a fair basis by comparing them to the current five-year planning and by questioning the officers on the material assumptions and premises of this planning. We also scrutinised the planning in terms of general market expectations and those specific to the industry. As a significant portion of the value in use results from forecast cash inflows after the detailed planning period (terminal value phase), in particular we scrutinised the long-term growth rate used for the terminal value phase using general market expectations and those specific to the industry. As even relatively small changes in the discounting rate used can have a material impact on the recoverable amount, we also validated the parameters used to determine the WACC rate used for discounting and re-performed the calculation scheme. Given the potential material significance and the fact that the measurement of goodwill is also dependent on economic circumstances beyond the Group's control, we also examined the sensitivity analyses performed by PATRIZIA for the cash-generating units with little overlap so as to assess the possibility of an impairment risk in the event of a change in key measurement parameters.

3. Recoverability of fund management contracts

a) Under "Other intangible assets", fund management contracts are reported in the amount of EUR 131.9m in the consolidated financial statements of PATRIZIA AG, accounting for 6.4% of total consolidated assets and 10.7% of total consolidated equity and liabilities. The analysis and assessment of whether there is evidence for impairment on the fund management contracts acquired and those already in place require extensive assumptions and estimates of the future net cash flows from the contracts and the discounting rate used. Incorrect analyses and assessments due to the size of the accounting item can have a significant impact on the consolidated financial statements. For these reasons, we see the recoverability of the fund management contracts as a key audit matter.

The disclosures by the legal representatives of the parent company on fund management contracts can be found in note 4.1.2 of the notes to the consolidated financial statements.

b) In order to assess the appropriateness of the legal representatives' analysis of whether there is evidence of impairment on the fund management contracts acquired, (triggering event analysis), we addressed the underlying processes in addition to performing assertion-based audit procedures. In particular, we re- performed the calculation of the present value of the future cash flows and the underlying measurement models in terms of both the methods and the figures used. We examined whether the budget planning is consistent with general market expectations and those specific to the industry, and we assessed and validated the measurement parameters used in estimating the fair values.

Other Information

The legal representatives are responsible for the other information. The other information comprises

- the combined non-financial statement in accordance with sections 289b to 289e HGB and sections 315b and 315c HGB contained in the “Non-financial statement” section of the combined management report;
- the corporate governance declaration in accordance with section 289f and section 315d HGB, which is referred to in the combined management report;
- the corporate governance report in accordance with item 3.10 of the German Corporate Governance Code, which is referred to in the combined management report;
- the legal representatives’ confirmation relating to the consolidated financial statements and to the combined management report in accordance with section 297(2) sentence 4 and section 315(1) sentence 5 HGB; and
- the remaining parts of the Annual Report, with the exception of the audited consolidated financial statements and combined management report and our auditor’s report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of audit conclusion on it.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information:

- is materially inconsistent with the consolidated financial statements, the combined management report or our knowledge obtained in the audit; or
- otherwise appears to be materially misstated.

Responsibilities of the Legal Representatives and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law in accordance with section 315e(1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the legal representatives are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the combined management report that, as a whole, provides a suitable view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the risks and opportunities of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the combined management report.

Auditors Responsibilities for the Audit of the Consolidated Financial Statements and the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides a suitable view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also

– Identify and assess the risks of material misstatement in the consolidated financial statements and the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

– Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

– Evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.

– Conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that there is material uncertainty, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and with the additional requirements of German commercial law in accordance with section 315e(1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information or the underlying assumptions. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information in accordance with Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 22 May 2019. We were engaged by the Supervisory Board on 15 October 2019. We have been the group auditor of PATRIZIA AG, Augsburg, without interruption since the 2005 financial year.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Stephan Mühlbauer.

Munich, 13 March 2020

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Franz Klinger	**Stephan Mühlbauer**
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]