Management Report

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 because the position of PATRIZIA Immobilien AG as a management and financial holding company is largely shaped by the position of the Group. The combined 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 FUNDAMENTAL PRINCIPLES RELATING TO THE GROUP

1.1 COMPANY PROFILE, BUSINESS MODEL AND MAJOR LOCATIONS

PATRIZIA offers private and institutional investors direct as well as indirect real estate investments. The fact that almost any form of real estate investment can be realised with us as partner positions us as Germany's leading fully integrated real estate investment company. In the medium-term we will achieve this same objective in the rest of Europe as well. Established in 1984, PATRIZIA currently has around 700 employees and is active as an investor and services provider on the real estate markets in more than ten European countries.

PATRIZIA structures and manages real estate investments:

- in all phases of the real estate life cycle,
- across all stages of the value chain,
- in different regional real estate markets,
- in different types of real estate use and
- using different investment vehicles.

Major Locations

PATRIZIA's business model proves robust in the face of national cyclical fluctuations and provides stability

In addition to various German locations, PATRIZIA is also represented through its own offices in Dublin, Copenhagen, London, Luxembourg, Paris and Stockholm. The timing differences between some real estate market cycles mean that by maintaining a presence in several countries, PATRIZIA ensures greater flexibility for investment and divestment decisions. And the fact that in addition to regional markets, PATRIZIA also develops submarkets differentiated according to type of use reduces its dependence on cyclical developments in individual market segments. Diversification thus reduces investment risks – not only for PATRIZIA itself but also for its clients.

1.2 GOALS AND STRATEGIES

Leading – fully integrated – in all asset classes – in Germany and in Europe. That is our objective. We wish to offer our clients even better value creation in all stages of the real estate market. It is our intention to become "the" fully integrated real estate investment company in Europe by 2015.

PATRIZIA currently manages real estate assets with a value of around EUR 12 billion, mainly as a co-investor and portfolio manager for institutional investors such as insurance companies, pension fund institutions, government funds and savings banks. PATRIZIA manages real estate with a value of EUR 5.7 billion on behalf of third parties; a further EUR 5.6 billion is accounted for by co-investments where PATRIZIA has an equity stake of up to 10%.

Own stock of real estate in which PATRIZIA holds 100% of the equity currently amounts to EUR 0.5 billion; most of this will, however, be sold by the end of 2015. Remaining stocks will also be sold soon after 2015. Further growth will be generated through co-investments and management services: equity that is freed up will be re-invested in new co-investments. This will create a commonality of interest among all participants.

PATRIZIA acts as a direct and indirect investor. At the same time, our longstanding real estate expertise enables us to cover the key business functions of:

- Alternative Investments
- Asset Management
- Portfolio Management
- Real Estate Development
- Property Management
- Transaction Acquisition
- Transaction Sales.

In addition, PATRIZIA's asset management companies structure customised investment solutions for our institutional clients. Consideration is given to special requirements in terms of risk preference, fungibility, returns and holding period of the properties. The concept of PATRIZIA funds aims to establish real estate portfolios based on diversification of risks in order to ensure a stable cash flow and generate sustainable returns. PATRIZIA covers every aspect of professional fund and asset management. Constant income from services in the field of co-investments and fund/portfolio management already generates the major share of the Group's result. In addition, the equity available to PATRIZIA via co-investments enables it to effect a much larger volume of investments than was previously possible with own investments.

Co-investments require a commonality of interest among all participants

Balance between Commercial and Residential Real Estate

Around half of the managed real estate assets are accounted for by commercial real estate in the office, retail, hotel, light industrial or care fields and the other half by residential real estate. Originally focussing on residential real estate, PATRIZIA's purchases of companies specialising in commercial real estate such as the former LB ImmoInvest GmbH or Tamar Capital Group Ltd. means it now has many experts on its team with high levels of expertise in the field of commercial real estate in Germany and other European countries.

Focus on Europe – A local Presence

For its commitments in the different markets, PATRIZIA always relies on its own local presence to ensure the respective real estate portfolios and investment vehicles are managed by its own personnel and that investment and management processes can be controlled at all times. Consequently, PATRIZIA only expands into new markets/market segments where other companies that are established on the market can be integrated within the PATRIZIA Group and/or where it is possible to recruit highly qualified experts with an appropriate track record. In addition, PATRIZIA's numerous country-specific investment vehicles provide a corresponding platform for implementing international investment strategies.

Internationalisation permits greater diversification

1.3 CONTROL SYSTEM

Corporate Management

The Group's most important control variable is the operating result before taxes. It is calculated from pre-tax earnings according to IFRS adjusted for profit/loss arising from the non-cash market valuation of investment properties, interest rate hedges and amortisation of intangible assets. The latter relates to fund management

Calculation of the operating result is explained in detail in 2.3.2

contracts transferred on acquisition of PATRIZIA GewerbeInvest KAG mbH and Tamar Capital Group Ltd. Realised changes in value from the sale of investment property are added to this. In addition to further, individually agreed targets, the operating result is also the measure used for the performance-related compensation paid to members of the Managing Board and to first-tier managers.

Segments/Areas of Business

PATRIZIA reports via two operating segments which are defined according to whether PATRIZIA acts as investor or service provider. The corresponding financial figures for the Investments and Management Services segments are shown under Segment Reporting (No. 7 of the Notes to the Consolidated Financial Statements).

The Investments segment includes own investments and parts of co-investments

The **Investments segment** primarily bundles portfolio management and the sale of own investments. As of the balance sheet date, the segment had a portfolio of around 4,100 residential units (31 December 2012: around 6,000) as well as three project developments that are reported as investment property and inventories. Clients include private and institutional investors that invest either in individual residential units or in real estate portfolios. The entire stock of own property will be sold off as far as possible by the end of 2015. Remaining stocks will also be sold off soon after 2015. Furthermore, all income from participating interests relating to equity interests of the structural companies from co-investments is also reported in this segment.

The steadily growing Management Services segment covers the services sector

The **Management Services segment** covers a wide spectrum of real estate services, in particular analysis and advice during the purchase and sale of individual residential and commercial properties or portfolios (Acquisition and Sales), the management of real estate (Property Management), value-oriented management of real estate portfolios (Asset Management) as well as strategic consulting with regard to investment strategy, portfolio planning and allocation (Portfolio Management) and the execution of complex, non-standard investments (Alternative Investments). Special funds are also established and managed – including at a client's individual request – via the Group's two own asset management companies. Commission revenues generated by services, both from co-investments and from business with third parties, are reported in this segment. This segment also includes income from participating interests arising directly in operating units.

The range of services provided by the Management Services segment is being increasingly used by third parties as assets under management grow and PATRIZIA sells off more and more of its own portfolio.

2 ECONOMIC REPORT

2.1 ECONOMIC ENVIRONMENT

Germany remains a growth driver in the Eurozone

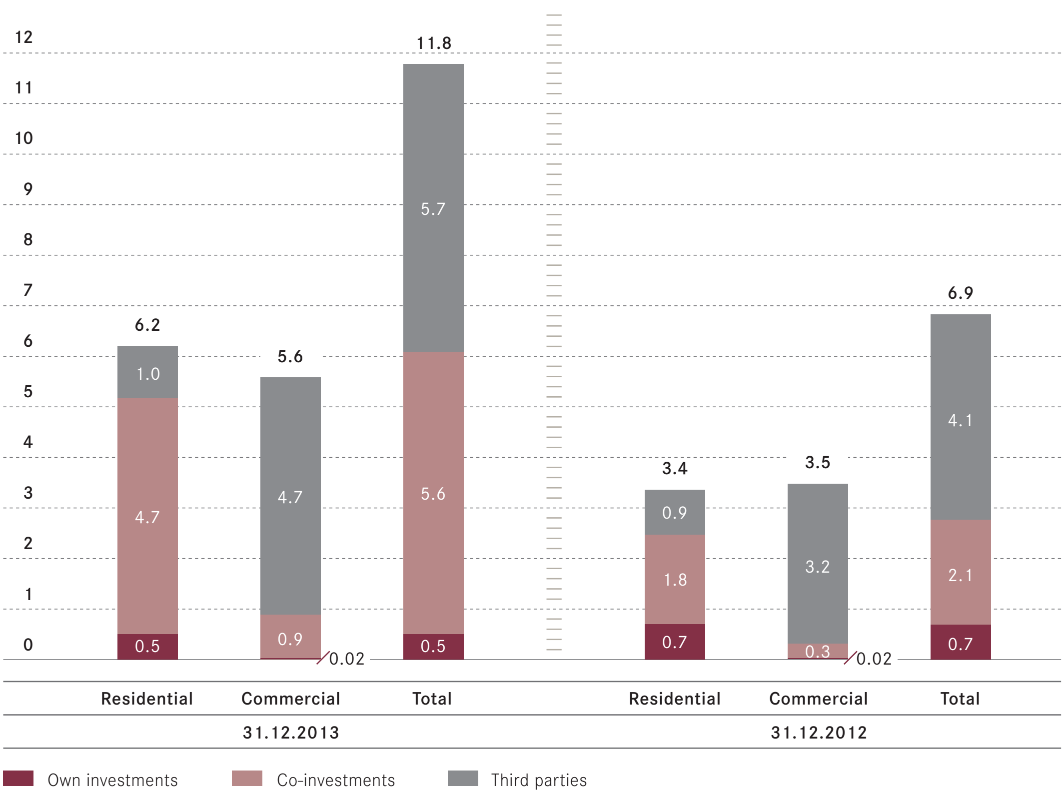
Despite the difficult economic and political situation in some countries within the Eurozone, Germany's economy expanded by a seasonally adjusted 0.6% in 2013 compared with the previous year. It thus retained its status as a European growth driver. By contrast, the Eurozone as a whole declined by a seasonally adjusted 0.4%, notably due to cautious private consumer spending and weak international demand. Germany's real estate market evolved at a brisk pace during 2013 as a whole. Demand for residential real estate rose due to lower interest rates for mortgages and low returns on alternative investments. At the same time, the price increase for residential property which has been apparent since 2010 continued, especially in big cities and neighbouring districts. In 2013 the commercial real estate market benefitted from the stable development in private expenditure and the increasing employment rate, resulting in falling vacancy rates and rising top rents. Medium-sized towns revealed a less pronounced development in rents. The sharp rise in the unemployment rate in countries facing unstable macroeconomic situations affected the development of office and commercial real estate markets in the Eurozone and led to small rent increases.

2.2 THE COURSE OF BUSINESS

Assets under management rise by more than 70%

At the end of the 2013 fiscal year, PATRIZIA was managing real estate assets of EUR 11.8 billion. This represents a rise of EUR 4.9 billion or 71% (31 December 2012: EUR 6.9 billion). As a result of corresponding purchases and sales, we expect assets under management to record net growth of EUR 1 billion respectively over the next two years. In addition, one to three portfolio transactions with an individual volume of EUR 0.2 to 1 billion will further increase the volume of real estate being managed. Almost all assets under management are now assigned to co-investments and services business for third parties.

ASSETS UNDER MANAGEMENT (IN EUR BILLION)



PATRIZIA's level of participation is a determining factor in the financial assessment of the course of business. Consequently, the figures in the table below are based on equity share and not on segments as these cannot be clearly differentiated based on the level of participation. The course of business is therefore shown based on the categories own investments, co-investments and third parties.

Including the sales effected as services, 3,436 units were traded compared with 2,696 units in the previous year; this represents a 27% increase

SUMMARY OF COMPLETED SALES, AVERAGE PRICES AND RENTS

	1st quarter	2nd quarter	3rd quarter	4th quarter	2013	2012	Change in %
Units from own stocks[1]	**260**	**182**	**778**	**494**	**1,714**	**1,709**	**0.3**
Units from residential property resale	232	152	169	193	746	924	–19.3
Average weighted sales price in EUR/sqm	2,676	2,547	2,652	2,649	2,640	2,513	5.1
Units from block sales	28	30	609	301	968	785	23.3
Average weighted sales price in EUR/sqm	1,462	2,534	1,309	1,973	1,618	1,667	–2.9
Average rental income in EUR/sqm	7.67	7.62	7.71	7.57	7.64	7.60	0.5
Co-Investments[2]	**306**	**176**	**264**	**308**	**1,054**	**559**	**88.6**
Residential property resale[3]	135	176	145	287	743	482	54.1
Block sales	171	0	119	21	311	77	>100
Services[2]	**118**	**65**	**51**	**434**	**668**	**428**	**56.1**
Residential property resale	0	2	3	1	6	20	–70.0
Block sales	118	63	48	433	662	408	62.3
TOTAL	**684**	**423**	**1,093**	**1,236**	**3,436**	**2,696**	**27.4**

1 Transfer of ownership, usage and encumbrances (purchase price payments become due at the time of the commercial changeover and are thus recognised in profit or loss)
2 Notarial deeds (sales commission becomes payable at the time of the notarial deed and is therefore recognised in profit or loss)
3 Including new-build sales from project developments (Q1: 31 apartments, Q2: 27 apartments, Q3: 24 apartments, Q4: 41 apartments)

2.2.1 OWN INVESTMENTS GERMANY

Once again, no new own investments were effected in 2013 because PATRIZIA is focusing on establishing new co-investments and special real estate funds. The stock of own property will be sold off as far as possible by the end of 2015. Remaining stocks will also be sold off soon after 2015.

Once again, private investors were the predominant category of purchasers

Residential property resale

In 2013, demand for residential units from tenants, owner-occupiers and private investors fell by 19% to 746 units (previous year: 924 units). 70% (previous year: 72%) of the properties were purchased by private investors. Owner-occupiers and tenants accounted for significantly lower shares with 19% (previous year: 17%) and 11% (previous year: 11%) respectively.

Block sales

In 2013, 968 apartments were sold in ten transactions within the framework of block sales; this represented a rise of 23% (previous year: 785 units). The last 152 apartments at the Dresden site were sold in the third quarter of 2013.

RESIDENTIAL PROPERTY RESALE AND BLOCK SALES BY REGION IN 2013 (OWN INVESTMENT)

Region/city	Number of units sold				Area sold in sqm			
	Residential property resale	Block sales	Total	Share in %	Residential property resale	Block sales	Total	Share in %
Munich	557	143	700	40.8	41,863	13,157	55,021	47.3
Berlin	68	434	502	29.3	5,030	20,378	25,408	21.8
Dresden	0	152	152	8.9	0	10,284	10,284	8.8
Hanover	0	129	129	7.5	0	8,611	8,611	7.4
Cologne/Düsseldorf	101	0	101	5.9	7,577	0	7,577	6.5
Hamburg	20	50	70	4.1	1,350	3,062	4,412	3.8
Leipzig	0	60	60	3.5	0	5,104	5,104	4.4
TOTAL	746[1]	968[2]	1,714	100	55,820	60,596	116,416	100

[1] Of these, 430 units were reported under investment property.
[2] Of these, 511 units were reported under investment property.

In the year under review 1,714 units (previous year: 1,709) were placed from own stock. This represents 28.7% of PATRIZIA's entire portfolio as at 1 January 2013

Taking into account sales completed and redensification measures, our portfolio at the end of the year under review comprised 4,064 units with an area of around 297,000 sqm. We anticipate that around 30% of the units will be realised through residential property resale and the remaining 70% through block sales.

THE PATRIZIA PORTFOLIO – BREAKDOWN BY REGION AS AT 31 DECEMBER 2013

Region/city	Number of units				Area in sqm			
	Residential property resale	Asset re-positioning	Total	Share in %	Residential property resale	Asset re-positioning	Total	Share in %
Cologne/Düsseldorf	410	739	1,149	28.2	35,936	67,978	103,914	35.0
Leipzig	0	828	828	20.4	0	47,874	47,874	16.1
Frankfurt/Main	146	580	726	17.9	10,009	35,958	45,967	15.5
Munich	624	10	634	15.6	49,975	817	50,791	17.1
Hamburg	40	512	552	13.6	2,853	32,622	35,475	11.9
Hanover	0	106	106	2.6	0	7,604	7,604	2.6
Berlin	29	40	69	1.7	2,645	2,720	5,365	1.8
TOTAL	1,249	2,815	4,064	100	101,418	195,573	296,990	100

77% of PATRIZIA's total of around 4,100 own units are located in the top five locations in Germany

PROJECT DEVELOPMENTS

Real estate development focuses on the construction of new living space

The new construction project in the Westend district of Frankfurt, which is being implemented as a own investment, comprises six exclusive city villas (product name VERO) and one apartment block (product name F40), which was sold to an institutional investor in 2012. After it has been completed and fully leased, this transaction will be recorded in profit/loss on transfer of ownership, usage and encumbrances during the entire 2014 year. 85% of the project is already sold. The overall project has been awarded the gold pre-certificate for residential buildings by the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen (DGNB)).

With its Friedrich-Karl-Terrassen project, PATRIZIA is implementing a new-build project in Cologne's Niehl district. 84 high-class condominiums with sizes of between 36 and 135 sqm are being constructed on a plot that has been owned since 2007 and that is in the direct vicinity of one of our property resale projects. In 2013 residential units that were still available were notarised.

PATRIZIA'S OWN PROJECT DEVELOPMENTS AS AT 31 DECEMBER 2013

City, project	Intended sales price	Marketable residential space	Size of site	Planned completion
Frankfurt/Main, VERO/F40	EUR 111 million	16,890 sqm	8,090 sqm	Q2 2014
Hamburg, IBA-Soft House	EUR 3 million	660 sqm	800 sqm	Q2 2014
Cologne, Friedrich-Karl-Terrassen	EUR 23 million	7,520 sqm	8,720 sqm	Q2 2014
TOTAL	**EUR 137 million**	**25,070 sqm**	**17,610 sqm**	–

2.2.2 CO-INVESTMENTS GERMANY

RESIDENTIAL

GBW AG

At the start of April PATRIZIA repeated its success of the previous year when it concluded a major transaction. PATRIZIA negotiated and signed the deal for the acquisition of BayernLB's 91.36% stake in GBW AG, which was purchased by an investment consortium led by PATRIZIA. Together with two other share packages, the consortium secured 96.5% of the shares. The underlying corporate value for the purchase was EUR 2.453 billion. The contract was finalised on 27 May 2013. A squeeze-out process – the transfer of shares held by minority shareholders against payment of a cash settlement – has now been completed.

The consortium consists of 27 investors from German-speaking countries with a long-term focus, including 9 of the 13 investors who had already invested in the Süddeutsche Wohnen co-investment. PATRIZIA acts as investment and asset manager. PATRIZIA has investment capital of EUR 56.5 million tied up in this co-investment, representing a stake of 5.1%. For implementing the transaction, PATRIZIA received a purchasing fee in line with what is customary for a transaction of this magnitude and complexity; this fee was received in the second and third quarters of 2013. PATRIZIA also receives an ongoing asset management fee. In addition to the return on the invested equity, PATRIZIA will receive an additional bonus if specified targets for returns are exceeded.

Süddeutsche Wohnen GmbH (Südewo)

PATRIZIA acquired LBBW Immobilien GmbH in Europe's largest real estate transaction of 2012 (gross purchase price EUR 1.435 billion). As of 31 December 2013, Süddeutsche Wohnen GmbH had around 20,000 residential units. The residential apartment management segment was sold to a strategic investor in 2013 on regulatory grounds. The central business activity consists in long-term and value-enhancing management of the residential property assets. The positive trend on real estate markets in the south of Germany continued in 2013. Operational implementation of the business plan is proceeding according to plan. PATRIZIA itself holds a stake of 2.5% or EUR 15 million and acts as investment and asset manager.

WohnModul I SICAV-FIS

PATRIZIA WohnModul I SICAV-FIS firstly enables the purchase of project developments and asset repositioning properties, while secondly allowing apartments to be sold even during the investment phase. The exit strategy provides for both block sales and individual sales. Our partner in this co-investment is a renowned German pension fund that has promised total equity of EUR 300 million in several tranches. PATRIZIA's participation is around 9%, which currently equates to tied capital of EUR 18.3 million. The participation will amount to EUR 30 million once the entire equity has been called up. Equity of EUR 189 million had been called up by 31 December 2013.

PORTFOLIO OF WOHNMODUL I – BREAKDOWN BY REGION AS AT 31 DECEMBER 2013

Region/city	Number of units at the time of purchase	Area in sqm at the time of purchase	Number of units 31.12.2013	Area in sqm 31.12.2013
Munich	1,702	114,244	1,175	79,482
Copenhagen	484	39,036	484	39,036
Hamburg	185	15,160	134	11,013
Cologne/Düsseldorf	33	3,127	33	3,127
Berlin	54	4,560	27	2,195
TOTAL	**2,458**	**176,127**	**1,853**	**134,853**

CURRENT STATUS OF THE PROJECT DEVELOPMENTS FOR WOHNMODUL I AS AT 31 DECEMBER 2013

City, project	Intended sales price in EUR million	Marketable residential space in sqm	Property area in sqm	Completion in	PATRIZIA share in %
Augsburg, Provinopark	62	17,021	28,061	Q1 2014 to Q4 2015, 3 CP	13.726
Düsseldorf, Belsenpark	59	11,296	7,577	Q2 2014, 2 CP[1]	13.726
Düsseldorf, Gerresheim	261	73,250	192,893	Q3 2017	13.726
Munich, Baumkirchen	262	54,500	29,094	Q4 2017, 4 CP[1]	4.545
Munich, Hofmannstrasse	374	81,290	92,890	Q4 2019	9.090
Munich, Nawiaskystraße	23	6,204	9,523	Q4 2015	9.090
Hamburg, Unter den Linden	152	37,937	106,129	Q2 2015	9.090
Berlin, Alte Jacobstraße	35	8,017	3,779	Q3 2016	9.090
TOTAL	**1,228**	**289,515**	**469,946**	**–**	**–**

[1] CP = Construction phases

PATRIZIA Real Estate Development's new construction project volume has increased manifold as a result of co-investments

COMMERCIAL

PATRoffice Real Estate GmbH & Co. KG

PATRoffice Real Estate GmbH & Co. KG is an actively managed co-investment with two pension funds, namely APG from the Netherlands and ATP Real Estate from Denmark. PATRIZIA Immobilien AG has a 6.25% (EUR 7.8 million) stake in the company, which was founded in 2007. The investment volume currently stands at EUR 321 million and is constantly decreasing due to sales. For example, real estate with a value of EUR 23 million was successfully sold in 2013.

DEIKON

As partner of a German institutional investor, PATRIZIA has acquired a portfolio with 86 German retail properties. The real estate purchase price was around EUR 178 million. PATRIZIA itself has a 5.1% stake in this co-investment, equating to tied capital of EUR 5.1 million. The specialist stores and supermarkets in attractive retail locations with rentable space of around 133,000 sqm generate an annual basic net rent of approximately EUR 16 million. The properties were acquired from the insolvency estate of DEIKON GmbH i.I. as part of a structured bidding process from which PATRIZIA emerged successfully.

sono west

In cooperation with PATRIZIA, Frankfurt-based project developer OFB is planning the construction of a new, eight-storey office and business building in Frankfurt/Main. Under the name “sono west”, a gross floor space of around 8,200 sqm will be created on the site of around 1,900 sqm on Bockenheimer Landstrasse by the middle of 2015. Sono west is the last part of a larger city quarter development. In addition to high-quality rental apartments, PATRIZIA has already realised six city villas with condominiums on the site. PATRIZIA holds a 30% stake in the sono west co-investment. The co-investor will assume responsibility for the commercial and marketing aspects of the project, while PATRIZIA will be responsible for structural engineering.

2.2.3 CO-INVESTMENTS INTERNATIONAL

COMMERCIAL

Plymouth Sound Holdings LP

PATRIZIA established its first co-investment in Great Britain in the middle of April 2013 through its London-based subsidiary PATRIZIA UK (formerly Tamar Capital Group) and in cooperation with Oaktree Capital Management L.P. It has acquired three office properties in a volume of EUR 32.5 million (GBP 27.1 million) for this co-investment. PATRIZIA has a 10% stake (EUR 3.5 million) and acts as asset and investment manager. Regional markets in the United Kingdom currently offer good opportunities to acquire attractive commercial real estate at the low point of the market cycle and to increase its value through active asset management.

Winnersh Holdings LP

In July 2013 the IQ Winnersh business park located near London was acquired for EUR 285 million (GBP 245 million) within the framework of a joint venture with Oaktree Capital Management L.P. The 118,200 sqm commercial estate comprises offices, warehouses, data centres as well as industrial and retail sites. The purchase also includes four hectares of adjoining building land, so that added value can be generated in the long term and the range of tenants extended through the development of a new site. In the middle of November a further property known as “100 Berkshire Place” was acquired with an area of around 5,000 sqm. The transaction volume is EUR 14.5 million (GBP 12.1 million). PATRIZIA has a 5% stake, amounting to just over EUR 3.7 million, in Winnersh Holdings LP.

2.2.4 THIRD PARTIES GERMANY

RESIDENTIAL & COMMERCIAL

PATRIZIA Asset Management Companies

Various PATRIZIA business functions act as service providers for the asset management companies' special funds, thereby generating fees. Conflicts of interest between the funds are prevented through different purchase criteria for the real estate and through purchase teams that act independently of each other. The funds are established for an initial holding period of between seven and ten years and fulfil the role of property asset holders. Conflicts of interest with co-investments are avoided through different approaches to utilisation and different exit strategies for the properties.

PATRIZIA WohnInvest KAG mbH, established in 2007, invests in residential real estate in Germany and Europe. At the end of 2013 it was managing seven special funds with a target volume of around EUR 2 billion, of which around EUR 1 billion has already been invested. During the year under review real estate with a volume of EUR 126 million was purchased (notarised).

As of 31 December 2013, the special fund provider **PATRIZIA GewerbeInvest KAG mbH** was managing 16 funds with a real estate value of EUR 4.1 billion. In 2013 it took over the management of a special fund with capital commitments of EUR 200 million from an occupational pension fund, and also acquired a new individual mandate with capital commitments of EUR 300 million. The investment strategy focuses on European "core" commercial properties. A portfolio of 36 office properties with a rentable space of 447,200 sqm was purchased for an investment consortium mainly comprising of savings banks. The office properties are all in the federal state of Hessen and are leased to the federal state on a very long-term basis. The buildings are mainly used by ministries, courts, the police and fiscal authorities. The transaction volume was EUR 850 million. Overall, PATRIZIA GewerbeInvest KAG sold or purchased real estate with a value of EUR 1.6 billion (notarisations) for the managed funds.

PATRIZIA FUNDS AS AT 31 DECEMBER 2013

in EUR million	Planned target volume	Committed equity	Assets under management	Number of funds
PATRIZIA WohnInvest KAG mbH	**2,026**	**951**	**929**[1]	**7**
PATRIZIA GewerbeInvest KAG mbH	**6,971**	**3,562**	**4,102**	**16**
Modular funds	3,500	1,401	1,509	7
Individual funds	1,471	1,187	1,265	7
Label funds	2,000	974	1,328	2
TOTAL PATRIZIA	**8,997**	**4,513**	**5,031**	**23**

[1] Excludes project developments secured under purchase contracts

Other Asset and Portfolio-Management-Mandates

As part of a further mandate from an occupational pension fund, PATRIZIA acquired the first three properties for around EUR 55 million. The fund, which focuses on “value-add” real estate in Germany, has equity of EUR 100 million. Properties considered for investment include commercial and residential real estate in good and very good locations, and also properties requiring renovation, new rentals and repositioning. PATRIZIA is responsible for purchasing for the fund and also for asset and portfolio management.

Implementation of the AIFMD by PATRIZIA in Germany

AIFMD – Alternative Investment Fund Manager Directive

PATRIZIA Immobilien AG has launched a Group-wide project to implement the AIFMD. The licence applications for PATRIZIA WohnInvest KAG mbH and PATRIZIA GewerbeInvest KAG mbH were submitted in Germany in the middle of February 2014. These two applications are currently being processed.

2.2.5 THIRD PARTIES INTERNATIONAL

Acquisition of the Tamar Capital Group

Expanding our services portfolio and our European presence through the acquisition of a British asset manager

The British Financial Services Authority approved the acquisition of the London-based real estate investment and asset management company at the end of April 2013. The purchase agreement had already been signed in December 2012. All 18 Tamar employees were retained by PATRIZIA. Their expertise in transactions and asset management in the office, commercial and retail real estate sector will enable PATRIZIA to expand its market presence in Great Britain, Ireland, France and Germany. Tamar also currently provides fund management services for the Tamar European Industrial Fund (TEIF), a closed-ended fund that is listed on the London Stock Exchange. The individual Tamar branch offices were integrated into the PATRIZIA national companies (PATRIZIA UK, PATRIZIA France, PATRIZIA Deutschland).

PATRIZIA Nordics A/S – Successful Path Continues

Following the opening of the first Nordics branch in Stockholm in 2011, the new office of PATRIZIA Nordics A/S was opened in Copenhagen in May 2013. Twelve people are now employed there. At the end of the 2013 fiscal year PATRIZIA acquired a residential portfolio in Copenhagen with a rental space of 39,000 sqm and 484 apartments. Purchases of EUR 43 million were also made for Euro City Residential Fund I and for the SV Europa Direkt fund. In 2013, the Nordics region’s assets under management were thus increased by around 90% from EUR 301 million to EUR 571 million.

Implementation of the AIFMD by PATRIZIA abroad

As part of the Group-wide project to implement the AIFMD, the licence application for PATRIZIA Fund Management A/S (licence platform in Denmark) was submitted in December 2013. This application is currently undergoing processing. The licence application for Luxembourg is currently being prepared and will be submitted in the next few weeks.

2.3 ECONOMIC POSITION

2.3.1 GENERAL STATEMENT BY THE MANAGING BOARD

The 2013 fiscal year was also characterised by expansion. **Assets under management** rose EUR 4.9 billion to around EUR 12 billion. A major contributory factor was the acquisition of GBW AG by the consortium led by PATRIZIA. At EUR 38.1 million, the **operating result** was within the range of EUR 38 to 41 million as forecast at the end of the year. The cash and cash equivalents and the taking out of two bonded loans in a total amount of EUR 77.0 million enabled us to engage in further co-investments. As we continued to sell off our real estate portfolio and repaid bank loans as a consequence, the consolidated balance sheet decreased in line with expectations. Overall, our net asset, financial and earnings situation continued to enjoy positive development.

Our net asset, financial and earnings situation continued to enjoy positive development

2.3.2 EARNINGS SITUATION OF THE GROUP

OVERVIEW OF KEY ITEMS IN THE CONSOLIDATED INCOME STATEMENT

	2013 EUR '000	2012 EUR '000	Change in %
Revenues	217,398	229,238	–5.2
Total operating performance	207,878	196,111	6.0
EBITDA	24,856	49,280	–49.6
EBIT	18,749	44,739	–58.1
EBT	39,599	28,621	38.4
Operating result[1]	38,119	43,892	–13.2
Consolidated annual profit	37,168	25,455	46.0

[1] Adjusted for amortisation on other intangible assets (fund management contracts), unrealised value adjustments to investment property and non-cash effects from interest hedging transactions. Realised changes in the value of investment property have been added.

Significant increase in Service Business

Consolidated revenues fell by 5.2% in 2013 to EUR 217.4 million (2012: EUR 229.2 million). This was firstly due to the fact that 54.9% of the units sold came from non-current assets and that the selling prices totalling EUR 169.4 million are, in accordance with IFRS, not reported in revenues (2012: EUR 178.3 million). This change in revenues is largely attributable to the declining purchase price revenues from inventory assets (–24.5% compared with the previous year). In contrast, revenues from service business rose by a significant 40.9% to EUR 94.8 million.

Detailed information is provided in the table on purchase price revenues on p. 30

Inventories thus accounted for only 45.1% of the transaction volume (based on units sold). Revenues generated by residential property resales from inventories decreased from EUR 83.8 million to EUR 54.8 million (–34.6%), while revenues from block sales rose from EUR 22.5 million to EUR 25.5 million (+13.5%). The sale of around 29% of our real estate holding (around 116,000 sqm) resulted in a significant planned 28.2% reduction in associated rental income to EUR 30.7 million. The average monthly rent per square metre across the entire portfolio remained almost stable at EUR 7.57 (31 December 2012: EUR 7.67/sqm). Revenues from co-investments amounted to EUR 39.2 million (+35.9%; 2012: EUR 28.9 million), while revenues from third parties rose to EUR 55.6 million (+44.6%; 2012: EUR 38.5 million).

A breakdown of consolidated revenues is shown below:

CONSOLIDATED REVENUES

	2013 EUR '000	Group revenues 2013 in %	2012 EUR '000	Change in %
Purchase price revenues from residential property resale	54,763	25.2	83,772	–34.6
Purchase price revenues from block sales[1]	25,491	11.7	22,462	13.5
Rental revenues	30,699	14.1	42,744	–28.2
Revenues from co-investments	39,226	18.0	28,871	35.9
Revenues from third parties	55,609	25.6	38,456	44.6
Other[2]	11,609	5.4	12,933	–10.2
TOTAL	**217,398**	**100**	**229,238**	**–5.2**

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

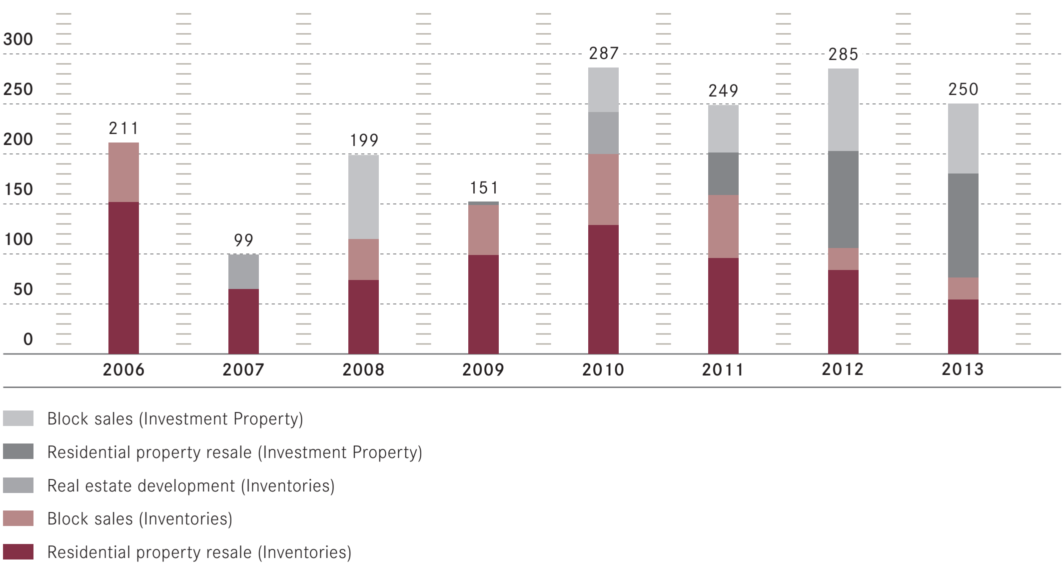
However, **revenues** have only limited significance for PATRIZIA since the selling prices of properties reported in non-current assets are not reflected in revenues. Profits from such sales are reported under the item **"Income from the sale of investment property"**. In the fiscal year under review, purchase price receipts of EUR 169.4 million resulted in a profit of EUR 19.1 million after deduction of carrying amounts of EUR 150.3 million (gross margin: 11.3%). In the period 2007–2013, real estate accounted for positive pro-rata value adjustments that are only recognised at sale and reported accordingly in the new presentation of the operating result and in the cash flow statement.

PURCHASE PRICE REVENUES

	2013 EUR '000	2012 EUR '000	Change in %
Sales revenues from inventories	**80,254**	**106,234**	**–24.5**
Residential property resale	54,763	83,772	–34.6
Block sales	25,491	22,462	13.5
Sales revenues from investment property[1]	**169,428**	**178,325**	**–5.0**
Residential property resale	96,691	96,525	0.2
Block sales	72,737	81,800	–11.1
TOTAL	**249,682**	**284,559**	**–12.3**

[1] Purchase price receipts from investment property are not included in revenues. Instead, the income statement reports the gross profit.

SALES VOLUMES 2006–2013 (IN EUR MILLION)



Changes in inventories in the year under review were EUR -36.7 million and fell significantly as a result of the decrease in sales from inventories (2012: EUR –61.6 million). Purchase price receipts of EUR 80.3 million (2012: EUR 106.2 million) contrasted with decreases in carrying value of EUR -68.8 million (2012: EUR –85.2 million), equating to a gross margin of 14.3% (2012: 19.8%). Inventories increased as a result of capitalisation totalling EUR 32.1 million (2012: EUR 23.6 million). There was no increase to inventory through purchases.

High investments in our portfolio

Higher building costs in real estate development (EUR 21.4 million) resulted in a rise in the cost of materials by 7.9% to EUR 58.3 million compared with the previous year (2012: EUR 54.0 million). EUR 22.5 million was invested for renovation and reconstruction activities within the portfolio (2012: EUR 15.0 million), of which EUR 12.0 million (2012: EUR 8.4 million) was capitalised. Renovation expenses for real estate reported under inventories are generally capitalised. Total current maintenance costs (which generally cannot be capitalised) were lower as a result of the reduction in the size of the portfolio (2013: EUR 2.3 million; 2012: EUR 2.8 million). Assuming an average portfolio size of around 351,300 sqm for 2013, annual costs for renovation and reconstruction amounted to EUR 44.58/sqm (2012: EUR 31.38/sqm) and EUR 6.51/sqm for current maintenance (2012: EUR 5.81/sqm). Cost of materials also includes operating costs.

22% Increase in Employees within the Group

Average headcount over the year rose from 529 to 647 employees. The increased **staff costs** amounted to EUR 65.7 million in 2013 (+38.2%). This was due to the new appointments in Germany and other countries and to higher sales commissions on account of better than expected sales. The total provision to cover the variable salary entitlements for the Managing Board and Managing Directors for the past fiscal year was higher than in the previous year – not least due to the increase in the share price. Please refer to the Compensation Report under item 3.2 of this Management Report and to item 9.4 of the Notes to the Consolidated Financial Statements for more information concerning the compensation of the Managing Board.

Other operating expenses amounted to EUR 59.0 million. A large proportion of the higher expenses in the 2013 fiscal year were attributable to PATRIZIA GewerbeInvest KAG's continuous remuneration for the label funds. Additional costs were incurred through the integration of the Tamar Capital Group. This item also includes consulting expenses in connection with transactions effected that were charged on to the investment vehicles and also "broken deal costs" for transactions that did not materialise. It also includes expenses relating to the implementation of the AIFMD and costs associated with the reorganisation.

OTHER OPERATING EXPENSES

	2013 EUR '000	2012 EUR '000	Change in %
Operating expenses	11,507	9,031	27.4
Administrative expenses	15,558	12,660	22.9
Selling expenses	22,444	17,456	28.6
Other expenses	9,483	6,121	54.9
TOTAL	**58,992**	**45,268**	**30.3**

The components of other operating expenses are also listed under item 6.7 of the Notes to the Consolidated Financial Statements.

As a result of the above effects, **earnings before finance income and income taxes** (EBIT) in the reporting year fell by 58.1% to EUR 18.7 million (2012: EUR 44.7 million).

Financial expenses fall by 7%

Additional information is provided under item 6.9 in the Notes to the Consolidated Financial Statements

In accordance with IFRS, changes in market value arising from interest hedging transactions are recognised 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. Depending on the level of interest, the valuation is reported as income or expense in the financial result. It has no influence on the liquidity position of PATRIZIA but can on occasions lead to significant fluctuations in the result. Most of these interest hedging transactions, which guaranteed us a fixed average interest rate of 4.01% p.a. as of 31 December 2013, were concluded at the end of 2006/beginning of 2007 in connection with the financing of major real estate portfolios (investment property). At PATRIZIA, the hedged volume now significantly exceeds the actual amount of the loans, with most of the hedges having expired on 31 January 2014 resulting in a significant reduction in financial expenses in the first quarter of 2014. The remaining hedges will expire on 30 June 2014, leading to a further reduction in our financial expenses. Financing costs (interest rate plus margin) in 2013 amounted to 7.06% of the average bank liabilities over the year (2012: 5.29%). This is due to the fact the financial result is currently still burdened by high hedging costs. The **cash-related financial result** (cash-related interest expenses for bank loans plus expenses for interest rate hedging) improved from EUR –33.4 million to EUR –31.0 million (+7.1%).

MARKET VALUATION OF INTEREST RATE HEDGES 2013

	1st quarter EUR '000	2nd quarter EUR '000	3rd quarter EUR '000	4th quarter EUR '000	2013 EUR '000	2012 EUR '000	Change in %
Change in the value of derivatives	4,894	4,874	4,666	5,091	19,525	11,028	77.0

Investment result increases due to the holding in GBW

The influence of **income from participations** on the consolidated result increases as the number of co-investments grows. PATRIZIA generated earnings of EUR 32.1 million (2012: EUR 6.6 million) from the Südewo and GBW AG co-investments. The rise is, among other things, due to the new co-investment, GBW AG, established in 2013 (EUR 14.4 million) and to the fact that this year was the first time Südewo was included for the whole year (EUR 17.6 million). Income from the **GBW AG** co-investment comprises of the pro-rata advanced profit distribution for 2013 in an amount of EUR 5.6 million, the dividend on the invested equity of EUR 4.2 million and the performance fee of EUR 4.6 million. In addition to the advance profit distribution for 2013 of EUR 7.3 million and the distribution on the invested equity of EUR 1.7 million, the **Südewo** co-investment also generated a performance bonus of EUR 8.6 million for the 2012 and 2013 fiscal years. The **co-investment WohnModul I** contributed a result of EUR 0.7 million compared with EUR 0.5 million in the previous year. It is important to note that in addition to residential property resale, new construction projects are also a focus here, even though these are largely still in the development phase. The results from the co-investments and the improved financial result meant earnings before tax (EBT) rose 38.4%.

A rise in investment results demonstrates the increasing success of our co-investments

Operating result reflects PATRIZIA's earnings power

After deduction of the financial result, earnings before tax (EBT) according to IFRS were EUR 39.6 million, following EUR 28.6 million in the previous year. The reconciliation of EBT in accordance with IFRS to the operating result is effected via an adjustment to non-cash-related components of the result and by taking realised value adjustments to investment property into account. In addition, amortisation on fund management contracts, unrealised changes in the value of investment property and gains/losses from currency translation are eliminated. This approach gives an **operating result** of EUR 38.1 million (2012: EUR 43.9 million). An analysis of the sources reveals that the Management Services segment accounted for 80% of the operating result in 2013 (2012: 52%). We thus more than achieved our target of a share from service business of at least two-thirds.

The Management Services segment accounted for 80% of the operating result in 2013

CALCULATION OF THE ADJUSTED FIGURES 2013

	1st quarter EUR '000	2nd quarter EUR '000	3rd quarter EUR '000	4th quarter EUR '000	2013 EUR '000	2012 EUR '000
EBIT	**2,509**	**5,326**	**4,674**	**6,240**	**18,749**	**44,739**
Amortisation on fund management contracts[1]	492	650	649	775	2,566	1,968
Unrealised change in the value of investment property	0	0	0	–17	–17	–18
Realised change in the value of investment property	5,824	3,154	2,340	3,745	15,063	23,568
EBIT adjusted	**8,825**	**9,130**	**7,663**	**10,743**	**36,361**	**70,257**
Income from participations	6,528	9,305	0	16,289	32,122	6,557
Earnings from companies accounted for using the equity method	0	0	646	12	658	455
Financial result	–2,807	–3,074	–3,107	–2,916	–11,904	–23,130
Change in the value of derivatives	–4,894	–4,874	–4,666	–5,091	–19,525	–11,028
Release of other result from cash flow hedging	0	0	0	433	433	781
Gains/losses from currency translation	0	0	–15	–11	–26	0
OPERATING RESULT	**7,652**	**10,487**	**521**	**19,459**	**38,119**	**43,892**

[1] Other intangible assets that resulted from the acquisition of PATRIZIA GewerbeInvest KAG mbH and Tamar Capital Group Ltd.

Of the previously applied revaluation of investment property, a total amount of EUR 38.7 million was realised from 2007 to 2012. In 2013, the realised changes in the value of investment property amounted to EUR 15.1 million. For the coming years we expect a contribution to results of around EUR 16 million, most of which will be realised in 2015.

Details of the operational realisation of fair value changes since the initial revaluation:

	2007	2008	2009	2010	2011	2012	2013	Total
Change in the value of investment property	69,477	0	0	325	3	18	17	69,840
Realised change in the value of investment property	0	3,179	304	–353	12,042	23,568	15,063	53,803
Cumulative balance from value changes and operating realisation	69,477	66,298	65,994	66,672	54,633	31,083	16,037	16,037

Consolidated annual profit increases 46%

In the 2013 fiscal year, PATRIZIA achieved a consolidated annual profit in accordance with IFRS of EUR 37.2 million (2012: EUR 25.5 million). In 2013, earnings per share rose from EUR 0.40 to EUR 0.59.

2.3.3 THE GROUP'S FINANCIAL SITUATION

CAPITAL STRUCTURE

New bonded loans taken out

In 2013, two bonded loans in a total amount of EUR 77 million were taken out with an institutional investor from among PATRIZIA's real estate investors. The loans have a residual term of 2.5 and 4.5 years respectively, are subject to interest at 4.5% and 4.65% and may be repaid by us prematurely. They are reported under the balance sheet item Non-current liabilities.

The sale of real estate is always associated with the repayment of bank loans, all of which are now classified as current. Loans decreased by EUR 199.4 million, or 38.3%, to EUR 321.6 million. However, the economic transfer and/or full purchase price payment and the associated pro-rata repayment of loans of block sales notarised in the fourth quarter of 2013 and amounting to EUR 42.1 million is taking place in the 2014 fiscal year. Consequently, indebtedness including the two bonded loans will only fall below EUR 350 million at the start of February 2014. Most of the remaining interest hedges expire on 1 January 2014, with the remainder expiring in the middle of the year. Following this, most loans will be unsecured and based on the 1- or 3-month Euribor rate. In this connection, our financial expenses will fall significantly in future. A detailed schedule of maturities by fiscal year is listed in the Notes to the Consolidated Financial Statements under item 5.2.

Equity ratio climbs by 6.5 percentage points

Under liabilities, equity increased by the retained consolidated annual profit from the previous year to EUR 374.5 million. Having set a target equity ratio of 45%, we almost reached this with a ratio of 41.9% (31 December 2012: 35.4%). Over the coming years, we expect stable to increasing equity, which together with a reduction in total assets will produce a further increase in the equity ratio. Our new target is to increase the equity ratio to 80–90% by the end of 2015.

INVESTMENTS

In addition to investments for construction measures within our portfolio and our project developments, which are largely shown under the cost of materials, our liquid assets were in particular also used for new co-investments. In 2013 we engaged in five new co-investments, which have tied up EUR 75.7 million in equity. An overview of all investments is provided in the table on PATRIZIA's capital allocation under item 2.3.4 Net Assets of the Group.

See page 37 for further information

LIQUIDITY

Liquidity analysis

Central responsibility for the financing of the PATRIZIA Group is borne by PATRIZIA Immobilien AG. As of 31 December 2013, there were loan agreements with nine German banks, concluded exclusively in euros. According to the loan agreements and in accordance with our current business model, we reduce loans depending on the status of sales for the financed real estate. When selling real estate or individual units, up to approximately 83% of the sales proceeds is used for repayment.

Liquidity management ensures that the PATRIZIA Group 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. On a same-day basis, account surpluses are transferred to the parent company and account deficits are offset by it. Payment receipts from operating companies and the liquidity surpluses from sales represent the most important source of liquidity within the Group and, alongside bank loans and two bonded loans, ensure that financing requirements are met. A liquidity reserve is maintained in the form of cash to ensure the Group's solvency.

2.3.4 NET ASSETS OF THE GROUP

PATRIZIA NET ASSET AND FINANCIAL KEY FIGURES

	31.12.2013 EUR '000	31.12.2012 EUR '000	Change in %
Total assets	892,715	951,553	–6.2
Equity (including non-controlling partners)	374,481	336,387	11.3
Equity ratio	41.9%	35.4%	6.5 PP
Bank loans	321,634	521,054	–38.3
– Cash and cash equivalents	105,536	38,135	> 100
+ Bonded loans (non-current liabilities)	77,000	0	–
= Net financial debt	293,098	482,919	–39.3
Real estate assets[1]	538,920	720,024	–25.2
Loan to Value[2]	59.7%	72.4%	–12.7 PP
Net Gearing[3]	78.6%	144.2%	–65.6 PP
Operating return on equity[4]	10.7%	13.6%	–2.9 PP

[1] Real estate assets comprise investment property valued at fair value and real estate held in inventories valued at amortised cost.
[2] Proportion of bank loans to real estate assets. Only investment property is calculated at fair value. Inventories are stated at amortised cost.
[3] Ratio of net financial debt to equity adjusted for minority interests
[4] Ratio of operating result to average equity
PP = percentage points

Real estate sales reduce total assets

As of 31 December 2013, the PATRIZIA Group reported **total consolidated assets** of EUR 892.7 million, EUR 58.8 million less than at the end of 2012. Under assets, the stock of real estate decreased by EUR 181.1 million. **Investment property** is recognised at fair value through profit or loss in accordance with IAS 40 (EUR 229.7 million). As could be seen, properties sold in the fiscal year that were reported under investment property were sold at a profit, thus confirming the value retention of the properties. Real estate intended for sale as part of ordinary business operations is reported in the **inventories** and measured at amortised cost (EUR 309.2 million). This item also includes our own real estate developments in Frankfurt, Hamburg and Cologne. They have a carrying value of EUR 93.0 million.

The PATRIZIA Group's consolidated total assets will continue to decrease. The disposal of all real estate will not be completely compensated for by the non-financed expansion of participations. The various participations grew by a total of EUR 64.2 million and have almost trebled. The co-investments DEIKON, GBW AG, Plymouth Sound Holdings LP, sono west and Winnersh Holdings LP were added in the 2013 fiscal year.

PATRIZIA CAPITAL ALLOCATION FOR THE YEAR ENDED 31.12.2013

in EUR million	Assets under management	Investment capital	Participation in %
Own investments	6,169	266.2	
Investment property and inventories[1]	539	220.9	100
Operating companies[2]	5,630	45.3	100
Co-investments	5,602	119.2	
Residential	**4,695**	**92.2**	
GBW AG	2,600	56.5	5,1
Süddeutsche Wohnen GmbH	1,514	15.0	2,5
WohnModul I SICAV-FIS	538	18.3	9.09
Other	43	2.4	10
Commercial Germany	**565**	**19.8**	
PATRoffice	321	7.8	6.25
sono west	58	7.0	30
Deikon	186	5.1	5,1
Commercial international	**342**	**7.1**	
Plymouth Sound Holdings LP (UK)	33	3.5	10
Winnersh Holdings LP (UK)	309	3.7	5
Tied investment capital	11,771	385.4	
Bank balances and cash	–	66.1	–
Total investment capital	11,771	451.5	
thereof borrowed capital (bonded loans)	–	77.0	–
thereof PATRIZIA equity	–	374.5	–

[1] Including real estate developments
[2] Including PATRIZIA WohnInvest KAG mbH, PATRIZIA GewerbeInvest KAG mbH, PATRIZIA UK, PATRIZIA Nordics

Consolidated Cash Flow Statement

In the reporting year, there were cash inflows from **current business activities** of EUR 179.8 million (2012: EUR 32.9 million). As a result of the disbursements associated with the acquisition of participations, **cash inflows from investment activities** were down on the previous year and stood at EUR 87.0 million (2012: EUR 145.8 million). On the other hand, the volume of transactions caused cash **outflows from financing activities** since, as in 2012, significantly more loans could be repaid than were taken out. The **change in cash** thus amounted to EUR 67.4 million (2012: EUR 6.3 million) and increased cash and cash equivalents from EUR 38.1 million at the end of 2012 to EUR 105.5 million as of 31 December 2013.

SUMMARY OF THE 2013 CASH FLOW STATEMENT

	2013 EUR '000	2012 EUR '000	Change in %
Cash inflow from operating activities	179,788	32,855	> 100
Cash inflow from investment activities	87,046	145,755	–40.3
Cash outflow from financing activities	–199,433	–172,303	15.7
Changes in cash	67,401	6,307	> 100
Cash and cash equivalents 1 January	38,135	31,828	19.8
Cash and cash equivalents 31 December	105,536	38,135	> 100

Net Asset Value

Net asset value (NAV) represents the actual value of the real estate less net financial liabilities. At PATRIZIA, some real estate is valued at the market value (fair value, applies to investment property), and some at amortised cost (inventories). In 2013, sales resulted in gross margins of 11.3% and 14.3% above the carrying value, thus testifying to the value retention of our properties. The Management Services division, which contributed 80% of the operating result over the year, is not included when calculating net asset value. Since the NAV represents only part of PATRIZIA, we do not consider it appropriate to value the Group on the basis of this indicator.

CALCULATION OF NAV

	31.12.2009 EUR '000	31.12.2010 EUR '000	31.12.2011 EUR '000	31.12.2012 EUR '000	31.12.2013 EUR '000
Investment property[1]	657,320	614,945	532,321	374,104	229,717
Investments in joint ventures	13	8	18	0	0
Participations in associated companies	0	0	6,809	15,810	18,295
Participations	3,090	3,090	3,134	18,407	80,074
Inventories[2]	676,008	510,438	407,529	345,920	309,203
Current receivables and other current assets	29,428	10,282	48,735[3,4]	92,013[3,4]	82,262
Bank balances and cash	56,183	70,537	43,690[3]	50,330[3]	105,536
Less non-current liabilities	0	0	0	0	–77,000[4]
Less current liabilities	–13,116	–17,008	–16,354[3,4]	–25,876[3,4]	–75,759
Less bank loans	–1,070,207	–841,380	–673,752[3]	–521,054	–321,634
NAV	**338,719**	**350,912**	**352,130**	**349,654**	**350,694**
No. of shares	52,130,000	52,130,000	52,130,000	57,343,000	63,077,300
NAV/SHARE (EUR)	**6.50**	**6.73**	**6.75**	**6.10**	**5.56**

1 Fair market valuation; (gross) sales margin of 2013: 11.3%
2 Valuation at amortised cost; (gross) sales margin of 2013: 14.3%
3 Figures excluding PATRIZIA GewerbeInvest KAG mbH, purchase loans eliminated (concerns 2011) and cash and cash equivalents increased by outflow of equity (concerns 2011 and 2012)
4 Adjusted for non-property-specific items

2.3.5 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 financing and management holding for these companies, PATRIZIA Immobilien AG generated revenues of EUR 13.4 million (2012: EUR 12.8 million), mostly from management cost allocations to the subsidiaries. This allocation was increased in the 2013 fiscal year. Commission income for services rendered on the part of subsidiaries also contributed to increased revenues. Commission income is invoiced through the parent company and results in corresponding administrative expenses. In the 2013 fiscal year, the parent company reported significantly higher purchasing and sales commissions generated in connection with the purchase or establishment of the special funds of the PATRIZIA asset management companies and co-investments. Staff costs increased by 34.0% to EUR 19.8 million (2012: EUR 14.8 million) since the number of employees rose over the course of the year from 178 to 213, or from 206 to 242 when trainees are included. The cost of materials and other operating expenses increased by 17.8% (EUR 19.6 million). In 2013, administrative expenses were negatively affected by higher rental expenses for office accommodation caused by increased staff numbers and new branch offices and by expenses for due diligence processes. Net interest income decreased by EUR 2.3 million to EUR 3.6 million. 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. Income from profit and loss transfers was up on the previous year and totalled EUR 48.6 million (2012: EUR 27.9 million, +74.0%). Earnings from investments climbed 62.7% to EUR 1.8 million. PATRIZIA Immobilien AG's annual profit under HGB for the 2013 fiscal year amounted to EUR 25.5 million (2012: EUR 13.4 million) and when combined with the profits carried forward of EUR 64.4 million represents the Company's unappropriated profit. This unappropriated profit amounted to EUR 89.9 million, an increase of 39.7% over the previous year (EUR 64.4 million).

The pleasing development made by PATRIZIA Immobilien AG will continue in the 2014 fiscal year. According to the forecast for the consolidated result in 2014, earnings from participations and profit transfer agreements will continue to improve. In view of the capacity adjustment in connection with PATRIZIA's growth and reorganisation in the 2013 fiscal year, we do not expect any major increase in costs in excess of the full-year effects in 2013. Equity before appropriation of profits will continue to develop favourably. Indebtedness may increase temporarily if interim financing becomes necessary within the framework of investments.

SUMMARY OF THE PATRIZIA IMMOBILIEN AG BALANCE SHEET

	31.12.2013 EUR '000	31.12.2012 EUR '000
Non-current assets	250,321	190,652
Current assets	216,564	171,901
Prepaid expenses	518	665
TOTAL ASSETS	**467,402**	**363,217**
Equity	364,964	339,420
Provisions	11,109	9,845
Liabilities	91,330	13,952
TOTAL ASSETS	**467,402**	**363,217**

SUMMARY OF THE PATRIZIA IMMOBILIEN AG INCOME STATEMENT

	2013 EUR '000	2012 EUR '000	Change in %
Revenues	13,423	12,772	5.1
Other capitalised services and other operating income	1,341	2,405	–44.2
Cost of materials	–1,780	–3,391	–47.5
Staff costs	–19,779	–14,760	34.0
Depreciation, amortisation, write-downs and other operating expenses	–21,090	–15,631	34.9
Profit/loss from participations, profit transfers and loss absorption	50,428	29,057	73.5
Net interest income	3,589	5,937	–39.5
Result from ordinary activities	**26,133**	**16,388**	**59.5**
Taxes	–590	–2,990	–80.3
Annual profit/loss	**25,543**	**13,399**	**90.6**
Profit carried forward	64,382	50,984	26.3
UNAPPROPRIATED PROFIT	**89,926**	**64,382**	**39.7**

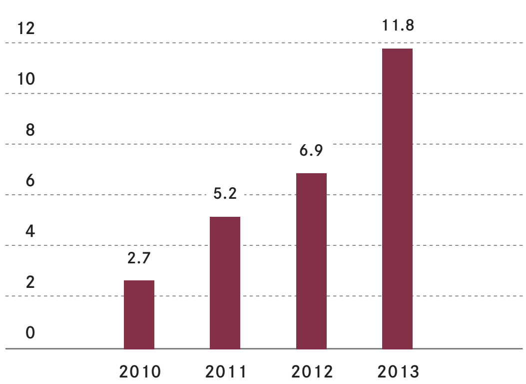
2.3.6 FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

FINANCIAL PERFORMANCE INDICATORS

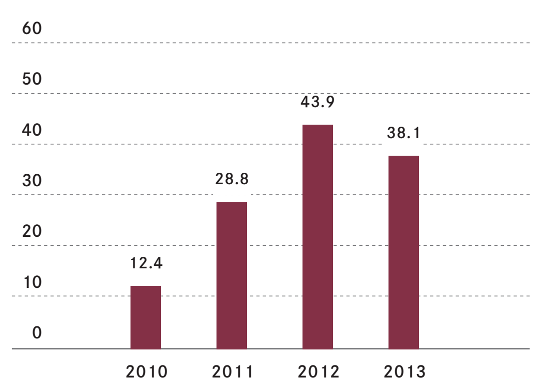
PATRIZIA uses various indicators to manage the Group and achieve its corporate targets. It has defined **assets under management** and **operating result** as permanent key parameters. With figures for **indebtedness** and **equity ratio** having shown a constant improvement in recent fiscal years, these parameters will now play only a subordinate role because the Group's financing is now on a sound footing. **Sales margins** are also becoming less important as own stock is increasingly sold off.

Summary of trends in financial performance indicators:

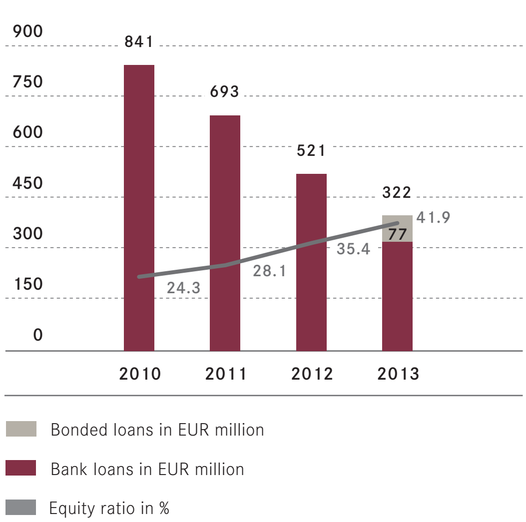
ASSETS UNDER MANAGEMENT (IN EUR BILLION)



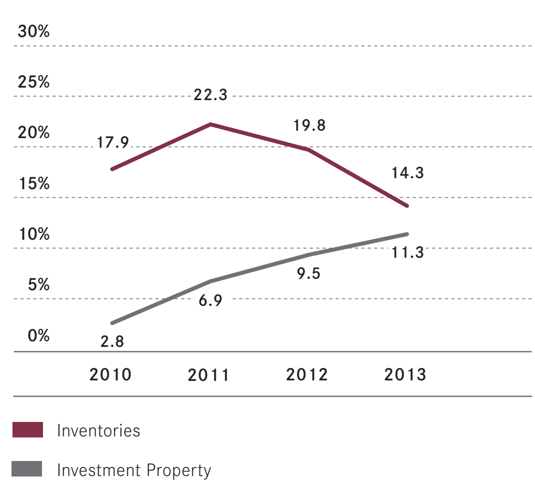
OPERATING RESULT (IN EUR MILLION)



BANK LOANS AND EQUITY RATIO AS AT 31.12.



SALES MARGINS (GROSS)



Summary of forecast figures for the 2013 fiscal year, actual values for 2013 and new target figures for 2014:

	2013 forecast	2013 actual values	2014 forecast
Assets under management	Growth of EUR 1 billion	Growth of EUR 4.9 billion	Growth of EUR 2 billion
Operating result	EUR 47-49 million	EUR 38.1 million	At least EUR 50 million
Indebtedness	EUR 350 million[1]	EUR 399 million[1,2]	EUR 180 million[1]
Equity ratio	45%	41.9%	Increasing to 80–90% by the end of 2015

[1] Including EUR 77 million in bonded loans
[2] Target figure was not achieved because although ownership, use and encumbrances were transferred for some properties, the purchase price is to be received in 2014, as reflected in the balance sheet item current receivables and other current assets of EUR 82.3 million.

Assets under management

The PATRIZIA Managing Board forecast a rise in real estate assets of EUR 1 billion for the 2013 fiscal year. In fact, assets under management rose from EUR 6.9 billion to EUR 11.8 billion. For 2014 we expect assets under management to grow by EUR 2 billion. This represents the balance of purchases and sales by the two asset management companies and the co-investments and of the continuing sale of own stock. In addition, this mean value takes into account one to three portfolio transactions with an individual volume of EUR 0.2 to 1 billion. We will also endeavour to continuously expand our assets under management in subsequent years, too.

Operating result

The operating result before taxes is the Group's most important control variable. The 2013 forecast provided for between EUR 47 and 49 million. In December 2013 this target was reduced to EUR 38 to 41 million. This was due to lower than planned income associated with several one-off effects in connection with expenditures which could only be partly offset by additional business. The actual figure was EUR 38.1 million. For 2014, the PATRIZIA Managing Board anticipates an operating result of at least EUR 50 million.

Indebtedness

Indebtedness of EUR 350 million was forecast for year-end 2013, including around EUR 270 million in bank loans (EUR 292 million in loans less EUR 22 million in purchase price payments received) and just under EUR 80 million in respect of two bonded loans. By comparison, as of 31 December 2013, indebtedness was comprised of EUR 300 million in bank loans (EUR 322 million in loans less EUR 22 million in purchase price payments received) and EUR 77 million in bonded loans. The target figure for bank loans was therefore not fully achieved on the balance sheet date. It is, however, important to note that the economic transfer and/or full purchase price payment and the associated pro-rata loan repayment of block sales notarised in the fourth quarter of 2013 in a volume of EUR 42.1 million is taking place in the 2014 fiscal year. Consequently, indebtedness fell below EUR 350 million at the start of February 2014. For the 2014 fiscal year we expect a reduction to EUR 180 million, including around EUR 100 million in bank loans and just under EUR 80 million in bonded loans.

NON-FINANCIAL PERFORMANCE INDICATORS

Management Responsibility

The current Corporate Responsibility Report is available on our website: www.patrizia.ag/en/press/publications/corporate-responsibility-report-2013-1

PATRIZIA Immobilien AG continues to support various organisations in the real estate industry that are committed to promoting sustainability and environmentally conscious actions. Through our membership in other associations of national and international property companies, we participate in various working groups to make a contribution to the subject of sustainability in the real estate sector, for example in defining reporting standards for residential property. In accordance with its sustainability strategy, PATRIZIA will, over the coming years, work towards the targets it has set itself, as detailed in the Corporate Responsibility Report.

Property Management recertified by TÜV

TÜV Nord has recertified PATRIZIA Deutschland GmbH's Property Management business function in accordance with DIN EN ISO 9001:2008. Recertification audits have been conducted in a three-yearly cycle since 2007 (the latest in 2012), with surveillance audits conducted on an annual basis. The certification is valid for the offices in Augsburg, Berlin, Dresden, Frankfurt, Hamburg, Cologne, Munich and Stuttgart.

In addition, PATRIZIA Property Management is increasingly using green electricity from local sources to supply its assets under management; we obtain this from almost all suppliers on almost the same terms as for electrical energy produced from conventional sources. Regular re-negotiation of framework agreements often enables us to secure more favourable terms for tenants and owners for the supply of natural gas, buildings insurance, measurement services or drinking water analyses.

Sustainability Certificates for Project Developments

Since 2010, PATRIZIA has followed a consistent policy of submitting all construction project developments for DGNB certification

Real Estate Development, which focuses on the creation of own construction projects, is an essential component of PATRIZIA's business activities. PATRIZIA was one of the first real estate companies in Germany involved in establishing the "New Housing" label within the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen (DGNB)). As well as contributing important expert knowledge to drive the development of this new certification system, as early as 2010 PATRIZIA also started consistently submitting all its own construction project developments for DGNB certification. As a result, the projects Provinopark in Augsburg, Belsenpark in Düsseldorf and Friedrich-Karl-Terrassen in Cologne were each awarded the DGNB pre-certificate in silver. PATRIZIA even received the pre-certificate in gold for the VERO town villas project in Frankfurt. PATRIZIA has stated its intention to obtain a pre-certificate for every future project development. Key fundamental principles of PATRIZIA's project developments include avoiding additional land sealing and focussing on inner city areas when selecting project locations, thereby ensuring short distances between home and place of work.

PATRIZIA's travel management policy also considers sustainable aspects. In principle, care should be taken to use the mode of transport that enables the destination to be reached in the most economic and most environmentally compatible way, with priority given to public transport.

PATRIZIA KinderHaus Foundation

PATRIZIA also practises sustainability through the PATRIZIA KinderHaus Foundation, which was established by CEO Wolfgang Egger in 1999 and which involves itself around the world in carefully selected projects whose principal focus is always on creating appropriate living spaces for children and young people in need by providing new buildings precisely tailored to their particular requirements. The aim is always to help these young people to help themselves. The Foundation works exclusively with experienced, recognised partners in the implementation of these children's aid projects. After completion of the new building financed by the Foundation, the partners ensure that the purpose agreed for it for the benefit of needy children and young people is met over the long term and to a high degree. Since its beginnings, the Foundation has constructed eight PATRIZIA KinderHaus buildings in Germany, Africa and Asia. The PATRIZIA KinderHaus Foundation is supported entirely by the work of volunteers from within and from outside of the company. All administrative costs are covered by PATRIZIA and sponsors so that 100% of all donations received can be directly passed on to the aid projects.

More information on the PATRIZIA KinderHaus Foundation aid projects is available at www.patrizia.ag/kinderhausstiftung/en

PATRIZIA Immobilien AG is the main sponsor of the PATRIZIA KinderHaus Foundation

More extensive information can be found in PATRIZIA's Corporate Responsibility Report, which was published for the first time in the 2013 fiscal year. With this report, PATRIZIA fulfils the requirements of the Global Reporting Initiative (GRI), as officially confirmed on 23 September 2013.

Employees

At the end of 2013, the PATRIZIA Group employed 712 permanent employees (previous year: 586 employees, +21.5%) including 42 trainees and students of Duale Hochschule Stuttgart majoring in real estate, in addition to 63 part-time employees. 40 employees (previous year: 8) are now employed at PATRIZIA's international branches in Denmark, France, Great Britain, Ireland, Luxembourg and Sweden. The increase in the number of positions is primarily attributable to the rise in assets under management and to the expansion of the Group's European presence. From 2014 the number of employees in Germany will remain fairly stable, while positions remain to be filled in other countries. On average during 2013, PATRIZIA employed 647 staff (2012: 529 employees, +22.3%), including 34 trainees and 59 part-time-employees. In terms of full-time equivalents, the European headcount at the end of the year was 688 active employees (2012: 532, +29.3%).

The average age of PATRIZIA employees, excluding trainees, is 39 (including Europe). Due to our growth, we again increased the number of trainees and students from 35 in 2012 to 42 in 2013. The current training rate is 6%, with a medium-term target of over 7%. The proportion of male to female full-time employees in Germany is 48% to 52%, while the proportion of male to female part-time employees is 13% to 87%. With an overall proportion of 55%, the majority of employees in the PATRIZIA Group are female. Within senior management (Managing Board and first-tier managers), 13% of those employed in the fiscal year throughout Europe were women, while 23% of managers in the Group were female. PATRIZIA has for several years offered various part-time models to enable better reconciliation of family and working life.

Due to the significant increase in the number of staff, the average period of employment (excluding trainees in Europe) is around four years. We attach great importance to recruiting new managers from within our own ranks wherever possible. Despite growth in Europe and locations throughout Germany, we filled 6 of the 17 vacant management positions with our own staff in 2013. In addition, 24 internal changes took place in the fiscal year as a result of extensive career development. PATRIZIA's internal academy offers company-specific further training and among others, uses PATRIZIA's own experts as trainers. In the first two years since establishment, 1,300 participants attended eleven different seminars in the fields of real estate expertise, management expertise, personal and social expertise and international expertise.

Wherever possible and appropriate, we fill management positions from within our own ranks

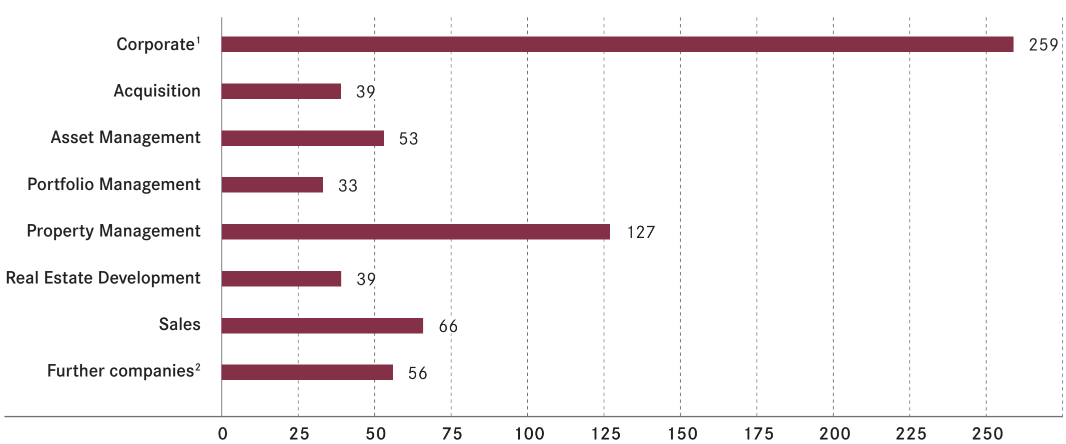
PATRIZIA is among Germany's Top Employers

An annual staff survey has been conducted since 2010. Since November 2012, PATRIZIA has also participated in the public competition "Deutschlands Beste Arbeitgeber" ("Germany's Best Employers") organised by the "Great Place to Work" Institute in Cologne. A participation rate of around 91% of employees in 2013 underlines the sustained interest and credibility of management in the effectiveness of this instrument. In 2013 employee satisfaction increased by a further 1% and now stands at 78%. The survey has, for example, resulted in the introduction of a company health management programme, a kindergarten allowance, group accident insurance and a shopping card, and also a staff participation programme with effect from 2013. The instrument of an employee survey remains an essential component of PATRIZIA's corporate culture and will be continued in future in order to foster the company's further development.

The attractiveness of the company as an employer is also noticeable on the job market. In 2011 PATRIZIA was for the first time voted one of the top 15 employers in real estate by Immobilienzeitung magazine; at the time, it was the only company in residential real estate represented in the rankings. In 2013 PATRIZIA gained another three places, jumping to 8th place.

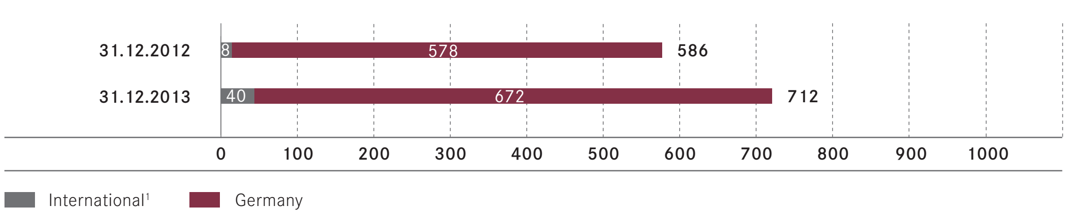
The Group's reorganisation, which was deliberately started during PATRIZIA's most favourable economic situation to date, was completed on 30 June 2013. From now on, functions will be bundled at national level and managed transnationally. The following graphs illustrate PATRIZIA's realignment, which ensures the company is prepared for further international growth.

STAFF NUMBERS IN GERMANY BY BUSINESS FUNCTION AS AT 31 DECEMBER 2013



[1] Trainees are primarily assigned to the Corporate business function.
[2] Primarily PATRIZIA Alternative Investments GmbH, PATRIZIA GewerbeInvest KAG mbH, PATRIZIA WohnInvest KAG mbH, PATRoffice

GEOGRAPHICAL CHANGES IN STAFF NUMBERS



[1] Denmark, France, Great Britain, Ireland, Luxembourg and Sweden

3 FURTHER DISCLOSURES

3.1 MERGER-RELATED DISCLOSURES

The following statement is a disclosure of information in accordance with Article 289 (4) and Article 315 (4) of the Handelsgesetzbuch (HGB – German Commercial Code) which can play a role in the acquisition of control over a company. All arrangements comply with the standards of German companies oriented towards the capital market.

Composition of subscribed capital

Since the capital increase from company funds was entered into the Commercial Register on 8 July 2013, the Company's subscribed capital (share capital) has totalled EUR 63,077,300 and is divided into 63,077,300 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 not aware of any contractual restrictions relating to voting rights or the transfer of shares.

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

As of 31 December 2013, Wolfgang Egger, CEO of PATRIZIA Immobilien AG, held a total stake of 51.62% 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.

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 6 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.

The Company's Articles of Association you find at www.patrizia.ag/en/investor-relations/corporate-governance/articles-of-association

Powers of the Managing Board to issue and buy back shares

By resolution of the Annual General Meeting of 23 June 2010, the Managing Board is entitled to acquire shares in the Company with a volume of up to 10% of the share capital until 23 June 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 or 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 cancelled, sold in exchange for a contribution in kind or to shareholders or used to meet subscription or conversion rights.

The Managing Board was authorised, by resolution of the Annual General Meeting on 20 June 2012, to increase the share capital on one or more occasions with the consent of the Supervisory Board by up to a total of EUR 14,335,750 in exchange for cash contributions and/or contributions in kind by issuing new, registered no-par value shares (Authorised Capital 2012) by 19 June 2017. In certain cases, the Managing Board is authorised, with the approval of the Supervisory Board, to exclude the legal subscription rights of the shareholders. The complete authorisation results from Article 4 (3) of the Articles of Association. In addition, the Managing Board is authorised on one or more occasions, with the approval of the Supervisory Board to grant until 19 June 2017 in accordance with the more detailed 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 “bonded loans”) in the aggregate principal amount of up to EUR 375,000,000 with a term of up to 20 years and to grant the bearer or the creditor of bonded loans, 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 14,335,750. As a result of the 2013 capital increase from company funds, the 2012 contingent capital was conditionally increased, in accordance with Article 218 sentence 1 AktG and by law in the same ratio as the share capital, i.e. by 10%, to EUR 15,769,325 through the issue of 15,769,325 new, registered no-par values shares with a pro-rata share in the share capital of EUR 1.00. 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 take-over 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 exist with the members of the Managing Board or employees for the event of a takeover bid.

3.2 COMPENSATION REPORT

The following section provides information on the principles of the compensation system and on the structure and amount of the payments made by PATRIZIA Immobilien AG to the Managing Board and to the Supervisory Board in the 2013 fiscal year. PATRIZIA follows the recommendations of the German Corporate Governance Code in its entirety for the compensation of the Managing Board and Supervisory Board.

Compensation of the Managing Board
The system of management compensation was approved by the Annual General Meeting on 23 June 2010. The amount and structure of the compensation paid to the Managing Board members are determined and regularly reviewed by the Supervisory Board. The compensation paid to Managing Board members is based on their respective remit, the personal performance of the individual Managing Board member and of the Managing Board as a whole as well as the economic and financial situation and performance of PATRIZIA. The compensation paid to Managing Board members is customary for the sector, appropriate and performance-related. It is made up of non-performance-related components and performance-related components with short and long-term incentive effects. The non-performance-related components comprise fixed basic compensation, which is paid as a monthly salary, pension contributions as well as non-cash and other benefits which primarily consist of

values to be applied in accordance with tax guidelines for the use of a company car and insurance premiums. There are no agreements in place in the case of a change of control.

The performance-related, variable compensation components are calculated on the basis of targets set at the start of the fiscal year, which are divided into three categories: company targets, business line targets and individual targets. The targets are further subdivided into quantitative and qualitative targets. Consequently, the amount of variable compensation paid out depends on the degree to which the predetermined targets are achieved, missed or exceeded.

The primary criterion for the achievement of company targets is profit for the reporting period, as calculated in accordance with IFRS and without taking into account changes in the fair value of the investment property, the losses from currency translation and interest rate hedges and without taking into account depreciation on intangible assets (fund management contracts that came about in the course of the acquisition of PATRIZIA GewerbeInvest KAG and Tamar Capital Group Ltd.) and taking into account realised increases in fair value. This adjusted pre-tax result is reported in PATRIZIA's financial reports as operating result. The operating result acts as an important control variable for the Group. Every year, depending on the Company's planning, a target figure that exactly specifies the amount of consolidated profit to be achieved is defined. If the operating result is less than the hurdle of 67% of the defined target figure, the variable compensation of the Managing Board is omitted completely, irrespective of which other targets – company, business line or individual targets – were achieved.

The Group return on equity for the reporting period is another important company target. An additional criterion for calculating variable compensation is the performance of PATRIZIA's shares over two years in relation to the DIMAX real estate reference index and the Deutsche Börse index applicable at the end of the year, in this case the SDAX small-cap index.

The target figures defined for each target correspond to a degree of achievement of 100%. If the actual value determined corresponds to more than 120% of the defined target value, 150% of the variable compensation is paid. This is also the upper limit that has been defined for the maximum amount of variable compensation that can be achieved. If 80% of the target is achieved, 50% of the variable compensation is granted.

For each predefined target, a variable compensation amount is calculated depending on the degree to which the target has been achieved. The total of all the amounts is paid out in two components. Two-thirds of the amount is paid out in the form of a cash payment, which is designated as a short-term component. The remaining third of the variable compensation is granted in the form of performance share units, i.e. it is not paid out directly in cash. This third is intended as a component with a long-term incentive effect. Performance share units are virtual shares which grant the legitimate beneficiary the right to receive a monetary amount after a fixed performance period has passed. For PATRIZIA, this performance period is three years for all Managing Board contracts valid since the 2011 fiscal year. A performance period of two years was valid prior to the conclusion of the new contracts. The performance share units do not carry any voting or dividend rights. The variable compensation component with a long-term incentive effect is initially converted into performance share units at the average Xetra rate of the PATRIZIA share 30 days prior to and after 31 December of the fiscal year in question. The cash price equivalent of the shares calculated from this is paid out at the average Xetra rate 30 days prior to and after 31 December of the second or third year following the fiscal year in question, i.e. after the end of the vesting period. The variable compensation components with a long-term incentive effect are thus dependent on the Company's share price performance.

The total remuneration paid out for the Managing Board in the 2013 fiscal year amounted to EUR 2.0 million (previous year: EUR 1.8 million). Furthermore, the Managing Board acquired 74,219 performance share units (previous year: 118,354), the cash value equivalent of which will be paid out in the 2015 and 2016 fiscal years. The amount of variable compensation due to be paid out for the past 2013 fiscal year and due for payment in 2014 has not yet been determined since not all components required to achieve the targets are known.

The following payments were granted to the individual members of the Managing Board in 2013:

2013	Short-term compensation[1]				
in EUR	Fixed compensation (fixed salary)	Non-cash and other benefits[2]	Contribution to retirement pension	Short-term variable compensation	Total
Wolfgang Egger, Chairman	360,000	21,676	12,000	306,000	699,676
Arwed Fischer	350,000	31,671	12,000	223,500	617,171
Klaus Schmitt	360,000	11,851	24,000	289,600	685,451
TOTAL	**1,070,000**	**65,198**	**48,000**	**819,100**	**2,002,298**

[1] Payment in the 2013 fiscal year
[2] The item primarily includes non-cash benefits arising from the provision of company cars and insurance premiums.

2012	Short-term compensation[1]				
in EUR	Fixed compensation (fixed salary)	Non-cash and other benefits[2]	Contribution to retirement pension	Short-term variable compensation	Total
Wolfgang Egger, Chairman	360,000	75,562	12,000	202,674	650,236
Arwed Fischer	300,000	37,498	12,000	219,111	568,609
Klaus Schmitt	300,000	33,399	24,000	248,125	605,524
TOTAL	**960,000**	**146,459**	**48,000**	**669,910**	**1,824,369**

[1] Payment in the 2012 fiscal year
[2] The item primarily includes non-cash benefits arising from the provision of company cars and insurance premiums.

	Variable compensation with a long-term incentive effect			
	2013[1]		2012[2]	
	Fair value when granted in EUR[3]	Number of performance share units[4]	Fair value when granted in EUR[5]	Number of performance share units[4]
Wolfgang Egger, Chairman	153,000	26,906	101,337	35,541
Arwed Fischer	124,250	21,849	112,056	39,301
Klaus Schmitt	144,800	25,464	124,063	43,512
GESAMT	**422,050**	**74,219**	**337,456**	**118,354**

[1] Granted in the 2013 calendar year for the 2012 fiscal year once all criteria required for determining the variable compensation were known.
[2] Granted in the 2012 calendar year for the 2011 fiscal year once all criteria required for determining the variable compensation were known.
[3] Conversion to performance share units with two-year/three-year vesting period at an average price of EUR 6.255211. To be paid out in 2015/2016 at the average Xetra price 30 days before and after 31 December 2014/2015.
[4] Due to the bonus shares issued in a ratio of 10:1 in 2012 and 2013, the performance share units issued were adjusted in the same ratio in order to offset any potential dilution effect.
[5] Conversion to performance share units with two-year/three-year vesting period at an average price of EUR 3.45. To be paid out in 2014/2015 at the average Xetra price 30 days before and after 31 December 2013/2014.

Compensation of the Supervisory Board

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

In view of the size of the Supervisory Board with just three members no committees were formed so that the committee remuneration recommended by the German Corporate Governance Code is irrelevant. If a Supervisory Board member was not a member for the entire fiscal year, he/she only receives the fixed compensation pro rata temporis. The members of the Supervisory Board also receive reimbursement for all their expenses as well as reimbursement for any value-added tax payable on their compensation and expenses. The compensation of the Supervisory Board for the 2013 fiscal year totalled EUR 100,000 plus reimbursement for expenses, and is reported in other operating expenses.

The following payments were granted to the Supervisory Board in the 2013 fiscal year:

	Fixed compensation	
in EUR	2013	2012
Dr. Theodor Seitz, Chairman	40,000	40,000
Harald Boberg	30,000	30,000
Manfred J. Gottschaller	30,000	30,000
TOTAL	**100,000**	**100,000**

3.3 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 16 December 2013 concerning corporate governance in accordance with Article 289a of the Handelsgesetzbuch (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.

3.4 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, the Company received appropriate consideration for each legal transaction. There were no measures taken during the fiscal year that require reporting."

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.

4 SUPPLEMENTARY REPORT

Own investments
Economic transfer and/or full purchase price payment and the associated pro-rata loan repayment of block sales notarised in the fourth quarter of 2013 in a volume of EUR 42.1 million is not taking place until the 2014 fiscal year. Indebtedness including the two bonded loans will therefore fall below EUR 350 million at the start of February 2014.

A large part of our interest hedging transactions ended on 31 January 2014, with the rest due to end in the middle of the year; this will significantly reduce our future financial expenses.

Co-investments
At the end of February 2014 a further 112 residential units with a total area of around 8,300 sqm were purchased in Munich. These will be transferred in the first quarter of 2014.

At the start of January 2014 the fourth property, "Watchmoor – Lakeview", was purchased for the co-investment Plymouth Sound Holdings LP for around EUR 6.5 million (GBP 5.4 million).

Third Parties
On 14 February 2014, PATRIZIA signed the contract for the purchase of the "Leo I" real estate portfolio in Hessen. This comprises of 18 office buildings that are leased to the federal state of Hessen on a long-term basis. The overall portfolio has a market value of around EUR 1 billion and is being sold by a subsidiary of Commerz Real AG. PATRIZIA is acquiring the portfolio via a special real estate fund. The transaction is expected to be completed in the first quarter of 2014.

We have also already made initial purchases for the residential and commercial funds of the two asset management companies in a volume of around EUR 105 million.

5 DEVELOPMENT OF OPPORTUNITIES AND RISKS

5.1 MANAGEMENT OF OPPORTUNITIES AND RISKS

A standard corporate risk management system ensures that opportunities and risks are systematically captured, assessed, controlled, monitored and communicated. Our aim is to obtain information on risks and opportunities and their financial implications as early as possible and to manage such risks and opportunities in such a way as to ensure that PATRIZIA's survival is not endangered and to ensure the long-term value of the company is secured and increased. The Managing Board of PATRIZIA Immobilien AG bears overall responsibility. Responsibility for monitoring and developing the risk management system lies with the risk management working group, which is made up of employees drawn from the Controlling, Investor Relations and Legal departments and also the operational areas and which falls within the remit of the Chief Financial Officer. Opportunities are managed outside of risk management. The business functions Acquisition and Alternative Investments systematically and continuously monitor the market for new investment opportunities. In addition, Corporate Development focuses on the further development of existing products and generates new, customised product solutions for our customers in cooperation with Institutional Clients. Market opportunities are thus tapped using an integrated approach. Furthermore, PATRIZIA's Operational Committee ensures that strategic opportunities for growth are identified and consistently pursued.

The scope of consolidation included in the consolidated financial statements also corresponds to the scope of consolidation for risk management purposes. In addition, PATRIZIA's asset management companies each maintain their own separate risk management system which focuses on the risks associated with the managed special real estate funds and ensures compliance with legal supervisory requirements.

Our risk management aims to identify risks and opportunities at an early stage and to manage them in order to ensure the long-term value of the company is secured

Risk management is integrated as a continual process in our operational processes. We continuously monitor the German and European real estate markets, the general economic environment and our own internal processes. Risks and opportunities – defined as negative/positive deviations from planned figures – are identified and communicated at an early stage so that they can pass through the further management process. This is ensured through the weekly jours fixes of the Managing Board, the monthly coordination meeting between the COO and Managing Directors/Country Heads and between Managing Directors and Controlling or the meetings of the Executive Committee Germany and the Operational Committee. The Executive Committee Europe meets on a quarterly basis. The Group Controlling reports provide a regular, standardised information base for managing opportunities and risks. Value drivers are defined for each area of responsibility and are subjected to a monthly target-actual analysis in order to identify undesirable developments at an early stage and enable measures to be taken. Identified opportunities and risks are integrated into the planning and forecasting processes. We evaluate risks based on their probability of occurrence and the magnitude of potential damage and summarise them at Group level. This enables us to determine whether and to what extent there is a need for any action. Risks with a high probability of occurrence or magnitude of damage are limited through operational measures. When necessary, we allow for risks by including precautions such as provisions in the balance sheet. Our analysis of risks and opportunities generally covers the two-year period of our regular corporate planning and can also extend beyond this in the event of significant strategic risks.

Both the efficiency and effectiveness of the risk management system are assessed once a year by means of an internal risk audit. The results appear in a risk report which presents all risks, operational measures and responsibilities. At the same time, the comprehensive documentation of this report ensures an orderly audit which can be conducted by the responsible departments and can be understood and followed by the Supervisory Board. In addition to the Managing Board, the managing directors of the business functions are also informed of the risk inventory's results. The early risk detection system is also audited by the auditors in accordance with Article 319 (4) of the Handelsgesetzbuch (HGB – German Commercial Code).

5.2 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 OF THE HANDELSGESETZBUCH (HGB – GERMAN COMMERCIAL CODE)

The risks relating to accounting and financial reporting are that our annual financial statements and quarterly reports could contain misrepresentations or that customers for whom we perform accounting work could report misrepresentations in their financial statements which could have a material impact on the decisions made by the readers of such statements. In order to identify sources of error and to limit risks that might result from them, PATRIZIA Immobilien AG has established an appropriate internal control system (ICS) for its accounting process. It provides sufficient security for the reliability of its financial reporting and creation of the annual and consolidated financial statements and quarterly reports throughout the year in compliance with regulations. However, the ICS cannot provide absolute certainty with regard to avoiding errors or misstatements in accounting and financial statements.

For each quarter and each complete year, the members of PATRIZIA Immobilien AG's Managing Board sign the declaration by the legal representatives. In doing so, they confirm that the prescribed accounting standards have been complied with and that the figures give a true and fair view of the assets, liabilities, financial position and profit or loss.

The starting point for the ICS is the planning drawn up once each year based on the targets set by the Managing Board and the expectations with regard to the development of the operating business. Planning supplies budgetary values for the coming fiscal year and target figures for the following fiscal year for each company and each cost centre. Differences between the actual and target figures are determined and analysed on a monthly basis. A revised forecast for the current year is made in the middle of the year and 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 examines the effect of amendments to laws and standards and other notices on accounting and the preparation of financial statements. The intention is to guarantee compliance with legal regulations and standards by means of the systematic implementation of the principle of dual control in accounting-related processes. Separate functions and authorisation regulations, which are reinforced by ongoing, standardised and automated control and coordination systems, are a significant part of our ICS.

Operational accounting for all operational companies and property companies with real estate assets in Germany is located centrally within PATRIZIA Immobilien AG. Operational accounting for the companies located abroad is generally performed by the national company. Operational accounting is based on group-wide standards within a central IT environment which is largely based on SAP and for which there are defined access rights. With the exception of the subsidiaries located abroad (Denmark, France, Great Britain, Ireland, Luxembourg and Sweden), current financial accounting and the preparation of the annual financial statements are performed exclusively at the head office of PATRIZIA Immobilien AG. Rules for the group-wide presentation of the companies to be included in the PATRIZIA consolidated financial statements are issued by PATRIZIA Immobilien AG. PATRIZIA's internationalisation is presenting new challenges concerning professional control of the new locations. In addition, implementation of the SAP system has not yet been completed for the new branch offices. The accuracy and reliability of the individual financial statements presented by the international subsidiaries are verified within Group Accounting. Group Accounting consolidates the individual financial statements to produce the consolidated financial statements. The employees involved in the preparation of the annual financial statements are properly trained, and relevant responsibilities and controls are clearly defined for this work.

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.

5.3 IMPORTANT CATEGORIES OF OPPORTUNITY AND RISK

5.3.1 MARKET AND INDUSTRY

Opportunities and Risks arising from Macroeconomic Developments: The current environment with favourable financing terms and low mortgage interest rates is increasing the attractiveness of real estate as an alternative investment in Germany and Europe, and thus demand from private and institutional investors. This is firstly providing PATRIZIA with an opportunity to increase the sale of residential units to tenants, owner-occupiers and private investors. Secondly, the current financing situation is enabling it to implement portfolio purchases and project developments. The success in implementing the current reforms to stabilise the imbalances in countries facing financial difficulties may transfer to the German economy and thus have a favourable impact on the real estate market. In addition, an unexpected adjustment of the ECB's main refinancing operations rate and an increase in the rate of unemployment among young people within the Eurozone can dampen stable macroeconomic development. The purchase and sale of real estate and also property management are directly linked to trends on the rental and investment markets. Economic developments in Germany and Europe could affect the rental and investment markets and thus PATRIZIA's commercial success. We do not currently see any risk of a slowdown in PATRIZIA's business performance in the medium term. Moreover, we do not see any risks of changes in value for the two major co-investments of recent years (Südewo, GBW AG) as the real estate markets are continuing to develop positively.

Financing conditions and low mortgage interest rates are increasing the investment attractiveness of real estate

The Residential Real Estate Market in Germany: Demand on the German residential real estate market remains high and is, among other things, boosted by the favourable underlying macroeconomic conditions within the German economy, which promises high value retention compared with other countries. The positive price trend especially in top locations and continuing attractive prospects for returns even in secondary locations have led to an increasing presence of national and international investors on the investment market. For the first time since 1990, the data published on the German census at the start of 2013 have provided important information on the level of home ownership, the age structure of buildings and on vacancy rates, which will in future increasingly affect the basis of investment decisions. Housing construction activities rose constantly last year, prompting us to forecast an increase in future floor space supply. However, markets in Germany with intense demand will continue to suffer from an inadequate supply of residential space. In addition to real estate in the major cities, PATRIZIA will therefore also increasingly consider high-quality properties in selected secondary cities as an interesting investment alternative.

The Residential Real Estate Market in Europe: Across Europe, price development for residential real estate was very modest last year. However, PATRIZIA considers the price increase observed for residential real estate in the Nordic countries as an opportunity to benefit from this positive trend through suitable investments in the current market environment. Average construction activities on the European residential real estate market were also at a low level last year. This was, among other things, due to the high country-specific levels of unemployment and restrictive domestic demand. Long-term, however, demographic change and the trend towards concentration in big cities in particular will increasingly influence the development of real estate and its prices. In this context, we see interesting potential for investment through the development of suitable residential real estate in regions where demand is increasing. For PATRIZIA, this applies, among other things, to Scandinavia as well as to other markets, such as Great Britain, with a historically weak institutional condominium market structure.

PATRIZIA believes Scandinavia and Great Britain offer potential for investment

The Commercial Real Estate Market in Germany and Europe: The increase in consumer spending in Germany during the last year combined with general economic trends had a positive impact on the returns on and demand for retail properties. Despite the divergent economic trend within European countries, 2013 revealed a very active transactions market for commercial real estate. Last year, the proportion of international investors, notably from Asia, also rose significantly. The observed investment activities were focussed on the major British, French and German cities, which also attracted many non-European institutional investors. PATRIZIA believes this area continues to offer interesting investment opportunities, with attention also increasingly focussed on good secondary locations. The same can also be said of the commercial real estate markets in the Nordic countries, which last year revealed a manageable number of transactions, partly due to the shortage in low-risk properties on offer.

Competitive Situation: The increasing demand for indirect real estate investments means this market is likely to grow further. The European regulation of managers (AIFMD) will lead to harmonisation and thus to equality among fund administrators. Competitors will therefore need to enhance their unique selling points in future.

PATRIZIA has responded in a foresighted manner and has already undergone organisational and process-based restructuring to help it secure a leading market position in Europe. The new structure will enable PATRIZIA to leverage transnational synergies while also optimising existing service lines. This market position must be further expanded over the coming years. Increasing assets under management will enable PATRIZIA to successively increase its income from European service business and further stabilise its operating business. In addition, PATRIZIA's established investment platforms in Germany, Denmark, the United Kingdom and Ireland, France and Luxembourg will achieve a further expansion in the product range, enabling it to also attract increasing numbers of international investors.

Competition in the Services segment will continue. Customers are attaching increasing importance to outstanding management quality at competitive prices. PATRIZIA considers it also well positioned in this respect, too.

Long-term Investment Contracts: The long-term investment contracts result in planable income flows. Moreover, the long-term contracts render the loss of a client in the 2014 fiscal year highly unlikely. As a result of the flexible organisational structure it is not possible to identify excess capacities resulting from possible losses of clients.

5.3.2 BUSINESS AND OPERATING ACTIVITIES

Purchases and Sales of Real Estate: Depending on whether we are acting as seller or purchaser, fluctuating prices can either be advantageous for us or present us with business challenges. This applies in equal measure to own investments, co-investments and third parties. On the supply side, the continuing high demand for attractive real estate has led to a shortage in suitable properties, while at the same time demand pressures are driving prices higher. This makes it increasingly challenging to acquire suitable properties offering adequate returns. For PATRIZIA, opportunities are in particular presented by larger properties where there is a demand for a speedy purchase and good market knowledge. The loss of planned purchase fees can have a negative impact on the consolidated result, unless they are offset by other income. In sales of both own and third-party properties we are benefitting from the high demand and increasing prices.

Own and third-party properties: We consider a decline in the market attractiveness of our properties improbable. We invest in maintenance and modernisation on an ongoing basis to enhance rentability and saleability. The optimisation measures we carry out while holding the real estate increase its attractiveness and consequently also sales prices. As an asset and property manager, we are also responsible for managing and optimising external properties for third parties. Inadequate maintenance and renovations, delays in construction, failure to meet deadlines or cost overruns – especially with new construction project developments – could lead to customer dissatisfaction or even a loss of orders and have a detrimental impact on the Group's earnings position. We again assume a low probability of occurrence with negligible financial consequences for 2014.

Co-investments: For PATRIZIA, regular initiation of new, profitable co-investments is an important prerequisite for long-term successful business activity. The success of new co-investments is directly linked to the supply situation. Depending on the product, securing customers and consequently the required equity does not represent a limiting factor and is on the contrary helped by the current underlying economic conditions. We do not consider securing finance a risk either. The challenge lies in purchasing corresponding individual properties or portfolios that match PATRIZIA's criteria and those of investors. In this context, please refer to the previous statements under "Purchases and Sales of Real Estate".

Funds: For the special real estate funds, opportunities and risks primarily result from the planned income from fees, which in turn depend on the assets managed, on sales and purchases and on the fund returns achieved. Income can be negatively affected by the depreciation of real estate, losses of rent and a reduced transaction volume. This could make it necessary to reduce or even suspend planned dividends to investors. A lack of customer satisfaction can result in outflows of funds and make it difficult to establish new funds. PATRIZIA benefits from the fact that it handles diversified modular funds and various individual funds and is able to access a varied supply of suitable properties. Completely different purchasing profiles make up for possible bottlenecks in individual classes of property. We assume that we will be able to invest investor equity within the specified period and that we will not have to lower our sights with regard to properties or prices. Here we benefit from the fact that properties held in special funds have to be backed by at least 50% equity and that borrowing in this constellation can be obtained quickly and on favourable terms. In general, we do not expect a lower level of investment activity for 2014. We currently estimate the risk of having to reduce planned dividends to investors as very low. In fact, we see an opportunity to gain new customers as a result of the funds' performance and PATRIZIA's reputation as a serious partner and to realise the planned establishment of new funds and the expansion of existing fund products within a short period.

Customers and Business Partners: Partner risks are those arising from business relationships with customers and suppliers. Non-adherence to deadlines and/or inadequate quality of services 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, especially for project development. Losses of rent and subsequent bad-debt losses could also negatively impact PATRIZIA's revenues and earnings. 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, as 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 realised at a later time and that negative budget variances could arise in the short term.

A customer's dissatisfaction with the property-related services we provide could lead to a loss of customer trust, financial demands and even to the loss of the contract. As regards service contracts and co-investments, there is the risk that partner companies withdraw from the market or delay making investments in the volumes originally intended. The loss of business partners/investors or problems with acquiring new business could jeopardise expected income from fees and the financing and implementation of the respective joint projects. Extending co-investment and fund business activity increases PATRIZIA's dependence on institutional clients such as insurance companies and pension funds. This could put pressure on our margins. In order to reduce this risk we have adopted a broad-based sales strategy that also includes addressing international investors. 48% of investors in our funds and co-investments have multiple investments with PATRIZIA.

For further information, please refer to the section on employees under 2.3.6

Employees: The skills and motivation of our employees are decisive factors in PATRIZIA's success as our business activities are increasingly becoming a so-called "people business". We count on employees who gain the trust of investors, tenants, business partners and shareholders as a result of their expertise and who establish long-term business relationships for the benefit of PATRIZIA. During the period of continued growth it is crucial for PATRIZIA to recruit suitable new employees to ensure the company's successful further development. We are introducing a number of personnel development measures in order to reduce the risk of staff fluctuations and a loss of knowledge and to strengthen long-term loyalty to PATRIZIA, especially in key positions. Wherever possible, we endeavour to fill management positions internally.

IT Security: Almost all our essential business processes are now based on IT systems. Any fault affecting the operation or security of the IT system affects operating activities. A substantial loss of data could lead to considerable financial losses and also adversely affect tenants' and business partners' perception of the Company. Regular data backups are made in order to guarantee the reliability of IT operations. Furthermore, permanent monitoring and continuous optimisation are undertaken to prevent outages. We invest considerable amounts in hardware and software, not only in order to limit risks but also in the interests of further development. Regular emergency exercises, also extending to our outsourcing partners, are designed to ensure that processes run as smoothly as possible in the event of disaster recovery. In addition, the ERP (Enterprise Resource Planning) systems are operated on a redundant and mirrored basis. In combination with virtualised storage and server systems, this will ensure a significant reduction in downtime in an emergency – especially for central business processes. Role-specific access rights are defined in order to guarantee data security. The password policy ensures regular changes of access passwords and only permits secure versions.

5.3.3 FINANCIAL RISKS

Financing Risks: We consider the risk that external capital may not be available to PATRIZIA at all times to the necessary extent or only at financially unattractive conditions to be extremely low. On the one hand, because we will only undertake direct real estate investments on our own in exceptional cases and on the other hand because the company's earning power and liquidity situation, and therefore its credit standing, has shown a significant and sustainable improvement. Current interest rates remain at an historic low level. Even rising interest rates would not present a problem for PATRIZIA because the high levels of sales have reduced the level of indebtedness over a period of years and this development is continuing. PATRIZIA's own stock is financed at the property/portfolio level. Bank loans will be largely redeemed as we sell off our entire real estate portfolio by 2015/2016. The loans for EUR 284.9 million which are due to expire in 2014 will also have been reduced via sales by the time they mature. Extensions are already being negotiated and the relevant contracts will be concluded early at a lower interest rate.

In 2013 and as an alternative to bank loans, we took out two bonded loans with one of our institutional real estate investors. This enables us to react flexibly to capital requirements of new co-investments.

PATRIZIA also procures external capital as a service for the co-investments and funds. The equity required for refinancing individual properties is currently around 30% for our co-investments, and funds must by law finance at least 50% of their special funds from own funds. The ideal feasible volume from an individual bank for refinancing is between EUR 15 and 40 million. Larger portfolio financing of EUR 100 million is also easily conceivable for PATRIZIA.

Credit Terms: Some of PATRIZIA's bank loans contain loan clauses. We currently do not see any risk of PATRIZIA breaching the various underlying covenants. Loans are always concluded at the level of the special purpose property company. The covenants generally relate to the rental basis, with interest expenses for each property covered by rental income.

We currently see no risks from external borrowing

Rating: At present, there is no credit check in the sense of a rating by an external rating agency for PATRIZIA on account of the associated costs. However, we currently envisage this will happen within two years at the latest.

Interest Risks: We have entered into interest rate hedges in the form of swaps and collars for our bank liabilities. The revised market valuation of these hedges as of the reporting date can have a considerable influence on net profit in accordance with IFRS, even if these effects do not constitute income or expenses that impact liquidity. Our continuous planning takes account of all changes in financing costs. Increasing interest rates would have a positive effect on earnings owing to the valuation of the derivative instruments, and on the balance sheet the valuation result from cash flow hedges would have a positive effect on equity. Derivative financial instruments are not used for trading or speculation purposes. Most of our hedge agreements were concluded at the end of 2006/beginning of 2007 in parallel with the conclusion of larger financing volumes. The acquisition interest rate hedged averaged 4.01% p.a. at the end of 2013. Most of the interest hedging transactions expire on 31 January 2014, or on 30 June 2014 at the latest. From the second half of 2014, therefore, the financial result will no longer be affected by changes in the value of derivatives or expenses for interest hedging. Financing costs will reduce considerably in 2014.

Interest hedges that expire in January and June 2014 will have a favourable impact on the cash-related financial result

Liquidity Situation: We regard the likelihood and effect of the risk of a liquidity bottleneck as very low. As of 31 December 2013, bank balances and cash posted amounting to EUR 105.5 million were available to PATRIZIA in order to cover its refinancing and operating liquidity requirements. In addition, based on the Group's current liquidity planning, we expect further cash surpluses from operating business within a forecast period of one year; these will be used for investment planning in the same periods. The equity released through sales also increases existing liquidity.

PATRIZIA optimises and manages liquidity by means of cash pooling. Early-warning indicators and comprehensive continuous planning also serve to prevent risks and to ensure that an unexpected liquidity requirement can be serviced.

Internal financing power and debt retirement capability are ensured

Fluctuations in International Exchange Rates: Most subsidiaries and real estate companies are based within the Eurozone. The international branches in Denmark, Sweden and Great Britain represent an exception; these perform external asset management mandates and also establish co-investments. As of the balance sheet date, PATRIZIA had international currency investments of EUR 6.4 million with a minority holding in the co-investments Plymouth Sound Holdings LP and Winnersh Holdings LP. Since the participating interests in these companies and the granting of shareholder loans are effected in the respective national currency, the subsidiaries and real estate companies are subject to a certain exchange risk. This exchange risk can be considered limited because Denmark and England have close links with the Eurozone and therefore pursue a central monetary policy objective aimed at ensuring stability of the krone/GBP vis-à-vis the euro.

Exchange risks can occur with increasing expansion outside of the Eurozone

5.3.4 OTHER RISKS

Legal Risks: At present, there are no major legal disputes and/or claims for compensation.

Changes to Legislation and Regulatory Requirements: The Alternative Investment Fund Manager Directive (AIFMD) adopted by the European Parliament was translated into national law in the respective countries in 2013. PATRIZIA's fund products are also affected by this new Directive. The measures to establish compliance with the AIFMD resulted in one-off expenses in 2013. Further one-off costs for additional/new international investment platforms are expected in 2014, although these are unlikely to be as high as last year.

The higher supervisory and administrative requirements associated with the AIFMD will result in recurring higher expenses for PATRIZIA and these may have a negative impact on previous margins achieved. The application for authorisation of the German asset management companies will be submitted in the first quarter of 2014. We do not believe there is a risk that the supervisory authorities will reject the applications.

The European investment industry is more strictly regulated by the EU-wide AIFM Directive

We do not consider there is any additional risk for our funds that are subject to regulatory supervision and affected by the respective national AIFMD provisions because each fund was prepared for the new regulatory environment during the process to establish AIFMD compliance. Among other things, the terms of investment were adapted as part of these preparatory measures. We therefore do not consider there is any risk of non-compliance.

Contractual Risks: No contractual risks exist (e.g. in respect of the social clauses of the established co-investments) because these only affect the non-consolidated subsidiaries. The investment contracts do not reveal any substantive contractual risks.

5.4 OVERALL ASSESSMENT OF OPPORTUNITIES AND RISKS

Risk management at PATRIZIA is a continuous process which identifies changes in risk and defines appropriate countermeasures. In 2013, 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 for the main investments (until the planned exit).

The overall risk situation improved again in 2013 compared with the previous year. This was helped by the continuing process to reduce debt, which resulted in a 38.3% reduction in loans and the equity ratio reaching a comfortable level of 41.9% with a further rise expected. Although the operating result was below forecast, 80% of income now results from services business, which is predictable. With the co-investments business model assuming a more concrete form each year and the associated investment results having an increasing impact on the consolidated result, our risk profile has fallen again and will continue to fall in future years.

6 REPORT ON EXPECTED DEVELOPMENTS

6.1 FUTURE ECONOMIC FRAMEWORK

Macroeconomic Development: At the end of 2013, economic and monetary development in the Eurozone in 2013 prompted the ECB to consider all available instruments to keep inflation below, but close to 2%. Together with the most recent reduction in the key interest rate, economic growth of around 1% is forecast for the Eurozone for the current year, following a contraction in 2013. This development is, among other things, based on successful implementation of the reforms to stabilise national budgets and reduce unemployment, and on stable international demand. Germany is expected to experience growth in the coming year, which could be jeopardised firstly by economic development in financially weak European countries and secondly by measures planned under the coalition agreement. One example here is the impact of the planned introduction of a minimum wage.

General Business Development: The European investment industry is more strictly regulated through the EU-wide AIFM Directive. The adjustments required at PATRIZIA were made during 2013 and fully considered. PATRIZIA's ongoing operations are not affected by the introduction of the new Directive. For further information, please refer to item 5.3.4 of the Opportunity and Risk Report (here: Legal Risks and Changes to Legislation and Regulatory Requirements).

Future Situation in the German Real Estate Market: The underlying macroeconomic conditions in Germany combined with the sharp rise in demand for residential real estate will result in price and rent rises during the current year. This effect will be more pronounced in conurbations with a rising/constant population trend than in cities where population figures have fallen in recent years. However, opportunities for rent increases are dependent on the Federal Government's planned freeze on rent prices. The commercial real estate market is also benefitting from the strong domestic demand. Sound returns are expected in 2014 due to the high demand from national and international investors and the increased attractiveness of German commercial investments.

Future Situation in the European Real Estate Market: We have outlined the situation concerning supply and prices in the European real estate markets of relevance for PATRIZIA in the Opportunity and Risk Report under item 5.3. We anticipate that the statements made there for 2014 remain valid and that the market will not alter greatly.

Please refer to page 53 et seq. for more information

6.2 STRATEGIC DIRECTION

It is our intention to become the leading fully integrated real estate investment company in Europe by 2015. We are focusing on expanding fund and asset management. This produces annually recurring, predictable income. Co-investments enable us to effect a much larger volume of investments with the available equity than was previously possible with own investments. We aim to have sold almost all of PATRIZIA's remaining own real estate portfolio of around 4,100 apartments by the end of 2015, allowing us to then operate as an investment manager and co-investor. Own investments will remain an option in exceptional cases.

It is our intention to become "the" leading fully integrated real estate investment company in Europe by the end of 2015

In 2013, we increased managed real estate assets from EUR 6.9 billion to EUR 11.8 billion. As a result of corresponding purchases and sales, we expect assets under management to record net growth of EUR 1 billion respectively over the next two years. In addition, one to three portfolio transactions with an individual volume of EUR 0.2 to 1 billion will further increase the volume of real estate being managed. The purchase of the "Leo I" portfolio, which has assets under management of EUR 1 billion and which was effected in the middle of February 2014, is one of these three portfolio transactions. In principle, we expect stronger growth in the commercial sector, which has now proven itself as a second main pillar and become a fixed element of PATRIZIA's business activities.

Institutional investors want investment products from one single source

Our clear commitment as a co-investor and the integrated services of purchasing and selling, property, fund and asset management are all arguments in favour of PATRIZIA as an investment platform. The extensive investment products meet almost all requirements and offer institutional investors customised solutions.

6.3 EXPECTED DEVELOPMENT OF THE EARNINGS SITUATION AND ASSUMPTIONS CONCERNING ACHIEVEMENT OF TARGETS IN 2014

6.3.1 THE GROUP IN GENERAL

SUMMARY OF THE DEVELOPMENT OF SELECTED ITEMS IN THE CONSOLIDATED INCOME STATEMENT

	2013 forecast	2013 actual values	2014 forecast
Operating result	EUR 47-49 million	EUR 38.1 million	minimum EUR 50 million
Return on equity	Increase, over the medium term, to 15%	11%	13%
Staff costs	EUR 58 million	EUR 65.7 million	EUR 71-73 million
Cost of Materials	> EUR 75 million	EUR 58.3 million	EUR 35-38 million
Other Operating Expenses	approx. EUR 45 million	EUR 59.0 million	EUR 45-50 million

Operating result: This is the Group's most important control variable. The 2013 forecast provided for between EUR 47-49 million. In December 2013 this target was reduced to EUR 38-41 million. This was due to lower than planned income associated with several one-off effects in connection with expenditures which could only be partly offset by additional business. The actual figure was EUR 38.1 million. Earnings from investments are gaining in importance and will also be a determining factor in 2014. For 2014, PATRIZIA's Managing Board forecasts an operating result of at least EUR 50 million.

Return on equity: In last year's annual report, we expected a return on equity of 15% in the medium term. For the 2014 fiscal year we expect a return on equity (based on the operating result achieved) of around 13%.

Revenues: Sales revenues have only limited significance for PATRIZIA since the selling prices of properties reported in non-current assets are not reflected in sales revenues. Profits from sales are reported under the item "Income from the sale of investment property". The item income from participations is shown below EBIT and thus improves earnings before taxes, but does not increase sales revenues. It is for this reason that PATRIZIA is not forecasting sales revenues in the current annual report.

Staff Costs: The increased staff costs are due to the new appointments in Germany and other countries and to higher sales commissions on account of better than expected sales. For 2014, we do not expect a significant increase in the number of employees (based on full-time equivalents). However, the training rate will increase slightly from its current 6%. It should be noted that trainees are reported under full-time equivalents. The expansion of international activities will lead to new jobs. The new appointments made during 2013 will affect staff costs for the entire year for the first time in 2014. We expect overall staff costs of EUR 71-73 million.

Cost of Materials: The cost of materials in 2013 was below the planned figure because two project developments were delayed into the current 2014 year. The item mainly includes new construction costs for PATRIZIA's own project developments in Frankfurt, Cologne and Hamburg and also expenses for renovating and maintaining own stock. For 2014 we expect costs of between EUR 35 and 38 million, most of which can be capitalised.

Other Operating Expenses: A large proportion of the higher expenses in the 2013 fiscal year were attributable to PATRIZIA GewerbeInvest KAG's continuous remuneration for the label funds. Additional costs were incurred through the integration of the Tamar Capital Group. This item also includes consulting expenses in connection with transactions effected that were charged on to the investment vehicles and also "broken deal costs" for transactions that did not materialise. It also includes expenses relating to the implementation of the AIFMD and costs associated with the reorganisation. In 2014 other operating expenses are expected to amount to EUR 45–50 million.

Further financial performance indicators are detailed in 2.3.6

6.3.2 OWN INVESTMENTS

SUMMARY OF THE DEVELOPMENT OF OWN INVESTMENTS

	2013 forecast	2013 actual values	2014 forecast
Sales of own stock	approx. 1,800 units	1,714 units	approx. 1,800 units
Rental revenues	Continuous decline	EUR 30.7 million	around EUR 20 million
VERO project development	Completion of the 6 town villas	Insolvency of a contracting partner prevents handover	Completion with a contribution to results of EUR 5-6 million

Sales of own stock: 1,714 units were sold in 2013. PATRIZIA's own portfolio which currently comprises 4,100 units is to be largely sold off by the end of 2015. Remaining stocks will also be sold off soon after 2015. An annual guide figure provides for the sale of around 1,800 units. We anticipate that around 30% of the units will be sold through residential property resale and the remaining 70% through block sales, and that in each case a mark-up of around 20% on the carrying value will be achieved. It should be borne in mind that sales of investment property will generally result in significantly lower margins than real estate sales from inventory assets since the former are held at fair market value. Most of the sales planned for 2014 relate to non-current assets.

Rental revenues: Rental revenues are constantly declining as sales of own properties increase. As a result of the sales effected in 2013 and the ones planned for 2014, we expect rental revenues of around EUR 20 million in 2014.

Project developments: The insolvency of a contracting partner for a major trade company for our construction project in Frankfurt meant that completion of the six VERO town villas, which was planned for the fourth quarter of 2013, is now delayed into the first half of 2014. The anticipated contribution to results is EUR 5-6 million.

6.3.3 CO-INVESTMENTS

Südewo: The annual advance profit distribution is EUR 7.3 million. In addition to the dividend on the invested equity of EUR 1.7 million, in 2013 we also received performance-linked bonuses of EUR 8.6 million. In the 2014 fiscal year we expect lower performance-linked income as the figure for 2013 includes the two fiscal years 2012 and 2013.

GBW AG: The advance profit distribution in 2013 was EUR 5.6 million, pro-rata. It will be calculated for the whole year for the first time in 2014. Due to the fact that extensive value-enhancing measures were implemented in the first year of the investment, both the dividend on the invested equity of EUR 4.2 million and also the performance fee of EUR 4.6 million exceeded the business plan.

Please refer to page 37 for the summary of investments

Other Co-investments: In addition to the fees for management services, we also receive the dividend on the proportionate equity invested for all other co-investments. For the co-investments established in 2013, the effect of the higher assets under management will be seen for the first time over a full year. The acquisition fee for new co-investments will have a favourable effect.

6.3.4 THIRD PARTIES

PATRIZIA expects institutional investors to show increasing interest in special real estate funds. At the end of the year, for example, PATRIZIA GewerbeInvest KAG had extended its savings banks customer base from 42 to 74. We plan to invest around EUR 1 billion for our investors via the funds of the two asset management companies in the 2014 fiscal year. We are optimistic we will attract fresh capital in addition to the current existing equity commitments of EUR 1.1 billion. In addition to the purchasing fee and the customary fund management fee, the asset management companies are now also generating sales fees through portfolio streamlining measures.

6.4 EXPECTED DEVELOPMENT OF THE NET ASSET AND FINANCIAL SITUATION

As of 31 December 2013, financial liabilities declined to EUR 399 million (EUR 322 million in bank loans and EUR 77 million in bonded loans). However, it is important to note that the economic transfer and/or full purchase price payment and the associated pro-rata repayment of loans of block sales notarised in the fourth quarter of 2013 and amounting to EUR 42.1 million is taking place in the 2014 fiscal year, reducing indebtedness to below EUR 350 million at the start of February 2014. We should be virtually debt-free by the end of 2015 when PATRIZIA's portfolio has been almost entirely sold. The majority of interest rate hedges expired on 31 January 2014. Given the current interest level, this means significantly reduced expenses for interest hedging, which will have a favourable impact on the financial result. Financial expenses will fall still further when the last interest hedges expire on 30 June 2014. Repayment of loans will result in a continuous increase in the equity ratio; we expect this to be at least 80% by the end of 2015. As of 31 December 2013, it stood at 41.9% and thus almost reached the forecast target of 45%. We also anticipate that we will not exceed a tax quota of 15% in the next one to two years.

6.5 DIVIDEND POLICY

The Managing Board and the Supervisory Board of PATRIZIA Immobilien AG propose that the retained earnings for the past 2013 fiscal year amounting to EUR 89.9 million should be fully carried forward to the new account and that in lieu of a cash dividend, new shares should be issued to shareholders, via a capital increase from company funds, in a ratio of 10:1. The shareholders will not be required to make any contribution. PATRIZIA has already effected a 10% capital increase from company funds in the last two years. Both increases resulted in only a temporary diluting effect, which was more than offset by the favourable share price performance. For 2014 we also expect that any diluting effect will only be brief due to PATRIZIA's anticipated favourable economic performance. We again plan to use the retained liquid assets for investing in co-investments, thus promoting sustainable growth for PATRIZIA. For the current fiscal year we are ruling out a cash capital increase to finance new investments.

"Bonus shares" will again be issued in a ratio of 10:1 in lieu of a cash dividend for the 2013 fiscal year

If the Annual General Meeting of PATRIZIA Immobilien AG to be held on 27 June 2014 agrees to the measure, the capital increase will be effected by issuing 6,307,730 new registered no-par value shares. This measure will not affect the amount of total equity since it simply involves a transfer from retained earnings to subscribed capital. The share capital will increase from a current total of EUR 63,077,300 to EUR 69,385,030, divided into 69,385,030 no-par value shares. The new shares will carry dividend rights from the beginning of the 2014 fiscal year.

6.6 GENERAL STATEMENT OF THE COMPANY'S MANAGEMENT ON PROSPECTS FOR 2014

The outlook for 2014 and statements about subsequent years 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, 14 March 2014

Wolfgang Egger
CEO

Arwed Fischer
CFO

Klaus Schmitt
COO