Management Report

IN DETAIL

Management Report of the Company and the Group

The Group management report was subsumed into the management report of PATRIZIA Immobilien AG in accordance with Article 315 (3) of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with Article 298 (3) of the HGB since the situation of PATRIZIA Immobilien AG as financial holding company is largely determined by the situation of the Group. The subsumed management report contains all presentations of the net asset, financial and earnings situation of the Company and the Group as well as other details that are required according to German commercial law. All monetary amounts are stated in euros.

1 Business Segments and Environment

PATRIZIA Immobilien AG, along with its subsidiaries (hereafter referred to as PATRIZIA), is a real estate agent and investment house. It specializes in buying high-quality residential real estate at commercially attractive locations in Germany and Europe, improving them, enhancing their value and subsequently reselling the real estate. PATRIZIA has served the residential real estate sector throughout Germany as an investor and service provider for 27 years. In addition to its headquarters in Augsburg, its branches in Berlin, Cologne, Dresden, Frankfurt/Main, Hamburg, Munich and Stuttgart are responsible for property sales and provide services locally. Our regional orientation ensures that we have direct contact to our customers and local market expertise.

The Group is divided into two segments, that of Investments and that of Services. These are composed of business units that are closely linked in both a strategic and an economic sense. Residential Property Resale, Asset Repositioning and Project Development are consolidated for reporting purposes into the Investments segment, as they demonstrate comparable economic characteristics. The business segments of Asset and Investment Management, Funds and Property Management are consolidated into the Services segment due to their similar economic characteristics. All the business lines have access to PATRIZIA's own Research department.

PATRIZIA BUSINESS LINES

In the **Investments segment**, PATRIZIA buys real estate, enhances the value by working on the real estate itself – e.g. by implementing construction projects or by reducing vacancy – and resells the improved real estate, regardless of whether it is reported as a non-current or current asset. Comprising the lines of Residential Property Resale, Asset Repositioning and Project Development, PATRIZIA thus generally works for its own portfolio. The investment horizon is generally short-term to medium-term, usually two to five years. Within this time frame, PATRIZIA increases the property's profitability and arranges for its resale – whether as individual apartments to tenants, owner-occupiers

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and private investors, or in parcels to wealthy private and institutional investors. 79 % of our around 9,300 apartments are located in the top five locations in Germany: in Berlin, Cologne/Düsseldorf, Frankfurt/Main, Hamburg and Munich.

In the **Services segment**, PATRIZIA performs all services relating to real estate. The service range covers advice on purchase, asset management and property management and the sale of real estate. We act here as owner representatives, optimizing real estate portfolios as though they were our own. PATRIZIA Immobilien Kapitalanlagegesellschaft mbH establishes theme funds, offering institutional investors the opportunity to invest indirectly in German and European residential real estate. PATRIZIA invests the investor equity in real estate without an equity interest and manages it pursuant to the Investment Act. PATRIZIA also offers key services for the funds. Through the acquisition of LB Immo Invest GmbH, PATRIZIA also has with effect from the beginning of the 2011 fiscal year an asset management company that is responsible for funds that invest primarily in commercial real estate.

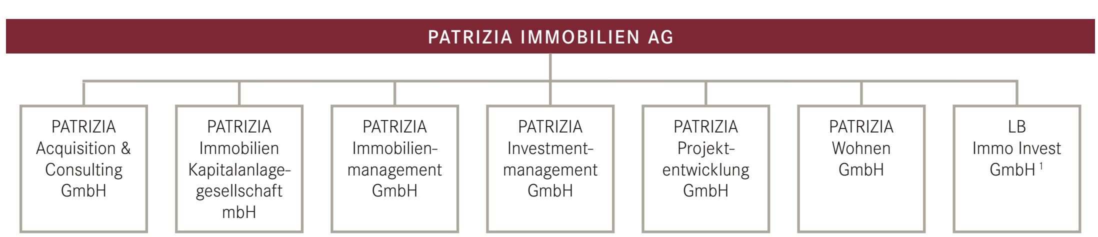
INVEST. OPTIMIZE. REALIZE.

Our aim as an investor and service provider is to create end-to-end solutions for return-oriented optimization of real estate portfolios. There are a number of methods of achieving this: Vacancy rates are reduced and rental cash flow is increased through professional management. Value can also be created with asset repositioning, depending on the quality of the real estate, thereby justifying a later sale at much higher prices. Different measures are required depending on the real estate portfolio, but we service the entire real estate value-added chain using our own employees. Only the coordinated interaction of purchase, asset management and sale allow the optimum development of a property and its successful placement on the market.

Structure

PATRIZIA Immobilien AG is the PATRIZIA Group's management holding company and performs central management and service functions. In 2010 the holding company encompassed six subsidiaries that were active on the market and responsible for the operating business of PATRIZIA. They are wholly-owned subsidiaries of PATRIZIA Immobilien AG and have profit transfer agreements with it. LB Immo Invest GmbH was acquired as a 94.9 % subsidiary of the PATRIZIA Group with effect from January 3, 2011, and is therefore not included in the consolidated financial statements. There is no profit transfer agreement. The real estate portfolios are managed via real estate companies and round off the Group. A detailed list of shareholdings can be found in the Notes to the Consolidated Financial Statements.

THE PATRIZIA GROUP



[1] Part of the group since January 3, 2011

PATRIZIA Acquisition & Consulting GmbH is responsible for purchasing residential real estate including the necessary research for our own investments and for our funds that invest in residential real estate.

PATRIZIA Immobilien Kapitalanlagegesellschaft mbH (KAG) establishes special real estate funds for domestic institutional investors and is responsible for the entire fund management. The funds invest in German and European residential real estate. In this process, PATRIZIA Immobilien Kapitalanlagegesellschaft mbH has access to the services of the PATRIZIA Group, such as real estate research, the acquisition of suitable properties, financing at fund level, asset management and property management.

PATRIZIA Immobilienmanagement GmbH specializes in professional property management of residential and commercial real estate of all sizes of its own or in third-party ownership. It currently manages around 17,500 units, 8,200 of which are administered for third parties as a supplement to its own portfolios.

PATRIZIA Investmentmanagement GmbH manages the real estate assets of institutional and private investors, assuming responsibility for the value-oriented asset management of the real estate and supervising all areas associated with the optimization process. It assists clients in the purchase of real estate and offers them a wide range of possible investment vehicles, which are individually tailored to investors' requirements. The company markets individual properties and real estate portfolios from its own portfolio or provides sales consultation for third-party transactions. Furthermore, this is where our commercial real estate team is integrated, which implements all services from purchase consultation and processing through asset management to the resale of a commercial property.

PATRIZIA Projektentwicklung GmbH provides all services involved in commercial and residential project development, from the conception and purchase of suitable plots or property to the resale of the developed property.

PATRIZIA Wohnen GmbH handles asset management for the resale portfolio, structural engineering and residential property resale. Asset Management generates the best possible added value for our own residential real estate in every phase of use. The Structural Engineering unit devises solutions relating to the structural substance of buildings and implements these solutions cost-effectively. Residential Property Resale manages sales of individual apartments to tenants, owner-occupiers and private investors. Its clear objective is to provide tenants and other interested parties with comprehensive advice on tailored residential ownership options. Each property is divested in full.

LB Immo Invest GmbH was acquired from HSH Real Estate AG, a subsidiary of HSH Nordbank AG in December 2010 with effect from January 3, 2011. The company is not yet included in the 2010 consolidated financial statements. As a real-estate asset management company LB Immo Invest establishes funds that invest primarily in office and commercial property as well as in care facilities and hotels. Besides its principal German market, it also invests in France, UK, USA, Scandinavia and Benelux. The customer group of institutional investors principally consists of savings banks, insurance companies and pension funds.

1.1 Economic Environment

Rapid recovery in the German economy after the crisis

The German economy experienced a surprising economic U-turn in 2010 following the most severe recession of the post-war period. Whereas gross domestic product (GDP) shrank by 4.7 % in 2009, last year saw growth of 3.6 %, something which experts had not expected at the beginning of the year and which was stronger than at any time since reunification. While growth in the first six months of 2010 was sustained in many areas by robust export demand, a more balanced basis for growth can be seen over the whole year. Investment and private consumer spending in particular contributed their share to growth. As a result of these overall positive developments, the unemployment rate in 2010 fell once more below the low level seen in 2008.

In 2010 the European Central Bank's key rate remained at the historically low level of 1.0 %, not least because of the difficulties of individual countries on the periphery of the eurozone and continuing uncertainty regarding the stability of individual European banks.

Excellent prospects for residential real-estate investment in major German cities

The positive economic environment is being increasingly felt in German residential property markets. Following years of negative performance, there are also initial signs of a turnaround in construction activity, even though a difficult finance environment for project developers is still preventing strong growth in construction activity. As a result, favorable economic growth is mainly reflected in rising prices and rents. This pressure on prices and rents is being magnified by continuing migration within Germany to the economically strong conurbations. Migrants increasingly no longer comprise just students and young professionals but also families and older people choosing to relocate to the cities. The result is that new construction often lags behind demand, not just in terms of volume but also to an increasing degree in terms of quality.

The highest rents demanded for properties to let were registered in Munich at the end of 2010. The highest increases in rent in the last twelve months were seen in Berlin, Düsseldorf and Cologne. As in the past, Berlin remains the most affordable location among the top markets, even if a catching-up process has begun as a consequence of the increases in rent of the last few quarters.

The interest shown by institutional investors in German residential real estate remains high but transaction volume is restricted, particularly in the top locations, by a lack of appropriate property on offer. The effect of this, principally on properties in a good state of preservation and in good or very good residential areas, is sometimes a significant rise in prices and hence falling returns. The volume of transactions in the area of residential property portfolios in Germany therefore hardly changed in 2010 compared to the previous year.

1.2 Business Development

Key events in the Investments segment

Residential property resales up 22 % on previous year
Residential property resale involves the individual sales of residential real estate to tenants, owner-occupiers and private investors.

The upturn in demand for residential property that began in the prior year continued steadily through 2010 culminating in an increase in the number of units sold by 21.9 % to 801 apartments (2009: 657 apartments). Private investors form the largest group of purchasers, accounting for 67.2 % (2009: 60.0 %), followed by owner-occupiers, accounting for 24.5 % (2009: 37.1 %). The proportion of tenants remained low, at 8.4 %, but this was far higher than in the previous year (2009: 2.9 %). The continuing low level of tenant purchases is due to the fact that no new properties were put up for sale in the past twelve months.

RESIDENTIAL PROPERTY RESALES IN 2010 BY QUARTER

	1st quarter	2nd quarter	3rd quarter	4th quarter	2010	2009	Change
Privatized units	183	177	245	196	801	657	21.9 %
Average sales price in EUR per sqm	2,492	2,505	2,348	2,169	2,370	2,351	0.8 %

Individual sales in 2010 by region were as follows:

INDIVIDUAL SALES IN 2010

Region/city	Number of privatized units	Share of sales %	Area sold in sqm	Average size per unit in sqm
Munich	523	65.3	35,187	67
Cologne/Düsseldorf	87	10.9	6,355	73
Hamburg	68	8.5	4,831	71
Berlin	34	4.2	2,315	66
Hanover	34	4.2	2,182	64
Regensburg	32	4.0	2,225	70
Friedrichshafen	18	2.2	1,152	64
Frankfurt/Main	5	0.6	370	74
Total	**801**	**100**	**54,617**	**68**

Movement in the market for block sales: number of units sold increases more than threefold
A further sales channel is bundling apartments and apartment buildings into portfolios for sale to wealthy private and institutional investors. Activity in this business segment picked up significantly in 2010, and we were able to more than treble the number of units sold to 1,002 (2009: 289 units). We recorded a fall in the average sales price per square meter caused by regional conditions to EUR 1,625 (2009: EUR 2,177). The reason for this development is that some of the properties disposed of in Leipzig, Frankfurt and greater Hamburg in the fourth quarter could be sold without considerable renovation work being done. All purchasers are German private individuals and family offices.

GLOBAL SALES IN 2010 BY QUARTER

	1st quarter	2nd quarter	3rd quarter	4th quarter	2010	2009	Change
Units via block sales	0	297	83	622	1,002	289	246.7 %
Number of transactions	0	2	3	6	11	4	175.0 %
Average sales price in EUR per sqm	–	1,987	1,801	1,389	1,625	2,177	–25.4 %

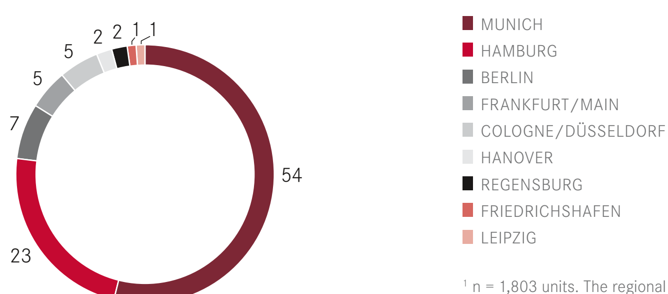
Global sales in 2010 by region were as follows:

GLOBAL SALES IN 2010

Region/city	Number of units sold in blocks	Share of sales %	Area sold in sqm	Average size per unit in sqm
Munich	455	45.4	32,711	72
Hamburg	346	34.5	23,834	69
Berlin	97	9.7	10,574	109
Frankfurt/Main	93	9.3	5,353	58
Leipzig	11	1.1	661	60
Total	**1,002**	**100**	**73,133**	**73**

In 2010, a total of 1,803 units were placed via residential property resales and block sales, almost double the figure for the previous year (2009: 946 units, +90.6 %). This corresponds to 16.2 % of our entire real-estate portfolio as of January 1, 2010 (2009: 7.8 %).

SALES IN 2010 BY REGION [1] (%)



[1] n = 1,803 units. The regional breakdown within the sales channels of residential property resales and block sales can be seen in the above tables.

Taking into account the sales concluded in 2010 and subsequent redensification measures, our portfolio includes 9,305 units with a total area of approximately 649,000 sqm at year end. We anticipate that around 30 % of the units will be realized through residential property resales and the remaining 70 % through block sales. 600 units in Munich, Hamburg and Berlin held as investment property were released for residential property resale, increasing the Residential Property Resale portfolio without any purchases.

THE PATRIZIA PORTFOLIO – BREAKDOWN BY REGION AS OF DECEMBER 31, 2010

Region/city	Number of units				Area in sqm			
	Residential property resale	Asset repo-sitioning	Total	Share %	Residential property resale	Asset repo-sitioning	Total	Share %
Munich	1,394	2,114	3,508	37.7	108,154	133,131	241,285	37.2
Cologne/Düsseldorf	795	600	1,395	15.0	64,450	58,262	122,712	18.9
Hamburg	292	547	839	9.0	21,386	33,781	55,167	8.5
Leipzig	0	970	970	10.4	0	63,730	63,730	9.8
Berlin	267	544	811	8.7	19,219	28,478	47,697	7.4
Frankfurt/Main	13	785	798	8.6	930	49,320	50,250	7.7
Hanover	12	385	397	4.3	605	27,047	27,652	4.3
Regensburg	32	352	384	4.1	2,108	24,367	26,475	4.1
Dresden	0	152	152	1.6	0	10,284	10,284	1.6
Friedrichshafen	21	30	51	0.5	1,216	2,171	3,387	0.5
Total	**2,826**	**6,479**	**9,305**	**100**	**218,068**	**430,571**	**648,639**	**100**

PATRIZIA project development makes significant contribution to earnings

In the 2010 fiscal year PATRIZIA completed and successfully sold three project developments: A total of 41 apartments in the new building projects “Am Schwalbeneck” (Augsburg) and “Casa Verde” (Herthastrasse, Munich) were sold individually while the mixed-use property “Isartor-Palais” (Zwingerstrasse, Munich) was sold en bloc to an institutional investor.

A further wholly-owned property is currently in the development phase. The new building project in Feuerbachstrasse 40 in Frankfurt’s Westend calls for six exclusive city villas with 54 apartments (marketed under the VERO product name), an apartment block with 64 apartments (marketed under the F40 product name) and an office building with seven full floors together with staggered floors. The plot was acquired back in 2007 for EUR 40 million. The demolition of the existing buildings began in the fourth quarter of 2010, with the start of structural work scheduled for the second quarter of 2011 and final completion in 2013. Part of this project development, the construction of six city villas and the apartment block, has earned the pre-certificate in gold, the highest distinction awarded by the German Sustainable Building Council (DGNB).

Approximately 10 % of PATRIZIA’s equity is available for project developments.

PATRIZIA’S OWN PROJECT DEVELOPMENTS

City, project	Site size	Planned gross floor area	Intended sales price	Construction start	Scheduled completion
Frankfurt/Main, Feuerbachstrasse	8,000 sqm	29,500 sqm	EUR 140 Mio.	Q4 2010	2013

As an external service provider, PATRIZIA is currently providing project development, management and controlling on behalf of a client for the Hanse Cube office complex in Hamburg, awarded the pre-certificate in silver by the German Sustainable Building Council, the work being commissioned by Wolfgang Egger or companies indirectly or directly attributable to him. Please see item 9.3 of the Notes to the Consolidated Financial Statements for more information.

Key events in the Services segment

New PATRIZIA Immobilien Kapitalanlagegesellschaft mbH funds

PATRIZIA Immobilien Kapitalanlagegesellschaft mbH, established in 2007, invests in residential real estate in Germany and Europe. At the end of 2010 it was managing five funds with a target volume totaling EUR 1.6 billion, of which EUR 664 million has already been invested. Two of the funds, PATRIZIA Urbanitas and PATRIZIA Domizil I, were re-established in the course of 2010 as individual funds for an institutional investor. The result of PATRIZIA Immobilien Kapitalanlagegesellschaft mbH is currently dominated by purchasing commissions. In 2010 real estate totaling EUR 174 million was acquired for the special funds, including the first property in Finland for the PATRIZIA EuroCity Residential Fund I.

FUNDS OF PATRIZIA IMMOBILIEN KAPITALANLAGEGESELLSCHAFT MBH AS OF DECEMBER 31, 2010

	Investment volume in EUR million	Committed equity in EUR million	Invested volume in EUR million
PATRIZIA German Residential Fund I	400	130	179
PATRIZIA EuroCity Residential Fund I	400	200 (fully subscribed)	128
VPV Immo PATRIZIA I (Transfer fund)	185	185	185
PATRIZIA Urbanitas	300	150	139
PATRIZIA Domizil I	300	150	33
Total	**1,585**	**815**	**664**

The individual PATRIZIA Group companies act as service providers for the investment company's special funds, thus generating fees. Conflicts of interest between purchases for the funds and proprietary purchases by PATRIZIA are prevented through different purchase criteria for the real estate and different purchase teams. The funds are established for a holding period of between seven and ten years and fulfill the role of portfolio management.

Acquisition of LB Immo Invest GmbH

PATRIZIA Immobilien AG signed the purchase agreement for the special fund provider LB Immo Invest GmbH on December 9, 2010. The vendor was HSH Real Estate AG, a subsidiary of HSH Nordbank AG. As a 94.9 % subsidiary of the PATRIZIA Group, LB Immo Invest will be fully included in the consolidated accounts as of January 2011. The strategic motivation for the acquisition was an increased demand for indirect real-estate investment coupled with the fact that we are expanding our field of competence to include commercial real estate with an international orientation. By expanding our fund business we will be able to generate higher regular income and reduce the influence of fluctuations in demand in real-estate trading.

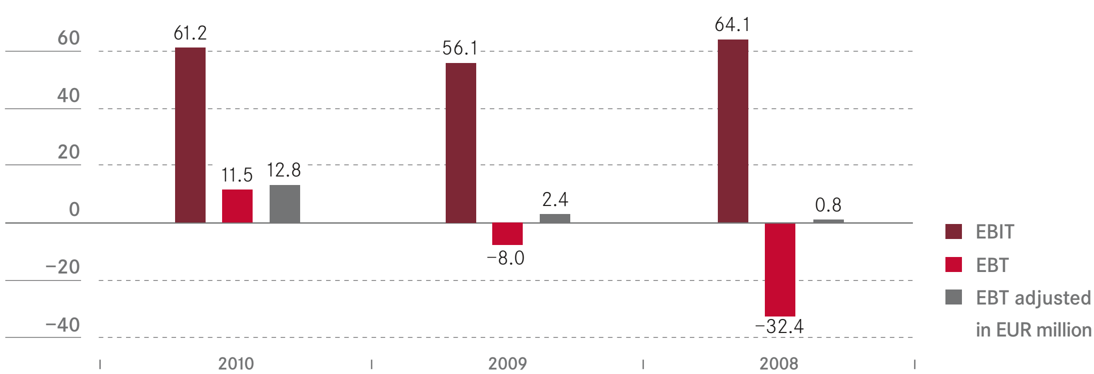
PATRoffice Real Estate GmbH & Co. KG

Our co-investment with pension funds APG of the Netherlands and ATP Real Estate of Denmark, PATRoffice Real Estate GmbH & Co. KG, is fully invested with a volume of EUR 355 million. Thus, in 2010 no other investments were made. However, a value-added property of the actively managed co-investment was successfully resold in January. A commercial property in Munich was sold at a multiple of the net actual rent of over 20. The internal rate of return (IRR) on the capital employed was 28 %. Both ratios clearly show the success of the portfolio that PATRIZIA Asset Management actively manages. PATRIZIA Immobilien AG owns 6.25 % of PATRoffice's equity.

2 Net Asset, Financial and Earnings Situation

2.1 Earnings Situation of the Group

DEVELOPMENT OF KEY EARNINGS INDICATORS



35 % increase in sales revenues

In 2010 PATRIZIA generated external sales of EUR 339.6 million (2009: EUR 250.9 million). This was principally due to greater sales of property. The largest share by far was generated by the Residential Property Resale business unit. An increase of 144 resale units, or 21.9 %, resulted in an increase in purchase price revenues of 30.3 %. In the case of global sales, only objects reported as inventories are stated in sales revenues. Project Development, which did not complete any object in the previous year, contributed 12.5 % to sales. The positive growth in sales activities more than compensated for the decline in rental income. Set against rental income, annual administrative costs of EUR 240–270 are incurred per apartment. The average monthly rent per square meter for the overall portfolio fell to EUR 7.67 as of December 31, 2010, as a result of regional factors (December 31, 2009: EUR 7.82 per sqm). It should be noted that 54.2 % of sales were effected in the Munich region, the location with the highest average rent in our portfolio.

A breakdown of consolidated sales revenues is shown below:

CONSOLIDATED REVENUES

	2010 EUR '000	Percentage of Group revenues 2010 in %	2009 EUR '000	Change %
Purchase price revenues from Residential Property Resale	128,930	38.0	98,981	30.3
Purchase price revenues from Asset Repositioning [1]	71,452	21.0	48,985	45.9
Purchase price revenues from Project Development	42,372	12.5	0	–
Rental revenues	63,805	18.8	70,132	−9.0
Revenues from the Services segment	9,962	2.9	10,492	−5.0
Others [2]	23,072	6.8	22,298	3.5
Total	**339,593**	**100**	**250,888**	**35.4**

[1] Purchase price receipts from investment property are not included in revenues.
[2] The Others item primarily includes rental ancillary costs.

The volume of sales has only a limited significance as an indicator for PATRIZIA since purchase price revenues from investment property are not reported in sales. The sale of 243 units from non-current assets resulted in purchase price receipts of EUR 43.9 million and in income amounting to EUR 1.2 million. A value adjustment to the properties in our portfolio of EUR 66.3 million was last made in 2007. In 2010 several adjustments were made totaling TEUR 325.

PURCHASE PRICE REVENUES

	2010 EUR '000	2009 EUR '000	Change %
Purchase price revenues from individual sales, block sales and project development included in sales revenues	242,754	147,966	64.1
Purchase price revenues from investment property	43,937	3,050	> 1,000
Total	286,691	151,016	89.8

Changes in inventories in the year under review were EUR –165.6 million, increasing significantly as a result of the rise in sales (2009: EUR –106.2 million, +56 %). Purchase price receipts from inventories of EUR 242.8 million contrast with decreases in the carrying value of EUR –199.2 million. Inventories increased as a result of capitalization totaling EUR 33.6 million. There was no increase to inventory through acquisitions.

Cost of materials 12 % higher than in previous year

Manufacturing costs for project developments resulted in a rise in the cost of materials compared to the previous year of 11.8 % to EUR 68.1 million (2009: EUR 60.9 million). Approximately EUR 14.4 million was invested in completed and ongoing projects of PATRIZIA Project Development. EUR 20.2 million was spent on renovation and reconstruction activities (2009: EUR 15.2 million), of which EUR 16.1 million could be capitalized. Renovation expenses for real estate reported under inventories can be capitalized on the balance sheet whereas expenses for objects reported as non-current assets are recognized directly in income. Current maintenance costs (which generally cannot be capitalized) accounted for EUR 6.9 million (2009: EUR 8.8 million). Assuming an average portfolio size of 742,400 sqm for 2010, annual costs for current maintenance amounted to EUR 9.26/sqm and renovation and reconstruction costs amounted to EUR 27.21/sqm. If the reconstruction work for the portfolios in Munich-Ludwigsfeld (construction dating back to the 1950s) and Leipzig is excluded, this value is just EUR 11.90/sqm. Moreover, cost of materials also includes operating costs.

Operational growth associated with extra headcount

In 2010 staff costs increased by 19.6 % to EUR 28.6 million (2009: EUR 23.9 million). This was caused in the first instance by new recruitment raising staff numbers from 349 employees at the end of 2009 to the current level of 370 (+6.0 %). Second, temporary staff were used as part of a project launched to migrate an IT system. Increasing residential property resales resulted in higher commissions being paid to our sales staff. These are paid on a performance-related basis to staff when the notarial deeds are signed. The provisions to cover the variable salary entitlements determined for managers were considerably higher than in the previous year. Staff costs also include the remuneration of the Managing Board, which consists of non-performance-related and performance-related components. The non-performance-related components comprise fixed basic compensation that is paid as a monthly salary, pension contributions and other agreed payments. Performance-related compensation components include one-time as well as annually payable components linked to the performance of the Company and its shares. The total remuneration of the Managing Board was EUR 2.1 million in the reporting year (2009: EUR 1.0 million). The variable components payed for 2010 amounted to EUR 0.8 million. The Managing Board received no variable remuneration in the previous year. The Supervisory Board's remuneration is reported under other operating expenses and also comprises fixed and variable components. Detailed information on the remuneration structure for the Managing Board and the Supervisory Board can be found in the Corporate Governance Report and in item 9.4 of the Notes to the Consolidated Financial Statements. Other operating expenses totaled EUR 21.4 million. Costs resulted from increased selling and other expenses. These include e.g. marketing expenses, the assumption of purchase price ancillary costs for tenants, value adjustments to receivables and costs that were incurred in connection with the acquisition of LB Immo Invest.

OTHER OPERATING EXPENSES

	2010 EUR '000	2009 EUR '000	Change %
Administrative expenses	9,716	9,138	6.3
Selling expenses	5,271	4,263	23.6
Other expenses	6,390	4,152	53.9
Total	**21,376**	**17,553**	**21.8**

Financial result significantly improved

The financial result improved from EUR –64.1 million to EUR –49.8 million and is significantly influenced by the market valuation of interest rate hedges as of the closing date. The market valuation is recognized in the financial result as income or expense depending on changes in the interest rate level, causing the results to fluctuate substantially. The valuation is recognized in the income statement when the underlying interest rate hedging transactions have a longer term than the loan agreements they are used to hedge or when the hedged volume is larger than the underlying loan. In 2010 the valuation, which had no effect on liquidity, amounted to EUR –1.6 million after incurring an expense of EUR –10.4 million in the previous year, with corresponding negative effects on the IFRS result. Financial income (EUR 11.5 million) increased as a result of the market valuation of the interest hedging instruments by EUR 10.5 million (2009: EUR 5.8 million), while financial expenses amounting to EUR 61.3 million included EUR 12.2 million that resulted from the effect of the valuation (2009: EUR 16.2 million). Excluding these valuations, the adjusted financial result also improved by EUR 5.6 million from –53.7 million to EUR –48.1 million. Pure interest expenses for bank loans plus expenses from interest hedges fell by EUR 11.0 million. In 2010, the costs of financing (including margin and processing fee) amounted to 4.99 % of the average bank loans over the year. The hedged interest rate as of December 2010 was 4.08 %.

With regard to servicing loans, it is important that rental income from financed property exceeds the cash financing result – i.e. the financing result adjusted by income and expenses from the interest rate hedges valuation – of EUR –48.1 million by 32.6 % (2009: EUR 53.6 million, corresponding to an excess balance of 30.6 %). This is significant for us since defined interest service coverage ratios and debt service coverage ratios (ISCR, DSCR) are covenants in our loan agreements.

Earnings situation firmer

PATRIZIA's earnings situation showed a significant recovery in 2010. Earnings before interest and tax (EBIT) calculated in accordance with IFRS were EUR 61.2 million, 9.1 % above the value for the previous year. The improvement was largely due to successful sales.

After deduction of the financial result, earnings before tax (EBT) according to IFRS are EUR 11.5 million, following –8.0 million in the previous year. This shows not just that our profitability has improved but also that the Group's financing costs are decreasing.

Adjusted earnings before taxes

The reconciliation of EBT in accordance with IFRS to EBT adjusted is effected via an adjustment to market valuation results. This means that only cash-related financial income or expenses are included for the financial result and changes in value in investment property are eliminated. EBT adjusted thus reflects PATRIZIA's operating result.

Since the level of interest rate changed over the year, the market valuation fluctuated considerably from quarter to quarter and resulted in volatile IFRS quarterly results while the operating result showed steady growth. With an EBT adjusted of EUR 12.8 million we met the raised forecast made in November of between EUR 12 million and EUR 13 million (previously EUR 10 million). In the process, the operating result also improved from quarter to quarter, as in the previous year.

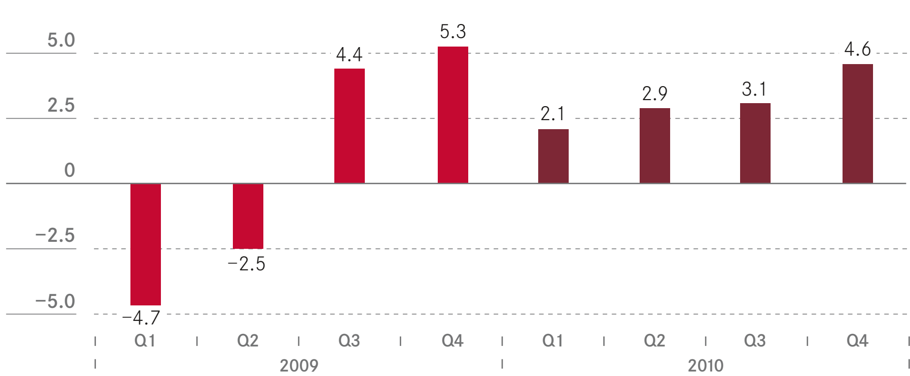
CALCULATION OF EBT ADJUSTED 2010

	1st quarter EUR '000	2nd quarter EUR '000	3rd quarter EUR '000	4th quarter EUR '000	2010 EUR '000
EBT posted in accordance with IFRS	−5,060	−492	6,690	10,350	11,488
Elimination of effects from the market valuation of interest rate hedges	7,196	3,402	−3,569	−5,404	1,626
Elimination of changes in value of investment property	0	0	0	−325	−325
EBT adjusted	**2,136**	**2,910**	**3,122**	**4,621**	**12,789**

CALCULATION OF EBT ADJUSTED 2009

	1st quarter EUR '000	2nd quarter EUR '000	3rd quarter EUR '000	4th quarter EUR '000	2009 EUR '000
EBT posted in accordance with IFRS	−16,028	485	89	7,493	−7,961
Elimination of effects from the market valuation of interest rate hedges	11,317	−2,976	4,266	−2,226	10,381
EBT adjusted	**−4,711**	**−2,492**	**4,356**	**5,267**	**2,420**

EBT ADJUSTED BY QUARTER (IN EUR MILLION)



Tax burden resulting from interest barrier

It should noted with regard to income taxes that our companies located in Luxembourg are affected by the so-called interest barrier. This resulted in tax expenses of EUR 1.9 million (2009: EUR 1.7 million).

Positive result for 2010 even in accordance with IFRS

In the past year PATRIZIA achieved a net profit in accordance with IFRS after two years of losses. Net profit amounted to EUR 6.2 million (2009: EUR −9.5 million). In this respect we would like to emphasize that we generated operating profits in 2009 and 2008, too, as can be seen from the EBT adjusted figures for the previous years. Earnings per share improved in the reporting year from EUR −0.18 to EUR 0.12.

OVERVIEW OF KEY ITEMS IN THE CONSOLIDATED INCOME STATEMENT

	2010 EUR '000	2009 EUR '000	Change %
Revenues	339,593	250,888	35.4
Total operating performance	179,856	159,253	12.9
EBIT	61,244	56,110	9.1
EBIT adjusted [1]	60,919	56,110	8.6
EBT	11,488	−7,961	244.3
EBT adjusted [1]	12,789	2,419	428.7
Consolidated net profit / loss	6,201	−9,500	165.3

[1] Adjusted for profit / loss of non-cash market valuations

2.2 Net Asset and Financial Situation of the Group

At December 31, 2010, PATRIZIA reported total assets of EUR 1,214.5 million (December 31, 2009: EUR 1,426.4 million). The structure in the consolidated balance sheet improved significantly over the course of the year:

Balance sheet structure

Our real estate investments consist of investment properties and inventories and as of December 31, 2010, were reported at EUR 1,125 million (December 31, 2009: EUR 1,333.3 million). Investment property is recognized at fair value in profit or loss in accordance with IAS 40, which resulted in a net write-up of TEUR 325. As could be seen, properties sold in 2010 that were reported under investment property were sold at a profit, thus confirming the value retention of the properties. Sales caused a decline to EUR 614.9 million at the end of the year (December 31, 2009: EUR 657.3 million). The real estate intended for sale as part of ordinary business operations is reported in the inventories (EUR 510.4 million) and measured at amortized cost (December 31, 2009: EUR 676.0 million). This item also includes our project developments, which have a carrying value of EUR 53.9 million.

The sale of real estate is always associated with a reduction in bank liabilities. Over the course of the year liabilities with banks decreased by EUR 228.8 million to EUR 841.4 million. We were able to exceed the target updated in November of EUR 870 million as a result of the successful sales. It should be added that, regardless of the actual terms, loans which serve to finance inventories are reported as short-term bank loans in the balance sheet – matching the inventories – in accordance with IFRS. A detailed schedule of maturities by fiscal year is listed in the Notes to the Consolidated Financial Statements under item 5.2. We have entered into interest rate hedges for 66.2 % of our bank liabilities, which expire as of July 31, 2014 at the latest. The remaining third are based on the 1- or 3-month Euribor.

The equity ratio climbed in the past fiscal year from 20.0 % to 24.3 %, meaning that we have almost achieved our target of 25.0 %.

PATRIZIA NET ASSET AND FINANCIAL KEY FIGURES

	12/31/2010 EUR '000	12/31/2009 EUR '000	Change %
Total assets	1,214,548	1,426,423	–14.9
Equity (including non-controlling partners)	294,732	284,824	3.5
Equity ratio	24.3 %	20.0 %	4.3 % points
Bank loans	841,380	1,070,207	–21.4
Cash and cash equivalents	70,537	56,183	25.5
Real estate assets [1]	1,125,383	1,333,328	–15.6
Loan to value [2]	74.8 %	80.3 %	–5.5 % points

[1] Real estate assets comprise investment property valued at fair value and real estate held in inventories valued at amortized cost
[2] Proportion of the volume of loans to real estate assets. Only investment property is calculated at fair value. Inventories are stated at amortized cost.

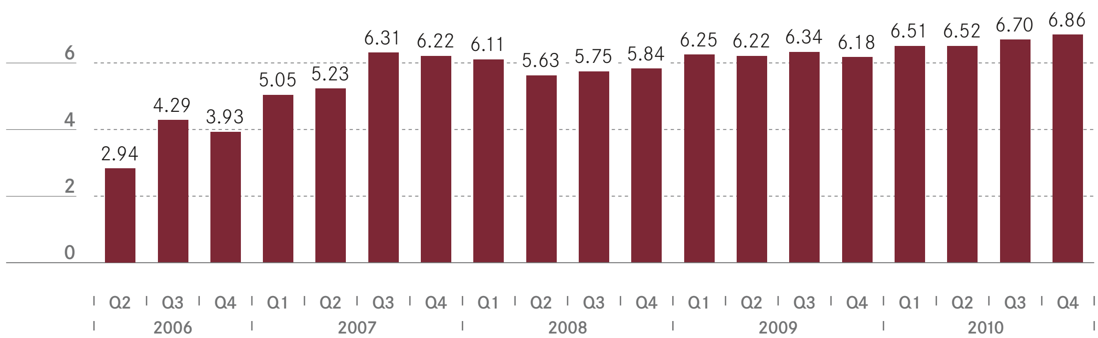
Net Asset Value

Net asset value (NAV) represents the actual value of the real estate less net financial liabilities. PATRIZIA did not calculate and publish this figure in the past since, first, our real estate is valued in part at fair value and in part at amortized cost and, second, our complete range of services is not included in the valuation. However, since NAV is required by many participants in the real estate sector and published by many other – mostly property management – companies, we have adopted this approach and will now state NAV in the following manner at the end of each quarter:

CALCULATION OF NAV

	12/31/2009 EUR '000	03/31/2010 EUR '000	06/30/2010 EUR '000	09/30/2010 EUR '000	12/31/2010 EUR '000
Investment property	657,320	657,320	652,560	639,000	614,945
Participations (PATRoffice)	3,090	3,090	3,090	3,090	3,090
Inventories	676,008	655,253	598,170	575,047	510,438
Bank balances and cash	56,183	53,530	58,801	64,124	70,537
Less bank loans	–1,070,207	–1,029,949	–972,830	–931,912	–841,380
NAV	**322,407**	**339,244**	**339,791**	**349,349**	**357,630**
No. of shares	52,130,000	52,130,000	52,130,000	52,130,000	52,130,000
NAV/share (EUR)	**6.18**	**6.51**	**6.52**	**6.70**	**6.86**

DEVELOPMENT OF NAV PER SHARE SINCE PATRIZIA'S IPO AT THE END OF EACH QUARTER (IN EUR)



Liquidity analysis

Central responsibility for the financing of the PATRIZIA Group is borne by PATRIZIA Immobilien AG. As of December 31, 2010, there were loan agreements with seven different German banks, concluded exclusively in euros. In accordance with the loan agreements and our business model, we reduce loans during the project depending on the status of sales. When selling real estate or individual units, between 88–93 % of the sales proceeds flow into repayment. Interest rate change risks are largely hedged using interest swaps and collars. Detailed explanations in this respect can be found under items 4.4 and 5.8 of the Notes to the Consolidated Financial Statements. The main credit terms are presented in the Risk Report.

Liquidity management ensures that PATRIZIA is solvent at all times. Most of the individual Group companies are directly linked to and monitored by the Group's automatic cash pooling system. Account surpluses are transferred to the parent company and account deficits are offset by it on a same-day basis. Payment receipts from operating companies represent the most important source of liquidity within the Group and ensure that financing requirements are met as well as bank loans. A liquidity reserve is maintained in the form of cash to ensure the Group's solvency.

In the reporting year, there were cash inflows from current business activities of EUR 205.8 million (2009: EUR 101.8 million). As a result of the extensive sale of investment property, cash inflows from investing activities of EUR 40.5 million were significantly above the level of the previous year (2009: cash outflow of EUR 0.2 million). On the other hand, the higher volume of transactions caused higher cash outflows from financing activities since more loans could be repaid than had to be taken out. The change in cash thus amounted to EUR 14.4 million (2009: EUR –11.7 million) and increased cash and cash equivalents from EUR 56.2 million at the end of 2009 to EUR 70.5 million as of December 31, 2010.

SUMMARY OF THE 2010 CASH FLOW STATEMENT

	2010 EUR '000	2009 EUR '000	Change %
Cash inflow from operating activities	205,795	101,805	102.1
Cash inflow (2009: outflow) from investing activities	40,523	–171	>1,000
Cash outflow from financing activities	–231,964	–113,356	–104.6
Changes in cash	14,354	–11,722	222.5
Cash and cash equivalents Jan. 1	56,183	67,905	–17.3
Cash and cash equivalents Dec. 31	70,537	56,183	25.5

2.3 Non-relevant Subareas

The PATRIZIA Immobilien AG Group Management Report does not contain any information on certain subareas as these are not relevant for the Company. This includes statements on research and development since this is not performed within the Group. We have included statements on comparable activities, such as our research. Procurement and production in the conventional sense do not apply to PATRIZIA's operating activities as an investor and service provider, either. Real estate intended for resale in the short term is reported under inventories. Purchasing due diligence ("procurement") and the implementation of value-enhancing measures ("production") take place on an individual basis according to the property concerned, as this is the only way we can offer tailored solutions.

2.4 Notes on the Annual Financial Statements prepared under HGB for PATRIZIA Immobilien AG (Holding)

The position of the parent company PATRIZIA Immobilien AG is essentially determined by the activities of the operating companies of the Group. As a purely holding and service company for these companies, PATRIZIA Immobilien AG generated revenues of EUR 5.6 million (2009: EUR 6.4 million), mostly from management cost allocations to the subsidiaries. This allocation was increased in the 2009 fiscal year. In addition, the accounting department of PATRIZIA Immobilienmanagement GmbH was transferred to the holding company in the reporting year. For this the subsidiary paid a higher contribution via internal allocation to the parent company, which has to bear correspondingly higher staff expenses. However, total revenues sank in 2010 since the additional receipts listed could not offset the lower commission income for services performed by the subsidiaries. Commission income is invoiced by the parent company and results in corresponding administrative expenses. In the 2010 fiscal year, the parent company reported lower purchasing and sales commissions generated in connection with the purchase or establishment of special funds of PATRIZIA Immobilien Kapitalanlagegesellschaft mbH. Staff costs increased by 54.1 % to EUR 9.4 million (2009: EUR 6.1 million) since the number of employees rose from 73 to 117, or from 88 to 132 when trainees are included. This was caused by the above-mentioned transfer of the accounting department of PATRIZIA Immobilienmanagement GmbH to the holding company and by the unit "Institutional Customers", which was newly established to strengthen sales activities. Furthermore, the Managing Board were granted variable compensation in 2010 which had been dropped the previous year. Other operating expenses increased by a similar extent from EUR 4.5 million to EUR 6.9 million (+53.3 %). Lower administrative expenses are offset by considerably higher selling and other costs. The improved net interest income is in part the result of the interest expenses in the previous year for backpayment of taxes after completion of a tax audit. The parent company's profit/loss consists of the operating profit/loss of the Company itself and profits and losses of the subsidiaries with which profit and loss transfer agreements exist. The overall very good operational performance resulted in income from profit and loss transfers increasing by many times over to EUR 13.7 million (2009: EUR –2.3 million). PATRIZIA Immobilien AG's net profit under HGB for the 2010 fiscal year of EUR 9.0 million (2009: net loss of EUR –2.8 million) combined with the profits carried forward of EUR 28.3 million represents the Company's distributable profit. Unappropriated profit amounted to EUR 37.4 million, an increase of 32 % over the previous year (EUR 28.3 million).

SUMMARY OF THE PATRIZIA IMMOBILIEN AG BALANCE SHEET

	12/31/2010 EUR '000	12/31/2009 EUR '000
Non-current assets	154,337	151,837
Current assets	177,206	158,090
Prepaid expenses	149	87
Total assets	**331,693**	**310,014**
Equity	312,365	303,330
Provisions	3,327	2,194
Liabilities	16,001	4,490
Total equity and liabilities	**331,693**	**310,014**

SUMMARY OF THE PATRIZIA IMMOBILIEN AG INCOME STATEMENT

	2010 EUR '000	2009 EUR '000
Revenues	5,610	6,392
Other capitalized services and other operating income	672	238
Cost of materials	–855	–2,435
Staff costs	–9,446	–6,088
Depreciation, amortization, write-downs and other operating expenses	–7,699	–5,234
Profit / loss from profit transfers and loss absorption	13,658	–2,275
Net interest income	6,950	6,370
Result from ordinary activities	**8,890**	**–3,031**
Taxes	145	259
Net profit / loss	**9,035**	**–2,772**
Profit carried forward	28,292	31,064
Unappropriated profit	**37,327**	**28,292**

Disclosures in accordance with Article 289 (4) and Article 315 (4) HGB (German Commercial Code)

Composition of subscribed capital

The Company's subscribed capital (share capital) of EUR 52,130,000 is divided into 52,130,000 no-par value registered shares each representing a notional portion of the share capital of EUR 1.00. All shares are of the same class. The same rights and obligations are associated with all shares. Each share confers the right to one vote. All shares are admitted for trading on the official market of the Prime Standard of the Frankfurt Stock Exchange.

Restrictions relating to voting rights and transfer of shares

The shareholders in the Company are not restricted with regard to the acquisition or disposal of shares by legislation or by the Company's Articles of Association. The Managing Board is unaware of any contractual restrictions relating to voting rights or to the transfer of shares.

Direct or indirect share of voting rights of more than 10 %

As of December 31, 2010, Wolfgang Egger, CEO of PATRIZIA Immobilien AG, held a total stake of 49.97 % indirectly and directly in the Company via First Capital Partner GmbH, in which he directly and indirectly holds a 100 % stake via WE Vermögensverwaltung GmbH & Co. KG.

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

System of control of voting rights when employees have a stake in the capital and do not exercise their rights of control directly
Employees who have a stake in the capital of PATRIZIA Immobilien AG exercise control rights like any other shareholder in accordance with legal provisions and the Articles of Association.

The appointment and dismissal of members of the Managing Board, changes to the Articles of Association
The provisions governing the appointment and dismissal of members of the Managing Board are contained in Article 84 f. of the Aktiengesetz (AktG – German Stock Corporation Act) and in Article 16 of the Company's Articles of Association. Changes to the Articles of Association take place in accordance with Article 179 ff. of the AktG in combination with Articles 16 and 21 of the Articles of Association of PATRIZIA Immobilien AG.

Powers of the Managing Board to issue and buy back shares
By resolution of the Annual General Meeting of June 23, 2010, the Managing Board is entitled to acquire shares in the Company with a volume of up to 10 % of the share capital until June 23, 2015. The entitlement may be exercised by the Company in full or for partial amounts, on one or more occasions and in pursuit of one or more purposes, but also by its subsidiaries for its own account or for the account of the latter by third parties. Acquisition can be effected at the discretion of the Managing Board via the stock exchange, by means of a public bid made to the shareholders, through the use of derivative instruments or through an individually negotiated repurchase. The acquired shares may subsequently be used for all legally permissible purposes; in particular they may be canceled, sold in exchange for a contribution in kind or to shareholders or used to meet subscription or conversion rights.

Furthermore, the Managing Board was authorized by resolution of the Annual General Meeting on June 13, 2007 to increase the share capital on one or more occasions with the consent of the Supervisory Board by up to a total of EUR 26,065,000 in exchange for cash contributions and/or contributions in kind by issuing new, registered no-par value shares (authorized capital) by June 12, 2012. The Managing Board is authorized, with the consent of the Supervisory Board, to exclude shareholders' subscription rights in certain cases. The complete authorization results from Article 4 (3) of the Articles of Association. In addition, the Managing Board is authorized on one or more occasions, with the approval of the Supervisory Board to grant until June 12, 2012, in accordance with strict conditions of the bonds, convertible bonds, and/or bonds with warrant, made out to the bearer or registered and/or participatory rights with or without conversion privileges or option right or conversion obligation (referred to together in the following as the 'bonds') in the aggregate principal amount of up to EUR 750,000,000 with a term of up to 20 years and to grant the bearer or the creditor of bonds, conversion privileges or option rights to new, registered no-par value registered shares of the Company with a pro rata amount of the share capital of up to EUR 26,065,000. At the same time, the Company's share capital was contingently increased by resolution of the Annual General Meeting by up to EUR 26,065,000 by the issue of 26,065,000 new registered no-par value shares. The details relating to the contingent capital increase result from Article 4 (4) of the Articles of Association.

Significant agreements by the Company contingent upon a change in control subsequent to a takeover bid
No agreements contingent upon a change in control subsequent to a takeover bid exist.

Compensation agreements by the Company with the members of the Managing Board or employees for the event of a takeover bid
No compensation agreements with the members of the Managing Board or employees for the event of a takeover bid exist.

2.5 Declaration on Corporate Governance – Disclosures in accordance with Article 289a HGB (German Commercial Code)

The Managing Board of PATRIZIA Immobilien AG issued a declaration on January 26, 2011, concerning corporate governance in accordance with Article 289a HGB (German Commercial Code) and has made this available to the public on the Company's website at
www.patrizia.ag/en/investor_relations/corporate_governance/declaration_on_corporate_management.html.

2.6 Transactions with related Companies and Individuals

The Managing Board submitted a dependent company report to the Supervisory Board, to which it adds the following final statement:

"As the Managing Board of the Company, we hereby declare that to the best of our knowledge at the time when the legal transactions listed in the report on relationships with affiliated companies were carried out and when measures were taken, the Company received appropriate consideration and was not disadvantaged as a result of any action taken."

Detailed information on business relationships with related companies and persons can be found in the Notes to the Consolidated Financial Statements under item 9.3.

3 Our Responsibility

3.1 Sustainability

PATRIZIA Immobilien AG supports various organizations in the real estate industry that are committed to sustainability and environmentally conscious actions. PATRIZIA Projektentwicklung GmbH, for example, is a member of the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen e. V. – DGNB) and is involved in a working group that is developing a certificate for new housing construction. As an approved DGNB auditor, a project manager from PATRIZIA Projektentwicklung assists in the planning of PATRIZIA's own new construction. We participate in various working groups to make a contribution to the subject of sustainability in the real estate sector through our membership in other associations of national and international property companies, for example in defining reporting standards for residential property.

We rate the environmental expertise of the German construction industry as high on an international scale. For PATRIZIA, the careful use of resources plays a central role in construction measures, particularly with regard to new project development. In the 2010 fiscal year, the new construction project in Feuerbachstrasse, Frankfurt/Main, involving the building of six VERO town villas and the F40 housing block, was awarded the DGNB pre-certificate in gold, the highest distinction awarded by DGNB.

We optimize the energy standards of our existing real estate by employing modern, efficient technologies and also make a lasting contribution to protecting the environment and climate by extending the life cycle of the buildings. The construction measures undertaken to enhance the value of our buildings include the installation of new windows and heating systems and heat insulation to facades, ceilings and roofs. In addition, our tenants and buyers also benefit from lower ancillary costs. Besides the ecological aspects, we also think that the economic efficiency of the measures should not be disregarded. To evaluate which measures are sensible in terms of energy savings, PATRIZIA examines the entire value creation process and life cycle of the property, e.g. the energy consumption tied to construction and the energy requirements for the use of the building are taken into equal consideration.

PATRIZIA Immobilienmanagement GmbH also conducts surveys among our tenants on a regular basis in order to involve them in the optimization process. The ideas and suggestions that we gain from this process are included in the property management process, contributing to a long-term tenant relationship and low tenant fluctuation rates. The tenant portal on PATRIZIA's website also provides comprehensive services to the tenants directly. They can find information, tips and important online services. If, for example, a tenant's bank details change or if a tenant discovers a fault in an apartment, he/she can send a message at any time from the comfort of his/her home using the appropriate online form. This not only saves time for both parties, but costs as well. In 2010, PATRIZIA Immobilienmanagement was able to achieve better conditions for heat metering services and media provision for its tenants when renegotiating framework agreements. We help raise tenant awareness of sustainability with an information program and practical tips on saving energy at home, along with ideas for conserving energy elsewhere, such as in the workplace.

Sustainability is not just limited to PATRIZIA's core business: For over twelve years, PATRIZIA has systematically engaged in social projects via the KinderHaus Foundation. The projects' principal focus is always on creating appropriate living conditions for children and young people in need by providing new buildings tailored to their exact particular requirements. Five PATRIZIA KinderHaus facilities have been built since its inception. The first was an isolation ward for children in Peramiho, Tanzania, in 2002. This was followed by an aftercare center for families with very sick and chronically ill children in Munich in 2006. In 2008, the Foundation completed a school hostel with adjoining dining room in Ruanda and a further aftercare center in Hamburg. An elementary school was completed in Uganda in 2010, and the PATRIZIA KinderHaus Foundation is currently working on the construction of an elementary school in the mountains of Nepal.

3.2 Employees

As of December 31, 2010 the PATRIZIA Group had 370 permanent employees (2009: 349 employees) including 16 trainees and students of Duale Hochschule Stuttgart majoring in real estate in addition to 43 part-time employees. After a reduction in the number of employees in 2009, headcount increased once more over the course of the year by 21, or 6 %. On average during 2010, PATRIZIA employed 364 staff throughout the Group (2009: 357 employees), including 15 trainees and 42 part-time employees. We only train for our own requirements since we wish to take on all trainees after they pass their exams.

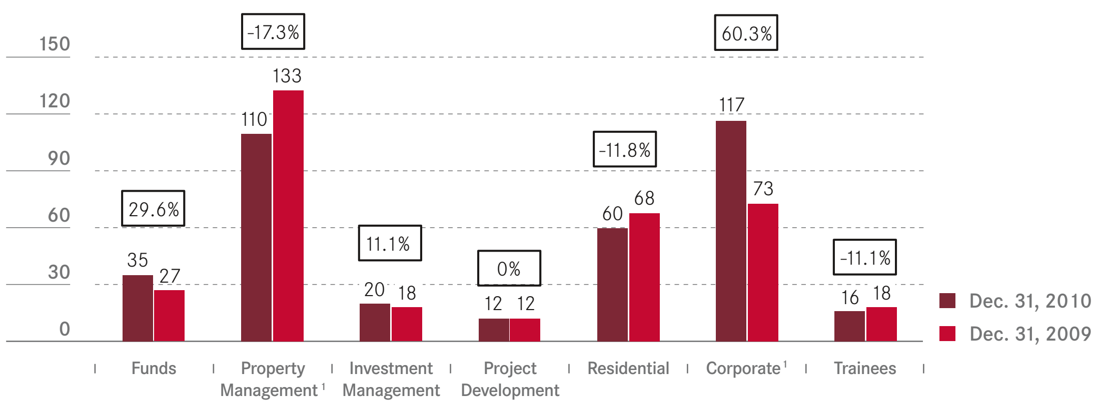
As of January 1, 2010, all accounting functions within the Group were bundled at corporate level. As a result, 30 employees transferred within the Group from PATRIZIA Immobilienmanagement GmbH to PATRIZIA Immobilien AG. Furthermore, the business unit "Institutional Customers" was established within the Group in order to strengthen our sales activities. Our asset management company also created new positions as a result of establishing new funds to meet the increased volume of business.

The proportion of male to female full-time employees is 43:57 while the proportion of male to female part-time employees is 7:93. With a proportion of 61 %, the majority of employees in the PATRIZIA Group are female.

As a real-estate agent and investment company, our employees are PATRIZIA's principal success factor. The average period of employment of PATRIZIA employees including trainees is far in excess of three years despite the many new staff taken on in the reporting year and the years before. We attach great importance to recruiting new managers from within our own ranks wherever possible. Despite growth and eight locations around Germany, we filled one-third of vacant management positions with our own staff in 2010. Training opportunities are available to every employee and take account of personal development goals as well as the requirements of the business. Approximately TEUR 250 was spent on training in the year under review.

In 2010 we began to investigate the attractiveness of the Company as an employer by means of what will become an annual staff survey and to further enhance the attractiveness together with our employees. The participation rate of 91 % is a clear indication of our employees' interest in and commitment to actively participating in the process and thus their identification with the Company. Results of the subsequent intensive analysis of the findings in various workshops are, for example, the development and implementation of a PATRIZIA mission statement for managers and staff, further support for the flow of information within the company and the launch of a group-wide work-life balance program encompassing the categories of "communication", "advancement", "health management" and "family-friendly company".

CHANGES IN STAFF NUMBERS BY BUSINESS LINE



[1] As a result of centralizing accounting functions, the staff affected at PATRIZIA Immobilienmanagement GmbH have been employed at PATRIZIA Immobilien AG since January 1, 2010.

4 Opportunity and Risk Report

4.1 Opportunity and Risk Management

Risk policy principles

PATRIZIA's risk policy principles are oriented towards safeguarding the continued existence and sustainable growth of the Group. To ensure that these objectives are attained, we have implemented a unified risk management system throughout the Company that is defined and monitored by the Managing Board. A systematic risk management process ensures that risks are identified, recorded, assessed, controlled and monitored at an early stage. Opportunities are also analyzed at the same time in order to identify and utilize their associated potential for success. PATRIZIA's business model and strategy coupled with the Group's business, financial and social objectives determine how opportunities and risks are dealt with.

Without a willingness to take risks, we would pass up potential opportunities as well. A balanced relationship between opportunities and risks is essential in this respect. Our method is to enter into appropriate risks if there is a strong likelihood of realizing the associated sustained value enhancement potential for PATRIZIA. We do not enter into risks with which we do not expect sustained value enhancement or which appear unlikely to result in value enhancement. Transactions of a speculative nature are strictly prohibited. If risks are unavoidable or arise unforeseeably, we hedge them via risk instruments and appropriate countermeasures.

Risk management organization

The task of group-wide risk management and its representation for all affiliated entities is assigned to PATRIZIA Immobilien AG as the holding company. A risk management working group, which is organizationally assigned to the Controlling and Legal departments, is responsible for implementing the risk management processes introduced throughout the Company and reports directly to the Managing Board on a regular basis. It designs the identification process, monitors compliance with the processes and allocates responsibilities for the individual risks. Risks can also take the form of missed or insufficiently exploited opportunities. The direct responsibility for early detection of risks and for reporting these to the next level of management is assigned to the operating supervisors and managing directors of the relevant companies. At Managing Board level, responsibility for risk management falls within the remit of the Chief Financial Officer of PATRIZIA Immobilien AG.

In addition, PATRIZIA Immobilien Kapitalanlagegesellschaft mbH maintains a separate risk management system ensure that legal supervisory requirements are met. It is specially designed to deal with risks associated with the special managed real estate funds .

Risk management process

Both the efficiency and effectiveness of the risk management system are assessed twice a year by means of an internal risk audit as well as through regular monitoring of compliance with the risk management processes. This involves asking the managers from the various operating business segments about possible individual risks. This allows new risks to be identified and existing ones to be monitored, quantified and assessed with regard to the probability of their occurrence. Measures are determined for reducing each risk and managers are assigned responsibility for implementing them. The results appear in a risk report which presents the organizational measures and regulations regarding risk recognition, quantification, communication, control and supervision. At the same time, the comprehensive documentation of this report ensures an orderly assessment which can be conducted both externally by the auditor and internally by the responsible departments as well as by the Supervisory Board. In addition to the Managing Board, the directors of the operating companies are also informed of the risk inventory's results.

All employees of PATRIZIA Immobilien AG and its subsidiaries are required to take account of all possible risks that might be involved in their actions. They are instructed to report all risks to risk management. Risks are quantified according to their probability of occurrence of between 0 % and 100 % and the magnitude of potential damage. Overall risk is calculated and updated over a specific period of time by linking the various parameters. We are able to adjust and improve internal structures and processes by continuously analyzing risks and regularly monitoring the effectiveness of our risk management system.

4.2 Risk-related Developments

The occurrence of the individual risks described below can, individually or in conjunction with other situations, impair the operating activities of PATRIZIA and negatively impact the net asset, financial and earnings situation of the Company and the Group. The risks listed may not be the only risks to which PATRIZIA is exposed. Other risks that are not currently known or risks that we regard as immaterial at present could also impair our business activities.

Market and industry risks

MACROECONOMIC DEVELOPMENT

Although PATRIZIA only operates within the German real estate market in respect of its own investments, European and/or global economic developments can affect the Company's performance. The effects of the debt crisis in countries on the periphery of the EU are likely to represent a potential risk for the real economy in Germany. The effects spread to the other eurozone countries could result in less positive economic growth. On the other hand, continuing expansionary monetary policy with its low interest rates could lead to a significant jump in global demand with correspondingly positive effects for strongly export-oriented countries like Germany. With such a development, long-term mortgage rates are also likely to remain at an historically low level. This provides PATRIZIA with an opportunity to increase the sale of residential properties. Positive effects could also be expected if the banks were to increase their lending. The emerging inflationary tendencies could also raise demand for assets with stable value such as residential real estate.

PRICE CHANGES IN THE GERMAN RESIDENTIAL REAL ESTATE MARKET

In contrast to other European countries, residential real estate prices in Germany have remained relatively stable in recent years. There was no bubble effect as seen in many other European countries. This, together with a heightened concern for security on the part of many private and institutional investors, has caused steadily increasing competition in the investment market for residential real estate. If competition continued to grow it would hamper PATRIZIA's investment in Germany and possibly result in lower margins due to relatively higher purchase prices. This could also lead to a loss of market share for PATRIZIA. We consider market entry barriers for new domestic and international demand to be low, as the activities of a wide variety of international investors have shown in the last few years. As far as own investments are concerned, new acquisition would become more difficult while sales would benefit from price increases. Our asset management company would be exposed to the risk of only being able to find less suitable properties in terms of return on investment.

A fall in real estate prices could negatively impact PATRIZIA's operating activities and impair its ability to generate the margins it realized in the past. Assumptions made upon the purchase of real estate could prove inaccurate and could delay or hinder the resale of the real estate or individual residential units. We constantly analyze price levels and integrate these into our planning. We limit the risk of declining prices by purchasing only high-quality properties in economically appealing locations with significant population influx and good prospects for the future. We can practically rule out the risk of falling prices and rents in our portfolio's locations.

COMPETITIVE SITUATION

In view of the anticipated high demand for indirect residential real estate investments, it is likely that further new funds focusing on German and European residential real estate will be launched in the near future. This could make it more difficult to make purchases for our own fund products and also to win new investors. We expect increased competition in the service sector relating to real estate for asset and property management services. The emergence of new providers could lower the prices for such services, or existing customers could be lost to competitors. We do not consider it probable that foreign service providers will expand into the German market in the current market climate. To strengthen its own competitive position, PATRIZIA Immobilienmanagement GmbH obtained certification according to ISO 9001:2000 in 2007. We do not expect any new competitors in the area of residential property resale. We regard the complexity and regulations that must be observed in residential property resale as a barrier to entry into the market. Competitive risks could have a negative impact on the earnings position of both the Investment and Services segments.

REGULATORY AND LEGAL PROCEEDINGS

In the context of our operating activities, PATRIZIA could become involved in legal disputes, particularly with tenants or with regard to project developments. At present, there are no major legal disputes and/or claims for compensation. We consider the potential impact of a legal dispute on PATRIZIA's financial position to be minor, irrespective of whether such disputes were to arise on an individual or cumulative basis. Amendments to laws and regulatory requirements such as tenancy or tax law or construction permit procedures could negatively impact our business development in the future.

Business risks

PROPERTY RISKS

Although as a real estate trading company PATRIZIA usually only holds properties in its portfolio for a short time, it is important for us to optimize the structural condition of the properties in our portfolios. We invest in maintenance and modernization on an ongoing basis to enhance rentability and saleability. The optimization measures we carry out while holding the real estate increase its attractiveness and consequently also purchase prices. Inadequate maintenance and renovations, delays in construction, failure to meet deadlines or cost overruns could burden the Group's earnings position. Furthermore, risks exist due to conditions upon which PATRIZIA has no influence, such as damage to buildings caused by bad weather or technical failure.

REAL ESTATE SALES

PATRIZIA is a real estate agent. Due to the timely placement of our properties on the market, we are exposed to marketing risks. We consider it improbable that the market attractiveness of our properties could decline. Nevertheless, events and conditions could make acquisition of a property appear unattractive regardless of the product. A decline in interest in buying for both individual and block sales could result in the calculated sales prices not being obtained and planning targets not being met. Additional risks could arise from warranties assured in purchase agreements.

CHARACTERISTICS OF LARGE-SCALE PROJECTS

Global sales of residential units of various sizes are part of a marketing strategy which is embedded in PATRIZIA's business model. If a global sale does not succeed or is delayed, this can have an impact on the Group's financial and earnings situation. As the real estate is retained for future transactions, the potential level of damage can be classified as low over the long term, although there may be negative budget variances in the short term. Our large-scale projects also include our project developments, each of which is subject to its own stringent time schedule. Delays in drawing up and accepting construction projects can also impact the financial and earnings situation.

CUSTOMERS AND BUSINESS PARTNERS

Partner risks are those arising from business relationships with customers and suppliers. In order to diversify risks, we maintain a wide base of clients and suppliers and attach great importance to credit standing and reliability. Even so, non-adherence to supplier deadlines and/or inadequate quality of supplier services, for example, pose risks that could make it more difficult, for example, to rent or sell property. A delay in construction would result in cost and sales risks, in particular for project development. As regards joint venture and co-investment, there is the risk that partner companies could withdraw from the market or delay making investments in the volumes originally intended. The loss of business partners or problems with acquiring new business and joint venture partners could jeopardize the financing and implementation of the respective joint projects.

Loss of rent and subsequent bad-debt losses could negatively impact PATRIZIA's revenues and earnings as well. We limit defaults on payments by means of active receivables management. Impairments that exceed the ordinary extent are thus unlikely, particularly as the receivables are generally hedged to the customary extent by deposit payments. The risk of bad-debt losses is very low in real estate sales since ownership only passes to the purchaser upon receipt of the purchase price. However, withdrawal from a purchase agreement would mean that the planned income could only be realized at a later time and that negative budget variances could arise in the short term.

EMPLOYEES

The skills and motivation of our employees are decisive factors in PATRIZIA's success. A risk of knowledge loss exists from staff fluctuations as well as from not recruiting sufficiently qualified specialists to fill vacancies in good time. In both cases, we would thus sacrifice competitive advantage on the market. In view of the average time our employees have been with the Group, we categorize the probability of increased fluctuation arising as high. We minimize this risk by means of qualified promotion of junior staff and implement focused employee-retention measures, primarily with respect to key positions.

IT SECURITY

The majority of our business processes are supported by efficient IT systems. Any fault affecting the reliability or security of the IT system could lead to delays or interruptions to operating activities and thus to unscheduled costs. A substantial loss of data could lead to considerable financial losses and also adversely affect tenants' and business partners' perception of the Company. To protect our IT-based business processes, the information technology deployed is constantly subject to examination and enhancement. In order to limit risks we regularly invest in hardware and software. Based on these precautionary measures, we may assume that the probability of a system failure occurring is very low, although the magnitude of damage would be considerable. Individual rights are defined for each user to restrict access and ensure data security. This is coupled with a password change every 40 days and only allowing reuse after 25 password generations.

Financial risks

FINANCING

The assessment of PATRIZIA's credit standing influences financing options. We consider the risk that external capital may not be available to PATRIZIA to the necessary extent or only at financially unattractive conditions to be low. The equity required for new financing is currently around 25 % for new target objects. A loan of approximately EUR 467 million is due for extension on March 31, 2011. We consider the extension of the financing to be non-critical and view decreased bank margins rather as an opportunity to reduce finance costs for the underlying portfolio.

INTEREST RATE FLUCTUATIONS

The use of external financing in connection with our acquisitions of real estate exposes us to interest rate fluctuations and refinancing risks. Our continuous planning takes account of all changes in financing costs. Increased expenses for existing variable-rate loans and non-capped rate loans as well as for future financing would have to be reckoned with if a rise in the interest rate level in Germany were to occur. Based on the current volume of non-capped rate loans amounting to EUR 284.5 million, we continue to assess the potential extent of financial loss as minor. If interest rates were to rise, we would conclude interest hedges for this portion.

INTEREST HEDGES

We employ interest rate derivatives in order to reduce the interest rate risk. We have entered into interest rate hedges for 66.2 % of our bank liabilities, which expire as of July 31, 2014 at the latest. The revised market valuation of interest rate hedges as of the reporting date can have a considerable influence on net profit in accordance with IFRS in the event of major interest rate fluctuations, even if these effects do not constitute income or expenses that impact liquidity. Most of our interest hedge agreements were concluded at the end of 2006/beginning of 2007 in parallel to our conclusion of larger financing volumes. The acquisition interest rate hedged on the basis of these interest hedge agreements averaged 4.08 % at the end of 2010. Derivative financial instruments are not used for the purpose of trading or speculation.

CREDIT TERMS

Depending on the loan agreement, there is a risk that PATRIZIA will breach the underlying covenants. As a result, the banks could modify the terms of such loans or call in parts of them. The covenants generally relate to the rental basis, i.e. a portfolio must generate a certain percentage of the interest expenses via the net rental income. The credit terms are ISCR (interest service cover ratio) and DSCR (debt service cover ratio). ISCR specifies what percentage of the interest cost is covered by net annual basic rent, while DSCR specifies what percentage of expected interest cost plus repayment (service of capital) is covered by rental income. There are also loan agreements that are linked to the loan to value ratio (LTV), i.e. the ratio of the loan amount to the fair value of the financed property. Shares of PATRIZIA Immobilien AG do not serve as security or an indicator in any of our loan agreements, thus the price of PATRIZIA shares is not relevant for either the calling in of loans or margins. Loans are always concluded at real estate company level, i.e. the real estate contained within them serves as security. Interest is more than covered by rental revenues while sales proceeds are chiefly used for repayment. Significant vacancies or losses of rent as well as delayed sales could negatively impact the conditions of our loans.

LIQUIDITY

As of December 31, 2010, bank balances and cash posted amounting to EUR 70.5 million were available to PATRIZIA in order to cover its refinancing and operating liquidity requirements. Unexpected cost increases, delays in the sales process or rising vacancy levels could adversely affect free liquidity within the Group. In order to minimize refinancing and liquidity risks, PATRIZIA optimizes and manages liquidity by means of cash pooling. Early warning indicators and comprehensive continuous planning also serve to prevent risks. We consider the risk of insufficient internal financing power and debt retirement capability to be very low.

FLUCTUATIONS IN FOREIGN EXCHANGE RATES

We can rule out any direct impact from foreign-exchange fluctuations through our predominantly domestic focus in the operating segment as well as in financing. All major subsidiaries and property companies are located within the European Monetary Union (Germany or Luxembourg) so that no foreign-exchange risks exist in this regard. Only our “PATRIZIA EuroCity Residential Fund I” holds real estate outside of the eurozone, in Sweden. This real estate is part of the fund’s assets.

4.3 Developments relating to Opportunities

Macroeconomic development, mortgage rates

The continuing expansionary monetary policy with its low interest rates could lead to a significant jump in global demand with correspondingly positive effects for strongly export-oriented countries like Germany. With such a development, long-term mortgage rates are also likely to remain at an historically low level at the same time. This presents PATRIZIA with the opportunity to increase the sale of residential units to tenants, owner-occupiers and private investors. Positive effects could also be expected if the banks were to increase their lending.

Furthermore, the emerging inflationary tendencies could also raise demand for assets with stable value such as residential real estate and thus have a positive effect on PATRIZIA's sales activities.

Demographic development, demand for living space

According to forecasts by the Statistisches Bundesamt (German Federal Statistical Office), the country's population will decrease to 80 million from its current level of 82 million by the year 2020. In the long term, the reduction in population could result in a risk of higher levels of vacancy and a lower demand for residential real estate. However, research data challenges this assumption. Despite the decline in population, demand for housing will rise by 2020 since the number of households will grow by 650,000 to 40.5 million. The reasons for this are, first, the growing trend toward smaller, older households due to the increasing number of single people and, second, people's increased living requirements leading to a steady rise in living space per person. We see an opportunity in the persistent demand for the successful implementation of our business model over the long term.

Demand for housing

Building activity continues to lag behind demand despite a slight rise in the number of building permits and completions. We anticipate regional bottlenecks, entailing rising rents and prices, particularly in the conurbations where growth is strong, primarily in the west of Germany. PATRIZIA's portfolio is located in these economically attractive metropolitan areas. We regard the trends described as an opportunity to attain stable to rising prices and higher rent levels than in previous years. The low home ownership rate in Germany in relation to the number of households – 43 %, of which 19 % are households with an owner-occupied apartment – provides great potential for the residential property resales we offer.

Special real estate funds

We assume that there will be an increase in indirect real estate investments. In addition to our own asset management company that invests in residential real estate, we therefore acquired LB Immo Invest GmbH with effect from the beginning of 2011. This special fund provider for real estate has a long and proven track record in the field of international commercial property. The acquisition extends our range of services and we think that it will provide us with very good opportunities to develop new markets and investor groups and to generate sustained growth for the PATRIZIA Group.

4.4 Internal Control and Risk Management System with regard to the Reporting Process – Disclosures in accordance with Article 289 (5) and Article 315 (2) No. 5 HGB (German Commercial Code)

The risks relating to accounting and financial reporting are that our annual financial statements and quarterly reports could contain misrepresentations. In order to identify sources of error and to limit risks that might result from them, PATRIZIA Immobilien AG has established appropriate internal control systems (ICS) for the process of its accounting to provide sufficient security for the reliability of its financial reporting and creation of the published annual financial statements and quarterly reports throughout the year. However, the ICS cannot provide absolute certainty with regard to avoiding errors or misstatements in reporting and auditing.

The starting point for the ICS is the planning drawn up once each year specifying budgetary values and target figures for each company and each cost center for the coming fiscal year. Differences between the actual and target figures are determined and analyzed on a monthly basis. A revised forecast is made for the current year which ties actual values already achieved with open budget values.

The ICS includes all measures and processes to ensure that all transactions are entered uniformly, correctly and quickly into the bookkeeping and financial statements. It ensures compliance with legal regulations and standards while examining the effect of amendments to laws and standards and other notices on accounting and auditing. Separate functions and authorization regulations, which are reinforced by ongoing, standardized control and coordination systems, are a significant part of our ICS .

Accounts payable accounting is located centrally in the holding while accounts receivable accounting is centrally organized and currently processed at five locations. The basis is provided by group-wide standards within a central IT environment for which there are defined access rights. The annual financial statements are prepared almost exclusively for all Group companies at the head office of PATRIZIA Immobilien AG. The employees involved in the annual financial statements are properly trained, and responsibilities and controls are clearly defined for these statements.

The effectiveness of our accounting-related ICS is evaluated as part of the final reporting procedures and also examined by our auditor as part of its auditing remit.

4.5 Overall Assessment of Opportunities and Risks

Risk management at PATRIZIA is a continuous process which identifies changes in risk and defines appropriate countermeasures. In 2010, as in previous years, PATRIZIA examined the evaluation categories for the potential magnitude of damage of all known risks and increased or reduced them as necessary. The risk management system illustrated here enables PATRIZIA to counteract the specified risks and to exploit the opportunities that present themselves. Considering all relevant individual risks and a possible cumulative effect, PATRIZIA's overall risk is limited at present. No significant risks to the future development and continued existence of the Company and the Group have been identified based on our current knowledge and medium-term planning.

The good sales in 2010 have enabled us to reduce our level of debt and to strengthen our liquidity. We firmly believe that our risk profile has fallen considerably compared with 2009.

5 Supplementary Report

The acquisition of the asset management company LB Immo Invest GmbH was completed as of January 3, 2011. The company will therefore be included in the consolidated financial statements for the first time in 2011.

Since December 31, 2010, PATRIZIA Projektentwicklung GmbH has acquired two plots of land with a total area of 7,500 sqm in the Oberkassel district of Düsseldorf, one of the city's most desirable areas. The building plot is part of the former rail freight terminal site in Oberkassel and is an element of the Belsenpark development project. It is planned to construct a total of 140 premium-segment apartments here by 2014. The volume of the project is around EUR 60 million. Notarization was also performed for a plot of land in Augsburg. Around 240 apartments will be built in three construction phases on around 30,000 sqm near the city center and sold individually. Completion of the last construction phase is planned for 2015.

In January, notarization was effected for a small block sale of 26 units in the greater Munich area and for a further 45 in Hamburg. There was a sale of an additional 18 apartments in Hamburg at the beginning of March. We expect to receive the purchase prices in the first and second quarters of 2011.

Moreover, the first purchase was made for the residential property resale portfolio. PATRIZIA acquired 478 apartments and a commercial unit in Munich with total effective floor space of around 30,600 sqm. The total investment amount for the residential complex, which is situated in the district of Ramersdorf-Perlach, i.e. including purchase price ancillary costs and expenses for the planned energy-saving refurbishment measures will exceed EUR 50 million.

6 Report on Expected Developments

6.1 Future Economic Framework

Future general economic situation in Germany

Starting from what was in economic terms an extremely pleasing performance in 2010, continued positive growth can be expected for 2011 and subsequent years from where we stand today. It may be assumed that the export sector will contribute less to growth in Germany in 2011, but robust domestic demand, in particular from private households, should ensure GDP growth in the region of 2.5 %. This development will be aided by continued historically low interest rates. At the same time there are risks associated with these prospects. A worsening of the current “debt crisis” in the eurozone could lead to negative effects in Germany. According to a preliminary estimate by the Statistisches Bundesamt (German Federal Statistical Office), the inflation rate in Germany climbed to 1.9 % in January. Perceived inflation, which only applies to everyday consumer goods, even rose by 3.25 %. This is joined in Germany by rising wages and a higher price-setting power on the part of companies owing to the positive economic situation. With the rise in the rate of inflation we see a good chance that the shift to material assets such as real estate will continue.

Future situation in the German residential real estate market

The federal structure of Germany causes sharply divergent trends in the residential property market. There is an increasing shortage of residential property, above all in the economically strong conurbations as a result of continued immigration, while it can generally be said that more rural regions away from the large centers of population suffer from a surplus in supply.

Although the German population is already shrinking, this will result in considerable, regionally concentrated demand for new construction that will be intensified by a further decline in the size of the average household. The demographic changes alone will account for new construction requirements of between 180,000 and 200,000 apartments per year. In addition to this there will also be new demand for improved quality that is partially the result of the no longer up-to-date housing stock. Current new construction activity lags significantly behind these figures, with a corresponding effect on rents and purchase prices. Considerable rent increases can be expected in some parts, above all in the cities, which may well exceed the rate of inflation of 1.7 % expected by Consensus Economics. There are also likely to be similar developments seen in the area of purchase prices. Here it will be important to develop concepts, in particular for households with lower incomes, allowing affordable housing to be offered in the conurbations. If steps are not taken to ensure this there will be the danger that business organized around the division of labor will no longer function smoothly if insufficient numbers of staff of all levels of qualification and salary are available. One of the central challenges of the future will be to create appropriately affordable housing as part of the internal development of metropolitan areas in order to meet this demand.

For the first time there were again more building permits issued in Germany in 2009 compared with 2008 that were not due to tax pull-forward incentives. A higher number of housing completions can be expected in 2010 due to the close historical relationship between permits and completions. Rising construction activity can also be expected in subsequent years given the very positive macroeconomic performance and positive housing construction indicators. This will be increasingly driven by the construction of apartment buildings since growing urbanization is shifting housing demand to the cities.

6.2 Strategic Direction

Residential and commercial real estate

The acquisition of the asset management company LB Immo Invest GmbH has added commercial special real estate funds to our existing portfolio of services. In the past few years PATRIZIA has built up a track record of competence in the field of commercial real estate via direct commissions and co-investments, and customers include both national and international pension funds and insurance companies. As a fully integrated business we can today provide all services related to residential and commercial property with our own staff. We are in a position to offer private and institutional investors direct as well as indirect real estate investments in Germany, Europe and farther afield. The fact that almost any form of real estate investment can be realized with us as partner positions us as a real estate investment company.

This realignment of our business activities is accompanied by a physical separation of the residential and commercial segments: PATRIZIA is and remains the specialist in residential real estate based in Augsburg while the area of commercial real estate is supported and controlled from Hamburg.

In addition to funds in which PATRIZIA has no equity stake of its own, we intend offering a larger number of co-investments in future that will increasingly replace our own 100 % investments. PATRIZIA's aim in this will be a stake in the region of 10 % depending on the investment and the partners.

Financial reporting in 2011

LB Immo Invest GmbH became a new operating subsidiary of the PATRIZIA Group with effect from January 3, 2011. This was the reason for PATRIZIA to alter the existing corporate structure. The changes will result in the use of the real estate as residential or commercial property now determining and segmenting the associated activities. The business activities of the PATRIZIA Group will in future be separated into the segments residential, commercial and special real estate business. The segmentation of the corporate divisions will be based on the changed internal reporting lines. This means that financial reporting will have to reflect the changes. Following the implementation of the new corporate structure, the segments are as follows:

The residential segment bundles all activities relating to own investment, services and funds in the field of residential real estate while the commercial segment combines the same portfolio of services for commercial real estate. This covers LB Immo Invest GmbH and the co-investment PATRoffice Real Estate GmbH & Co. KG. PATRIZIA Projektentwicklung GmbH and PATRIZIA Immobilienmanagement GmbH, which serve both the residential and commercial real estate sectors, together form the segment special real estate business. The internal corporate, cross-company services provided by the holding company will remain unchanged in the segment Corporate.

6.3 Expected Development of the Earnings and Financial Situation

In Residential Property Resale it will be difficult to achieve the 2010 sales figures with a total of 801 apartments sold despite favorable general conditions and good demand. We want to maintain this level for the entire year but do not exclude the possibility of a slight decline. 600 units held as investment property have now been released for residential property resale. The initial phase of sale, in which only the tenants are approached, is planned to start in the second quarter of 2011. Despite the change in sales channel, the objects will continue to be reported as non-current assets. In contrast, we intend growing global sales significantly. After selling around 1,000 units in 2010 we see a good possibility of attaining more transactions and in some cases increasing individual volumes.

PATRIZIA Projektentwicklung will not complete any projects in the current fiscal year. In 2010 it contributed EUR 42.4 million to sales. These revenues should be made up for in 2011 through increased block sales. PATRIZIA Projektentwicklung is currently examining further investment opportunities. The project development in Frankfurt with the VERO and F40 subprojects is due to be completed in full by 2013.

2011 will see increasing earnings contributions from our two asset management companies. Since residential funds of PATRIZIA Immobilien KAG are still in the investment phase, we will continue to benefit in the current fiscal year from one-off purchase commission and then from rising administration fees as the amount of capital investment grows. We expect a profit contribution (EBT) from the integration of LB Immo Invest, after deduction of transaction-related financing costs, of EUR 3.5 million. PATRIZIA in its old structure, i.e. excluding LB Immo Invest, should achieve an operating profit in 2011 that at least matches the 2010 result.

The loan agreement extensions due in the fiscal year do not pose any problem. The bank margins currently required are generally below the level of the last loan agreements concluded and in the case of the extensions are likely to have a positive effect on our costs of finance. Furthermore, the proportion of hedged loans is decreasing meaning that we will benefit from the continuing low interest rates for the unhedged share. The more success we enjoy in real estate sales, the more we will be able to reduce our level of debt. However, as we will resume purchasing activities in 2011 requiring new loans to be taken out, we cannot name a target figure for the level of bank liabilities at the end of the year. We will nevertheless retain our goal for a minimum equity ratio of 25 %, which prescribes the point of reference for new borrowing.

We will be purchasing for our own account for the first time since 2007. An initial object in Munich with around 480 units was notarized for residential property resale in February. We are currently analyzing further objects, concentrating on the locations of Hamburg and Berlin in addition to Munich. Besides the acquisition costs for the additionally planned purchases, the construction costs for our project development in particular will contribute to costs of material approximately doubling in 2011.

Further increasing staff costs can be expected in the current fiscal year. The increased headcount at PATRIZIA in 2010 will have a full annual effect for the first time in 2011. Furthermore, the purchase of LB Immo Invest GmbH resulted in 49 more employees. Additional individual positions are to be created depending on actual growth.

Dividend policy

New financing will be required for the purchase of new objects for residential property resales and for project development in 2011. It is our firm intention to maintain higher liquidity against the background of higher equity requirements for granting new loans. The Managing Board will propose to the Supervisory Board that the net profit of PATRIZIA Immobilien AG for 2010 be entirely carried forward to a new account. The deciding reason for waiving the dividend is exclusively the business and earnings performance of the past year and not our expectations for 2011, since it is our aim to allow shareholders to participate directly in PATRIZIA's success once more. The prerequisite for this is first to stabilize the current 24.3 % equity base within the Group at a level of 25–30 %. Second, the amount of a potential dividend will continue to depend on PATRIZIA's results and the general business situation. Given the appropriate business success, 20 % to 25 % of the operating profit (EBT adjusted) should be distributed as dividends. We are confident that we will be able to meet these conditions provided business continues to develop successfully.

General statement by the company's management to prospects for 2011 and 2012

From the current perspective, we have set ourselves ambitious but achievable goals for the 2011 fiscal year. We want to at least equal the operating profit of the past year of EUR 12.8 million. The acquisition of LB Immo Invest will add momentum to profit growth, and here we expect an additional contribution of EUR 3.5 million after deducting transaction-related financing costs, so that we are aiming for an operating profit (EBT adjusted) of EUR 16–17 million. We would also like to allow our shareholders to participate in the success of the Company by paying a dividend provided that we achieve our profit target and our equity base is at least 25 %.

Our primary aims beyond the current fiscal year include strengthening our operating earnings performance and maintaining a balanced financial structure. It goes without saying that in 2012 we do not wish to fall below our 2011 result. With regard to the quality of profit we would like to significantly increase the proportion of steady revenues.

The prospects for 2011 and 2012 include all the events that were known at the time the consolidated financial statements were prepared and that could influence the business performance of PATRIZIA.

Augsburg, March 4, 2011

Wolfgang Egger
Chairman of the Board

Arwed Fischer
Member of the Board

Klaus Schmitt
Member of the Board

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