PATRIZIA

EXPERIENCE
the real experience

ANNUAL REPORT 2016

KEY FIGURES AT A GLANCE

REVENUES AND EARNINGS (IFRS)

in EUR k	2016	2015	Change in %
Revenues	817,879	384,858	112.5%
Total operating performance	526,385	249,419	111.0%
EBITDA	328,114	175,077	87.4%
EBIT	321,980	168,018	91.6%
EBT	313,647	150,895	107.9%
Operating income [1]	283,176	155,816	81.7%
Consolidated net profit	256,264	134,462	90.6%

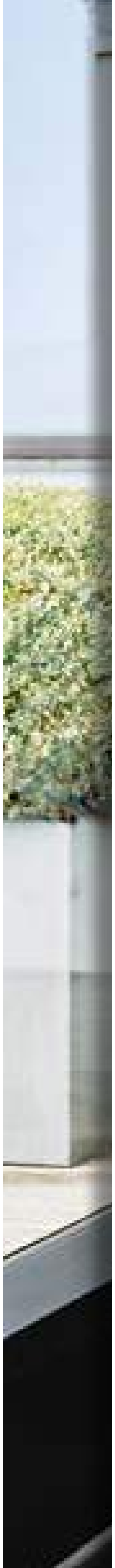
STRUCTURE OF ASSETS AND CAPITAL (IFRS)

in EUR k	2016	2015	Change in %
Non-current assets	258,813	255,243	1.4%
Current assets	734,446	1,376,588	−46.6%
Equity	751,033	539,791	39.1%
Equity ratio (excl. minorities)	75.4%	32.0%	136.0%
Non-current liabilities	47,506	105,202	−54.8%
Current liabilities	194,720	986,838	−80.3%
Total assets	993,259	1,631,831	−39.1%

SHARE

ISIN	DE000PAT1AG3
SIN (Security Identification Number)	PAT1AG
Code	P1Z
Share capital as at 31.12.2016	EUR 83,955,887
No. of shares outstanding as at 31.12.2016	83,955,887 shares
2016 high [2]	EUR 27.00
2016 low [2]	EUR 14.47
Closing price 2016 [2]	EUR 15.79
Share price performance	−42%
Market capitalisation as at 31.12.2016 [2]	EUR 1.3bn
Average trading volume per day 2016 [3]	142,500 shares
Indices	SDAX, GEX, DIMAX

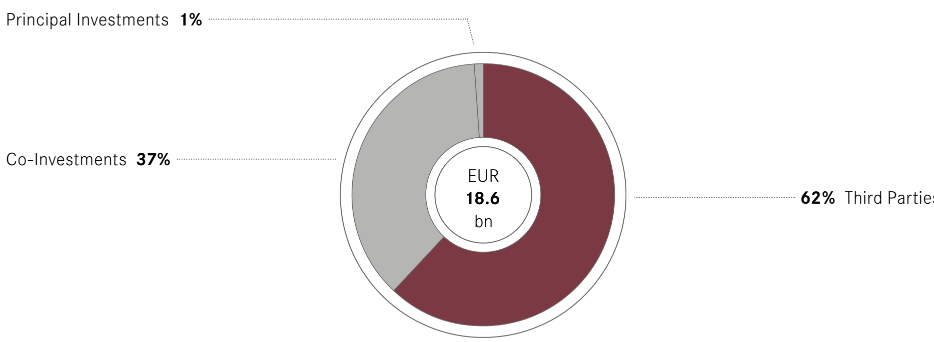
1 For the definition of operating income, please refer to page 47
2 Closing price Xetra-trading
3 All German stock exchanges



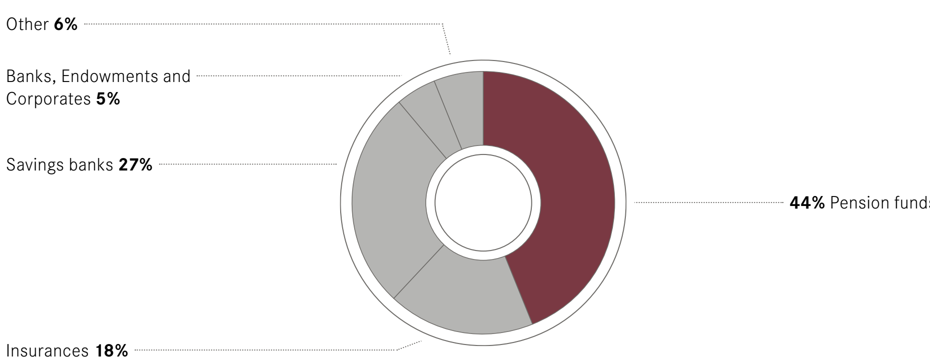
MARKETS AND REGIONS

We are always a step closer to our clients – and we have a dedicated presence at selected locations: in Germany, Amsterdam, Copenhagen, Dublin, Helsinki, London, Luxembourg, Madrid and Paris.

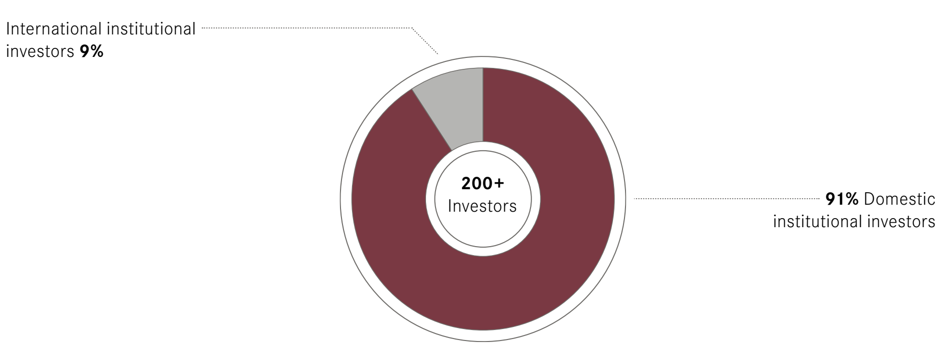
ASSETS UNDER MANAGEMENT



INVESTOR STRUCTURE BY SECTOR



INSTITUTIONAL INVESTORES BY REGION



f. l. t. r.: **Karim Bohn** CFO, **Wolfgang Egger** CEO, **Klaus Schmitt** COO

> “We are a truly European team. National borders have no meaning for us.”

WOLFGANG EGGER
CEO

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Broad investor basis
Unparalleled success history
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Real estate investor
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PREAMBLE BY THE MANAGEMENT BOARD

Dear shareholders,
Dear ladies and gentlemen,

We are pleased to look back on another very successful financial year, for PATRIZIA and for you. In 2016 we demonstrated again that our business model works throughout Europe, that it is profitable, and that it is able to scale up. Our strategic orientation for the long term, and the expansion of European activities in recent years, has proven to be successful and is bearing fruit. The services we provide for our institutional and retail investors, and the investments, some of which we made alongside our investors, generated continued growth in revenues throughout Europe.

The outstanding development of our business is also expressed by the key metrics delivered during the last financial year:

- We were able to further increase the excellent operating result from EUR 155.8m in 2015 to EUR 283.2m.
- We successfully increased our assets under management to EUR 18.6bn.
- We concluded EUR 5.1bn of real estate transactions in total throughout Europe.
- We entered into contractual agreements for more than EUR 2.1bn of transactions, most of which will be closed in 2017. These include a growing volume of Europe-wide acquisitions as well as the sale of residential and commercial real estate assets which we are concluding on behalf of our investors.

One of our most important measures of success remains trust. In over 30 years of history, we have earned the trust of our investors, and it is on this trust that our growth is built. Many investors maintain and expand their business relationships with us because we are able to offer them well-structured products with attractive yields in almost all investment classes all over Europe. Currently, more than 200 institutional investors are investing with us and more than 50% of our investors are “regular customers” meaning they have INVESTED IN MORE THAN ONE OF OUR PRODUCTS. In 2016 alone, we attracted approximately EUR 2.2bn of new equity, which is significantly more than the EUR 1.5bn in 2015. Our investor base continues to grow, not just in Germany and in Europe but globally. Approximately EUR 400m was invested by non-European institutional investors, in particular from Asia.

The Real Experience
What distinguishes PATRIZIA
Page 30

Real Estate – Real Experience – Real Experts

The key element to our company’s success is our international team of experienced experts, which is available to our investors in more than 15 European real estate markets. In these markets, our local colleagues not only have an excellent local network, but also many years of industry experience. They are real experts with real experience in real estate. They are well placed to identify attractive investments in almost all asset classes and across different risk profiles at a time of increased global demand for real estate against a context of modest supply. We regard ourselves as a wholly European team which does not consider country borders when it comes to our collaboration. This is how we can guarantee access to interesting real estate investment opportunities and are able to progress complex transactions quickly, whilst always being mindful of risk.

Some milestones that were reached in the last financial year highlight this real experience in real estate particularly well:

- Both the Astro Tower in Brussels and the Commerzbank Tower in Frankfurt am Main are among the most distinctive landmarks in their regions. Last year's acquisition of the two buildings in Belgium and Germany for institutional investors in Asia demonstrated again that PATRIZIA is able to carry out complex real estate transactions on behalf of investors from around the globe.

- In 2016, the company launched a pan-European fund for logistics properties, thereby offering institutional investors the ability to invest in a real estate class with tremendous growth potential. For this purpose, we put together an experienced team that is active throughout Europe and based out of Amsterdam. Almost half of the fund's target volume of EUR 500m has already been invested.

- Despite the uncertainty caused by Brexit, there are interesting opportunities in the UK and the private rental property market in urban centres is becoming increasingly attractive. PATRIZIA has already made good strides in this area, securing planning permission for the development of over 600 rental apartments in Manchester, the UK's third largest city, in 2016. In East London, PATRIZIA purchased Trocoll House for the development of approximately 200 modern apartments.

- In an off-market transaction, PATRIZIA was able to purchase, on behalf of a large German insurance company, a portfolio with approximately 3,500 apartments in Germany from a Dutch private investor fund. Again, this transaction illustrates the benefit our European network can provide to investors in accessing deals.

- Retail properties continued to be sought-after investments despite the changing face of the sector through e-commerce. During 2016, PATRIZIA invested over EUR 1bn in European retail property. In Germany, where we have approximately EUR 3.3bn invested, we are one of the largest retail investors and landlords in this segment of the market.

- In 2016, we made it possible for private investors to professionally invest in closed real estate funds throughout Europe managed by PATRIZIA. The range of products that are offered cover the entire spectrum of asset classes: from residential properties in growing metropolitan areas such as The Hague or Copenhagen, to office properties in Munich. The minimum investment amount is EUR 10,000. In its first year, more than 1,600 private investors participated in our funds and enjoyed disbursements ranging from four to five per cent, an attractive return during this period of historically low interest rates.

From a European Real Estate Investment Company to a Global Provider of European Real Estate Investments

Last year, we successfully identified and realised additional growth opportunities for our investors in the European real estate markets which further strengthened and expanded PATRIZIA's position as one of the leading real estate investment companies in Europe. We also increased the focus of our internal organisation towards investment management to enable us to capture the opportunities and challenges of the future. Having sold our property management segment, we have been able to focus more on our activities as investment managers. In addition, we made a strategic decision to expand PATRIZIA's global fund raising team, where we now have representation in Germany, the UK, France, Australia, and North America.

To support our continued international expansion, the management board recently appointed a Chief Investment Officer (CIO), Anne Kavanagh, who joins us in April. Working out of both our Augsburg and London offices, she will be responsible for all of our investment activities as well as portfolio management. Having worked in various international investment markets for more than 25 years, Anne has tremendous industry experience and an OUTSTANDING REPUTATION with our investors. In view of the increasing global demand for investment opportunities in European real estate markets, we are convinced that, together with Anne's support, we will be able to successfully continue our pan-European growth for the benefit of our investors.

25 years of experience

on international investment markets

To summarise, we are very pleased with the results of the last financial year, and our focus is on building on this to deliver further growth. With the company's high level of liquid assets and low debt levels, we are ideally positioned to continue pursuing our strategy for international expansion, benefiting from market opportunities both in Germany and abroad. Our vision is to further evolve PATRIZIA in the years to come, from being one of the leading independent European real estate companies to a global provider of European real estate investments.

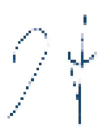
Outlook 2017

Going forward, we expect to continue the successful growth of our business and are confident that 2017 will be another strong year for PATRIZIA.

All this wouldn't be possible without our dedicated employees who, with a great deal of professionalism and passion, propel PATRIZIA forward every day on behalf of our investors and shareholders. They deserve special thanks for their active involvement and we are very proud of our strong European community of colleagues and employees.

Finally, we would like to thank you, our shareholders, for your trust. We would be honoured if you continued to place this trust in us and support our continued growth path.

Augsburg, 13 March 2017
Your PATRIZIA Management Board



WOLFGANG EGGER
CEO

KARIM BOHN
CFO

KLAUS SCHMITT
COO

EXPERIENCE the real experience

At PATRIZIA, everything has to do with real estate. Our complete understanding of the entire spectrum of these asset classes and their value creation development would be hard to find anywhere else in Europe. As investors, service providers, and our clients' partners, we offer unique investment opportunities and appreciate the value of the properties we manage. We invest on behalf of institutional and private investors and even use our own equity in promising properties and portfolios. Our experts fully leverage our independent and Europe-wide investment platforms; they are active across countries, in all types of use, and across the entire value creation chain. The results are customized PATRIZIA investment products tailored to the investment strategies of our international customers.

PATRIZIA focuses on **"BRICKS AND MORTAR"**
Page 10, 17, 19, 23, 24, 31

PATRIZIA has the **DNA OF A REAL ESTATE INVESTOR**
Page 21, 31

PATRIZIA has a **BROAD INVESTOR BASE**
Page 14, 31

For more than 30 years, your confidence in our capabilities has been the basis of all we do. Quality has always been the foundation of our day-to-day work. As an independently operating company, we are notably able to live our values. These include sustainable beliefs and actions that impact every area, from product design to our social involvement. We also believe that successful real estate investment requires a great deal of experience. At the same time, however, such an investment is a place where people live and work or where goods are moved, making it a lasting value that can be experienced in a special way. Both are expressed in the numerous projects and transactions with which we have continued our growth in 2016.

PATRIZIA writes an **UNPARALLELED SUCCESS STORY**
Page 7, 12, 20, 25, 31

PATRIZIA stands for **INDEPENDENCE**
Page 7, 31

PATRIZIA takes its **CORPORATE RESPONSIBILITY** seriously
Page 9, 17, 28, 31

What VALUES are needed for greatness?

Frankfurt am Main in September 2016: the Commerzbank Tower stands out in Germany's prominent skyline. It is a well-known view. With the naked eye, it is impossible to see that Europe's highest office building has just changed hands – and that we at PATRIZIA were directly involved in the transaction. We are AN INDEPENDENT REAL ESTATE INVESTMENT MANAGEMENT COMPANY and one which is demonstrating to an increasing number of our investors a consistently high performance level. Dr Konrad Finkenzeller and Claudia Gernegroß, from PATRIZIA's Insitutional Clients team, look back on a very prosperous year with continued VISIBLE SUCCESSES.

Since 1984, **PATRIZIA has been operating** successfully and founder-led in the real estate market

In 2016, **PATRIZIA assets under management** increased by EUR 2.0bn across Europe

PATRIZIA was able to conclude two outstanding transactions in 2016, the acquisition of the Astro Tower in Brussels (left) and the Commerzbank Tower (right)

CLAUDIA GERNEGROSS
Manager Client Relations

Values

Reliable, honest, independent

Local know-how

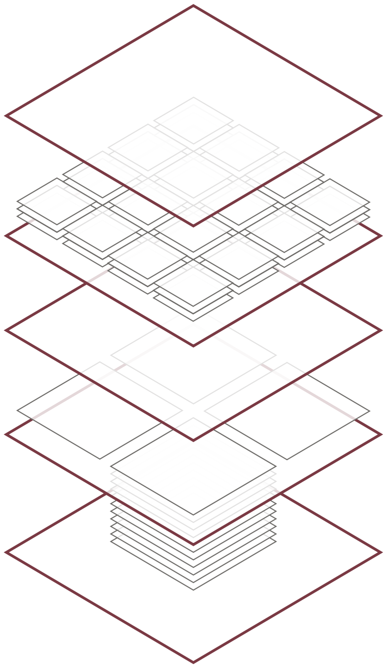
Group employees on the ground

Performance-driven

Asset, fund and portfolio management

From office and residential properties to logistics centres

Project development



> “We here at PATRIZIA have a great deal of localised, sector-specific and investment management experience. This is what I mean when I say ‘The Real Experience’.”
>
> DR KONRAD FINKENZELLER

PATRIZIA, THE REAL ESTATE SPECIALIST

“The acquisition of the Commerzbank Tower for South Korea’s largest life insurance company proves once more that PATRIZIA is able to carry out complex real estate transactions on behalf of investors from all around the globe,” Dr Finkenzeller says when describing last year’s milestone transaction. “And we have further solidified our positioning as a strategic partner of institutional clients.” Europe’s interest rates and its economic stability make our region very interesting for large international and, in particular, Asian investors. They like our platform, which offers a one-stop shop for real estate investment solutions. They also like our experts who help them diversify their portfolios. Together, our specialist expertise contributes to the success of investor global investment strategies.

We combine our local knowledge with a highly detailed, internal value creation chain, which includes portfolio, asset and fund management as well as transaction management and project development skills. At the same time, we are familiar with the full range of asset classes from office to residential and logistics centres. “What matters to us is the property,” Claudia Gernegroß emphasises. “This is why we use local employees who can be actively involved in their respective markets. We always think and act in the interest of our clients. Since we are an independent company, reliability and our promise of delivery are fixed components and part of our DNA.”

DR KONRAD FINKENZELLER
Head of Institutional Clients International

OUTSTANDING INVESTMENT OPPORTUNITIES

The Astro Tower, which we acquired in 2016 on behalf of a Korean consortium, is characterised by its iconic status. For the past 40 years, it has been one of the Brussels skyline and is located in the central business district in close proximity to the European parliament. And, similar to Frankfurt’s Commerzbank Tower, it constitutes a unique investment opportunity. It is not only of architectural significance but, having undergone a complete renovation, it operates on the highest ENERGY EFFICIENCY LEVEL. This means it is going to comply with sustainable building design qualities in the future as well as today.

Energy efficiency is one aspect of our sustainability strategy

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How much PUR-CHASING POWER is there in retail

Supermarkets, specialist retailers and shopping centres are currently among the most popular investment properties and they are holding their own in this time of continued use of e-commerce. We recognised the opportunity in these segments and invested more than one billion euros in them during 2016 alone. In order to continue our success in this area, it is important to understand the current and future NEEDS of the operators and customers in great depth. Daniel Herrmann, Head of Fund Management Retail within PATRIZIA Immobilien AG, explains the connections and provides insights into last year's transactions.

PATRIZIA has more than 16 years' experience in the retail sector


MARKT
HALLE
Krefeld

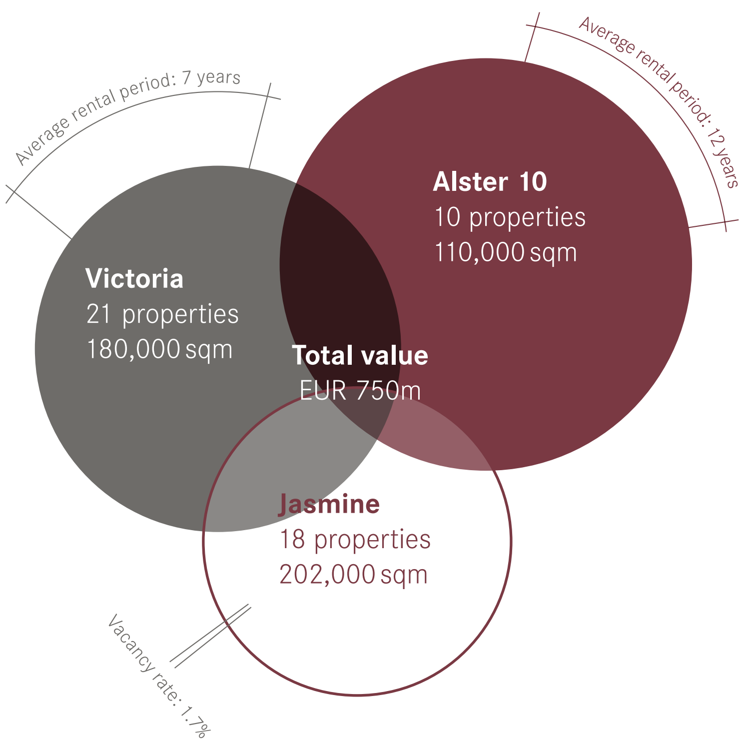
> "With a volume of approximately EUR 3.3bn, PATRIZIA is one of Germany's largest retail investors and landlords in the area of retail properties."
>
> DANIEL HERRMANN

RETAIL IN A CHANGING WORLD

These days, more and more investors rely on experts for their investments in retail properties. Daniel Herrmann is one of them: he has been working in this area for 16 years and analyses the market together with his experienced and interdisciplinary team. "Our segment is not only undergoing just one change, but several opposing developments," he explains as he describes the current situation. "On the one hand, we are experiencing a positive macro-situation. German retail in particular benefits from the fact that people are saving less and increasing consumption spending. On the other hand, the retail landscape is currently being shaken up by e-commerce. We are watching these developments and are specifically investing in future-proof segments such as the FOOD RETAIL TRADE."

In 2016, the food retailers realised **EUR 176bn**

It is the interaction of location quality, long-term lease agreements and the purchasing power that makes for an attract ive product. Awareness of the changing needs of the operators and customers is, however, just as important to us. We include not only the climate for spending, but also the remarkable change in the mentality of consumers in our considerations and actions. For example, consumers lately have become willing to pay a reasonable price for higher quality. They also appreciate the shopping experience more than before. Consequently, architecture, design and image have gained significant importance in retail – aspects that we here at PATRIZIA take into account when determining the quality of a property.



STRONG ASSETS: JASMINE, VICTORIA AND ALSTER 10

For Daniel Herrman and his team, 2016 was the most successful year yet. This is reflected in our products as well. One example is the fund PATRIZIA Handels-Invest Deutschland II, which grew within just one year to a total volume of approximately EUR 750 million and includes the three portfolios Jasmine, Victoria, and Alster 10. The combination of their respective strengths results in a risk-return profile that is very attractive to investors. Each portfolio is also characterised by qualities that will be important for the acquisition of properties in the future as well: they are of high quality, sustainable, modern and located in established retail areas that offer additional synergy opportunities.

DANIEL HERRMANN
Head of Fund
Management Retail

PATRIZIA's portfolios combine high-quality locations having long-term rental agreements with high purchasing power

Interest in European real estate investment has been increasing continuously since the start of this era of historically low interest rates. Now we are also able to offer the opportunity to invest in promising properties and the benefit of PATRIZIA's expertise to private retail investors in the form of closed PUBLIC FUNDS. Investors benefit from attractive returns, good risk diversification and manageable investments in these funds. Joachim Fritz and Andreas Heibrock from PATRIZIA GrundInvest show that the holistic concept of our products and enthusiasm for real estate makes the difference.

PATRIZIA offers retail investors a separate fund portal to manage their portfolios
fondsportal.patrizia.ag


What makes
FUNDS
fascinating

"The series 'Living in Europe' is just one example of sustainable and long-term co-operation with our clients."

JOACHIM FRITZ
Managing Director PATRIZIA GrundInvest

> "One of the largest research facilities in Europe is under con-struction in Aachen."
>
> ANDREAS HEIBROCK
> Managing Director PATRIZIA GrundInvest

TANGIBLE ASSETS WITH MANY FACETS

For Joachim Fritz and Andreas Heibrock, real estate is a very special tangible asset. "The majority of our life takes place inside buildings," explains Heibrock. "This is where we sleep, shop and work. Properties are tangible and can be experienced emotionally." Fritz adds that while we may be the experts, we get "just as excited" about our properties as our clients. "We invite you to invest in the funds PATRIZIA manages and to get to know the real estate investment class in all its facets."

PATRIZIA GrundInvest has always taken a holistic approach to the development of funds. In addition to evaluating aspects of the real estate industry, they also include the ideas of clients and business partners as well as numerous SAFETY ASPECTS into the fund design. A new product is created only when these have been perfectly coordinated with the internal acquisitions and asset management team. At PATRIZIA, we share the fascination of retail investors for long-term values and the willingness to accept calculable risks for significantly higher return expectations.

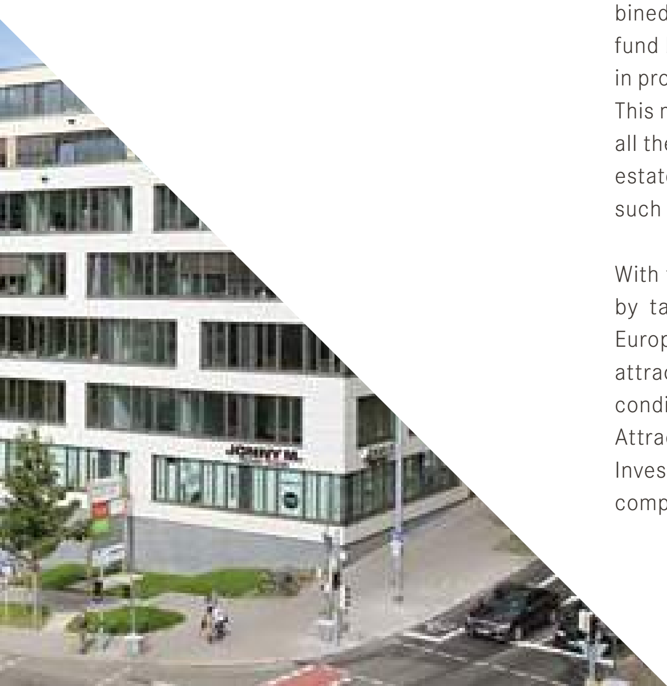
The products are based on a comprehensive safety concept covering, amongst others, illness and disability

EXPERIENCE IN SPADES

The Management Team of PATRIZIA GrundInvest has a combined total of over 40 years' experience in the private investor fund business. This know-how advantage becomes very clear in projects such as the PATRIZIA GrundInvest Stuttgart Südtor. This modern and centrally located group of buildings combines all the characteristics of a high-quality portfolio: a stable real estate market and varied use coupled with many other factors such as very good access to public transportation.

With the FUND SERIES 'LIVING IN EUROPE', we go back to our roots by taking advantage of important urbanisation trends in Europe's metropolitan cities. Metropolitan areas increasingly attract people due to their advantageous living and working conditions and their appeal as hubs of culture and knowledge. Attractive residential properties such as the PATRIZIA GrundInvest Copenhagen Sydhavnen and The Hague showcase the comprehensive know-how of our experts in this asset class.

Sustainable and long-term cooperation: With 'Living in Europe', PATRIZIA offers investment opportunities in the European growth centres



When does a

QUAR-
TER

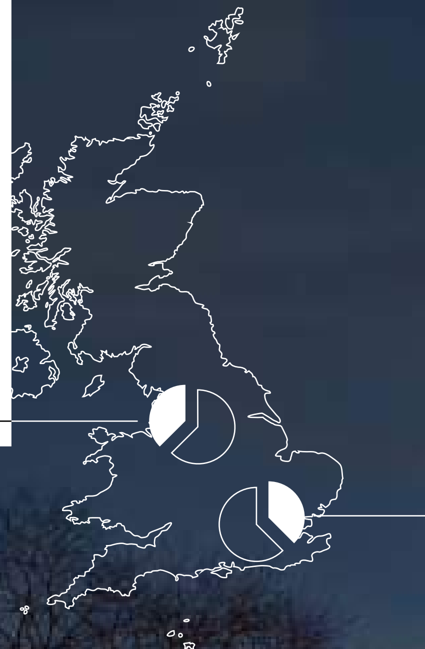
become a centre of life

The Trocoll House in London-Barking is a good example of PATRIZIA's 'Build to Rent' – investments

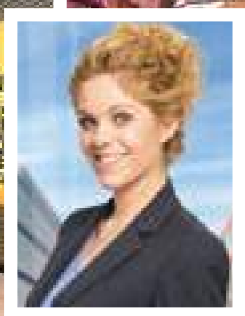
The concept being developed right now in the heart of Manchester will lead to a city centre like no other: It is called First Street and combines business, culture, and recreational activities in a unique way. Here, as well as in London, PATRIZIA UK & Ireland is actively involved in shaping a new form of FORM OF RESIDENTIAL LIVING. James Muir, Managing Director, and Valerie Oehler, Business Development Manager, discuss the progress that has been made this past year.

PATRIZIA invested in the private rental sector for the first time in 2016. The focus was on urban centres with the potential for development

First Street is based on the idea that a holistic urban environment enriches the lives of the people



From 2017, First Street No. 8 will be a new business hotspot and workplace for more than 2,000 people



VALERIE OEHLER
Business Development Manager
PATRIZIA UK & Ireland

FIRST STREET – A QUARTER IS TAKING SHAPE

First Street, formerly a predominantly industrial area, is now characterised by its varied types of use. This is exemplified by the First Street No. 1 office building, the Melia Hotel, an appealing range of restaurants and bars, student accommodation and parking facilities. It also offers numerous activities and events, as found in HOME, a modern centre of culture and leisure, which last year alone recorded over one million visitors. In short: life within the 80,000 square metres of this young city quarter is vibrant. "First Street has undergone a fantastic development. Even now, it is a quarter with a strong identity which provides amazing experiences for those who live there and visit. The 'Commercial Development of the Year' AWARD that First Street won is further proof of this," says Valerie Oehler proudly.

The best players and projects in the regional real estate sector are recognised each year at the **Northwest Property Awards**

The key to this local success is the PATRIZIA UK team. Its experts combine thorough investment analysis with focused

> "With co-investments, we highlight our DNA as an investor and show our business partners that we are fully committed to our projects."

JAMES MUIR
Managing Director PATRIZIA UK & Ireland

The Trocoll House will revitalise the cityscape in East London

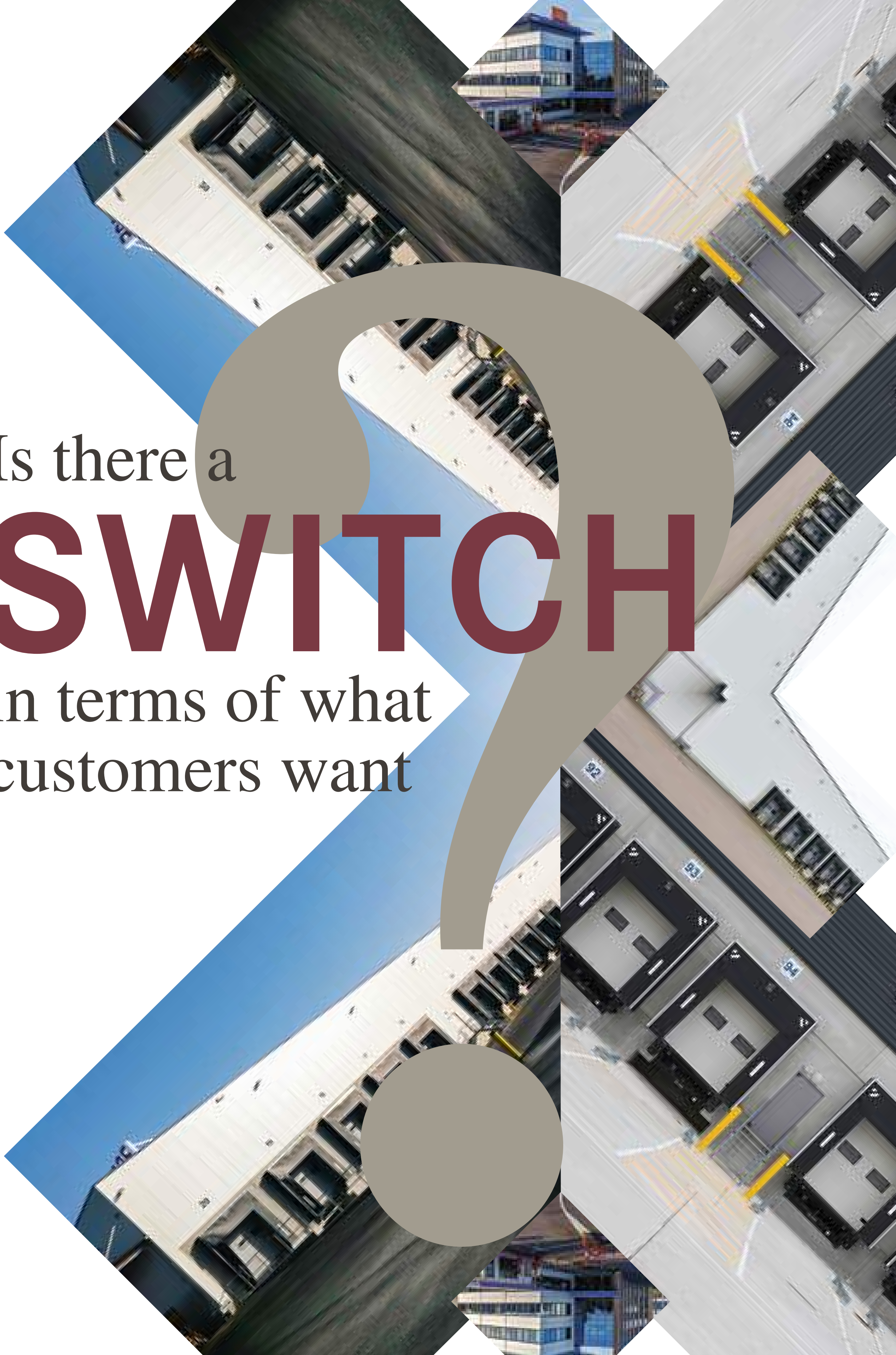
PATRIZIA's commitment to customers and real estate investments is underlined **through its own and co-investments**

asset management. "We consistently pushed the development of First Street in 2016," summarises James Muir. "One particular milestone is the JOINT VENTURE with one of the largest British local authority pension funds for the construction of building 8. Going forward, building 8 is going to offer a lot of space for new offices, some of which are already leased. This agreement, as well as the sale of the hotel and the office property First Street No. 1, illustrates the strong demand from tenants and institutional investors."

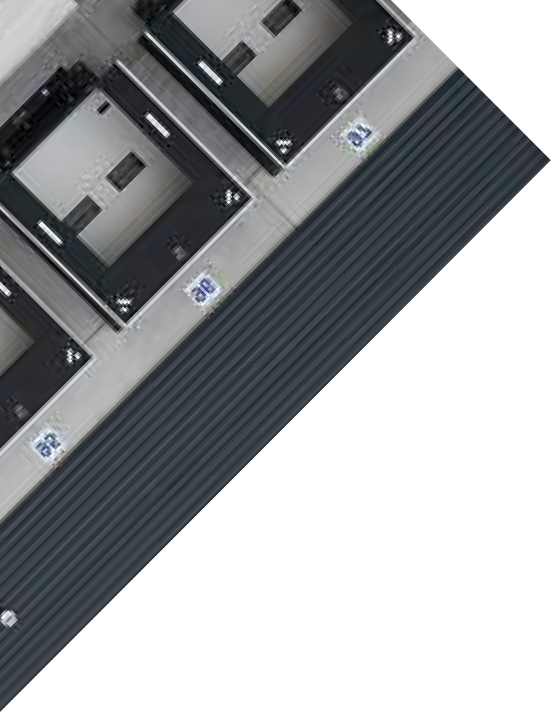
FOCUS ON THE DYNAMIC BTR SECTOR

The British residential market is traditionally characterised by high ownership rates, however renting is increasingly is becoming an increasingly attractive alternative. This is why our specialists at PATRIZIA UK are also active in this asset class – and successfully so. In 2016, we received the planning permission for building 1 in the First Street area. A total of 624 build to rent (BTR) units will be available which we will develop, build and professionally manage for tenants. With other communal areas, commercial units and 2,000 square metres of green space, the building will help to significantly influence the future of the First Street quarter.

Another example of our strategic involvement within BTR in the Trocoll House site that we purchased in May 2016. We are planning to build a modern high-rise with 198 BTR units in the up-and-coming London district of Barking. The area is less than 15 minutes away from the centre of London by underground. The area has very good public transport connections and is already popular with professionals, young families and students alike.

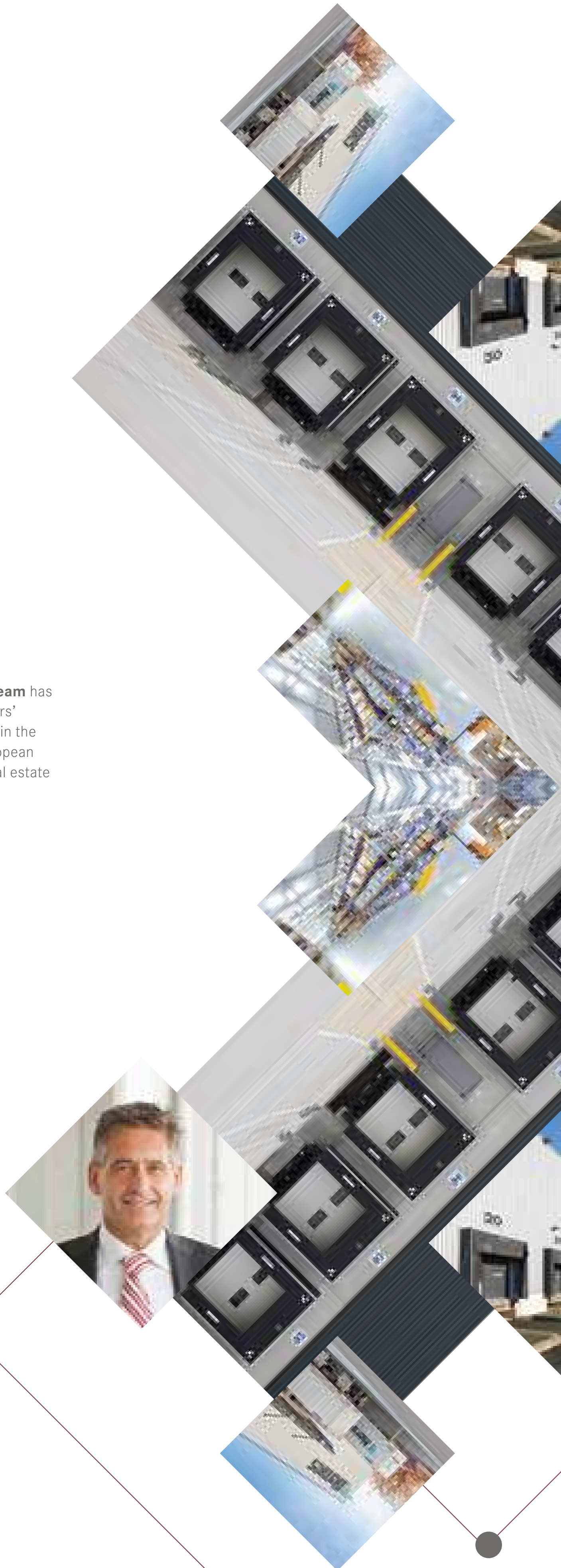


Is there a SWITCH in terms of what customers want?



Faster, cheaper, easier: there is hardly any area in which digitisation is as prominent as in the EXCHANGE OF CONSUMER GOODS. Same-day order deliveries are no longer a distant dream. It is customers at the end of the supply chain who force the entire retail sector, and therefore logistics as well, to design their processes more efficiently. Roger Peters and Arthur Tielens from PATRIZIA Logistics Management Europe B.V. know how investors can participate in this changing environment.

Since 2016, PATRIZIA has, with logistics real estate, opened up a **further asset class for investors**



LOGISTICS IS REINVENTING ITSELF

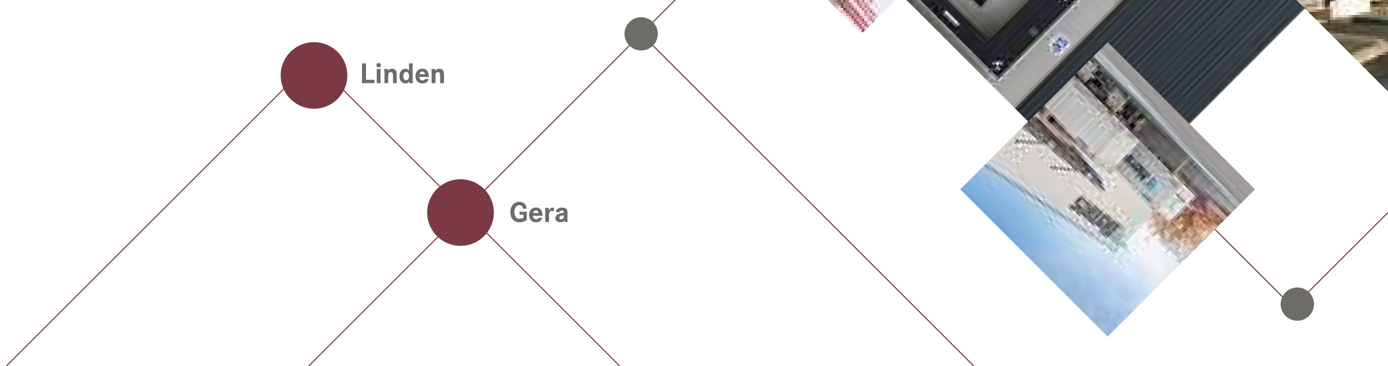
Digitisation has led to a dynamic and growing online marketplace which is significantly influenced by new shopping habits. More and more providers use central logistics centres with advanced technology to meet their customers' needs. This is making the market for logistics properties increasingly important and, at the same time, making it attractive for investors. Where in previous times goods were only stored, they now have to be checked, sorted, repackaged, labelled and prepared for further transport. This development has given rise to a new class of use-specific facilities with complex conveyor systems and modern IT components.

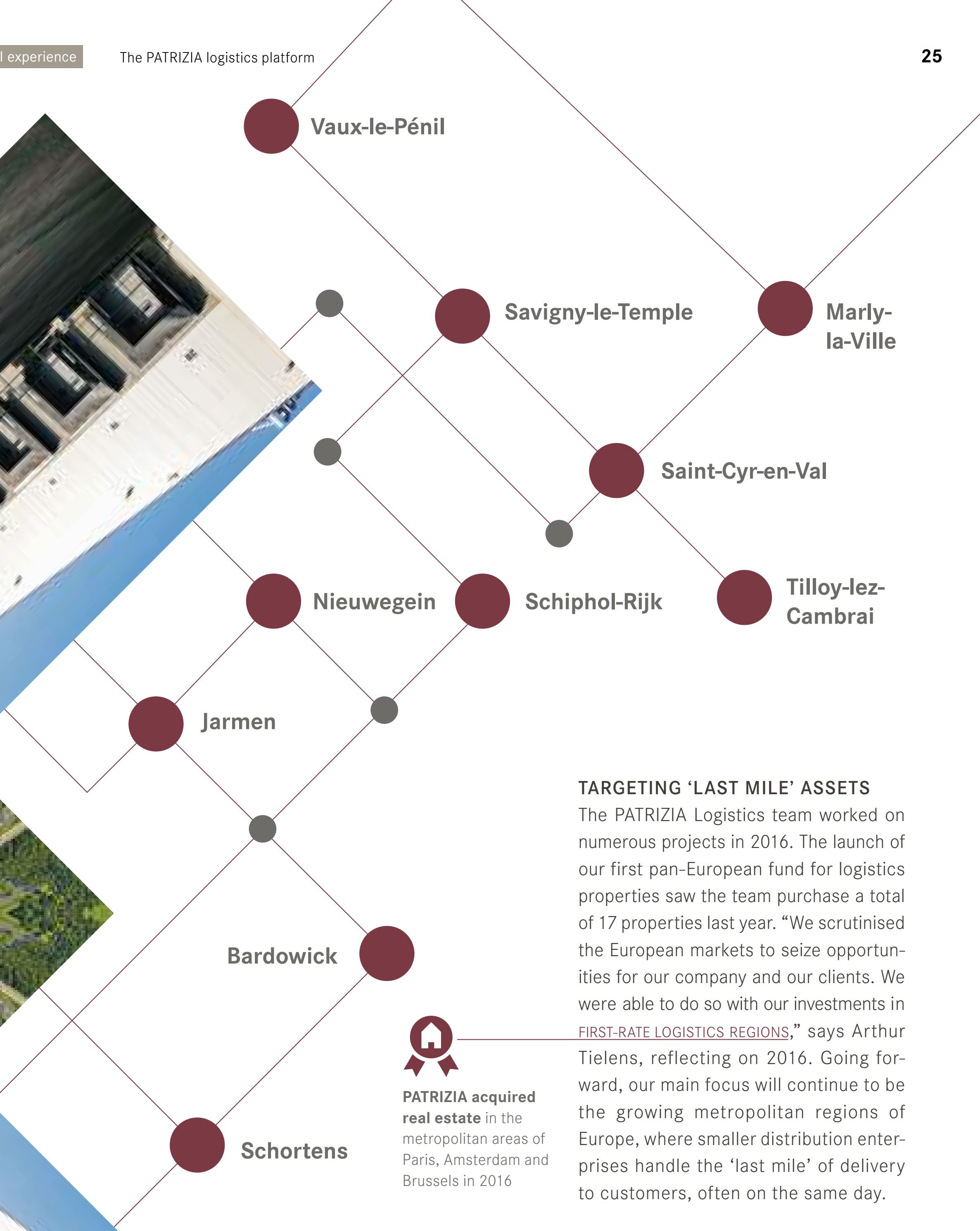
What is essential for understanding the functions, characteristics and requirements of this type of building is the opinion of an EXPERT in the logistics industry. This is where our new logistics platform is most relevant because we have an experienced team that analyses the latest international business and logistics trends in great detail. It is active throughout Europe and located in Amsterdam. "The logistics market in Europe has significant potential for growth because service providers are reconfiguring their networks in response to the increasing demand in the e-commerce sector," explains Roger Peters with regard to the coming years. "Our clients can benefit from this trend. Logistics properties are perfect for diversification of risk and markets because they are a transnational product."

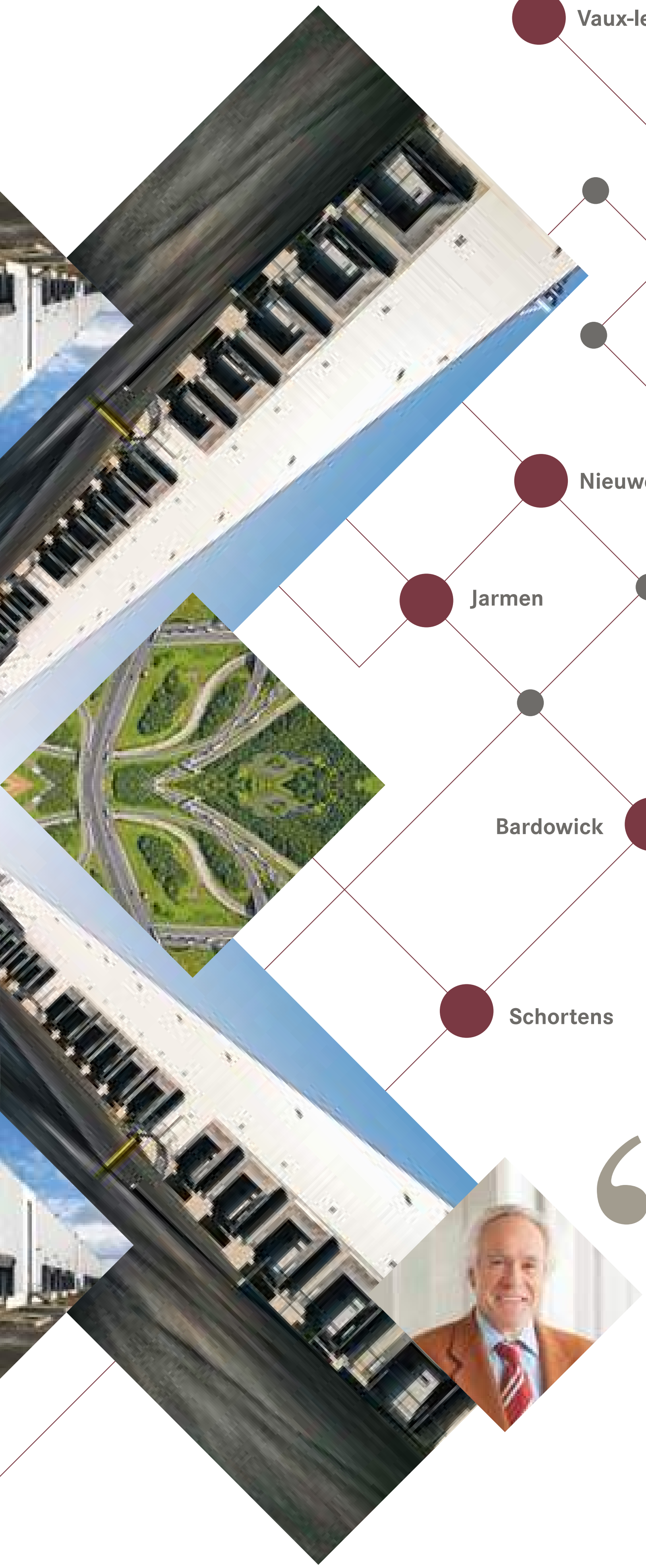
The core team has over 50 years' experience in the field of European logistics real estate

"The combination of locations and building quality is a central factor for our business's success. That is very much the case with logistics properties as well."

ROGER PETERS
Managing Director PATRIZIA Logistics Management Europe







TARGETING 'LAST MILE' ASSETS

The PATRIZIA Logistics team worked on numerous projects in 2016. The launch of our first pan-European fund for logistics properties saw the team purchase a total of 17 properties last year. "We scrutinised the European markets to seize opportunities for our company and our clients. We were able to do so with our investments in FIRST-RATE LOGISTICS REGIONS," says Arthur Tielens, reflecting on 2016. Going forward, our main focus will continue to be the growing metropolitan regions of Europe, where smaller distribution enterprises handle the 'last mile' of delivery to customers, often on the same day.

PATRIZIA acquired real estate in the metropolitan areas of Paris, Amsterdam and Brussels in 2016

> "Going forward, we will continue to purchase profitable, high-quality reloading and distribution properties that fit our strategy and the strategies of our clients."

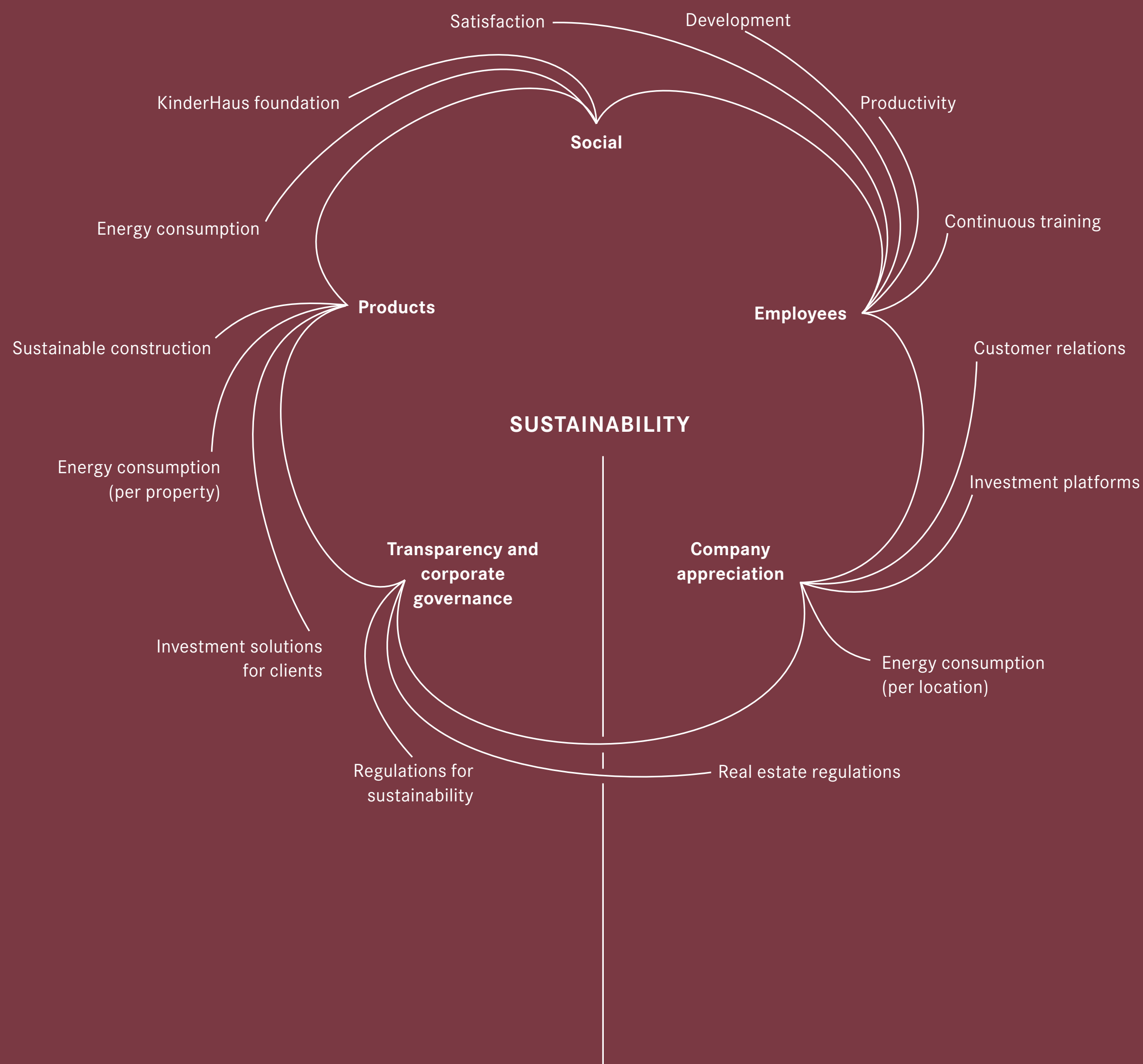
ARTHUR TIELENS
Managing Director PATRIZIA Logistics Management Europe

What is the intersection between VISION and responsibility

As a European real estate investment management company, we not only pool together real estate know-how and financial competencies, but we are also aware of our CORPORATE SOCIAL RESPONSIBILITY. On the one hand, we strive for long-term success by taking advantage of opportunities in the market and facing the challenges of the future. On the other, we create value that goes beyond what we do for the property as an investment asset. We particularly focus on the development of our employees, long-term relationships with our clients and our foundation. Dr Marcelo Cajias, Senior Manager Research, provides an overview of PATRIZIA's sustainability strategy.

More information on PATRIZIA's values can be found on our website:
www.patrizia.ag/en/company/our-values/

DR MARCELO CAJIAS
Senior Manager Research



STRATEGIC ACTION FIELDS

The PATRIZIA sustainability strategy includes a total of 11 core topics that were developed from our areas of strategic action: employees, social issues, transparency and corporate governance, products and the company's appreciation. We constantly determine the main priorities of our activities on the basis of internal and external parameters. They include, for example, the Global Reporting Initiative (GRI), the Sustainability Metrics of UNEP, the recommendations of the Corporate Responsibility Index issued by the Bertelsmann Foundation, as well as our ongoing dialogue with all our stakeholders. This is how we make sure that PATRIZIA's sustainability strategy reflects how we see ourselves and what our partners, clients and investors believe should be done.

OUR APPROACH: FORWARD-THINKING AND ACTING

If you ask Dr Marcelo Cajias about the area in which PATRIZIA's sustainable activities become particularly tangible, he will quickly start talking about our foundation, the PATRIZIA KinderHaus-Stiftung. It clearly shows our commitment to society. Founded by CEO, Wolfgang Egger, the foundation has been creating living space for children in need since 1999 and builds schools throughout the world that are tailor-made for the children's needs." In 2016 alone, the foundation provided education, socialization, and medical help for more than 12,500 children in its children's homes and launched several new projects. We opened a secondary school in Cameroon, completed a school building in Zimbabwe, and refurbished and restructured a children's hospital in Tanzania. This is the Foundation's very first children's home, which was opened in 2002 and in which more than 100,000 children have been treated since.

The stated goal of the PATRIZIA KinderHaus-Stiftung (PATRIZIA Children's Home Foundation): To help others help themselves

"Our sustainability activities support and underpin our long-term corporate actions."

DR MARCELO CAJIAS

THE FOUNDATION: TRUST

The projects of the KinderHaus-Stiftung are only one aspect of our sustainability strategy, however. "Real estate is our world and the appreciation of our properties is at the core of what we do," explains Dr Cajias. "The basis for this is the faith our partners and clients have in us and the long-term business relationships we build with them. It is for them that we develop products that are tailor-made for their needs." Trust and appreciation characterise the relationship with our employees as well. We provide them with individual development and continuing education opportunities in the PATRIZIA academy as well as comprehensive voluntary benefits. This is how we solidify our position as one of the best employers in Germany.

Since 2014 PATRIZIA has been recognised as one of the top 100 employers in Germany

GREAT PLACE TO WORK®

The foundation operates worldwide and has already established children's homes in Germany, Asia, Africa and South America

What are our UNIQUE selling points

WOLFGANG EGGER
CEO

> PATRIZIA's unique selling points form the quintessence of what we have developed together over the years. They are, at the same time, an objective, a self-understanding and the basis of our activities."

WOLFGANG EGGER

BRICKS AND MORTAR FOCUS

At PATRIZIA, we provide our clients with attractive investment opportunities in the European real estate market. In our capacity as investment manager, we manage all asset classes and provide all relevant services involving the property. PAGE 10 FF.

INDEPENDENCE

Our company is still managed by its founder which is why we can operate independently and are committed to our clients and values. PAGE 7 As a publicly listed company, we are required to meet a high standard with regard to corporate transparency and governance and we publish comprehensive and professional external reports to both clients and investors.

BROAD INVESTOR BASE

We are reliable partners who help clients to make informed investment decisions and have earned an excellent reputation and track record based on this. We also develop fund products for retail clients who benefit from PATRIZIA's real estate knowledge and expertise in the same way as our institutional clients. PAGE 14

DNA OF A REAL ESTATE INVESTOR

We are a company with the DNA of a true real estate investor and, as such, we always act in the interest of our clients. A very solid balance sheet structure and significant liquidity enable us to make co-investments which prove our commitment to our clients and business partners. PAGE 21 FF.

ONE-OF-A-KIND SUCCESS STORY

More than 30 years' experience, excellent market access and high visibility have made us one of Europe's leading real estate investors. We secure groundbreaking transactions and purchase properties and portfolios that are tailored to the requirements of our clients. PAGE 7 FF.

CORPORATE RESPONSIBILITY

Matters that affect the society and the economy are just as much part of our value creation strategy as long-term partnerships and sustainable product design. PAGE 16 F. Our social activities focus in particular on the PATRIZIA KinderHaus-Stiftung and the promotion and support of our employees. PAGE 9 FF.

1

COMPANY

COMPANY

OUR COMPANY

SUPERVISORY BOARD REPORT

Dear Shareholders,
Ladies and Gentlemen,

2016 was an outstanding year for PATRIZIA Immobilien AG, producing the best financial results in the history of the Company and setting the course for the future.

Cooperation between the Managing Board and the Supervisory Board

In the financial year 2016, the Supervisory Board of PATRIZIA Immobilien AG carefully performed all the duties entrusted to it by law, the Articles of Association and rules of procedure. We, the Supervisory Board, regularly advised the Managing Board on the management of the Company and monitored the measures it undertook in that process. We were also involved at an early stage in all key decisions by the Managing Board. The Managing Board fully complied with its reporting obligations pursuant to the law and the rules of procedure and informed us regularly in writing and verbally of all fundamental aspects relating to the development of the business for the Company and the Group. We were also informed extensively on any current opportunities or threats that might impact on the earnings and liquidity of PATRIZIA Immobilien AG. The PATRIZIA Managing Board outlined and explained in depth the business plan and any deviations from the strategy as business developed over the course of the year.

Supervisory Board meetings

In the year under review, four ordinary and two extraordinary Supervisory Board meetings took place. The Supervisory Board met without the Managing Board as needed. Every member of the Supervisory Board attended all the meetings. Furthermore, outside of the scheduled meetings, there was a regular exchange between the Supervisory Board and the Managing Board. If the law, Articles of Association or rules of procedure required individual measures to be approved by the Supervisory Board, we made our decisions on the basis of extensive reports and resolution proposals by the Managing Board. Where required, urgent Supervisory Board resolutions were adopted by circulation. Given that the Supervisory Board of PATRIZIA Immobilien AG comprises three members, it did not form any committees. To enable an in-depth exchange of information as well as efficient working process, the Supervisory Board believes it expedient to base the size of the PATRIZIA Immobilien AG Supervisory Board on the statutory minimum number of members.

Focus of the advisory and supervisory activities, changes in the members of the Managing Board

The first ordinary meeting of the Supervisory Board on 14 March 2016 included the approval of the annual accounts for the financial year 2015. This included the examination of the 2015 annual financial statements of PATRIZIA Immobilien AG, the consolidated financial statements and the combined management report on the Company and the Group. In addition, the Supervisory Board also approved the Company's Dependency Report for the financial year 2015 after due examination. As at every Supervisory Board meeting, the liquidity situation and the report from the operational divisions were key topics during this meeting. Furthermore, we adopted the corporate targets for the financial year 2016 and were given a detailed presentation on the "Leading" project, including its planned measures and project budget. The project's objective is to further consolidate PATRIZIA Immobilien AG's position as a leading real-estate investment company in Europe and achieve sustainable operating income expansion to ensure the Company continues to grow in a sustainable manner.

On 16 March 2016, the Supervisory Board held an extraordinary meeting in which the Supervisory Board approved the use of the net profit proposed by the Managing Board, following discussions with the Managing Board at the ordinary Supervisory Board meeting on 14 March 2016.

After the Annual General Meeting on 16 June 2016, the Supervisory Board convened its second ordinary meeting. In addition to a detailed presentation of developments in the operational divisions, we were also briefed on the current status of the "Leading" project. On the basis of the 9-point project plan communicated on 7 April 2016, the Managing Board demonstrated the progress made in implementing specific measures and the economic implications of the project. The Managing Board also presented active liquisity management measures designed to enable PATRIZIA Immobilien AG to deposit the Company's available liquidity and thereby avoiding negative interest rates.

The key topics addressed at the third ordinary Supervisory Board meeting on 26 September 2016 were a general update, the strategic development and the targets aspired to by PATRIZIA Netherlands and progress in the "Leading" project. For the latter, in addition to the update on the measures contained in the 9-point project plan, the current developments in the sale of Property Management took primary place in this discussion.

On 17 October 2016, we convened an extraordinary Supervisory Board meeting in response to the successful sale of the Property Management business. At the meeting, the Managing Board outlined the offer made by DIM Deutsche Immobilien Management AG on which the purchase agreement was based and surmised that DIM is a long term business partner for PATRIZIA Immobilien AG, and has been positively received by employees who transferred with the business.

At the final ordinary meeting for the financial year on 21 December 2016, the Supervisory Board examined the 2017 annual budget in detail and adopted this unanimously. We were updated on the "Leading" project and briefed by the Managing Board on developments in the operational divisions and the very successful fundraising and transaction business in 2016. To comply with Article 16 of Regulation (EU) No. 537 / 2014 the Managing Board also submitted a suitable proposal for the exercise of our monitoring obligations for audits and the approval of non-audit services, which we adopted during the meeting.

Corporate Governance

The Managing Board and Supervisory Board compiled a Corporate Governance Report, which has been published in combination with the Corporate Governance Statement on the PATRIZIA homepage. In December 2016, the Managing Board and Supervisory Board adopted the Compliance Statement pursuant to Section 161 AktG (German Stock Corporation Act). The Code's recommendations and suggestions have been largely complied with. All former as well as current Compliance Statements are permanently available on the PATRIZIA website. In addition, the Supervisory Board underwent an internal review process, which determined that the efficiency of the board's work both internally and with the Managing Board was deemed to be very good.

wwww.patrizia.ag/investor-relations/corporate-governance

Dr Theodor Seitz (Chairman of the Supervisory Board)

Further resolutions

Following the ordinary Annual General Meeting on 16 June 2016, which approved a 10% equity increase from company funds in order to issue so-called bonus shares and the repeal of the existing authorised capital 2012 and conditional capital 2012 and the creation of new authorised capital 2016 / I, authorised capital 2016 / II and contingent capital 2016, the Supervisory Board decided in accordance with Section 16 of the Articles of Association to amend the wording of Section 4 (3), (3a) and (4) of the Articles of Association.

Changes in the members of the Supervisory Board

There were no changes in the members of the Supervisory Board in 2016. The Annual General Meeting did, however, confirm the appointment of Mr Gerhard Steck on 16 June 2016, who had been appointed by Augsburg Local Court on 1 July 2015.

Audit of the 2016 annual and consolidated financial statements

The annual financial statements of PATRIZIA Immobilien AG, prepared in accordance with the German Commercial Code, the consolidated financial statements, prepared in accordance with IFRS, and the combined management report for PATRIZIA Immobilien AG and the Group, were all audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, together with the bookkeeping, and each issued with an unqualified audit opinion. The members of the Supervisory Board received the aforementioned documents as well as the audit reports from Deloitte GmbH Wirtschaftsprüfungsgesellschaft on schedule. The Managing Board and the auditors explained the findings of the audit to us at the Accounts Meeting on 13 March 2017 and were available to provide additional information as needed. Deloitte has also stated that the Managing Board has set up a suitable system for early detection of risks.

The Supervisory Board also thoroughly examined the annual financial statements of PATRIZIA Immobilien AG, the consolidated financial statements, the combined management report for the Company and the Group, and the Managing Board's proposal on the deployment of net profit and did not raise any objections. We agreed with the findings of the audit by the external auditors. The Supervisory Board approved the annual and consolidated financial statements. The annual financial statements of PATRIZIA Immobilien AG are thus adopted. The Supervisory Board approved the proposal on the deployment of net earnings made by the Managing Board and supports a further capital increase from company funds for the purposes of issuing bonus shares in lieu of the payment of a dividend.

Audit of the Dependency Report

The Managing Board's report on related party transactions for the financial year 2016 was also audited by the external auditor. All legal and business relationships with related parties listed therein are in line with current market conditions and with what would have been concluded between the PATRIZIA Group and third parties. The auditor issued the Dependency Report the following audit certificate:

"Having duly examined and assessed this report, we hereby confirm that:

1. the information given in the report is correct;

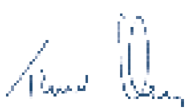
2. with regard to the legal transactions listed in the report, the amounts paid by the company were not unduly high."

The Dependency Report compiled by the Managing Board, and audited by the external auditors as well as the associated audit report, were available to all members of the Supervisory Board in due time. In accordance with the concluding findings of its examination, the Supervisory Board raises no objections to the report and the concluding statement by the Managing Board contained therein.

2016 was yet another of year of growth for PATRIZIA Immobilien AG which brought many challenges with it. We would like to express our sincere thanks to the Managing Board and all the employees who ensure our success on the European market as local real estate experts and who work with great commitment and loyalty for the future of PATRIZIA Immobilien AG.

Augsburg, 13 March 2017

On behalf of the Supervisory Board



DR THEODOR SEITZ
Chairman

THE PATRIZIA SHARE

KEY FIGURES OF THE PATRIZIA STOCK

		2016	2015	2014
Share price [1]				
Highest	EUR	27.00	27.97	12.57
Lowest	EUR	14.47	12.48	7.49
Year-end	EUR	15.79	27.00	12.19
Share price development [2]	%	−42	121	59
Market capitalisation as of 31.12. [1]	billion EUR	1.3	2.1	0.8
Average share volume per day [3]	EUR	2,839,600	2,835,700	913,200
Average share volume per day [3]	Each	142,500	139,900	97,900
Annual share turnover [4]		0.46	0.49	0.38
Outstanding shares as of 31.12.	Each	83,955,887	76,323,533	69,385,030
Capital increase from Company resources to issue bonus shares	EUR, each	7,632,354	6,938,503	6,307,730
Result per share (IFRS)	EUR	2.83	1.32	0.42
Dividend per share	EUR	0.00 [5]	0.00 [6]	0.00 [6]

1 Xetra closing price

2 Not adjusted for capital increase from Company resources

3 All German exchanges

4 Quotient from share volume / share inventory based on average outstanding shares (2016: 79,284,720 shares, 2015: 71,951,326 shares, 2014: 65,980,584 shares)

5 Instead, bonus shares are to be issued in the ratio of 10:1, subject to the approval of the Annual General Meeting on 22 June 2017

6 Instead, bonus shares were issued in the ratio of 10:1

At the end of 2016, the markets were able to look back to a tumultuous year. In particular, the monetary policy of the international central banks and the elections in Great Britain and the United States had a significant impact on investor behaviour. The German leading index DAX reported the worst opening in decades and reached its lowest point of the year mid-February with approximately 8,750 points. A recovery followed, which was only briefly interrupted by the Brexit referendum of the British population. After Donald Trump was elected in late autumn, the DAX started a final sprint that ended with an annual high of over 11,480 points. As a result, the index was able to end the year 7% up. In comparison, the German small-cap index SDAX, which includes PATRIZIA, ended somewhat weaker; it increased by approximately 5% over the course of the year.

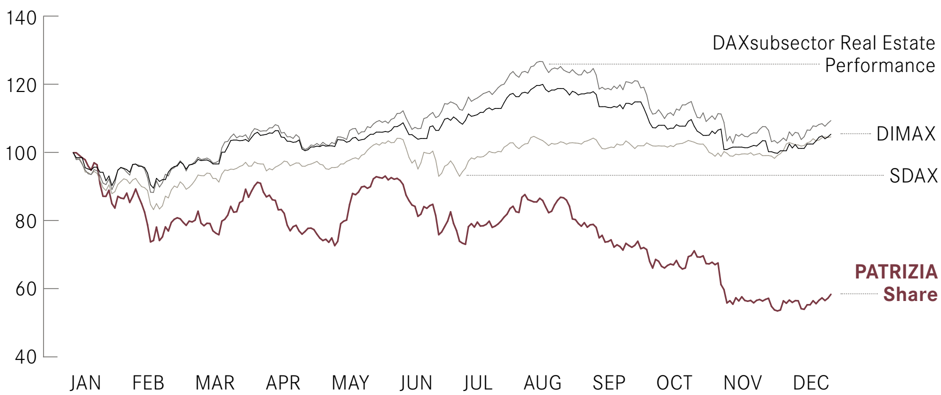
PATRIZIA Immobilien AG was unable to continue its road to success from the previous year in 2016. In spite of a very positive operational performance, the PATRIZIA share dropped by approximately 42%. Adjusted for the issuance of bonus shares, the price decline of 36% is somewhat less drastic. With a share price of EUR 27.00, the stock started close to its all-time high for the year, but increasingly distanced itself over the course of the year from this level. At the beginning of December, it reached its low for the year of EUR 14.47. By the end of the year, the price had moderately recovered, and ended the year at EUR 15.79 with a corresponding market capitalization of EUR 1.3bn.

EUR bn
1.3
PATRIZIA market value at the end of 2016

On average, 142,500 PATRIZIA shares were traded daily at all German exchanges. This corresponds to an average increase of 2% compared to the previous year (2015: 139,900 shares / day) and an annual share turnover of 0.46 (2015: 0.49). In the MDAX index ranking of Deutsche Börse, PATRIZIA was ranked 59 again in terms of the trade volume. Due to the development of the share price, however, PATRIZIA dropped from rank 54 to rank 65 for the market capitalisation.

shares / day
262,000
highest average trade volume in November 2016

DEVELOPMENT OF THE PATRIZIA STOCK IN 2016 COMPARED TO VARIOUS INDICES (IN %)



Issuance of bonus shares

On 16 June 2016, the Annual General Meeting approved the capital increase from Company accounts to issue bonus shares in a ratio of 10:1 for the fifth consecutive time. The amendment of the Articles of Association was entered in the Company's commercial register on 12 August 2016, thereby becoming effective. The share capital increased by 10% or EUR 7,632,354 and now amounts to EUR 83,955,887, divided into 83,955,887 registered no-par value shares. On 26 August 2016, after the close of the markets, every shareholder was assigned one new share for each ten existing PATRIZIA shares. First day of trading for the new shares was on 29 August 2016.

More than 40 Days in 2016 were spent by the Investor Relations Team on roadshows and conferences

www.patrizia.ag/investor-relations

7

analysts monitor and regularly rate PATRIZIA and its stock

Investor Relations – valuable relationships and active communication

PATRIZIA Immobilien AG maintains a continuous and comprehensive dialogue with its institutional and private shareholders in which it proactively and transparently provides information about the business development and all important events. Consequently, the Company's Managing Board and Investor Relations gave presentations at all important financial centres in Europe and the United States in 2016 as well. In total, the Company visited 26 cities in 15 countries on a total of 32 roadshow days – from A as in Atlanta to Z as in Zurich. The team also attended 10 international investor conferences.

The stock of PATRIZIA Immobilien AG is regularly rated by seven analyses from renowned German and international banks. At the end of 2016, six of the analysts, or respectively 86%, recommended buying PATRIZIA stock, while one analyst recommended to hold the share. Compared to the previous year, when 56% of the analysts clearly rated the stock a "buy", this represents a clearly improved starting position. The exchange price recommendations ranged from EUR 17 to EUR 26 on 31 December 2016, and the average target price was around EUR 22.21.

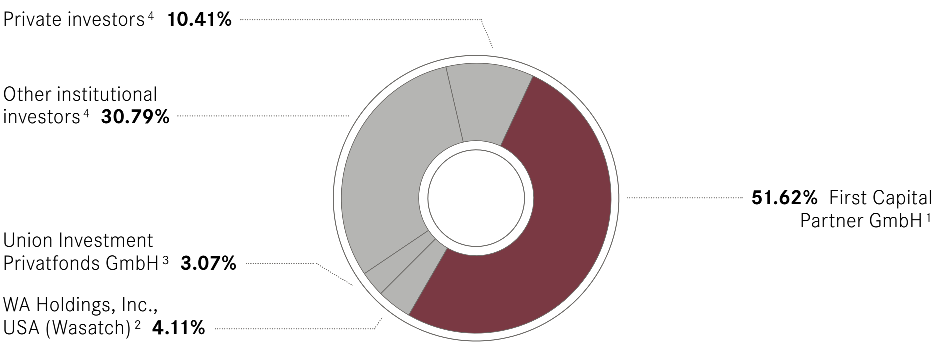
For more information, please visit www.patrizia.ag/investor-relations. This website offers financial reports, presentations, and notifications as well as the current financial calendar and the assessments prepared by analysts about the stock of PATRIZIA Immobilien AG.

Company's shareholder structure

The shareholder structure of PATRIZIA Immobilien AG remained mostly unchanged in the past fiscal year. The company's founder and CEO Mr Wolfgang Egger continues to be the majority shareholder. Through First Capital Partner GmbH, he maintained his 51.62% interest in 2016. The second largest shareholder, the North American investor Wasatch reduced its interest in December 2016 to 4.11% and thus fell below the reporting threshold of 5%. The company Union Investment Privatfonds GmbH had purchased a share package of 3.07% in May 2013. The remaining shares are held by institutional investors at 30.79% and by private shareholders at 10.41%.

From a regional perspective, the more than 43,000 PATRIZIA shareholders are spread across a total of 45 countries throughout the world. The largest majority of the shares, however, are held by German (81.55%), American (8.72%), and British (3.65%) shareholders.

PATRIZIA SHAREHOLDER STRUCTURE AS OF 31 DECEMBER 2016



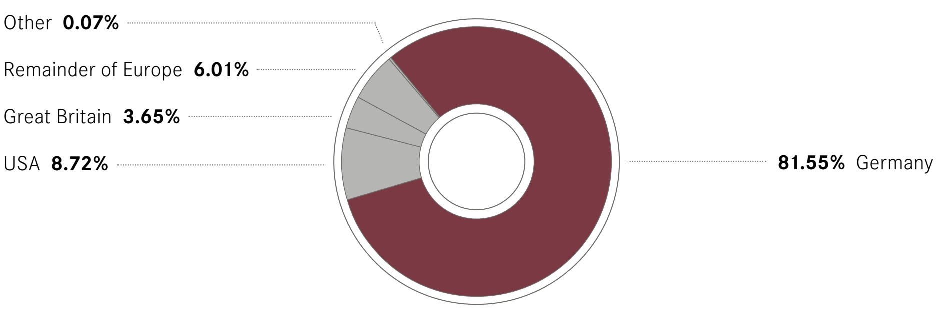
1 First Capital Partner is attributable to CEO Wolfgang Egger

2 According to the voting right notification of 21 December 2016

3 According to the voting right notification of 22 May 2013

4 Shareholders included in the register of names, those that are not registered were estimated

PATRIZIA SHAREHOLDER STRUCTURE BY REGION AS OF 31 DECEMBER 2016



2 MANAGE-MENT REPORT

MANAGEMENT REPORT

FUNDAMENTAL PRINCIPLES RELATING TO THE GROUP

ECONOMIC REPORT

ADDITIONAL INFORMATION

SUPPLEMENTARY REPORT

DEVELOPMENT OF OPPORTUNITIES AND RISKS

REPORT ON EXPECTED DEVELOPMENTS

MANAGEMENT REPORT

Consolidated Management Report for the Company and the Group

The Group management report was included in the PATRIZIA Immobilien AG management report in accordance with Article 315 (3) of the German Commercial Code (HGB) in conjunction with Article 298 (2) of the HGB because the position of PATRIZIA Immobilien AG as a management and financial holding company is mainly shaped by the position of the Group.

The integrated management report contains all details of the net assets, financial and earnings information of the Company and the Group as well as other details required according to German commercial law and the supplementary provisions of DRS 20. All monetary amounts are stated in euros.

1 FUNDAMENTAL PRINCIPLES RELATING TO THE GROUP

1.1 Business model

Present in
15
European markets

PATRIZIA Immobilien AG is one of Europe's leading independent real estate investment companies. Around 700 employees serve our clients in 15 European real estate markets. In addition, PATRIZIA maintains branches in Melbourne and New York. PATRIZIA offers a comprehensive scope of services from asset to portfolio management, the management of acquisitions and disposals for virtually all property classes as well as alternative investments and development. This enables us to fully and precisely meet the desires and requirements of clients. These clients include private and institutional investors focused on the long term such as insurance companies, pension funds, sovereign wealth funds and savings banks from all over Europe and Asia. PATRIZIA offers its client's products tailored to meet individual return, diversification and risk requirements.

PATRIZIA's business model focuses on making investments across Europe for institutional and private investors and on using its own equity to invest in attractive real estate properties and real estate portfolios on a case by case basis. In doing so, PATRIZIA generates fees and investment income which can be classified in three categories:

Business for third parties
Business for third parties involves the placement and management of investment funds by the Group's own investment management companies (MCs) on behalf of private and institutional investors. The funds are structured without an equity contribution by PATRIZIA. PATRIZIA generates stable, recurring income through the fees from the asset management, from the management of properties and from acquisitions and disposals. If PATRIZIA exceeds the individually specified return objectives, the company may also charge a performance fee. Furthermore, the business for third parties includes additional mandates where PATRIZIA offers separate individual services from its service portfolio.

Co-investments

Through co-investments, PATRIZIA also uses its own equity to participate in transactions together with its clients. In addition to the commitment to the client and to the transaction, these investments also generate management fees and income from participations for PATRIZIA. In this way, our shareholders are able to participate in the performance of an attractive and diversified pan-European real estate portfolio.

Principal investments

In general, PATRIZIA is active as an investment manager for institutional investors and private clients and therefore seeks to avoid any conflicts of interest with its own investments. Principal investments, i.e. transactions on PATRIZIA's own account, are therefore either made in the form of interim financing for closed-end mutual funds or as an early-stage investment with the purpose of including it in an institutional fund at a later point in time. In addition, there is a remaining portion of single unit sale assets.

As at 31 December 2016, PATRIZIA managed real estate assets of around EUR 18.6bn (31 December 2015: EUR 16.6bn). The volume of assets managed exclusively on behalf of third parties totalled EUR 11.6bn (31 December 2015: EUR 8.8bn); the portfolio of co-investments in which PATRIZIA participates with up to 10% of its own equity increased to EUR 6.9bn (31 December 2015: EUR 6.7bn). In the past year, principal investments significantly decreased by around EUR 0.1bn (31 December 2015: EUR 1.1bn).

EUR bn
2.0
assets under management growth

In accordance with its business model, PATRIZIA Immobilien AG generates two primary streams of income that form the basis of its operating income:

	Revenues from management services	Revenues from management services	Earnings on capital employed	Performance fees
Fees from third parties	✓	✓	x	✓
Revenues from own Investments	x	x	✓	x

1.2 Group strategy

PATRIZIA's aim is to become a leader in all asset classes, not just in Germany but across Europe. As an independent real estate investor, PATRIZIA acts on behalf of both large institutional investors from all over the world as well as German retail investors and offers added value across all segments of the property. A key element of PATRIZIA's strategy involves further expansion of its position. The goal is to continually increase assets under management and recurring income each year and thereby achieve sustainable growth in operating income.

Expansion of the European platform

In previous years, PATRIZIA has already opened offices in all strong and relevant European countries, and developed teams to ensure a presence in these markets. A key element of PATRIZIA's strategy involves further expansion of existing country activities and the entry into new European markets. As a general principle, PATRIZIA only expands into new markets or market segments where established companies can be seamlessly integrated into the PATRIZIA Group and / or where it is possible to recruit highly qualified experts with a suitable track record. We continue to monitor the market to identify such additions in a timely manner.

Extension of the product portfolio

The product portfolio is being expanded in a targeted manner and now incorporates almost all asset classes: from residential, office and retail to logistics, hotels and home care properties. PATRIZIA's Europe-wide platform provides optimal conditions for offering investments which match the legal and supervisory framework required by individual investors based on national regulations. PATRIZIA's skill set in this field and broad presence in Europe have enabled it to establish itself as an internationally successful brand among investors.

Broadening of the domestic and international investor base

EUR m
254
Volume of funds for retail investors, launched in 2016

The international investor base has undergone and continues to undergo further expansion. This included the establishment of offices in Australia and the U.S. and expanding the European Client Relationship Team specifically for Southern Europe and Scandinavia. In Germany, the strong domestic investor base is also undergoing a continued expansion. The target is to establish relations as stable as those to our existing, predominately German, clients. This includes particularly private clients for which we were able to issue funds worth EUR 254m in the period under review.

The goal is thereby to establish stable long-term customer relationships as with PATRIZIA's existing, predominantly German clients. As well as being interested in new products, these investors often require specialist consultancy services in terms of reinvesting proceeds from the disposal of existing investments.

1.3 Competitive strengths

Direct access to a broad investor base

Since
2016
PATRIZIA offers retail funds

Direct access to a broad investor base is one of PATRIZIA's strengths. This is founded on the trust of clients, which include more than 200 domestic and international institutional investors, who wish to consolidate and expand the business relationship developed over 30 years. These clients regularly and repeatedly invest in PATRIZIA. As of 2016, PATRIZIA has also been offering closed-end funds to retail investors. The demand displayed by this new investor group significantly exceeded our expectations. In this segment, we were able to invest EUR 254m for five different funds in the first year. In total, investors entrusted PATRIZIA with EUR 2.2bn of new equity in the year just ended.

Pan-European network

Based on deep trust and a professional, easily scalable platform, PATRIZIA's scope of activities and our network now encompasses 15 European markets. PATRIZIA is represented in these markets with long-standing, local expertise. Thanks to our regional and sub-regional network, we are able to identify and structure attractive investment opportunities in virtually all asset classes and across varying risk profiles. This network also gives PATRIZIA direct access to the latest market developments and is able to follow almost every noteworthy transaction. The Harald acquisition is one example – an exchange-listed portfolio primarily comprising German residential assets which PATRIZIA acquired in 2015, which was sold for a significant profit in the reporting period.

Offering the entire value chain

It is not just international investors who are impressed by PATRIZIA's wide range of products and services, but German investors too: investors are offered a “comprehensive, care-free package” containing all services and the entire value chain of their investment. It goes without saying that individual components can also be selected from this package.

Successful track record attracts further transactions

Successful transactions are commonplace at PATRIZIA. Last year alone we managed acquisitions and disposals totalling EUR 5.1bn, EUR 1.5bn of which was outside of Germany. In addition, we were able to contractually agree on transactions with a value of more than EUR 2.1bn, the majority of which will be realised in 2017. Successful wealth creation within a portfolio is one of PATRIZIA's core competences and that is reflected in the returns achieved for our clients. However, the prudent recognition of opportunities in all asset classes throughout Europe and the prompt and discreet execution of deals are also what clients and business partners value in PATRIZIA.

PATRIZIA has the DNA of an investor

PATRIZIA has the DNA of an investor and we regularly invest alongside institutional clients. PATRIZIA has from the outset made investing our own equity a key element of our business model. The company invests equity on a collaborative basis with clients in co-investments. Our long-standing experience and extensive expertise as an investor are demanded and appreciated by clients.

Reputation creates trust

Among investors and business partners in Europe, the name PATRIZIA stands for a trusting and reliable partnership and successful business. This reputation has developed through sustainable and prudent business acumen. The brand and the trust associated with it are indispensable for securing new clients and expanding existing business relationships. This is why we attach such great importance to managing the PATRIZIA brand and re-earning the trust of our investors with each new transaction.

1.4 Group control and performance indicators

1.4.1 Corporate management based on segments

PATRIZIA's corporate management is performed in the segments Management Services and Investments. The Management **Services segment** includes service commission (fee) income from asset management. The **Investments segment** primarily includes the income earned on capital funds (equity). Further details on segment reporting are available under item 7 of the Notes to the Consolidated Financial Statements.

1.4.2 Corporate management based on financial performance indicators

The following financial performance indicators are used for corporate management at PATRIZIA:

Financial performance indicators	Description
Assets under management (real estate assets)	The growth of the Group is measured by the assets under management.
Operating income	The operating income before tax is the Group's most important key performance indicator. It is calculated from EBT in accordance with IFRS, adjusted by non-cash effects from the valuation of investment properties, unrealised currency effects, the amortisation of fund management contracts and reorganisation expenses. It includes realised valuation gains from the sale of real estate assets held as investment property as well as realised currency effects.

Furthermore, the following framework parameters support Group control:

Additional framework parameters	Description
Management service fee	PATRIZIA receives recurring service fees for managing real estate assets.
Transaction fees	PATRIZIA receives a fee for acquisitions or disposals based on the transaction volumes.
Performance-based fees	PATRIZIA receives performance-based fees when defined target returns for individual investments are exceeded.
Transaction volume	The transaction volume is the total of all acquisitions and disposals for which PATRIZIA receives a fee which is in line with the market.
Investment income	Return on invested own equity
Raised equity	The equity for various investments is raised globally from institutional and retail investors.

Item 2.2, page 51

The development of these indicators is explained in detail in item 2.2.

1.4.3 Corporate management based on financial performance indicators

PATRIZIA does not directly apply any non-financial performance indicators for its direct corporate management.

1.5 Employees

Employee structure

38
trainees were employed in 2016

As at 31 December 2016, the European real estate investment company employed a total of 794 full-time employees (2015: 823 employees, –3.5%). This includes 38 trainees and students of the Cooperative State University Stuttgart (Duale Hochschule) studying real estate economics, plus 63 part-time employees.

On 3 January 2017, a purchase agreement for the property management was concluded with Deutsche Immobilien Management (DIM). As a result of the transaction, 115 employees were transferred to DIM and PATRIZIA's number of employees decreased accordingly.

A total of 125 employees work in international subsidiaries across Europe (2015: 99 employees) in Denmark, Finland, France, the United Kingdom, Ireland, Luxembourg, the Netherlands and Spain. The increase in the number of employees is mainly a result of the expansion of our international presence. In terms of full-time equivalents, the European headcount at the end of the year was 770 employees (2015: 800 employees, –3.8%).

EUROPEAN WORKFORCE

794
employees across Europe

Corporate culture

PATRIZIA'S corporate culture is based on our management principles and rules for collaboration, which are closely interconnected. They are divided into five dimensions: performance, trust, respect, responsibility and support. All dimensions are considered to have equal value and employees are encouraged to share in them and set an example of them in their own conduct. The essential nature of PATRIZIA's corporate culture makes it possible to better achieve these goals.

Diversity in the company

As a company with business activities throughout Europe, there is a constantly increasing level of cultural diversity in the Group. PATRIZIA now has local management teams in nine countries and is active as an investor and service provider on the real estate market in 15 countries. At year-end, PATRIZIA employed people from 29 nations.

The proportion of male to female full-time employees is 53% to 47%, while the proportion of male to female part-time employees is 2% to 98% (2015: 8% to 92%). With an overall proportion of 51%, the majority of employees (excluding trainees) of the PATRIZIA Group are female. In the year under review, female employees made up 5% of the senior management team (Managing Board and first-tier managers) across Europe (2015: 5%), while 25% of all managers in the Group were female (2015: 23%).

Per cent
51
proportion of female employees

3
internal trainer

Continuing education
Continuing education for PATRIZIA employees has always been, and remains, a central objective. During the year the PATRIZIA Academy offered 24 seminars including real estate skills, leadership skills, personal and social skills to international skills. Of a total of 12 instructors, eleven seminar leaders were drawn from within the company. Over the course of year under review, PATRIZIA invested around EUR 271,000 in advanced training and continuous education for its employees. This equates to EUR 365 per employee, based on the average number of employees during the year. Each month, a one-hour session on a selected specialist topic is held under the title "PATRIZIA Knowledge". These sessions focus on establishing a dialogue between colleagues and aim to promote understanding among each other and across departments.

Employer attractiveness
In order to ensure that we can enjoy long-term success across Europe as a real estate investment company, we need to make sure that we remain an attractive, exemplary employer in the competition for the best talent. PATRIZIA focuses on a mix of competitive remuneration, voluntary social benefits offered by the company, a friendly and constructive corporate culture and individually tailored development opportunities.

1.6 Sustainability

PATRIZIA Immobilien AG supports various organisations in the real estate industry that are committed to promoting sustainability and environmentally responsible behaviour. Through our membership of associations related to international real estate companies, we contribute to discussions on sustainability in the real estate sector such as the definition of reporting standards for residential properties.

Sustainability strategy
PATRIZIA's sustainability strategy significantly influences the approach with respect to the sustainable development of the company. Based on international reporting standards, the sustainability strategy comprises 11 core topics based on five strategic fields of action taking into account the importance of various stakeholders. The strategic fields of action focus on employee development, social commitment, PATRIZIA's products, increasing the value of the company and raising transparency. The sustainability strategy aims to integrate social and environmental issues along the real estate value chain into the stakeholder dialogue in order to be prepared for future challenges. An essential part of our expansion in Europe will encompass meeting international requirements and being prepared for future challenges.

www.kinderhausstiftung.de
www.facebook.com/patriziakinderhausstiftung

PATRIZIA KinderHaus Foundation
PATRIZIA also exercises sustainability through its support of the PATRIZIA KinderHaus Foundation, which was established by CEO Wolfgang Egger in 1999, the aim of which is to create living spaces for children and young people in need all over the world by building PATRIZIA children's homes ("KinderHaus"). The main focus is always on constructing new buildings, extending buildings or converting buildings which are precisely tailored to the respective requirements. Various children's homes have been set up in Europe, Africa, Asia and Latin America in the more than 15 years of the foundation's existence. All costs incurred are covered by PATRIZIA and additional sponsors, meaning that 100% of every euro donated is directly spent on the projects.

Per cent
100
of every Euro donated is directly spend on projects

2 ECONOMIC REPORT

2.1 Economic environment

Markets in general: Economic recovery continued in Europe in 2016, but is only proceeding very slowly. Growth in 2016 was primarily the result of increasing employment and the ECB's low interest rate policy. The steady economic recovery and a relatively weak euro led to a positive development in consumer spending and exports. The renewed rise in oil prices will likely contribute to an increase in inflation to above 1% in 2017.

Source: Reuters, EZB

Real estate markets: Real estate continues to create great demand from both institutional and retail investors. Investment activities were driven by low returns on alternative investments and the availability and low cost of financing. The interest for properties in primary locations as well as secondary locations remains high. However, focus increasingly shifts to secondary locations due to the lack of availability in primary locations. Favourable economic development resulted in a continued positive momentum for office rental markets and also for retail markets. European residential real estate markets continue to flourish in line with general economic recovery. The largest price increases can be observed in economically successful urban centres and also increasingly in their wider catchment areas. Generally, it can be assumed that the risk of a respective bubble forming currently appears limited since the upturn in regional residential property markets has not yet resulted in a rapid expansion of lending.

Source: RCA, Reuters, brokers

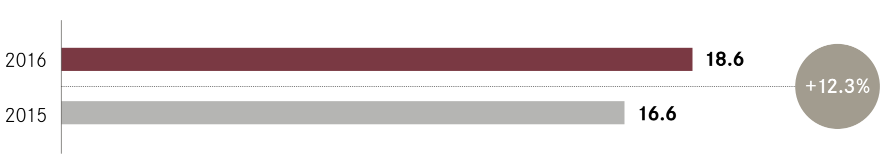
2.2 Operational performance

Key performance indicators

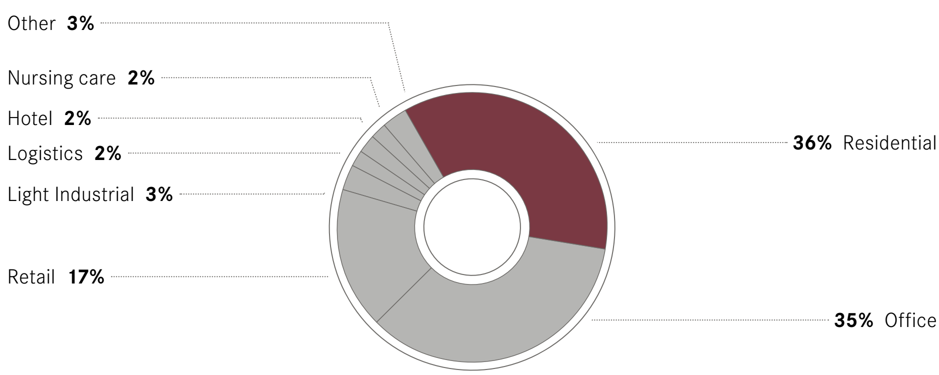
As at 31 December 2016, PATRIZIA was managing real estate assets worth EUR 18.6bn compared with EUR 16.6bn at the previous year's balance sheet date. Of this, EUR 12.5bn was accounted for by Germany and EUR 6.2bn by other countries. Overall, assets under management grew by EUR 2.0bn, or 12.3% during the reporting period. The target growth of around EUR 2.0bn per year was subsequently achieved. PATRIZIA also expects net annual growth of around EUR 2.0bn in assets under management in 2017.

EUR bn
18.6
assets under management as of end 2016

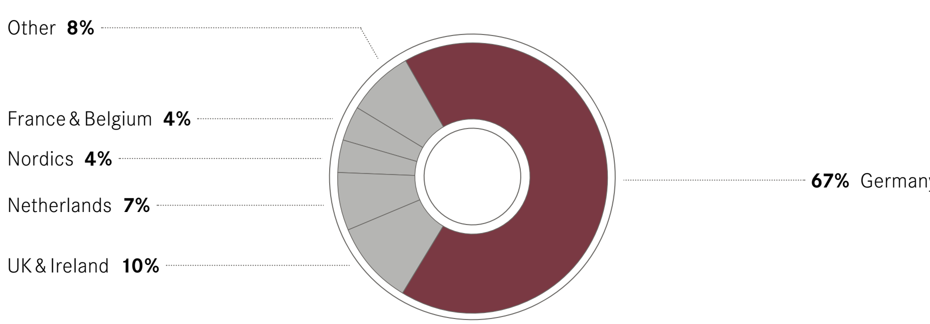
ASSETS UNDER MANAGEMENT (IN EUR BN)



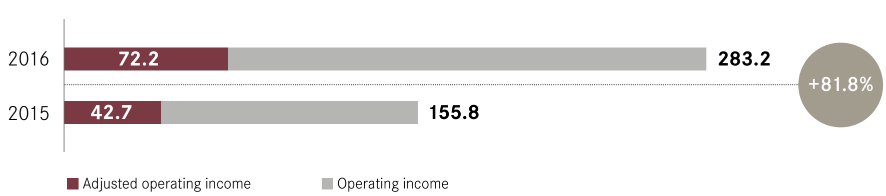
MANAGING ALL MAJOR SEGMENTS (IN %)



GEOGRAPHICAL BREAKDOWN OF ASSETS (IN %)



OPERATING INCOME (IN EUR M)



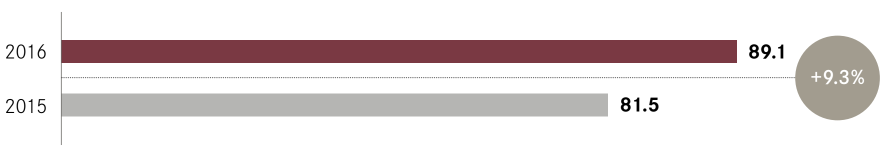
EUR m
283.2
increased guidance was significantly exceeded

For the 2016 fiscal year, operating income significantly increased to EUR 283.2m (2015: EUR 155.8m, +81.8%). This meant the increased forecast of at least EUR 265m which had been increased in November 2015 was significantly exceeded once more. Operating income adjusted for the contribution from the Harald transaction and the performance-related fees from the sale of SÜDEWO was EUR 72.2m in 2016; this is an increase of 69.3% compared to the previous year's result of EUR 42.7m.

Operating income before tax is the Group's most important key performance indicator. It is calculated from EBT in accordance with IFRS, adjusted by non-cash effects from the valuation of investment properties, unrealised currency exposure, the amortisation of fund management contracts and reorganisation expenses. It includes realised valuation gains from the sale of real estate assets held as investment property as well as realised currency effects.

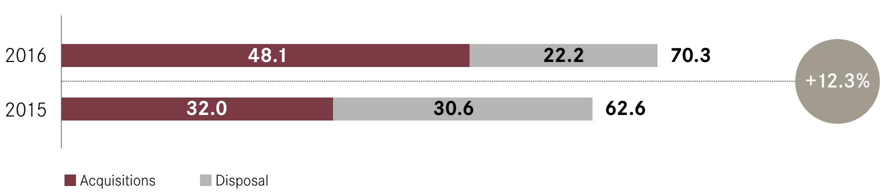
Development of the framework parameters which support corporate management:

MANAGEMENT SERVICE FEES (IN EUR M)



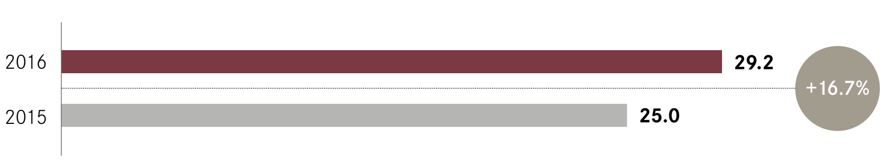
All services provided by PATRIZIA are compensated through management service fees. Management service fees include the compensation for real estate services such as asset and portfolio management and are highly recurring. In 2016, EUR 89.1m of management service fees were generated. Compared to the previous year, this represents an increase of 9.3% (2015: EUR 81.5m).

TRANSACTION FEES (IN EUR M)



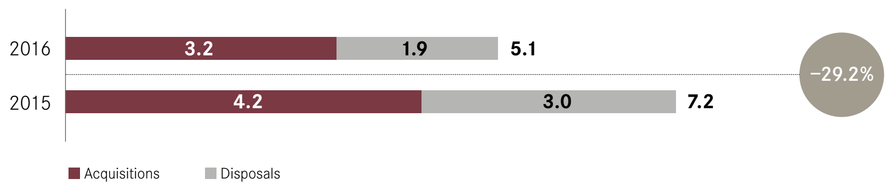
For the acquisition and disposal of assets, PATRIZIA charges a fee that is in line with market conditions. For the year ended, PATRIZIA generated EUR 70.3m in transaction fees, an increase of 19.8% compared to EUR 58.7m in 2015. This increased despite lower transaction volumes and is due to two non-fee-bearing transactions for our own account amounting to EUR 2.5bn in 2015 (sale of SÜDEWO and the acquisition of the Harald portfolio).

PERFORMANCE FEES (IN EUR M)



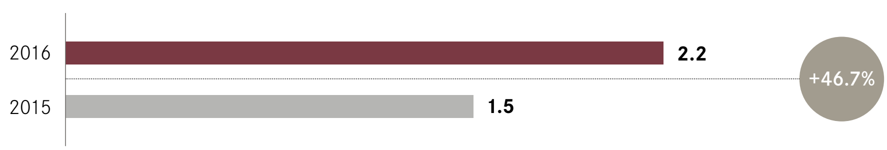
If defined target returns for investments are achieved or exceeded, PATRIZIA receives a corresponding performance fee. For the year ended, PATRIZIA generated EUR 29.2m in performance fees, an increase of 16.7% compared to EUR 25.0m in 2015. For 2015, the performance fee was adjusted by the effect of the SÜDEWO sale.

TRANSACTION VOLUME (IN EUR BN)



The transaction volume comprises realised real estate acquisitions and disposals. In 2016, acquisitions totalled EUR 3.2bn and disposals EUR 1.9bn. Taking into account the EUR 2.5bn non fee-bearing transactions on our own account (disposal of SÜDEWO and the acquisition of the Harald portfolio) in the fiscal year 2015, the transaction volume remained stable.

RAISED EQUITY (IN EUR BN)



EUR bn
2.2
equity raised with domestic and international investors

In 2016, equity of EUR 2.2bn was raised for PATRIZIA's numerous national and international investments. This represents a 46.7% increase on the previous year's figure of EUR 1.5bn.

2.2.1 Third parties

Business for third parties involves the placement and management of special funds by four different regulated Group investment management companies on behalf of private and institutional investors. PATRIZIA generates stable, recurring income from the management of the assets. Our so-called third-party business does not involve any equity investment by PATRIZIA. Third-party business contributed EUR 11.6bn to the assets under management as at 31 December 2016.

PATRIZIA's investment management companies

The funds fulfil the role of holding assets, and the initial holding period planned for these assets is between seven and ten years. Various PATRIZIA business units act as service provider for the funds of the three German investment management companies and the Luxembourg-regulated platform (AIFM), thereby generating fee revenues.

PATRIZIA WohnInvest KVG mbH primarily invests in residential properties and **PATRIZIA GewerbeInvest KVG mbH** in commercial real estate. Both companies operate with a focus on Europe and launch specialised real estate funds for institutional investors.

In contrast, **PATRIZIA GrundInvest KVG mbH** is the designated entity focusing on the private client business. In 2016, it launched five closed-end mutual funds in several countries with a total investment volume of around EUR 250m. The newly launched fund series “Europa Wohnen” invested in the cities Copenhagen (Denmark) and Den Haag (the Netherlands). Furthermore, it invested in a mixed use asset in Stuttgart as well as on the campus of RWTH Aachen University. In its first full year after approval, the investment management company generated contributions to PATRIZIA’s revenue and income in Germany, and the retail business will on this basis continue to accompany and support the Group’s growth going forward.

EUR m
254
Volume of funds for retail investors, launched in 2016

PATRIZIA Real Estate Investment Management S.à r.l. (REIM) is our European platform for German and international institutional clients.

Single asset mandates for third parties

PATRIZIA Immobilien AG also manages single asset mandates with real estate assets totalling around EUR 860m. During the reporting period, PATRIZIA acquired the Astro Tower in Brussels for a Taiwanese investor syndicate and signed the acquisition of the Commerzbank Tower in Frankfurt.

PATRIZIA INVESTMENTS FOR THIRD PARTIES AS AT 31 DECEMBER 2016

in EUR m	Assets under management	Equity commitments	of which already invested equity	of which outstanding	Number of established funds
PATRIZIA WohnInvest KVG mbH	***1,497***	***1,523***	***946***	***577*** [1]	***9***
Pool funds	1,032	1,063	680	383 [1]	5
Individual funds	465	460	266	194 [1]	4
PATRIZIA GewerbeInvest KVG mbH	***8,496***	***5,844***	***5,071***	***773***	***24***
Pool funds	4,811	3,083	2,766	317	12
Individual funds	1,320	1,447	993	455	10
Label funds	2,365	1,314	1,312	1	2
PATRIZIA Real Estate Investment Management S.à r.l. (REIM) [2]	***468***	***226***	***226***	***0***	***2***
Single asset mandates	***863***	***455***	***455***	***0***	***10***
PATRIZIA GrundInvest KVG mbH	***254***	***0***	***0***	***0***	***5***
Third Parties	**11,578**	**8,048**	**6,698**	**1,350**	**50**

1 Excludes real estate developments secured under purchase contracts

2 PATRIZIA Nordic Cities SCS SICAV-FIS

2.2.2 Co-investments

Through co-investments, PATRIZIA invests in real estate properties in collaboration with clients. In addition to the commitment to the client and to the transaction, these investments also generate management fees in a similar way that it does with our third-party business, and income from participations for PATRIZIA. Shareholders profit from the performance of an attractive and diversified pan-European real estate portfolio. Co-investments contributed EUR 6.9bn to the assets under management as at 31 December 2016. PATRIZIA has invested EUR 0.2bn of our own equity in co-investments.

EUR bn
6.9
Co-investment assets under management end of 2016

PATRIZIA's co-investments are described below.

Name	Description	AuM in EUR m	PATRIZIA share
GBW	GBW – a former housing company of Bayern-LB – was acquired in 2013 for a syndicate of German long-term investors. Its aim is long-term, value-adding management of the portfolio, which extends throughout Bavaria. In the fiscal year 2016, there were no material changes to this co-investment.	3,550	5.1%
WohnModul I SICAV-FIS	This co-investment's investment assets include residential and commercial properties across Europe. In the fiscal year 2016, this co-investment made the following acquisitions: – **Berlin:** In Berlin, a residential property was bought in the city centre containing 131 high quality apartments. – **Munich:** In Oberschleißheim, a complex was acquired consisting of three residential buildings with 457 apartments and 14 commercial units. – **Real estate developments in Germany:** In four German cities, there are currently six real estate projects at different stages of development.	1,825	10.1%
PATRoffice Real Estate GmbH & Co. KG	This is an actively managed co-investment with two pension funds from the Netherlands and from Denmark. The exit phase and the sale of the assets commenced in 2013. In 2016, real assets with a value of EUR 36.0m were sold. For the remaining, as yet unsold assets, the transactions will be swiftly concluded and the equity repaid.	209	6.25%
Co-investments in the United Kingdom	PATRIZIA has four different co-investments in industrial parks in the London metropolitan area together with Oaktree Capital Management.	1,050	5–10%
Seneca	The DEIKON portfolio with 86 specialist stores and supermarkets	181	5.1%

2.2.3 Principal investments

In general, PATRIZIA is active as an investment manager for institutional investors and private clients and therefore seeks to avoid any conflicts of interest with its own investments. Principal investments, i.e. transactions on PATRIZIA's own account, are therefore either made in the form of interim financing for closed-end mutual funds or as an early-stage investment with the purpose of including it in an institutional fund at a later point in time. In addition, there is a remaining portion of single residential unit sale assets.

In 2016, the existing principal investments have developed as follows:

Manchester First Street

During the period under review, an undeveloped portion of the asset in Manchester, plot 5, was concluded with the Greater Manchester Pension Fund through a joint venture. The aim is to develop an office complex on the site for which the first leases have already been agreed. In addition to the purchase price, PATRIZIA received a minority stake in the joint venture and will provide project manage the development going forward.

In addition, the largest single principal investment in Manchester, office building No. 1 First Street, was sold to an institutional UK investor. The closing took place in early October 2016.

As at the balance sheet date, PATRIZIA continues to hold two undeveloped areas as well as the food and beverage mall.

Harald

As part of a voluntary public offer, PATRIZIA acquired more than 14,000 apartments in Germany and Sweden during the 2015 fiscal year. The purchase price of the portfolio amounted to approximately EUR 900m. PATRIZIA has since successfully sold all of the units. The units in Sweden were sold for a profit of around EUR 5.3m in 2015, while the sale of the apartments in Germany for around EUR 1.1bn was concluded in 2016.

Other principal investments

For Wildrosenweg in Munich, the closing took place in Q1 2016, after the purchase price had already been paid at the end of 2015 and the single unit sale has started successfully.

In May 2016, a development project was acquired in the attractive Barking district of London. The plan is to develop approximately 200 residential units in a 28-storey building.

Please see item 2.3.2 regarding the contribution to results by these principal investments.

Item 2.3.2, page 59

2.3 Economic environment

2.3.1 General statement by the Managing Board

The fiscal year 2016 was once again an outstanding one for PATRIZIA. All relevant key performance indicators were met successfully. The forecast for the operating income was initially increased from EUR 250m to at least EUR 265m and was ultimately significantly exceeded with an operating income of EUR 283.2m.

EUR m
283.2
operating income 2016

The **operating income** recorded a new record high with EUR 283.2m and increased significantly compared to 2015 (EUR 155.8m, +81.8%). The sharp rise in this key indicator was driven by the proceeds from the sale of the Harald portfolio which contributed EUR 211m to the result and is supported by the generally very positive development of PATRIZIA. Operating income, adjusted for the contribution from the Harald transaction and the performance-related fees from the sale of SÜDEWO, was EUR 72.2m in 2015; this is an increase of 69.3% compared with the previous year's result of EUR 42.7m.

Operating income includes all of PATRIZIA's operating income flows and therefore gives an accurate reflection of actual operating performance. The composition and development of the operating income is explained in detail below.

In the period under review, **fee revenues** increased 14.1% from EUR 165.2m in 2015 to EUR 188.6m. This key performance indicator is relevant because, as part of the transformation of the business from a real estate trader to an investment manager, the increased fee revenues replace the volatile and decreasing disposal and rental revenues as part of the transformation of the business model.

EUR bn
5.1
transaction volume

The **total transaction volume** in fiscal year 2016 remained stable at EUR 7.2bn compared to the previous year. Completed acquisitions totalled EUR 3.2bn and disposals EUR 1.9bn. Moreover, we were able to contractually agree on transactions with a value of more than EUR 2.1bn, the majority of which will be realized in 2017. Of these, EUR 1.7bn represent additional acquisitions while EUR 0.4bn represent already agreed upon disposals.

Assets under management rose as scheduled by EUR 2.0bn to EUR 18.6bn.

Cash and cash equivalents of EUR 440.2m on the balance sheet date will allow PATRIZIA to continue to focus on further attractive investment opportunities in the future. Including attractive co-investments together with our clients, this encompasses the extension of our European activities as well as executing inorganic growth through takeovers of complementary investment managers, if applicable.

The sale of the **Harald portfolio** was concluded as scheduled in 2016. The operating income from this transaction is EUR 211.0m after deduction of transaction-related taxes of EUR 43.2m and minority stakes of EUR 18.3m. In addition, we retained a minority stake in the structure. PATRIZIA continues to hold this minority stake as a Principal Investment and receives a guaranteed dividend amounting to EUR 0.9m p.a.

HARALD

in EUR k	2016
Operating income	272,439
Income taxes	–43,192
Minority stake	–18,290
Share in the operating income of PATRIZIA	**210,957**

The sale was carried out in part as an asset deal and in part as a share deal. The asset deals are recognised as revenue as well as a change in inventories on the income statement. The share deals, on the other hand, are recognised under income from the initial consolidation of subsidiaries. For reasons of comparability, we adjusted for the effects from the sale of the Harald portfolio.

In total, the earnings, net assets and financial position continues to grow well and forms a good basis for the continued implementation of PATRIZIA's strategic goals.

2.3.2 Earnings situation of the Group

Operating Income

Operating income is the Group's most important key performance indicator as it includes the sum of all operating items in the income statement, adjusted by the items listed below. In the 2016 fiscal year, operating income increased by 81.7% to EUR 283.2m (2015: EUR 155.8m). Stripping out the contribution from the sale of the Harald portfolio in 2016, and the performance fee earned for the disposal of SÜDEWO in 2015, the adjusted operating income increased by almost 70% to EUR 72.2m, after recording EUR 42.7m for 2015. The development of the operating income and a prior year comparison is shown below:

Per cent
69.3
increase in adjusted operating income

RECONCILIATION OF OPERATING INCOME

in EUR k	2016 (adjusted)[1]	2015 (adjusted)[1]	Change	2016	2015	Change
EBITDA	***56,236***	***47,688***	***17.9***	***328,114***	***175,077***	***87.4%***
Amortisation of fund management contracts[2], depreciation of software and fixed assets	−6,134	−7,059	−13.1	−6,134	−7,059	−13.1%
EBIT	***50,102***	***40,629***	***23.3***	***321,980***	***168,018***	***91.6%***
Financial result (interest result)	−2,523	−6,251	−59.6	−4,304	−16,505	−73.9%
Gains / losses from currency translation	−5,644	1,143		−4,029	−618	
EBT	***41,935***	***35,521***	***18.1***	***313,647***	***150,895***	***107.9%***
Change in value of derivatives	0	0		0	−2,888	
+ Amortisation of fund management contracts[2]	1,968	1,968	0.0	1,968	1,968	0.0%
– Value change in investment property	−431	−462	−6.7	−431	−462	−6.7%
Harald – transaction-related taxes and minorities	0	0		−61,482	0	
Net realised valuation gains from the sale of investment property	1,529	5,758	−73.4	1,529	5,758	−73.4%
Reorganisation expenses	20,406	0		20,406	0	
Expenses / (income) from unrealised currency translation	6,812	−133		7,539	545	
Operating income	**72,219**	**42,652**	**69.3**	**283,176**	**155,816**	**81.7%**

1 adjusted = without SÜDEWO, Harald

2 Fund management contracts that have been transferred in the course of the acquisition of PATRIZIA GewerbeInvest KVG mbH

In line with the transformation of the business model towards an investment management company with a European focus, fee streams have become the main source of operating income. Meanwhile, sales proceeds from single unit sales as well as rental income are increasingly diminishing.

Other items in the reconciliation of the operating income are shown below based on their position in the consolidated income statement.

Consolidated Income Statement

PATRIZIA EARNINGS AT A GLANCE

in EUR k	2016	2015	Change
Revenues	817,879	384,858	112.5%
Total operating performance	526,385	249,419	111.0%
EBITDA	328,114	175,077	87.4%
EBIT	321,980	168,018	91.6%
EBT	313,647	150,895	107.9%
Operating income [1]	283,176	155,816	81.7%
Consolidated annual profit	256,264	134,462	90.6%

1 Adjusted for amortisation on fund management contracts, unrealised changes in the value of investment property and non-cash effects from interest and currency hedging transactions. Non-realised currency changes and reorganisation expenses are eliminated. Realised changes in the value of investment property as well as realised currency changes have been added

Revenues

Consolidated revenues remained broadly stable at EUR 325.4m in 2016, compared with EUR 338.7m in the prior year period. While sales proceeds from principal investments decreased, all other items grew positively and largely compensated the decline in sales proceeds.

REVENUES

in EUR k	2016 (adjusted) [1]	2015 (adjusted) [1]	Change	2016	2015	Change
Sales proceeds from principal investments	143,705	188,979	–24.0%	629,799	188,979	233.3%
Rental revenues	11,992	8,797	36.3%	18,509	42,761	–56.7%
Revenues from management services	161,261	134,259	20.1%	161,261	134,259	20.1%
Revenues from ancillary costs	4,171	2,464	69.3%	4,021	14,678	–72.6%
Miscellaneous	4,288	4,182	2.5%	4,289	4,181	2.6%
Consolidated revenues	**325,417**	**338,681**	**–3.9%**	**817,879**	**384,858**	**112.5%**

1 adjusted = without SÜDEWO, Harald

Consolidated revenues are of limited informative value, as items shown beneath the revenue line must also be taken into consideration to obtain a complete picture of the operational performance.

Sales proceeds from principal investments include purchase price revenues from PATRIZIA's own portfolio, which are now diminishing. The sales proceeds of EUR 143.7m mainly include EUR 46.9m from single unit sales as well as EUR 86.5m of proceeds from the disposal of two assets in Manchester.

The increase in **rental revenues** from EUR 8.8m in 2015 to EUR 12.0m in 2016 was largely due to the addition of single unit sales properties in Munich at the beginning of 2016 and the rental income from the office building in Manchester, which was sold in October 2016.

Revenues from management services are fees that PATRIZIA charge as an investment manager. As PATRIZIA evolves towards a more fee-related business, this accelerated fee streams during 2016 which increased to a total amount of EUR 161.3m, up 14.1% from EUR 134.3m in 2015.

Per cent
14.1
increase of fee income

Including GBW, fee income increased 14.1% to EUR 188.6m from EUR 165.2m in 2015.

The table below demonstrates the development of the various fee components, including the contributions from the co-investment in GBW, which are classified as income from participations.

FEE INCOME

in EUR k	2016 (adjusted)[1]	2015 (adjusted)[1]	Change	2016	2015	Change
Management fees	89,062	77,653	14.7%	89,062	77,653	14.7%
Transaction fees	70,329	62,575	12.4%	70,329	62,575	12.4%
Performance fees	29,167	24,988	16.7%	29,167	128,529	−80.6%
Total	**188,558**	**165,219**	**14.1%**	**188,558**	**268,757**	**−29.8%**

1 adjusted = without SÜDEWO, Harald

The **revenues from ancillary costs** amounted to EUR 4.2m (2015: EUR 2.5m, +69.3%) and include the allocation of recoverable ancillary rental costs, which increased in line with rental growth. **Miscellaneous** items include transaction costs and expenses which are charged to the corresponding investment vehicles. Due to steady transaction volumes, this item remains stable at EUR 4.3m.

Total Operating Performance

Total operating performance reflects PATRIZIA's performance more comprehensively than consolidated revenues. Although revenues slightly decreased in 2016, total operating performance increased by 17.7% to EUR 226.9m, from EUR 192.8m in 2015.

Per cent
17.7
increase in operating performance

TOTAL OPERATING PERFORMANCE

in EUR k	2016 (adjusted)[1]	2015 (adjusted)[1]	Change	2016	2015	Change
Revenues	325,417	338,681	–3.9%	817,879	384,858	112.5%
Income from the sale of investment property	1,542	10,075	–84.7%	1,542	10,075	–84.7%
Changes in inventories	–115,133	–166,951	–31.0%	–502,018	–166,980	200.6%
Other operating income	9,903	11,010	–10.1%	14,252	16,189	–12.0%
Income from the deconsolidation of subsidiaries	5,187	0		194,730	5,277	
Total operating performance	**226,916**	**192,815**	**17.7%**	**526,385**	**249,419**	**111.0%**

1 adjusted = without SÜDEWO, Harald

Revenues remained broadly stable at EUR 325.4m (2015: EUR 338.7m, –3.9%), as increased fee income from the investment management business compensated diminishing sales proceeds.

Income from the sale of investment property
Income from the sale of investment property, including properties that had been held by PATRIZIA for a long period of time, contributed a net income of EUR 1.6m in 2016 compared to EUR 10.1m in 2015. The total sales proceeds amounted to EUR 10.9m (2015: EUR 69.8m) and the corresponding book values were EUR 9.3m (2015: EUR 59.7m). The strong decline of 84.7% is due to diminishing stock and therefore lower sales volume.

Changes in inventories
During 2016 changes in inventories amounted to EUR –115.1m (2015: EUR –167.0m, –31.0%). Corresponding declines in the carrying value of real estate sold from inventory reduced the stock by EUR 125.3m (2015: EUR 182.3m, –31.3%). The most significant changes to the inventory were the disposal of two assets in Manchester (EUR –72.4m) as well the single unit sales business (EUR –40.9m).

Other operating income
Other operating income decreased by 10.1% to EUR 9.9m (2015: EUR 11.0m). Of this, EUR 4.7m was due to expired obligations (2015: EUR 5.2m) and a further EUR 1.3m (2015: EUR 1.7m) from the reimbursement of transaction costs and fees.

Income from the deconsolidation of subsidiaries
Income from the deconsolidation of subsidiaries amounts to EUR 5.2m (2015: 0m) and relates to assets held temporarily on PATRIZIA's balance sheet for subsequent placement with retail funds of PATRIZIA GrundInvest KVG. PATRIZIA did not charge a gain on the purchase price.

RECONCILIATION OF EBITDA

in EUR k	2016 (adjusted) [1]	2015 (adjusted) [1]	Change	2016	2015	Change
Total operating performance	226,916	192,815	17.7%	526,385	249,419	111.0%
Cost of materials	−27,708	−29,746	−6.9%	−33,712	−52,438	−35.7%
Cost for purchased services	−14,832	−14,787	0.3%	−14,832	−14,787	0.3%
Staff costs	−87,292	−93,519	−6.7%	−101,313	−93,519	8.3%
Change in value of investment property	431	462	−6.7%	431	462	−6.7%
Other operating expenses	−61,191	−59,984	2.0%	−68,757	−69,973	−1.7%
Income from participations	32,667	48,215	−32.2%	32,667	151,681	−78.5%
Earnings from companies accounted for using the equity method	7,651	4,232	80.8%	7,651	4,232	80.8%
EBITDAR	76,642	47,688	60.7%	348,520	175,077	99.1%
Reorganisation expenses	−20,406	0		−20,406	0	
EBITDA	**56,236**	**47,688**	**17.9%**	**328,114**	**175,077**	**87.4%**

1 adjusted = without SÜDEWO, Harald

Cost of materials

Cost of materials include construction and maintenance measures for PATRIZIA's own assets, which are usually capitalised. Year-on-year, the cost of materials decreased slightly by 6.9%, from EUR 29.7m in 2015 to EUR 27.7m in 2016, in line with the reduced level of own stock and development activities. It comprises the following items:

- Refurbishment and development costs of EUR 20.6m (2015: EUR 23.6m, −13.0%)
- Maintenance costs of EUR 0.8m (2015: EUR 0.7m, +4.0%)
- Allocable rental ancillary costs of EUR 6.4m (2015: EUR 5.4m, +18.7%)

Cost of purchased services

Cost of purchased services largely include expenditures for the white labelled funds of PATRIZIA GewerbeInvest, for which PATRIZIA acts as service provider only. The cost for these purchased services decreased by 4.8% to EUR 12.8m in 2016, compared to EUR 13.5m in the previous year. Management income from white labelled funds decreased by 2.9% to EUR 15.5m, compared with EUR 16.0m in 2015.

Staff costs

Mainly due to reduced sales commissions and a positive effect from long-term variable compensation, the total staff costs decreased during the year:

STAFF COSTS

in EUR k	2016 (adjusted)[1]	2015 (adjusted)[1]	Change	2016	2015	Change
Fixed salaries	50,483	48,413	4.3%	50,492	48,413	4.3%
Variable salaries	22,544	20,526	9.8%	36,544	20,526	78.0%
Sales commissions	4,212	6,989	−39.7%	4,212	6,989	−39.7%
Social security contributions	10,607	9,609	10.4%	10,618	9,609	10.5%
Effect of long-term variable compensation[2]	−2,824	4,464		−2,824	4,464	
Miscellaneous	2,270	3,518	−35.5%	2,271	3,518	−35.4%
Total	**87,292**	**93,519**	**−6.7%**	**101,313**	**93,519**	**8.3%**

1 adjusted = without SÜDEWO, Harald

2 Valuation changes of the long-term variable remuneration due to change in the share price. For further details please refer to the compensation report under 3.2

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Staff costs decreased by 6.7% to EUR 87.3m from EUR 93.5m in 2015. The fixed salaries of staff grew by 4.3% to EUR 50.5m from EUR 48.4m in the prior year mainly due to salary increases in line with usual adjustments. Variable salaries rose by 9.8% to EUR 22.5m from EUR 20.5m in the prior year period, reflecting the good operational performance of PATRIZIA. Sales and distribution commissions decreased by 39.7% to EUR 4.2m from EUR 7.0m in the prior year in line with the reduced volume of single units sold. The negative share price performance resulted in a positive effect of EUR 2.8m of the long-term variable compensation, compared with costs of EUR 4.5m in 2015. Miscellaneous items, which mainly refer to payment in kind, decreased by 35.5% to EUR 2.3m versus EUR 3.5m in 2015.

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Change in the value of investment property

This item includes the result of the annual valuation of investment property. For 2016, the change in value amounted to EUR 0.4m, after EUR 0.5m in the previous year.

Other operating expenses

Other operating expenses increased slightly by 2.0% to EUR 61.2m from 60.0m in 2015.

OTHER OPERATING EXPENSES

in EUR k	2016 (adjusted)[1]	2015 (adjusted)[1]	Change	2016	2015	Change
Advisory and audit fees	14,654	16,027	−8.6%	14,953	19,507	−23.3%
Cost of management services	440	222	98.2%	6,300	5,115	23.2%
Vehicle and travel costs	5,399	5,179	4.2%	5,399	5,179	4.2%
IT costs, communication costs and office supplies	7,425	7,863	−5.6%	7,425	7,863	−5.6%
Advertising costs	4,435	4,431	0.1%	4,488	4,785	−6.2%
Recruitment costs, training costs and costs for temporary work	2,577	2,023	27.4%	2,577	2,023	27.4%
Rent, cleaning and ancillary costs	7,003	6,827	2.6%	7,288	7,182	1.5%
Contributions, charges and insurance costs	2,347	1,779	31.9%	2,475	1,790	38.3%
Commissions and other sales costs	2,583	4,429	−41.7%	2,590	4,441	−41.7%
Other taxes	1,218	200		1,218	200	
Indemnity / reimbursement	6,568	1,300		6,568	1,300	
Miscellaneous	6,542	9,704	−32.6%	7,476	10,588	−29.4%
Total	**61,191**	**59,984**	**2.0%**	**68,757**	**69,973**	**−1.7%**

1 adjusted = without SÜDEWO, Harald

Commissions and other sales costs decreased by 41.7% to EUR 2.6m from EUR 4.4m in the previous year, in line with diminishing sales activities. Other taxes increased to EUR 1.2m from EUR 0.2m in 2015 due to asset taxes for a Luxembourg-based subsidiary. Indemnity / reimbursement costs rose to EUR 6.6m from EUR 1.3m in the prior year and mainly relate to extraordinary costs for prior years transactions.

Income from participations

Income from participations and earnings from companies accounted for using the equity method display investment income from co-investments, which are earned in addition to management fees. In the reporting period, income from participations decreased by 23.1% to EUR 40.3m from EUR 52.4m in 2015. The decrease reflects the loss of income from SÜDEWO following its disposal in 2015.

The co-investment **GBW** generated EUR 9.5m from services provided as shareholder contribution and an amount of EUR 17.8m in performance-related shareholder compensation as well as a distribution on invested equity of EUR 3.2m – all unchanged from 2015.

The **Seneca** supermarket portfolio contributed a slightly lower dividend of EUR 0.4m (2015: EUR 0.5m). The **co-investments in the UK** contributed a pay-out of EUR 0.9m compared with EUR 0.1m in 2015. The remaining minority stake in Harald, which is now considered as a co-investment, contributed EUR 0.9m. The co-investment WohnModul I generated an income of EUR 7.7m compared to EUR 4.2m in the previous year, which is reported as earnings from companies accounted for using the equity method.

INCOME FROM PARTICIPATIONS

in EUR k	2016 (adjusted) [1]	2015 (adjusted) [1]	Change	2016	2015	Change
SÜDEWO	*0*	*17,042*		*0*	*120,508*	
Services provided as a shareholder contribution	0	3,625		0	3,625	
Performance-related shareholder compensation	0	0		0	103,466	
Earnings on capital employed	0	13,417		0	13,417	
GBW	*30,520*	*30,555*	*−0.1%*	*30,520*	*30,555*	*−0.1%*
Services provided as a shareholder contribution	9,490	9,490	0.0%	9,490	9,490	0.0%
Performance-related shareholder compensation	17,807	17,842	−0.2%	17,807	17,842	−0.2%
Earnings on capital employed	3,223	3,223	0.0%	3,223	3,223	0.0%
SENECA	*434*	*510*	*−14.9%*	*434*	*510*	*−14.9%*
UK	*853*	*108*	*689.8%*	*853*	*108*	*689.8%*
Harald	*860*	*0*		*860*	*0*	
WohnModul I	*7,651*	*4,232*	*80.8%*	*7,651*	*4,232*	*80.8%*
Total	**40,318**	**52,447**	**−23.1%**	**40,318**	**155,913**	**−74.1%**

1 adjusted for the performance fee for SÜDEWO

Reorganisation expenses

In 2016, PATRIZIA made a strategic decision to focus on its core investment management activities and services which create a higher value for PATRIZIA's clients and their investments. Following this decision, PATRIZIA selected an external service provider for property management services, and subsequently disposed its existing division to a strategic buyer.

The reorganisation process incurred one-off expenses of EUR 20.4m in 2016 (2015: EUR 0m), which PATRIZIA expects to be recouped through savings within the next two to three financial years.

REORGANISATION EXPENSES

in EUR k	2016
Reorganisation expenses for compensation	9,329
Reorganisation expenses for current salaries	4,020
Reorganisation expenses for material costs	2,613
Reorganisation expenses for consulting	4,444
Total	**20,406**

Consolidated Annual Profit

Mainly due to increased income taxes, the adjusted net profit for the period decreased by 15.7% to EUR 27.7m from EUR 32.9m in 2015.

NET PROFIT FOR THE PERIOD

in EUR k	2016 (adjusted) [1]	2015 (adjusted) [1]	Change	2016	2015	Change
EBITDA	*56,236*	*47,688*	*17.9%*	*328,114*	*175,077*	*87.4%*
Amortisation of fund management contracts, depreciation of software and fixed assets	−6,134	−7,059	−13.1%	−6,134	−7,059	−13.1%
EBIT	***50,102***	***40,629***	***23.3%***	***321,980***	***168,018***	***91.6%***
Financial income	2,682	939	185.6%	3,057	6,666	−54.1%
Financial expenses	−5,204	−7,190	−27.6%	−7,361	−23,171	−68.2%
Gains / losses from currency translation	−5,644	1,143		−4,029	−618	
EBT	***41,936***	***35,521***	***18.1%***	***313,647***	***150,895***	***107.9%***
Income taxes	−14,193	−2,623	441.1%	−57,383	−16,433	249.2%
Net profit for the period	**27,743**	**32,898**	**−15.7%**	**256,264**	**134,462**	**90.6%**

1 adjusted = without SÜDEWO, Harald

Amortisation of fund management contracts, software and fixed assets

Amortisation of fund management contracts, the depreciation of software and fixed assets decreased by 13.1% to EUR 6.1m from EUR 7.1m in 2015. The largest single positions are the amortisation of fund management contracts of EUR 2.0m (2015: EUR 2.5m), the depreciation of software of EUR 3.3m (2015: EUR 2.6m, +27.6%) as well as the depreciation of equipment of

EUR 1.2m (unchanged year-on-year). For a summary of the fixed assets please refer to item 4 of the Notes to the Consolidated Financial Statements.

Financial income

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Financial income increased to EUR 2.7m from EUR 0.9m year-on-year and includes interest income on delayed purchase price receipts. Financial expenses decreased to EUR 5.2m (2015: EUR 7.2m; −27.6%). The currency result amounted to EUR −5.6m (2015: EUR 1.1m). This includes realised currency losses of EUR 8.9m (2015: gains of EUR 1.0m), which were compensated by EUR 10.1 (2015: EUR 0m) gains from currency hedging as well as EUR 6.8m non-realised and non-cash effective temporary currency losses (2015: gain of EUR 0.1m). A major driver behind the currency result was the change in Pound Sterling. For further information please refer to item 6.10 of the Notes to the Consolidated Financial Statements.

Income taxes

Income taxes increased to EUR 14.2m compared with EUR 2.6m in 2015. While 2015 was influenced by tax reimbursements for prior years, the rise in 2016 was driven by EUR 7.6m of tax payments on the disposal gains of the assets sold in Manchester.

2.3.3 Net asset and financial situation of the Group

PATRIZIA NET ASSET AND FINANCIAL KEY FIGURES

in EUR k	31.12.2016	31.12.2015	Change
Total assets	993,259	1,631,831	−39.1%
Equity (excluding non-controlling partners)	749,342	521,601	43.7%
Equity ratio	75.4%	32.0%	43,4 PP
Bank loans	53,200	821,828	−93.5%
+ Bonded loans	27,000	67,000	−59.7%
- Cash and cash equivalents	440,219	179,141	145.7%
= Net financial debt	−360,019	709,687	
Real estate assets [1]	**82.1%**	**35.9%**	**46.2 PP**

1 Shareholders equity (excl. minorities) divided by net assets (total assets less total debt covered by incremental cash)

PP = percentage points

Per cent
82.1
net equty ratio

Total assets

The Group's total assets decreased to EUR 993.3m compared to EUR 1,631.8m in 2015. The decline was largely due to the disposal of principal investments like the Harald portfolio and the Manchester assets and the redemption of the respective loans in 2016. For PATRIZIA GrundInvest KVG, two assets are held in the balance sheet temporarily.

Investment property and inventories

In the consolidated financial statement, PATRIZIA's real estate assets amounted to EUR 195.2m (31 December 2015: EUR 1,078.7m, –81.9%):

in EUR k	2016	2015	Change
Investment property	12,226	20,802	–41.2%
Inventories	182,931	1,057,942	–82.7%
Principal investments	**195,157**	**1,078,744**	**–81.9%**

Of this, EUR 12.2m were attributable to **investment property**. EUR 182.9m are **inventories** and include principal investments such as the remainder of the Manchester portfolio and the properties in Munich held for residential unit sales as well as assets to be placed in the retail funds of PATRIZIA GrundInvest KVG. The sharp decrease is due to the sale of the Harald portfolio and two assets in Manchester.

The capital allocation table provides an overview of all participations, assets under management and PATRIZIA's invested capital:

PATRIZIA CAPITAL ALLOCATION AS AT 31 DECEMBER 2016

in EUR m	Assets under management	PATRIZIA investment capital	Participation in %
Third parties	11,578	–	–
Co-investments	6,918	182.1	
Residential	5,420	142.6	
GBW GmbH	3,550	55.4	5.1
WohnModul I SICAV-FIS	1,825	86.6	10.1
Other	44	0.7	10.0
Commercial Germany	448	18.4	
PATRoffice	209	5.5	6.3
Seneca	181	4.9	5.1
sono west	58	8.0	30.0
Commercial international	1,050	21.0	
Aviemore Topco (UK)	512	12.9	10.0
Citruz Holdings LP (UK)	93	3.3	10.0
Plymouth Sound Holdings LP (UK)	61	1.8	10.0
Winnersh Holdings LP (UK)	384	3.0	5.0
Principal investments	144	158.6	
Harald	0	22.9	5.3
Other	144	135.6	100.0
Operating companies [1]	–	38.5	100.0
Tied investment capital	18,641	379.1	
Bank balances and cash	-	397.2	–
Total investment capital	18,641	776.3	
of which external capital (bonded loans and bridge financing)	–	27.0	–

1 Tied investment capital relating to the acquisition of companies (mainly the acquisition of PATRIZIA GewerbeInvest KVG) and the capital commitment from the operation of the services business (mainly investments in systems and current receivables)

Capital Structure

In accordance with the decrease of total assets, the liabilities were also significantly reduced at the reporting date.

Bonded loans

In 2013, two bonded loans with a total amount of EUR 77.0m were issued. In 2016, one bonded loan was fully redeemed on time. For the other bonded loan a prepayment of EUR 5.0m was made without pre-payment penalties. A pre-payment of the same amount was also made at the beginning of 2017, hence it was considered as a short-term liability in the balance sheet.

Bank loans and financial liabilities

Two assets to be placed in retail funds of PATRIZIA GundInvest KVG were temporarily added to the balance sheet. The bank loans for these assets amounted to EUR 53.2m as of 31 December 2016. The sharp decrease compared with 2015's short-term bank loans is due to the redemption of loans for the Harald portfolio post sale.

The development of bank loans and financial liabilities is shown in the following table:

in EUR k	31.12.2016	31.12.2015	Change
Long-term bonded loans	22,000	32,000	−31.3%
Short-term bonded loans	5,000	35,000	−85.7%
Short-term bank loans	53,200	821,828	−93.5%
Total	**80,200**	**888,828**	**−91.0%**

A detailed schedule of maturities for the loans by fiscal year is shown in the Notes to the Consolidated Financial Statements under item 5.4.

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Liquidity

Financing of the PATRIZIA Group is centrally managed by PATRIZIA Immobilien AG. As at 31 December 2016, loan agreements existed with three banks. In order to optimise liquidity and interest costs, loans were redeemed over the course of 2016 whenever possible without paying a pre-payment penalty.

Liquidity management ensures that the PATRIZIA Group is able to meet all financial obligations at all times. Most of the Group's affiliated companies and subsidiaries are directly linked to the Group's centralised cash pooling system. On a same-day basis, account surpluses are transferred to the parent company and account deficits are offset. Payment receipts from operating companies and the liquidity surpluses from sales and disposals represent the most important source of liquidity within the Group and ensure that all financing requirements are met. An appropriate liquidity reserves are maintained to ensure the Group's continued solvency. As of 31 December 2016, PATRIZIA holds cash and cash equivalents of EUR 440.2m (2015: EUR 179.1m)

EUR m
440
liquidity at year end 2016

The cash position of the Group is not freely available in its entirety. Through the sale of the Harald portfolio, remaining transaction-based liabilities and payments to non-controlling shareholders of EUR 36.0m have to be made, but were not due at the reporting date. In addition, a cash reserve of EUR 6.9m has to be permanently held available for the regulated investment management companies (KVGs) due to regulatory requirements (2015: EUR 8.4m). Hence, the available free cash balance amounts to EUR 397.2m.

Cash Flow Statement

In the reporting year, cash inflows from current **business activities** amounted to EUR 503.4m (2015: EUR 90.4m). The increase was driven by the sale of the Harald portfolio and the disposal of two assets in Manchester, while only minor assets were acquired. **Investment activities** resulted in a cash inflow of EUR 268.2m (2015: outflow of EUR 181.2m), and were mainly driven by the sale of the Harald portfolio and the disposal of two assets in Manchester as well as inflows from the sale of investment property. Along with that, the significant amount of cash was used to redeem almost all loans, which resulted in a significant outflow from **financing activities** of EUR 508.2m (2015: inflow of EUR 124.1m). The **change in cash** amounted to EUR 263.4m (2015: EUR 33.3m) and increased cash and cash equivalents from EUR 179.1m at the end of 2015 to EUR 440.2m as of 31 December 2016.

SUMMARY OF THE 2015 CONSOLIDATED CASH FLOW STATEMENT

in EUR k	2016	2015	Change
Cash inflow from operating activities	503,382	90,406	
Cash inflow / outflow from investment activities	268,191	−181,210	
Cash inflow / outflow from financing activities	−508,185	124,130	
Changes in cash	263,388	33,326	
Cash and cash equivalents 01.01.	179,141	145,361	23.2%
Cash and cash equivalents 31.12.	440,219	179,141	145.7%

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

The purpose of PATRIZIA Immobilien AG as parent company is essentially driven by the activities of the operating companies of the Group.

As a financing and management holding company for these companies, PATRIZIA Immobilien AG generated **revenues** of EUR 20.3m (2015: EUR 20.9m, −3.1%), mainly as a result of management cost allocations to the subsidiaries. Commission income for services provided by the subsidiaries is also settled through the parent company and results in corresponding proceeds.

Staff costs decreased by 10.7% to EUR 24.0m (2015: EUR 26.9m) mainly due to the negative valuation impact from long-term variable compensation. The **cost of materials** decreased to EUR 0.1m and **other operating expenses** increased by 33.7% to EUR 42.2m (2015: EUR 31.6m). Other operating expenses increased due to higher rental expenses for office premises resulting from European expansion, higher IT costs, provisions for litigation and other one-time effects from the prior year's transactions. The **Net interest result** decreased to EUR −15.3m from EUR −0.9m due to higher liabilities to the Group's cash pooling. **Net income from profit transfers and loss transfers** decreased significantly to EUR 27.1m from EUR 122.9m, as the 2015 figure was strongly impacted by the effects of the SÜDEWO disposal.

PATRIZIA Immobilien AG's **net result** under German Commercial Code HGB for the 2016 fiscal year turned negative to EUR −20.1m, after a profit of EUR 92.2m in 2015, and led to lower retained earnings of EUR 181.0m (2015: EUR 204.1m)

PATRIZIA Immobilien AG's performance is expected to turn positive again for the 2017 fiscal year, as the Company expects a solid operational performance as well as the pay-out of proceeds from the disposal of the Harald portfolio. For further details, please refer to the Group report on expected developments (item 6).

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SUMMARY OF THE PATRIZIA IMMOBILIEN AG BALANCE SHEET

in EUR k	31.12.2016	31.12.2015
Non-current assets	518,274	475,007
Current assets	421,186	141,900
Prepaid expenses	345	346
Total assets	**939,805**	**617,253**
Equity	456,055	479,120
Provisions	29,405	30,423
Liabilities	454,346	107,710
Total equity and liabilities	**939,805**	**617,253**

SUMMARY OF THE PATRIZIA IMMOBILIEN AG INCOME STATEMENT

in EUR k	2016	2015	Change
Revenues	20,303	20,949	−3.1%
Other capitalised services and other operating income	14,081	18,752	−24.9%
Cost of materials (cost of purchased services)	−13	−63	−79.2%
Staff costs	−24,012	−26,889	−10.7%
Depreciation, amortisation, write-downs and other operating expenses	−42,224	−31,572	33.7%
Profit / loss from participations, profit transfers and loss transfers	27,066	122,890	−78.0%
Net interest result	−15,285	−910	
Result from ordinary activities	***−20,085***	***103,157***	***−119.5%***
Taxes	−2,980	−10,244	−70.9%
Net profit / loss	***−23,065***	***92,913***	
Retained earnings	204,082	111,169	83.6%
Balance sheet profits	**181,017**	**204,082**	**−11.3%**

3 ADDITIONAL INFORMATION

3.1 Information relating to takeovers

All of PATRIZIA's arrangements comply with the standards for German publicly traded companies.

Composition of subscribed capital, capitalisation

On 16 June 2016, the Annual General Meeting approved the management's proposal to carry the entire profit to new account and to issue bonus shares in a ratio of 10:1 for the 2015 financial year. Since the corresponding capital increase was registered into the Commercial Register on 12 August 2016, the Company's subscribed share capital (nominal capital) has totalled EUR 83,955,887 and is divided into 83,955,887 shares. These shares are registered no-par value shares. There are no other classes of shares.

Restrictions relating to voting rights or the transfer of shares

Each share confers the right to one vote; there are no restrictions concerning either voting rights or the transfer of shares. The Managing Board is also not aware of corresponding shareholder agreements.

Direct or indirect interest amounting to more than 10% of the capital

As at 31 December 2016, 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.

Control of voting rights where employees hold shares in the Company's capital

There are no controls in respect of voting rights.

Appointment and dismissal of members of the Managing Board, changes to the Articles of Association

The appointment and dismissal of the Managing Board is governed by Article 84 of the German Stock Corporation Act and is supplemented by Article 6 of the Company's Articles of Association. Changes to the Articles of Association take place in accordance with Article 179 et seqq. of the AktG in combination with Articles 16 and 21 of the Articles of Association of PATRIZIA Immobilien AG. These make use of the option, granted by law, of specifying a different capital majority.

Powers of the Managing Board to issue and buy back shares

By resolution of the Annual General Meeting of 25 June 2015, the Managing Board is entitled to acquire shares in the Company with a volume of up to 10% of the share capital until 24 June 2020. 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. Purchases can be exercised 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 further authorised, by resolution of the Annual General Meeting on 16 June 2016, to increase the share capital on one or more occasions with the consent of the Supervisory Board by up to a total of EUR 37,000,000.00 in exchange for cash contributions and / or contributions in kind by issuing new, registered no-par value shares by 15 June 2021 (Authorised Capital 2016 / I). 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.

Furthermore, the Managing Board is authorised, by resolution of the Annual General Meeting on 16 June 2016, to increase the share capital on one or more occasions with the consent of the Supervisory Board by up to a total of EUR 1,000,000 in exchange for cash contributions and / or contributions in kind by issuing new, registered no-par value shares to be granted to employees of PATRIZIA Immobilien AG or affiliated companies by 15 June 2021 (Authorised Capital 2016 / II). The complete authorisation results from Article 4 (3a) 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 15 June 2021 convertible bonds, warrant bonds, participatory rights, and / or participating bonds or, respectively, a combination of these instruments in the nominal amount of up to EUR 950,000,000.00 with or without a term limit and to grant the creditors or respectively the bearers of bonds conversion privileges or option rights to shares of the Company with a pro-rata amount of the share capital of up to EUR 38,000,000.00 in accordance with the specific provisions of the respective option and convertible bond conditions or respectively participatory rights and participating bond conditions. The details relating to the contingent capital increase result from Article 4 (4) of the Articles of Association.

Significant agreements by the Company contingent upon a change in control subsequent to a takeover bid

No agreements contingent upon a change in control subsequent to a takeover bid exist.

Compensation agreements by the Company with the members of the Managing Board or employees for the event of a takeover bid

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

3.2 Compensation report

The compensation report explains the principle features of the compensation system for the Managing Board and Supervisory Board of PATRIZIA Immobilien AG and discloses the amount of the payments made to the individual members of the Managing Board and Supervisory Board for the 2016 fiscal year. The compensation report considers all statutory requirements and corresponds to the recommendations of the German Corporate Governance Code, with the restriction that the variable portion of remuneration does not set a maximum amount.

Compensation of the Managing Board

The system of management compensation used was approved under a resolution of 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. There are no agreements in place in the case of a change of control.

Non-performance-related compensation

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.

Performance-related compensation

As a general principle, performance-related, variable compensation components are calculated on the basis of quantitative and qualitative targets set at the start of the fiscal year, which are divided into three categories: company targets, business line targets and individual 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 the operating result, the Group's most important performance indicator. 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. Additional criteria for calculating variable compensation are the return on equity in the past fiscal year and the performance of PATRIZIA's shares over two years in relation to the DIMAX real estate reference 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, at the time of granting, 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.

Short- and long-term components of variable compensation

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 as a cash payment, which is designated as a short-term component. The remaining third of the variable compensation is granted as performing share units, i.e. it is not paid out directly in cash. This third is intended as a component with a long-term incentive plan. Performing share units are virtual shares which grant the legitimate beneficiary the right to receive a monetary amount after a fixed performance period has passed. The performance share units do not carry any voting or dividend rights. Since the beginning of the 2015 fiscal year, this performance period is three years for all members of the Management Board. The performing share units do not grant any voting or dividend rights. The variable compensation component with a long-term incentive effect is initially converted into performing share units at the average Xetra rate of the PATRIZIA share 30 days prior to and post 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 third year following the fiscal year in question, i.e. after the end of the vesting period. The variable compensation component with a long-term incentive effect is thus linked to the Company's share price performance. A maximum amount for the fair value at the time of payment has not been set.

Shares of the individual components in the Managing Board's overall compensation

Assuming that both PATRIZIA and the Managing Board members meet 100% of their targets for the respective fiscal year, the following approximate compensation structure applies for the fair value at the time of granting: around 41% of the total remuneration of Messrs Egger and Schmitt is made up of non-performance-related compensation components; short-term variable compensation, which is payable immediately, accounts for a further 39%; the long-term compensation component from performing share units makes up around 20% of the overall compensation. For Mr Bohn, the ratio is 46% / 36% / 18%.

Total remuneration for the 2016 fiscal year

The remuneration granted to the members of the Managing Board for the 2016 fiscal year totalled EUR 3.7m (2015: EUR 3.5m). Some of this remuneration was not accompanied by actual payments, however. A total of 52,128 performing share units are included for the Managing Board for 2016; the cash equivalent of this sum will be paid out in the 2020 fiscal year (29,575 units for the 2015 fiscal year for payment in 2019). The total remuneration paid out to the Managing Board was EUR 4.0m in the reporting year (2015: EUR 4.0m).

The following table corresponds to the sample tables recommended in the German Corporate Governance Code and differentiates according to payments which the members of the Managing Board have been granted for the fiscal year but which have not yet been paid out in full and payments which have actually been made.

The following payments were granted to the members of the Managing Board for the relevant fiscal year:

	Wolfgang Egger, CEO				
Payments granted in EUR k	Joined: 21.08.2002 Appointed until: 30.06.2021				
	2015	2016	2016 (Min)	2016 (Max)	2015
Fixed compensation	360	390	390	390	60
Fringe benefits	27 [1]	27 [1]	27 [1]	27 [1]	2 [1]
Total	**387**	**417**	**417**	**417**	**62**
One-year variable compensation	529 [2]	570 [3]	0	570 [4]	47 [2]
Multi-year variable compensation					–
Performing share units tranche 2017–2019	–	285 [3]	0	285 [4]	–
Performing share units tranche 2016–2018	264 [2]	–	–		23 [2]
Total	**1,180**	**1,272**	**417**	**1,272**	**132**
Pension expenses	12	12	12	12	1
Total compensation	1,192	1,284	429	1,284	133

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

2 Granted in the 2016 calendar year for 2015 year once all criteria required for determining the variable compensation were known

3 Corresponds to the liability posted for 150% target achievement (the exact amount will be defined in the outstanding settlement)

4 Corresponds to the maximum amount of variable compensation that can be achieved of 150%

	Karim Bohn, CFO			Klaus Schmitt, COO			
			Joined: 01.11.2015 Appointed until: 31.10.2018				Joined: 01.01.2006 Appointed until: 31.12.2020
	2016	2016 (Min)	2016 (Max)	2015	2016	2016 (Min)	2016 (Max)
	360	360	360	360	420	420	420
	11 [1]	11 [1]	11 [1]	13 [1]	13 [1]	13 [1]	13 [1]
	371	**371**	**371**	**373**	**433**	**433**	**433**
	420 [3]	0	420 [4]	540 [2]	600 [3]	0	600 [4]
	210 [3]	0	210 [4]	–	300 [3]	0	300 [4]
	–	–		270 [2]	–	–	
	1,001	**371**	**1,001**	**1,183**	**1,333**	**433**	**1,333**
	12	12	12	24	24	24	24
	1,013	383	1,013	1,207	1,357	457	1,357

The following payments were made to the members of the Managing Board in the relevant fiscal year:

Amount paid in EUR k	Wolfgang Egger, CEO Joined: 21.08.2002 Appointed until: 30.06.2021		Karim Bohn, CFO Joined: 01.11.2015 Appointed until: 31.10.2018		Klaus Schmitt, COO Joined: 01.01.2006 Appointed until: 31.12.2020	
	2015	2016	2015	2016	2015	2016
Fixed compensation	360	390	60	360	360	420
Fringe benefits	27 [1]	27 [1]	2 [1]	11 [1]	13 [1]	13 [1]
Total	**387**	**417**	**62**	**371**	**373**	**433**
One-year variable compensation	412	529	0	47	354	540
Multi-year variable compensation						
Performing share units tranche 2013–2015	-	-	-	-	-	782 [3]
Performing share units tranche 2012–2014					628 [2]	
Performing share units tranche 2014–2015	-	863 [3]	-	-	-	-
Performing share units tranche 2013–2014	388 [2]	-	-	-	-	-
Total	**1,187**	**1,809**	**62**	**418**	**1,355**	**1,755**
Pension expenses	12	12	1	12	24	24
Total compensation	1,199	1,821	63	430	1,379	1,779

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

2 Amount paid out in 2015 after conversion of the performing share units tranche 2013–2014 and 2012–2014 at an average price of EUR 13.12425

3 Amount paid out in 2016 after conversion of the performing share units tranche 2014–2015 and 2013–2015 at an average price of EUR 25.393

Mr Arwed Fischer was granted in 2016 a total compensation in the amount of EUR 810,000 and received a total compenseation in the amount of EUR 1,431,000.

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 of each quarter. No variable compensation is paid.

In view of the size of the Supervisory Board with three members, no committees were formed. Consequently, the committee remuneration recommended by the German Corporate Governance Code does not apply. 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 following payments were granted to the Supervisory Board in the 2016 fiscal year:

	Fixed compensation	
in EUR	**2016**	**2015**
Dr Theodor Seitz, Chairman	40,000	40,000
Alfred Hoschek (since 04.06.2015)	30,000	17,250
Gerhard Steck (since 01.07.2015)	30,000	15,000
Harald Boberg (until 25.06.2015)	0	15,000
Manfred J. Gottschaller (until 04.06.2015)	0	15,000
Total	**100,000**	**102,250**

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 23 January 2017 concerning corporate governance in accordance with Article 289a HGB and has made this available to the public on the Company's website.

www.patrizia.ag/investor-relations/corporate-governance/erklaerung-zur-unternehmensfuehrung

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 individuals can be found in the Notes to the Consolidated Financial Statements under item 9.3.

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4 SUPPLEMENTARY REPORT

Appointment of a new Managing Board Member
Effective 17 April 2017, the Managing Board appointed Anne Kavanagh as the Chief Investment Officer (CIO) and fourth member of the Managing Board. Going forward, Anne Kavanagh will, in this role, be responsible in particular for all the investment activities of the Group.

5 DEVELOPMENT OF OPPORTUNITIES AND RISKS

5.1 Management of opportunities and risks

The group-wide risk management system ensures that internal and external 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 at an early stage and to manage them in such a way that the long-term value of the company is sustainably safe and can increase. The Managing Board of PATRIZIA Immobilien AG bears overall responsibility. The responsibility for monitoring and developing the risk management system lies with the risk management working group, which consists of employees drawn from operational areas as well as the Controlling and Investor Relations departments.

Opportunity management is performed independently of risk management. The Transactions and Alternative Investments departments monitor the market for attractive investment opportunities together with the Country Heads. The Product Development and Institutional Clients departments develop new products and structures for our clients. Strategic growth opportunities are identified and consistently pursued by PATRIZIA's Strategy Committee. PATRIZIA's asset management companies each maintain a risk management system focusing on the real estate special funds that they manage and in order to ensure compliance with supervisory requirements. The risks and opportunities that PATRIZIA identifies and communicates at an early stage – defined as negative / positive deviations from planned figures – pass through the further management process. This is ensured through the regular jour fixe session of the Managing Board and of the Cooperation Committee, which is made up of all Country Heads, Group Heads, Operational Group Heads and the COO.

The Group Controlling reports provide a regular and reliable information base for managing opportunities and risks. The value drivers for each area of responsibility are subjected to a monthly target-actual analysis in order to identify undesirable developments at an early stage and to take appropriate measures. Identified opportunities and risks are integrated into the regular planning and forecasting processes. Risks are evaluated on the basis of the probability of their occurrence and the magnitude of potential damage and are summarised at Group level. We use this information to develop the required course of action and to limit their impact through operational measures and, where necessary, through financial precautions such as accruals. The analysis generally covers the period of our corporate planning but can also be extended beyond this in the event of significant strategic risks.

The efficiency and effectiveness of the risk management system are assessed once a year in an internal risk audit. The results are set out in a risk report, which presents all risks, operational measures and responsibilities that were previously examined by the departments in charge. In addition to the Managing Board, the relevant contacts of the business functions are informed of the risk inventory's results. In addition, the early risk detection system is examined by the auditor in accordance with Article 317 (4) of the German Commercial Code (HGB).

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 German Commercial Code (HGB)

The risks relating to accounting and financial reporting are that our annual financial statements and interim financial statements could contain incorrect presentations. In order to avoid sources of error, PATRIZIA Immobilien AG has established an internal control system (ICS) for its accounting process. It ensures sufficient security for the reliability of its financial reporting and preparation of its annual and quarterly reports. Nevertheless, the ICS cannot provide absolute security. The members of PATRIZIA Immobilien AG's Managing Board sign the declaration of legal representatives each quarter. In doing so, they confirm that accounting standards have been complied with and that the figures represent the actual net assets, financial position and result of operations. The starting point for the ICS is the projection based on the targets set by the Managing Board and the planning of the operative business development. This planning provides budgetary values for the coming fiscal year and budget 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. Revised forecasts for the current fiscal year are prepared on an ongoing basis based on actual values already booked as well as the identified risks and opportunities and open budget values.

The ICS includes all measures and processes to ensure that all business transactions are entered quickly into the bookkeeping and financial statements. It examines the effect of amendments to laws and accounting standards and the preparation of financial statements. Systematic implementation of the four eyes principle ensures compliance with legal regulations in accounting processes. The separation of functions and authorisation regulations, which are reinforced by standardised control and coordination processes, form the basis of the ICS. All authorisations are documented and subject to system-based archiving.

The accounting for all operational and property holding companies in Germany is located centrally within PATRIZIA Immobilien AG. Accounting for companies located abroad is generally performed by the national company. The basis for accounting is provided by group-wide standards within a central IT environment, which is mainly based on SAP. The Group Accounting department performs the consolidation required to produce the consolidated financial statements centrally. Employees involved in the preparation of the annual financial statements are appropriately trained, and the responsibilities and controls for preparing the annual financial statements are clearly defined.

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

5.3 Important categories of opportunity and risk

5.3.1 Market risks

Opportunities and risks arising from macroeconomic developments: The European real estate investment market is characterised by high demand, which is expected to continue due to a lack of alternative investments and favourable terms of financing. This high demand is accompanied by a lack of available investments, especially in the top European locations, increasingly making B and C locations the investment focus. Comprehensive knowledge of local conditions is essential for an investment in these locations. Due to its presence in the individual European markets and its extensive knowledge of regional markets, PATRIZIA is able to offer such knowledge, meet the high demand with its comprehensive product portfolio and optimise these through acquisitions and divestitures as well as development projects. The consequences of BREXIT and the political uncertainties in the

Netherlands, France, Germany and Italy might curb positive economic development of the Eurozone. This, in turn, could further increase demand for real estate as a safe asset class. Currently, we do not see any substantial weakening risk in PATRIZIA's development in the medium term.

Residential real estate market: Even though the market in urban areas has responded to the existing shortages with increased construction activity, there continues to be excess demand, which is expected to continue in 2017 as well. This should lead to increasing rent, even though some rent increases have been restricted by regulatory measures. The European home price index steadily increased in 2016. For investors seeking to diversify their portofolio, residential real estate continues to be of great interest. Consequently, real estate available for sale, particularly at top locations, should remain scarce. An increased move to B and C locations will probably follow suit. Such locations, however, require outstanding expertise in market-determining factors as well as an active portfolio management.

Commercial real estate market: We expect the positive economic development in the Eurozone and the related decrease of unemployment figures as well as robust private consumption to continue to ensure a stable demand for office, retail and logistics properties in 2017 as well. Additional growth in rents and a positive growth in value may ensue. The extent of investment activities will mainly be determined by product availability, which has decreased significantly over the past few years, particularly at top locations. B and C locations will become increasingly interesting to investors. We will be able to see increases in rent particularly in the top locations, and also in the secondary locations. The yields will remain under pressure, and additional yield compressions are likely.

Competitive environment: There continues to be high demand for indirect real estate investment opportunities. PATRIZIA fully implemented the Alternative Investment Fund Managers Directive (AIFMD) in 2015. The new structure allows cross-border synergies to be leveraged across all classes of product. In addition to expanding the local AIFM platforms for professional investors in Germany, Luxembourg, the United Kingdom and Denmark, PATRIZIA was able to successfully place its products pertaining to the newly established area for the issuance of closed products for private clients at the beginning of last year. Using its established country platforms in Germany, the Nordic region, the United Kingdom and Ireland, France, Spain, and Portugal as well as Luxembourg and the Netherlands, PATRIZIA will expand its product and service range and increasingly acquire international investments. As a consequence, the number of staff working for the Institutional Clients segment has been increased, especially in order to now also look after the markets in Southern Europe, North America and Australia. Due to the successful sale of the Property Management segment, PATRIZIA was able to achieve a stronger focus on its core competencies in the Management Services segment, whose synergies are expected in the coming years. Clients are attaching increasing importance to outstanding management quality at competitive prices. PATRIZIA considers itself well-positioned in this respect.

Long-term investment contracts: Steady income flows result from a large number of long-term investment contracts, concluded for a fixed term. For this reason, the loss of a single mandate – even through the disposal of a portfolio – is not associated with any substantial risk, rather more being a part of our business model.

5.3.2 Business risks

Purchase and sale of real estate: The persistent trend toward strong demand for real estate continued in 2016. In an uninterrupted environment of loose monetary policy, international investors continued to invest in European real estate markets. The transaction volume is once again very high, which is consistent with the volume of previous years. Therefore, it is still a challenge to acquire suitable properties for our clients with risk-adjusted yields in a very competitive market.

Even in this market environment, PATRIZIA was able to use its experience and market know-how to acquire attractive properties and portfolios for its clients, sometimes by approaching sellers directly in order to avoid competitive situations and to thus provide its investors in this market environment with the ability to make profits and optimise their portfolios through target-ed sales.

The continued strategic development of PATRIZIA's European platforms facilitate an additional broadly positioned access to attractive investment opportunities. This makes PATRIZIA a reliable and professional partner throughout Europe in the reliable and fast realisation of major individual investments and portfolios.

In spite of this seller's market, the risk remains that the sale of assets held by PATRIZIA may not be executed at the intended price.

Employees: The skills and motivation of PATRIZIA's employees are essential for success. Through our employees, we gain the trust of our investors, tenants, business partners and shareholders and are thus able to establish long-term business relationships. We endeavour to retain qualified staff over the long term. We use personnel development measures, deputising rules and early succession planning in an attempt to reduce the risk of staff turnover and loss of knowledge and in order to fill management positions internally. Furthermore, the recruitment of new employees, especially during the period of growth, is vital for PATRIZIA's successful future development.

For further information, please refer to the section on Employees under item 1.5.

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IT security: Almost all our essential business processes are supported by IT systems. Any fault in the operation of the IT systems affects our business activities. A substantial loss of data could lead to serious financial losses and also adversely affect public perceptions of the Company. Virtually all systems have been operated redundantly in two physically separate computer centres since 2015 in order to always ensure the availability of business applications. In addition, the ERP (Enterprise Resource Planning) systems are operated in parallel on a mirrored basis. These two measures guarantee a significant reduction in downtimes in the event of an emergen-cy. Additional security measures such as the introduction of a NAC solution (Network Access Control) as well as additional anti-malware mechanisms reduce the risk of damage caused by viruses, Trojan horses and ransomware. Data backups are performed on a regular basis in order to prevent the technical loss of company data and to ensure the reliability of IT operations. A password policy also ensures that access passwords are changed regularly.

Financing risks: Borrowing is not essential for PATRIZIA's business model as a Group, but it is essential for the operating business. The Company's own managed real estate (principal investments) is no longer financed with external financing. The risk of external financing not being available to PATRIZIA Immobilien AG for potentially new principal investments is currently extremely low. One of the two EUR 35m bonds taken out in 2013 was repaid as scheduled in June 2016. The other bond with a remaining balance of EUR 27m is scheduled for repayment in June 2018. At 2 January 2017, another unscheduled repayment was made in the amount of EUR 5m. Along with significant liquidity, PATRIZIA is in a position to respond to the capital requirements of new investments at any time. At 31 December 2016, EUR 53.2m were included in the item for short-term bank loans. The loans must be attributed to the companies of PATRIZIA GrundInvest KVG and finance assets that are to be placed as public funds in the short- to medium-term. PATRIZIA also procures external capital as part of its service under co-investments and funds.

Credit terms: Due to the sale of the principal investment "Harald" and "First Street" in Manchester and the respective repayment of the loans, there are no more credit terms and thus no more corresponding risks. Some of the loan agreements pertaining to the property and portfolio financing of co-investments and third-party transactions require compliance with indicators, whose compliance is constantly monitored. There are no direct effects for PATRIZIA resulting from this.

Interest risks: There are no interest rate risks for PATRIZIA, since it no longer has any bank loans and since the bond as well as the long-term loans of PATRIZIA GrundInvest carry a fixed interest rate.

Liquidity risk: There is currently no indication of a possible liquidity shortage. At 31 December 2016, bank balances and cashs on hand amounting to EUR 440.2m were available to PATRIZIA in order to cover its operating liquidity and financing requirements. Moreover, we expect further cash surpluses from operating business that will be used for investment planning in matching periods. The equity released through sales is also increasing existing liquidity. PATRIZIA optimises and manages liquidity by means of cash pooling. Early warning indicators and comprehensive continuous liquidity planning also serve to prevent risks and to ensure that an unexpected liquidity requirement can be serviced.

Exchange risk: Most of the Group's subsidiaries and real estate companies are located in countries of the European Monetary Union, where there is no currency risk. The exceptions are the the international offices in Denmark, Sweden and the United Kingdom, which exercise asset management mandates and perform purchases and sales on behalf of funds and invest within the context of co-investments. PATRIZIA had approximately EUR 94m invested in foreign currency at the reporting date. 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 holding companies are subject to the risk of changing exchange rates. This position may increase with continuing expansion in Europe outside the Eurozone. In addition, the Group's entire exchange risk is monitored and measured on a regular basis in order to immediately identify actions that may need to be taken and to initiate countermeasures. In the past fiscal year, expected sales proceeds in British Pound were, for example, hedged against exchange risks.

Legal risks: PATRIZIA is present in different legal systems. As a result of their business operations, individual companies may be involved in various litigation and arbitration proceedings. Out-of-court claims are also occasionally asserted against them. We aim to minimise any legal risks by monitoring our contractual obligations and involving internal and external legal experts in contractual matters. We have booked accruals for potential losses from pending cases. In some cases, the claims asserted against us are significantly higher than the amount of the corresponding accruals. Based on an extensive legal assessment, we consider these claims to be unfounded. No contractual risks exist with regard to co-investments, e.g. in respect of the social clauses, since these only affect non-consolidated subsidiaries. The investment contracts do not reveal any substantive contractual risks either.

5.3.3 Partners risks

Third parties: With regard to special real estate funds, opportunities and risks result from income from fees that depend on managed real estate assets, on purchases and sales and on the returns achieved. This income can be negatively affected by a decline in the value of real estate, rent losses and a reduced transaction volume. However, PATRIZIA operates a large number of different funds and is able to access a diverse supply of suitable properties in Germany and other countries. Since the properties held in special funds have to be backed by equity, borrowing in this constellation can be obtained quickly and on favourable terms. Generally, we do not expect a lower level of investment activity in the future. We consider the risk of a decrease in planned dividend payments to investors to be very slight. On the contrary, we see an opportunity for acquiring new clients and expanding our fund business based on the performance of the funds and PATRIZIA's reputation. Additional opportunities arise by introducing closed-end real estate funds to private investors. We will be using these public investment funds to make properties with a market value of between EUR 50–150m accessible that will appeal to private investors particularly because of their size. As an asset manager, PATRIZIA is also responsible for managing and optimising third-party properties. Poor service could lead to dissatisfaction of the respective clients or to financial claims that might extend to the loss of contracts and an impact on the Group's earnings situation. We assume a very low probability of this happening in 2017 with, at most, negligible financial consequences.

Co-investments: PATRIZIA participates in projects through co-investments. Acquiring clients, and with them the necessary equity, does not constitute any real limiting factor. We do not consider securing financing to be a risk, either. As already explained under "Purchases and sales of real estate", the challenge tends to lie in acquiring suitable real estate that meets the criteria defined by PATRIZIA and investors.

Raising equity capital: We do not see any risk of a shortage of business partners / investors or problems in acquiring new business partners / investors owing to the high level of liquidity on the investor side combined with the pressure to invest and the lack of investment alternatives. Extending co-investment and fund business activity increases PATRIZIA's dependence on institutional clients, which could put pressure on our margins. This risk is offset by our sales strategy, which also involves addressing additional, in particular foreign, investors. Over 200 institutional investors – from savings banks and insurance companies to pension funds and sovereign wealth funds – now invest via PATRIZIA. Over 50% of the investors have invested in several PATRIZIA products.

5.4 Overall assessment of opportunities and risks

Risk management at PATRIZIA is a process which records risk positions, identifies changes in risk and defines appropriate actions. In 2016, like 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 risks at an early stage and to exploit the opportunities that present themselves. Considering all individual risks and a possible cumulative effect, PATRIZIA's overall risk is limited at present. No significant risks to the future development, or even the continued existence, of the Company and the Group have been identified based on our current knowledge and medium-term planning.

6 REPORT ON EXPECTED DEVELOPMENTS

6.1 Future economic framework

Source: PATRIZIA Research

Macroeconomic development: Due to the solid overall economic situation, we expect the labour markets to improve further in 2017. Due to the European Central Bank's decision to extend the bond purchase programme until the end of 2017, we expect interest rates in Europe to remain at a low level. Increasing oil prices already caused inflation to increase at the end of 2016, and we expect this trend to continue in 2017. Some of the potential economic consequences of the Trump presidency, political uncertainties in the Netherlands, France, Germany and Italy, and the BREXIT negotiations, are issues that could lead to some unrest in 2017 in the financial markets, which should prompt further growth in demand for less risky assets such as real estate among institutional and private investors.

Source: PATRIZIA Research

Development on the European real estate market: The favourable development on residential and commercial real estate markets, especially in European metropolitan regions, should continue in 2017. Taking into consideration the lack of supply in the top locations, investors will increasingly have to divert to B and C locations. Values should develop positively in 2017 as well because financing terms are still favourable and the interest of investors in real estate investements should remain high. Taking into consideration this situation, the limited availability of product in particular will be a challenge.

6.2 Expected development of the earnings situation and assumptions concerning achievement of targets in 2017

6.2.1 The Group in general

EUR bn
2.0
growth in assets under management expected in 2017

The outlook for the 2017 fiscal year is very positive. Due to the foreseeable transfers of portfolios and properties based on contracts already concluded, 2017 is again expected to result in an increase of assets under management and therefore a further increase and stabilisation of fees generated by Investment Management Services in 2017. Another increase of EUR 2bn is anticipated from assets under management.

PATRIZIA therefore expects further sustainable growth in earnings as expressed by the operating result. The operating result for 2017 is expected to range between EUR 60–75m following a comparable adjusted operating result of EUR 72.2m in 2016. Taking into account the earnings from the

Harald portfolio, the operating result for the past year is EUR 283.2m. It should be noted that transaction-related taxes and minority shares were already deducted from the operating result for 2016.

	Last forecast 2016	Actual figures 2016	Adjusted operating result 2016	Forecast 2017
Assets under management	Growth of EUR 2bn	Growth of EUR 2bn	Growth of EUR 2bn	Further growth of EUR 2bn
Operating result	At least EUR 265m [1]	EUR 283.2m [1]	EUR 72.2m	Between EUR 60–75m

1 Please refer to the explanation of the forecast above for details concerning the definition of the operating result

Operating result

The projected operating result for 2017 ranges from EUR 60–75m.

EUR m
60–75
anticipated operating income for 2017

Below, we have explained the assumptions and expectations on which the projected operating result is based.

PATRIZIA intends to further increase the assets under management and, based on an average inventory of the managed real estate assets of between EUR 19.5bn and EUR 20.5bn, expects asset management fee income from between EUR 89.5m and EUR 91.5m. Compared to 2016, the asset management fee income remains stable, even though the sale of the Property Management business resulted in the loss of a fee volume of approximately EUR 10m.

Assuming a continued active transaction market in 2017, the Company is expecting transaction-related fees of between EUR 55–65m based on a transaction volume of between EUR 4.0bn and EUR 5.5bn.

Income from perfromance fees is determined by the generated yields that exceed the agreed-upon target yields. These result in particular from the performance of value-increasing measures as well as sales. For the year 2017, PATRIZIA expects to generate perfromance fees in the amount of EUR 29–38m.

The projected fees from the service business add up to a total income of between EUR 173.5–194.5m. In addition, the Company expects net income from the sale of its own assets and co-investments of approximately EUR 39m.

PATRIZIA projects operating costs, which mostly consist of personnel and material costs, in the amount of between EUR 148–153m. Compared to 2016, operating costs will slightly increase because global fundraising activities are to be expanded and, due to inflation, the cost of personnel is expected to slightly increase.

Over the course of the year, we will update these projections in consideration with the development of operations.

Assets under management

For 2017, another net growth by approximately EUR 2bn to what would then be EUR 20.6bn is expected. In addition to continued strong demand from German private and institutional investors, the Company is expecting additional transactions with international investors. Having contacted new potential investors outside of Germany and Europe in the past few years, this contact will be intensified by a team whose structure and staffing has been increased. To this purpose, offices have already been established in the United States and Australia, and additional offices, for example in Asia, are to follow.

EUR bn

2.1

Transactions have been signed for completion mainly in 2017

Furthermore, transactions in excess of EUR 2.1bn have already been contractually agreed upon. EUR 1.7bn of these are purchases, and EUR 0.4bn are sales, most of which are to be completed in 2017.

6.3 Expected development of net assets and financial situation

Following the closing of the Harald sale, PATRIZIA basically has only marginal liabilities to banks. It only finances interim financing for closed private investor funds in the short term. The current forecast does not contain on the basis of a reasonable commercial assessment any assumptions relating to noteworthy investments of the existing cash on hand either.

6.4 Dividend policy

10:1

subscription ratio for "bonus shares"

For the past 2016 fiscal year, the Managing Board and the Supervisory Board of PATRIZIA Immobilien AG propose that the retained earnings of EUR 181.0m be fully carried forward to the new account. As in previous years, a capital increase from company funds will be used to issue new shares to shareholders in a ratio of 10:1. On the one hand, the increased number of shares will increase the liquidity of the company's shares, and on the other hand PATRIZIA can, as in the past, use the liquid funds to exploit investment opportunities which arise. The shareholders will not be required to make any contribution. The retained liquid funds are to be used for co-investments and to expand European activities, and, if applicable, to take over another complementary asset manager. The objective is each time to contribute to PATRIZIA's sustainable, long-term growth.

If the Annual General Meeting of PATRIZIA Immobilien AG to be held on 22 June 2017 agrees to the measure, the capital increase will be effected by issuing 8,395,588 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 83,955,887 to EUR 92,351,475, divided into the same number of no-par value shares. The new shares will carry dividend rights from the beginning of the 2017 fiscal year.

6.5 General statement of the Company's management of prospects for 2017

PATRIZIA will continue its highly successful development in 2017. Institutional and private investors are increasingly taking advantage the Europe-wide presence of PATRIZIA as an independent real estate investment manager. We continue to intensively expand this position, for example through the addition of another internationally experienced Managing Board member. This will be reflected in assets under management, which are again anticipated to rise by EUR 2.0bn in 2017, thereby increasing income from fees and generating an operating result between EUR 60–75m.

The outlook for 2017 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, 13 March 2017
Your PATRIZIA Management Board

WOLFGANG EGGER	KARIM BOHN	KLAUS SCHMITT
CEO	CFO	COO

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

3 CONSOLIDATED FINANCIAL STATEMENT


CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED BALANCE SHEET

as of 31 December 2016

ASSETS

in EUR k	Notes	31.12.2016	31.12.2015
A. Non-current assets			
Goodwill	4.1.1	610	610
Other intangible assets	4.1.2	35,416	37,417
Software	4.1.3	10,772	9,225
Investment property	4.1.4	12,226	20,802
Equipment	4.1.5	4,460	5,015
Participations in associated companies	4.1.6	85,923	88,179
Participations	4.1.7	102,033	81,406
Loans	4.1.8	7,015	5,498
Long-term tax assets	4.2	35	78
Deferred taxes	5.2	323	7,013
Total non-current assets		***258,813***	***255,243***
B. Current assets			
Inventories	4.3	182,931	1,057,942
Securities		44	54
Short-term tax assets	4.2	11,941	8,280
Current receivables and other current assets	4.4	99,311	131,171
Bank balances and cash	4.5	440,219	179,141
Total current assets		***734,446***	***1,376,588***
Total assets		**993,259**	**1,631,831**

EQUITY AND LIABILITIES

in EUR k	Notes	31.12.2016	31.12.2015
A. Equity			
Share capital	5.1.1	83,956	76,324
Capital reserve	5.1.2	184,005	191,637
Retained earnings			
Legal reserves	5.1.3	505	505
Non-controlling shareholders	5.1.4	1,691	18,190
Currency translation differences	2.5	−10,803	−869
Consolidated unappropriated profit		491,679	254,004
Total equity		***751,033***	***539,791***
B. Liabilities			
NON-CURRENT LIABILITIES			
Deferred tax liabilities	5.2	17,992	63,253
Retirement benefit obligations	5.3	648	687
Bonded loan	5.4	22,000	32,000
Non-current liabilities	5.5	6,866	9,262
Total non-current liabilities		***47,506***	***105,202***
CURRENT LIABILITIES			
Short-term bank loans	5.4	53,200	821,828
Bonded loan	5.4	5,000	35,000
Short-term financial derivatives	5.7	0	3,677
Other accruals	5.6	27,627	6,740
Current liabilities	5.8	75,343	95,288
Tax liabilities	5.9	33,550	24,305
Total current liabilities		***194,720***	***986,838***
Total equity and liabilities		**993,259**	**1,631,831**

CONSOLIDATED INCOME STATEMENT

for the period from 1 January 2016 to 31 December 2016

in EUR k	Notes	2016	2015
Revenues	6.1	817,879	384,858
Income from the sale of investment property	4.1.4	1,542	10,075
Changes in inventories	6.2	–502,018	–166,980
Other operating income	6.3	14,252	16,189
Income from the deconsolidation of subsidiaries	2.1	194,730	5,277
Total operating performance		***526,385***	***249,419***
Cost of materials	6.4	–33,712	–52,438
Cost of purchased services	6.5	–14,832	–14,787
Staff costs	6.6	–101,313	–93,519
Results from fair value adjustments to investment property	4.1.4	431	462
Other operating expenses	6.7	–68,757	–69,973
Income from participations	6.8	32,667	151,681
Earnings from companies accounted for using the equity method	4.1.6	7,651	4,232
EBITDAR		***348,520***	***175,077***
Reorganisation expenses	6.9	–20,406	0
EBITDA		***328,114***	***175,077***
Amortisation of fund management contracts, depreciation of software and fixed assets	6.10	–6,134	–7,059
Earnings before finance income and income taxes (EBIT)		***321,980***	***168,018***
Finance income	6.11	3,057	6,666
Finance costs	6.11	–7,361	–23,171
Losses from currency translation	6.11	–4,029	–618
Earnings before income taxes (EBT)		***313,647***	***150,895***
Income tax	6.12	–57,383	–16,433
Consolidated net profit		***256,264***	***134,462***
Earnings per share (undiluted) in EUR	6.13	2.83	1.32
The consolidated net profit is allocated to:			
Shareholders of the parent company		237,675	110,759
Non-controlling shareholders	5.1.4	18,589	23,703
		256,264	**134,462**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January 2016 to 31 December 2016

in EUR k	2016	2015
Consolidated net profit	***256,264***	***134,462***
Items of other comprehensive income with reclassification to net profit / loss for the period		
Profit / loss from the translation of financial statements of international business units	−9,934	−1,899
Total result for the reporting period	***246,330***	***132,563***
The total result is allocated to:		
Shareholders of the parent company	227,741	108,860
Non-controlling shareholders	18,589	23,703
	246,330	**132,563**

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January 2016 to 31 December 2016

in EUR k	2016	2015
Consolidated net profit	256,264	134,462
Income taxes recognised through profit or loss	57,383	16,433
Financial costs through profit or loss	7,361	23,171
Financial income through profit or loss	−3,057	−6,666
Income from divestments of participations, recognised through profit or loss	0	−13,504
Amortisation of fund management contracts, software and equipment	6,134	7,059
Results from fair value adjustments to investment property	−431	−462
Income from the sale of investment property	−1,542	−10,075
Income from the deconsolidation of subsidiaries	−194,730	−5,277
Other non-cash items	−7,497	−8,877
Changes in inventories, receivables and other assets that are not attributable to investment activities	438,070	−372
Changes in liabilities that are not attributable to financing activities	−5,379	−26,376
Interest paid	−6,980	−13,251
Interest received	1,710	454
Income tax payments	−43,923	−6,313
Cash inflow from operating activities	***503,382***	***90,406***
Capital investments software and equipment	−5,600	−4,621
Payments received from the disposal of intangible assets and equipment	467	0
Payments received from the sale of investment property	10,868	69,637
Payments for the development of investment property	−360	−1,395
Payments for the acquisition of participations	−1,982	−211
Payments received from the equity reduction of participations	145	1,459
Payments received from the sale of participations	0	26,427
Payments for investments in companies accounted for using the equity method	−2,020	−15,450
Payment received through distributions of companies accounted for using the equity method	5,362	0
Payments received from the repayment of shares of companies accounted for using the equity method	6,565	0
Payments received from the repayment of loans to companies in which participating interests are held	380	0
Payments for loans to companies in which participating interests are held	−2,741	0
Payments received from the disposal of consolidated companies and other business units	330,102	18,708
Payments from the partial disposal of shares in a subsidiary that does not result in a loss of control	0	442

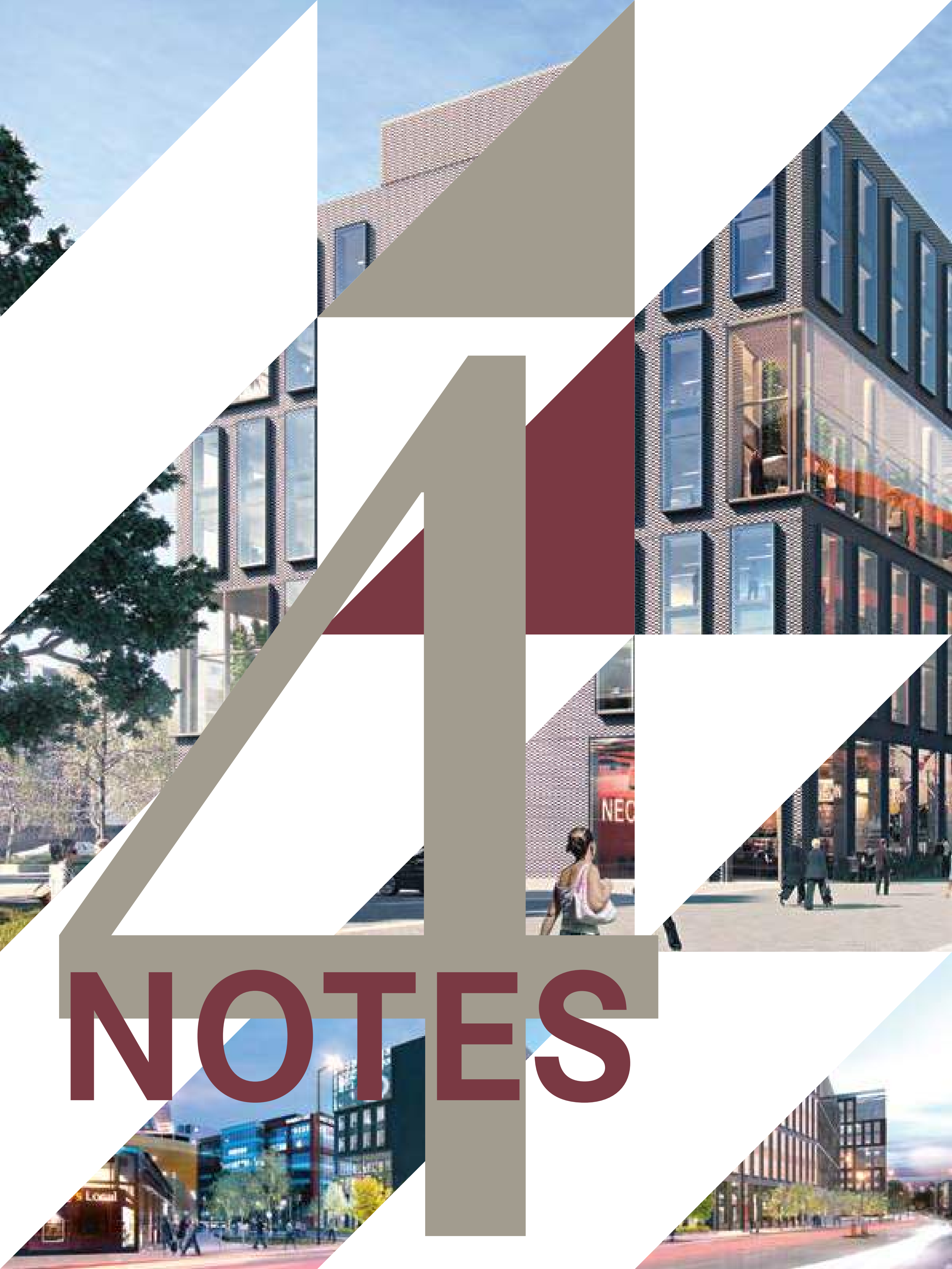
in EUR k	2016	2015
Payments for the acquisition of consolidated companies and other business units	−72,995	−276,206
Cash inflow / outflow from investment / divestment activities	***268,191***	***−181,210***
Borrowing of loans	141,425	248,909
Repayment of loans	−649,311	−103,678
Payments to non-controlling shareholders	−299	−21,101
Cash outflow / inflow from financing activities	***−508,185***	***124,130***
Changes in cash	***263,388***	***33,326***
Cash 01.01	179,141	145,361
Effect of changes in exchange rates on cash	−2,310	454
Cash 31.12.	440,219	179,141

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January 2016 to 31 December 2016

in EUR k	Share capital	Capital reserve	Retained earnings (legal reserve)
Balance 01.01.2015	***69,385***	***198,576***	***505***
Issue of bonus shares	6,939	−6,939	
Non-controlling interests arising from the inclusion of new companies			
Non-controlling interests arising from the sale of shares			
Purchases of shares of non-controlling shareholders			
Payout of profit shares to non-controlling shareholders			
Disposal of shares of non-controlling shareholders			
Net profit / loss for the period			
Balance 31.12.2015	***76,324***	***191,637***	***505***
Balance 01.01.2016	***76,324***	***191,637***	***505***
Net amount recognised directly in equity, where applicable less income taxes			
Issue of bonus shares	7,632	−7,632	
Purchases of shares of non-controlling shareholders			
Payout of profit shares to non-controlling shareholders			
Disposal of shares of non-controlling shareholders			
Net profit / loss for the period			
Balance 31.12.2016	**83,956**	**184,005**	**505**

Currency translation difference	Consolidated unappropriated profit	Equity of the shareholders of company	Equity of non-controlling shareholders	Total
1,030	*139,743*	*409,239*	*809*	*410,048*
−1,899		−1,899		−1,899
			101,631	101,631
			441	441
	2,956	2,956	−85,263	−82,307
			−21,100	−21,100
	546	546	−2,031	−1,485
	110,759	110,759	23,703	134,462
−869	*254,004*	*521,601*	*18,190*	*539,791*
−869	*254,004*	*521,601*	*18,190*	*539,791*
−9,934		−9,934		−9,934
			−30,105	−30,105
			−299	−299
			−4,684	−4,684
	237,675	237,675	18,589	256,264
−10,803	**491,679**	**749,342**	**1,691**	**751,033**



4 NOTES

NOTES

IFRS – NOTES

APPENDIX TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

FURTHER INFORMATION

IFRS – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

as of 31 December 2016

General Information

PATRIZIA Immobilien AG (hereinafter also referred to as PATRIZIA or the Group) is a publicly traded German corporation. The company's head office is located at Fuggerstraße 26 in 86150 Augsburg. For the past 30 years now, PATRIZIA Immobilien AG has been involved in the European real estate market as an investment manager and is currently active in 15 European countries. PATRIZIA's activities range from the acquisition and management of a property to the increase of its value and ultimately the sale of residential and commercial properties with the help of its own regulated investment platforms and non-regulated investment structures. As one of the leading real estate investment companies in Europe, the company assists both large institutional investors and private investors in all of Europe. At the moment, the company manages real estate assets in the amount of EUR 18.6bn, mostly for insurance companies, pension funds, sovereign wealth funds, savings banks, and credit unions.

1 BASIC PRINCIPLES USED FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENT

The consolidated financial statement of PATRIZIA Immobilien AG as of 31 December 2016 was prepared in accordance with the IFRS and in compliance with the provisions of the German Commercial Code which apply additionally pursuant to Sec. 315a(1) of the German Commercial Code (Handelsgesetzbuch – HGB). It furthermore applies all obligatory official announcements published by the International Accounting Standards Board (IASB) that were published by the EU on or before the cutoff date within the context of the so-called endorsement process, i.e. that were published in the EU's official gazette.

The balance sheet disclosure is based on the term of the respective assets and liabilities. Assets and liabilities are categorised as short-term if their realisation or respective clearance is expected to take place over the normal course of the Group's business cycle. The profit and loss statement uses the total cost method.

The financial year corresponds to the calendar year. The consolidated financial statement is prepared in Euro. The amounts from this year and the year before are listed in thousand Euro (kEUR). Please note that there may be differences due to the use of commercially rounded amounts and percentages.

At the time the consolidated financial statement was prepared, the following new and amended standards and interpretations had to be used for the first time for the current financial year:

Standard	Title
Amendment IFRS 11	Accounting for acquisitions of shares in joint operations
Amendment IAS 1	Disclosure initiative
Amendment IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendment IAS 16 and IAS 41	Agriculture: Bearer plants
Amendment IAS 27	Use of the equity methods in separate financial statements
AIP 2012–2014	IFRS improvements
Amendment IFRS 10, IFRS 12, and IAS 28	Investment entities: Applying the consolidation exception
AIP 2010–2012	IFRS improvements
Amendment IAS 19	Employee benefits

The standards or respective interpretations to be applied for the first time as of 1 January 2016 did not affect the consolidated financial statement.

The IASB had already published the following standards and amendments of standards and interpretations at the time the consolidated financial statement was prepared, but will only apply to later reporting periods, and will therefore not be applied by the Group prematurely:

Standard	Title	Initial application [1]	Intended initial application
Endorsed			
IFRS 9	Financial instruments	01.01.2018	01.01.2018
IFRS 15	Revenues from contracts with customers	01.01.2018	01.01.2018
Endorsement pending			
Amendment IAS 12	Recognition of deferred tax assets for unrealised losses	01.01.2017	01.01.2017
Amendment IAS 7	Disclosure initiative: Cash flow statements	01.01.2017	01.01.2017
Amendment IFRS 2	Classification and measurement of share-based payment transactions	01.01.2018	01.01.2018
Amendment IFRS 4	Amendment of IFRS Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	01.01.2018	01.01.2018
IFRS 16	Leases	01.01.2019	01.01.2019
Amendment IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Postponed indefinitely	
AIP 2014–2016	IFRS improvements	01.01.2017 / 01.01.2018	01.01.2017 / 01.01.2018
IFRS 40	Transfers of investment property	01.01.2018	01.01.2018

1 If applicable, adjusted by EU endorsement

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board published the final version of IFRS 9 Financial Instruments.

IFRS 9 must be applied for the first time in the first reporting period of a financial year that starts on or after 1 January 2018. Early application is permitted. The group currently intends to apply IFRS 9 for the first time as of 1 January 2018.

The actual effects of an application of IFRS 9 on the consolidated financial statement in the year 2018 are unknown and cannot be reliably predicted because they depend on the economic conditions at that time as well as the choice of financial accounting methods and discretionary decisions. The new standard requires the Group to adjust its financial reporting processes and internal controls in connection with the portrayal of financial instruments. The adjustments have not been completed yet. The group has started on a preliminary assessment of the potential consequences of an application of IFRS 9, but cannot at this time provide a definitive conclusion.

IFRS 15 Revenues from Contracts with Customers

In April 2016, the International Accounting Standards Board published the final version of IFRS 15 Revenues from Contracts with Customers.

IFRS 15 establishes a comprehensive framework to determine the amount of revenues and the point in time at which they are to be recognised. It replaces existing guidelines for the recognition of revenues, including IAS 18 Revenues, IAS 11 Production Orders, and IFRIC 13 Customer Loyalty Programs. IFRS 15 must be applied for the first time in the first reporting period of a financial year that starts on or after 1 January 2018. Early application is permitted. No changes are expected from the new standard with regard to the Group's leasing business because the leasing services are consistently provided across the respective periods and are precisely defined. No definitive conclusions can be drawn at this time with regard to other consequences for the Group because it is still in the process of performing detailed analyses.

The Group intends to apply IFRS 15 to its consolidated financial statement as of 31 December 2018 and to use the retrospective approach in this regard. Consequently, the Group will apply all requirements of the IFRS 15 to any disclosed comparative period and adjust the consolidated financial statement. The Group intends to use the practical simplification for executed contracts. This means that executed contracts whose start and end lies in the same comparative period as well as contracts that were executed at the start of the earliest disclosed period will not be adjusted.

IFRS 16 Leases

In January 2016, the International Accounting Standards Board published the final version of IFRS 16 Leases.

IFRS 16 introduces a uniform accounting model that requires leases to be recognised in the lessee's balance sheet. The lessee recognises a right-of-use asset that represents its right to the use of the underlying asset as well as a liability from the lease that represents its obligation to make lease payments. There are exemption clauses for short-term leases and leases relating to low-value assets. The lessor's accounting is comparable with the current standard, i.e. the lessor will continue to classify the lease as financing or operating leases.

IFRS 16 replaces the existing guidelines on leases including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of a Transaction in the Legal Form of a Lease.

The standard must be applied for the first time in the first reporting period of a financial year that starts on or after 1 January 2019 or the subsequent financial year. Early application is permitted for companies that apply IFRS 15 Revenues from Contracts with Customers at the time IFRS 16 is applied for the first time or before.

The Group has started on an initial assessment of the potential effects this will have on its consolidated financial statement. Viewed from its current situation as lessor, the Group does not believe that the new standard will have any effects. They will continue to be classified as operating leases. Viewed from the perspective of a lessee, the effects on the Group cannot be determined yet, because no detailed analyses have been performed at this time. The following current situations will be assessed here with regard to their recognition and effect.

- Operating and business equipment
- IT equipment
- Office leases
- Vehicles

In addition, the type of expenditures associated with these leases will change now because IFRS 16 replaces the linear expenditures for operating leases by amortisation expenses for rights of use (right-of-use-assets) and interest expenses for lease liabilities. The Group has not decided yet whether it will use the exemption clauses.

IAS 7 and IAS 12

The Group cannot yet make an assessment with regard to the amendments of IAS 7 and IAS 12 as to what potential effects the changes may have on its consolidated financial statement. At this time, the Group does not anticipate any significant effects or, respectively, will provide all necessary representations.

2 BASIS OF CONSOLIDATION AND CONSOLIDATION METHODS

2.1 Basis of consolidation

The consolidated financial statement includes the financial statement of the parent company and those of the companies it dominates (its subsidiaries). The company gains domination if:

- it has power of disposition over the associated company,
- its return depends on the performance of the participation, and
- it can influence the amount of the returns on the basis of its power of disposition.

The company reassesses whether it dominates an associated company or not if certain facts or circumstances indicate that one or more of the three domination criteria listed above have changed.

A subsidiary is included in the consolidated financial statement from the date on which the company gains domination over the subsidiary to the date on which the domination by the company ends. The profits or losses of the subsidiary that was purchased or sold over the course of the year are recognised in the consolidated profit and loss statement and the other consolidated net income in dependence of the actual date of purchase or date of sale.

All internal group assets, liabilities, equity items, income, expenditures, and cash flows relating to transactions between group companies are completely eliminated during the consolidation process.

All companies included in the consolidated financial statement of PATRIZIA Immobilien AG are provided in the share property listing (Annex to the Notes to the Consolidated Financial Statement). With the exception of PATRIZIA WohnInvest Kapitalverwaltungsgesellschaft mbH, PATRIZIA GrundInvest Kapitalverwaltungsgesellschaft mbH and PATRIZIA GewerbeInvest Kapitalverwaltungsgesellschaft mbH, the subsidiaries included in the list and affiliated through a profit and loss sharing agreement make use of the simplification provision of Sec. 264(3) HGB. The business partnerships included in the share property listing as well make sure of the simplification provision of Sec. 264b HGB.

A joint venture is a joint agreement in which the parties exercising joint domination have the rights to the net assets of the agreement. Joint management is the contractually agreed-upon, jointly exercised management of an agreement. This is only the case when decisions about the relevant activities require the unanimous approval of the parties involved in the joint management.

An associated company is a company on which the group has a significant influence. A significant influence is assumed when a direct or indirect voting right share of at least 20% is held in another company. The assumption of significance can be challenged if, in spite of a voting right share of 20% or more, contractual provisions prevent any influence on executable business and company policies and if the executable rights only constitute property rights.

According to the equity method, shares in associated companies or joint ventures must be recognised in the consolidated balance sheet at their acquisition costs, which are adjusted for the changes of the group's share in the profit or loss and the other net income of the associated company or joint venture after the acquisition date. Losses incurred by an associated company or a joint venture that exceed the group's share in this associated company or joint venture are not recognised.

The basis of consolidation consists of the parent company and 93 subsidiaries. They are included in the consolidated financial statement in accordance with the full consolidation rules. In addition, the consolidated financial statement lists a participation in a SICAV in accordance with the equity method. The SICAV is a corporation with variable equity formed under the laws of Luxembourg. PATRIZIA does, indeed, have significant influence on its management, but it does not dominate because domination is reserved for the investor holding the majority of the SICAV shares. The company also holds 28.3% of the limited liability capital of a project development company (in the form of a GmbH & Co. KG (limited partnership with a limited liability company as general partner) and 30% in the respective general partner of the limited partnership. There is no significant influence because, due to the provisions of the articles of association, PATRIZIA may not manage nor significantly influence the company and does not have the right to appoint members to management bodies. The shares in this project development company are recognised in the balance sheet at their acquisition costs.

The cutoff dates of the subsidiaries included in the consolidated financial statement correspond to the cutoff date of the parent company. The financial statements are prepared in accordance with standardised accounting and valuation standards.

2.1.1 Company acquisitions, divestitures, and internal group reorganisation

2.1.1.1 Company acquisitions and formations

On 1 January 2016, the group of buildings referred to as "Stuttgart Südtor" was acquired indirectly through the acquisition of 94.9% of the shares in TAG Stuttgart-Südtor Projektleitungs GmbH & Co. KG, which was renamed on 19 January 2016 to PATRIZIA GrundInvest Objekt Stuttgart Südtor GmbH & Co. KG.

The acquisition of PATRIZIA GrundInvest Objekt Stuttgart Südtor GmbH & Co. KG was recognised in the first quarter 2016 as an acquisition of assets because no business operations within the meaning of a business as defined in IFRS 3.3 was acquired here. Rather, the transaction only focused on the acquisition of the property held by the company. The purchase price for the company was distributed across the individually identified assets and liabilities on the date of acquisition on the basis of their attributable fair value. In the present consolidated financial statement, the company is already no longer included in the basis of consolidation. The deconsolidation was performed in connection with the successful outplacement of the shares in PATRIZIA GrundInvest Stuttgart Südtor GmbH & Co. geschlossene Investment-KG (also refer to company divestitures).

PATRIZIA GrundInvest Kapitalverwaltungsgesellschaft mbH, which is part of the basis of consolidation of PATRIZIA Immobilien AG as a limited partner and CB Beteiligungs GmbH as the personally liable partner, formed the PATRIZIA GrundInvest Den Haag Wohnen GmbH & Co. geschlossene Investment-KG on 4 February 2016 with a share in the capital of EUR 10,000. The exclusive purpose of this company is the investment and management of the company's assets on the basis of a fixed investment strategy for a joint capital investment pursuant to Sec. 261 to Sec. 272 of the German Capital Investment Code (Kapitalanlagegesetzbuch – KAGB) to the benefit of the investors. The company's investment strategy consists of indirect investments in real estate properties in different locations that are to be leased long-term and sold when the fund expires.

PATRIZIA GrundInvest Kapitalverwaltungsgesellschaft mbH as the limited partner and CB Beteiligungs GmbH as the personally liable partner formed a company on the basis of a notarised agreement dated 23 September 2015 which is now doing business under the name of PATRIZIA GrundInvest Augsburg eins GmbH & Co. KG. The company's initial capital is EUR 10,000. The company's purpose is the management and maintenance of its own assets and, provided no special permit is required, in particular the acquisition, management, and divestitures of participations in other companies. Until the first consolidation in July 2016, the shares were recognised under other assets and classified as a company of little importance for the consolidated financial statement and the provision of an accurate picture of the result of operations, financial position, and net assets.

PATRIZIA GrundInvest Kapitalverwaltungsgesellschaft mbH, which is part of the basis of consolidation of PATRIZIA Immobilien AG, formed four additional closed limited partnerships for investment purposes.

The exclusive purpose of these companies is the investment and management of the companies' assets on the basis of a fixed investment strategy for a joint capital investment pursuant to Sec. 261 to Sec. 272 KAGB to the benefits of the investors. The companies' investment strategy consists of indirect investments in real estate properties in different locations that are to be leased long-term and sold when the fund expires.

The companies PATRIZIA Investment Management HoldCo S.à r.l. and PATRIZIA Investment Management S.C.S., which are part of the basis of consolidation of PATRIZIA Immobilien AG as well, formed PATRIZIA Trocoll House GP Limited in a notarised agreement dated 5 May 2016. The company's initial capital is 100 GBP. The company is a limited partner of PATRIZIA Trocoll House LP.

The companies PATRIZIA Investment Management HoldCo S.à r.l. and PATRIZIA Investment Management S.C.S., which are part of the basis of consolidation of PATRIZIA Immobilien AG, formed PATRIZIA Trocoll House GP in a notarised agreement dated 26 May 2016. The company's initial capital is 99 GBP. The purpose of the company is to hold participations in real estate companies.

As part of the Group's internal reorganisation, 100% of the shares in Trocoll House No. 1 S.à r.l. was transferred to PATRIZIA Trocoll House LP.

The company PATRIZIA Investment Management HoldCo S.à r.l., which is part of the basis of consolidation of PATRIZIA Immobilien AG, formed the company Edgbaston S.à r.l. in a notarised agreement dated 23 September 2016. The company's initial capital is 12,500 GBP. The purpose of the company is to purchase and hold shares in one or more real estate companies. This company is furthermore authorised to purchase, operate, manage, and sell real estate.

The company PATRIZIA Investment Management HoldCo S.à r.l., which is part of the basis of consolidation of PATRIZIA Immobilien AG, formed the company PATRIZIA GQ Limited in a notarised agreement dated 16 December 2016. The company's initial capital is 1 GBP. The purpose of the company is to purchase and hold shares in one or more real estate companies.

The company PATRIZIA Harald Fund Investment 1 S.à r.l., which is part of the basis of consolidation of PATRIZIA Immobilien AG, purchased in connection with the sale of Harald 100% of the shares in the company which is now doing business as PATRIZIA Harald Fund Investment AB in an agreement dated 8 July 2016. The initial capital of the acquired company is 50,000 SEK. The purpose of the company is to hold and manage shares in real estate investment companies.

2.1.1.2 Divestiture of subsidiaries

Within the context of the divestiture of the Harald portfolio, PATRIZIA Immobilien AG sold its shares in the following companies in which it held indirect shares effective 1 January 2016:

COMPANIES
Scan Deutsche Real Estate Holding GmbH
Draaipunt Holding B.V.
Promontoria Holding V B.V.
Promontoria Holding X B.V.

As of 1 January 2016, the divestiture generated deconsolidation income in the amount of EUR 193,466k. This amount can be broken down as follows:

in EUR k	01.01.2016
Purchase price payment received	400,427
Shares remaining in the Group at fair value	21,263
Sold net assets	–228,224
Income from the Deconsolidation of Subsidiaries	**193,466**

Over the course of the financial year, purchase price adjustments in the amount of EUR 459k had to be made for contractual reasons. Within the context of the divestiture on 14 December 2016, the shares from the company divestiture on 1 January 2016 that remained in the Group were adjusted by EUR –232k. The income from the deconsolidation of subsidiaries from 1 January 2016 was adjusted accordingly.

In addition, PATRIZIA Immobilien AG sold all indirectly held shares in the following companies that were part of the Harald portfolio on 14 December 2016:

COMPANIES
PATRIZIA Harald Verwaltungs S.à r.l.
PATRIZIA Harald Fund Investment 1 S.à r.l.
PATRIZIA Harald Investment AB
Boligutleie Holding III AS
Hyresfastigheter Holding III Gul AB
Hyresbostäder i Sverige III Gul AB
Hyresbostäder i Bayern Gul AB
Hyresbostäder i West Deutschland AB
Hyresbostäder i Rheinmain Gul AB
Hyresbostäder i Zeven Gul AB
Hyresbostäder i Södra Tyskland i Gul AB
Hyresbostäder i Köln Senior Residential AB
Hyresbostäder i Södra Tyskland Celle & Bielefeld Verwaltung GmbH
Hyresbostäder i Södra Tyskland Verwaltungs GmbH
Hyresbostäder i Södra Tyskland Celle und Bielefeld GmbH & Co. KG
Hyresbostäder i Södra Tyskland GmbH & Co. KG
Hyresbostäder i Puchheim Gul AB
Hyresbostäder i Norra Tyskland i Gul AB
Hyresbostäder Norra Tyskland Verwaltung GmbH
Hyresbostäder Norra Tyskland GmbH & Co. KG
Hyresbostäder i Tyskland i Gul AB
Markarydsbostäder Syd AB
Alpina Grundbesitz GmbH Puchheim 1
Hyresbostäder i Bad Kissingen Gul AB (dormand)

This resulted in divestiture losses from the deconsolidation in the amount of EUR −3,923k on 14 December 2016. This amount can be broken down as follows:

in EUR k	14.12.2016
Purchase price payment received	309,084
Sold net assets	−313,007
Losses from the Deconsolidation of Subsidiaries	**−3,923**

The deconsolidation result from the Harald portolio can be summarised as follows:

in EUR k	2016
Deconsolidation as of 01.01.2016 (as reported in Q1 / 2016)	193,239
Purchase price adjustments for contractual reasons	459
Adjustment of remaining shares	–232
Deconsolidation as of 14.12.2016	–3,923
Income from the Deconsolidation of Harald	**189,543**

In addition, the following two companies left the basis of consolidation because they had discontinued their business activities:

- PATRIZIA Asset Management Ltd.
- PATRIZIA Capital Partners Ltd.

This resulted in deconsolidation income in the amount of EUR 99k.

PATRIZIA Immobilien AG had expanded its product portfolio offered on the market in 2015 by regulated closed real estate funds for private investors. During the fund formation phase and the outplacement of the respective shares, these companies must provisionally be consolidated in the PATRIZIA Group. The companies listed below left PATRIZIA's basis of consolidation in 2016 again with deconsolidation earnings in the amount of EUR 5,088k.

COMPANIES

in EUR k	
PATRIZIA GrundInvest Kopenhagen Südhafen GmbH & Co. geschlossene Investment-KG	98
PATRIZIA GrundInvest Essen House of Elements GmbH & Co. geschlossene Investment-KG	45
PATRIZIA GrundInvest Den Haag Wohnen GmbH & Co. geschlossene Investment-KG	1,358
PATRIZIA GrundInvest Campus Aachen GmbH & Co. geschlossene Investment-KG	177
PATRIZIA GrundInvest Stuttgart Südtor GmbH & Co. geschlossene Investment-KG i.V.m. PATRIZIA GrundInvest Objekt Stuttgart Südtor GmbH & Co. KG	3,410
Total	**5,088**

2.2 Capital consolidation through full consolidation

In general, full consolidation means that all subsidiaries are included in the consolidated financial statement. Since 1 January 2002, acquired subsidiaries are recognised in accordance with the acquisition method according to IFRS 3. Acquisitions of company shares that took place prior to this date are still recognised on the basis of the book value method in accordance with the provisions of the German Commercial Code by taking advantage of the simplification options of IFRS 1. The acquisition method requires that any consideration in return provided within the context of a merger be valued at its attributable fair value. This value is determined on the basis of the sum of the fair values of the transferred assets attributable on the acquisition date, the liabilities assumed from the previous owner of the acquired company, and the equity instruments issued by the group in exchange for the domination of the acquired company. Any transaction costs associated with the merger are recognised when incurred in a manner affecting net income.

A subsidiary is included in the consolidated financial statement from the date on which the company gains domination over the subsidiary to the date on which the domination by the company ends. The acquisition costs consist of the cash provided for the acquisition. Goodwill is the difference between the sum

– of the transferred consideration and
– the amount of all non-controlling shares in the acquired company

and the total fair values of the acquired, identifiable assets and assumed liabilities attributable on the acquisition date. In the event that the difference, even after a second determination, is negative, this amount is recognised immediately as income in a manner affecting net income. The profit or loss and any component of the other income must be attributed to the shareholders of the parent company and the non-controlling shareholders. This applies even if it causes the non-controlling shareholders to have a negative balance.

2.3 Inclusion of joint ventures and associated companies through the equity method

The equity method is used to recognise joint ventures and associated companies in the group's balance sheet. In contrast with the full consolidation, the equity method does not include any assets and liabilities or respective expenses and income from the company valued at equity in the consolidated financial statement (in a prorated manner). Instead, the book value of the participation is carried forward in accordance with the development of the prorated equity of the holding company.

The equity method will be used for the first time when the holding company must be classified as a joint venture or an associated company. First, the acquisition costs for the purchased shares are compared with the respective equity. Any difference is examined in accordance with the full consolidation rules for the existence of hidden reserves or respective hidden burdens and any remaining difference treated as goodwill or negative goodwill. In the subsequent periods, the participation book value is developed further by the prorated equity change at the associated company.

2.4 Debt, expenditure and income consolidation as well as elimination of the intergroup profit & loss

Intergroup balances, transactions, profits, and expenditures of the companies included in the consolidated financial statement through full consolidation are completely eliminated. Deferred taxes are formed for time differences caused by the elimination of profits and losses due to transactions within the Group.

2.5 Currency conversion

Transactions in foreign currencies are converted with the relevant foreign exchange rates on the transaction date. In the periods that follow, the monetary assets and liabilities are valued on the cutoff date and the resulting conversion differences recognised in a manner affecting net income. Non-monetary items are valued at historic acquisition and production costs in the foreign currency and converted with the exchange rate on the date of the transaction.

The conversion of the financial statements of foreign subsidiaries whose operating currency is not the Euro and therefore not the Group's reporting currency is performed with the modified cutoff date method. Then, the assets and liabilities are converted by using the rate of the respective cutoff date. Income and expenses must be converted by using the exchange rate on the date of the transaction. The resulting conversion differences are listed separately under equity.

3 SUMMARY OF THE MAIN ACCOUNTING AND VALUATION PRINCIPLES

The financial statements included in the consolidated financial statement are prepared in accordance with standardised accounting and valuation standards.

3.1 Goodwill

The goodwill resulting from a merger is recognised at the acquisition costs, minus decreases in value, if necessary, and is separately reported in the consolidated balance sheet.

For the purposes of an inquiry into existing decreases in value, the goodwill is distributed across any of the Group units generating cash that are expected to benefit from the synergies of the merger.

The units generating cash to which a portion of the goodwill was assigned are annually reviewed for decreases in value. If there are indications for a decrease in value of a unit, this unit will be evaluated more frequently. If the achievable amount of a unit generating cash is less than the book value of the unit, the expense of the decrease in value is initially assigned to the book value of goodwill assigned to the unit and then, in a prorated manner, to the other assets on the basis of the book values of each asset within the unit. The achievable amount here is the higher value of either the use value or the attributable fair value minus the costs of disposal.

3.2 Fund manager agreements

Fund manager agreements that were taken over within the context of the merger with PATRIZIA GewerbeInvest Kapitalverwaltungsgesellschaft mbH as well as those that were acquired within the context of the merger with PATRIZIA UK Ltd. are recognised separately and valued at their attributable fair value on the date they were acquired.

In the subsequent periods, these fund manager agreements are, just as the individually purchased intangible assets, valued at their acquisition costs minus cumulative scheduled amortisation and any cumulative decreases in value.

The amortisation period for the fund management agreements depends on the expected terms of the fund agreements (18 to 24 years). Since their development cannot be predicted, the linear method was selected.

3.3 Software

Software is valued at its acquisition or production costs at the time it is purchased. In the subsequent periods, the software is valued at its acquisition or production costs minus cumulative scheduled depreciation and any cumulative decreases in value.

The acquisition costs include the directly attributable acquisition and provision costs.

Scheduled depreciation is performed on the basis of the linear method. It starts as soon as the asset can be used and ends at the end of the useful life or the divestiture of the asset respectively. The depreciation period depends on the expected useful life. Purchase software is depreciated over three to 10 years.

3.4 Investment property

The qualification of properties as financial investments is based on a respective management decision to use these properties for the company itself to generate rental income and therefore liquidity, and to benefit from its rental increase potential for a longer period of time and therefore from the resulting increases in value. The use of properties for the company does not exceed 10% of the rental area. Different from the properties recognised under reserves, the properties held as a financial investment are not intended for sale within the context of normal business activities or within the context of the generation and / or development process. The valuation is performed at the attributable fair value in consideration of the current use that corresponds to the highest and best use. Changes in value impact the Group's result.

The market value corresponds to the attributable fair value. The valuations are performed in accordance with the provisions of IFRS 13 and define the price that would be achieved in a proper transaction between market participants on the valuation date for the sale of an asset or, respectively, for the transfer of a liability. The content of this definition matches the definition of the current market price pursuant to Sec. 194 of the German Town and Country Planning Code (Baugesetzbuch – BauGB) as well. These estimates exclude in particular price assumptions that are increased or decreased through side agreements or due to special circumstances.

The single unit sale process was started with regard to some properties held as investment property a few years ago and was successfully continued in 2016. The properties are internally valued with a detailed project calculation. Some of the major input factors included in this valuation are comparative values from market transactions in the property and / or the direct surroundings as well as assumptions relating to the liquidation period, potential buyer categories, as well as intended renovation and modernisation methods still to be carried out.

The fair value valuation of properties held as investment property must therefore be classified as Level 3 of the valuation hierarchy set forth in IFRS 13. The values that were determined are entry prices as defined by IFRS 13. Therefore, it is not necessary to deduct the purchaser's transaction costs in this case.

On the balance sheet date, properties with a total area of 5,802 sqm and an average sales price of EUR 2,425 per sqm were scheduled for privatisation. If this average achievable sales price per sqm changes, the attributable fair value determined in the valuation procedure will change as well (example: if the average achievable sales price per sqm increases by EUR 100, this is reflected in an increase of the attributable fair value by EUR 532k).

All properties held by the Group as financial investments are rented out. The resulting rental income and the expenditures incurred in a direct connection with this income are recognised in the consolidated profit and loss statement.

3.5 Operating and business equipment

Operating and business equipment is valued at its acquisition or production costs at the time it is purchased. In the subsequent periods, the software is valued at its acquisition or production costs minus cumulative scheduled depreciation and any cumulative decreases in value.

The acquisition costs include the directly attributable acquisition and provision costs.

Scheduled depreciation is performed on the basis of the linear method. It starts as soon as the asset can be used and ends at the end when the asset is sold. The depreciation period depends on the expected useful life. The operating and business equipment is depreciated over three to 13 years. Low-value assets are fully depreciated in the year they are purchased.

3.6 Decrease in asset value

If there is an indication for a decrease in value, assets that are depreciated in a scheduled manner are reviewed to determine if they require an unscheduled depreciation. If the reason for the unscheduled depreciation no longer exists, the value is recovered. Assets that are not depreciated in a scheduled manner are reviewed on every balance sheet date to determine if they require a value adjustment.

3.7 Participations in associated companies

PATRIZIA WohnModul I SICAV-FIS is a company that is associated with PATRIZIA. Associated companies are companies in which PATRIZIA is able to exercise significant influence on the economic and financial policies (generally through direct or indirect voting right shares of 20% to 50%). These are included in the consolidated financial statement in accordance with the equity method.

PATRIZIA's share in the result of the associated company after the acquisition is recognised in the consolidated profit and loss statement. The cumulative changes after the acquisition date increase or respectively decrease the book value of the participation in the associated company. If the losses of an associated company attributable to PATRIZIA correspond to the value of the share in this company or exceed this value, no additional shares in the loss will be reported. Any disbursements received from the associated company reduce the book value of the shares.

The share in an associated company is the book value of the participation plus all long-term shares that are attributable to the economic content after the owner's net investment in the associated company. On every balance sheet date, PATRIZIA checks to determine if there are any objective indications for a decrease in value of the share in the associated company. If such indications are found, PATRIZIA determines the need for a decrease in value as the difference between the achievable amount and the book value of the associated company. At the time the significant influence on the associated company is lost, all remaining shares are revalued at the attributable fair value. The difference between the book value of the associated company and the attributable fair value of the remaining share plus any sales proceeds are recognised in a manner affecting net income.

3.8 Participations

Participations are classified as financial assets available for divestiture. These are recognised at their acquisition costs because, because of the lack of an active market, a fair value could only be determined on the basis of actual sales negotiations. These instruments are currently not intended for divestiture. The group determines on every balance sheet date whether there are objective indications that a decrease in value has occurred.

3.9 Inventory

The “inventory” item includes properties that were identified for divestiture within the context of normal business operations or within the context of the generation and development process for such a divestiture, and in particular those properties that were purchased exclusively for the purpose of resale in the near future or for development and resale. The term development also covers simple modernisation and renovation activities. The classification of a property as inventory takes place already within the context of the acquisition decision and is reflected accordingly on the balance sheet at the time it is acquired.

PATRIZIA has defined the operational business cycle as three years because experience has shown that most of the units scheduled for divestiture are sold and liquidated during this period of time. At the same time, however, the direct intention to divest continues for inventory if they are not liquidated within three years (for example due to unforeseeable / foreseeable changes in the general economic framework).

Inventory is valued at its acquisition and / or production costs. If the net divestiture price is lower, this amount is used. The acquisition costs include the directly attributable acquisition and provision costs, i.e. in particular the property acquisition costs as well as ancillary acquisition costs (notary fees, etc.). The production costs comprise all costs that are directly attributable to the property development process, i.e. in particular renovation costs. Borrowing costs that can be directly attributed to the acquisition, construction, or production of a qualified asset are capitalised as part of the acquisition or production costs of this asset. Borrowing costs that can be directly attributed to the acquisition, construction, or production of a qualified asset are recognised as an expense in the period in which they are incurred. The net divestiture price corresponds in the normal course of business to the projected achievable divestiture proceeds minus any still necessary renovation, modernisation, and / or operating costs.

3.10 Financial assets

IAS 39 distinguishes among the following four financial asset categories:

- held-to-maturity investments
- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets

Financial assets are recognised in the balance sheet if the company is party to an agreement governing this asset. Customary market purchases of financial assets for which the period of time between the acceptance of the liability and its fulfilment is only short are generally entered in the balance sheet on the trading day. This applies correspondingly to customary divestitures as well.

Financial assets held to maturity as well as financial assets, which are valued at faire value through profit or loss, are not accounted for on the balance sheet date.

Participations that are entered into with the intention to hold them (see item 3.8) are assigned to the category **"available-for-sale financial assets".** The Group determines with regard to financial assets that are available for sale on every balance sheet date whether there are objective indications that an asset or a group of assets has decreased in value. With regard to equity instruments classified as held for sale, a "significant" or "continuous" decrease of the attributable fair value of the instrument below its acquisition costs would constitute an objective indication.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After the initial recognition, the loans and receivables are recognised at amortised acquisition costs with the help of the effective interest method minus any decreases in value.

If objective indications exist that **a decrease in the value of financial assets that are recognised at amortised acquisition costs** has occurred, the amount of the loss is calculated as the difference between the asset's book value and the cash value of the expected future cash flow (with the exception of anticipated future, not yet occurred loan defaults), discounted with the original effective interest rate of the financial asset, i.e. the effective interest rate determined for the initial recognition. The asset's book value is decreased by using a value adjustment account. The loss incurred by the decrease in value is recognised in a manner that affects net income.

If the amount of the value adjustment decreases in the subsequent reporting periods and if this decrease can be objectively traced back to circumstances that arose after the recognition of the decrease in value, the previously recognised value adjustment is reversed. The appreciation in value is performed in a manner affecting net income.

If, with regard to grade receivables, there is an objective indication that not all payable amounts will be received in accordance with the originally agreed-upon invoice conditions (e.g. a probable insolvency or significant financial difficulties of the debtor), a decrease in value is performed by using a value adjustment account. The receivables are written off if they are categorised as unrecoverable.

3.11 Cash and cash equivalents

The cash and short-term investments included in the balance sheet reflect the cash on hand and bank balances with an original term of less than three months.

3.12 Financial liabilities

Interest-bearing loans are initially recognised at their attributable fair value minus the transaction costs directly associated with the borrowing. They are recognised at their attributable fair value but do not affect net income. After the initial recognition, the interest-bearing loans are recognised at amortised acquisition costs with the help of the effective interest method.

3.13 Derecognition of financial assets and financial liabilities

A **financial asset** (or respectively a portion of a financial asset or a group of similar financial assets) is derecognised when the requirements of IAS 39 are met.

A **financial liability** is derecognised if the obligation this liability is based on is fulfilled, cancelled, or has expired.

If an existing financial liability is replaced by another financial liability from the same lender with substantially different terms of contract or if the terms of an existing liability are significantly altered, such an exchange or alteration is treated as a write-off of the original liability and recognition of a new liability. The difference between the respective book values is recognised in a manner affecting net income.

3.14 Derivative financial instruments

Over the course of the divestiture of property companies and properties from the Harald portfolio, all mortgage loans and the respective interest hedges were repaid as well. On the balance sheet date 31 December 2016, the PATRIZIA Group did not have any derivative financial instruments anymore.

3.15 Pension liabilities

Performance-oriented pension plans are valued in accordance with the projected-unit-credit method on the basis of a pension report. The pension liabilities on the balance sheet are determined from the cash value of the performance-oriented liability on the balance sheet date. The Group recognises actuarial profits and losses for the performance-oriented pension plan in the reporting period in which they are generated and in a manner affecting net income. For lack of relevance, the interest portion of the pension expenses is included in personnel costs and not in the financial results.

3.16 Other provisions

Provisions are liabilities whose amount or due date are uncertain. The recognition of a provision generally requires a present liability created by an event in the past that makes an outflow of resources likely and that the amount of this outflow of resources can be estimated in a reliable manner. The valuation of provisions is performed with the best-possible estimation of the liability's scope. Provisions are discounted in the event of a significant impact on interest.

3.17 Taxes

Actual tax on earnings

The actual tax return claims and tax debt for current and earlier periods are recognised with the amount for which a return from or respectively a payment to the tax authorities is expected. The amount is calculated on the basis of tax rates and tax laws that were effective on the balance sheet date.

Tax claims and tax debt are offset with each other if the Group has an enforceable claim to the offsetting of the actual tax return claims against actual tax debt and if this claim pertains to taxes for the same tax subject and is levied by the same tax authorities.

Deferred taxes

Deferred tax items are formed with the help of the liability method for temporary differences existing on the balance sheet date between the valuation of an asset or respectively a liability in the balance sheet and the tax valuation.

Deferred tax claims are formed for all deductible temporary differences, not yet utilised tax losses carried forward, and unused tax credits to the extent that it is likely that taxable income will be available against which the deductible temporary differences and the not yet utilised tax losses carried forward and the tax credits can be used.

The book value of the deferred taxes is reviewed on every balance sheet date and decreased to the extent it no longer seems likely that a sufficiently taxable income will be available against which the deferred tax claim can be used, at least partially. Unrecognised deferred tax claims are reviewed on every balance sheet date and recognised to the extent it has become likely that future taxable earnings will make the realisation of the deferred tax claim possible.

Deferred tax claims and debt are determined on the basis of tax rates that are expected to be applicable in the period in which an asset is realised or a debt fulfilled. The tax rates and tax laws that are effective on the balance sheet date are used for this purpose. Future tax rate changes must be taken into consideration on the balance sheet date if material conditions for their effectiveness are fulfilled within the context of a legislative procedure.

Deferred taxes relating to items that are recognised directly in the equity are not recognised in the profit and loss statement, but in the equity as well.

Deferred tax claims and deferred tax debt are offset with each other if the Group has an enforceable claim to the offsetting of the actual tax return claims against actual tax debt and if this claim pertains to income taxes for the same tax subject and is levied by the same tax authorities.

3.18 Borrowing costs

Borrowing costs pertaining to the creation of a qualified asset are capitalised. A qualified asset is an asset for which a significant period of time is required until it has reached its intended condition of use or sale. All property developments performed by the Group meet this requirement. All other borrowing costs are recognised as an expense in the period in which they are incurred.

3.19 Leases

The determination of whether an agreement contains a lease is made on the basis of the economic content of the agreement at the time it is concluded. It is necessary to determine whether the fulfilment of the contractual agreement depends on the use of a particular asset or particular assets and whether the agreement grants the right to use the asset.

Leases in which most of the opportunities and risks associated with ownership are transferred from the lessor to the lessee are classified as operating leases. Initial direct costs incurred during the negotiations and the conclusion of an operating lease are added to the book value of the item leased and are, corresponding to rental agreements, recognised as an expense over the term of the lease. Conditional rent payments are recognised as income in the period in which they are generated.

3.20 Realisation of income

The prerequisites for the realisation of profits due to the sale of real estate are the probability of an economic benefit and the reliable quantification of the proceeds. In addition, the essential opportunities and risks associated with the title to the assets must be transferred to the buyer, the legal or actual power of disposition for the assets must be rescinded, and it must be possible to reliably determine the expenses incurred or still to be incurred in connection with the divestiture.

In the services segment, proceeds are generally realised after the service has been provided and the customer has been billed.

3.21 Accounting estimations and assessments

The preparation of the consolidated financial statement involves the making of some assumptions and estimates that have influenced the amount and recognition of the assets and debt, the income and expenses, as well as contingent receivables and liabilities in the reporting period. An estimation is made on the basis of the latest available reliable information. The assets, debt, income, expenses, as well as contingent receivables and liabilities recognised on the basis of estimations may differ from the future amounts to be realised. Once there is a better understanding, any changes will be taken into account in a manner affecting net income. Estimations are mostly made in the following areas:

– valuation of properties held as a financial investments
– determination of the achievable amount to determine the need for and amount of unscheduled depreciation or amortisation, in particular with regard to the properties listed under “inventory”
– recognition and valuation of provisions
– valuation of receivables at risk
– realisability of deferred taxes

Assumptions made to determine the value of the real estate portfolio may subsequently be found to be partly or completely incorrect, or unexpected problems or unrecognised risks may arise in connection with the real estate portfolio. These types of developments, which can take place rather quickly, can cause the results to deteriorate and reduce the revenue generated from the apartment privatisation and ongoing rent payments to decrease significantly.

The recoverability of real estate assets, in addition to the specific factors that exist in every property, is mostly determined on the basis of the development of the real estate market and the overall economic situation. If the real estate market or the general economic situation develops in a negative direction, the risk exists that the valuations performed by the Group may have to be corrected.

4 NOTES TO THE CONSOLIDATED BALANCE SHEET – ASSETS

4.1 Non-current Assets

The breakdown of, as well as any changes to, non-current assets as well as amortisation for the fiscal year and for the previous year are set out below:

4.1.1 Goodwill

The goodwill of EUR 610k (previous year: EUR 610k) results from the acquisition of PATRIZIA GewerbeInvest Kapitalverwaltungs mbH. The company was identified as a cash-generating unit. The goodwill will not be deductible in future fiscal periods and is therefore treated as a permanent difference when determining deferred taxes.

The achievable amount of the cash-generating unit was determined by a calculation of the value in use based on cash flow projections from the financial budget approved by the Managing Board for a period of two years and a discount rate of 6.60% p.a. (previous year: 5.91% p.a.). For the period after the second year, the cash flows were extrapolated using a constant annual growth rate of 1% p.a. (previous year: 1% p.a.). PATRIZIA is of the opinion that no foreseeable change in the underlying assumptions on which the determination of the recoverable amount is based would cause the cumulative carrying amount of the cash-generating unit to exceed its cumulative recoverable amount.

4.1.2 Fund management contracts

	2016			2015		
in EUR k	Purchase costs	Amortisation	Carrying amount	Purchase costs	Amortisation	Carrying amount
Balance as per 01.01.	**48,468**	**−11,051**	**37,417**	**48,462**	**−9,055**	**39,407**
Additions	0	−1,993	−1,993	0	−1,996	−1,996
Disposals	−733	733	0	0	0	0
Currency change	−8	0	−8	6	0	6
Balance as per 31.12.	**47,727**	**−12,311**	**35,416**	**48,468**	**−11,051**	**37,417**

Hidden reserves in respect of fund management contracts were identified based on the purchase price allocation of PATRIZIA GewerbeInvest Kapitalverwaltungsgesellschaft mbH and PATRIZIA UK Ltd. These are subject to scheduled depreciation of EUR 1,993k p.a. The majority at EUR 35,386k represents the management contracts of PATRIZIA GewerbeInvest Kapitalverwaltungsgesellschaft mbH.

4.1.3 Software

	2016			2015		
in EUR k	Purchase costs	Amortisation	Carrying amount	Purchase costs	Amortisation	Carrying amount
Balance as per 01.01.	**19,236**	**−10,011**	**9,225**	**17,265**	**−6,470**	**10,795**
Additions	4,597	−3,050	1,547	1,971	−3,541	−1,570
Disposals	0	0	0	0	0	0
Balance as per 31.12.	**23,833**	**−13,061**	**10,772**	**19,236**	**−10,011**	**9,225**

4.1.4 Investment Property

	2016	2015
in EUR k	Investment property	Investment property
Balance as per 01.01.	**20,802**	**78,507**
Additions – assets [1]	319	1,395
Disposal – assets	−9,326	−59,562
Positive fair value changes	1,171	1,471
Negative fair value changes	−740	−1,009
Balance as per 31.12.	**12,226**	**20,802**

1 These are exclusively subsequent acquisition costs

Five real estate assets accounted for as investment property were sold in Hamburg, Berlin and Munich during the fiscal year.

Based on the fair value of the overall portfolio as per 31 December 2016, the average value per sqm amounts to EUR 2,177 (previous year: EUR 2,080) and represents a multiplier of 25 (previous year: 21) based on the target rent. The change in average value results from the continued sell-off of the portfolio.

There were no longer any loan agreements per 31 December 2016, for which investment property was pledged as security.

In the reporting year, investment property provided rental revenues of EUR 806k (previous year: EUR 3,217k) and incurred cost of materials of EUR 1,139k (previous year: EUR 3,043k).

4.1.5 Equipment

in EUR k	2016 Purchase costs	2016 Amortisation	2016 Carrying amount	2015 Purchase costs	2015 Amortisation	2015 Carrying amount
Balance as per 01.01.	**11,670**	**−6,655**	**5,015**	**11,221**	**−6,745**	**4,476**
Additions	1,003	−1,090	−87	2,649	−1,521	1,128
Disposals	−946	478	−468	−2,200	1,660	−540
Currency change	0	0	0	0	−49	−49
Balance as per 31.12.	**11,727**	**−7,267**	**4,460**	**11,670**	**−6,655**	**5,015**

4.1.6 Participations in Associated Companies

in EUR k	2016 Purchase costs	2016 Amortisation	2016 Carrying amount	2015 Purchase costs	2015 Amortisation	2015 Carrying amount
Balance as per 01.01.	**79,676**	**8,503**	**88,179**	**64,226**	**4,271**	**68,497**
Additions	2,020	7,651	9,671	15,450	4,232	19,682
Disposals	−6,565	−5,362	−11,927	0	0	0
Balance as per 31.12.	**75,131**	**10,792**	**85,923**	**79,676**	**8,503**	**88,179**

The item “Participations in Associated Companies” includes the participation in PATRIZIA WohnModul I SICAV-FIS with its registered office in Luxembourg.

PATRIZIA WohnModul I SICAV-FIS firstly enables the purchase of real estate developments and asset repositioning properties, while also allowing apartments to be sold during the investment phase. The exit strategy includes both bloc sales and individual privatisation.

Because of its participation in PATRIZIA WohnModul I SICAV-FIS, PATRIZIA is subject to customary risks specific to the real estate sector such as market trends for residential property resales and real estate developments, and also to interest rate fluctuations.

PATRIZIA WohnModul I is included in the consolidated financial statements of PATRIZIA Immobilien AG based on the equity method. The summarised financial information for the aforementioned associated company is provided below.

in EUR k	2016	2015
Current assets	1,878,446	1,889,881
Non-current assets	7,352	9,609
Current liabilities	137,123	117,691
Non-current liabilities	893,630	910,133
Revenues	167,872	145,718
Net profit for the year	76,455	48,438
Other comprehensive income	0	25
Total comprehensive income	**76,455**	**48,463**

The share in the consolidated net profit of PATRIZIA WohnModul I SICAV-FIS amounts to EUR 7,651k (previous year: EUR 4,232k).

Reconciliation from the financial information presented to the carrying amount of the participation interest in PATRIZIA WohnModul I SICAV-FIS is shown below:

in EUR k	2016	2015
Net assets of the associated company	852,386	870,847 [1]
Group's shareholding	10.1%	10.1%
Goodwill	0	0
Other adjustments	–168	223
Carrying value of the Group's participating interest in PATRIZIA WohnModul I SICAV-FIS	**85,923**	**88,179**

1 The net assets of the associated company have been adjusted for minority interests

The other adjustments include income from participations in companies which are assignable to the associated company on account of their economic substance and the interim results which are to be taken into account.

There was a dividend distribution in the amount of EUR 5,362k from WohnModul I SICAV-FIS to PATRIZIA Immobilien AG in the reporting period.

4.1.7 Participations

	2016			2015		
in EUR k	Purchase costs	Amortisation	Carrying amount	Purchase costs	Amortisation	Carrying amount
Balance as per 01.01.	**81,406**	**0**	**81,406**	**96,555**	**0**	**96,555**
Additions	23,325	0	23,325	210	0	210
Changes to the scope of consolidation	0	0	0	13	0	13
Disposals	–145	0	–145	–16,401	0	–16,401
Currency change	–2,553	0	–2,553	1,029	0	1,029
Balance as per 31.12.	**102,033**	**0**	**102,033**	**81,406**	**0**	**81,406**

The “Participations” item includes the following main holdings:

- PATRoffice Real Estate GmbH & Co. KG 6.25% (31 December 2015: 6.25%)
- sono west Projektentwicklung GmbH & Co. KG 28.3% (31 December 2015: 28.3%)
- Projekt Feuerbachstraße Verwaltung GmbH 30% (31 December 2015: 30%)
- PATRIZIA Projekt 150 GmbH 10% (31 December 2015: 10%)
- Plymouth Sound Holdings LP 10% (31 December 2015: 10%)
- Winnersh Holdings LP 5.0% (31 December 2015: 5.0%)
- Seneca Holdco S.à r.l. 5.1% (31 December 2015: 5.1%)
- GBW GmbH 5.1% (31 December 2015: 5.1%)
- Aviemore Topco 10% (31 December 2015: 10%)
- Citruz Holdings LP 10% (31 December 2015: 10%)
- Scan Deutsche Real Estate Holding GmbH 6.0% (31 December 2015: 94.9%)
- Draaipunt Holding B.V. 5.1% (31 December 2015: 100%)
- Promontoria Holding V B.V. 5.1% (31 December 2015: 100%)
- Promontoria Holding X B.V. 5.1% (31 December 2015: 100%)

Further to the currency effects, the position participations is essentially influenced by the following additions:

In the scope of the sale of the companies Scan Deutsche Real Estate Holding GmbH, Draaipunt Holding B.V., Promontoria Holding V B.V. and Promontoria Holding X B.V. the majority of the shares were sold, therefore the remaining shares of EUR 21,263k are disclosed as participations in the group.

Also the participation in sono west Projektentwicklung GmbH & Co. KG was increased by EUR 1,838k.

4.1.8 Loans

	2016			2015		
in EUR k	Purchase costs	Amortisation	Carrying amount	Purchase costs	Amortisation	Carrying amount
Balance as per 01.01.	**5,498**	**0**	**5,498**	**5,281**	**0**	**5,281**
Additions	2,741	0	2,741	0	0	0
Disposals	−380	0	−380	−82	0	0
Currency change	−844	0	−844	299	0	299
Balance as per 31.12.	**7,015**	**0**	**7,015**	**5,498**	**0**	**5,498**

Loans are related to the investments Winnersh, Plymouth and Aviemore listed under “Participations”.

4.2 Tax Assets

Corporation tax credits of EUR 35k (previous year: EUR 78k) with a entitlement to pay-out from 2008 and to be paid by the tax authorities over a period of 10 years in equal annual amounts are treated as long-term tax assets. Measurement is at present value.

The current tax assets of EUR 11,941k (previous year: EUR 8,280k) mainly include receivables from tax overpayments and claims for reimbursement from capital gains tax.

4.3 Inventories

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

After the complete disposal of the Harald portfolio, inventories are composed as follows:

in EUR k	31.12.2016	31.12.2015
Real estate held for sale	169,538	1,057,942
of which Harald	0	833,772
Real estate in the development phase	13,393	0
Total	**182,931**	**1,057,942**

The real estate property Trocoll House, which was acquired by a subsidiary of PATRIZIA Immobilien AG in the metropolitan area of London in the reporting period, is disclosed as “Real estate in the development phase”.

During the period under review, no directly assignable borrowing costs (previous year: EUR 175k) were capitalised.

In accordance with existing loan agreements, inventories totalling EUR 41,760k (previous year: EUR 994,531k) were pledged as securities. These are related to a mortgage loan for financing a real estate asset, which is temporarily included in the Group until the placement of the shares of the investment fund.

Realisation of inventories amounting to EUR 13,977k is expected to last longer than twelve months.

4.4 Current Receivables and Other Current Assets

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

in EUR k	31.12.2016	31.12.2015
Trade receivables	***57,006***	***60,850***
Receivables from services	40,162	27,249
Receivables from sales of real estate	13,460	30,286
Rent receivables decreased by value adjustments	405	1,072
Others	2,979	2,243
Other current assets	***42,305***	***70,321***
Total	**99,311**	**131,171**

The increase of the receivables from services results primarily from acquisition and performance-related fees.

Rent receivables as of the balance sheet date are as follows:

in EUR k	31.12.2016	31.12.2015
Nominal receivables for rent and rental ancillary costs	2,775	6,088
Value adjustments	–2,370	–5,016
Rent receivables decreased by value adjustments	405	1,072

Rent receivables include rent deposits amounting to EUR 313k (previous year: EUR 1,183k).

Changes in the value adjustment account for receivables:

in EUR k	31.12.2016	31.12.2015
Balance as per 01.01.	**5,016**	**2,798**
Change to the consolidated entities	–1,356	2,279
Additions	526	1,681
Outflows due to derecognitions	–1,260	–795
Outflows due to payments received	–556	–947
Balance as per 31.12. [1]	**2,370**	**5,016**

1 The Harald portfolio accounts for TEUR 0 of the value adjustments as per 31 December 2016 and TEUR 2.081 of the value adjustments as per 31 December 2015

A breakdown of other current assets is shown below:

in EUR k	31.12.2016	31.12.2015
Amounts owed by entities in which the company has a participating interest	***36,203***	***33,601***
Claim to transfer of title	0	16,665
Payments deposited to notary's escrow account	0	9,659
Other	6,102	10,396
Balance as per 31.12.	**42,305**	**70,321**

The item “Other” is primarily composed of deposits, debit balances, receivables from loans, receivables from rental incentives and deferred items.

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

4.5 Bank Balances and Cash

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

The item includes a cash amount of EUR 6,900k (previous year: EUR 8,441k) that needs to be held available on a permanent basis by financial investment management companies owing to regulatory requirements.

5 NOTES TO THE CONSOLIDATED BALANCE SHEET – LIABILITIES

5.1 Equity

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

5.1.1 Share Capital

Following the issue of bonus shares, the Company's share capital at the reporting date totalled EUR 83,955,887 (previous year: EUR 76,323,533) and is divided into 83,955,887 (previous year: 76,323,533) registered no-par value shares.

The Managing Board is authorised, by resolution of the Annual General Meeting on 16 June 2016, to increase the share capital on one or more occasions with the consent of the Supervisory Board by up to a total of EUR 37,000,000 in exchange for cash contributions and / or contributions in kind by issuing new, registered no-par value shares by 15 June 2021 (Authorised Capital 2016 / I). 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, by resolution of the Annual General Meeting on 16 June 2016, to increase the share capital on one or more occasions with the consent of the Supervisory Board by up to a total of EUR 1,000,000 in exchange for cash contributions and / or contributions in kind by issuing new, registered no-par value shares to be granted to employees of PATRIZIA Immobilien AG or affiliated companies by 15 June 2021 (Authorised Capital 2016 / II). The complete authorisation results from Article 4 (3a) of the Articles of Association.

Furthermore, the Managing Board is authorised on one or more occasions, with the approval of the Supervisory Board to grant until 15 June 2021, 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 "bonds") in the aggregate principal amount of up to EUR 950,000,000 to grant the bearers or the creditors of bonds, conversion privileges or option rights to new, registered no-par value shares of the Company with a pro-rata amount of the share capital of up to EUR 38,000,000. The details relating to the contingent capital increase result from Article 4 (4) of the Articles of Association.

First Capital Partner GmbH is a shareholder of PATRIZIA Immobilien AG with 43,333,938 no-par value shares (previous year: 39,394,492 no-par value shares), which equates to a 51.62% shareholding (previous year: 51.62%).

5.1.2 Capital Reserves

The share premiums collected for the issue of new shares that occurred in the past as part of the Company's capital increase are posted on an unchanged basis in the capital reserves. In connection with the issue of bonus shares in the 2016 fiscal year, the capital reserves fell by EUR 7,632k (previous year: EUR 6,939k).

5.1.3 Retained Earnings

The legal reserve of EUR 505k (previous year: EUR 505k) is posted under retained earnings.

5.1.4 Non-controlling Partners

In the reporting period shares of non-controlling shareholders related to the Harald portfolio were mainly replaced or were disposed in the course of deconsolidation per 14 December 2016.

The other shares of non-controlling partners are classified as insignificant by PATRIZIA.

5.2 Deferred Tax Liabilities

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

Deferred tax assets / deferred tax liabilities

in EUR k	31.12.2016 Assets	31.12.2015 Liabilities	31.12.2016 Assets	31.12.2015 Liabilities
Investment property	0	828	0	1,283
Inventories	0	0	0	47,242
Derivatives	0	0	644	0
Tax loss carried forward	0	0	7,226	0
Fund management contracts PATRIZIA GewerbeInvest Kapitalverwaltungsgesellschaft mbH	0	11,421	0	12,056
Other	404	1,415	186	1,309
Consolidation	–81	4,328	–1,043	1,363
Total	**323**	**17,992**	**7,013**	**63,253**

In the course of the Harald transaction, deferred tax assets of EUR 4,721k and deferred tax liabilities of EUR 45,988k were reversed or have left the Group in case the legal entity was sold upon a share deal.

Due to the lack of predictability regarding a dissolution of the tax group, no deferred tax assets have been recognised for losses prior to fiscal unity of EUR 514k (previous year: EUR 514k). The losses can be carried forward for an indefinite period.

In addition, at the balance sheet date, ten companies (previous year: four companies) had corporation tax losses carried forward of EUR 67,617k (previous year: EUR 32,763k); no deferred tax assets were formed for these due to the lack of predictability concerning their usability for fiscal purposes. These losses can also be carried forward for an indefinite period.

The temporary differences relating to participating interests in subsidiaries for which no deferred taxes were recognised amounted to EUR 66,689k (previous year: EUR 48,540k).

5.3 Retirement Benefit Obligations

In principle, there are no defined-benefit pension schemes at the Group. This excludes plans which were assumed in the past in connection with acquisitions. As per the balance sheet date, a total of six people had a defined-benefit commitment. Four of these people are retired persons who already receive ongoing pension payments. As per 31 December 2016, an actuarial interest rate of 1.50%–1.66% (previous year: 2.42%) and a projected pension increase of 2.0% (previous year: 2.0%) were used for the reference reports prepared in accordance with IAS 19. The projected unit credit method was used as the calculation method. The calculations were based on Prof. Klaus Heubeck's biometric reference tables (probabilities of death and invalidity) (2005 G Reference Tables). As per 31 December 2016, the pension accrual was recognised at EUR 648k (previous year: EUR 687k). Due to the low level of the annual pension payments of EUR 16k (previous year: EUR 19k) and therefore also the low value of the pension accrual, the pension accrual in the consolidated financial statements was not regarded as material. For this reason, there is no breakdown of the change to the pension accrual. As per the balance sheet date, there were neither plan assets nor unrecognised actuarial losses and / or unrecognised past service costs. The interest cost is posted under staff costs.

In the current fiscal year, the employer's contributions to pension insurance amounted to EUR 3,575k (previous year: EUR 3,397k).

5.4 Financial liabilities

The financial liabilities have the following maturity profile:

in EUR k 31.12.2016	2017	2018	2019–2025	2026	Total
Bank loans	0	32,450	0	0	32,450
Mortgage loans	0	0	0	20,750	20,750
Bonded loans	5,000	22,000	0	0	27,000
Total Financial Liabilities	**5,000**	**54,450**	**0**	**20,750**	**80,200**

in EUR k 31.12.2015	2016	2017	2018	2019	2020	2021	Total
Bank loans	197,541	0	0	0	0	0	197,541
of which Harald	197,541	0	0	0	0	0	197,541
Mortgage loans	202,150	0	76,400	108,341	0	236,678	623,569
of which Harald	73,000	0	76,400	108,341	0	236,678	494,419
Bonded loans	35,000	0	32,000	0	0	0	67,000
of which Harald	0	0	0	0	0	0	0
Accrued interest and current account	718	0	0	0	0	0	718
of which Harald	252	0	0	0	0	0	252
Total Financial Liabilities	**435,409**	**0**	**108,400**	**108,341**	**0**	**236,678**	**888,828**
Of which Harald	**270,793**	**0**	**76,400**	**108,341**	**0**	**236,678**	**692,212**

As per 31 December 2016 financial liabilities totalled EUR 80,200k. The financial liabilities for the financing of the Harald portfolio were fully repaid in the course of the disposal in 2016.

Bank loans are measured at amortised cost. They have variable interest rates. In this respect, the Group is exposed to an interest rate risk in terms of the cash flows.

In the above table, loans with terms ending within the 12 months following the reporting date are posted as bank loans with a residual term of up to one year.

Regardless of the terms shown above, loans which serve to finance inventories are in principle reported in the balance sheet as short-term bank loans – please refer to 1. Principles Applied in Preparing the Consolidated Financial Statements.

The Group's own real estate serves as security for the mortgage loans. The mortgage loans secured by real estate liens amount to EUR 20,750k (previous year: EUR 623,569k). In addition, financial liabilities are secured by assigning purchasing prices and by assigning future rental payments.

At the balance sheet date, promissory note loans with a total amount of EUR 27,000k are reported in the consolidated financial statements. According to the maturities, EUR 22,000k (maturing 30 June 2018) is reported as non-current liabilities and EUR 5,000k (special repayment in January 2017) as current liabilities.

The shown bank loans and mortgage loans correspond with the temporary properties, which will leave the Group in the course of the scheduled placement of the shares in the investment fund of the PATRIZIA GrundInvest Kapitalverwaltungsgesellschaft mbH.

5.5 Non-current Liabilities

Non-current liabilities totalling EUR 6,866k (previous year: EUR 9,262k) mainly comprise the long-term components of the management participation model described in more detail under item 9.2.

5.6 Other Accruals

The changes in other accruals are shown below:

OTHER ACCRUALS 2016

in EUR k	01.01.2016	Addition	Release	Use	Interest effect	Currency change	31.12.2016
Litigation risks	3,297	5,153	0	34	0	0	8,416
Indemnification obligation	1,300	5,111	1,300	0	0	0	5,111
Employee benefits	2,143	1,478	47	1,546	0	−10	2,018
Reorganisation costs	0	15,674	0	3,517	−75	0	12,082
Total	**6,740**	**27,416**	**1,347**	**5,097**	**−75**	**−10**	**27,627**

The shown accruals for employee benefits consist of the accrual for unused holiday entitlements, contributions to employee accident insurance and surcharges for non-employment of disabled persons.

In the reporting period the accrual for reorganisation costs was set up in the course of the implementation of a reorganisation project. This accrual includes primarily personnel-related accruals for the duration of the absence from employment and for severance payments.

5.7 Objectives and Methods of Financial Risk Management

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

The bank balances are held at banks with strong credit ratings and placed at several different banks in order to diversify risks.

The main liabilities within the Group comprise long-term and short-term bank loans, promissory note bonds and trade payables. The main objective of these financial liabilities is to finance the Group's business activities.

Significant risks for the Group arising from the financial instruments include interest-related cash flow risks and liquidity and credit risks.

Interest Rate Risk

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

Interest Rate Risk Overview

As a result of the ECB's continuing low interest-rate policy and PATRIZIA's own assessments of the overall economic situation in Europe, financing is currently borrowed without interest rate hedging. The Group is therefore subject to an interest rate risk on financial liabilities. Currently loans in the amount of EUR 32,450k were concluded as variable and EUR 47,750k were concluded as fix.

Credit Risk

Due to a broad counterparty structure there is currently no concentration of risks within the group of companies.

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

Liquidity Risk

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

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

As per 31 December 2016, the nominal volume of interest rate swaps was EUR 0 (previous year: EUR 242,000k); the corresponding market values were EUR 0 (previous year: EUR –3,677k).

The table below shows the expected undiscounted net cash inflows / outflows from interest rate swaps.

in EUR k	31.12.2016	31.12.2015
Up to 1 year	0	2,006
More than 1 year to 2 years	0	0
More than 2 years to 5 years	0	1,504
Total	**0**	**3,510**

Further maturities on financial liabilities can be found in item 5.4 of the Notes to the Consolidated Financial Statements.

Capital Management

The Group monitors its capital structure with the Equity Ratio and the Net Equity Ratio. Equity Ratio is calculated from the ratio between shareholders equity (excl. non-controlling shareholders) and total assets. Net Equity Ratio is calculated by dividing shareholders equity (excl. non-controlling shareholders) and net assets (total assets less interest-bearing loans and promissory note loans covered by incremental cash). Net financial liabilities comprise all obligations except deferred tax liabilities less cash and short-term deposits.

	2016	2015	2015
in EUR k	PATRIZIA Group	PATRIZIA Group	PATRIZIA excl. Harald transaction
Interest-bearing loans	53,200	821,828	129,616
Promissory note loans	27,000	67,000	67,000
Trade payables and other liabilities	136,520	130,167	93,298
Less cash and short-term deposits	–216,720	–179,141	–79,236
Net financial liabilities	***0***	***839,854***	***210,678***
Total Assets	993,259	1,631,831	–39.1%
Net assets	913,059	1,452,690	–37.1%
Equity (excl. non-controlling shareholders)	749,342	521,601	43.7%
Equity Ratio	***75.4%***	***32.0%***	***43.4 PP***
Net Equity Ratio	***82.1%***	***35.9%***	***46.2 PP***

PP = percentage points

5.8 Current Liabilities

A breakdown of current liabilities is shown below:

in EUR k	31.12.2016	31.12.2015
Trade payables	4,601	8,467
Advance payments	3,423	8,854
Other liabilities	67,319	77,967
Total	**75,343**	**95,288**

The current liabilities have a residual term of less than 12 months. Due to the short residual term, there are no major differences between the carrying amount and the fair value of the liabilities.

The advance payments relate to purchase price receipts from the notarised sale of properties.

A breakdown of other liabilities is shown below:

in EUR k	31.12.2016	31.12.2015
Liabilities relating to variable salary components	30,487	23,416
Liabilities from services purchased before the balance sheet date	6,933	11,647
Interest on promissory note loans	628	1,737
Acquisition and production costs for sold properties arising after the balance sheet date	4,501	6,439
Liabilities to non-controlling shareholders	1,456	5,303
Deferred revenue	326	3,971
Debtors with credit balances	1,103	2,727
Liability from squeeze-out	0	8,203
Liability from payments in connection with the sale of the Harald-Structure	15,020	0
Accounting and auditing costs	824	730
Liability from emphyteusis payments	0	3,344
Liabilities personnal costs	971	397
Other	5,070	10,053
Total	**67,319**	**77,967**

5.9 Tax Liabilities

The tax liabilities mainly relate to subsequent taxation of the former EK 02 portfolios amounting to EUR 739k (previous year: EUR 1,226k), corporation tax and trade tax on profits of domestic subsidiaries amounting to EUR 19,739k (previous year: EUR 17,240k), as well as tax on the profits of foreign subsidiaries totalling EUR 8,090k. Corporation tax on account of subsidiaries in Luxembourg which are subject to limited taxation in Germany amounts to EUR 1,332k (previous year: EUR 933k).

5.10 Financial Assets and Liabilities

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

FINANCIAL ASSETS

in EUR k	31.12.2016	31.12.2015
Loans and receivables	103,251	109,643
Bank balances and cash	440,219	179,141
Available-for-sale financial assets	102,077	81,460

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

FINANCIAL LIABILITIES

in EUR k	31.12.2016	31.12.2015
Financial liabilities which are measured at amortised cost	157,508	989,203
Derivative financial instruments which are held for trading purposes	0	3,677

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

NET PROFIT (+) OR LOSS (–) BY CATEGORY

in EUR k	31.12.2016	31.12.2015
Loans and receivables	3,044	1,213
Available-for-sale financial assets	33,771	151,681
Financial liabilities which are measured at amortised cost	–6,176	–17,063
Derivative financial instruments which are held for trading purposes	0	3,151

6 NOTES TO THE CONSOLIDATED INCOME STATEMENT

The income statement is prepared in line with total cost accounting.

For the purpose of transparently presenting the sustainable business development in addition to the financial figures for the profit and loss statement, financial accounts adjusted for extraordinary influences are reported. These extraordinary effects relate to the disposal of the investment in SÜDEWO in 2015 and Harald portfolio in 2015 and 2016.

6.1 Revenues

Revenues consist of the following:

in EUR k	2016 adjusted [1]	2015 adjusted [1]	Change	2016	2015	Change
Sales proceeds of principal Investments	143,705	188,979	–24.0%	629,799	188,979	233.3%
Rental revenues	11,992	8,797	36.3%	18,509	42,761	–56.7%
Revenues from management services	161,261	134,259	20.1%	161,261	134,259	20.1%
Revenues from ancillary costs	4,171	2,464	69.3%	4,021	14,678	–72.6%
Miscellaneous	4,288	4,182	2.5%	4,289	4,181	2.6%
Consolidated Revenues	**325,417**	**338,681**	**–3.9%**	**817,879**	**384,858**	**112.5%**

1 adjusted = without SÜDEWO, Harald

The revenues from management services include transaction-related commission income, income from asset and fund management including performance-related fees and manager remuneration.

For further information please refer to section 7, Segment Reporting.

6.2 Changes in Inventories

Changes in inventories is the difference between the ending inventory of the prior year period and the ending inventory of the current period resulting from the sale of assets held for sale and the capitalisation of expenditures.

6.3 Other Operating Income

The other operating income mainly relates to:

in EUR k	2016 adjusted [1]	2015 adjusted [1]	Change	2016	2015	Change
Income from expired obligations	4,671	5,221	−10.5%	4,671	5,221	−10.5%
Income from payments in kind	976	1,333	−26.8%	976	1,333	−26.8%
Income from the decrease in the general provision	510	292	74.7%	510	292	74.7%
Income from reimbursement of lawyers' fees, court costs and transaction costs and payments of damages	1,277	1,677	−23.9%	1,277	1,677	−23.9%
Insurance compensations	68	97	−29.9%	68	97	−29.9%
Other	2,401	2,390	0.5%	6,750	7,569	−10.8%
Total	**9,903**	**11,010**	**−10.1%**	**14,252**	**16,189**	**−12.0%**

1 adjusted = without SÜDEWO, Harald

Income from expired obligations mainly results from the final settlement of bonuses (EUR 1,561k), from indemnification obligations after the acquisition of the remaining shares of Scan Deutsche Real Estate Holding GmbH (EUR 1,300k), from litigation costs / -risks following the conclusion of an arbitration procedure (EUR 733k), from post-completion construction costs in residential property sales (EUR 160k) and from other employee benefits (EUR 92k).

The Other item mainly includes income from liquidation of a non-consolidated investment (French Office Fund) (EUR 662k), as well as the capitalisation of self-created software (EUR 554k) and income from subletting (EUR 353k).

6.4 Cost of Materials

Cost of materials includes the direct costs incurred in conjunction with service performance and is broken down as follows:

in EUR k	2016 adjusted [1]	2015 adjusted [1]	Change	2016	2015	Change
Renovation and construction costs	20,575	23,646	−13.0%	21,069	29,887	−29.5%
Maintenance costs	772	742	4.0%	1,602	3,855	−58.4%
Ancillary rental costs	6,361	5,358	18.7%	11,041	18,696	−40.9%
Total	**27,708**	**29,746**	**−6.9%**	**33,712**	**52,438**	**−35.7%**

1 adjusted = without SÜDEWO, Harald

6.5 Cost of Purchased Services

The item “Cost of Purchased Services” totalling EUR 14,832k (previous year: EUR 14,787k) mainly comprises the purchase of fund management services. For PATRIZIA, this relates in particular to the expenses for the label funds of PATRIZIA GewerbeInvest Kapitalverwaltungsgesellschaft mbH, for which PATRIZIA acts as a servicing financial investment management company.

6.6 Staff Costs

A breakdown of staff costs is shown below:

in EUR k	2016	2015
Wages and salaries	90,694	83,910
of which valuation of long-term-incentives	−2,824	4,464
of which sales commission	4,212	7,012
Social insurance contributions	10,619	9,609
Total	**101,313**	**93,519**

The decline in the share price of PATRIZIA Immobilien AG resulted to a decrease in personnel expenses due to negative valuation effects in conjunction with long-term-incentives of EUR 2,824k.

6.7 Other Operating Expenses

A breakdown of other operating expenses is shown below:

in EUR k	2016 adjusted [1]	2015 adjusted [1]	Change	2016	2015	Change
Advisory and audit fees	14,654	16,027	−8.6%	14,953	19,507	−23.3%
Cost of Management Services	440	222	98.2%	6,300	5,115	23.2%
Vehicle and travel costs	5,399	5,179	4.2%	5,399	5,179	4.2%
IT costs, communication costs and office supplies	7,425	7,863	−5.6%	7,425	7,863	−5.6%
Advertising costs	4,435	4,431	0.1%	4,488	4,785	−6.2%
Recruitment costs, training costs and costs for temporary work	2,577	2,023	27.4%	2,577	2,023	27.4%
Rent, cleaning and ancillary costs	7,003	6,827	2.6%	7,288	7,182	1.5%
Contributions, charges and insurance costs	2,347	1,779	31.9%	2,475	1,790	38.3%
Commissions and other sales costs	2,583	4,429	−41.7%	2,590	4,441	−41.7%
Other taxes	1,218	200	509.0%	1,218	200	509.0%
Indemnity / reimbursement	6,568	1,300	405.2%	6,568	1,300	405.2%
Miscellaneous	6,542	9,704	−32.6%	7,476	10,588	−29.4%
Total	**61,191**	**59,984**	**2.0%**	**68,757**	**69,973**	**−1.7%**

1 adjusted = without SÜDEWO, Harald

Other operating expenses include transaction-related services amounting to EUR 6,004k (previous year: EUR 5,003k).

6.8 Income from Participations

Income from participations totalling EUR 32,667k (previous year: EUR 151,681k) mainly results from the co-investments GBW, Seneca, Harald, Plymouth, Winnersh and Citruz (previous year: GBW, SÜDEWO and Seneca). A breakdown of "Income from Participations" is shown below:

in EUR k	2016 adjusted [1]	2015 adjusted [1]	Change	2016	2015	Change
Services provided as shareholder contributions	9,490	13,116	−27.6%	9,490	13,116	−27.6%
Performance-related shareholder compensation	17,807	17,842	−0.2%	17,807	121,308	−85.3%
Return on equity employed	5,370	17,257	−68.9%	5,370	17,257	−68.9%
Total	**32,667**	**48,215**	**−32.2%**	**32,667**	**151,681**	**−78.5%**

1 adjusted = without SÜDEWO

For a detailed description, please refer to the management report under point 2.3.2 Group Earnings Situation.

6.9 Reorganisation expenses

In the reporting period, the expenses related to reorganisation were set up in the course of the implementation of a reorganisation project. The expenses mainly include costs for severance payments, current salaries during the release phase, non-personnel-costs and consulting costs.

6.10 Amortisation

Scheduled amortisation of software and equipment amounted to EUR 4,140k (previous year: EUR 5,063k).

This item also shows amortisation of the hidden reserves allocated to the fund management contracts and licences within the context of the acquisition of PATRIZIA GewerbeInvest Kapitalverwaltungsgesellschaft mbH and the acquisition of PATRIZIA UK Ltd. Scheduled amortisation amounts to EUR 1,993k per annum (previous year: EUR 1,996k).

6.11 Financial Result

in EUR k	2016 adjusted [1]	2015 adjusted [1]	Change	2016	2015	Change
Interest on bank deposits	171	165	3.6%	214	175	22.3%
Changes in the value of derivatives	0	0		0	5,410	–100.0%
Other interest	2,511	774	224.4%	2,843	1,081	163.0%
Financial income	***2,682***	***939***	***185.6%***	***3,057***	***6,666***	***–54.1%***
Interest on revolving credit facilities and bank loans	–1,998	–2,676	–25.3%	–2,950	–9,488	–68.9%
Costs for currency hedging	0	0		0	–1,406	–100.0%
Changes in the value of derivatives	0	0		0	–2,260	–100.0%
Other financial expenses	–3,206	–4,514	–29.0%	–4,411	–10,017	–56.0%
Financial expenses	***–5,204***	***–7,190***	***–27.6%***	***–7,361***	***–23,171***	***–68.2%***
Currency result	***–5,644***	***1,143***		***–4,029***	***–618***	
Financial Result	**–8,166**	**–5,108**	**59.9%**	**–8,333**	**–17,123**	**–51.3%**

1 adjusted = without SÜDEWO, Harald

Interest on income of EUR 3,044k (previous year: EUR 1,213k) was taken into account as conformant with the effective interest rate. There were no valuation effects for instruments of this category.

Any other interest on income was mainly the result of either shareholder loans to co-investments, interest on late purchase price payments, and interest refunds from the tax office.

The other financial expenses include interests on bonded loans and external loans.

In 2016, the impact of foreign currency exchange in the profit and loss statement amounted to EUR –4,029k (previous year: EUR –618k). This includes realized foreign exchange losses amounting to EUR –6,532k (previous year: EUR –1,479k).

6.12 Income Tax

A breakdown of income taxes is shown below:

in EUR k	2016	2015
Actual taxes	−60,066	−22,020
Deferred taxes	2,683	5,587
Total	**−57,383**	**−16,433**

The deferred taxes in the income statement chiefly resulted from fund management contracts, investment property and the elimination of intra-Group results.

Reconciliation Statement

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

in EUR k	2016	2015
IFRS consolidated profit / loss for the period before income tax	***313,647***	***150,895***
Income tax expenses expected on the above	−96,682	−46,513
Taxable profits based on the partial income method	0	10,090
Tax exemption from profit distributions	55,527	7,252
Tax additions and deductions	3,694	11,435
International subsidiaries with differing tax rates	1,815	1,014
Non-activation of deferred taxes on losses	−22,679	−10,765
Use of non-capitalised loss carried forward	589	5,422
Minimum taxation in Sweden, Norway of individual HARALD companies	−13,929	0
Trade tax effects from income subject to limited taxation	14,820	6,350
Effects outside the period	−1,768	−365
Other	1,230	−353
Effective Tax Expense	**−57,383**	**−16,433**

6.13 Earnings per Share

in EUR k	2016 adjusted [1]	2015 adjusted [1]	2016	2015
Profit attributable to Group's shareholder	44,117	32,898	237,675	110,759
Number of shares issued	83,955,887	76,323,533	83,955,887	76,323,533
Weighted number of shares	83,955,887	83,955,887	83,955,887	83,955,887
Total	**0.53**	**0.39**	**2.83**	**1.32**

1 adjusted = without SÜDEWO, Harald and reorganisation expenses

There were no diluted earnings per share in the reporting year or in the previous year. In application of IAS 33.64, the weighted number of shares for the previous year (76,323,533) was replaced by the weighted number of shares in 2016 (83,955,887).

7 SEGMENT REPORTING

Segment Reporting categorises the business segments according to whether PATRIZIA acts as investor or as service provider. In line with the Group's reporting for management purposes and in accordance with IFRS 8 "Operating segments", two segments have been identified based on functional criteria: Investments and Management Services. In addition, the operating segments are split into German and International, based on the location of the related property asset. International subsidiaries continue to be reported as a total for the time being, due to the relatively low contribution of the respective national businesses to total revenues and results.

In addition, PATRIZIA Immobilien AG (corporate administration) includes the management of international subsidiaries as Corporate. Corporate does not constitute an operating segment with an obligation to report, but is presented separately due to its activity as an internal and transnational service provider.

The elimination of intracompany revenues and interest charges, as well as interim results, is conducted via the "Consolidation" column. The "Corporate" column thus consolidates all internal services between the Investments and Management Services segments and the Company within a country. It represents the external service provided by the Group in the region. Transnational consolidation is performed in the row "Consolidation".

The Investments segment primarily combines principal investments and participations.

The Management Services segment covers a broad spectrum of real estate services, in particular the acquisition and sales of 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 separate accounts – via the Group's own investment management companies. Commission revenues generated by services, both from co-investments and from third parties, are reported in the Management Services segment. These also include income from participating interests that are granted as interim profits for asset management of the co-investment GBW.

The range of services provided by the segment Management Services is increasingly required by third parties as PATRIZIA's AuM grow.

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

EBT, the measure of segment earnings, comprises: total revenues, income from the sale of investment property, changes in inventories, income from the deconsolidation of subsidiaries, cost of materials and staff costs, other operating income and expenses, reorganisation expenses, changes in the value of investment property, amortisation, as well as earnings from investments, (including investments valued at equity) and the financial result and gains / losses from currency translation.

Certain adjustments are made in the course of determining operating EBT (operating income). Adjustments are made for non-cash effects such as amortisation of other intangible assets (i.e. fund management contracts), unrealised changes in the value of the investment property, gains / losses from currency translation and reorganisation expenses. Cash-effective realised valuation changes from the sale of investment property and realised currency translation effects are added.

Segments generate inter-company revenues and these services are settled at market prices.

Due to the capital intensity of the segment, the assets and liabilities in the investment segment account for the majority of the Group's total assets and liabilities. For this reason, no breakdown of assets and liabilities by individual segments is provided.

The individual segments are set out as follows. The reporting of amounts in EUR thousands can result in rounding differences. However, individual items are calculated on the basis of non-rounded figures.

01.01.–31.12.2016

in EUR k	Investments	Management Services	Corporate	Consolidation	Group
Germany					
Revenues from principal investments	543,256				543,286
Rental revenues	13,310	8		−82	13,236
Revenues from management services		161,237		−22,416	138,821
Other	1,540	1,511		−114	2,936
Revenues	***558,136***	***162,756***		***−22,612***	***698,280***
International [1]					
Revenues from principal investments	86,513				86,513
Rental revenues	5,272				5,272
Revenues from management services		53,062		−1,754	51,308
Other	4,830	496		−28	5,298
Revenues	***96,615***	***53,558***		***−1,782***	***148,391***
Corporate					
Revenues			***23,595***		***23,595***
Consolidation					
Revenues		***−29,138***		***−23,249***	***−52,387***
Group					
Revenues from principal investments	629,799				629,799
Rental revenues	18,582	8	1	−82	18,509
Revenues from management services		185,204	23,026	−46,970	161,261
Other	6,370	1,963	567	−590	8,309
Revenues	***654,751***	***187,175***	***23,595***	***−47,642***	***817,879***
Details					
Total operating performance					
Germany	324,714	169,974		−22,613	472,076
International [1]	26,853	55,748		−1,782	80,819
Corporate			26,437		26,437
Consolidation		−29,562		−23,384	−52,946
Group	***351,567***	***196,159***	***26,437***	***−47,779***	***526,385***

1 France & Belgium, UK & Ireland, Luxembourg, Netherlands, Scandinavia, Spain

2 EUR 283.2m excluding Harald related taxes and minorities

3 EUR 211m excluding Harald related taxes of EUR 43.2m and minorities of EUR 18.3m

01.01.–31.12.2016

in EUR k	Investments	Management Services	Corporate	Consolidation	Group
Cost of materials and cost of purchased services					
Germany	−25,440	−25,682		345	−50,776
International [1]	−8,622	−21,821		29	−30,414
Corporate					
Consolidation		29,095		3,551	32,646
Group	***−34,062***	***−18,407***		***3,925***	***−48,544***
Change in value of investment properties					
Germany	431				431
Group	***431***				***431***
Staff costs					
Germany		−57,912			−57,912
International [1]		−20,365			−20,365
Corporate			−23,035		−23,035
Consolidation					
Group		***−78,277***	***−23,035***		***−101,313***
Other operating expenses					
Germany		−37,857		23,092	−51,835
International [1]		−10,309		1,752	−12,035
Corporate			−25,104		−25,104
Consolidation		467		19,750	20,216
Group		***−47,698***	***−25,104***	***44,595***	***−68,757***
Income from participations and earnings from companies accounted for using the equity method					
Germany	7,008	27,302			34,310
International [1]	6,008				6,008
Corporate					
Consolidation					
Group	***13,015***	***27,302***			***40,318***
Reorganisation expenses					
Germany		−14,628			−14,628
International [1]		−1,624			−1,624
Corporate			−4,155		−4,155
Consolidation					
Group		***−16,251***	***−4,155***		***−20,406***

1 France & Belgium, UK & Ireland, Luxembourg, Netherlands, Scandinavia, Spain

2 EUR 283.2m excluding Harald related taxes and minorities

3 EUR 211m excluding Harald related taxes of EUR 43.2m and minorities of EUR 18.3m

01.01.–31.12.2016

in EUR k	Investments	Management Services	Corporate	Consolidation	Group
Amortisation of fund management contracts, software and equipment					
Germany	–6	–2,001			–2,008
International [1]		–169			–169
Corporate			–3,957		–3,957
Consolidation					
Group	***–6***	***–2,170***	***–3,957***		***–6,134***
Financial Result					
Germany	6,899	–677			6,222
International [1]	3,047	332			3,378
Corporate			–13,988		–13,988
Consolidation				84	84
Group	***9,945***	***–345***	***–13,988***	***84***	***–4,304***
Gains / losses from currency translation					
Germany	1,615	–83			1,532
International [1]	–3,908	–34			–3,941
Corporate			–1,620		–1,620
Consolidation					
Group	***–2,293***	***–117***	***–1,620***		***–4,029***
EBT (IFRS)					
Germany	278,150	58,437		825	337,412
International [1]	19,899	1,759			21,658
Corporate			–45,422		–45,422
Consolidation					
Group	***298,049***	***60,195***	***–45,422***	***825***	***313,647***
Adjustments					
Germany	***1,826***	***18,365***	***4,155***		***24,345***
Significant non-operating earnings	–297	–18,365	–4,155		–22,816
Changes in the value of investment property	431				431
Fund agreement amortisation		–1,968			–1,968
Reorganisation expenses		–16,251	–4,155		–20,406
Unrealised currency changes	–728	–145			–873
Realised fair value	1,529				1,529

1 France & Belgium, UK & Ireland, Luxembourg, Netherlands, Scandinavia, Spain

2 EUR 283.2m excluding Harald related taxes and minorities

3 EUR 211m excluding Harald related taxes of EUR 43.2m and minorities of EUR 18.3m

01.01.–31.12.2016

in EUR k	Investments	Management Services	Corporate	Consolidation	Group
International [1]	***1,681***	***–23***			***1,658***
Significant non-operating earnings	–1,681	23			–1,658
Fund agreement amortisation					
Unrealised currency changes	–1,681	23			–1,658
Corporate			***5,008***		***5,008***
Significant non-operating earnings			–5,008		–5,008
Unrealised currency changes			–5,008		–5,008
Group	***3,506***	***18,342***	***9,163***		***31,011***
Operating result (adjusted EBT) [2]					
Germany [3]	279,975	76,802	4,155	825	361,756
International [1]	21,580	1,736			23,316
Corporate			–40,414		–40,414
Consolidation					
Group	***301,555***	***78,537***	***–36,259***	***825***	***344,658***

1 France & Belgium, UK & Ireland, Luxembourg, Netherlands, Scandinavia, Spain

2 EUR 283.2m excluding Harald related taxes and minorities

3 EUR 211m excluding Harald related taxes of EUR 43.2m and minorities of EUR 18.3m

01.01.–31.12.2015

in EUR k	Investments	Management Services	Corporate	Consolidation	Group
Germany					
Revenues from principal investments	148,320	0	0	0	148,320
Rental revenues	40,756	0	0	–176	40,580
Revenues from management services	0	113,652	0	–4,919	108,733
Other	15,100	4,343	0	–106	19,336
Revenues	***204,175***	***117,994***	***0***	***–5,201***	***316,968***
International [1]					
Revenues from principal investments	40,660	0	0	0	40,660
Rental revenues	2,179	0	0	0	2,179
Revenues from management services	0	51,380	0	–354	51,026
Other	655	226	0	0	880
Revenues	***43,494***	***51,606***	***0***	***–354***	***94,746***
Corporate					
Revenues	***0***	***0***	***24,000***	***0***	***24,000***
Consolidation					
Revenues	***0***	***–24,741***	***0***	***–26,115***	***–50,856***
Group					
Revenues from principal investments	188,979	0	0	0	188,979
Rental revenues	42,935	0	1	–176	42,761
Revenues from management services	0	140,355	22,703	–28,799	134,259
Other	15,754	4,504	1,295	–2,694	18,858
Revenues	***247,669***	***144,859***	***24,000***	***–31,670***	***384,858***
Details					
Total operating performance					
Germany	87,305	120,969	0	–5,201	203,073
International [1]	20,891	55,784	0	–1,306	75,368
Corporate	0	0	25,981	0	25,981
Consolidation	–1,029	–24,766	0	–29,208	–55,003
Group	***107,166***	***151,987***	***25,981***	***–35,716***	***249,419***

1 France & Belgium, UK & Ireland, Luxembourg, Netherlands, Scandinavia, Spain

01.01.–31.12.2015

in EUR k	Investments	Management Services	Corporate	Consolidation	Group
Cost of materials and cost of purchased services					
Germany	−52,337	−22,325	0	494	−74,168
International [1]	−593	−20,555	0	0	−21,148
Corporate	0	0	0	0	0
Consolidation	0	24,643	0	3,448	28,091
Group	***−52,930***	***−18,237***	***0***	***3,942***	***−67,225***
Change in value of investment properties					
Germany	462	0	0	0	462
Group	***462***	***0***	***0***	***0***	***462***
Staff costs					
Germany	0	−50,515	0	0	−50,515
International [1]	0	−15,610	0	0	−15,610
Corporate	0	0	−27,797	0	−27,797
Consolidation	0	63	0	340	403
Group	***0***	***−66,062***	***−27,797***	***340***	***−93,519***
Other operating expenses					
Germany	−21,529	−42,139	0	5,418	−58,250
International [1]	−3,368	−7,575	0	1,306	−9,637
Corporate	0	0	−25,379	0	−25,379
Consolidation	980	60	0	22,254	23,294
Group	***−23,917***	***−49,655***	***−25,379***	***28,979***	***−69,973***
Income from participations and earnings from companies accounted for using the equity method					
Germany	18,950	134,403	0	0	153,353
International [1]	2,560	0	0	0	2,560
Corporate	0	0	0	0	0
Consolidation	0	0	0	0	0
Group	***21,510***	***134,403***	***0***	***0***	***155,913***

1 France & Belgium, UK & Ireland, Luxembourg, Netherlands, Scandinavia, Spain

01.01.–31.12.2015

in EUR k	Investments	Management Services	Corporate	Consolidation	Group
Amortisation of management contracts and tangible assets and equipment					
Germany	–3,149	–2,024	0	0	–5,174
International [1]	–50	–120	0	0	–170
Corporate	0	0	–4,895	0	–4,895
Consolidation	50	0	0	3,130	3,180
Group	***–3,149***	***–2,144***	***–4,895***	***3,130***	***–7,059***
Financial Result					
Germany	–16,272	686	0	0	–15,586
International [1]	3	–31	0	0	–28
Corporate	0	0	–891	0	–891
Consolidation	0	0	0	0	0
Group	***–16,269***	***655***	***–891***	***0***	***–16,505***
Gains / losses from currency translation					
Germany	–2,061	97	0	0	–1,964
International [1]	–167	120	0	0	–47
Corporate	0	0	1,393	0	1,393
Consolidation	0	0	0	0	0
Group	***–2,227***	***217***	***1,393***	***0***	***–618***
EBT (IFRS)					
Germany	11,368	139,151	0	712	151,230
International [1]	19,277	12,012	0	0	31,288
Corporate	0	0	–31,588	0	–31,588
Consolidation	0	0	0	–36	–36
Group	***30,644***	***151,163***	***–31,588***	***676***	***150,895***
Adjustments					
Germany	***2,408***	***1,968***	***545***	***0***	***4,921***
Significant non-operating earnings	3,350	–1,968	545	0	1,927
Market valuation income derivatives	5,060	0	0	0	5,060
Market valuation expenditures derivatives	–2,171	0	0	0	–2,171
Fund agreement amortisation	0	–1,968	0	0	–1,968
Non-realised currency changes			545		545
Realised fair value	5,758	0	0	0	5,758

1 France & Belgium, UK & Ireland, Luxembourg, Netherlands, Scandinavia, Spain

01.01.–31.12.2015

in EUR k	Investments	Management Services	Corporate	Consolidation	Group
International [1]	***0***	***0***	***0***	***0***	***0***
Significant non-operating earnings	0	0	0	0	0
Fund agreement amortisation	0	0	0	0	0
Group	***2,408***	***1,968***	***545***	***0***	***4,921***
Operating result (adjusted EBT)					
Germany	13,775	141,119	545	712	156,151
International [1]	19,277	12,012	0	0	31,288
Corporate	0	0	−31,588	0	−31,588
Consolidation	0	0	0	−36	−36
Group	***33,052***	***153,131***	***−31,043***	***676***	***155,816***

1 France & Belgium, UK & Ireland, Luxembourg, Netherlands, Scandinavia, Spain

8 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

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

Cash flow from investment activities includes financially effective investments and sales, especially in / of financial investments, property held as an investment and tangible assets.

Cash flow from financing activities includes loan receipts and redemptions to finance current and non-current assets.

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

9 OTHER NOTES

9.1 Post-employment Employee Benefits

In principle, there are no defined performance-related benefit pension schemes in the Group. This excludes plans that were assumed in the past in connection with acquisitions. As per the balance sheet date, six persons were entitled to a defined-benefit commitment. Four of these are retired persons who already receive ongoing pension benefits. In addition, there are defined-benefit pension schemes for the Managing Board in the context of a company provident fund. In this respect, the Group makes set contributions to an independent entity (fund). This pension commitment involves a risk of subsidiary liability for the Group if the fund does not have sufficient assets to pay all benefits relating to work performed by the employees in the reporting period and earlier periods. The provident fund commitment is reinsured. The commitment was granted in 2003. In 2016, a total of EUR 70.9k (previous year: EUR 57.9k) was paid in contributions to the provident fund.

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

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

9.2 Management Participation Model

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

The fundamental requirement of PATRIZIA's management participation model is a consistent target system that supports the corporate strategy. It is based on a long-term, multidimensional and neutral approach. The system assigns quantitative and qualitative company, business line and individual goals to members of the Managing Board and members of the First Line (FL). The First Line comprises the employees who report directly to Managing Board and the Managing Directors in Germany.

In principle, the degree to which quantitative goals are achieved is based on projected figures derived from the company's planning. Key objectives include in particular: Consolidated profit before taxes of the past fiscal year; without taking into consideration changes in the market value of investment property and interest hedging instruments and without taking into account amortisation of intangible assets (fund management contracts arising on the acquisition of PATRIZIA GewerbeInvest Kapitalverwaltungsgesellschaft mbH and of PATRIZIA UK Ltd.) as well as unrealised currency results and reorganisation expenses.However, realised increases in fair value are taken into account. This adjusted pre-tax result is reported in PATRIZIA's financial reports as operating result. Other target criteria include the Group return on equity and share price performance in relation to reference indices.

At a business line level, the basic structure of PATRIZIA's provision of services is mapped in the form of value contributions to processes and of performance interdependencies among the parties involved in processes. Members of the Managing Board and members of the FL involved in the provision of services or in qualitative projects are set common targets.

At an individual level, the quantitative results or qualitative project results for which the members of the Managing Board and members of the FL hold individual responsibility are taken into account.

The degree to which the individual goals are achieved determines the amount of the variable portion of remuneration. A cap is placed on the achievable variable compensation components. If the Group achieves less than two-thirds of the aforementioned forecast consolidated profit, the members of the Managing Board and the members of the First Line lose the entire variable portion of their remuneration.

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

Within this vesting period, the cash commitment is tied to allocation conditions. These regulate the consequences regarding allocation of the long-term incentive to the respective individual Managing Board member or member of FL should they leave the Group.

For the 2016 fiscal year, a long-term incentive of EUR 2,184k was included for the first and second management levels (previous year: EUR 2,280k). This corresponds to the liability posted, based on a target achievement rate of 150% (previous year: 140%). The final calculation cannot be made until all data required for the calculation is known after the consolidated financial statements have been approved. This monetary amount is converted into performance share units at the average Xetra price 30 days prior to and after 31 December of the fiscal year in question. The cash price equivalent of the shares is paid out at the average Xetra price 30 days prior to and after 31 December of the second / third year (vesting period).

Based on the average share price of PATRIZIA shares 30 days before and after 31 December 2016, the average price is EUR 15.251. Therefore, 143,212 shares are counted for 2016. In the reporting period, the income of EUR 2,824k resulting from the share price development exceeded the allocation to the share-based compensation of EUR 2,184k by EUR 735k and the negative corrections for the final settlement in the reporting period were EUR –95k. In the previous reporting year, the expenses for the share price development were EUR 4,464k and with the allocation to the share-based compensation amounting to EUR 2,678k and the respective corrections on the basis of final settlement in the reporting period in amount of EUR –167k, totalled EUR 6,975k.

Fair value is as follows:

Components with long-term incentive effect

in EUR k	Number of performance Shares 2016	Fair values 31.12.2016	Number of performance Shares 2015	Fair values 31.12.2015	Paid out in
Tranche of performance share units in the 2016 fiscal year[1]	143,212	2,184	0	0	0
Tranche of performance share units in the 2015 fiscal year	84,543	1,289	88,277	2,242	0
Tranche of performance share units in the 2014 fiscal year	120,711	1,841	120,711	3,065	0
Tranche of performance share units in the 2013 fiscal year	68,378	1,043	205,500	5,218	3,482
Tranche of performance share units in the 2012 fiscal year	0	0	57,248	1,454	1,454
Total	**416,844**	**6,357**	**471,736**	**11,979**	**4,936**

1 Corresponds to the liability posted for 150% target achievement. The final calculation of this variable compensation and the allocation to the individual beneficiaries will be effected on approval of the consolidated financial statements for 2016

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

Performance Share Units

in EUR k	01.01.–31.12.2016	01.01.–31.12.2015
Outstanding at the start of the reporting period	471,736	613,412
Granted in the reporting period	143,212	105,467
Correction due to final settlement in the reporting period	–3,734	–12,746
Paid out in the reporting period	–194,370	–234,397
Outstanding At The End Of The Reporting Period	**416,844**	**471,736**

9.3 Transactions with Related Companies and Individuals

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

PATRIZIA maintains the following business relationships with related parties:

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

As per the balance sheet date, Wolfgang Egger, CEO, holds 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.

Wolfgang Egger also has a 5.1% stake in Projekt Wasserturm Grundstücks GmbH & Co. KG. A further 45.9% is indirectly held by PATRIZIA Immobilien AG, and the remaining 49% is held by Ernest-Joachim Storr.

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

Share ownership by members of the Supervisory Board

Alfred Hoschek a member of the company's Supervisory Board and parties related to him hold a total stake of 0.25% in PATRIZIA Immobilien AG.

Contracts and business relationships between the Managing Board members directly and PATRIZIA

PATRIZIA Immobilien AG and subsidiaries of PATRIZIA Immobilien AG occasionally provide services for Mr Wolfgang Egger and for companies controlled indirectly or directly by Wolfgang Egger.

PATRIZIA Immobilien AG provided services via PATRIZIA Deutschland GmbH within the context of management. For the services, an amount of EUR 234 was invoiced in 2016. No other services were provided for property management in 2016. In addition to activities in the context of project management, asset management and sales were performed in the reporting period. An amount of EUR 341k was settled for this purpose. Credit notes amounting to EUR 70k were issued for services from previous periods. All services provided satisfy customary market standards for comparative arms-length transactions.

Relationship between PATRIZIA Immobilien AG to E.H.G. Erste Hanseatische Grundvermögen GmbH & Co. KG

PATRIZIA Immobilien AG provided services via PATRIZIA Deutschland GmbH within the context of project management. For such services, an amount of EUR 135,297.54k was invoiced in 2016.

Mr. Arwed Fischer acted as consultant to the Managing Board of PATRIZIA under an employment relationship until 31 August 2016. His work included all the tasks that are related to the position and function of a member of the Managing Board. He also agreed to fulfil such duties arising within the PATRIZIA Group of companies. He received a monthly fee amounting to EUR 32.5k for the entirety of his activities. In addition, results- and performance related payments were made together with an allowance for pension provision. Furthermore, a company car will be provided until 30 June 2018.

Rental agreements between Managing Board members and PATRIZIA

Wolfgang Egger – as a lessor – has concluded a rental agreement with the Company – as tenant – relating to the building, including parking spaces, which is used by the Company as its head office (Fuggerstraße 18–24 and also Fuggerstraße 26 in Augsburg) at a current monthly rent of EUR 145k (previous year: EUR 127k).

Activities of Managing Board members outside PATRIZIA

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

Karim Bohn, a member of the company's Managing Board is a member of the Supervisory Board of GBW GmbH, Munich.

Activities of Supervisory Board members outside PATRIZIA

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

Asset management agreement with PATRIZIA Projekt 150 GmbH

PATRIZIA Immobilien AG has provided asset management services via PATRIZIA Deutschland GmbH for PATRIZIA Projekt 150 GmbH, in which AHO Beteiligungs-GmbH holds a stake. Alfred Hoschek is the managing director of AHO Beteiligungs-GmbH and at the same time a member of the Supervisory Board of PATRIZIA Immobilien AG. A total amount of EUR 311k (previous year: EUR 288k) was invoiced for these services in the reporting year. All services provided satisfy customary market standards for comparative arms-length transactions.

9.4 Supervisory Board and Managing Board

Members of the Managing Board of the Parent Company

The following are members of the Managing Board:

- Wolfgang Egger, businessman, Chief Executive Officer
- Karim Bohn, business studies graduate, Chief Financial Officer
- Klaus Schmitt, Ass. Jur., Chief Operating Officer

In 2016 the members of the Managing Board were granted total remuneration of EUR 3,654k (previous year: EUR 3,528k) and were paid total remuneration of EUR 4,030k (previous year: EUR 3,996k). This comprised EUR 1,269k of regular salary and fringe benefits as well as EUR 1,116k of short-term incentives and EUR 1,645k of long-term incentives as components of the management participation model.

A former board member was granted total remuneration of EUR 810k and was paid total remuneration of EUR 1,413k.

Please refer to the Compensation Report in the Management Report under point 3.2 for more detailed information.

Members of the Supervisory Board of the parent company

The following are members of the Supervisory Board:

- Dr Theodor Seitz, Chairman, tax consultant and lawyer, Augsburg
- Alfred Hoschek, Managing Director of AHO Verwaltung GmbH, Augsburg
- Gerhard Steck, Member of the Board of VPV (retired), Weissach im Tal

In the 2016 fiscal year, the Supervisory Board received fixed compensation of EUR 100k (previous year: EUR 102k).

Further information on Supervisory Board compensation can be found in the Compensation Report in the Management Report under point 3.2.

9.5 Other Financial Obligations and Contingent Liabilities

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

2016	**in EUR k**
Years	
2017	7,191
2018–2021	10,492
2022 and later	688
Total	**18,371**

2015	**in EUR k**
Years	
2016	6,942
2017–2020	13,061
2021 and later	346
Total	**20,349**

PATRIZIA has rented office space. This reduces capital commitment and leaves the investment risk with the lessor. The annual leasing expenses for the office building in Augsburg are EUR 1,749k plus ancillary costs. Rental agreements have also been concluded for offices at other locations; they have remaining terms of between three months and twelve years. The resulting obligations amount to EUR 2,896k for 2017, EUR 1,423k for 2018 and EUR 626k for 2019. The remaining obligations relate to lease agreements for office, IT and business equipment and for company cars.

9.6 Employees

The average headcount at the Group in 2016 (excluding members of the Managing Board and trainees) was 748 (previous year: 731). Furthermore, the Group employed an additional 39 (previous year: 40).

9.7 Auditor’s Fees

The auditor’s expenses calculated for 2016 amounted to EUR 389k (previous year: EUR 455k) for auditing the financial statements, EUR 10k (previous year: EUR 38k) for other confirmation services and EUR 0 (previous year: EUR 22k) for tax advisory services.

9.8 Events After the Balance Sheet Date

No events occurred after the balance sheet date that had a notable effect on the financial position and earnings situation of the group.

9.9 German Corporate Governance Code

www.patrizia.ag

In December 2016 the Managing Board and Supervisory Board issued a declaration of conformity in accordance with Article 161 of the Aktiengesetz (AktG – German Stock Corporation Act) and published it on the Company's website.

10 STATEMENT OF THE MANAGING BOARD

The Managing Board of PATRIZIA Immobilien AG is responsible for the preparation, completeness and accuracy of the consolidated financial statements and of the summarised Management Report for the Company and the Group.

The Managing Board released these financial statements for forwarding to the Supervisory Board on 9 March 2017. The Supervisory Board is tasked with auditing the consolidated financial statements and announcing its approval of the consolidated financial statements.

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

The summarised Management Report for the Company and the Group contains analyses relating to the net asset, financial and earnings situation of the Group as well as other comments as required by Article 315 of the Handelsgesetzbuch (HGB – German Commercial Code).

Augsburg, 9 March 2017

WOLFGANG EGGER
CEO

KARIM BOHN
CFO

KLAUS SCHMITT
COO

APPENDIX TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

LIST OF SHAREHOLDINGS

PATRIZIA Immobilien AG participates **directly** in the following companies:

Name	Head office	Holding in %	Equity in EUR	Net profit / loss for the last fiscal year in EUR
PATRIZIA Deutschland GmbH [1]	Augsburg	100	2,057,974.00	0.00
Deutsche Wohnungsprivatisierungs-gesellschaft mbH [1]	Augsburg	100	13,145.51	0.00
PATRIZIA Projekt 100 GmbH [1]	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 110 GmbH [1]	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 120 GmbH [1]	Augsburg	100	22,280.88	0.00
PATRIZIA Projekt 160 GmbH [1]	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 170 GmbH [1]	Augsburg	100	216,304,458.33	0.00
PATRIZIA Projekt 180 GmbH [1]	Augsburg	100	10,072,450.00	0.00
PATRIZIA WohnInvest Kapitalverwaltungs-gesellschaft mbH [1]	Augsburg	100	2,963,776.67	0.00
PATRIZIA Projekt 230 GmbH [1]	Augsburg	100	18,656.57	0.00
PATRIZIA Projekt 240 GmbH [1]	Augsburg	100	15,582.49	0.00
PATRIZIA Projekt 250 GmbH [1]	Augsburg	100	14,837.33	0.00
PATRIZIA Projekt 260 GmbH [1]	Augsburg	100	24,040.80	0.00
Wohnungsgesellschaft Olympia mbH	Augsburg	100	64,631.51	–18,779.40
Stella Grundvermögen GmbH [1]	Augsburg	100	7,538,113.38	0.00
PATRIZIA Real Estate Corporate Finance und Service GmbH	Augsburg	100	24,936.02	20,675.30
PATRIZIA Projekt 420 GmbH [1]	Augsburg	100	25,000.00	0.00
PATRIZIA Projekt 450 GmbH [1]	Augsburg	100	25,000.00	0.00
PATRIZIA Alternative Investments GmbH [1]	Augsburg	100	25,000.00	0.00
PATRIZIA Property Inc.	Wilmington, Delaware, USA	100	–102,216.97	–93,452.42
PATRIZIA Denmark A / S	Copenhagen	100	9,355,885.65	3,359,568.20
PATRIZIA Acquisition GmbH	Augsburg	100	22,391.73	523.77
PATRIZIA Projekt 710 GmbH	Augsburg	100	20,822.96	–3,241.22
Carl HR Verwaltungs GmbH	Augsburg	100	34,119.17	2,104.37

1 As a result of the existing control and profit transfer agreements, the results are adopted by PATRIZIA Immobilien AG

Name	Head office	Holding in %	Equity in EUR	Net profit / loss for the last fiscal year in EUR
Carl B-Immo Verwaltungs GmbH	Augsburg	100	33,895.00	2,104.37
Carl A-Immo Verwaltungs GmbH	Augsburg	100	34,119.18	2,104.37
Carl Carry Verwaltungs GmbH	Frankfurt am Main	100	34,117.16	2,104.37
Carl C-Immo Verwaltungs GmbH	Augsburg	100	33,012.18	2,104.37
PATRIZIA Sweden AB	Stockholm	100	371,983.89	20,947.06
Pearl AcquiCo Zwei GmbH und Co. KG	Munich	100	56,890,687.50	3,176,444.94
PATRIZIA Real Estate Investment Management S.à r.l.	Luxembourg	100	6,427,318.26	857,400.01
PATRIZIA Ireland Ltd.	Dublin	100	9,905.50	0.00
PATRIZIA UK Ltd.	Swindon	100	–842,714.26	–1,675,681.43
PATRIZIA Institutional Clients & Advisory GmbH [1]	Augsburg	100	50,000.00	0.00
PATRIZIA Finland OY	Helsinki	100	178,657.05	113,475.43
PATRIZIA Netherlands B.V.	Amsterdam	100	5,287,397.86	670,709.50
PATRIZIA GrundInvest Kapitalverwaltungs-gesellschaft mbH [1]	Augsburg	100	3,000,000.00	74,125.79
PATRIZIA France S.A.S.	Paris	100	–447,824.87	475,007.92
PATRIZIA WohnModul I SICAV-FIS	Luxembourg	10.1	798,944,995.41	54,699,460.98
PATRIZIA Harald GmbH	Gräfelfing	100	374,137,863.00	246,495,894.67
PATRIZIA ACTIVOS INMOBILIARIOS ESPANA S.L.U.	Madrid	100	–127,989.40	–735,292.89
PATRIZIA Logistics Management Europe B.V.	Amsterdam	100	–169,864.06	–868,679.49

1 As a result of the existing control and profit transfer agreements, the results are adopted by PATRIZIA Immobilien AG

PATRIZIA Immobilien AG participates **indirectly** in the following companies:

Name	Head office	Holding in %	Equity in EUR	Net profit / loss for the last fiscal year in EUR
PATRIZIA European Real Estate Management GmbH	Gräfelfing	100	−548,541.97	46,356.20
Projekt Wasserturm Verwaltungs GmbH	Augsburg	51	56,379.72	7,009.50
Alte Haide Baugesellschaft mbH [1]	Augsburg	100	9,287,982.89	0.00
PATRIZIA Luxembourg S.à r.l.	Luxembourg	100	187,475,809.87	−6,182,853.96
PATRIZIA Lux 10 S.à r.l.	Luxembourg	100	12,092,994.04	−26,261.37
PATRIZIA Lux 20 S.à r.l.	Luxembourg	100	86,257,424.00	−4,857.41
PATRIZIA Lux 30 N S.à r.l.	Luxembourg	100	708,504.40	632,564.09
PATRIZIA Lux 50 S.à r.l.	Luxembourg	100	20,374,212.39	−9,911,771.23
PATRIZIA Lux 60 S.à r.l.	Luxembourg	100	4,679,985.20	−849,344.38
PATRIZIA Real Estate 10 S.à r.l.	Luxembourg	100	15,839,548.91	228,535.11
PATRIZIA Real Estate 20 S.à r.l.	Luxembourg	100	79,815,585.56	2,857,331.18
PATRIZIA Real Estate 50 S.à r.l.	Luxembourg	100	−4,784,703.47	−3,451,482.10
PATRIZIA Real Estate 60 S.à r.l.	Luxembourg	100	−338,368.28	−819,400.16
F40 GmbH	Augsburg	94.9	−29,518,637.16	−9,537,639.73
PATRIZIA Projekt 380 GmbH	Augsburg	100	−18,623.35	−2,440.16
Projekt Wasserturm Grundstücks GmbH & Co. KG	Augsburg	45.9	−741,587.64	−11,469.73
Projekt Wasserturm Bau GmbH & Co. KG	Augsburg	51	−1,418,980.83	1,426,196.47
PATRIZIA Projekt 600 GmbH [2]	Augsburg	100	16,665,602.61	0.00
PATRIZIA GewerbeInvest Kapitalverwaltungs-gesellschaft mbH [3]	Hamburg	94.9	5,000,100.00	0.00
LB Invest GmbH	Hamburg	94.9	39,182.91	−1,997.73
PATRIZIA Facility Management GmbH [4]	Augsburg	100	25,000.00	0.00
Projekt Feuerbachstraße Verwaltung GmbH [5]	Frankfurt	30	28,907.57	−3.87
sono west Projektentwicklung GmbH & Co. KG [5]	Frankfurt	28.3	15,026,435.67	−580,848.91
PATRIZIA Fund Management A / S	Copenhagen	100	365,493.95	7,754.21

1 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Stella Grundvermögen GmbH

2 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Alte Haide Baugesellschaft mbH München

3 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 600 GmbH

4 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 180 GmbH

5 Provisional financial statements

Name	Head office	Holding in %	Equity in EUR	Net profit / loss for the last fiscal year in EUR
PATRIZIA Investment Management S.C.S.	Luxembourg	78.26	5,369,830.70	3,754,915.92
PATRIZIA Carry GmbH & Co. KG	Augsburg	75	486,265.45	−7,331.77
PATRIZIA Investment Management COOP S.A.	Luxembourg	100	−2,893.02	−1,412.98
SENECA TopCo S.à r.l.	Luxembourg	100	5,785,823.11	413,634.03
PATRIZIA Financial Services Ltd.	Edinburgh	100	440,678.43	11,746.81
PATRIZIA Investment Management HoldCo S.à r.l.	Luxembourg	100	123,303,468.20	−5,760,206.63
First Street TopCo 1 S.à r.l.	Luxembourg	92.54	−1,871,824.35	−1,890,922.30
PATRIZIA Harald Fund Investment S.C.S. (formerly: First Street TopCo 2 S.à r.l.)	Luxembourg	100	7,046.02	−21,572.12
Scan Deutsche Real Estate Holding GmbH	Berlin	100	134,101,924.71	89,004,639.43
Scan Deutsche Beteiligungsverwaltung GmbH & Co. KG	Berlin	100	5,726,923.67	2,630,764.67
Sudermann S.à r.l.	Luxembourg	100	10,420,598.26	2,516,842.53
Wildrosen S.à r.l.	Luxembourg	100	3,103,877.17	−415,051.16
Dover Street S.à r.l.	Luxembourg	100	−2,126,067.47	−2,087,379.02
Trocoll House No. 1 S.à r.l.	Luxembourg	92.54	16,318,823.29	−145,979.38
PATRIZIA First Street L.P.	London	92.54	46,955,460.63	3,420,888.46
PATRIZIA First Street GP Ltd.	Swindon	97.83	−8,336.37	−8,478.25
First Street PropCo. Ltd.	Swindon	92.54	11,483,618.31	6,178,092.13
Southside Real Estate Ltd.	Swindon	92.54	−17,947,756.58	−1,731,110.52
Southside Regeneration Ltd.	Swindon	92.54	9,282,946.15	3,446,127.85
First Street Management Comp. Ltd.	Swindon	92.54	9,583.76	9,521.78
PATRIZIA Trocoll House GP Ltd.	Swindon	97.83	675.54	546.27
PATRIZIA Trocoll House L.P.	Swindon	92.54	−13,405.97	−14,698.66
Edgbaston S.à r.l.	Luxembourg	100	12,380.19	−2,483.42
PATRIZIA GQ Limited	Swindon	100	385,797.71	−7.12
Patrizia Augsburg eins GmbH & Co. KG	Augsburg	100	−10,397.35	−10,397.35
PATRIZIA GrundInvest München Leopoldstraße GmbH & Co. geschlossene Investment-KG	Augsburg	100	−86,976.37	−86,976.37

1 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Stella Grundvermögen GmbH

2 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Alte Haide Baugesellschaft mbH München

3 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 600 GmbH

4 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 180 GmbH

5 Provisional financial statements

Name	Head office	Holding in %	Equity in EUR	Net profit / loss for the last fiscal year in EUR
PATRIZIA GrundInvest Mainz Rheinufer GmbH & Co. geschlossene Investment-KG	Augsburg	100	–12,766.60	–12,766.60
PATRIZIA GrundInvest Objekt Mainz Rheinufer GmbH & Co. KG	Augsburg	100	–308,820.02	–308,820.02
PATRIZIA GrundInvest Beteiligungs GmbH & Co. KG	Augsburg	100	–324.32	–324.32

1 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Stella Grundvermögen GmbH

2 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Alte Haide Baugesellschaft mbH München

3 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 600 GmbH

4 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 180 GmbH

5 Provisional financial statements

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

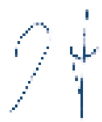
Name	Head office	Holding in %	Equity in EUR	Net profit / loss for the last fiscal year in EUR
PATRIZIA Vermögensverwaltungs GmbH [1]	Augsburg	100	687,583.35	0.00

1 As a result of the existing control and profit transfer agreement, the result is adopted by the stockholder PATRIZIA Projekt 180 GmbH

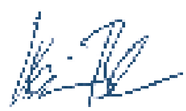
RESPONSIBILITY STATEMENT

by the Legal Representatives of PATRIZIA Immobilien AG

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



WOLFGANG EGGER
CEO



KARIM BOHN
CFO

KLAUS SCHMITT
COO

AUDITOR'S CERTIFICATE

We have audited the consolidated financial statements prepared by PATRIZIA Immobilien AG, Augsburg – comprising the consolidated balance sheet, consolidated income statement and consolidated statement of comprehensive income, consolidated cash flow statement, consolidated statement of changes in equity, and consolidated notes – as well as the management report and consolidated management report for the fiscal year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the consolidated management report in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and the requirements of German commercial law additionally applicable as per Article 315a (1) of the German Commercial Code is the responsibility of the company's Managing Board. Our responsibility is to express an opinion on these consolidated financial statements and the consolidated management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 of the German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (German Institute of Auditors). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net asset, financial and earnings situation in the consolidated financial statements in accordance with the applicable financial reporting framework and in the consolidated management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the consolidated management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the scope of consolidation, the accounting and consolidation principles used and the significant estimates made by the Managing Board, as well as evaluating the overall presentation of the consolidated financial statements and the consolidated management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of PATRIZIA Immobilien AG, Augsburg, comply with the IFRS as adopted by the EU and the additional requirements of German commercial law as per Article 315a (1) of the German Commercial Code and give a true and fair view of the net asset, financial and earnings situation of the Group in accordance with these requirements. The consolidated management report is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 9 March 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

STADTER
German Public Auditor

MÜHLBAUER
German Public Auditor

CONSOLIDATED BALANCE SHEET

Five-year overview in accordance with IFRS

ASSETS

in EUR k	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
A. Non-current assets					
Goodwill	610	610	610	610	610
Other intangible assets	35,416	37,417	39,407	41,904	43,259
Software	10,772	9,225	10,795	8,698	7,553
Investment property	12,226	20,802	78,507	229,717	374,104
Equipment	4,460	5,015	4,476	4,765	3,479
Participations in associated companies	85,923	88,179	68,497	18,295	15,810
Participations	102,033	81,406	96,555	80,074	18,407
Loans	7,015	5,498	5,281	5,814	0
Long-term tax assets	35	78	119	159	201
Deferred taxes	323	7,013	0	0	0
Total non-current assets	***258,813***	***255,243***	***304,247***	***390,036***	***463,423***
B. Current assets					
Inventories	182,931	1,057,942	198,694	309,203	345,920
Securities	44	54	86	96	60
Short-term tax assets	11,941	8,280	8,014	5,582	5,380
Current receivables and other current assets	99,311	131,171	84,774	82,262	98,635
Bank balances and cash	440,219	179,141	145,361	105,536	38,135
Total current assets	***734,446***	***1,376,588***	***436,929***	***502,679***	***488,130***
Total assets	**993,259**	**1,631,831**	**741,176**	**892,715**	**951,553**

EQUITY AND LIABILITIES

in EUR k	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
A. Equity					
Share capital	83,956	76,324	69,385	63,077	57,343
Capital reserve	184,005	191,637	198,576	204,897	210,644
Retained earnings					
Legal reserves	505	505	505	505	505
Non-controlling shareholders	1,691	18,190	809	1,398	1,556
Valuation results from cash flow hedges		0	0	−31	−469
Currency translation differences	−10,803	−869	1,030	500	0
Consolidated unappropriated profit	491,679	254,004	139,743	104,135	66,808
Total equity	***751,033***	***539,791***	***410,048***	***374,481***	***336,387***
B. Liabilities					
NON-CURRENT LIABILITIES					
Deferred tax liabilities	17,992	63,253	19,704	22,933	23,242
Long-term financial derivatives	0	0	0	0	16,363
Retirement benefit obligations	648	687	630	534	388
Long-term bank loans		0	0	0	302,004
Bonded loan	22,000	32,000	77,000	77,000	0
Non-current liabilities	6,866	9,262	5,544	3,849	3,417
Total non-current liabilities	***47,506***	***105,202***	***102,878***	***104,316***	***345,414***
CURRENT LIABILITIES					
Short-term bank loans	53,200	821,828	121,950	321,634	219,050
Bonded loan	5,000	35,000	0	0	0
Short-term financial derivatives	0	3,677	0	2,819	6,069
Other accruals	27,627	6,740	2,142	1,719	1,479
Current liabilities	75,343	96,288	92,506	75,759	28,750
Tax liabilities	33,550	24,305	11,652	11,987	14,404
Total current liabilities	***194,720***	***986,838***	***228,250***	***413,918***	***269,752***
Total equity and liabilities	**993,259**	**1,631,831**	**741,176**	**892,715**	**951,553**

CONSOLIDATED INCOME STATEMENT

Five-year overview in accordance with IFRS

in EUR k	2016	2015	2014	2013	2012
Revenues	817,879	384,858	291,815	217,398	229,238
Income from the sale of investment property	1,542	10,075	17,019	19,133	16,916
Changes in inventories	−502,018	−166,980	−110,509	−36,717	−61,609
Other operating income	14,252	16,189	7,143	8,064	11,566
Income from the deconsolidation of subsidiaries	194,730	5,277	0	0	0
Total operating performance	***526,385***	***249,419***	***205,468***	***207,878***	***196,111***
Cost of materials	−33,712	−52,438	−54,455	−58,314	−54,020
Cost of purchased services	−14,832	−14,787	−9,990	−14,120	−7,338
Staff costs	−101,313	−93,519	−77,239	−65,733	−47,561
Results from fair value adjustments to investment property	431	462	51	17	18
Other operating expenses	−68,757	−69,973	−50,193	−44,872	−37,930
Income from participations	32,667	151,681	39,062	32,122	6,557
Earnings from companies accounted for using the equity method	7,651	4,232	3,182	658	455
EBITDAR	***348,520***	***175,077***	***55,886***	***57,636***	***56,292***
Reorganisation expenses	−20,406	0	0	0	0
EBITDA	***328,114***	***175,077***	***55,886***	***57,636***	***56,292***
Amortisation of fund management contracts, depreciation of software and fixed assets	−6,134	−7,059	−6,940	−6,107	−4,541
Earnings before finance income and income taxes (EBIT)	***321,980***	***168,018***	***48,946***	***51,529***	***51,751***
Finance income	3,057	6,666	4,413	20,520	11,727
Finance costs	−7,361	−23,171	−11,912	−32,424	−34,857
Gains / losses from currency translation	−4,029	−618	551	−26	0
Earnings before income taxes (EBT)	***313,647***	***150,895***	***41,998***	***39,599***	***28,621***
Income tax	−57,383	−16,433	−6,978	−2,431	−3,166
Consolidated net profit	**256,264**	**134,462**	**35,020**	**37,168**	**25,455**

Earnings per share (undiluted) in EUR	2.83	1.32	0.42	0.44	0.30

SUPERVISORY BOARD

as per 31 December 2016

DR THEODOR SEITZ
CHAIRMAN
Member of the Supervisory Board since 2002 and Chairman since 2003
Tax consultant and lawyer, Augsburg

– Chairman of the Supervisory Board of CDH AG, Augsburg *

ALFRED HOSCHEK
DEPUTY CHAIRMAN
Member of the Supervisory Board since 2015
Managing Director AHO Verwaltung GmbH, Augsburg

– None *

GERHARD STECK
MEMBER OF THE SUPERVISORY BOARD SINCE 2015
Retired from the Management Board of VPV, Weissach im Tal

– None *

MANAGING BOARD

as per 31 December 2016

WOLFGANG EGGER
CHIEF EXECUTIVE OFFICER
First appointed on: 21 August 2002
Appointed until: 30 June 2021

Responsibilities on the Managing Board of PATRIZIA
Corporate Communications, Strategy & Corporate Development, Corporate Social Responsibility, Institutional Clients, Marketing, Research

– None *

KARIM BOHN
CHIEF FINANCIAL OFFICER
First appointed on: 1 November 2015
Appointed until: 31 October 2018

Responsibilities on the Managing Board of PATRIZIA
Board and Committees, Controlling & Accounting, Corporate Finance, Investor Relations, IT, Procurement & Services, Risk Management

– Member of the Supervisory Board of the GBW Group *

KLAUS SCHMITT
CHIEF OPERATING OFFICER
First appointed on: 1 January 2006
Appointed until: 31 December 2020

Responsibilities on the Managing Board of PATRIZIA
Human Resources, Legal, Management of Operating Business Fields, M & A

– None *

* Notification of seats on other supervisory boards pursuant to Article 285 No. 10 of the German Commercial Code

FINANCIAL CALENDAR AND CONTACT DETAILS

FINANCIAL CALENDAR 2017

Date	
14 March 2017	Financial statements 2016 with press conference and investor and analyst conference call
10 May 2017	Interim report for the first quarter of 2017 with investor and analyst conference call
22 June 2017	Annual General Meeting, Augsburg
4 August 2017	Interim report for the first half of 2017 with investor and analyst conference call
7 November 2017	Interim report for the first nine months of 2017 with investor and analyst conference call

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This annual report was published on 14 March 2017. This is a translation of the German annual report. In case of doubt, the German version shall apply. Both versions are available on our website:

www.patrizia.ag/investor-relations/finanzberichte/geschaeftsberichte
www.patrizia.ag/en/investor-relations/financial-reports/annual-reports

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