POLIS IMMOBILIEN AG

ANNUAL REPORT 2006

POLIS

Brief portrait

POLIS Immobilien AG was founded in Berlin in 1998 and has positioned itself in the German office building market as an "active portfolio manager": The main focus is the active management of own properties.

POLIS focuses on one market segment: Office buildings in attractive areas in key German business locations. The company acquires properties that are entirely let and well equipped and that generate a secure cashflow as well as vacant properties or properties that require upgrading provided they exhibit a real potential for increase in value. The potential may be realised by modernisation measures, up to and including complete revitalisation.

In February 2007, the company's property portfolio comprises sixteen properties with an overall value of € 142 million. The portfolio was awarded an "A"-Rating ("very good") by Feri Rating & Research GmbH.

Since its successful initial public offering in March 2007, the shares of POLIS are traded on the official market (Amtlicher Markt) of the Frankfurt Stock Exchange (Prime Standard).

Share data

ISIN	DE0006913304
WKN	691330
Comman Code	28841035
Stock Exchange Code	PQL
Subscribed capital	€ 110,510,000
Class	11,051,000 no par value ordinary bearer shares
Notional interest in the share capital	€ 10.00 per share
Voting rights	1 vote per share
Stock Exchange	Official Market of the Frankfurt Stock Exchange (Prime Standard) and Xetra

Management Board

Dr. Alan Cadmus, Speaker of the Board, Berlin
Dr. Matthias von Bodecker, Berlin

Supervisory Board

Carl-Matthias von der Recke, Chairperson, Frankfurt
Hans Fehn, Deputy Chairperson, Karlsruhe
Arnoldus Brouns, Maastricht
Michael Haupt, Berlin
Klaus R. Müller, Karlsruhe
Jürgen von Wendorff, Hanover

Registered Office

Berlin
HRB 67179 B

POLIS Immobilien AG
Potsdamer Straße 58
10785 Berlin / Germany
Phone 0049 (0)30 26 39 59 57 -0
Telefax 0049 (0)30 26 39 59 57 -99
info@polisag.de
www.polisag.de

Status: 15.04.2007

Annual Report of the POLIS Immobilien AG 2006

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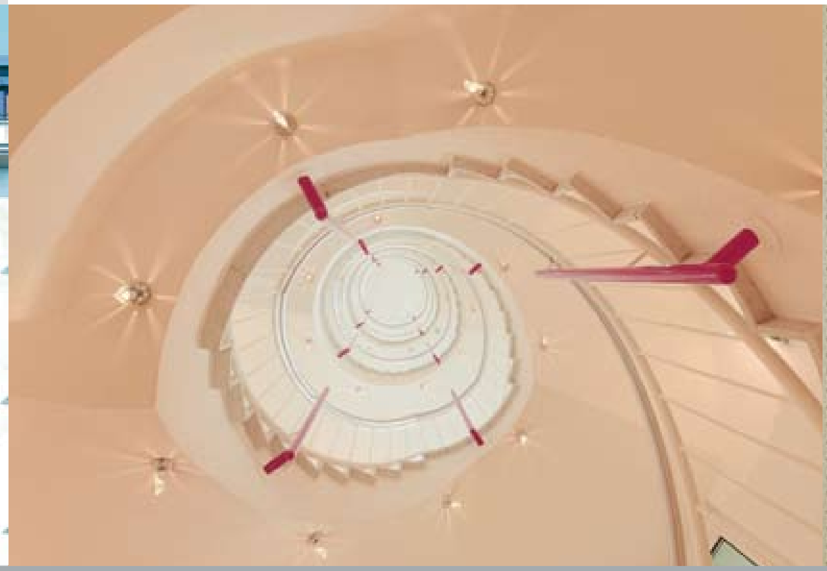
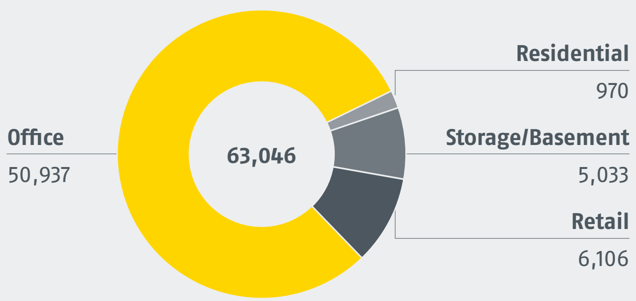



Portfolio key data

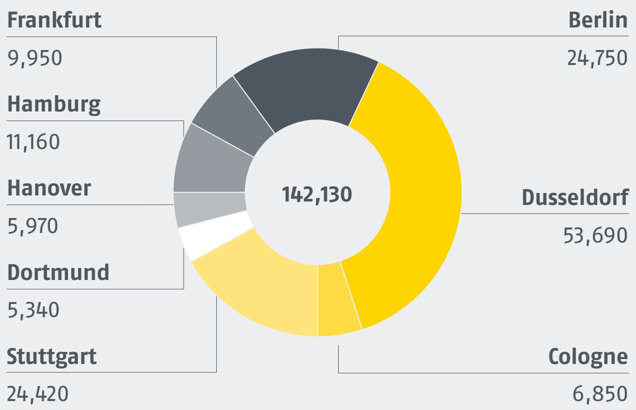
Portfolio by use

Basis: m²



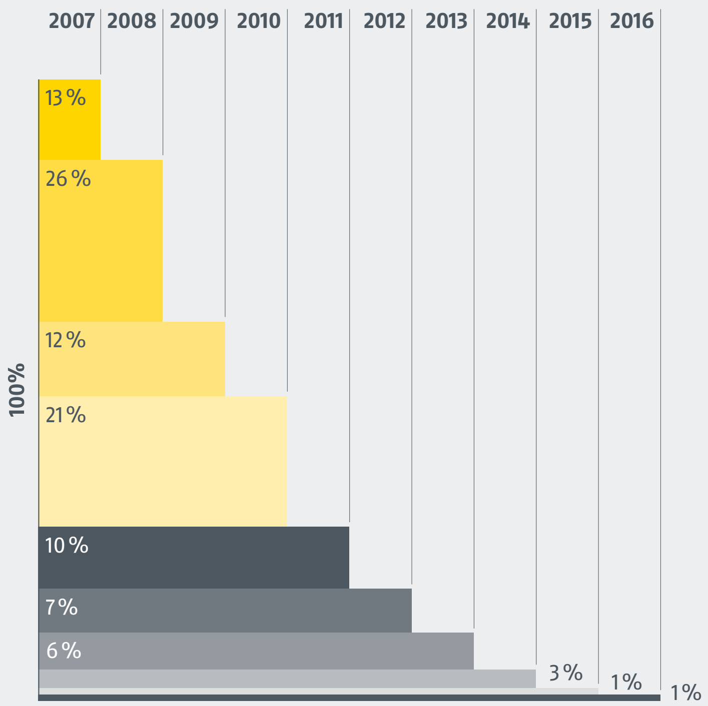
Portfolio by location

Basis: Market value according to the value appraisal by Feri as at 31 December 2006



End of the lease agreements

Basis: Net rental revenue as at 31 December 2006



Status: Including the properties acquired after the balance sheet date; see portfolio overview on page 18/19

Financial key data

Consolidated financial key data based on IFRS for the financial years 2004, 2005 and 2006

Profit and loss account	2004 €'000	2005 €'000	2006 €'000
Rental revenues	5,635	5,487	4,315
Current income from property management	4,289	4,679	3,236
Earnings from revaluation of properties	–5,451	–4,600	–339
Earnings from sale of investment property	0	1,256	450
EBIT[1]	–2,089	586	2,850
EBT[2]	–5,704	–2,536	876
Group net profit/loss for the year	–4,145	–2,031	479

1. Earnings before interest and taxes: calculated by adding the items »Earnings before financing activity and taxes« (2006) or, as the case may be, »Earnings before financing activity« (2005, 2004) and »Investment income« in the consolidated profit-and-loss account
2. Earnings before taxes

Balance sheet	2004 €'000	2005 €'000	2006 €'000
Total assets	111,342	77,017	124,381
Investment property	106,850	71,450	118,881
Equity	31,568	29,537	61,384
Equity ratio[1]	28%	38%	49%
Loan commitments	76,465	44,939	45,855
Loan to value[2]	72%	63%	39%
Net Asset Value (NAV)[3]	31,325	28,519	60,572

1. Ratio of equity shown on the balance sheet and total assets
2. Ratio of loan commitments to investment property
3. Net Asset Value: equity plus deferred tax liabilities less deferred tax assets

Cashflow statement	2004 €'000	2005 €'000	2006 €'000
Cashflow from current business operations	2,933	3,549	2,753
Cashflow from investment activity	–30,346	31,096	–33,770
Cashflow from financing activity	27,468	–33,845	30,707

Dr. Alan Cadmus

Speaker of the Management Board

- Born 1955
- Lawyer, Dr. jur. (doctorate in law), Georgia Augusta University, Göttingen
- Founding shareholder of POLIS AG
- Member of the Management Board of POLIS AG since 1998
- Responsible for strategy, portfolio management and investor relations

Dr. Matthias von Bodecker

- Born in 1964
- Economist, Dr. rer. pol. (doctorate in political sciences/economics), Berlin
- Member of the Management Board of POLIS AG since 2001
- Responsible for finances, asset management, and organisation

Letter to Shareholders

Dear Shareholders

The past months have been rather exciting. Ever since founding POLIS AG in 1998, we endeavoured to satisfy the requirements of the capital market and become a listed company. And on 21 March 2007, we achieved this objective!

During 2006, we developed and began to implement our growth strategy. We expanded our property portfolio by acquiring ten additional investment properties, and thanks to the cooperation of all of our shareholders at that time established the requirements for our IPO. Therefore, we wish to express our profound gratitude especially to our Shareholders from the time prior to our IPO for the excellent collaboration and their support over the past years and the assistance provided during the preparation of our successful IPO.

The capital market has responded very favourably to our business model and the existing opportunities for growth. POLIS invests exclusively in office buildings in established areas in key German office locations. We invest in high-quality properties in top locations in order to ensure their long-term ability to generate rental income. Furthermore, we modernise older buildings and improve their condition to a level at which they can be easily marketed. Thereby, we increase the utility value for the office tenants and create additional value for our shareholders. Currently, our portfolio of 16 investment properties represents an overall current market value of € 142 million. Feri Rating & Research GmbH evaluated our investment properties within the scope a portfolio rating and gave it an "A", meaning "very good". We are very pleased to have received this confirmation of the high quality of our portfolio.

In the fall of 2006, we set the course for future growth by deciding to pursue an IPO and commence preparatory work. POLIS Grundbesitz und Beteiligungs AG thus became POLIS Immobilien AG. In March of 2007, we successfully carried out our IPO. The issue was heavily oversubscribed, and we were able to place all 6,191,572 shares with domestic and foreign investors at a high price of € 14.50. The greenshoe option was exercised in full in the course of only two days. As a result, we now have at our disposal net proceeds of the issue in the amount of approximately € 81 million which we intend to use for the continued development of our portfolio. Additional acquisitions are already in the pipeline.

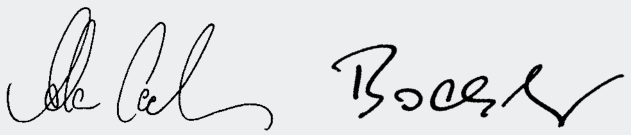
By being listed in the strictly regulated Prime Standard of the Frankfurt Stock Exchange, we have begun to appear on the radar screens of international investors. They are showing considerable interest in German property companies.

After a somewhat difficult period that lasted several years, the German market for office buildings has bottomed out and is rebounding. We are confident that we will be able to benefit from the upward trend. Considering the decreasing number of new buildings and the increasing age of German office buildings, the existing backlog of modernisation work is substantial. This is where we have identified significant potential for our business model. In such an environment, many attractive opportunities for acquisitions exist for the rapid development of our portfolio. We believe that the acquisitions carried out in the current financial year will already have a positive effect in the course of this year.

Dear Shareholders, we have every reason to be optimistic. POLIS is well positioned to benefit from the reversal of the trend in the German office building market.

We wish to thank you for your confidence. We are very grateful for the opportunity to continue the successful development of POLIS together with you.

Sincerely



Dr. Alan Cadmus **Dr. Matthias von Bodecker**

Report of the Supervisory Board

During the past financial year, the Supervisory Board supervised the activities of the Management Board and fulfilled its responsibilities under the statutory regulations and in accordance with the articles of association of POLIS Immobilien AG.

Supervision of management and cooperation with the Management Board

The Management Board regularly informed the Supervisory Board in detail in conversations as well as in writing about the situation and development of the Company. In this context, the Supervisory Board discussed with the Management Board fundamental questions concerning the business and corporate policies, the corporate strategy, the Company's financial development and earnings position as well as business-related issues that are important for the Company. Also, the chairman of the Supervisory Board regularly discussed and coordinated also outside of meetings all issues and questions of key importance with the Management Board.

Supervisory Board meetings and resolutions

During the period under review, eight Supervisory Board meetings took place in which the Management Board also took part, on the following dates: 23 February, 31 March, 28 April, 16 May, 05 July, 16 August, 09 October and 29 November 2006. In these meetings, the Management Board informed the Supervisory Board in detail and in a timely manner in particular about the strategy, the plans, the economic situation and development, and consulted with the Supervisory Board regarding these issues. In addition, the Supervisory Board also adopted resolutions in writing, in particular regarding acquisitions of properties. All matters that are subject to the decision of the Supervisory Board were determined after diligent examination and consultation in the meetings, and to the required extent also on the basis of written proposals prepared prior to the meeting. Inter alia, issues that were the subject of such decisions concerned the continued strategic development of POLIS Immobilien AG, the implementation of capital measures, the preparation of the IPO and eight property acquisitions in total.

Annual and consolidated financial statements for 2006

The accounting, the annual financial statements, the consolidated financial statements, the report of the Management Board of POLIS Immobilien AG as well as the Group Management Report have been audited by the auditor appointed by the General Meeting, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin. In each case, the audits resulted in an unqualified audit certificate [uneingeschränkter Bestätigungsvermerk]. In its meeting on 26 February 2007, the Supervisory Board approved the results of this audit after inspecting the auditor's reports, endorsed and thereby formally approved the annual financial statements of POLIS Immobilien AG prepared by the Management Board for the financial year 2006, and endorsed the consolidated financial statements. The Supervisory Board supports the proposal of the Management Board to set off the annual deficit of POLIS Immobilien AG against the capital reserves so that there are no net earnings for the year.

Dependency report for 2006

In accordance with Section 312 AktG [Aktiengesetz; German Stock Corporation Act], the Management Board prepared a report [Abhängigkeitsbericht] on the relationships with associated companies for the financial year 2006.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, has audited the report and issued the following audit certificate in this context:

„Having audited the report in accordance with our professional duties, we confirm that

1. the factual details contained in the report are accurate,
2. in the case of the legal transactions detailed in the report, the expenditure of the Company was not unreasonably high."

According to the conclusive examination carried out by the Supervisory Board, no objections exist concerning the report of the Management Board on the relationships with associated companies as well as with respect to the final statement made by the Management Board in the report.

The Supervisory Board agrees with the results of the audit carried out by the auditor.

Personnel-related matters

In its meeting on 16 August 2006, the Supervisory Board adopted resolutions for the re-appointment of Dr. Alan Cadmus and Dr. Matthias von Bodecker as of 01 January 2007 for an additional three years as members of the Management Board.

Composition of the Supervisory Board

Effective upon the expiration of the General Meeting on 05 July 2006, the longstanding chairman of the Supervisory Board, Dr. Gernot Ernst, left the Supervisory Board. Dr. Ernst had been the chairman of the Supervisory Board from the time the Company was founded, and greatly influenced its development. The composition of the Supervisory Board also changed during the period under review as a result of the departure of Mr. Christoph Baumgärtner, Mr. Eberhard Both, Mr. Jean Klijnen and Mr. Thomas Pohle effective 05 July 2006. Mr. Voäs Brouns, Mr. Michael Haupt, Mr. Klaus R. Müller, Mr. Ralf Schmechel and Mr. Jürgen von Wendorff were appointed as new members of the Supervisory Board. In the Supervisory Board meeting on 05 July 2006, Mr. Michael Haupt was elected as chairman of the Supervisory Board. Mr. Hans Fehn was re-elected as deputy chairman. Mr. Ralf Schmechel left the Supervisory Board after the end of the period under review. Mr. Carl-Matthias von der Recke was elected to take his place in the Supervisory Board in the General Meeting on 23 January 2007; during the following Supervisory Board meeting, he was elected as chairman of the Supervisory Board.

The Supervisory Board wishes to thank all former Supervisory Board members for their work and involvement for POLIS.

The Supervisory Board also wishes to thank the Management Board for the good work during the financial year and the growth that the Company achieved.

Berlin, 30 April 2007

The Supervisory Board

Carl-Matthias von der Recke
– Chairman of the Supervisory Board –

Corporate Governance

POLIS Immobilien AG is listed since 21 March 2007 and intends to fully comply with its obligation, which arises upon its listing on the stock exchange, to issue and publish a declaration in the course of the current financial year in compliance with Section 161 German Stock Corporation Act [Aktiengesetz], and to make it permanently available to the shareholders. The Management Board and the Supervisory Board of the Company identify with the goals of the Code to foster responsible and transparent corporate management and control, oriented towards achieving a sustained increase in company value. The Company intends largely to comply with the recommendations of the German Corporate Governance Code as amended on 12 June 2006, which is applicable upon the listing of the Company on the stock exchange. Details are yet to be agreed between the Management Board and the Supervisory Board.

POLIS Immobilien AG

Pursuing rapid growth

Strategy and value chain in detail

Pursuing rapid growth

Strategic objectives

Expansion of the property portfolio

The existing portfolio is the result of focussing on office properties. POLIS has a uniform office property portfolio with high-quality locations and properties. Feri Rating & Research GmbH has assessed the quality of the portfolio and has given it an "A" rating ("very good").

POLIS plans to continue expanding its portfolio of office properties while maintaining its current focus and high quality standards, and to this end intends to use a large share of the net proceeds of the share issue in March 2007 that generated approximately € 81 million. By augmenting its property portfolio, the Company will be able to achieve effects of scale that will help boost its profitability.

Moderate return/risk profile

By continuously evaluating and controlling the composition of the portfolio so that it retains a mix of "core" and "value-added", and by limiting the share of debt capital to no more than 60%, POLIS can ensure a moderate return/risk profile.

"Multi-tenant strategy" generates stable rental income

POLIS is pursuing a multi-tenant strategy as opposed to a single-tenant strategy, meaning that its business model is primarily geared toward office properties with several tenants rather than one tenant only. In this manner, risks from non-receipt of rent and from the expiration of individual leases as well as the dependence on developments in specific industry sectors are greatly reduced.

Aiming for a REIT AG

In future, POLIS intends to qualify as a REIT AG if this is advantageous for the Company and its shareholders. Among other things, a REIT AG status would mean that the Company would be exempt from corporate and trade tax, and would be required to distribute at least 90% of its distributable net earnings for the year to shareholders.

Investment criteria

When making acquisitions, POLIS focuses on investment properties that meet the following criteria:

Good inner-city locations in Germany's 20 most important office markets

To secure rental income, POLIS focuses on its ability to let its properties at any time – and to achieve this, location is critical. For this reason, the Company chooses established office locations in inner-city areas of prosperous large cities or major urban centres.

Office properties with a low proportion of retail space

POLIS focuses on office properties. They may include retail space to a certain extent, but this should not determine the character of the properties. The Company will only accept properties with a dominant share of retail space in exceptional cases, and only if the properties are located in very good retail locations (pedestrian zones, 1a or 1b locations).

Individual properties with between 2,500 sqm and 8,000 sqm usable space as well as suitable portfolios

So far, POLIS has acquired only individual properties because of this sector's favourable competitive situation. It has so far not acquired any property portfolios. Generally, no portfolios were available in the market that satisfied the acquisition criteria required by POLIS. Also, POLIS considers that current prices for portfolios are in particular due to the large demand from foreign investors. As a matter of principle, available portfolios are regularly examined to see if they might qualify.

A minimum rental space of 2,500 sqm is generally required for an acquisition to be considered sufficiently profitable, given the expenses associated with acquiring and actively managing the real estate. The purchase price should generally be in the range of between € 5 million and € 20 million.

Secure cashflow and/or development potential

The investment properties should generate a secure cashflow, have a concrete development potential, or both. The development potential of properties often results from structural shortcomings that can be removed by carrying out appropriate measures. These structural shortcomings range from a previous lack of active lease management and a significant need for modernisation or modifications beyond what might be required for individual rental units to a significant vacancy rate. Examples of measures carried out for the purpose of increasing rental income include the construction of additions, particularly the addition of floors, and changing the property's utilisation concept.

Active property management

Active property management is aimed at increasing utility value for the tenant through continuous small-scale modernisation work such as improvements of a property's visual appeal, as well as by exploiting a property's potential for expansion or conversion to new uses, along with raising technical standards. Such measures are intended to increase the leasable area, and therefore the potential earnings of the investment property. For this reason, all properties are regularly examined in order to determine whether an increase in the utility value can be realised by appropriate measures.

Active property portfolio management also includes lease management. An ongoing dialogue with the tenants' decision-makers is maintained for ensuring the tenants' long-term satisfaction with the property. The purpose of this dialogue is to determine and take into consideration the tenants' needs in support of the development of strong ties with the property, thus helping to secure the rental situation in the long-term.

Modernisation

The marketability of office buildings that have lost their visual appeal, no longer meet current technical standards, or have other weak points, and are therefore generally (partially) vacant, can be restored by carrying out measures aimed at the architectural and technical modernisation of the property.

The goal is to create property in a condition that meets current market demand for modern office space in order to achieve lasting marketability for the building and thus guarantee that high rental revenues can be secured over the long term. The modernisation work generally extends beyond the individual leased spaces and in some cases requires complete revitalisation of the building, in the course of which it is stripped back to the bare shell and rebuilt, including new technical services, elevators, facades, space subdivision, entry areas, and underground garages or parking areas. Additional enhancement of user value will be achieved, if feasible, by measures such as adding additional floors, converting less valuable space to other uses, or creating additional parking areas.

Selective sale of properties for optimising the portfolio

By pursuing a strategy of generally holding on to properties over the medium to long term without setting predefined investment time limits, POLIS is not compelled to sell properties during times in which circumstances are unfavourable. Sales are in fact made only for the purpose of optimising the portfolio or to realise profits from successful property developments.

Information on property valuation

General information on property valuation

On 10 October 2006, Feri Rating & Research GmbH was instructed by POLIS to perform a market valuation of the property portfolio of POLIS and to document this valuation in the form of rating reports and market value appraisals.

The valuation date is 31 December 2006. The valuation date applies to general valuation conditions in the property market and to the state of repair of the properties being appraised.

The portfolio that was to be appraised comprised a total of fourteen properties in Berlin, Dortmund, Dusseldorf, Frankfurt, Hamburg, Hanover and Stuttgart.

The concept of value used for this appraisal is market value in the sense that is used in the International Valuation Standards, and is defined as follows:

"Market value on the valuation date is the estimated cash amount for which a property would trade in an arms-length transaction between a willing seller and a willing buyer after a reasonable period of marketing, assuming that both parties are trading based on expert knowledge and prudence, and without coercion."

The market value was determined using the discounted cashflow method, which is a dynamic method used for determining present values. The difference between gross income and operating costs is equal to net cashflow, which is calculated for each period in the remaining useful life of the property. Discounting is performed using the break-even return, which takes into account the rate of return on risk-free investments, and all risks associated with the property.

Valuation methodology

Rating

The basis for determining the market value is the Feri Immobilienobjekt Rating package. This science-based valuation system assesses the desirability and risk of a property, measures the criteria required to determine net cashflows and the discount factor, and finally determines a property's market value.

Appraising the value of a property involves a top-down approach that analyses a wide range of relevant factors, including supra-regional market trends, specific characteristics of the micro position and the property quality, and weights them by their significance. Macro position, micro position, and property quality are the rating indicators used to define the desirability of a property.

The detailed rating criteria used to determine the macro position are economic strength, construction activity and value appreciation, which are provided by Feri Immobilienmarkt Rating. A regional model is used to prepare a regional growth-based forecast of indicators determining supply and demand, which are then used to prepare rent, price and return forecasts for the property market. A detailed study of regional industry, population and income structure is used to identify the future potential value and associated risk of different property types.

The rating criteria used to determine the micro position are utility infrastructure, traffic infrastructure, location quality and recreational value.

The rating criteria used to determine the property quality are the quality of the building and the quality of the real estate.

An evaluation of the micro position and the property quality is performed by appraisers during property inspection. All of the information for a property is collected using a standardised scoring list that is completed by an appraiser during a property inspection. This involves an assessment of approximately 150 individual criteria for each property.

When determining a property's risk profile, tenant creditworthiness, tenant concentration and contract design are also evaluated in order to determine tenant-specific risk.

All criteria are evaluated using the Feri Rating algorithm, which assigns a property a point value between 1 and 100. The point values are subsequently divided into 10 rating groups with scores ranging from AAA (absolute best) to E- (very poor).

Determination of the market value

The basis for determining a property's market value is the net cashflow that it generates, which is calculated as rental revenues less operating costs. Rental revenues consist of the contractually agreed rents, plus Feri's projections for rental revenues from letting vacant space or re-letting previously unlet space after expiry of existing rental contracts based on property-specific market rent. The property-specific market rent is determined by using the rating results for the desirability of the property to calculate premiums and discounts which are applied to the general market rent.

The net cashflows for a specific property are discounted using what is referred to as the break-even return. The break-even return is the return that a particular property must generate in order to earn a risk-adjusted rate of return. It takes into account all of the risks associated with an investment in that particular property.

The rate of return earned on risk-free investments forms the starting base rate for the calculation. The Feri Immobilien valuation system uses the current yield on a ten-year government bond for this purpose.

In an additional step, a risk premium is applied to the base rate to reflect the general market risk, the property risk and the tenant risk for the specific property investment.

Results of the property valuation

On the valuation date, the fourteen properties that were appraised represent an overall market value of € 119,900,000.00.

On the valuation date, the base rate for a risk-free investment was 4.75%.

The break-even return is 7.14% (value-weighted across the entire portfolio).

Portfolio overview[1]

No,	Property	Transfer of possession	Year built/ renovated	Market Value[2] in € '000	Discount rate[3]	Total space[5] in m^2	Office in m^2	Retail in m^2	Storage in m^2	Residential in m^2	No. of parking spaces	Lease occupancy rate on 31/12/2006[6]	Average remaining term of leases[8] in years	Rental revenues 2006[10] in € '000	Annualised potential rent[11] in € '000	Return on potential rent[13]	Feri Rating 31/12/2006
1	**Dusseldorf** Berliner Allee 44	01.08.2000	1957/2001	8,630	7.27%	3,700	2,683	444	382	148	19	100%	5.7	558	570	6.6%	A
2	**Dusseldorf** Berliner Allee 48	01.10.2006	1956	5,360	7.07%	2,600	1,926	261	148	237	0	77%	1.7	66	350	6.5%	A
3	**Dusseldorf** Kasernenstraße 1	1.12.2006	1954	11,670	7.04%	4,800	3,358	798	398	254	14	93%	4.2	0	720	6.2%	A
4	**Dusseldorf** Steinstraße 11	31.12.1999	1913/2000	8,540	7.07%	2,500	1,888	342	221	0	0	99%	1.2	513	540	6.3%	A
5	**Dusseldorf** Steinstraße 20	01.07.2006	1954/1998	10,880	7.07%	4,600	3,377	548	635	0	7	55%	2.4	202	730	–[14]	A
6	**Dusseldorf** Steinstraße 27	01.09.2000	1960/1988	8,610	7.15%	3,600	3,046	376	158	0	20	98%	4.3	503	560	6.5%	A
	Dusseldorf			**53,690**		**21,800**	**16,278**	**2,769**	**1,942**	**639**	**60**			**1,842**	**3,470**		
7	**Berlin** Luisenstraße 46	15.05.2002	1936/2002	10,510	7.17%	3,100	2,621	440	38	0	22	88%	2.7	494	670	6.4%	B+
8	**Berlin** Potsdamer Straße 58	25.05.2001	1930/2004	14,240	7.18%	5,500	4,658	505	355	0	20	88%	2.3	525	890	6.3%	B+
	Berlin			**24,750**		**8,600**	**7,279**	**945**	**393**	**0**	**42**			**1,019**	**1,560**		
9	**Frankfurt** Gutleutstraße 26	30.06.2001	1970/1996	9,950	7.17%	3,500	3,538	0	0	0	29	100%	2.0	972	970	9.7%	A
	Frankfurt			**9,950**		**3,500**	**3,538**	**0**	**0**	**0**	**2**			**972**	**970**		
10	**Hamburg** Ludwig-Erhard-Straße 14	01.10.2006	1969/1996	11,160	7.06%	4,900	4,569	0	325	0	29	53%	3.2	111	790	7.1%	A
	Hamburg			**11,160**		**4,900**	**4,569**	**0**	**325**	**0**	**29**			**111**	**790**		
11	**Hanover** Landschaftstraße 2	31.12.2006	1983	1,980	7.23%	3,500	3,475	0	0	0	52	20%	4.8	0	380	–[14]	B+
12	**Hanover** Landschaftstraße 8	31.12.2006	1885/2006	3,990	7.24%	2,600	2,166	0	437	0	0	100%	5.0	0	280	7.0%	B+
	Hanover			**5,970**		**6,100**	**5,641**	**0**	**437**	**0**	**52**			**0**	**660**		
13	**Dortmund** Kleppingstraße 20	31.12.2006	1953/54/94	5,340	7.31%	2,700	1,934	484	248	0	11	60%	5.5	0	410	7.7%	B
	Dortmund			**5,340**		**2,700**	**1,934**	**484**	**248**	**0**	**11**			**0**	**410**		
14	**Stuttgart** Tübinger Straße 31+33	31.12.2006	1949/2000	9,040	7.18%	4,800	2,711	1,198	699	220	13	92%	4.1	0	580	6.4%	A
15	**Stuttgart** Torstraße 15	01.02.2007	1989	15,380	7.17%	6,600	5,082	710	734	111	48	100%[7]	2.0	0	1,070	7.0%	A
	Stuttgart			**24,420**		**11,400**	**7,793**	**1,908**	**1,433**	**331**	**61**			**0**	**1,650**		
16	**Cologne** Konrad-Adenauer-Ufer 41-45	01.04.2007	1195	36,850	7.16%	4,200	3,906	0	255	0	45	0%[7]	–[9]	0	740	–[14]	A
	Cologne			**6,850**		**4,200**	**3,906**	**0**	**255**	**0**	**45**			**0**	**740**		
	Total			**142,130**	**7.15%[4]**	**63,200**	**50,937**	**6,106**	**5,033**	**970**	**329**	**76%[4]**	**3.2**	**3,944**	**10,260[12]**	**6.9%[15]**	**A**

1. Status: Including the properties acquired after the balance sheet date (properties no. 15 and 16).
2. According to the value appraisal by Feri Rating & Research GmbH of 31 December 2006.
3. According to the value appraisal by Feri Rating & Research GmbH, discount rate of the discounted-cashflow-model: According to Feri it is the return that a particular property must generate in order to earn a risk-adjusted rate of return.
4. Weighted average.
5. Rounded to the nearest hundred.
6. As a ratio of the leased space to the overall space. The data as of 31 December 2006 comes from the value appraisal by Feri Rating & Research GmbH.
7. The figure relates to March 2007.
8. Data relates to the period as from 1 January 2007.
9. No data because there is no lease.
10. According to the audited consolidated financial statements for the year ended 31 December 2006 (IFRS).
11. Pro-forma rental revenues, assuming all vacant space is leased at the property-specific market rents calculated by Feri Rating & Research GmbH.
12. Does not equal the sum of the individual values due to rounding discrepancies.
13. Ratio of the annualised potential rent to the market value.
14. Since the stated annualised market rent and the stated annualised potential rent for these properties presuppose the completion of a considerable amount of modernisation work, comparison with their current market values is not meaningful.
15. Since they are calculated at the overall portfolio level, the stated figures do not take into account the properties Landschaftstr. 2, Steinstr. 20 and Konrad-Adenauer-Ufer 41-45.

Dusseldorf,
Berliner Allee 44

Dusseldorf,
Berliner Allee 48

Dusseldorf,
Kasernenstraße 1

Berlin,
Luisenstraße 46

Dortmund,
Kleppingstraße 20

Hamburg,
Ludwig-Erhard-Straße 14

Hanover,
Landschaftstraße 2

Hanover,
Landschaftstraße 8

Dusseldorf,
Steinstraße 20

Frankfurt,
Gutleutstraße 26

Dusseldorf,
Steinstraße 11

Cologne,
Konrad-Adenauer-Ufer 41-45

Stuttgart,
Tübinger Straße 31 + 33

Dusseldorf,
Steinstraße 27

Stuttgart,
Torstraße 15

Berlin,
Potsdamer Straße 58

Group Management Report of POLIS Immobilien AG as at 31 December 2006

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1. Business and general business environment

1.1. Overview of business activity

POLIS Immobilien AG, Berlin, (hereinafter also "POLIS"), is a real estate company which acquires existing office properties through property ownership companies, modernises them if necessary, and extends them, if applicable, before finally managing them (active portfolio management strategy). Usually the company holds property in the medium or long term without a pre-defined investment policy. POLIS is currently optimising its portfolio by selective purchasing of individual real properties and is achieving additional returns (buy-and-sell-strategy).

POLIS concentrates exclusively on office premises, occasionally including premises with a secondary retail element. It acquires both properties which are largely unoccupied and need extensive renovation, where it has identified an actual potential for letting or increasing value, and also fully let properties of contemporary standard which produce a secure cashflow. The company strives for a medium risk-return profile.

The investment locations chosen by the company are good positions in inner cities of the 20 most important city office locations in Germany. POLIS owned 14 office properties in seven German cities as at 31 December 2006.

1.2. Changes in the overall economic climate

In 2006 the economic climate in Germany was characterised by a surge in activity. The revival in the economic climate, which was previously driven to a considerable extent by foreign demand, extended further into the internal economy for the first time. Growth in gross domestic product of 2.5% was registered. As well as resulting from strong growth in exports, this was driven by private demand for investment and private consumer spending. It is heartening to observe that the revival in the economic climate has transferred to the employment market, and has not been limited merely to bringing the unemployment figure down by 330,000 but has also, according to a statement from the annual report of the German Council of Economic Experts in November 2006, brought a rise of 0.3% in employment requiring social security contributions.

The preconditions for a continuation of this upturn are in place for 2007. The German Council of Economic Experts is expecting a rise in gross domestic product of 1.8%.

During the course of the year the Central Bank has noticeably tightened up its monetary policy. However, the current situation continues to be dominated by comparatively low interest rates:

	GNP-growth	Inflation	Interest rates * 3-month EURIBOR	5 years (Swap rate)	10 years (Swap rate)
31.12.2006	2.5%	1.7%	3.73%	4.12%	4.19%
31.12.2005	0.9%	2.0%	2.49%	3.20%	3.44%
31.12.2004	1.2%	1.6%	2.16%	3.15%	3.74%

Source: Statistisches Bundesamt; * Jahresultimo, Source: Reuters

The positive change to the economic climate in Germany has also made itself felt in the office property market. The upward trend described for the financial year 2005 on Germany's office property markets gained momentum over the 2006 financial year. Here a distinction needs to be made between the investment and rental markets.

1.3. Trends in the investment market for office property in Germany

The investment markets profited from the influx of foreign capital into Germany. Currently Germany is considered undervalued by investors in an international comparison, and therefore it is one of the most attractive property markets, with high expectations of future market development. Despite differing figures in the various market reports, a considerable increase in the volume of transactions relating to German commercial properties was recorded in 2006:

	Transaction volumes in 2006 in billion euros	Change over 2005	Share of office property
DIP	55.5	+54%	57%
Atisreal	49.4	+109%	40%
Degi Research	41.0	+75%	29%

Source: Immobilien Zeitung dated 18.01.2007, page 4

In the first instance growth can be attributed to high-volume portfolio transactions, something which had previously been seen in the housing property segment. Among the vendors were, in particular, domestic institutional property investors such as open-ended property unit trusts and insurance companies. In the office property segment in the past financial year predominantly the long term letting of office buildings with one user ("single-tenant") was what was demanded. However, there was also increasing interest shown by foreign capital investors in fully let office properties with several users ("multi-tenant"), which led to price increases in this sector. POLIS was able to profit from the rising demand last year by selling one investment property and is also well positioned for the future in this market segment.

The expectation is that German companies will now distance themselves from properties that do not need business management and that institutional investors will distance themselves from directly held real property, and that in 2007 POLIS will continue to find there are good opportunities on the procurement market to acquire office buildings capable of being modernised.

1.4. Trend in the rental market for office property in Germany

The positive trend in financial framework conditions has already led to a slight recovery in the lettings market for office properties in Germany. The trend in office lettings could be described as at least stable in all locations. In the office centres of Munich and Hamburg there have already been upward trends. In particular a clear rise in top rents for office property in these locations has been noted, because of the surge in demand.

The supply of marketable floor space was reduced still further in 2006. According to Atisreal the supply of empty office space with modern fittings in 2006 fell by 14%, while the number of unused square metres of space in unrefurbished buildings rose by 11%.[2] This showed once again that older and poorly equipped office space and space in less attractive locations is difficult to let. New buildings and modernised buildings in good locations attract users more easily and display stable rent levels.

[2] See Immobilien Zeitung of 18.01.2007 page 4

The table below makes the slight downturn in office vacancy rates clear.

Locations	Unoccupied property figures in 000 m² 2003	2004	2005	III. Quarter 2006	Portion of unoccupied property As % 2003	2004	2005	III. Quarter 2006
Berlin	1,530	1,756	1,535	1,548	8.5	9.6	8.3	8.4
Dusseldorf	806	933	1,034	1,021	10.7	11.3	12.0	12.0
Frankfurt	1,741	1,944	2,233	2,178	13.9	13.4	15.2	14.6
Hamburg	836	916	908	895	6.6	7.1	7.0	6.9
Munich	1,480	1,892	1,740	1,571	7.5	11.3	10.3	9.2
Stuttgart	253	301	362	K.A.	3.7	4.3	5.2	K.A.

Source: AtisReal, City News

1.5. Trend in the market for property shares

The positive growth of the German property shares sector also continued in 2006 and meant that property shares did better than the broader share market. E&G Dimax (property share index of the Stuttgart private bank, Ellwanger & Geiger) increased in value by 46.3%, while the DAX increased by a mere 22% over the same period. Overall, in 2006 22 new companies were added to the Dimax. As at 31.12.2006 the market capitalisation of the companies recorded was about € 20 billion.

The introduction of the REIT concept expected in Germany in 2007 further accelerated the trend and contributed to the sometimes steep increase in share prices for German property shares. The attention paid by predominantly international investors to property values quoted on the stock exchange has clearly increased. In the current buoyant atmosphere more and more companies are taking the opportunity to create capital for expansion using the stock exchange. Much of this is to do with the fact that flotation and/or capital increases of property share companies promise success.

1.6. Collaboration with Bouwfonds

POLIS has been working for some years in the asset management sector with Bouwfonds Real Estate Services Deutschland GmbH ("Bouwfonds Services"), a company which has been majority owned by the Dutch Rabobank Group since December 2006.

The relationship between Bouwfonds Services and POLIS was realigned at the end of last year: the Board members of POLIS ended all their activities at Bouwfonds Services and in future will work exclusively for POLIS. The asset management agreement was revised and restricted to one part of the property management services. POLIS is considering performing the activities outsourced to Bouwfonds Services itself after the portfolio reaches a certain size.

Bouwfonds Services received total payments of € 1,069,000 in 2006 for its work based on the existing asset management agreement. This included transaction fees of € 482,000 as well as payments for asset management, caretaking services, house administration and letting. All external due diligence costs on acquisitions were covered by the transaction fees. More information is appended to the Consolidated Group Accounts under the heading "Details of relationships with close companies and persons."

2. Business performance, profits position, asset and financial position

2.1. Profits position

Marked improvement in result

The number of tenancy agreements fell compared to the previous year (€ 4,315,000; previous year € 5,487,000). This can be attributed to the change in portfolio composition. The departure of the two properties Stinnes-Hochhaus in Mülheim an der Ruhr and Grugaplatz in Essen during 2005 and the sale of the office block Am Rankeplatz in Berlin in 2006 had not yet been balanced by the strong build-up of the portfolio, particularly in the fourth quarter of 2006.

The result for the 2006 financial year was clearly improved, by comparison. The consolidated accounts indicated an annual surplus of € 479,000 (previous year € -2,031,000). While in the previous year the lower valuations of virtually the entire portfolio had led to clear losses, the remaining devaluations of three buildings in 2006 (Potsdamer Straße 58, Luisenstraße 46, both Berlin, and Gutleutstraße 26, Frankfurt) were compensated for in the remaining portfolio by revaluations. Similarly a positive result from the sale of investment property (€ 450,000, previous year € 1,256,000) was achieved once again by the sale of the office block Am Rankeplatz. The EBIT multiplied by almost five times compared to the previous year. (€ 2,850,000, previous year € 586,000). About € 31.4 million liquid assets was provided for the Company through two cash capital increases, which have also contributed to a clear increase in financial results.

The contribution to profits from deferred taxes was reduced to € -207,000 because of a reduction in taxable hidden reserves and an increase in taxable losses brought forward. There was actually an income tax charge of € 190,000 from extraordinary unplanned depreciation of financial investments, which were not tax-deductible, and because of taxes from previous years.

Property portfolio

The strategy of POLIS is geared to the needs of the capital market, with appropriate reporting. A complete, detailed overview of the portfolio with the important individual details on each building and its valuation has been published on the Internet (www.polisag.de) and in the portfolio summary of the business report.

Having started the year with seven buildings the portfolio ended 2006 with fourteen buildings. After the sale of the office block Am Rankeplatz it was possible to acquire eight buildings. This meant investment was made in Hanover (2), Dortmund and Stuttgart for the first time, and again in Hamburg. The Dusseldorf location was strengthened through the acquisition of three buildings.

The table below shows the lettings situation according to locations as at 31 December 2006:

	Floor space let 31.12.2006 in m²	Unoccupied at 31.12.2006
Berlin	8,600	12%
Dortmund	2,700	40%
Dusseldorf	21,800	14%
Frankfurt	3,500	0%
Hamburg	4,900	47%
Hanover	6,100	46%
Stuttgart	4,800	8%
Total	52,400	20%

It was possible to reduce the unoccupied percentage even further. During the financial year letting capacity of almost 90% was achieved in both German properties. Overall some 3,450 m² were newly let or relet. At the end of the year about 80% of property was let in the overall portfolio as a result of the purchase of properties for renovation, sometimes with low levels of occupation (e.g. Landschaftstraße 2 in Hanover).

Rental revenues – an overview

The following rental revenues were obtained in the years 2004 to 2006, broken down over the individual properties and locations:

	2004 in € '000	2005 in € '000	2006 in € '000
Berliner Allee 44	524	530	558
Berliner Allee 48 (from 10/2006)	–	–	66
Steinstraße 11	440	466	513
Steinstraße 20 (from 07/2006)	–	–	202
Steinstraße 27	549	507	503
Dusseldorf	**1,513**	**1,503**	**1,842**
Rankeplatz (until 08/2006)	554	590	422
Luisenstraße 46	473	455	494
Potsdamer Straße 58	94	388	525
Berlin	**1,121**	**1,433**	**1,441**
Gutleutstraße 26	937	937	972
Frankfurt	**937**	**937**	**972**
Ludwig-Erhard-Straße 14 (from 10/2006)	–	–	111
Hamburg	**–**	**–**	**111**
Grugaplatz (from 03/2004 to 07/2005)	936	671	–
Essen	**936**	**671**	**–**
Stinnes-Platz (from 03/2004 to 08/2005)	1,072	873	–
Mülheim/Ruhr	**1,072**	**873**	**–**
Total rental revenues	**5,579**	**5,417**	**4,366**
Accrual of rent-free periods	56	70	-51
Total rental revenues	**5,635**	**5,487**	**4,315**

Trends in the portfolio

- Berlin

The letting status of the two Berlin properties "Potsdamer Straße 58" and "Luisenstraße 46" was increased still further. The results of valuations by Feri Rating & Research GmbH (Feri) did lead once again to reductions in the valuation of both properties which were then charged to profits at a total cost of € 1,420,000. We are not expecting any further devaluations because we have now reached a letting occupancy level of 88% in both cases, and because of the improved market prospects.

- Dortmund

An office property was acquired in Dortmund at 31 December 2006 in an inner city location (Kleppingstraße).

- Dusseldorf

We were able to acquire three properties in Dusseldorf: "Steinstraße 20" (as at 1 July 2006), "Berliner Allee 48" (as at 1 October 2006) and "Kasernenstraße 1" (as at 31 December 2006). A building for renovation was acquired, the new building in Steinstraße 20 (let occupancy status 55%) and this building will be repositioned in 2007 by demolishing the partial attic storey and adding two modern storeys. The other two buildings are fully let apart from a few areas and will be carefully redeveloped. The decision to increase our presence in Dusseldorf was justified by the good valuations provided by Feri at the end of the year.

The high letting status of the previous three POLIS buildings confirms the good choice of location and the high quality of the buildings.

- Frankfurt

The building "Gutleutstraße 26" on the edge of the banking quarter was let to Dresdner Bank AG. A valuation correction of € 840,000 had to be made on this investment property once again because the tenancy agreement runs out in the foreseeable future and the rent agreed is higher than today's market rent.

- Hamburg

The Hamburg office market developed well over last year. POLIS was able to acquire a building in a good inner city position as from 1 October 2006 in accordance with its concept, about half of which continues to be used by the vendor. With low investments in the entrance areas, and the ease with which other areas might be divided up, it should be possible for us to let the available space in 2007.

- Hanover

Two properties situated opposite to one another in the banking quarter in Hanover were acquired at 31 December 2006. At Landschaftstraße 8 the vendor had already completed extensive renovations. This grand but internally efficient building was let long-term to Ernst & Young AG. Only the ground floor of Landschaftstraße 2 is let to the vendor and will be extensively modernised by POLIS in the coming year. Initial discussions with prospective tenants have confirmed the choice of location.

- Stuttgart

A building was acquired in the inner city of Stuttgart on 31 December 2006 and its office space is fully let to OBW-Bank AG. No action is required here over the next few years. Even in 2007 the POLIS cashflow will be noticeably increased by this acquisition.

2.2. Financial assets position

Investments

The POLIS portfolio was successfully expanded in 2006. Overall eight properties were acquired at a procurement cost of € 57.4 million. Their market values on the balance sheet in the IFRS Consolidated Accounts were € 58.4 million which meant it was possible to obtain a slight profit on valuation, even in 2006.

During the past year investments for the extending of unlet floor space in Potsdamer Straße 58 were made of about € 380,000, and for tenancy extensions in Luisenstraße 46 (€ 53,000).

Reduction in investments

The "Bürohaus am Rankeplatz" was sold on 31.08.2006 within the scope of the planned buy-and-sell-strategy, with a net profit on sale of € 450,000.

Valuation of properties

The valuation of properties as at 31 December 2006 was carried out for the first time by Feri Rating & Research GmbH, Bad Homburg ("Feri"). This resulted in the expert market values, a property rating and a summarised portfolio rating now available. The high quality of the portfolio was confirmed by the updated portfolio rating "A" in February 2007 ("very good"). The individual ratings, which also predominantly led to an "A", revealed the great homogeneity of the portfolio.

The table below shows the current values to be attached to the individual investment properties and the Feri rating:

Investment property	Current values to be applied as at 31.12.2005 € '000	Current values to be applied as at 31.12.2006 € '000	Feri Rating
Berliner Allee 44	8,050	8,630	A
Berliner Allee 48 (from 10/2006)	–	5,360	A
Kasernenstraße 1 (as at 31.12.2006)	–	11,254	A
Steinstraße 11	8,530	8,540	A
Steinstraße 20 (from 07/2006)	–	10,880	A
Steinstraße 27	8,200	8,610	A
Dusseldorf	**24,780**	**53,274**	
Rankeplatz (til 08/2006)	9,710	–	
Luisenstraße 46	11,380	10,510	B+
Potsdamer Straße 58	14,790	14,240	B+
Berlin	**35,880**	**24,750**	
Gutleutstraße 26	10,790	9,950	A
Frankfurt	**10,790**	**9,950**	
Landschaftstraße 2 (as at 31.12.2006)	–	1,715	B+
Landschaftstraße 8 (as at 31.12.2006)	–	3,581	B+
Hanover	**–**	**5,296**	
Ludwig-Erhard-Straße 14 (from 10/2006)	–	11,160	A
Hamburg	**–**	**11,160**	
Kleppingstraße 20 (as at 31.12.2006)	–	5,421	B
Dortmund	**–**	**5,421**	
Tübinger Straße 31+33 (as at 31.12.2006)	–	9,030	A
Stuttgart	**–**	**9,030**	
Total	71,450	118,881	A

The current value to be applied to the investment properties according to IAS 40 was € 118,881,000 in total at the end of the year (previous year € 71,450,000). The current values to be applied according to IAS 40 differed, with regard to the investment properties acquired as at 31 December 2006, from the market values found in expert reports by Feri, which were about € 1,019,000 higher. For the purposes of IAS 40 the procurement costs at 31 December 2006 were applied to the investment properties acquired at 31 December 2006, as the best estimate of the current values to be applied.

Overall a negative result of € 339,000 was obtained in financial year 2006 from entry of investment properties in the accounts at current value. This figure included devaluations on properties Gutleutstraße 26 in Frankfurt and Luisenstraße 46 and Potsdamer Straße 58. In the rest of the portfolio the previously accounted-for current values were either confirmed or increased.

Net Asset Value

By adding together the book values of investment properties and participating interests as at 31 December 2006 and taking account of other balance sheet items, including bank loans and overdrafts, a Net Asset Value of € 60,572,000 was obtained:

	€ '000
Book values of property investments	118,881
Book values of participating interests	1,035
Other assets less other liabilities	-13,489
Bank loans and overdrafts	-45,855
Net Asset Value	60,572
Deferred taxes	812
Net Asset Value	61,384

On the basis of 51,400,000 shares we calculate a Net Asset Value per share of € 1.18 at 31 December 2006.

The so-called Net Asset Value is the calculation after correcting for the effect of deferred taxes. At 31 December 2006 this was € 61,384,000 or, on the basis of 51,400,000 shares, € 1.19 per share.

2.3. Financial position

Additional share capital from capital increases from cash contribution

POLIS increased its share capital by approximately € 31.4 million by means of two capital increases from cash contribution.

In order to convert a former 5 DM share to one € 1 share another increase in capital from company resources and an associated share split in the ratio 1:3 was carried out. Overall the number of shares increased to 51,400,000. Share capital as at 31 December 2006 was € 61,384,000.

Share of external capital clearly reduced

Despite strong growth in the portfolio, the "loan-to-value ratio" (ratio of bank loans and overdrafts to market value of investment property in the accounts) as at 31 December was reduced to 38.6% because of the cash capital increases. Here consideration should be given to the fact that on 31 December 2006 short-term purchase price liabilities of € 13,550,000 existed, the payment of which will lead to a rise in this ratio at the beginning of the year. The target of 60% will be reached again after further investments.

At the end of the year the group held cash at bank of € 875,000. The liquidity level, with existing credit lines, will continue to be minimised by the group-wide liquidity management policy, in order to optimise interest charges.

The refinancing or follow-up financing of properties occurred partly without locking into long-term interest rates and was instead variable, based on EURIBOR. Interest-securing instruments (caps and swaps) were used to restrict the risk of interest rate changes.

Cashflow from current business activity

POLIS achieved a clear positive cashflow of € 2,753,000 (previous year € 3,549,000) from ongoing business activity. The reduction compared to 2005 results from the change in the portfolio through sales in 2005 and 2006. The increase in the portfolio in the second half of 2006 has not yet had an effect on the result and on cashflow from current business activity.

Cashflow from investment activity

The negative cashflow of € -33,770,000 (previous year € 31,096,000) from investment activity can be attributed to the strong growth in the company and the associated payments to acquire new investment properties. In detail we would draw your attention to the explanations in 2.2. 'Investments'. The payments received related to the sale of the property Rankeplatz.

Cashflow from financing activities

The clearly positive cashflow from financing activities of € 30,707,000 (previous year € 33,845,000) is primarily attributable to two cash capital increases (€ 31,368,000), short-term purchase price liabilities and average and long term borrowings in the course of extending the portfolio.

2.4. Concluding observations on the net assets, financial position and operating results

The profits position of POLIS has clearly improved compared to previous years. Essentially this could be attributed to the roughly balanced result derived from the revaluation of investment properties. As a result of positive market changes the devaluations were clearly reduced in the equation, and were virtually balanced out by up-valuations. The sale of one property again contributed positively to the results. The result from current property management forms the basis of income and was lower than in the previous year because of portfolio changes in the years 2005 and 2006. The net asset and financial position has improved because of two capital increases from cash contribution and the extension of the portfolio in the second half of the year. The solid balance sheet structure was shown by the low "loan-to-value ratio", which at the same time made the investment range clear.

3. Shareholder structure and dependency report

3.1. Shareholder structure of POLIS

In the financial year 2006 an additional strategic and long term investor was acquired for POLIS. Bouwfonds Asset Management Deutschland GmbH has become a second key Shareholder with MANN Immobilien Verwaltung AG. Both hold 32.55% of the shares in POLIS. As well as other institutional Shareholders with about 24.2%, private Shareholders also hold about 10% of the shares. The Board's holding was about 0.7%.

3.2. Controlled companies report

A report was produced according to the regulations of § 312 AktG about the relationships with affiliated companies and ended with the following declaration:

"Our company has received an appropriate consideration for each legal transaction listed in the report on relationships with affiliated companies, according to the circumstances known at that point in time and in which the legal transactions were undertaken."

4. Supplementary report

POLIS Immobilien AG held a general meeting on 23 January 2007 in which the steps named below were resolved upon ahead of a possible stock exchange flotation, including the renaming of the company POLIS Immobilien AG. We refer in detail to our corresponding details in the Consolidated Annexe under point 8.6 "Events after the balance sheet date" with regard to the events which have to be reported after the balance sheet date.

5. Risk report

5.1. Market risk

POLIS was active in the German office property market and therefore predominantly dependent on trends in that market

The German market for office property has been marked in the recent past by high non-occupancy rates, falling rents and a fall in value. In particular it has been affected by the overall economic environment and by the investment behaviour of those participating in the market. Generally the office property market is dependent on numerous factors which are currently affecting each other and is therefore subject to unforeseeable variations.

For example, the following are some of the factors influencing the market:

- Macro-economic factors, particularly overall economic growth, interest rate levels and the expectation of companies as regards future financial trends,
- Supply and demand for office property in the relevant locations and special factors in the local markets,
- Attractiveness of the German location compared to other countries and global markets, and
- Statutory and tax regulatory conditions.

POLIS has no influence on factors affecting the office property market. Moreover no diversification of risk at POLIS into other property segments takes place because of its concentration on office property.

An increase in the general level of interest would have a negative effect on POLIS

If interest rates in Germany, which are currently low, were to rise considerably in future, the acquisition of office property for purchasers who finance the purchase price from predominantly external resources would become more difficult because of the increased interest charges. Such a trend might therefore make potential investors less inclined to buy and lead to a reduction in the price level for office property, which might in turn have an adverse effect on the income from sale of properties and the future values of the investment properties of POLIS.

In part the existing loan contracts of POLIS provide for the payment of variable interest, i.e. interest dependent on the interest rate level in Europe. The risk of interest change is to a small extent not covered by appropriate interest insurance deals. If there were to be a considerable rise in the currently low interest rates, the interest charge arising from existing non-secured liabilities attracting variable interest rates would rise. Also the financing costs for refinancing existing liabilities and/or for the future financing of the acquisition of additional properties or carrying out modernising measures would increase considerably.

5.2. Risks related to the company

POLIS is reliant on successful collaboration with Bouwfonds Real Estate Services Deutschland GmbH

The identification, testing and valuation before buying suitable real property, the implementation of modernising measures, the lettings management and the management of buildings and land are outsourced to Bouwfonds Real Estate Services Deutschland GmbH ("Bouwfonds Services") on the basis of an asset management agreement. These are partly central corporate services on which the financial success of POLIS decisively depends. POLIS is therefore dependent on the fact that Bouwfonds Services performs the services outsourced to it successfully. If, in future, Bouwfonds Services does not perform the services specified in the asset management agreement to the previous extent, or on terms financially acceptable to POLIS, POLIS would then be dependent on finding another suitable contractual partner or recruiting its own suitable employees with appropriate experience and contacts. The interests of Bouwfonds Services, as the subsidiary of one of the main Shareholders of POLIS, could be in conflict with the interests of the company, which Bouwfonds Services essentially has to defend within the scope of fulfilling its contractual duties arising from the asset management contract.

The valuation expert reports might incorrectly estimate the value of POLIS property

The investment properties are shown in the Consolidated Accounts of POLIS at their current value according to IAS 40. The determination of the current value to be used on the relevant valuation set date is based on a valuation of the properties held. At the end of the financial year 2006 the property values found by Feri Rating & Research GmbH were used as a basis.

The valuation of property was based on a number of factors, which also incorporate subjective estimates by the assessor, and might change at any time. The valuation of property is therefore encumbered with numerous uncertainties. It is not possible to have an objectively correct valuation of real property. The valuation of individual or multiple properties might actually go beyond the value which could be obtained through sale, or an incorrect estimate or a change in the factors used as the basis for the valuation might, in future, lead to other values being obtained.

POLIS might not be in a position to control its growth effectively or to demand the resources necessary to control and support this growth

POLIS grew strongly in 2006 and has set itself the target of further growth momentum. In particular the investment of the results from any stock exchange flotation might lead to a multiplication of the purchase processes to be managed, compared to past experience. The number of properties to be modernised and managed might increase accordingly.

The identification, checking and valuation of properties suitable for purchase, the implementation of renovation measures, lettings management and land management are outsourced on the basis of an asset management agreement with Bouwfonds Services. The intended expansion of business volume presumes that Bouwfonds Services will adapt its organisation and its personnel resources accordingly, and that it would have enough technical resources available.

The company is considering, from the time its portfolio reaches a certain size, performing itself the activities currently outsourced to Bouwfonds Services (particularly asset management). The company cannot guarantee that it would succeed in recruiting the necessary qualified personnel. Also it cannot be ruled out that the recruiting of suitable staff might be so time-consuming that it might prove impossible to guarantee a seamless transition to own asset management.

A considerable level of unoccupied premises, loss of or a reduction in rental revenues or the possible premature termination, under exceptional circumstances, of long-running tenancy agreements might lead to a considerable fall in income for POLIS

The properties held by the company show on average 20% of vacant premises, on the basis of the useful floor space as at 31 December 2006. Moreover the tenancy agreements made by POLIS are short term on average, so that tenancy agreements are up for extension comparatively frequently. The company cannot guarantee that it will be successful in removing current or future unoccupied capacity or extending expiring tenancy agreements. Also, because of payment difficulties experienced by tenants and/or extraordinary termination of tenancy agreements by tenants, there might be loss of rental.

POLIS is purely a holding company and therefore dependent on the income from its property ownership companies

POLIS is a holding company for numerous property ownership companies which hold the individual properties. As a result income which could be distributed from the sale of a property or its letting only occurs within these companies or by the sale of a property ownership company itself. The costs of the business and other expenditure of POLIS have to be covered from this income. POLIS can, as a result, only undertake distributions, after deducting their costs, to the extent to which they are receiving income from their participating interests under commercial law.

5.3. Summary observation

The occurrence of the risks shown above could have disadvantageous effects on the business activity and the results of POLIS. The Board of POLIS is currently analysing these risks. The strategy of risk diversification through investment in high quality buildings capable of third-party use, in good locations, is being reviewed by portfolio management. The risk of loss of rent is being reduced by the mix of tenants ("multi-tenant" concept), the monitoring of tenant creditworthiness and active care of tenancies. The attainment of operative and strategic aims is being permanently monitored by extensive risk management. Using its regular and up-to-date reporting, the Board is in a position at any time to take early action if there were any deviations from plan.

The continued existence of POLIS is not at risk from the risks listed, in the view of the Board.

6. Prognosis and Opportunity Report

6.1. Development of the overall economy and the markets for office property

For the time being, despite the increase in VAT at the beginning of 2007, we cannot assume that the economic climate will undergo a slump. The prerequisites for a continuation of the upturn are given. The dynamic global economic environment will once again contribute positively to the economic trend in Germany. The Council of German Economic Experts, in its autumn report 2006, assumed a rise in gross domestic product of 1.8% and another increase in the social security contributions of employees. These overall conditions in the economy form the basis of the expected positive development of office property markets in Germany.

6.2. Important opportunities for the POLIS group

The business concept of the POLIS group has been aligned towards the capital market from the very beginning. The market trend in Germany property shares and the high expectations raised after the introduction of a German REIT concept have led to a sustained mood upswing in the past year, and as a result we have begun preparing for an increase in capital and the IPO of POLIS. The general meeting of POLIS laid down the important points on 23 January 2007. POLIS can, by taking such a step, undergo another increase in size, and use principles already existing to make profits in the capital market. As soon as the statutory regulatory conditions for achieving possible REIT status are fixed POLIS will look at the advantages immediately. The company is ideally prepared for achieving this status in 2007.

6.3. View of future company development

The turnover and probably the result from current property management will clearly increase in 2007 because of the considerable extension of the portfolio. Because of the change in the market situation we are not assuming further corrections to valuations of the investment properties. On the contrary there should be positive contributions to the Company's result from the results of the valuation. The cautious new commitments undertaken in the area of renovation of properties has moved POLIS into a position where it can achieve additional yield potential. Increasing the letting status of the existing investment properties remains the most important operative target for 2007. The most important strategic aim is the growth of the company by successful flotation on the stock exchange. The preparations for this are associated with considerable costs. If this plan is not realised we would expect a charge against profits. The good outlook for current market conditions, the growth of POLIS over the last few months, and the opportunities arising in 2007 have encouraged us to expect a positive trend for 2008 as well.

The actual results could deviate significantly from our expectation of the probable trend, if one of the uncertainties listed in the risk report, or some other uncertainties, should occur, or if the assumptions supporting the statements prove inadequate.

Final comments

We would like to thank our Shareholders for their trust and will continue to work to justify this through professional property management and the awareness of possible opportunities in the capital market. The Board will continue to put all its efforts into working towards our common goal, which is to develop POLIS permanently into a successful and profitable property ownership company.

Berlin, February 2007

POLIS Immobilien AG
The Board

Dr. Alan Cadmus **Dr. Matthias von Bodecker**

Consolidated Financial Statements of POLIS Immobilien AG as at 31 December 2006

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Consolidated balance sheet

for the year ended 31 December 2006 (IFRS)
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

Assets	Note	31.12.2006/€ '000	31.12.2005/€ '000
Non-current assets			
Investment properties	3.1.	118,881	71,450
Investments	3.2.	1,035	1,135
Deferred tax assets	3.3.	1,688	2,099
Receivables and other financial assets	3.4.	182	258
Total non-current assets		**121,786**	**74,942**
Current assets			
Receivables and other financial assets	3.4.	1,118	826
Current tax receivables	3.4.	197	60
Cash in banks	3.5.	875	1,185
Other assets	3.6.	405	4
Total current assets		**2,595**	**2,075**
		124,381	**77,017**

Equity and liabilities	Note	31.12.2006/€ '000	31.12.2005/€ '000
Equity			
Subscribed capital	3.7.	51,400	19,500
Capital reserves	3.7.	4,328	6,342
Retained earnings	3.7.	5,177	3,695
Consolidated net profit		479	0
Share in equity allocable to the equity holder			
of the parent		61,384	29,537
Minority interests		0	
Total equity		**61,384**	**29,537**
Liabilities			
Non-current liabilities			
Liabilities to banks	3.8.	27,863	39,503
Deferred tax liabilities	3.3.	876	1,081
Total non-current liabilities		**28,739**	**40,584**
Current liabilities			
Liabilities to banks	3.8.	17,992	5,436
Payments received on account	3.8.	656	608
Trade accounts payable	3.8.	782	249
Other provisions	3.9.	104	178
Income tax liabilities	3.8.	32	266
Other financial liabilities	3.8.	14,692	159
Total current liabilities		**34,258**	**6,896**
		124,381	**77,017**

Consolidated income statement

in the period from 01.01.2006 to 31.12.2006
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

	Note	2006/€ '000	2005/€ '000
Rental revenues	4.1.	4,315	5,487
Renovation and maintenance expense	4.2.	-866	-488
Property management expense	4.3.	-213	-320
		-1,079	-808
Income from current property management		**3,236**	**4,679**
Unrealised gains from the revaluation of investment properties		1,921	150
Unrealised losses from the revaluation of investment properties		**-2,260**	**-4,750**
Income from the revaluation of investment properties	4.4.	-339	-4,600
Income from the sale of investment properties		10,160	31,284
Carrying amount of the investment properties sold		**-9,710**	**-30,028**
Result from the sale of investment properties	4.4.	450	1,256
Other income	4.6.	131	62
Other expense	4.7.	-80	-24
Administrative expense	4.8.	-822	-872
Income before financing activity and taxes		**2,576**	**501**
Investment income	4.9.	274	85
Financial results	4.10.	473	141
Financial expenses	4.11.	-2,447	-3,263
Result before taxes		**876**	**-2,536**
Deferred taxes	4.12.	-207	775
Income taxes	4.12.	-190	-270
Consolidated net income (previous year: loss)		**479**	**-2,031**
thereof:			
Allocable to minority interests		0	0
Allocable to equity holders of the parent		479	-2,031

	Note	2006/EUR	2005/EUR
Earnings per share	2.4.10.		
basic		0.10	-0.89
diluted		0.10	-0.89

Consolidated cashflow statement

in the period from 01.01.2006 to 31.12.2006
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

	2006/€ '000	2005/€ '000
Consolidated net income (previous year: loss)	479	-2,031
Adjusted for:		
Financial result	1,701	3,037
Income from the revaluation of investment properties	339	4,600
Result from the sale of investment properties	-450	-1,256
Increase of provisions	-74	-18
Increase in trade receivables and other assets which cannot be allocated to the investment and financing activity	-754	-197
Changes in trade payables and other liabilities which cannot be allocated to the investment and financing activity	1,806	219
Other non-cash items	0	-805
Taxes paid	-294	0
Net cash (used by) from operating activities	**2,753**	**3,549**
Proceeds from the sale of investment properties	10,160	31,096
Payments for the acquisition of investment properties	-43,930	0
Payments for the acquisition of investment properties	0	0
Net cash (used by) from investing activities	**-33,770**	**31,096**
Contributions by owners (capital increase)	31,368	0
Payments for repayment of loans	-3,584	-30,996
Proceeds from dept capital	4,500	0
Interest received	473	141
Interest paid	-2,323	-3,075
Dividends received	273	85
Net cash (used by) from financing activities	**30,707**	**-33,845**
Net change in cash and cash equivalents	**-310**	**800**
Cash in banks at the beginning of the period	**1,185**	**385**
Cash in banks at the end of the period	**875**	**1,185**

Note:
See Point 7 in the notes for additional explanatory information on the cashflow statement.

Consolidated statement of changes in equity

in the period from 01.01.2006 to 31.12.2006
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

	Subscribed capital	Capital-reserves	Retained-earnings	Consolidated net income	Share in equity allocable to the equity holder of the parent	Minority interest	Total equity
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Balance as of 31.12.2004	**19,500**	**8,776**	**3,292**	**0**	**31,568**	**0**	**31,568**
Consolidated net loss	0	0	–2,031	0	–2,031	0	–2,031
Withdrawal/addition	0	–2,434	2,434	0	0	0	0
Balance as of 31.12.2005	**19,500**	**6,342**	**3,695**	**0**	**29,537**	**0**	**29,537**
Capital increase	26,825	4,543	0	0	31,368	0	31,368
Stock split	5,075	–5,075	0	0	0	0	0
Withdrawal/addition	0	–1,482	1,482	0	0	0	0
Consolidated net profit	0	0	0	479	479	0	479
Balance as of 31.12.2006	**51,400**	**4,328**	**5,177**	**479**	**61,384**	**0**	**61,384**

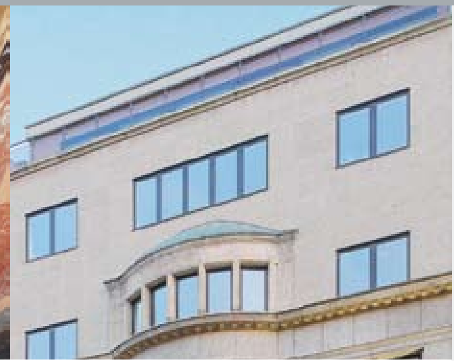
Note:
See point 3.7 in the notes for an explanation of the changes in equity.

Changes in fixed assets

in the period from 01.01.2006 to 31.12.2006
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

	Cost				Cumulative market changes				Carrying values	
	01.01.2006	Additions	Disposals	31.12.2006	01.01.2006	Sale	Reva-luation	31.12.2006	31.12.2005	31.12.2006
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Investment properties	81,940	57,480	8,724	130,696	–10,490	–986	–339	–11,815	71,450	118,881
Investments	1,135	0	100	1,035	0	0	0	0	1,135	1,035
	83,075	**57,480**	**8,824**	**131,731**	**–10,490**	**–986**	**–339**	**–11,815**	**72,585**	**119,916**





Notes

to the Consolidated Financial Statements of
POLIS Immobilien AG which were prepared in accordance with IFRS
as at 31. Dezember 2006

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1. General information

1.1. Accounting policies

The consolidated financial statements of POLIS Immobilien AG (formerly: Grundbesitz und Beteiligungs Aktiengesellschaft; hereinafter referred to as "POLIS AG") for financial year 2006 were drawn up according to the rules of the International Financial Reporting Standards (IFRS), as they are to be applied in the EU as well as their interpretations by the International Financial Reporting Interpretation Committee (IFRIC).

See outline point 8.2 for the IFRS standards already adopted as of 31 December 2006 but not yet applied by POLIS AG.

The application of IFRS is voluntary pursuant to Section 315a (3) German Commercial Code.

The conformity of the consolidated financial statements with IFRS is declared expressly and without reservation. The consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group.

The income statement was classified applying the total cost method – while following the recommendations of EPRA (European Public Real Estate Association) to the greatest degree possible.

Assets and liabilities are broken down into non-current (times to maturity longer than one year) and current.

The consolidated financial statements were drawn up in euros since it is the Group's functional currency.

For improved clarity, amounts are in principle shown in thousands of euros (€ '000).

The Board of Directors approved the consolidated financial statements on 1 February 2007 for forwarding to the Supervisory Board. It is the Supervisory Board's responsibility to review the consolidated financial statements and to declare if it approves them.

1.2. Disclosures concerning business activity

Founded in 1998, POLIS AG services joint investment properties of private and institutional investors. The concept of POLIS AG is focussed on the aspects opportunities, yield and fungibility of the investment property.

POLIS AG is a property holding real estate company (REIT) that concentrates on German commercial properties with a clear focus on office and commercial buildings located centrally in large German cities. Currently POLIS AG holds investment properties in Berlin, Dusseldorf, Dortmund, Hamburg, Frankfurt, Hanover and Stuttgart through property ownership companies. If potential for development is present, the goal is to implement it through active management and continuously improve the quality of the investment properties. Moreover, the portfolio is regularly reviewed to determine if individual investment properties can still be expected to appreciate in value or if the appreciation already achieved should be realised (buy-and-sell-strategy).

2. Accounting, measurement and consolidation methods

2.1. Basis of consolidation

The consolidated financial statements include POLIS AG and all companies controlled by POLIS AG. Control as a possibility for determining the financial and business policy of the included companies is substantiated by a majority of the voting rights. The companies consolidated include 20 fully consolidated companies in Germany.

As of 31 December 2006, the following subsidiaries were included:

Subsidiary	Shares in the capital in %
POLIS Grundbesitz Objekt Verwaltungs GmbH, Berlin	100
BaR Bürohaus am Rankeplatz GmbH & Co. KG, Berlin	100
Bürohaus Berliner Allee GmbH & Co. KG, Berlin	100
Bürohaus Steinstraße 27 GmbH & Co. KG, Berlin	100
Haus Steinstraße GmbH & Co. KG, Berlin	100
POLIS Objekt Gutleutstraße 26 GmbH & Co. KG, Berlin	100
POLIS Objekt Luisenstraße 46 GmbH, Berlin	100
POLIS Objekt Potsdamer Straße 58 GmbH, Berlin	94

Subsidiary	Shares in the capital in %
Companies founded in 2006	
POLIS Objekt Berliner Allee 48 GmbH & Co. KG, Berlin	100
POLIS Objekt Kasernenstraße GmbH & Co. KG, Berlin	100
POLIS Objekt Kleppingstraße GmbH & Co. KG, Berlin	100
POLIS Objekt Konrad-Adenauer-Ufer GmbH & Co. KG, Berlin	100
POLIS Objekt Landschaftstraße GmbH & Co. KG, Berlin	100
POLIS Objekt Ludwig-Erhard-Straße 14 GmbH & Co. KG, Berlin	100
POLIS Objekt Steinstraße 20 GmbH & Co. KG, Berlin	100
POLIS Objekt Torstraße GmbH & Co. KG, Berlin	100
POLIS Objekt Tübinger Straße GmbH & Co. KG, Berlin	100
POLIS GmbH & Co. Achtzehnte Objekt KG, Berlin	100
POLIS GmbH & Co. Neunzehnte Objekt KG, Berlin	100

2.2. Change in the consolidated group

Compared to 31 December 2005, the consolidated group of POLIS AG was increased by eleven companies. All eleven companies were formed in financial year 2006 by founders' cash subscription.

2.3. Consolidation principles

The annual financial statements of the individual subsidiaries are included in the consolidated financial statements using uniform accounting and measurement principles.

Subsidiaries are all companies in which the Group has control over their financial and business policy. Control is assumed at a percentage of voting rights greater than 50%.

Subsidiaries are fully consolidated from the date on which control passes to the parent. They are deconsolidated when the control ends.

Business combinations must be accounted for in compliance with the rules of IFRS 3. Accordingly, the capital consolidation is effected using the purchase method by offsetting the costs of the investment against the newly measured net assets at the time of the purchase. Any remaining positive difference between the costs of acquisition and the Group's interest in the equity measured at current value must be recognised as goodwill and tested for impairment annually. A negative difference must be promptly collected and recognised as income.

In financial year 2006, no business combinations within the meaning of IFRS 3 took place.

Receivables, liabilities, revenues, interim results, expenses and income between the companies consolidated are eliminated.

2.4. Accounting and valuation policies

The consolidated financial statements have been drawn up according to the historical cost principle except for the investment properties which are recognised at current market value. In addition, financial instruments measured at current market value and taken to income are recognised at current market value. Derivative financial instruments are also measured at current market value.

See Point 3 for a more detailed explanation of the methods used for determining current market value.

The accounting and valuation principles shown below are unchanged from the previous year and were used uniformly by all Group companies.

2.4.1. Investment properties

Properties are classified as investment properties if they are held to generate rental revenues and/or for the purpose of appreciation and the proportion of own use, referring to the rented floor space, does not exceed 10%.

Investment properties are measured at the time of acquisition at cost including the ancillary costs.

The subsequent valuation of the investment properties is at current market value, gains or losses from the change of current market value being taken to income. Current market value is the amount at which a real estate property could be exchanged between expert business partners who are willing to enter into a contract and who are independent of one another.

See Point 3.1 for a more detailed explanation of the principles for determining current market value.

2.4.2. Financial assets

Financial assets are recognised on the date on which a company becomes a contracting party in the disposition of the financial asset and accordingly the company is entitled or obligated to performance or counter-performance.

The disposal takes place either when the financial asset is transferred to a third party or the contractual rights to receive cashflow from the asset expire.

Financial assets are measured at current market value when recognised for the first time. The subsequent measurement depends on the classification of the financial instruments per measurement category of IAS 39.

The classification depends on the particular purpose for which the financial asset was acquired by POLIS AG. The classification is made in the categories "Measured at current market value and taken to income" and "Loans and receivables."

The financial assets of POLIS AG are made up of the following balance sheet items:

a. Financial assets
Investments for which no listed price is available on an active market and whose current market value cannot be reliably estimated are stated at cost and measured in the following years at amortized cost. No active market is present and as a minority Shareholder, POLIS AG does not have any of the information available to it which is necessary for an appropriate current market value measurement.

b. Receivables and other financial assets

Trade receivables and other assets
Receivables arise through the direct provision of cash, merchandise or services to a debtor without the intention of immediate or short-term disposal. Receivables and other assets are initially measured at current market value and on subsequent reporting dates at amortized cost using the effective interest method.

Derivative financial instruments
Derivative financial instruments are used to a limited degree to hedge interest rate risks. However, they do not meet the criteria of IAS 39 with regard to hedge accounting. Derivative financial instruments are reported and measured at current market value; changes in current market value are taken to income.

c. Cash in banks
Cash in banks is measured at current market value on the reporting date.

2.4.3. Income taxes

The amount of actual income taxes still unpaid is shown as a liability.

Deferred taxes are set up using the balance sheet-oriented liabilities method for all temporary differences between the carrying values of the consolidated balance sheet and the current market values for tax purposes. In addition, deferred taxes are reported for tax reductions to be expected in future from loss carried forward. Deferred tax assets for temporary differences and for tax loss carried forward are formed in the amount of the anticipated tax relief of subsequent financial years if their use is probable.

Deferred taxes are determined based on tax rates applicable or expected at the time of realisation according to the current legal position.

Deferred tax assets and liabilities are reported as non-current assets or liabilities. They are netted if a legally enforceable claim for setoff exists in relation to the same tax authority.

2.4.4. Financial liabilities

A financial liability is recognised if the company is a contracting party to the disposition of the financial liability.

Financial liabilities are removed from the balance sheet when the corresponding obligation has been discharged, i.e., paid, cancelled or expired.

Loans are measured when recognised for the first time at the current market value of the consideration received for the exchange of the obligations. The subsequent measurement is at amortized cost using the effective interest method.

Financial liabilities are measured at the amount corresponding to the anticipated outflow of funds. Derivative financial instruments having a negative current value are measured on each reporting date based on the first-time recognition, changes of the current market value being recognised as income.

2.4.5. Other provisions

Provisions are reported when the Group has a present legal or effective liability, it is probable that the settlement of the liability will lead to an outflow of resources and the amount of the liability can be reliably determined. The provisions are measured using the best possible estimate of the scope of the liability.

2.4.6. Impairment

An impairment of financial assets that are reported at amortized cost is present if the carrying value exceeds the amount that could be obtained by using or selling the asset. If this is the case, the asset is classified as impaired with the consequence that an impairment charge is recognised.

In the case of investments, the evaluation of recoverability is based on the expected, future distributions.

If doubts exist concerning the collectibility of receivables and other financial assets, they are reported at the low realisable amount. Recognizable single risks are reported as bad debt allowances.

2.4.7. Investment income as well as financial results and financial expenses

Planned distributions are reported as investment income. The income is recognised at the time at which the Company obtains the right to receive the distribution.

Financial results includes interest income for cash in banks as well as income from the change of the current market value of financial instruments and is recognised as of the moment of its incurrence based on the effective interest method.

Financial expenses include interest expenses for loans as well as expenses from the change of the current market value of financial instruments. Interest expenses are recognised based on the effective interest method.

2.4.8. Expense and income realisation

Income is recognised when it is probable that the economic benefit will accrue to the POLIS Group and the amount of the income can be reliably determined.

Sales revenues or other operating income are recognised as soon as the service has been rendered. Rental revenues is realised when the leased property is turned over. Rental revenues is distributed on a straight line basis corresponding to the term of the lease agreements and thus recognises the income attributable to the rent-free periods.

When real property is sold, profit is realised as soon as the significant opportunities and risks arising from the property have been transferred to the buyer.

Operating expenses are recognised when the service is used or at the time of its economic causation.

Interest is recognised as expense or income on an accrual basis using the effective interest method. Costs of dept capital for qualified assets are recognised as an asset.

2.4.9. Estimates

To a limited degree, assumptions and estimates must be made in the consolidated financial statements which impact the amount and reporting of balance sheet assets and liabilities, income and expenses as well as contingent liabilities.

Assumptions and estimates with respect to future events that appear reasonable under the given circumstances are of particular importance for determining the current market value of investment properties. Please see the information on property valuation in Point 3.1 with regard to individual risks.

2.4.10. Earnings per share

Earnings per share are determined as follows:

	2006	2005
Group net profit/loss for the year after income allocable to minority interests (in € '000)	479	-2,031
Average numbers of ordinary shares in circulation	4,670,663	2,288,321
Earnings per share (diluted and undiluted)	0.10	-0.89%

In calculating earnings per share, the reclassification of the share capital by resolution of the General Shareholders' Meeting of 23 January 2007 was considered retroactively; please see Point 8.6 "Events after the reporting date" for further details.

2.5. Segment reporting

POLIS AG is exclusively active in one business segment – the acquisition, letting and disposal of office and commercial buildings – in one geographic segment (Germany). Therefore, no additional segment reporting is required.

3. Disclosures concerning the balance sheet

3.1. Investment properties

The investment properties of POLIS AG are measured at current market value. All properties of POLIS AG are held to generate rental revenues and/or for the purpose of appreciation; there is no own use.

As of 31 December 2006, the ascertainment of current market values of the properties as of the reporting dates is based on appraisals by independent experts and in previous years on the valuation of the properties by the Board of Directors of POLIS AG, which uses an extensive software-supported valuation model.

The following table illustrates the changes in the investment properties:

Property	Location	current market values 01.01.2006 € '000	Acquisitions € '000	Disposals € '000	changes of current market values € '000	current market values 31.12.2006 € '000
Bürohaus am Rankeplatz	Berlin	9,710	0	9,710	0	0
Luisenstraße 46	Berlin	11,380	0	0	-870	10,510
Potsdamer Straße 58	Berlin	14,790	0	0	-550	14,240
Kleppingstraße 20	Dortmund	0	5,421	0	0	5,421
Berliner Allee 44	Dusseldorf	8,050	0	0	580	8,630
Berliner Allee 48	Dusseldorf	0	4,715	0	645	5,360
Kasernenstraße 1	Dusseldorf	0	11,254	0	0	11,254
Steinstraße 11	Dusseldorf	8,530	0	0	10	8,540
Steinstraße 20	Dusseldorf	0	10,778	0	102	10,880
Steinstraße 27	Dusseldorf	8,200	0	0	410	8,610
Gutleutstraße 26	Frankfurt	10,790	0	0	-840	9,950
Ludwig-Erhard-Straße 14	Hamburg	0	10,986	0	174	11,160
Landschaftstraße 2	Hanover	0	1,714	0	0	1,714
Landschaftstraße 8	Hanover	0	3,582	0	0	3,582
Tübinger Straße 31+33	Stuttgart	0	9,030	0	0	9,030
Total		71,450	57,480	9,710	-339	118,881

Property	Location	current market values 01.01.2005 € '000	Acquisitions € '000	Disposals € '000	changes of current market values € '000	current market values 31.12.2005 € '000
Bürohaus am Rankeplatz	Berlin	9,700	0	0	10	9,710
Luisenstraße 46	Berlin	12,800	0	0	-1,420	11,380
Potsdamer Straße 58	Berlin	15,770	0	0	-980	14,790
Berliner Allee 44	Dusseldorf	8,010	0	0	40	8,050
Steinstraße 11	Dusseldorf	8,770	0	0	-240	8,530
Steinstraße 27	Dusseldorf	8,100	0	0	100	8,200
Grugaplatz	Essen	15,660	0	15,660	0	0
Gutleutstraße 26	Frankfurt	12,900	0	0	-2,110	10,790
Stinnesplatz	Mülheim	15,140	0	15,140	0	0
Total		106,850	0	30,800	-4,600	71,450

The changes in current value are shown separately in the income statement.

The disposal in 2006 concerns the sale of the investment property Rankeplatz in Berlin.

The disposals in 2005 concern the sale of the property Stinnesplatz in Mühlheim, Ruhr as part of the sale of 94.9% of the shares of the property ownership companies and the sale of the investment property Grugaplatz in Essen.

Additional amounts in the income statement directly attributable to the investment properties are shown below:

	2006 € '000	2005 € '000
Rental revenues from investment properties	4,315	5,487
directly attributable property management costs that led to rental revenues		
Renovation and maintenance	866	488
Property management	173	269
Total	1,039	757
directly attributable property management costs that did not lead to rental revenues		
Property management	40	51
Total	40	51

The directly attributable property management costs that did not lead to rental revenues result from the average vacancy rate of all investment properties (2006: 19%, 2005: 16%).

There are no restrictions as to the disposability of the Group's investment properties. There are no contractual obligations for repairs, maintenance or improvements to the investment properties of POLIS AG.

3.1.1. Information concerning property valuation as of 31 December 2006

POLIS Immobilien AG commissioned Feri Rating & Research GmbH on 10 October 2006 to perform a valuation of the real estate portfolio of POLIS Immobilien AG and to document it in the form of rating and market value reports.

The concept of value used in this valuation is the market value as defined below in the International Valuation Standards:

"Market Value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgably, prudently, and without compulsion."

The basis for measuring market value is the investment income method according to International Valuation Standards. This was carried out as a dynamic cash value method using the discounted-cashflow-method. No separate calculation of the value of land is made in the individual reports. No consideration was given to taxes and costs of capital of any type. The calculation of the discounted-cashflow-method was made using the real estate valuation software Feri Real Property Rating.

The Feri real estate valuation comprehensively considers all factors that influence the value of the property. Subjective value judgements are treated objectively to the degree possible by using quantitative analytical methods. All calculation methods are scientifically based and are openly disclosed.

Valuation methods and assumptions

- **Calculation of market value**

The market value of the property is determined using the discounted-cashflow-method. The difference between gross income and management costs is the net cashflow, which is determined for all periods of the remaining useful life of the property. The discount is based on the break-even yield. In addition to the rate of return for risk-free investments, it considers all risks associated with the property.

The net cashflow is calculated from the rental revenues less the management costs. The rental revenues initially contains the contractually agreed rents. Added to this is the forecasted rental revenues from the letting of vacant areas and from reletting after expiration of the existing lease agreements based on property-specific market rents.

The property-specific market rent is derived from mark-ups and mark-downs on the general market rent based on the rating results for the desirability of the property.

The individual cashflows are discounted using the break-even yield. This is based on an interest rate for risk-free investments in the capital market. Property-specific yield spreads on the basic interest rate of the risk-free investment are in turn derived from the rating results that quantify the risk of a property. These reflect the criteria of the market risk, the property risk and the tenant risk.

The break-even yield represents the rate of return that an individual property must generate to achieve a risk-appropriate yield. It reflects all risks that are associated with the investment in an individual property.

The break-even yield is individually determined on the single property level.

The starting point is the base interest rate that takes into account the rate of return of a risk-free investment. In the Feri real estate valuation system, the interest rate of the current yield for a ten year government bond is used for this purpose. As of the valuation date, this long-term average rate was 4.75%.

A mark-up (risk premium) on the base interest rate takes into account the general market risk of a real estate investment.

The property risk is finally a risk mark-up that takes into account all risks of the particular property. The determination factors of this risk factor are at one-third each, the location-specific risk, the property-specific risk and the tenant-specific risk.

In result, the value-weighted break-even yield across the entire portfolio is 7.15%.

The components of the net cashflow were shown in presenting the results of the market value calculation. The sum of the cash values of this net cashflow corresponds to the determined market value.

Rating

The property valuation was based on the Feri Real Property Rating. It evaluates the desirability and the risk of a property and measures the factors necessary for determining the net cashflow and the discount factors.

Rating indicators for the desirability of a property are the macro position, the micro position and the quality of the property.

As part of determining the risk profile of a property, the tenant-specific risk is determined by evaluating the tenant creditworthiness, the tenant concentration and the contract design.

All criteria are evaluated using the Feri rating algorithm, which values the property on a point scale from 1 to 100. The points are then classified into ten valuation grades ranging from AAA (absolute top) to E- (very poor).

Observation period/periodisation

A basic total useful life of 65 years starting from the year of construction was assumed for all valuation properties. Possible renovation measures or the overall structural condition of preservation as of the reporting date were analyzed and valued as refurbishment rejuvenations on a case-by-case basis, thus extending the property-specific remaining useful life.

3.1.2. Information on property valuation in previous years

The discounted cashflow (DCF) method is used to determine real property market values. Within the DCF method, the payment flows in a 10-year planning period are modelled. For simplification, the cashflow of the last planning year is assumed to be in perpetuity for the following period. Their cash value is designated as an end value and corresponds to an assumed resale value at the end of the planning period. The market value of the property is derived from the sum of the discounted payment flows (cashflows) of the planning period plus the end value also discounted to the valuation date.

The payment flows are determined by deducting the property-specific costs which cannot be assessed to the tenant from the rental revenues. In addition, possible capital outlays for maintenance or refurbishing the properties are considered. The rental revenues are determined using the existing lease agreements under assumptions concerning the new letting or reletting at market rents while considering corresponding marketing periods (and costs) and probabilities for extending the current contracts.

A rent growth based on agreed escalation clauses and a forecasted inflation rate of 1.6% p.a. is considered in determining the rental revenues. The modelling of the total payment flows is done on a monthly basis.

These amounts are discounted to the balance sheet date for calculating the cash value of the future payment flows.

The discount rate is determined in keeping with market requirements corresponding to the property-specific risks. Net initial rents are used for the plausibilisation. The capitalization interest rate used to determine the assumed resale value

at the end of the planning period is aligned to the discount rate determined specific to the property. Multipliers in keeping with market requirements are used in plausibilising the resale values.

3.2. Investments

The investments include 5.15% of the shares of ABN Immobilienfonds GmbH & Co. Ringbahnstraße KG, Berlin, in the amount of € 792 thousand (previous year: € 792 thousand) and 5.1% of the shares of Bouwfonds GmbH & Co. Objekt Stinnesplatz KG Berlin in the amount of € 243 thousand (previous year: € 243 thousand).

The silent holding in Bouwfonds Real Estate Services Deutschland GmbH, Berlin, of € 100 thousand (previous year: € 100 thousand) was ended as of 31 December 2006. In addition to the repayment of the silent deposit, POLIS AG received a one-time compensation of € 130 thousand which is reported as investment income.

3.3. Deferred tax assets and liabilities

The deferred tax credit of a net total of € 812 thousand based on temporary differences between the IFRS and the tax balance sheet and based on tax loss carried forward as of 31 December 2006 or 2005 are determined according to balance sheet items as follows:

	2006/€ '000	2005/€ '000
Deferred tax credit		
Tangible Assets	667	870
Liabilities	0	24
Tax losses carried forward	1,021	1,205
Deferred tax claims	1,688	2,099
Deferred tax liabilities		
Tangible Assets	1,530	1,080
Tax losses carried forward	-772	0
Other assets	117	0
Other	1	1
Deferred tax debts	876	1,081

As of 31 December 2006 and 31 December 2005, deferred taxes were formed on the corporate tax loss carried forward of one taxable unit in the full amount, since a realisation is probable on the basis of medium range corporate planning.

Deferred taxes were not calculated on withheld profits in subsidiaries in the amount of € 65 thousand (previous year: € 55 thousand) since it is not planned to distribute these profits to the parent in the near future. The potential tax impacts were not determined due to disproportionately high expense.

3.4. Receivables and other financial assets and tax receivables

The receivables and other financial assets and tax receivables break down as follows:

	Total 2006 € '000	long term 2006 € '000	short term 2006 € '000
Trade receivables	860	0	860
Receivables from rent-free periods	277	182	95
Corporate income tax credit	197	0	197
Receivables from other taxes	100	0	100
Other receivables	63	0	63
Total	1,497	182	1,315

	Total 2006 € '000	long term 2006 € '000	short term 2006 € '000
Trade receivables	726	0	726
Receivables from rent-free periods	328	258	70
Receivables from silent holdings	22	0	22
Receivables from other taxes	60	0	60
Other receivables	8	0	8
Total	1,144	258	886

The carrying amounts correspond to the current market values.

The trade receivables in 2006 and in the previous year relate to operating expenses and rents in arrears that have not been settled yet.

The specific valuation allowances come to € 116 thousand in 2006 and € 60 thousand in 2005.

The receivables from rent-free periods were calculated based on the term of the lease agreements and take into account the rents attributable to the rent-free periods in 2006 and in previous years.

The receivables from other taxes in 2006 and in the previous year concern creditable interest withholding taxes and the solidarity surcharge as well as input tax reimbursement claims.

The other receivables include two derivative financial instruments. This concerns an interest rate cap with a positive current market value of € 2 thousand (previous year: € 3 thousand) for limiting the interest rate risk of variable interest loans with a nominal volume of € 4,000 thousand and a remaining term of 3 years. The interest rate cap is 5%. However, the cap does not comply with the requirements of IAS 39 with respect to hedge accounting and is consequently measured at current market value; current market value changes are recognised in income. Market data are used in determining the current market value of the cap.

This also concerns an interest rate swap with a positive current market value of € 40 thousand (previous year: € -92 thousand, reported under other liabilities) for eliminating the interest rate risk of variable interest loans with a nominal volume of € 5,000 thousand and a remaining term of 3 years. The fixed interest rate is 3.66%. However, the swap does not comply with the requirements of IAS 39 with respect to hedge accounting and is consequently measured at current market value; current market value changes are recognised in income. Market data are used in determining the current market value of the swap.

3.5. Cash in banks

Only cash in banks of the POLIS Group is reported.

3.6. Other assets

The other assets include expenditures for the planned initial public offer which are to be charged to equity in the following year and expenses for an insurance policy which will not be charged as expense until the following year.

3.7. Equity

The change in equity can be seen in the statement of changes in equity.

In financial year 2006, POLIS AG carried out the following capital measures:

Capital increase I

Based on the authorization through a resolution of the General Shareholders' Meeting, the Board of Directors, with the consent of Supervisory Board, adopted to increase the share capital of POLIS AG from the current amount of € 19,500,000.00 by an amount of € 9,749,998.72 through the issue of ordinary bearer shares having a notional nominal value of € 2.5564594 at an issue amount of € 3.30 per share, in aggregate at the total issue amount of € 12,585,764.40. The new shares have had dividend rights since 1 January 2006. The total amount of the issue price for the new shares must be paid in cash. The Shareholders are granted the statutory preemptive right. The preemptive right for fractional amounts is excluded. The subscription period was limited to 9 June 2006. After the expiration of the subscription period, the Board of Directors further adopted to offer shares that may have not been purchased under the preemptive right to further investors under a private placement.

Capital increase from the Company's resources

Among other things, the General Shareholders' Meeting of POLIS Immobilien AG, Berlin on 5 July 2006 adopted to change the share capital in such a way that an ordinary share with a proportional share in the share capital of € 2.5564594 is replaced by an ordinary share with a proportional share in the share capital of € 3. After a capital increase from the Company's resources in the amount of € 5,074,816.28, the Company's share capital without the issue of new shares amounts to € 34,324,815 and after a stock split at a ratio of 1 to 3 (i.e. after a tripling of the number of shares), it is now divided into 34,324,815 ordinary shares with a proportional share in the share capital of € 1.00.

Capital increase II

By resolution of the General Shareholders' Meeting on 5 July 2006, the Board of directors was authorized, with the consent of the Supervisory Board, to increase the Company's share capital on one or several occasions by up to a total of € 17,162,407.00 by 5 July 2011 through the issue of new ordinary bearer shares (authorized capital 2006/I). The authorization was recorded in the Commercial Register on 14 July 2006.

Based on this authorization, the Board of Directors, with the consent of Supervisory Board, unanimously adopted on 17 July 2006 to increase the share capital of the Company from the current amount of € 34,324,815.00 by an amount of € 17,075,185.00 to € 51,400,000.00 through the issue of ordinary bearer shares having a notional nominal value of € 1.00 at an issue amount of € 1.10 per share, in aggregate at the total issue amount of € 18,782,703.50. The new shares were issued with entitlement to a dividend as of 1 January 2006. A preemptive right will be granted to the Shareholders. The preemptive right for fractional amounts is excluded. The subscription period of the Shareholders amounted to four weeks. The total amount of the issue price for the new shares must be paid in cash.

Conditional capital

The share capital was conditionally increased by up to € 4,500,000.00 through the issue of up to 4,500,000 ordinary bearer shares (conditional capital 2006/I). The conditional capital increase serves only to grant rights inherent in shares to the holders of options to the Company's shares from convertible bonds that were issued by the Company according to the authorization of the general meeting of 5 July 2006. By the resolution of the general meeting of 22 January 2007, the conditional capital was cancelled and replaced by a new conditional capital in the amount of € 1,540 thousand (conditional capital 2007/I).

Share capital

The share capital of POLIS AG amounts to € 51,400,000.00 and is divided into 51,400,000 no par value ordinary bearer shares. The ordinary shares confer voting rights and dividend rights.

Capital reserves

The capital reserves (2006: € 4,328 thousand, 2005: € 6,342 thousand) include the premium from the issue of shares of POLIS AG. The change in capital reserves compared to the previous year is based on an addition of premiums from two cash capital increases, a reduction due to a capital increase from company funds and the netting of the net income for 2006 under commercial law.

Retained earnings

The netting of the net income of POLIS AG under commercial law against the capital reserves undertaken in 2006 and in previous years have impacted the retained earnings on the Group level. Furthermore, the adjustments taken to equity in connection with the first-time application of IFRS (primarily: current market value measurement of the investment properties) are a component of the retained earnings.

3.8. Liabilities

The following table shows the times to maturity of the liabilities (previous year's figures in brackets):

Overview of liabilities	Total	Maturities Up to 1 year	1 to 5 years	More than 5 years
	€ '000	€ '000	€ '000	€ '000
Liabilities to banks	45,855	17,992	27,863	0
	(44,939)	(5,436)	(34,845)	(4,658)
of which at variable interest	6,200	6,200	0	0
	(4,168)	(4,168)		
Payments received	656	656	0	0
	(608)	(608)		
Trade liabilities	782	782	0	0
	(249)	(249)		
Income tax liabilities	32	32	0	0
	(266)	(266)		
Other financial liabilities	14,692	14,692	0	0
	(159)	(159)		
	62,017	34,154	27,863	0
	(46,221)	(6,718)	(34,845)	(4,658)

The liabilities to banks are secured by mortgages in the amount of € 60,582 thousand (previous year: € 51,774 thousand). Of the liabilities to banks, a total of € 6,200 thousand (previous year: € 4,168 thousand) are at variable interest and € 39,655 thousand (previous year: € 40,772 thousand) are at fixed interest.

The current market values of the fixed interest liabilities amount to € 39,985 thousand as of 31 December 2006 (previous year: € 42,203 thousand). The current market values of the liabilities to banks are based on discounted cashflows that were determined on the basis of current market interest. The underlying discount interest rates were 5.01% to 5.08% (including margin).

The income tax liabilities concern corporate income tax and solidarity surcharge totalling € 32 thousand (previous year: € 266 thousand) for 2005. The carrying amounts correspond to the current market values.

The other financial liabilities include current purchase price liabilities totalling € 13,550 thousand from the acquisition of two investment properties. Also included are value added tax liabilities. The carrying amounts correspond to the current market values.

3.9. Other provisions

Other provisions changed as follows in financial year 2006:

	As at 01.01.2006 € '000	Use € '000	Dissolution € '000	Allocation € '000	As at 31.12.2006 € '000
Compensation of the Supervisory Board	34	34	0	58	58
Acquisition costs	39	39	0	46	46
Other taxes	105	0	105	0	0
	178	73	105	104	104

The following table shows the significant details of the contractual relations for the liabilities to banks:

Maturity year	Interest rate in %	Initial amortisation in %	Reminder of debt in € '000
2007	variable	–	6,200
2007	4.29	2	11,007
2008	5.40	2	5,853
2009	5.60–6.18	1	5,990
2010	5.98	1–2	11,454
2011	5.46	2	5,351
Total			45,855

The provisions for other taxes in the previous year concerned real estate transfer tax. All provisions must be seen as short term.

3.10. Leases

All lease agreements that the POLIS Group has concluded with its tenants are classified as operating leases under IFRS, since all of them remain in the Group with the opportunities and risks associated with ownership. Correspondingly, the POLIS Group is the lessor in all operating leases (rental leases) of varying design concerning investment properties.

The POLIS Group will receive the following minimum lease payments from existing operating leases with third parties (previous year's figures in brackets):

	Total € '000	up to 1 year € '000	1 to 5 years € '000	more than 5 years € '000
Minimum lease payments	24,418	6,552	14,874	2,992
	(16,155)	(4,048)	(10,142)	(1,965)

The payments received on account in 2006 and in the previous year include the advance payments for operating costs from the tenants. The amount stated corresponds to the current market values.

The minimum lease payments include net rents until the agreed end of contract or until the earliest possible termination date of the lessee (tenant), irrespective of whether a notice of termination or non-use of an option to extend is actually to be expected.

In financial year 2006, contingent rent payments of € 54 thousand (previous year: € 14 thousand) were recognised in the sales revenues.

4. Disclosures concerning the income statement

4.1. Rental revenues

This only includes rental revenues from the investment properties. The rental revenues include deferred rental revenues (€ -51 thousand; previous year: € 69 thousand) from the recognition of rent-free periods.

4.2. Renovation and maintenance expense

Expenses in connection with the reletting of rented floor space in the investment properties Potsdamer Straße 58, Steinstraße 27 and Luisenstraße 46 as well as general repairs to the investment properties are reported.

4.3. Property management expense

This item includes non-allocable operating expenses, letting expenses as well as direct management costs of the investment properties.

4.4. Income from the revaluation of investment properties

The table of changes in the investment properties in Point 3.1 provides a detailed summary of the composition of this item.

4.5. Result from the sale of investment properties

The disposal of the investment property Rankeplatz in Berlin generated a book profit of € 640 thousand in financial year 2006. The costs of the disposal amounted to € 190 thousand, resulting in net income of € 450 thousand.

In the previous year, the net income of € 1,256 thousand resulted from disposals of the investment properties Stinnesplatz in Mühlheim and Grugaplatz in Essen.

4.6. Other income

In financial year 2006, as in the previous year, the other operating income primarily included costs passed on.

4.7. Other expense

Other expense includes valuation allowances on rents receivable.

4.8. Administrative expense

The following table shows the breakdown of the administrative expense:

	2006 € '000	2005 € '000
Asset Management	349	581
Legal, consulting and auditing fees	257	69
Marketing and advertising expenses	71	31
Compensation of the Management Board	28	63
Other expenses	117	128
Total	822	872

Other expense primarily includes the remuneration of the Supervisory Board and insurance expenses.

4.9. Investment income

This primarily concerns distributions in the previous year from the investments in ABN AMRO Immobilienfonds GmbH & Co. Ringbahnstraße KG, Berlin, and Bouwfonds GmbH & Co. Objekt Stinnesplatz KG, Berlin, and from silent shares.

4.10. Financial results

The financial results concern interest income from the current rate of return of the current accounts of the POLIS Group and income from hedging transactions from the measurement of a derivative financial instrument at current market value.

In the previous year, only interest income from the current rate of return of the current accounts of the POLIS Group was reported.

4.11. Financial expenses

Included are interest expenses for the financing of investment properties and ancillary financing costs.

	2006 € '000	2005 € '000
Interest expenses	2,301	3,221
Ancillary financing costs	146	34
Expenses arising from hedging transactions	0	8
Total	2,447	3,263

The expenses from hedging transactions in the previous year related to the measurement of the derivative financial instruments at current market value.

4.12. Income taxes

The profit (previous year: loss) before income taxes comes to € 876 thousand for financial year 2006 and € -2,536 thousand for 2005.

The income tax expenses for financial years 2006 and 2005 break down as follows:

Expenses (-)/Income (+)	2006 € '000	2005 € '000
Deferred taxes on loss carried forward	234	-397
Deferred taxes from temporary differences	-441	1.172
Income taxes	-190	-270
Total	-397	505

According to the present legal situation, deferred taxes are calculated based on the applicable or expected tax rates at the time of realisation. They are in principle based on the legal regulations valid or enacted on the reporting date. The corporate income tax rate in Germany is 25% (previous year: 25%); the solidarity surcharge on it is 5.5% (previous year: 5.5%). A combined tax rate of 26.375% (previous year: 26.375%) is determined from there. Based on the business model of the POLIS Group, no trade tax is levied on the income earned. Trade tax that may arise (on the POLIS AG level) will therefore be recognised as a reconciliation item.

The cause for the difference between anticipated and actual income tax in the Group is determined as follows:

Expenses (-)/Income (+)	2006 € '000	2005 € '000
Pre-tax result	876	-2,536
Company tax rated	26.38%	26.38%
Expected expenses from income taxes (prev. year result)	-231	669
Non-deductible operating expenses	-12	-8
Trade income tax	-8	-140
Corporate income tax previous years	-146	0
Others	0	-16
Taxes on income	-397	505
Tax rate	45.3%	19.9%

5. Other financial liabilities

As of the reporting date, there were no other financial liabilities.

6. Disclosures concerning relationships with related companies and parties

Closely related parties are the Supervisory Board, the Board of Directors and close family members of these persons. In addition, Bouwfonds Asset Management Deutschland GmbH, Berlin, and its affiliated companies are also included in the group of closely related companies.

Please see Point 9.1 for the relations with members of the Board of Directors and the Supervisory Board. No transactions were concluded with close family members of the Supervisory Board and the Board of Directors.

Under an asset management agreement, the POLIS Group received services from Bouwfonds Asset Management Group in the amount of € 1,069 thousand (previous year: € 811 thousand) which were settled at conditions customary to the market.

Under a lease agreement with Bouwfonds Asset Management Group, services were rendered in the amount of € 112 thousand (previous year: € 106 thousand) in the financial year which were settled at conditions customary to the market.

Under a silent holding in Bouwfonds Real Estate Services Deutschland GmbH, € 180 thousand accrued to POLIS AG.

7. Disclosures concerning the cashflow statement

The cashflow statement was drawn up using the indirect method, the net cash from operating activities being determined through a correction of the net income by non-cash business events, change of specific balance sheet items and income and expenses in connection with the investing and financing activities.

The cash and cash equivalents used in the cashflow statement include the cash in banks recognised in the balance sheet.

8. Other disclosures

8.1. Supervisory Board and Board of Directors

The members of the Board of Directors during financial year 2006 were:

Dr. Alan Cadmus, Attorney at Law, Berlin
Dr. Matthias von Bodecker, Businessman, Berlin

In financial year 2006, the two members of the Board of Directors received remuneration from the Company totalling € 28 thousand (previous year: € 63 thousand). Besides the two members of the Board of Directors, no persons were employed in financial year 2006. In addition, the members of the Board of Directors received salaries as managing directors of Bouwfonds Real Estate Services Deutschland GmbH, which renders services for POLIS under the asset management agreement.

The following persons were members of the Supervisory Board:

Michael Haupt, Managing Director of Bouwfonds Asset Management GmbH, Berlin, Chairman (since 5 July 2006)

Hans Fehn, Member of the Board of Directors of the Church Pension Fund (KZVK) Darmstadt, Karlsruhe, Deputy Chairman

Voäs Brouns, Managing Director of Bouwfonds Asset Management GmbH, Berlin (since 5 July 2006)

Jürgen von Wendorff, Member of the Board of Directors of GBK Beteiligungen AG, Ingeln (since 5 July 2006)

Klaus R. Müller, Member of Management of Mann Immobilien-Verwaltung AG, Germersheim (since 5 July 2006)

Ralf Schmechel, Member of Management Mann Management GmbH, Malsch (since 5 July 2006)

Dr. Gernot Ernst, Author, Berlin, Chairman (until 5 July 2006)

Eberhard Both, Real Estate Appraiser, Chartered Surveyor, Berlin (until 5 July 2006)

Christoph Baumgärtner, Member of the Board of Directors of Hanover Finanz GmbH, Hanover (until 5 July 2006)

Jean Klijnen, Managing Director of Bouwfonds Asset Management GmbH, Berlin (until 5 July 2006)

Thomas Pohle, Managing Director of Bouwfonds Asset Management GmbH, Berlin (until 5 July 2006)

According to Section 12 of the Articles of Association, the members of the Supervisory Board are entitled to reimbursement of their expenses as well as an appropriate remuneration, the amount of which must be decided by the General Shareholders' Meeting. A resolution to that effect is present.

The remuneration of the Supervisory Board came to € 58 thousand in financial year 2006.

8.2. IFRS standards already adopted but not yet applied

The following IFRS standards which have already been adopted but were not yet bindingly applicable as of 31 December 2006 were not applied.

IFRS 7 Financial Instruments and Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures significantly expand the already existing disclosure duties for financial instruments with reference to the significance of financial instruments for the financial condition of a company as well as the disclosure of qualitative and quantitative information concerning the type and the extent of the underlying risks. It is expected that the standards, the application of which will be mandatory as of 2007, will have extensive impacts on the disclosures concerning the financial instruments of POLIS AG.

IFRS 8 Segment Reporting: IFRS 8 will convert segment reporting from the risk and reward approach of IAS 14 to the management approach with regard to segment identification. Of critical importance is the information that is regularly provided to the chief operating decision maker for purposes of making decisions. At the same time, the valuation of the segments will be converted from the financial accounting approach of IAS 14 to the management approach. IFRS 8 is mandatory for application to financial years starting on or after 1 January 2009. Earlier application is permissible. It is not expected that IFRS 8 will have significant impacts on future consolidated financial statements of POLIS AG.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies contains instructions as to how a company should adjust its financial statements in a year in which the existence of hyperinflation is detected in the economy of its functional currency. IFRIC 8, the application of which is mandatory as of 2007, is not expected to have any impact on the consolidated financial statements of POLIS AG.

IFRIC 8 Scope of IFRS 2 Share based Payments states that IFRS 2 must be applied to share-based compensation on agreements in which a company grants share-based payments apparently without or in exchange for an inadequate consideration. IFRIC 8 explains that when the identifiable consideration is obviously below the current market value of the granted equity instruments or the liabilities incurred, this fact suggests that another consideration was either received or will still be received. Therefore, IFRS 2 is to be applied. IFRIC 8, the application of which is mandatory as of 2007, is not expected to have any impact on the consolidated financial statements of POLIS AG.

IFRIC 9 Reassessment of embedded Derivatives requires an evaluation to determine if an embedded derivative should be separated from the host contract and reported separately like a derivative. This evaluation must be made at the time at which the company becomes a contracting party. A re-evaluation at a later time is prohibited unless changes occur in the contract conditions which materially change the payment flows from the original contract. In this case, a new evaluation is necessary. IFRIC 9, the application of which is mandatory as of 2007, is not expected to have any impact on the consolidated financial statements of POLIS AG.

IFRIC 10 Interim Financial Reporting and Impairment states that a company may not reverse an impairment loss on goodwill, an equity instrument or a financial instrument carried at cost which was recognised in a previous interim period and that a company may not extend this resolution by analogy to other areas of potential conflict between IAS 34 and other standards. IFRIC 10, the application of which is mandatory as of 2007, is not expected to have any impact on the consolidated financial statements of POLIS AG.

IFRIC 11 IFRS 2-Group and Treasury Share Transactions gives guidance on how group-wide share-based payments are to be recognised, the effects of the transfer of employees within a group and how share-based payments shall be treated in which the company issues own shares or must acquire shares from a third party. IFRS 11 shall be applied to financial years starting on or after 1 March 2007. Earlier application is recommended. POLIS AG has not studied the impact of IFRIC 11.

IFRIC 12 Service Concession Arrangements treats the accounting of infrastructure services by private companies. Application of the interpretation is mandatory for financial years starting on or after 1 January 2008. Earlier application is permissible. It is not expected that IFRS 12 will have an impact on the future consolidated financial statements of POLIS AG.

8.3. Share-based payment transactions

A new asset management agreement was concluded between POLIS and Bouwfonds Real Estate Services Deutschland GmbH on 29 December 2006. Instead of the payment being dependent on the success of POLIS AG, Bouwfonds Real Estate Services Deutschland GmbH was granted the right to subscribe for a convertible bond in the nominal amount of € 1,540 thousand – the preemptive rights to up to 154,000 shares being appended.

The Board of Directors is authorized, with the consent of the Supervisory Board, to issue convertible bonds in the total nominal amount of up to € 1,540 thousand with a term to maturity of 5 years on one or more occasions and to grant options for new ordinary shares of the Company. The subscription price for one share is € 12.75. The term to maturity of the options may not exceed five years.

The program of convertible bonds adopted by POLIS AG under the asset management agreement falls under the rules of IFRS 2.

8.4. Financial risk management goals and methods

Its business activities expose the Group to various risks. They are primarily the letting risk, the interest rate risk, the default risk and the liquidity risk. The Board of Directors of POLIS AG is responsible for risk management. It uses an extensive, software-supported planning model for early detection of a complex risk situation.

a. Letting risk

POLIS monitors the letting risk (risk arising from vacancies and dropping market rents) through ongoing rent forecasts, vacancy analyses, monitoring of the lease agreement terms, cancellation possibilities and observation of the relevant market trends. The existing tenant mix, the consideration of high flexibility in the use possibilities of the buildings and regular quality monitoring of the buildings limit this risk.

b. Interest rate risk

Risk of changes in interest rates arises through market-related fluctuations of interest rates. These have an impact on the level of interest expenses. The primary share of the liabilities to banks of the POLIS Group is fixed interest, making it possible to estimate the effects of interest rate fluctuations on the medium term. In addition interest hedges (swap and cap) have been partially concluded for liabilities to banks with variable interest rates.

c. Default risk

Default risks arise through defaults on rent receivables. Centralized monitoring of all existing receivables is used for early detection of default risks.

d. Liquidity risk

In addition to the liquidity planning with a multi-year planning horizon, the Board of Directors also uses comprehensive rolling monthly liquidity planning with a 12-month planning horizon for the early detection of the liquidity situation. Group-wide cash management is used to monitor the current liquidity situation.

8.5. Exemption of subsidiaries pursuant to Section 264b German Commercial Code

Based on their inclusion in the consolidated financial statements of POLIS Immobilien AG, Berlin, the following companies will take advantage of the relief available under Section 264b relating to the disclosure of their annual financial statements.

BaR Bürohaus am Rankeplatz GmbH & Co. KG, Berlin
Bürohaus Berliner Allee GmbH & Co. KG, Berlin
Bürohaus Steinstraße 27 GmbH & Co. KG, Berlin
Haus Steinstraße GmbH & Co. KG, Berlin
POLIS Objekt Berliner Allee 48 GmbH & Co. KG, Berlin
POLIS Objekt Gutleutstraße 26 GmbH & Co. KG, Berlin
POLIS Objekt Kasernenstraße GmbH & Co. KG, Berlin
POLIS Objekt Kleppingstraße GmbH & Co. KG, Berlin
POLIS Objekt Konrad-Adenauer-Ufer GmbH & Co. KG, Berlin
POLIS Objekt Landschaftstraße GmbH & Co. KG, Berlin
POLIS Objekt Ludwig-Erhard-Straße 14 GmbH & Co. KG, Berlin
POLIS Objekt Steinstraße 20 GmbH & Co. KG, Berlin
POLIS Objekt Torstraße GmbH & Co. KG, Berlin
POLIS Objekt Tübinger Straße GmbH & Co. KG, Berlin
POLIS GmbH & Co. Achtzehnte Objekt KG, Berlin
POLIS GmbH & Co. Neunzehnte Objekt KG, Berlin

8.6. Events after the reporting date

a. Equity measures

The following capital measures were adopted by the extraordinary general Shareholders' meeting of 23 January 2007.

Reclassification of share capital

The share capital of € 51,400,000.00, currently broken down into 51,400,000 ordinary shares with a notional proportion of the registered share capital of € 1.00 each is redivided into 5,140,000 ordinary shares with a notional proportion of the share capital of € 10.00 each.

Capital increase

The share capital in the amount of € 51,400,000.00 is increased by up to € 51,400,000.00 by issuing up to 5,140,000 new ordinary shares, each having a notional proportion of the share capital of € 10.00 in exchange for cash contributions. The new shares will be issued at the issue amount of € 10.000 each per ordinary share. They have been ranking for dividend since 1 January 2006. The statutory preemptive right of the Shareholders is excluded.

Cancellation of authorized capital 2006/I and conditional capital 2006/I

The authorization for the issue of shares granted by the General Shareholders' Meeting on 5 July 2006 and Section 4 (3) of the Articles are cancelled.

The authorization for the issue of convertible bonds granted by the General Shareholders' Meeting on 5 July 2006 and Section 4 (4) of the Articles are cancelled.

Authorized capital 2007/A

The Board of Directors is authorized, with the consent of the Supervisory Board, to increase the Company's registered share capital on one or more occasions by up to a total of € 7,710,000.00 by issuing up to 771,000 new ordinary shares in exchange for cash contributions.

Conditional capital 2007/I

The share capital is conditionally increased by up to € 1,540,000.00 through the issue of up to 154,000 ordinary bearer shares. The conditional capital is solely for the purpose of granting rights inherent in shares to the holders or creditors of bonds.

Please see the electronic version of the Federal Gazette for the publication of the exact wording of the resolutions of the extraordinary general meeting of 23 January 2007.

b. Purchase and disposals of significant assets

Purchase of the investment property Konrad-Adenauer-Ufer, Cologne

By a notarial agreement dated 22 January 2007 (Notary Stapenhorst), the investment property Konrad-Adenauer-Ufer (formally Kaiser-Friedrich-Ufer) in Cologne was acquired at a purchase price of € 5,900 thousand. Possession, use and encumbrances are transferred with the payment of the purchase price.

Purchase of the investment property Torstraße in Stuttgart

By a notarial agreement dated 30 January 2007 (Notary Stapenhorst), the investment property Torstraße in Stuttgart was acquired at a purchase price of € 14,100 thousand. Possession, use and encumbrances are transferred on 1 February 2007.

Berlin, 1 February 2007

POLIS Immobilien AG
The Board of Directors

Dr. Alan Cadmus **Dr. Matthias von Bodecker**

Auditor's Report

To POLIS Immobilien AG, Berlin

We audited the consolidated financial statements of POLIS Immobilien AG, Berlin (until 1 February 2007: POLIS Grundbesitz und Beteiligungs Aktiengesellschaft, Berlin), comprising consolidated balance sheet, consolidated income statement, consolidated cashflow statement, consolidated statement of changes in equity and consolidated notes, as well as the consolidated management report for the financial year from 1 January to 31 December 2006. Preparation of the consolidated financial statements and consolidated management report under International Financial Reporting Standards (IFRS), as are applicable in the EU, and the supplementary provisions under commercial law in accordance with Section 315a Para. 1 HGB [German Commercial Code] is the responsibility of the Management Board of the Company. It is our responsibility to express an opinion on the consolidated financial statements and the consolidated management report on the basis of the audit that we conducted.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB) and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit in such a way that inaccuracies or misstatements materially affecting the presentation of the asset, financial and earnings position conveyed by the consolidated financial statements, in observance of applicable reporting requirements, and by the consolidated management report, are detected with reasonable assurance. Knowledge of the business activity and the economic and legal environment of the consolidated group and assessment of potential misstatements are taken into account when determining audit procedures. The effectiveness of the 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 encompasses an evaluation of the annual financial statements of the companies included in the consolidated financial statements, of the definition of the basis of consolidation, of the accounting and consolidation principles applied and of the major estimates of the legal representatives, as well as an assessment of the overall presentation of the consolidated financial statements and consolidated management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not result in any qualifications.

We are convinced that, based on the findings of our audit, the consolidated financial statements comply with International Financial Reporting Standards (IFRS), as are applicable in the EU, and the supplementary provisions under commercial law in accordance with Section 315a Para. 1 HGB [German Commercial Code] and convey an image of the asset, financial, and earnings position of the consolidated group that matches the actual situation, in compliance with these provisions. The consolidated management report is in accord with the consolidated financial statements, conveys in general an accurate image of the status of the consolidated group and accurately portrays the opportunities and risks of future developments.

Berlin, on 5 February 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Graf von Hardenberg
Auditor

Beuth
Auditor

POLIS Immobilien AG
Potsdamer Straße 58
10785 Berlin
Germany
Telefon +49.(0)30.26 39 59 57-0
Telefax +49.(0)30.26 39 59 57-99
www.polisag.de
info@polisag.de

Design
in(corporate communication + design GmbH

FINANCIAL CALENDAR

Date	Event	Location
25.5.2007	Interim Report – 1st Quarter 2007	Berlin
26.6.2007	Annual General Meeting	Berlin
10.8.2007	Interim Report – 2nd Quarter 2007	Berlin
25.–27.9.2007	Unicredit – German Investment Conference	Munich
8.–10.10.2007	Expo Real	Munich
25.–26.10.2007	Real Estate Share Initiative	Frankfurt
9.11.2007	Interim Report – 3rd Quarter 2007	Berlin
12.–14.11.2007	Analyst Presentation, German Equity Forum	Frankfurt

POLIS Immobilien AG
Potsdamer Straße 58
10785 Berlin
Germany
Telefon +49.(0)30.26 39 59 57-0
Telefax +49.(0)30.26 39 59 57-99
www.polisag.de
info@polisag.de