

Consolidated Financial Statements and Notes

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Consolidated Income Statement

FOR THE PERIOD FROM JANUARY 1, 2010 TO DECEMBER 31, 2010

EUR '000	Notes	2010	2009
Revenues	6.1	339,593	250,888
Income from the sale of investment property	4.1	1,237	370
Changes in inventories	6.2	-165,632	-106,173
Other operating income	6.3	4,658	14,168
Total operating performance		179,856	159,253
Cost of materials	6.4	-68,072	-60,884
Staff costs	6.5	-28,580	-23,888
Amortization of software and depreciation on equipment	6.6	-904	-824
Results from fair value adjustments to investment property	4.1	325	0
Other operating expenses	6.7	-21,376	-17,553
Earnings from companies accounted for using the equity method	4.1	-5	6
Finance income	6.8	11,494	12,271
Finance cost	6.8	-61,250	-76,342
Profit / loss before income taxes		11,488	-7,961
Income tax	6.9	-5,287	-1,539
Net profit / loss		6,201	-9,500
Profit carried forward		21,529	31,029
Consolidated net profit		27,730	21,529
Earnings per share (undiluted), in EUR	6.10	0.12	-0.18
The net profit / loss for the period is allocated to:			
- Shareholders of the parent company		6,246	-9,500
- Non-controlling partners		-45	0
		6,201	-9,500

Consolidated Statement of Comprehensive Income

FOR THE PERIOD FROM JANUARY 1, 2010 TO DECEMBER 31, 2010

EUR '000	Notes	2010	2009
Net profit / loss		6,201	-9,500
Other result			
Cash flow hedges			
- Amounts recorded during the reporting period	4.4	2,316	-455
- Reclassification of amounts that were recorded	4.4	1,391	2,430
Total result for the reporting period		9,908	-7,525
The total result is allocated to:			
- Shareholders of the parent company		9,953	-7,525
- Non-controlling partners		-45	0
		9,908	-7,525

Consolidated Balance Sheet

AT DECEMBER 31, 2010

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ASSETS

EUR '000	Notes	12/31/2010	12/31/2009
A. Non-current assets			
Software	4.1	2,811	539
Investment property	4.1	614,945	657,320
Equipment	4.1	1,893	1,650
Investments in joint ventures	4.1	8	13
Participations	4.1	3,090	3,090
Long-term tax assets	4.2	281	313
Total non-current assets		623,028	662,925
B. Current assets			
Inventories	4.3	510,438	676,008
Short-term tax assets	4.2	263	1,879
Current receivables and other current assets	4.5	10,282	29,428
Bank balances and cash	4.6	70,537	56,183
Total current assets		591,520	763,498
Total assets		1,214,548	1,426,423

EQUITY AND LIABILITIES

EUR '000	Notes	12/31/2010	12/31/2009
A. Equity			
Share capital	5.1.1	52,130	52,130
Capital reserves	5.1.2	215,862	215,862
Retained earnings			
- legal reserves	5.1.3	505	505
Non-controlling partners	5.1.4	832	877
Valuation results from cash flow hedges	4.4	-2,372	-6,079
Consolidated net profit		27,775	21,529
Total equity		294,732	284,824
B. Liabilities			
Non-current liabilities			
Deferred tax liabilities	5.3	9,701	5,516
Long-term financial derivatives	4.4	39,715	34,208
Retirement benefit obligations	5.4	368	339
Non-current liabilities	9.2	1,202	259
Total non-current liabilities		50,986	40,322
Current liabilities			
Short-term bank loans	5.2	841,380	1,070,207
Short-term financial derivatives	4.4	363	8,895
Other provisions	5.5	666	580
Current liabilities	5.6	17,008	13,116
Tax liabilities	5.7	9,413	8,051
Other current liabilities		0	428
Total current liabilities		868,830	1,101,277
Total equity and liabilities		1,214,548	1,426,423

Consolidated Cash Flow Statement

FOR THE PERIOD FROM JANUARY 1, 2010 TO DECEMBER 31, 2010

ANNUAL REPORT 2010	EUR '000	2010	2009
Preface and Reports 9	Consolidated net profit / loss	6,201	-9,500
Management Report 32	Actual income taxes recognized through profit or loss	2,056	2,055
Financial Statements 72	Financing costs recognized through profit or loss	48,806	59,670
Notes 78	Income from financial investments recognized through profit or loss	-948	-962
Further Information 123	Amortization of intangible assets and depreciation on property, plant and equipment	904	824
	Results from fair value adjustments to investment property	-325	0
	Loss from / gain on disposal of investment property	-1,237	-370
	Result from the first time consolidation of F 40 GmbH	0	-7,984
	Change in deferred taxes	4,185	-406
	Change in retirement benefit obligations	29	-26
	Ineffectiveness of cash flow hedges	682	10,253
	Changes in inventories, receivables and other assets that are not attributable to investing activities	186,574	115,787
	Changes in liabilities that are not attributable to financing activities	4,763	-8,042
	Interest paid	-47,585	-62,169
	Interest received	738	990
	Income tax payments / refunds	952	1,685
	Cash inflow from operating activities	205,795	101,805
	Capital investments in intangible assets and property, plant and equipment	-3,464	-436
	Cash receipts from disposal of intangible assets and property, plant and equipment	45	8
	Cash receipts from disposal of investment property	43,937	3,050
	Profit / loss on shareholdings recognized at equity	5	0
	Payments for development or acquisition of investment property	0	-1,739
	Investments	0	-1,154
	Net inflows from the acquisition of subsidiaries	0	100
	Cash inflow/outflow from investing activities	40,523	-171
	Borrowing of loans	5,571	14,304
	Repayment of loans	-237,535	-127,660
	Cash outflow from financing activities	-231,964	-113,356
	Changes in cash	14,354	-11,722
	Cash January 1	56,183	67,905
	Cash December 31	70,537	56,183

Statement of Changes in Consolidated Equity

FOR THE PERIOD FROM JANUARY 1, 2009 TO DECEMBER 31, 2010

EUR '000	Share capital	Capital reserves	Valuation results from Cash Flow Hedges	Retained earnings (legal reserve)	Consolidated net profit/loss	Thereof attributable to the shareholders of the parent company	Thereof attributable to non-controlling partners	Total
Balance January 1, 2009	52,130	215,862	-8,054	505	31,029	29,1472		291,472
Net amount recognized directly in equity, where applicable less income taxes			1,975			1,975		1,975
Net profit/loss for the period					-9,500	-9,500		-9,500
Full overall result for the fiscal year			1,975		-9,500	-7,525		-7,525
Additional non-controlling partners which originated in the course of the F 40 GmbH acquisition						0	877	877
Balance December 31, 2009	52,130	215,862	-6,079	505	21,529	283,947	877	284,824
Net amount recognized directly in equity, where applicable less income taxes			3,707			3,707		3,707
Net profit/loss for the period					6,246	6,246	-45	6,201
Full overall result for the fiscal year			3,707		6,246	9,953	-45	9,908
Balance December 31, 2010	52,130	215,862	-2,372	505	27,775	293,900	832	294,732

Notes to the IFRS Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2010

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General Disclosures

PATRIZIA Immobilien AG is a listed German stock corporation based in Augsburg. The Company's headquarters are located at Fuggerstrasse 26, 86150 Augsburg. The Company operates on the German real estate market and performs all services along the value-added chain in the real estate sector.

1 Principles applied in preparing the Consolidated Financial Statements

The consolidated financial statements of PATRIZIA Immobilien AG to December 31, 2010 were prepared in line with IFRS and in compliance with the provisions of German commercial law additionally applicable as per Article 315a (1) of the German Commercial Code. All compulsory official announcements of the International Accounting Standards Board (IASB) have been applied, i.e. those adopted up to the balance sheet date by the EU in the context of the endorsement process and published in the Official Journal of the EU.

The following interpretations had already been published at the time of preparing the consolidated financial statements, and were to be adopted for the first time in the current financial year:

- IFRIC 17 – “Distributions of Non-cash Assets to Owners” (to be adopted for fiscal years commencing on or after July 1, 2009)
- IFRIC 18 – “Transfer of Assets from Customers” (to be adopted for fiscal years commencing on or after July 1, 2009)

At the time of preparing the consolidated financial statements, the following standards, as amended, were to be used for the first time:

- Amendment to IFRS 1 – “First-time Adoption of International Financial Reporting Standards” (restructured standard; to be adopted for fiscal years commencing on or after July 1, 2009)
- Amendment to IFRS 1 – “First-time Adoption of International Financial Reporting Standards” (amendments relating to assets used for exploration of oil and gas and additional relief for embedded leasing agreements; to be used for fiscal years commencing on or after January 1, 2010)
- Amendment to IFRS 2 – “Share-based Payment” (clarification of accounting for cash-settled, share-based payments in the Group; to be adopted for fiscal years commencing on or after January 1, 2010)
- Revision of IFRS 3 – “Business Combinations” (comprehensive amendments relating in particular to the application of the purchase method; to be adopted for fiscal years commencing on or after July 1, 2009)
- Amendment to IAS 27 – “Consolidated and Separate Financial Statements” (amendments regarding partial disposal of subsidiaries, associated companies and joint ventures and regarding the results attributable to non-controlling shares; to be adopted for fiscal years commencing on or after July 1, 2009)
- Amendment to IAS 39 – “Financial Instruments: Recognition and Measurement” (amendments relating to the risk positions qualifying for hedge accounting; to be adopted for fiscal years commencing on or after July 1, 2009)
- Amendment to IAS 39 and IFRIC 9 – “Reassessment of Embedded Derivatives” (amendments relating to the assessment of embedded derivatives upon reclassification of financial assets; to be adopted for fiscal years commencing on or after July 1, 2009)
- Amendments arising from the annual improvements to the IFRSs dating from April 2009

The new/amended standards and IFRICs did not have any impact on the consolidated financial statements.

Although the following standards and interpretations had already been published at the time of preparing the consolidated financial statements, their adoption was not yet compulsory:

- IFRS 9 – “Financial Instruments” (to be adopted for fiscal years commencing on or after January 1, 2013; this standard has not yet been adopted by the EU)
- IAS 24 (revised) – “Related Party Disclosures” (amended disclosure requirements for companies that are controlled, jointly controlled or significantly influenced by a government, and clarification of the definition of a related party; to be adopted for fiscal years commencing on or after January 1, 2011; this amendment has not yet been adopted by the EU)
- IFRIC 19 – “Extinguishing Financial Liabilities with Equity Instruments” (to be adopted for fiscal years commencing on or after July 1, 2010)

Although the following amendments to standards and interpretations had already been published at the time of preparing the consolidated financial statements, their adoption was not yet compulsory:

- Amendment to IFRS 1 – “First-time Adoption of International Financial Reporting Standards” (amendments relating to an exception from the disclosure under IFRS 7 – comparative figures; to be used for fiscal years commencing on or after July 1, 2010)
- Amendment to IFRS 1 – “First-time Adoption of International Financial Reporting Standards” (amendments relating to fixed points in time in the exception for derecognitions; to be used for fiscal years commencing on or after July 1, 2011; this amendment has not yet been adopted by the EU)
- Amendment to IFRS 1 – “First-time Adoption of International Financial Reporting Standards” (amendments relating to severe high inflation; to be used for fiscal years commencing on or after July 1, 2011; this amendment has not yet been adopted by the EU)
- Amendment to IFRS 7 – “Financial Instruments” (amendments to improve disclosures in the event of transfers of financial assets; to be adopted for fiscal years commencing on or after July 1, 2011; this amendment has not yet been adopted by the EU)
- Amendment to IAS 12 – “Income Taxes” (limited amendment relating to the recovery of underlying assets; to be adopted for fiscal years commencing on or after January 1, 2012; this amendment has not yet been adopted by the EU)
- Amendment to IAS 32 – “Financial Instruments: Presentation” (amendments regarding accounting for rights issues, if they are denominated in a currency other than the company’s functional currency; to be adopted for fiscal years commencing on or after February 1, 2010).
- Amendment to IFRIC 14 – “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (amendment regarding voluntary pre-payments within the framework of minimum funding requirements; to be adopted for fiscal years commencing on or after January 1, 2011)
- Amendments arising from annual IFRS improvements made in April/May 2009; partly applicable for fiscal years commencing on or after January 1, 2011; however, these amendments have not yet been adopted by the EU

We do not expect any significant effects on the consolidated financial statements following the application of the amended standards and interpretations.

The balance sheet presentation is geared towards the maturity of the corresponding assets and liabilities. Assets and liabilities are regarded as current if their realization or repayment is expected within the normal course of the Group’s business cycle or, in relation to assets, if the latter are held for sale within this period. The nature of expense method was selected for the income statement.

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The fiscal year corresponds to the calendar year. The consolidated financial statements were prepared in euro. The amounts, including the previous year's figures, are stated in EUR thousand (TEUR).

Material differences in the accounting, valuation and consolidation methods compared with the German Commercial Code:

- Valuation of investment property at market values;
- Valuation of financial derivatives at market value, with valuation changes being treated in profit or loss unless these involve hedges that are directly recognized in equity under a separate item
- Deferred taxes

Before the IPO, First Capital Partner GmbH had a stake of 93.21 % in PATRIZIA Immobilien AG; following first listing of the shares on March 31, 2006 its stake was 50.02 %. Following the capital increase carried out in January 2007 and various share purchases during the course of 2007, First Capital Partner GmbH's direct and indirect shareholding in PATRIZIA Immobilien AG was 50.16 %. As part of existing designated sponsor agreements, First Capital Partner GmbH loaned a total of 100,000 shares to two designated sponsor banks. As at December 31, 2010, First Capital Partner GmbH's direct and indirect shareholding in PATRIZIA Immobilien AG was 49.97 %.

2 Scope of Consolidation and Consolidation Methods

2.1 Scope of Consolidation

All of the Company's subsidiaries are included in the consolidated financial statements of PATRIZIA Immobilien AG. The Group includes all companies controlled by PATRIZIA Immobilien AG. Control is deemed to be the ability to determine the business and financial policy of the subsidiary in order to benefit from its commercial activities.

Control is in principle assumed if PATRIZIA Immobilien AG directly or indirectly holds the majority of voting rights in another company.

All the companies included in PATRIZIA Immobilien AG's consolidated financial statements can be found in the list of shareholdings (Appendix to the Notes to the Consolidated Financial Statements). With the exception of PATRIZIA Immobilien Kapitalanlagegesellschaft mbH, PATRIZIA Wohnen GmbH and Stella Grundvermögen GmbH, the subsidiaries that are listed and that are bound by a profit and loss transfer agreement each make use of the relief provided for in Article 264 (3) of the German Commercial Code. The partnerships also found in the list of shareholdings make use of the relief provided for in Article 264b of the German Commercial Code.

Joint ventures are companies that do not meet the criteria to be classified as subsidiaries since with regard to influencing their business and financial policies, two or more partner companies are bound to common management under a contractual agreement. Joint ventures are accounted for at equity within the Group.

Associated companies are companies that do not meet the criteria of a subsidiary or joint venture and whose business and financial policy can be significantly influenced by PATRIZIA Immobilien AG. In principle, a significant influence is assumed if a direct or indirect voting right share of at least 20 % is held in another company. Associated companies are accounted for at equity within the consolidated financial statements.

In addition to the parent company, the scope of consolidation comprises 52 subsidiaries. They are included in the consolidated financial statements in line with the rules of full consolidation. There were no associated companies as at the balance sheet date. In addition, one joint venture is accounted for at equity in the consolidated financial statements.

In principle, the financial statements of the subsidiaries included in the consolidated financial statements are prepared as at the balance sheet date of the annual financial statements of PATRIZIA Immobilien AG. In 2010, the fiscal year of Wohnungsgesellschaft Olympia mbH, which ran from December 1 to November 30 and did not correspond to the calendar year, was changed to bring it in line with the calendar year. Consequently, the annual financial statements of Wohnungsgesellschaft Olympia mbH as at November 30, 2010 and also the annual financial statements for the incomplete fiscal year from December 1 to December 31, 2010 are included in the consolidated financial statements. The financial statements are prepared in line with uniform accounting and valuation principles.

Company acquisitions, sales and intercompany restructuring

Under a contract dated July 28, 2010, PATRIZIA founded a subsidiary, PATRIZIA Property Inc. in Delaware, USA. The starting capital was USD 100.

Under an agreement dated November 16, 2010 and a supplementary agreement dated December 2, 2010, Stella Grundvermögen GmbH acquired a 5.1 % stake in Alte Haide Baugesellschaft mbH from AHO Verwaltungs GmbH with effect from December 2, 2010. The acquiring company paid a cash price of TEUR 415 for the purchase of the shares; as a result of full control being achieved, amounts of TEUR 525 in bank balances, TEUR 62 in inventories, TEUR 5 in tax reimbursement claims, TEUR 1 in other receivables, TEUR 1 in other liabilities and TEUR 173 in tax liabilities were included in the scope of consolidation. The gain of TEUR 3 from the purchase was included in the income statement under the item Other operating income.

Alte Haide Baugesellschaft acquired the shares of PATRoffice Real Estate 997 GmbH on December 6, 2010. PATRoffice Real Estate 997 GmbH is a shelf company and its acquisition does not therefore constitute a company acquisition as defined by IFRS 3. Under a shareholders' resolution dated December 21, 2010, PATRoffice Real Estate 997 GmbH was renamed "PATRIZIA Projekt 600 GmbH". The acquiring company paid a cash purchase price of TEUR 25 for the shares; as a result of control being achieved, an amount of TEUR 25 in bank balances was included in the scope of consolidation.

Under a notarial purchase agreement dated December 9, 2010, PATRIZIA Immobilien AG acquired a 94.9 % stake in LB Immo Invest GmbH, Hamburg, via its indirect subsidiary PATRIZIA Projekt 600 GmbH (formerly PATRoffice Real Estate 997 GmbH). The date of acquisition for implementing full consolidation of the shares has been set at January 3, 2011. Legal and financial transfer of the shares took place on January 3, 2011 following full payment of the purchase price.

LB Immo Invest GmbH is an asset management company based in Hamburg that focuses on the management of special real estate funds. At the time of acquisition the company administered 12 real estate funds with a gross fund volume of EUR 2,321 million.

The provisional cash purchase price for the shares that were acquired indirectly by PATRIZIA Immobilien AG (94.9 %) was EUR 35.2 million (excluding ancillary acquisition costs). The ancillary acquisition costs were treated as an expense.

Due to the fact that the contractual documents available to date are incomplete and also to the fact that at the time of preparing the consolidated financial statements, the required market valuations and other calculations had not

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yet been completed, the final calculation of the purchase price and also the value of the contracts acquired and of the associated deferred tax liabilities may differ slightly from the amounts shown below.

According to provisional calculations to date and full exposure of the hidden reserves, the Group has received the following assets and liabilities:

FAIR VALUE 2010

EUR million	Fair Value
Intangible assets (including fund management contracts)	46.2
Property, plant and equipment	0.2
Total non-current assets	46.4
Shares and other variable-yield securities	1.6
Trust receivables	0.6
Other assets, prepaid expenses and deferred charges	3.4
Cash and cash equivalents	7.1
Total current assets	12.7
Total assets	59.1
Deferred taxes	14.9
Total non-current liabilities	14.9
Trust liabilities	0.6
Other current liabilities	3.1
Provisions for taxes	0.1
Other current provisions	4.1
Total current liabilities	7.9
Total liabilities	22.8
Net assets	36.3
Thereof share attributable to non-controlling partners	1.9
Thereof share attributable to the controlling parent company	34.4
Provisional purchase price	35.2

The value of the share accounted for by the non-controlling partners (5.1 %) in LB Immo Invest GmbH was stated at the fair value of the net assets purchased and amounts to EUR 1.9 million. The resulting goodwill amounts to EUR 0.8 million.

The resulting goodwill is based on expected synergy effects between the purchased company and the existing company PATRIZIA Immobilien KAG and also the other service providers within the PATRIZIA Group.

The goodwill will not be tax-deductible in future periods.

With the exception of the exposure of hidden reserves in the fund management contracts and in fund shares held and a resulting adjustment of deferred tax liabilities, it was possible to take over the carrying amounts on an unchanged basis. There were no other intangible assets that could be recognized in expectation of a future economic benefit.

The new fair values to be determined autonomously in accordance with IFRS 3 (i.e. without any link to existing carrying amounts under local accounting provisions) are determined in accordance with uniform group-wide accounting provisions applicable within the PATRIZIA Group.

Due to the purchase date of January 3, 2011, no amounts relating to the purchased company are shown in the statement of comprehensive income.

The acquired cash amounts to EUR 7.1 million.

2.2 Capital Consolidation using Full Consolidation

In principle, all subsidiaries are recognized in the consolidated financial statements using full consolidation. Since January 1, 2002, acquired subsidiaries have been accounted for using the purchase method under IFRS 3. Using the relief option of IFRS 1, purchases of shares in companies before this date were still accounted for on the basis of the carrying amount method in accordance with the German Commercial Code.

The date of initial consolidation is the date of acquisition and therefore the date on which control of the net worth and operating activities of the acquired company is actually transferred to the parent company. The acquisition costs consist of the cash used for the acquisition plus the ancillary acquisition costs directly attributable to the purchase. The calculated acquisition costs are allocated among the identifiable assets and liabilities of the acquired company. Goodwill is to be stated if the acquisition costs exceed the share in the re-valued net worth of the acquired company that is applicable to the parent company. In the reverse case, a negative difference is to be recognized through profit or loss. The equity share held in the acquired company is authoritative in determining the net worth applicable to the Group. In principle, the re-valued net worth must be recognized in full. Non-controlling partners' interests are posted separately within consolidated equity. If the loss for a period that is applicable to the non-controlling partners exceeds their interest that is to be posted in the consolidated balance sheet, this is offset against the majority share in the consolidated equity.

2.3 Consolidation of Joint Ventures using the Equity Method

The equity method is applied to the presentation of joint ventures in the consolidated financial statements. In contrast to full consolidation, no assets and liabilities or expenses and income of the company valued at equity are recognized (proportionately) in the consolidated financial statements when the equity method is applied. Instead, the carrying amount of the participation is updated annually in accordance with the development of the proportionate equity in the associated company.

The initial application of the equity method takes place from the time at which the associated company is to be classified as a joint venture. During initial consolidation, the acquisition costs for the shares acquired are netted against the equity attributable to them. Any difference is examined, in accordance with the rules for full consolidation, for the existence of hidden reserves or charges and any remaining difference is treated as goodwill. During subsequent consolidation, the carrying amount of the participation is updated in line with the proportionate changes in equity at the associated company.

2.4 Consolidation of Liabilities, Expenses and Income and Elimination of Intra-group Results

Intercompany balances, transactions, profits and expenditure of the companies included in the consolidated financial statements by means of full consolidation are eliminated in full. Deferred taxes are recognized for temporal differences arising from the elimination of profits and losses as a result of transactions within the Group.

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2.5 Currency Translation

The consolidated financial statements were prepared in EURO, the Group's functional currency. With the exception of PATRIZIA Property Inc. in Delaware, USA, which was founded during the year under review, the scope of consolidation is made up only of subsidiaries located in the European Monetary Union; consequently, only one set of financial statements is in a foreign currency and requires translation. Similarly, there were no material assets or liabilities, contingent receivables or liabilities in foreign currencies on the reporting date.

3 Summary of Key Accounting and Valuation Policies

The financial statements included in the consolidated financial statements are prepared in line with uniform accounting and valuation principles.

3.1 Software and Equipment

Software and equipment are recognized at acquisition or manufacturing cost at the date of addition. Subsequent measurement provides for the carrying out of scheduled amortization and, if applicable, unscheduled amortization as well as reversals taking into account amortized cost of acquisition or manufacturing.

Acquisition costs include the directly attributable purchase and commitment costs.

Scheduled amortization is carried out using the straight-line method. It starts as soon as the asset can be used and ends with disposal of the asset. The amortization period is geared towards the expected useful life. Acquired software is amortized over 3 to 5 years. Equipment is amortized over 3 to 14 years.

3.2 Impairment of Assets

Where assets are subject to scheduled depreciation and there is an indication of impairment, a review is undertaken to ascertain whether there is a need for unscheduled depreciation. Assets that are not subject to scheduled depreciation are checked on each balance sheet date to ascertain if there is a need for value adjustment.

3.3 Investment Property

Qualifying real estate as an investment is based on a corresponding management decision to use the real estate in question to generate rental income and thus liquidity, while realizing higher rent potential over a long time period and, accordingly, an increase in value. The share of owner-occupier use does not exceed 10 % of the rental space. In contrast to the real estate posted under inventories, investment property is not intended for sale in the ordinary course of business or for such sale within the framework of the construction or development process. Investment property is measured at fair value, with changes in value recognized through profit or loss.

Investment property is measured at market values. In principle, investment property is measured on the basis of external appraisals carried out by independent experts using current market prices or using customary valuation methods and consideration of the current and long-term rental situation. The residential property resale process was launched in 2010 for individual investment properties. Valuation of these properties is based on current comparative values.

The market value is equivalent to the fair value. According to IAS 40, this is defined as the value reasonably obtainable on the market based on a hypothetical buyer/purchaser situation. Investment property is reported at this fictitious market value without any deduction of transaction costs.

With the exception of the properties earmarked for resale, the fair values of the investment property as shown in the consolidated financial statements are based on valuations by independent experts who apply international valuation standards (International Valuation Standard, Concepts/Principles No. 9.2.1.3 – Income Capitalization Approach; RICS Valuation Standards PS 3.3 – Market Value) based on discounted future cash flows in accordance with the investment method (core value and topslice) – (IAS 40.46 (c)).

In contrast to the German income value method, the approach used for the investment method does not consider a separate value for the plot.

The market rent is reduced by costs of the lessor that cannot be passed on and is capitalized as perpetual annuity with the interest rate determined for the property in question. For each property, costs that cannot be passed on to the tenant, such as risk of loss of rental income, management, maintenance costs and an appropriation for operating costs that cannot be passed on, were deducted from the gross income of the rental forecast along with estimated costs for modernization and re-renting. The resulting value is referred to as core value.

The difference between the market rent and the rent received is capitalized during the remaining residual rental term assumed for residential properties (in this case up to 5 years); costs borne by the lessee and a deduction for risk are taken into consideration. The resulting value is referred to as topslice.

The market value is derived by adding the core value and the topslice, which is negative if the market rent is higher than the rent received. The costs of rental, maintenance and renovation are also deducted. The total gives the market value of the property.

Property-specific vacancy rates between 0 % and 10 % are assumed, which can have a material impact on the assumed remaining lease term. Key items of payments include maintenance costs averaging EUR 6 to 10 p.a./sqm living space and EUR 15 p.a. per parking space, management costs of 0.73 to 5.75 % of rental income, and the risk of loss of rental income amounting to 2 % of rental income.

In contrast to the previous year when they were valued by independent experts, the properties that are now earmarked for residential property resale were valued by PATRIZIA using detailed project accounting. This project accounting is based on comparative values ascertained in the direct surroundings of the properties. Both offer prices and also selling prices were used for this, but only of comparable properties.

In the preceding year, all fair values of the investment property as shown in the consolidated financial statements were based on valuations by independent experts in accordance with international assessment standards based on discounted future cash flows using the DCF method (IAS 40.46 (c)).

All investment property held by the Group is leased. The resultant rental income and the expenses directly associated with it are recognized in the income statement.

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3.4 Participations in Joint Ventures

The Group has a stake in a joint venture, meridomus GmbH Forderungsmanagement und Servicegesellschaft für den Vermieter, in the form of a jointly managed company. Accordingly, there is a contractual agreement between the partners on joint management of the entity's economic activities. The Group accounts for its share in the joint venture at equity. The Group includes its share in the joint venture by annually updating the carrying amount of the joint venture according to the development of the proportionate equity of the associated company. The joint venture's financial statements are prepared to the same balance sheet day as the parent company's financial statements. If necessary, adjustments are made to ensure compliance with the uniform accounting and valuation policies applicable across the Group.

3.5 Inventories

The Inventories item contains real estate that is intended for sale in the context of ordinary activities or that is intended for such sale in the context of the construction or development process; in particular, it includes real estate that has been acquired solely for the purpose of resale in the near future or for development and resale. Development also covers pure modernization and renovation activities. Assessment and qualification as an inventory is undertaken within the context of the purchasing decision and implemented in the balance sheet as at the date of addition.

PATRIZIA has defined the operating business cycle as three years, because based on experience, the majority of the units to be sold are sold and recognized during this time period. However, inventories are still classed as intended for direct sale even if the sale is not recognized within three years (e.g. due to unforeseeable/unforeseen changes in economic conditions).

Inventories are carried at the lower of cost and net sales price. Acquisition costs comprise the directly attributable purchase and commitment costs, i.e. especially acquisition costs for real estate as well as ancillary acquisition costs (notary's fees etc.). Manufacturing costs comprise the costs directly attributable to the real estate development process, i.e. especially renovation costs. Borrowing costs that are directly related to the acquisition, construction or production of a qualifying asset are capitalized as part of the purchase or production costs for the respective asset. Borrowing costs that are not directly related to the acquisition, construction or production of a qualifying asset are recorded as an expense in the time period in which they arise. The net sale price corresponds to the sale proceeds likely to be generated in the ordinary course of business less any renovation or modernization and selling costs incurred.

3.6 Financial Assets

IAS 39 distinguishes between the following four categories of financial assets:

- Held-to-maturity investments
- Loans and receivables
- Financial assets at fair value through profit or loss
- Available-for-sale financial assets

Financial assets are stated in the balance sheet if the company is party to a contract for this asset. Customary purchases of financial assets for which there is only a short customary period between entry into, and fulfillment of, the obligation are generally accounted for on the trading date. This also applies analogously to customary sales.

There were no held-to-maturity investments as at the balance sheet date.

Derivatives which are not designated as hedging instruments or are not effective as such within the meaning of IAS 39 are classified as financial assets at fair value through profit or loss.

These financial instruments must be allocated to one of three steps, depending on the extent to which the fair value can be assessed.

- Level 1 valuations at fair value are those which are based on quoted prices (unadjusted) on active markets for identical financial assets or liabilities.
- Level 2 valuations at fair value are those based on parameters that do not correspond to quoted prices for assets and liabilities as in level 1 (data), but are either derived directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 valuations at fair value are those derived from models that use parameters for the assessment of assets or liabilities that are not based on observable market data (non-observable parameters, assumptions).

The fair value of derivatives is determined by external banks. The valuation can be assigned to level 2.

Investments which have been entered into with the intention of holding them are categorized as available-for-sale financial assets. These are valued at acquisition cost since, due to the absence of an active market, a fair value can only be determined on the basis of specific sale negotiations. There are currently no plans to sell these instruments. They are reviewed at every balance sheet date for indications of impairment.

Loans and receivables are non-derivative financial assets with fixed or definable payments which are not quoted in an active market. Following initial recognition, loans and receivables are measured at amortized cost using the effective interest method less any impairments.

If there are any objective indications that impairment of financial assets which have been accounted for at amortized cost has taken place, the amount of the impairment loss is equivalent to the difference between the carrying amount of the asset and the present value of the expected future cash flow (with the exception of expected future, though not yet occurred, loan losses), discounted with the original effective interest rate of the financial asset, i.e. at the effective interest rate determined at initial recognition. The carrying amount of the asset is decreased using a value adjustment account. The impairment loss is recognized through profit or loss.

If the amount of the impairment decreases in the subsequent reporting periods and if this decrease can be objectively attributed to a circumstance occurring subsequent to impairment, the previous impairment is reversed. However, the new carrying amount of the asset may not exceed the acquisition costs at the time of the reversal of the impairment. The reversal of the impairment is recognized through profit or loss.

If, in the case of trade receivables, there are objective indications that not all amounts due will be received in accordance with the originally agreed invoice conditions (such as probability of insolvency or significant financial difficulties on the part of the debtor), impairment is recognized using a value adjustment account. Derecognition of receivables takes place if they are classified as uncollectible.

3.7 Cash and Cash Equivalents

Cash and cash deposits shown in the balance sheet comprise cash and bank balances with an original term of less than three months.

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3.8 Financial Liabilities

Upon initial recognition, interest-bearing loans are measured at fair value less the transaction costs directly associated with the borrowing. They are not recognized at fair value through profit or loss. Following initial recognition, the interest-bearing loans are measured at amortized cost using the effective interest method.

3.9 Derecognition of Financial Assets and Financial Liabilities

A financial asset (or a part of a financial asset or a group of similar financial assets) is derecognized if the preconditions of IAS 39 are met.

A financial liability is derecognized if the obligation upon which this liability is based is fulfilled, cancelled or has expired.

If an existing financial liability is exchanged for another financial liability of the same lender at substantially different contractual conditions or if the conditions of an existing liability are significantly changed, such an exchange or change is treated as a derecognition of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognized through profit or loss.

3.10 Derivative Financial Instruments

The Group uses the derivative financial instruments of interest swaps, collars and caps to protect itself against interest rate risks. These derivative financial instruments are measured at fair value. Derivative financial instruments are recognized as assets if their fair value is positive, and as liabilities if their fair value is negative.

Profits or losses resulting from changes to the fair value of derivative financial instruments which do not meet the criteria for accounting as hedges are recognized immediately through profit or loss.

The PATRIZIA Group's hedging instruments are classified as cash flow hedges for accounting purposes, since they involve hedging against the risk of fluctuations in the cash flow, which can be allocated to the risk associated with a recognized asset or with a recognized liability.

At the start of the hedging, both the hedges and the Group's risk management objectives and strategies regarding hedging are formally specified and documented. The documentation contains the determination of the hedging instrument when compensating for risks arising from changes to the fair value or cash flow of the hedged underlying transaction. These types of hedges are considered highly effective in terms of compensating for risks resulting from changes to fair value or cash flow. They are continuously assessed as to whether they were actually highly effective during the entire reporting period for which the hedge was defined.

Cash flow hedges that meet the strict criteria for accounting of hedges are accounted for as follows:

The effective part of the profit or loss from a hedging instrument is taken directly to equity, while the ineffective part is immediately recognized through profit or loss.

The amounts taken directly to equity are transferred to the income statement during the period in which the hedged transaction influences the result, e.g. if hedged financial income or expenses are recognized or if an expected sale is executed.

If the scheduled transaction or the fixed obligation is no longer expected, the amounts previously recognized in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without substitution or a rollover of the hedging instrument into another hedging instrument, the amounts previously recognized in equity remain as separate items in equity until the scheduled transaction or fixed obligation has occurred.

3.11 Retirement Benefit Obligations

Performance-related pension plans are valued using the projected unit credit method on the basis of a pension report. The interest share of pension expenses was not significant enough to be recognized in the financial result, and was instead recognized in staff costs.

3.12 Other Provisions

Provisions are liabilities of uncertain timing or amount. In principle, recognition of a provision cumulatively requires a current obligation arising from a past event from which an outflow of resources is likely and the value of which it must be possible to measure in a reliable manner. Provisions are measured using the best possible estimate of the extent of the obligation. The provisions are discounted in the event of material interest effects.

3.13 Leases

The determination of whether an agreement includes a lease is made on the basis of the economic substance of the agreement at the time of the conclusion of the respective agreement and requires an estimate as to whether the fulfillment of the contractual agreement is dependent upon the utilization of a certain asset or certain assets and whether the agreement grants a right to utilization of the asset.

The Group as Lessor

Leases where all opportunities and risks of the Group associated with the ownership are not passed to the lessee to a significant degree are classified as operating leases. Initial direct costs which arise during the negotiations and the conclusion of an operating leasing contract are added to the carrying amount of the leased object and are recognized as expenses correspondent to the rental income over the term of the lease. Contingent rent is recognized as income during the period in which it is generated.

Within the PATRIZIA Group, there are only an insignificant number of leases for which the Group is the lessee. All these are to be classified as operating leases.

3.14 Taxes

Actual taxes

Actual tax refund claims and liabilities for current and previous periods are measured at the amount expected to be recovered from or paid to the tax authorities. Calculation of the amount is based on the tax rates and tax laws which apply at the balance sheet date.

Actual taxes which refer to items that are directly recognized in equity are not recognized in the income statement, but rather in equity.

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Deferred taxes

Deferred taxes are recognized using the liability method, for temporary differences existing on the balance sheet date between the amount stated in the balance sheet for an asset or a liability and the fiscal amount.

Deferred tax assets are recognized for all deductible temporary differences, tax loss carryforwards not yet utilized and tax credits not yet utilized, in the probable extent to which taxable income will be available against which the deductible temporary differences and the tax loss carryforwards and tax credits not yet utilized can be used.

The carrying amount of deferred tax assets is reviewed on every balance sheet date and decreased by the extent to which it is no longer probable that a sufficient taxable result will be available against which the deferred tax asset can at least be partly used. Deferred tax assets not recognized are reviewed on every balance sheet date and are recognized in the amount in which it has become probable that a future taxable result allows realization of the deferred tax asset.

Deferred tax assets and liabilities are measured using the tax rates which will probably become effective in the period in which an asset is realized or a liability is settled. The tax rates and laws applicable on the balance sheet date are used as a basis. Future tax rate changes are to be taken into account on the balance sheet date if significant effectiveness requirements are met within the scope of pending legislation.

Deferred taxes which relate to items that are directly recognized in equity are not recognized in the income statement, but are also recognized in equity.

Deferred tax assets and deferred tax liabilities are offset against one another if the Group has an enforceable right to offset actual tax refund claims against actual tax liabilities and if these relate to income taxes of the same taxable entity and are levied by the same tax authority.

3.15 Borrowing Costs

Borrowing costs used to produce a qualifying asset are capitalized. A qualifying asset is an asset that is needed for a significant time period in order to bring it into condition for its intended use or sale. This requirement is met by all projects under development by the Group. All other borrowing costs are recorded as expenses in the period in which they are incurred.

3.16 Income Realization

The basic prerequisite for recognition of profit in the Investments segment when selling real estate is the likelihood of economic benefits and reliable quantification of revenues. In addition, there must be a transfer to the purchaser of the main opportunities and risks associated with ownership of the assets, relinquishment of the legal or actual power of disposal over the assets and the ability to reliably determine the expenses relating to the sale that have been or are still to be incurred.

In the Services segment, revenue is usually recognized after performance has been provided and invoicing has taken place.

3.17 Estimates and Assessments in Accounting

Due to the uncertainties associated with the operating activities, individual items in the consolidated financial statements cannot be measured with precision, and can instead only be estimated. An estimate is made on the basis of the most recently available reliable information. The assets, liabilities, income, expenses and contingent receivables and liabilities recognized on the basis of estimates may differ from the amounts to be recognized in future. Changes are taken into account through profit or loss on the date when more precise information is obtained. Estimates are largely made for the following:

- Determining the recoverable amount to assess the necessity and extent of unscheduled amortization, especially on the real estate posted under the item Inventories
- Recognizing and measuring provisions
- Valuing receivables subject to risk
- Assessing whether deferred tax assets can be recognized.

The assumptions made when valuing the real estate portfolios could subsequently prove to be partially or fully incorrect, or there could be unexpected problems or unidentified risks relating to real estate portfolios. Such possible developments, even of a short-term nature, could cause a deterioration in the earnings situation, a decrease in the value of the purchased assets and a considerable reduction in the revenues generated from residential property resale and ongoing rental.

In addition to the factors inherent in each property, the recoverability of real estate assets is chiefly determined according to the development of the real estate market as well as the general economic situation. There is a risk that, in the event of a negative development of the real estate market or of the general economic situation, the valuation estimates made by the Group may have to be corrected. If unscheduled amortization of the Group's real estate assets was required, this would have a detrimental impact on the net asset, financial and earnings situation of the Group.

When buying real estate or portfolios or for carrying out modernization projects, PATRIZIA is predominantly financed by loans. A significant rise in the current interest rate would significantly increase the Group's financing costs when refinancing existing liabilities and when financing future modernization projects, and could thus detrimentally affect the earnings situation.

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4 Notes to the Consolidated Balance Sheet – Assets

4.1 Non-current Assets

The breakdown of and changes in non-current assets as well as amortization for the fiscal year and for the previous year are set out below:

DEVELOPMENT OF NON-CURRENT ASSETS – 2010

EUR '000	Software	Equipment	Total
Acquisition costs			
Balance 01/01/2010	1,090	4,214	5,304
Additions	2,551	913	3,464
Disposals	0	-198	-198
Balance 12/31/2010	3,641	4,929	8,570
Amortization			
Balance 01/01/2010	551	2,564	3,115
Additions	279	625	904
Disposals	0	-153	-153
Balance 12/31/2010	830	3,036	3,866
Carrying amounts as at 01/01/2010	539	1,650	2,189
Carrying amounts as at 12/31/2010	2,811	1,893	4,704

DEVELOPMENT OF NON-CURRENT ASSETS – 2009

EUR '000	Software	Equipment	Total
Acquisition costs			
Balance 01/01/2009	945	4,271	5,216
Additions	237	199	436
Disposals	-92	-256	-348
Balance 12/31/2009	1,090	4,214	5,304
Amortization			
Balance 01/01/2009	366	2,265	2,631
Additions	277	547	824
Disposals	-92	-248	-340
Balance 12/31/2009	551	2,564	3,115
Carrying amounts as at 01/01/2009	579	2,005	2,584
Carrying amounts as at 12/31/2009	539	1,650	2,189

DEVELOPMENT OF NON-CURRENT ASSETS – 2010

EUR '000	Investment property
Fair Value	
Balance 01/01/2010	657,320
Additions – assets	0
Disposal – assets	-42,700
Positive fair value changes	18,090
Negative fair value changes	-17,765
Balance 12/31/2010	614,945

DEVELOPMENT OF NON-CURRENT ASSETS – 2009

EUR '000	Investment property
Fair Value	
Balance 01/01/2009	660,000
Additions – assets	0
Disposal – assets	-2,680
Positive fair value changes	19,940
Negative fair value changes	-19,940
Balance 12/31/2009	657,320

DEVELOPMENT OF NON-CURRENT ASSETS – 2010

EUR '000	Investment property under construction
Acquisition costs	
Balance 01/01/2010	0
Additions – assets	0
Rebooked assets	0
Balance 12/31/2010	0

DEVELOPMENT OF NON-CURRENT ASSETS – 2009

EUR '000	Investment property under construction
Acquisition costs	
Balance 01/01/2009	11,162
Additions – assets	1,739
Disposal – assets	-12,901
Balance 12/31/2009	0

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DEVELOPMENT OF NON-CURRENT ASSETS – 2010

EUR '000	Participations in joint ventures	Participations	Total
Acquisition costs			
Balance 01/01/2010	13	3,090	3,103
Additions	0	0	0
Disposals	0	0	0
Balance 12/31/2010	13	3,090	3,103
Adjustments at equity/amortization			
Balance 01/01/2010	0	0	0
Additions	-5	0	-5
Disposals	0	0	0
Balance 12/31/2010	-5	0	-5
Carrying amounts as at 01/01/2010	13	3,090	3,103
Carrying amounts as at 12/31/2010	8	3,090	3,098

DEVELOPMENT OF NON-CURRENT ASSETS – 2009

EUR '000	Participations in joint ventures	Participations	Total
Acquisition costs			
Balance 01/01/2009	7.335	3,090	10,425
Additions	1,154	0	1,154
Disposals	-8.476	0	-8,476
Balance 12/31/2009	13	3,090	3,103
Adjustments at equity/amortization			
Balance 01/01/2009	-1.302	0	-1,302
Additions	6	0	6
Disposals	1.296	0	1,296
Balance 12/31/2009	0	0	0
Carrying amounts as at 01/01/2009	6.033	3,090	9,123
Carrying amounts as at 12/31/2009	13	3,090	3,103

Investment property is property that is held for generating rental income and/or for capital appreciation. Investment property is recognized at fair value through profit or loss in accordance with IAS 40. In the year under review a total of seven investment properties in Berlin, Halstenbek, Hamburg and Frankfurt am Main were sold.

Investment property under construction relates to the asset repositioning project Munich-Ludwigsfeld, which was reposted to inventories in accordance with IAS 40.57 b) and 40.58 in the preceding year.

The 50 % share in meridomus GmbH is accounted for under the item Investments in joint ventures.

The item Participations includes the 5.1 % (previous year: 5.1 %) share in Hyrebostädter i Norra Tyskland Verwaltungs GmbH and the 6.25 % share (previous year: 6.25 %) in PATRoffice Real Estate GmbH & Co. KG.

4.2 Tax Assets

Corporation tax credits of TEUR 281 (previous year: TEUR 313) with a right to payment that arose after 2008 and that are to be paid by the tax authorities over a period of 10 years in equal annual amounts are treated as non-current tax assets. Measurement is at present value.

Allowable taxes and tax prepayments reimbursed by the tax authorities are reported as current tax assets. These tax assets have a residual term of less than 1 year.

4.3 Inventories

A breakdown of inventories is shown below:

INVENTORIES		
EUR '000	2010	2009
Real estate intended for sale	456,507	607,352
Real estate in the development phase	53,931	68,656
	510,438	676,008

Assets held for sale in the ordinary course of business are posted under Inventories.

Three properties that were in the development phase at the start of the year were completed and sold during the fiscal year. As at December 31, 2010, one property was still in the development phase. In 2010 inventories with a total carrying amount of TEUR 199,205 (previous year: TEUR 126,554) were sold. In the year under review no adjustments were made to inventories (previous year: TEUR 1,008).

The carrying amounts of the inventories which are pledged as security total TEUR 509,248 (previous year: TEUR 547,868).

Realization of inventories amounting to TEUR 344,074 is expected to last longer than twelve months.

4.4 Financial Derivatives

The Group uses various interest rate swaps, interest rate collars and interest rate caps for partial hedging of the interest rate risk from its bank loans. These are cash flow hedges where a hedging relationship to the respective underlying transaction could be demonstrated in some cases.

The changes to the fair values of the derivatives classed as ineffective are recognized through profit or loss in the income statement. In the fiscal year, they amounted to TEUR 470 (previous year: TEUR –9,711).

As at December 31, 2010, the nominal volume of the derivatives classified as ineffective totaled TEUR 530,518 (previous year: TEUR 498,136); the corresponding market values were TEUR –36,402 (previous year: TEUR –34,052).

The changes to the fair values of the effective hedging derivatives of TEUR 2,555 (previous year: TEUR –520) were directly recognized in equity, taking deferred taxes into account.

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In the year under review, value changes in cash flow hedges recognized in equity in the amount of TEUR 3,870 (previous year: TEUR 2,792) were released through profit or loss, with derecognition of the corresponding deferred taxes applied, and transferred to the financial result.

During the year under review market value changes of TEUR 151 (previous year: TEUR –670) were taken into account in the income statement as ineffective portions of hedging derivatives.

As at December 31, 2010, the nominal volume of these hedging derivatives totaled TEUR 85,000 (previous year: TEUR 230,486); the corresponding market values were TEUR –3,676 (previous year: TEUR –9,051).

As at December 31, 2010, the entire amount of unrecognized losses from interest hedging transactions that was transferred to the provisions for hedging transactions related to these future transactions, taking into account deferred tax effects, was TEUR –2,372 (previous year: TEUR –6,079). It is expected that 32 % of the interest hedging transactions will end in accordance with the contracts in 2012, and that 42 % will end in 2013 and 26 % in 2014. For payment flows recognized through profit or loss cf. item 5.2.

4.5 Current Receivables and Other Current Assets

A breakdown of receivables and other current assets is shown below:

RECEIVABLES AND OTHER CURRENT ASSETS

EUR '000	2010	2009
Trade receivables	4,296	22,041
Other current assets	5,986	7,387
	10,282	29,428

The carrying amount of the receivables corresponds to their fair value.

As at the balance sheet date, the following receivables were overdue, but not impaired:

RENT RECEIVABLES

EUR '000	2010	2009
Rent receivables	288	1,681
– of which < 60 days	288	532
– of which > 60 days and < 180 days	0	437
– of which > 180 days	0	712

Rent receivables of TEUR 288 (previous year: TEUR 572) are secured through rental deposits.

Trade receivables and other current assets are decreased by specific value adjustments of TEUR 3,160 (previous year: TEUR 1,762).

CHANGES IN THE VALUE ADJUSTMENT ACCOUNT FOR RECEIVABLES

EUR '000	2010	2009
Balance as at January 1	1,762	342
Additions	1,902	1,612
Outflows due to derecognitions	-504	-160
Outflows due to payments received	0	-32
Balance as at December 31	3,160	1,762

Trade receivables are in principle impaired via a value adjustment account.

Receivables and other current assets have a residual term of less than one year.

4.6 Bank Balances and Cash

The item Bank balances and cash comprises cash and short-term cash deposits held by the Group. The carrying amount of these assets corresponds to their fair value.

Of the bank balances, an amount of TEUR 20,320 (previous year: TEUR 5,263) is pledged as security. A breakdown is shown below:

An amount of TEUR 3,500 is pledged as collateral for a guarantee credit (Avalkredit) to IKB Deutsche Industriebank AG. This guarantee credit is security for a payment guaranty that was issued by the Bank for the general contractor in the Sternschanze water tower project. Because arbitration proceedings are pending with the general contractor, it is not possible to judge how much longer the assets will be pledged as security.

A total of TEUR 720 was pledged as security to Zurich Versicherung as security for a guaranty in a total amount of TEUR 5,000. This can be used for various guarantees by PATRIZIA; cash collateral is 30 %.

An additional amount of TEUR 1,100 is pledged as collateral in favor of Bayerische Landesbank (institution under public law) to secure interest rates and repayments for a loan.

As part of the financing for the purchase price of LB Immo Invest GmbH, an amount of TEUR 15,000 has been pledged in favor of the financing bank. The finance contract provides for a contribution of TEUR 15,000 by PATRIZIA; the rest of the purchase price is financed through a loan.

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5 Notes to the Consolidated Balance Sheet – Liabilities**5.1 Equity**

For the development of equity, please see the statement of changes in equity.

5.1.1 Share Capital

As at the balance sheet date, the Company's share capital totaled TEUR 52,130 (previous year: TEUR 52,130) and was divided into 52,130,000 (previous year: 52,130,000) registered no-par value shares.

The Managing Board was authorized by the Annual General Meeting on June 13, 2007 to increase the share capital, with the consent of the Supervisory Board, on one or more occasions until June 12, 2012 by up to a total of TEUR 26,065 in exchange for cash contributions and/or contributions in kind by issuing new, registered no-par value shares (authorized capital).

Furthermore, under a resolution by the Annual General Meeting of June 13, 2007, the share capital was contingently increased by up to TEUR 26,065 through the issue of up to 26,065,000 new, registered no-par value shares (contingent capital).

First Capital Partner GmbH is indirectly and directly a shareholder of PATRIZIA Immobilien AG with 26,047,572 no-par value shares (previous year: 26,047,572 no-par value shares), which equates to a 49.97 % shareholding (previous year: 49.97 %).

5.1.2 Capital Reserves

The share premiums collected for the issue of new shares that occurred in the past as part of the Company's capital increase are posted on an unchanged basis in the capital reserve.

5.1.3 Retained Earnings

The legal reserve of TEUR 505 (previous year: TEUR 505) is posted under Retained earnings.

5.1.4 Non-controlling Partners

As part of the initial consolidation of F 40 GmbH, PATRIZIA KinderHaus Foundation was allocated an amount of TEUR 877 corresponding to its share as a non-controlling partner. This amount is 5.1 % of the market value of F 40 GmbH at the time of acquisition. In the year under review the company generated a result of TEUR –1,685, with the result that earnings of TEUR –45 were allocated to the non-controlling partner.

5.2 Bank Loans

The residual terms of the bank loans are as follows:

BANK LOANS

EUR '000	12/31/2010	12/31/2009
Less than 1 year	523,314	171,727
1 to 2 years	88,775	551,307
More than 2 to 5 years	229,291	347,173
More than 5 years	0	0
Total	841,380	1,070,207

Maturity by fiscal year (January 1 to December 31):

MATURITY

Year	Amount of loans due as at 12/31/2010	
	EUR '000	in %
2011	523,314	62,2
2012	88,775	10,6
2013	81,020	9,6
2014	148,270	17,6
Total	841,380	100

The bank loans are measured at amortized cost. They have variable interest rates. In this respect, the Group is exposed to an interest rate risk in terms of the cash flows. To limit the risk, the Group has concluded interest hedging transactions for the majority of the loans.

All loans are in euro. Where real estate is sold, financial liabilities are in principle redeemed through repayment of a specific share of the sale proceeds.

Accordingly, in the above table, the loan maturity dates existing on the balance sheet date are allocated in accordance with the contractually agreed terms of the loan agreements, without taking into account repayments from resales.

In the above table, loans whose terms end within the 12 months following the reporting date are posted as bank loans with a residual term of less than one year.

Regardless of the terms shown above, loans which serve to finance inventories are in principle reported in the balance sheet as short-term bank loans (cf. 1. Principles applied in preparing the Consolidated Financial Statements).

The Group's own real estate serves as security for the bank loans. The bank loans secured by real estate liens amount to TEUR 837,018 (previous year: TEUR 1,068,978). In addition, financial liabilities are secured by assigning purchase prices, and by assigning future rental payments.

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5.3 Deferred Tax Assets/Deferred Tax Liabilities

The main deferred tax assets and deferred tax liabilities and their development are set out below:

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

EUR '000	12/31/2010	12/31/2010	12/31/2009	12/31/2009
	Assets	Liabilities	Assets	Liabilities
Investment property	0	16,035	0	14,847
Inventories	1,318	0	1,561	0
Derivatives	6,421	0	7,208	0
Tax loss carryforwards	817	0	2,248	0
Capitalization of interest on borrowed capital	0	249	0	69
Initial consolidation of F 40 GmbH	0	1,153	0	1,153
Other	4	824	13	477
	8,560	18,261	11,030	16,546
Netting	-8,560	-8,560	-11,030	-11,030
		9,701		5,516

The previous year's tax loss carryforwards of TEUR 5,437 were used up in the 2010 fiscal year. Deferred tax assets of TEUR 817 (previous year: TEUR 2,248) were recognized for trade tax loss carryforwards of TEUR 5,445 (previous year: TEUR 9,252).

Due to the lack of predictability regarding dissolution of the tax group, no deferred tax assets have been recognized for losses prior to fiscal unity of TEUR 447 (previous year: TEUR 447). The loss carryforwards for which deferred tax assets have been capitalized will be used in line with expectations within the planning period (maximum 2 years). The losses can be carried forward for an indefinite period.

According to IAS 12.24(b), the Group has not recognized any deferred tax assets for the temporary differences arising from the real estate of Alte Haide Baugesellschaft mbH.

In the same way, no deferred tax assets have been recognized for existing loss carryforwards in Alte Haide Baugesellschaft mbH of TEUR 2,666 (previous year: TEUR 5,937) due to the lack of predictability of their tax usability.

In addition, on the balance sheet date, one company (previous year: 2 companies) had corporation tax loss carryforwards of TEUR 49,326 (previous year: TEUR 47,313); no deferred tax assets were formed for these due to the lack of predictability concerning their usability for fiscal purposes.

Deferred tax assets and deferred tax liabilities are in principle offset against one another, as the Group has an enforceable right to offset actual tax refund claims against actual tax liabilities and the deferred tax assets and liabilities relate to income tax that is levied by the same tax authority.

The temporary differences relating to participating interests in subsidiaries for which no deferred taxes were recognized amounted to TEUR 7,478 (previous year: TEUR 7,500).

5.4 Retirement Benefit Obligations

In principle, there are no performance-related pension schemes at the Group. One exception to this is a scheme that was transferred in 2002 in conjunction with an acquisition and a plan which was assumed in 2007 in connection with the acquisition of a real estate portfolio. As at the balance sheet date, a total of six people had a performance-related commitment. Four of these people are retired persons who already receive ongoing pension payments. Taking this fact into account, the provisions calculated according to the German Commercial Code were increased by approximately 2.5 % (previous year: approx. 14 %) on the basis of an actuarial report prepared in accordance with IAS 19. As at December 31, 2010, an actuarial interest rate of 4.78 % (previous year: 5.25 %) and a projected pension increase of 2.0 % (previous year: 2.0 %) were applied to the reference report. The projected unit credit method was used as the calculation method. The calculations were based on Prof. Klaus Heubeck's biometric reference tables (probabilities of death and invalidity) (2005G Reference Tables). As at December 31, 2010, the pension provision recognized was TEUR 368 (previous year: TEUR 339). Due to the low level of the annual pension payments of TEUR 32 (previous year: TEUR 32) and therefore also the low value of the pension provision, the pension provision in the Consolidated Financial Statements was not regarded as material. For this reason, there is no breakdown of the change to the pension provision. As at the balance sheet date, there were neither plan assets nor unrecognized actuarial losses and/or unrecognized past service costs. The interest cost is posted under Staff costs.

5.5 Other Provisions

A breakdown of other provisions is shown below:

OTHER PROVISIONS 2010

EUR '000	01/01/2010	Addition	Release	Drawn	12/31/2010
Other provisions	580	666	6	574	666
	580	666	6	574	666

OTHER PROVISIONS 2009

EUR '000	01/01/2009	Addition	Release	Drawn	12/31/2009
Other provisions	616	580	14	602	580
	616	580	14	602	580

The other provisions chiefly consist of provisions for unused holiday entitlements, contributions to employee accident insurance and surcharges for not employing handicapped persons.

With regard to other provisions, it is to be assumed that the outflow of funds will occur in the subsequent year.

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5.6 Current Liabilities

A breakdown of current liabilities is shown below:

CURRENT LIABILITIES

EUR '000	2010	2009
Trade payables	2,655	2,908
Advance payments	347	2,092
Other liabilities	14,006	8,116
	17,008	13,116

The current liabilities have a residual term of less than 12 months. The fair value of the liabilities therefore corresponds to the carrying amount. Other liabilities chiefly include liabilities for acquisition and manufacturing costs arising after the balance sheet date in an amount of TEUR 6,537 (previous year: TEUR 3,673).

5.7 Tax Liabilities

The tax liabilities mainly concern subsequent taxation of the former Equity 02 portfolios amounting to TEUR 3,239 (previous year: TEUR 3,426), corporation tax and trade tax on profits of domestic subsidiaries amounting to TEUR 5,334 (previous year: TEUR 3,395) and taxes in Luxembourg of TEUR 108 (previous year: TEUR 620).

5.8 Objectives and Methods of Financial Risk Management

The Group's financial assets chiefly comprise trade receivables, other assets and bank balances. The Group is exposed to a credit risk in these categories. The Group's credit risk primarily results from trade receivables. Insofar as they are identifiable, these are decreased by specific value adjustments. For the trade receivables, where property is sold as a single asset, security exists in the form of a commercial right of retransfer for the sold real estate in the event of default by the customer. When individual apartments are sold, ownership is not transferred until the purchase price is received in full. Consequently, there is no credit risk here.

The bank balances are held at banks with strong credit ratings.

Apart from derivative instruments, the main financial liabilities used by the Group comprise bank loans and revolving lines of credit, trade payables and secured loans. The main objective of these financial liabilities is to finance the Group's business activities.

The Group also has derivative financial instruments. These comprise interest rate swaps, interest rate collars and interest rate caps. The aim of these derivative financial instruments is to hedge against interest risks which result from the Group's business activities and from its financing sources.

Significant risks for the Group arising from the financial instruments include interest-related cash flow risks and liquidity and credit risks. The Management decides on strategies and procedures to manage individual risk types; these are outlined below.

Interest rate risk

The risk from fluctuations in the market interest rates to which the Group is exposed results primarily from financial liabilities with a variable interest rate.

To manage and smooth the Group's interest expense, the Group concludes interest hedging transactions. At specified intervals the Group exchanges with the contractual partner the difference between fixed-interest and variable-interest amounts for a previously agreed nominal amount or sets a maximum rate. The underlying obligation is hedged with these interest hedging transactions. As at December 31, 2010 and taking into account existing financial derivatives, approximately 73 % (previous year: 66 %) of the Group's external funds was fixed-interest-bearing.

Overview of the interest rate risk

In principle, the PATRIZIA Group concludes only variable interest rate loans. The Group is therefore subject to an interest rate risk on financial liabilities. This risk is reduced by using derivative financial instruments whereby variable interest rates are exchanged for fixed interest rates (swap) or a fixed upper ceiling is agreed for variable interest (collar or cap).

The Group measures the interest rate risk with the help of the cash flow sensitivity in the case of an assumed parallel shift in the interest curve of 100 basis points. Assuming a rise of 100 basis points in the interest rate, then as at December 31, 2010 and without taking taxes into account, this would have an effect of TEUR +12,090 (previous year: TEUR +21,255) on the consolidated profit and TEUR +2,424 (previous year: TEUR +3,548) on consolidated equity. Taking deferred taxes into account, an increase of 100 basis points in the interest rate would have an effect of TEUR +7,925 (previous year: TEUR +17,527) on the consolidated profit and TEUR +2,041 (previous year: TEUR +2,861) on consolidated equity. When determining the effects, existing accounting hedges were included with their characteristics as they appeared on the balance sheet date.

Credit risk

In principle, due to a wide and uncorrelated counterparty structure there is no concentration of risks in our group of companies.

With regard to the Group's other financial assets such as cash and cash equivalents, and financial investments available for sale, the maximum credit risk in the event of default on the part of the counterparty corresponds to the carrying amount of these instruments.

Liquidity risk

The Group continually monitors the risk of a liquidity bottleneck using liquidity planning. This liquidity planning takes into account the terms of the financial liabilities and also expected cash flows from the operating activities.

The Group's objective is to ensure cash requirements are met on an ongoing basis by using overdrafts and loans.

The maturities of financial liabilities can be found in item 5.2 of the Notes to the Consolidated Financial Statements.

Capital management

The Group monitors its capital with the help of a gearing ratio which corresponds to the ratio of net financial liabilities to the sum of modified equity and net financial liabilities. Net financial liabilities comprise interest-bearing loans, trade payables and other liabilities less cash and short-term deposits. Modified equity comprises the equity attributable to the shareholders of the parent company less unrecognized profit.

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CAPITAL MANAGEMENT

EUR '000	2010	2009
Interest-bearing loans	841,380	1,070,207
Trade payables and other liabilities	27,087	22,175
Less cash and short-term deposits	-70,537	-56,183
Net financial liabilities	797,930	1,036,199
Equity	294,732	284,824
Unrecognized losses	2,372	6,079
Total modified equity	297,104	290,903
Modified equity and net financial liabilities	1,095,034	1,327,102
Gearing ratio	73 %	78 %

5.9 Financial Assets and Liabilities

The carrying amounts of the financial assets fall in the individual categories as follows:

FINANCIAL ASSETS

EUR '000	2010	2009
Loans and receivables	10,282	29,428
Available-for-sale financial assets	3,090	3,090
Bank balances and cash	70,537	56,183

The carrying amounts of the financial liabilities fall in the individual categories as follows:

FINANCIAL LIABILITIES

EUR '000	2010	2009
Financial liabilities which are measured at fair value through profit or loss and are held for trading in accordance with IAS 39	39,715	34,208
Financial liabilities which are measured at residual value through profit or loss	858,388	1,083,751
Derivative financial instruments which are designated as hedging instruments and are effective as such	363	8,895

The following net profit (+) or loss (–) was attributed to each category:

NET PROFIT OR LOSS

EUR '000	2010	2009
Loans and receivables	+375	+272
Available-for-sale financial assets	0	0
Bank balances and cash	+573	+690
Financial liabilities which are measured at fair value through profit or loss and are held for trading in accordance with IAS 39	–23,024	–22,285
Financial liabilities which are measured at residual value through profit or loss	–25,782	–31,844
Derivative financial instruments which are designated as hedging instruments and are effective as such		
– included in consolidated profit	–1,626	–10,904
– included in other profit	+3,707	+1,975
	–45,777	–62,096

Net profit and loss from financial instruments that are recognized at fair value through profit or loss include interest income/expense.

6 Notes to the Consolidated Income Statement

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

6.1 Revenues

Please refer to the statements on segment reporting.

Revenues include rental income from investment property of TEUR 42,256 (previous year: TEUR 43,880).

6.2 Changes in Inventories

The impact on the balance sheet of the purchase, sale and renovation of the property intended for sale is recognized through profit or loss under Changes in inventories and is corrected accordingly in Cost of materials. Consequently, the acquisition of property intended for sale leads to an increase in inventories and the sale of the corresponding property leads to a reduction in inventories.

6.3 Other Operating Income

Other operating income primarily includes income from cancelled obligations in the amount of TEUR 1,330 (previous year: TEUR 4,298); income from liability compensation in the amount of TEUR 588 (previous year: TEUR 600); income from payments in kind of TEUR 693 (previous year: TEUR 538); income from insurance compensation in the amount of TEUR 343 (previous year: TEUR 415); and income from received discounts in the amount of TEUR 330 (previous year: TEUR 218). The previous year included income from the initial consolidation of F 40 GmbH in an amount of TEUR 7,978.

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6.4 Cost of Materials

Cost of materials includes the direct costs incurred in conjunction with service performance. This chiefly involves the expenses from the purchase of properties, renovation and project planning costs, ancillary rental costs and lease expenses. This includes TEUR 7,420 (previous year: TEUR 4,174) in maintenance expenses and also additional current expenses of TEUR 10,738 (previous year: TEUR 12,360) in respect of investment property.

6.5 Staff Costs

A breakdown of staff costs is shown below:

STAFF COSTS

EUR '000	2010	2009
Wages and salaries	25,100	20,932
Social insurance contributions	3,480	2,956
	28,580	23,888

6.6 Amortization

Scheduled amortization amounts to TEUR 904 (previous year: TEUR 824). It relates to software and equipment.

6.7 Other Operating Expenses

A breakdown of other operating expenses is shown below:

OTHER OPERATING EXPENSES

EUR '000	2010	2009
Administrative expenses	9,716	9,138
Selling expenses	5,271	4,263
Other expenses	6,389	4,152
	21,376	17,553

6.8 Financial Result

FINANCIAL RESULT

EUR '000	2010	2009
Interest on bank deposits	573	690
Income from interest hedges	0	5,477
Changes in the value of derivatives	10,546	5,832
Other interest	375	272
	11,494	12,271
Interest on revolving lines of credit and bank loans	-25,782	-31,385
Expenses from interest hedges	-23,024	-28,285
Changes in the value of derivatives	-12,172	-16,213
Other finance costs	-272	-459
	-61,250	-76,342
	-49,756	-64,071

Interest income of TEUR 375 (previous year: TEUR 272), which was recognized at the effective interest rate, is attributable to loans and receivables. There were no pure measurement effects for instruments of this category. The amount of the impairment on receivables can be seen under section 4.5.

6.9 Income Tax

A breakdown of income taxes is shown below:

INCOME TAXES

EUR '000	2010	2009
Current taxes	-2,056	-2,055
Deferred taxes	-3,231	516
	-5,287	-1,539

The deferred taxes in the income statement chiefly result from loss carryforwards, the fair value measurement of interest rate hedging instruments and the investment property and also from the elimination of intra-Group results.

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TAX RECONCILIATION STATEMENT

The tax reconciliation statement describes the relationship between effective tax expenses and expected tax expenses based on the IFRS consolidated net profit/loss for the year (before income taxes) by applying the income tax rate of 30.825 % (previous year 30.825 %). The income tax rate consists of 15 % corporation tax, and on this a 5.5 % solidarity surcharge, as well as 15 % trade tax:

EFFECTIVE TAX EXPENSE

EUR '000	2010	2009
IFRS consolidated profit/loss for the period before income tax	11,488	-7,961
Expected actual income tax expenses	-3,541	2,454
Additions from Luxembourg companies	-1,992	-6,579
Other tax additions and deductions	391	195
Use of non-capitalized loss carryforwards	1,096	1,136
Non recognition of loss carryforwards	0	-8
Trade tax effects from income subject to limited taxation	-1,086	-2,492
Special effect of the initial consolidation of F 40 GmbH	0	2,583
Effects outside the period	700	722
Other	-855	450
Effective tax expense	-5,287	-1,539

6.10 Earnings per Share**EARNINGS PER SHARE**

EUR	2010	2009
Profit share of Group shareholders	6,201,680	-9,500,401
Number of shares issued	52,130,000	52,130,000
Weighted number of shares	52,130,000	52,130,000
Earnings per share (undiluted)	0.12	-0.18

There were no diluted earnings per share in the reporting year or in the previous year. As at December 31, 2010, there was authorized capital of TEUR 26,065.

7 Segment Reporting

PATRIZIA's segments that must be reported on include Investments and Services. The segments are distinguished according to the type of products and services offered and also according to the sales channels and client profiles. In 2010 we did not make any adjustments to the Group structure that would have triggered new segmentation of the business areas. As such, the existing segment classifications have remained in place.

The Investments segment holds a real estate portfolio for residential property resale, asset repositioning and project development. Clients include private and institutional investors that invest either in individual residential units or in real estate portfolios. As of the balance sheet date, the segment had a portfolio of 9,305 (previous year: 11,120) residential and commercial units that are listed as investment property and inventories.

The Services segment covers a wide range of real estate services, including in particular analysis and advice when purchasing individual residential and commercial properties or portfolios (investment management), value-oriented management of real estate portfolios (asset management), the management of real estate (property management) as well as the incorporation, supervision and administration of special funds, including following individual requests from clients, via the Company's asset management company (Kapitalanlagegesellschaft). A significant portion of the services offered by the Services segment is also used by in-house entities.

The PATRIZIA Group's internal control and reporting measures are primarily based on the principles of accounting under IFRS. The Group measures the success of its segments using segment earnings, which for the purposes of internal control and reporting are referred to as EBIT, EBT, EBIT adjusted and EBT adjusted.

EBT refers to the total of revenues, income from the sale of investment property, cost of materials and staff costs, amortization and depreciation, other operating income and expenses as well as earnings from investments valued at equity and the financial result. EBIT denotes EBT minus the financial result. To determine EBIT adjusted and EBT adjusted, adjustments are made for purely valuation-related, non-cash effects; for details see the remarks in the Management Report.

The PATRIZIA Group's intercompany sales indicate the amount of revenues between the segments. Intercompany services are invoiced at market prices.

PATRIZIA's activities extend across Germany. For this reason, no geographical segment is set out.

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The individual segment figures are set out below:

SEGMENTS 2010

EUR '000	Investments	Services	Corporate	Total
Third-party revenues	329,626	9,962	5	339,593
Intercompany revenues	20,769	3,498	6,084	30,351
Interest income	11,021	42	431	11,494
Interest expense	-60,858	-287	-105	-61,250
Significant non-cash earnings				
Market valuation income, derivatives	10,546	0	0	10,546
Market valuation expenditure, derivatives	-12,172	0	0	-12,172
Segment result EBIT	76,055	2,890	-17,701	61,244
Segment result EBT	26,218	2,645	-17,375	11,488
Segment result EBIT adjusted	75,730	2,890	-17,701	60,919
Segment result EBT adjusted	27,519	2,645	-17,375	12,789
Thereof result from investments valued at equity	0	0	-5	-5

SEGMENTS 2009

EUR '000	Investments	Services	Corporate	Total
Third-party revenues	240,391	10,492	5	250,888
Intercompany revenues	0	23,015	6,971	29,986
Interest income	6,010	69	360	6,439
Interest expense	-59,554	-259	-316	-60,129
Significant non-cash earnings				
Market valuation income, derivatives	5,832	0	0	5,832
Market valuation expenditure, derivatives	-16,213	0	0	-16,213
Income from initial consolidation	7,948	0	0	7,948
Segment result EBIT	67,008	2,792	-13,690	56,110
Segment result EBT	3,083	2,602	-13,646	-7,961
Segment result EBIT adjusted	77,389	2,792	-13,690	66,491
Segment result EBT adjusted	13,464	2,602	-13,646	2,420
Thereof result from investments valued at equity	6	0	0	6

Due to the capital intensity of the segment, the assets and liabilities in the Investments segment account for well over 90 % of the Group's total assets and liabilities. For this reason, there is no breakdown of assets and liabilities by individual segment.

8 Notes to the Consolidated Cash Flow Statement

The cash flow statement was prepared in line with the provisions of IAS 7. The presentation of the cash flow statement was changed and the previous year was adjusted accordingly.

In the cash flow statement, the payment flows are subdivided into cash flow from current operating activities, cash flow from investing activities and cash flow from financing activities. Effects of changes to the scope of consolidation are eliminated in the respective items. The cash flow from current operating activities was calculated using the indirect method.

Cash and cash equivalents contain the short-term bank balances and cash posted in the balance sheet. Of the cash and cash equivalents, an amount of TEUR 20,320 (previous year: TEUR 5,263) is restricted in terms of availability.

Cash flow from investing activities contains financial investments and sales, especially in/of investment property, and also property, plant and equipment and investments in financial assets.

Cash flow from financing activities includes cash outflows for dividends and cash inflows from capital increases of PATRIZIA Immobilien AG as well as loan receipts and redemptions to finance current and non-current assets.

As in the previous year, no dividend was distributed during the reporting year.

9 Other Notes

9.1 Post-employment Employee Benefits

In principle, there are no performance-related pension schemes at the Group. An exception to this is a scheme that was transferred in 2002 as part of an acquisition process and a plan which was assumed in 2007 in connection with the acquisition of a real estate portfolio. As at the balance sheet date, a total of six people had a performance-related commitment. Four of these people are retired persons who already receive ongoing pension benefits. In addition, there are performance-related pension schemes for the Managing Board in the context of a company provident fund. In this respect, the Group makes set contributions to an independent entity (fund). This pension commitment involves a risk of subsidiary liability for the Group if the fund does not have sufficient assets to pay all benefits relating to work performed by the employees in the reporting period and earlier periods. The provident fund commitment is reinsured. The commitment was granted in 2003. In 2010, a total of TEUR 56 (previous year: TEUR 56) was paid in contributions to the provident fund.

Most employees in the Group have compulsory state pension insurance and are thus covered by a state defined contribution scheme. Under this pension commitment, the Group is neither legally nor factually obliged to pay contributions over and above this. Contributions under defined contribution pension systems are paid in the year in which the employee provided the counterperformance for these contributions.

Since January 1, 2002, employees have had a statutory right to deferred compensation of up to 4 % per annum of the contributions ceiling for state pension insurance. For this purpose, the Group has concluded a collective framework agreement with an external pension fund.

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9.2 Management Participation Model

PATRIZIA Immobilien AG's management participation model focuses on the aspects of market conformity, performance and sustainability. The model was developed taking into account the requirements of the German Corporate Governance Code.

The fundamental requirement of PATRIZIA's management participation model is a consistent target system that supports the corporate strategy. It is based on a long-term, multidimensional and neutral approach. The system sets directors and managers of Group companies quantitative and qualitative Company, business line and individual goals. In principle, the degree to which quantitative goals are achieved is based on projected figures derived from the Company's planning. Key objectives include in particular consolidated profit before taxes and Group return on equity as well as share price performance in absolute terms and in relation to reference indices.

At business line level, the basic structure of PATRIZIA's provision of services is mapped in the form of value contributions to processes and of performance interdependencies among the parties involved in processes. Directors and managers of Group companies involved in the provision of services or in qualitative projects are set common targets.

At individual level, the quantitative results or qualitative project results for which the directors and managers of Group companies hold individual responsibility are taken into account.

The degree to which the individual goals are achieved determines the amount of the variable portion of remuneration. A cap is placed on achievable variable compensation components. If the Group achieves less than two-thirds of the forecast consolidated profit, the directors and managers of Group companies lose the entire variable portion of remuneration.

The variable portion of remuneration is divided into a long-term and a short-term incentive component. The short-term incentive is paid directly after it has been established that the targets have been achieved. The long-term incentive is a salary commitment with a virtual link to the PATRIZIA share price. It is not paid until two years after confirmation that the targets have been achieved.

Within this vesting period, the cash commitment is tied to allocation conditions. These regulate the consequences regarding allocation of the long-term incentive to the respective individual director or manager of a Group company should they leave the Group. Depending on the reason for leaving, an individual may receive all, part or none of the promised but as yet undistributed claims.

In 2010, a long-term incentive of TEUR 789 was established for the first and second management level. This monetary amount is converted into performing share units at the average Xetra price 30 days prior to and after December 31 of the fiscal year in question. The cash price equivalent of the shares calculated from this is paid out at the average Xetra rate 30 days prior to and after December 31 of the next year but one (vesting period).

Managers who leave the Company during the vesting period generally lose their claims to payment, unless they retire or die. Individual agreements may be concluded on a case-by-case basis.

Based on the average share price of the PATRIZIA share 30 days before and after December 31, 2010, the average price is EUR 4.02. This corresponds to 213,669 shares. No expenses or income related to the stock option plan arose during the reporting period.

Fair value is as follows:

COMPONENTS WITH LONG-TERM INCENTIVE EFFECT

	No. of performing share units	Fair values 12/31/2010 EUR '000	Fair values 12/31/2009 EUR '000	Paid out EUR '000
Tranche performing share units fiscal year 2010	213,669	789		0
Tranche performing share units fiscal year 2009	80,186	363	259	0

The performing share units as of the balance sheet date are as follows (number):

PERFORMING SHARE UNITS

units	12/31/2010	12/31/2009
Outstanding at the start of the reporting period	80,186	0
Granted for the reporting period	213,669	80,186
Forfeited in the reporting period	0	0
Paid out in the reporting period	0	0
Outstanding at the end of the reporting period	293,855	80,186

9.3 Transactions with related Companies and Individuals

The individuals and companies related to the company include the members of the Managing Board and Supervisory Board as well as the directors of subsidiaries, in each case including their close relatives, as well as companies on which the Managing Board or Supervisory Board members or their close relatives can exert a significant influence or in which they hold a significant share of the voting rights. In addition, related individuals include companies with which the company forms an affiliated group or in which it holds a participating interest that enables it to exert significant influence on the business policy of the associated company, as well as the main shareholders of the company including its affiliated companies.

The related companies of the Group are listed individually below:

- WE Verwaltungs GmbH, Augsburg
- WE Vermögensverwaltung GmbH & Co. KG, Augsburg
- First Capital Partner GmbH, Gräfelfing
- FCP Service GmbH, Gräfelfing
- FCP Anlage AG, Gräfelfing
- FCP Biotech Holding GmbH
- Wohnungsportfolio WPO Berlin GmbH, Berlin
- Wohnungsportfolio WPO Immobilienservice GmbH, Berlin
- Immobilienportfolio IPO Berlin GmbH, Berlin
- Eurobilis AG, Gräfelfing
- Hansa-Langenhorn-Immobilien GmbH, Hamburg
- Verwaltung EHG Erste Hanseatische Grundvermögen GmbH, Hamburg
- E.H.G. Erste Hanseatische Grundvermögen GmbH & Co. KG, Hamburg

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- Wolfgang Egger Verwaltungs-GmbH, Gräfelfing
- Wolfgang Egger GmbH & Co. KG, Gräfelfing
- Stadtresidenz Friedrich-List Vermögensverwaltungs KG, Augsburg
- Objektgesellschaft An der Alster 47 GmbH & Co. KG, Augsburg
- LBG 3 GmbH
- ArsRatio Holding GmbH
- ArsRatio GmbH
- ArsRatio Forschung & Entwicklung GmbH
- Tottenham Hale S.a.r.l.
- Saven Hill Holding S.a.r.l.
- Shawmut Holding S.a.r.l.
- PRIME Development Proje gelistirme Ltd. STI

The company maintains the following business relationships with related parties.

Ownership of PATRIZIA shares by members of the Managing Board and persons related to Managing Board members

As at the balance sheet date, Wolfgang Egger, CEO, indirectly and directly holds a total stake of 49.97 % in the Company via First Capital Partner GmbH, in which he directly and indirectly holds a 100 % stake via WE Vermögensverwaltung GmbH & Co. KG.

Wolfgang Egger also has a 5.1 % stake in Projekt Wasserturm Grundstücks GmbH & Co. KG. A further 45,9 % is indirectly held by PATRIZIA Immobilien AG, and the remaining 49 % is held by Ernest-Joachim Storr.

Klaus Schmitt, a member of the Company's Managing Board, holds a total stake of 0.15 % in PATRIZIA Immobilien AG.

Ownership of shares by other members of the management in key positions

In addition, Johannes Altmayr, Eckhard Bolte, Dr. Bernhard Engelbrecht, Markus Fischer, Werner Gorny, Jürgen Kolper, Klaus Kümmerle, Dr. Wolfgang Lange, Martin Lemke and Markus Scherl hold a total of 1.09 % as members of PATRIZIA's additional management level.

Contracts and business relationships between the Managing Board members and PATRIZIA

PATRIZIA Immobilien AG and the subsidiaries of PATRIZIA Immobilien AG provide various services for Wolfgang Egger and for companies controlled indirectly or directly by Wolfgang Egger. In particular, these services relate to management of real-estate portfolios and construction projects. The scope of services to be provided by PATRIZIA Immobilien AG and/or its subsidiaries is precisely defined in the framework agreement of March 25, 2010. The remuneration for services provided as agreed in the contract is in line with current market conditions. In the 2010 fiscal year, PATRIZIA provided services to the value of TEUR 534 (previous year: TEUR 739).

Rental agreements between Managing Board members and PATRIZIA

Wolfgang Egger – as lessor – has concluded a rental agreement with the Company – as tenant – relating to the building, including parking spaces, used by the Company as its head office (Fuggerstrasse 18–24 and also Fuggerstrasse 26 in Augsburg) at a current monthly rent of TEUR 93 (previous year: TEUR 22).

Rental agreements between individuals related to Managing Board members and PATRIZIA

Furthermore, Objektgesellschaft An der Alster 47 GmbH & Co. KG – as lessor – (Wolfgang Egger has a direct 95 % stake in this company) has concluded a rental agreement with the Company for a floor of a building in Hamburg with a monthly rent of TEUR 6 (previous year: TEUR 6) plus statutory VAT. The rental agreement was terminated with effect from November 30, 2010.

Activities of Managing Board members outside PATRIZIA

Chairman of the Board Wolfgang Egger is a director of Wolfgang Egger Verwaltungs GmbH (general partner of Wolfgang Egger GmbH & Co. KG), as well as general partner of Friedrich-List Vermögensverwaltungs KG.

Consultancy agreement with the law firm Seitz, Weckbach, Fackler

There is a consultancy relationship with the law firm Seitz, Weckbach, Fackler of Augsburg, under which the company is advised on competition and employment law. A partner in this law firm, Dr. Theodor Seitz, is also Chairman of the Company's Supervisory Board. The consultancy agreement was approved by means of a Supervisory Board resolution dated December 13, 2010. In 2010 consultancy costs of TEUR 10 (previous year: TEUR 13) were incurred at the law firm Seitz, Weckbach, Fackler.

9.4 Supervisory Board and Managing Board**Members of the Managing Board of the Parent Company**

The following are members of the Managing Board:

- Wolfgang Egger, businessman, Chief Executive Officer
- Arwed Fischer, business studies graduate (univ.), Chief Financial Officer
- Klaus Schmitt, law graduate, Chief Operating Officer

In the fiscal year, the payments made to the Managing Board totaled TEUR 2,056 (previous year: TEUR 1,050); details can be found in the following table:

MANAGING BOARD REMUNERATION 2010

EUR	Annual income				Contribution to pension fund
	Fixed compensation	Short-term variable compensation	Payments in kind and other payments ¹	Long-term variable compensation ²	
Wolfgang Egger	260,000	309,000	22,704	154,500	12,000
Arwed Fischer	240,000	260,000	40,048	130,000	12,000
Klaus Schmitt	240,000	222,000	31,225	111,000	12,000
Total	740,000	791,000	93,977	395,500	36,000

¹ The item primarily includes non-cash benefits from the provision of company cars and insurance premiums.

² Conversion into performing share units with two-year vesting period; see 9.2 for the conditions. Performing share units were granted for the 2010 fiscal year as the defined target hurdle was achieved.

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MANAGING BOARD REMUNERATION 2009

EUR	Annual income			Long-term variable compensation ²	Contribution to pension fund
	Fixed compensation	Short-term variable compensation	Payments in kind and other payments ¹		
Wolfgang Egger	260,000	0	21,828	0	12,000
Arwed Fischer	240,000	240,000	41,586	0	12,000
Klaus Schmitt	180,000	0	30,554	0	12,000
Total	680,000	240,000	93,968	0	36,000

¹ The item primarily includes non-cash benefits from the provision of company cars and insurance premiums.

² Conversion into performing share units with two-year vesting period; see 9.2 for the conditions. No performing share units were granted for the 2009 fiscal year, as the defined target hurdle was not achieved.

Members of the Supervisory Board of the parent company

The following are members of the Supervisory Board:

- Dr. Theodor Seitz, Chairman, tax consultant, lawyer, Augsburg
- Harald Boberg, representative of Bankhaus Lampe KG, (Bielefeld), Hamburg
- Manfred J. Gottschaller, director of Bayerische Handelsbank AG, Munich, retired

The Supervisory Board received fixed remuneration of TEUR 63 (previous year: TEUR 62); details can be found in the following table:

SUPERVISORY BOARD REMUNERATION 2010

EUR	Fixed compensation	Variable compensation
Dr. Theodor Seitz, Chairman	25,000	0
Harald Boberg	18,750	0
Manfred J. Gottschaller	18,750	0
Total	62,500	0

SUPERVISORY BOARD REMUNERATION 2009

EUR	Fixed compensation	Variable compensation
Dr. Theodor Seitz, Chairman	24,938	0
Harald Boberg	18,750	0
Manfred J. Gottschaller	18,750	0
Total	62,438	0

9.5 Other Financial Obligations and Contingent Liabilities

The obligations arising from existing maintenance and leasing agreements amount to:

OBLIGATIONS FROM EXISTING MAINTENANCE AND LEASING AGREEMENTS

EUR '000	
2011	1,211
2012 – 2015	2,363
2016 and later	0
	3,574

Use of part of our office building is based on operating lease agreements. This also reduces capital tie-up and leaves the investment risk with the lessor. The leasing agreement for the office building in Augsburg still has a residual term of just under ten years and results in an annual leasing expense of TEUR 981. Rental agreements have also been concluded for subsidiaries' offices in other locations; they have remaining terms of between three months and three years. The obligations amount to TEUR 153 for 2011, TEUR 94 for 2012 and TEUR 14 for 2013.

9.6 Employees

The average headcount at the Group in 2010 (excluding members of the Managing Board) was 364 (previous year: 357).

9.7 Auditor's Fees

The auditor's expenses charged for the 2010 fiscal year in connection with auditing the financial statements amounted to TEUR 324 (previous year: TEUR 284).

9.8 German Corporate Governance Code

On January 26, 2011, the Managing Board and Supervisory Board issued a declaration of conformity in accordance with Article 161 of the German Stock Corporation Act and published it on the Company's homepage (www.patrizia.ag).

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10 Statement of the Managing Board

The Managing Board of PATRIZIA Immobilien AG is responsible for the preparation, completeness and accuracy of the Consolidated Financial Statements and of the report on the position of the Company and the Group.

The Managing Board released these financial statements for publication on March 4, 2011. Adoption of the financial statements will take place at the Supervisory Board meeting on March 21, 2011.


The Consolidated Financial Statements were prepared in line with the International Financial Reporting Standards (IFRS).

The report on the position of the Company and the Group contains analyses relating to the net asset, financial and earnings situation of the Group as well as other explanations as required by Article 315 of the German Commercial Code.


Augsburg, March 4, 2011



Wolfgang Egger
Chairman of the Board



Arwed Fischer
Member of the Board



Klaus Schmitt
Member of the Board

Appendix to the Notes to the Consolidated Financial Statements

List of Shareholdings

PATRIZIA Immobilien AG participates directly in the following companies:

Name	Head office	Share holding in %	Equity in EUR	Net profit/net loss for the last fiscal year in EUR
PATRIZIA Acquisition & Consulting GmbH ¹	Augsburg	100	25,000.00	0.00
PATRIZIA Investmentmanagement GmbH ¹	Augsburg	100	164,912.54	0.00
PATRIZIA Immobilienmanagement GmbH ¹	Augsburg	100	16,881.05	0.00
PATRIZIA Projektentwicklung GmbH ¹	Augsburg	100	250,000.00	0.00
PATRIZIA Wohnen GmbH ¹	Augsburg	100	618,682.33	0.00
Deutsche Wohnungsprivatisierungs GmbH ¹	Augsburg	100	13,145.51	0.00
PATRIZIA Projekt 100 GmbH ¹	Augsburg	100	23,004.93	0.00
PATRIZIA Projekt 110 GmbH ¹	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 120 GmbH ¹	Augsburg	100	22,280.88	0.00
PATRIZIA Projekt 140 GmbH ¹	Augsburg	100	34,592.95	0.00
PATRIZIA Projekt 150 GmbH ¹	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 160 GmbH ¹	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 170 GmbH ¹	Augsburg	100	135,245,000.00	0.00
PATRIZIA Projekt 180 GmbH ¹	Augsburg	100	10,072,450.00	0.00
PATRIZIA Immobilien Kapitalanlagegesellschaft mbH ¹	Augsburg	100	2,963,776.67	0.00
PATRIZIA Projekt 220 GmbH	Augsburg	100	16,777.44	-3,034.12
PATRIZIA Projekt 230 GmbH	Augsburg	100	20,741.31	-3,021.73
PATRIZIA Projekt 240 GmbH	Augsburg	100	17,135.51	-3,078.30
PATRIZIA Projekt 250 GmbH	Augsburg	100	16,287.71	-3,051.93
PATRIZIA Projekt 260 GmbH ¹	Augsburg	100	24,040.80	0.00
PATRIZIA Projekt 280 Verwaltungs GmbH	Augsburg	100	16,099.91	-3,091.45
Wohnungsgesellschaft Olympia mbH	Hamburg	100	676,894.90	-133,082.98
Stella Grundvermögen GmbH ¹	Augsburg	100	7,538,113.38	0.00
PATRIZIA Real Estate Corporate Finance GmbH	Augsburg	100	12,626.04	-3,061.58
PATRIZIA Projekt 420 GmbH ¹	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 430 GmbH ¹	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 440 GmbH ¹	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 450 GmbH ¹	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 460 GmbH ¹	Augsburg	100	25,000.00	0.00
PATRIZIA Property Inc.	Wilmington, Delaware USA	100	-1,589.62	-1,662.89
meridomus GmbH Forderungsmanagement- und Servicegesellschaft für den Vermieter (formerly: PATRoffice Real Estate 820 GmbH, Augsburg)	Cologne	50	16,457.30	-31,102.71

¹ As a result of the existing profit transfer agreements, the results were adopted by PATRIZIA Immobilien AG.

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PATRIZIA Immobilien AG participates indirectly in the following companies:

Name	Head office	Share holding in %	Equity in EUR	Net profit/net loss for the last fiscal year in EUR
PATRIZIA European Real Estate Management GmbH	Augsburg	100	747,079.84	491,224.37
Projekt Wasserturm Verwaltungs GmbH	Augsburg	51	45,330.74	44,804.87
Alte Haide Baugesellschaft mbH	Augsburg	100	7,594,202.68	4,298,150.88
PATRIZIA Luxembourg S.à.r.l.	Luxembourg	100	138,248,562.97	1,051,240.55
PATRIZIA Lux 10 S.à.r.l.	Luxembourg	100	12,045,749.53	1,874.55
PATRIZIA Lux 20 S.à.r.l.	Luxembourg	100	30,000,068.34	124,696.83
PATRIZIA Lux 30 N S.à.r.l.	Luxembourg	100	11,009.54	-684.68
PATRIZIA Lux 50 S.à.r.l.	Luxembourg	100	9,066,777.96	4,844.48
PATRIZIA Lux 60 S.à.r.l.	Luxembourg	100	695,654.91	18,925.44
PATRIZIA Real Estate 10 S.à.r.l.	Luxembourg	100	13,287,749.56	1,112,304.35
PATRIZIA Real Estate 20 S.à.r.l.	Luxembourg	100	-82,069,248.13	-21,563,694.87
PATRIZIA Real Estate 30 S.à.r.l.	Luxembourg	100	15,337.67	-800.50
PATRIZIA Real Estate 50 S.à.r.l.	Luxembourg	100	4,038,657.86	1,529,281.53
PATRIZIA Real Estate 60 S.à.r.l.	Luxembourg	100	-6,481,211.67	738,981.69
PATRIZIA Projekt 330 GmbH ¹	Augsburg	100	25,000.00	0.00
F 40 GmbH	Augsburg	94,9	11,760,101.66	-1,707,166.18
PATRIZIA Projekt 380 GmbH	Augsburg	100	14,193.82	-4,876.41
Projekt Wasserturm Grundstücks GmbH & Co. KG	Augsburg	45,9	-656,494.92	-56,309.08
Projekt Wasserturm Bau GmbH & Co. KG	Augsburg	51	-689,728.58	132,136.13
PATRIZIA Projekt 600 GmbH	Augsburg	100	21,588.02	-2,355.09

¹ As a result of the existing profit transfer agreements, the results were adopted by the stockholder PATRIZIA Projekt 180 GmbH.

PATRIZIA Immobilien AG participates indirectly and directly in the following companies:

Name	Head office	Share holding in %	Equity in EUR	Net profit/net loss for the last fiscal year in EUR
PATRIZIA Projekt B 280 GmbH & Co. KG	Augsburg	100	-5,353.67	-4,256.76
PATRIZIA Vermögensverwaltungs GmbH ¹	Augsburg	100	687,583.35	0.00

¹ As a result of the existing profit transfer agreements, the results were adopted by the stockholder PATRIZIA Projekt 180 GmbH.