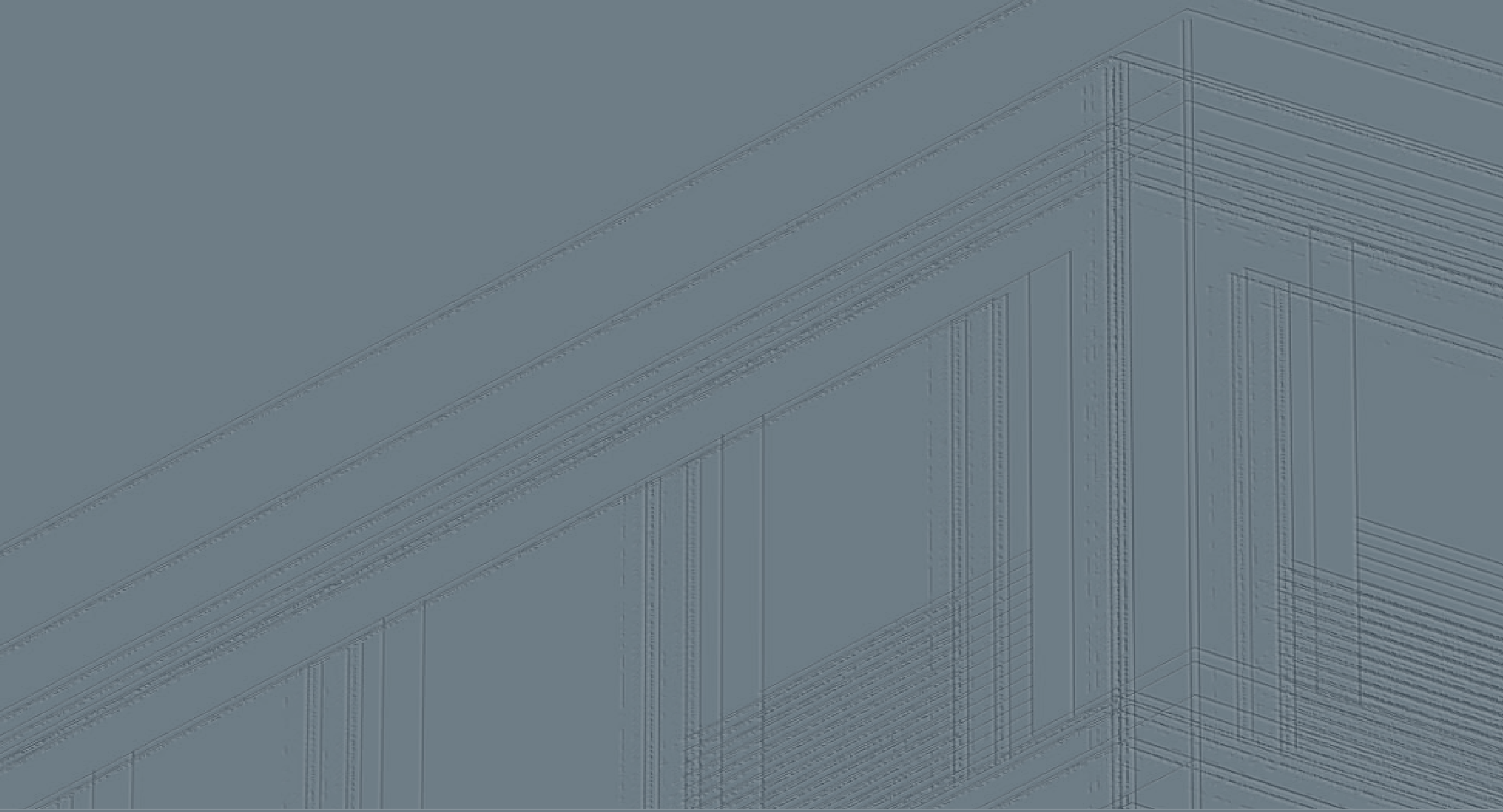


focused profitable transparent

ANNUAL REPORT 2007

POLIS

Financial key data of POLIS Immobilien AG

Results € thousand	**2007**	**2006**
Rental revenues	9,788	4,315
EBIT	13,346	2,576
EBT	10,662	876
Group net profit	9,043	479
Cash flow from current business operations	5,690	2,753
Funds from operations (FFO)[1]	2,381	575

Balance sheet € thousand	**31 Dec. 2007**	**31 Dec. 2006**
Non-current liabilities	248,621	121,786
Current liabilities	23,403	2,595
Equity	151,939	61,384
Total assets	272,024	124,381
Equity ratio in %	56%	49%
Loan to value[2]	39%	39%

Net asset value of POLIS (€ thousand)[3]	152,422	60,572
Shares (no.)	11,051,000	5,140,000
Net asset value per share (€)[3]	13.79	11.78

Share

Security identification code/ISIN	691330/DE0006913304
Day of initial listing	21 March 2007
Issue price	€ 14.50
2007 high (Xetra)	€ 16.00
2007 low (Xetra)	€ 8.25
Closing price on 28 Dec. 2007 (Xetra)	€ 10.30

1 *Funds from operations = EBIT +/- Income from the revaluation of properties +/- Income from the sale of properties +/- Financial results + Income from minority interests - Paid taxes*

2 *Ratio of loan liabilities to the value of the properties*

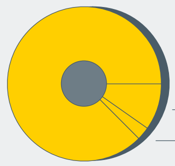
3 *Net asset value (NAV): Equity plus deferred tax liabilities less deferred tax assets*

Portfolio key data

as at 31 Dec. 2007

Portfolio by use | *Basis: m²*

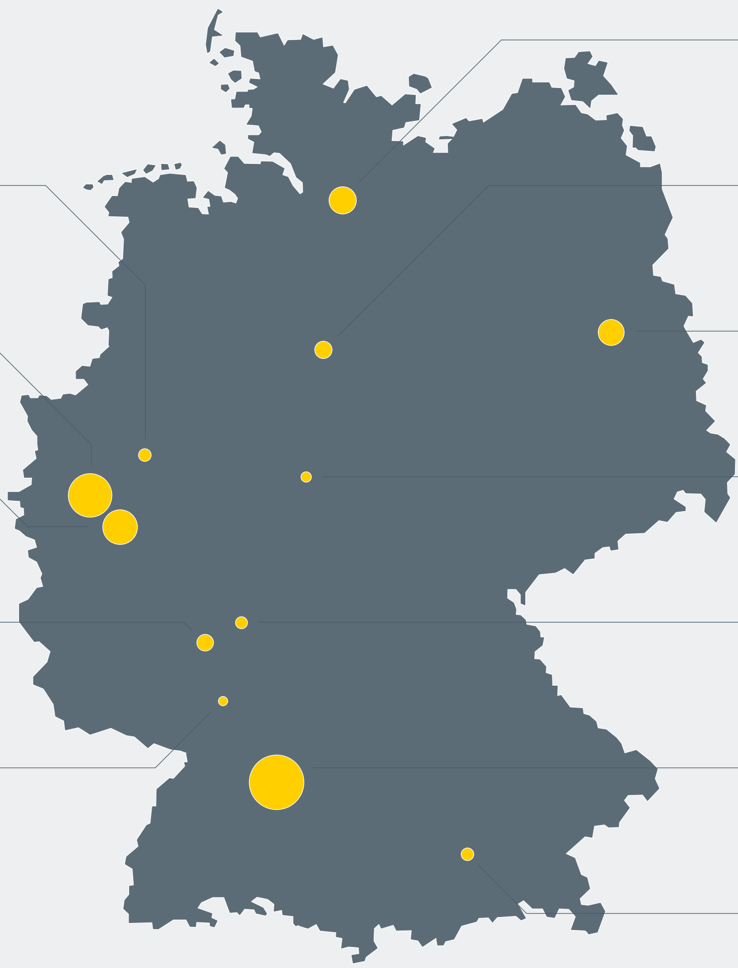
Office 105,200
87.9%



Retail 11,200
9.4%

Residential 3,300
2.7%

Portfolio by location | *source: appraisal by FERI as at 31 Dec. 2007*



Hamburg
2 properties
€ 25,060 thousand
11,400 m²

Dortmund
1 property
€ 5,330 thousand
2,700 m²

Hanover
2 properties
€ 7,110 thousand
6,300 m²

Dusseldorf
8 properties
€ 68,830 thousand
26,700 m²

Berlin
2 properties
€ 25,340 thousand
8,600 m²

Cologne
5 properties
€ 39,720 thousand
20,300 m²

Kassel
1 property
€ 2,840 thousand
2,200 m²

Mainz
2 properties
€ 6,770 thousand
4,600 m²

Frankfurt am Main
1 property
€ 10,940 thousand
3,500 m²

Mannheim
1 property
€ 2,690 thousand
2,000 m²

Stuttgart
4 properties
€ 57,200 thousand
28,200 m²

Munich
1 property
€ 9,770 thousand
3,200 m²

A Good Performance

Financial key data € thousand	**2007**	**2006**	Change
Rental revenues	9,788	4,315	+127%
EBIT	13,346	2,576	+418%
Funds from Operations (FFO)	2,381	575	+314%
Net Asset Value per share (€)	13.79	11.78	+17%
Current market value	264,238	142,130	+86%
Rental space in m^2	119,700	63,200	+89%

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Bright prospects

> **POLIS** is a real estate company and is focused on one market segment: office buildings. We acquire properties in the central business districts of the twenty leading German cities. In doing so, we invest in fully let properties with stable cash flows or in office buildings in need of refurbishment with the potential for a meaningful appreciation in value. We are property managers who reduce vacancies by active management and by improving the long-term quality of the properties for its tenants. Our proven business model has high earnings potential. By refurbishing office properties and attracting tenants with a solid credit rating, we increase the value of our company and generate an attractive rate of return for our shareholders.

> **Stable environment** In early 2008, office property markets are exhibiting an intact upwards trend. Thanks to the sound economic situation in Germany, there is a strong demand for modern, well-equipped office space.

> **We will** use the proceeds from the 2007 initial public offering to expand our portfolio and take advantage of opportunities arising in the property market over the next financial year. Next, we will focus on realizing the potential of the existing investment properties for added value by actively managing and refurbishing them. Should the situation on the capital markets improve, we would consider a capital increase in order to further expand the portfolio and increase the liquidity of our shares. We intend to convert POLIS into a REIT provided the associated risks can be managed.

Interview with the Management

> Looking back, how do you rate the past financial year?

2007 was the most successful financial year of our corporate history of now close to 10 years. We took advantage of the favorable conditions prevailing in the capital markets in early 2007 and carried out our initial public offering, which generated net proceeds of approximately € 81.5 million. All these funds are now available to support the continued growth of our Company. The share issue was oversubscribed by a factor of almost three, and the new shares were issued at a valuation that substantially exceeded the net asset value at the time.

As promised at the time of our initial public offering, we have used a major part of the issue proceeds to finance the dynamic growth of our Company. We invested approximately € 145 million in the expansion of our portfolio in financial year 2007, including properties that will be entered in our accounts in 2008. In this context, we are particularly pleased that Feri Rating & Research AG again awarded our portfolio an »A« rating and confirmed that we are maintaining our high quality standards.

In addition to the visible expansion of our portfolio, we also used the past financial year in other ways. For instance, effective 1 July 2007, we took over the asset management team that had originally been an external group and transformed it into an effective unit that now allows us to address all the key aspects of value creation in our business. Therefore, we are very well prepared for the challenges ahead. These challenges primarily concern the management of our further growth and the realization of the potential for increased value in our real estate portfolio. Moreover, we have upgraded numerous rental areas, let about 16,900 m^2 and handed over the first rental areas to the tenants in our modernization property Steinstrasse 20 in Dusseldorf.

The successes we achieved over the past year have resulted in very good financial results. In addition to a doubling of rental revenues, income from property management increased by approximately 165%. Our successful business operations are also reflected in the income from revaluation, which amounted to roughly € 8.3 million. This equates to an increase in the market values of our property portfolio of approximately 3% which is based on successes in acquiring, letting and modernizing properties. This assessment was also confirmed by an independent expert opinion prepared by Feri Rating & Research. With pre-tax results of approximately € 10.7 million after around € 0.9 million in the past year, we have reached an entirely new level. Over the past year, the net asset value increased to € 13.79 per share, representing an increase of about 17%. In view of the costs of the initial public offering and the refurbishment costs for the modernization properties, the Board of Management will not yet propose a dividend payment for 2007.

> How do you assess the market environment for office buildings in Germany?

The office property markets in Germany are showing a healthy upward trend in early 2008. We are registering strong demand for office space that satisfies today's requirements for modern offices in all locations in which we are present. We are well positioned with our range of upgraded office space in good locations which satisfies high technical quality standards and is priced in the upper mid level of rent. Therefore, we believe that we will be able to continue to achieve good success in letting and significantly increase the occupancy rates in our modernization properties in the current financial year.

In financial year 2008, the effects of the sub-prime crisis should greatly improve the buying opportunities for investors using a high proportion of equity to purchase real estate. We have always strived to keep our financing structure solid. And now, not least as a result of our initial public offering, we have the financial strength to take advantage of all opportunities in the property market in the coming year to support the further expansion of our portfolio to about € 375 million and to increase the overall rate of return of our property portfolio.

Dr. Matthias von Bodecker

Born in 1964, Economist, Member of the Management Board of POLIS since 2001, responsible for finance, asset management and organisation

Dr. Alan Cadmus

Born 1955, Lawyer, Founding shareholder, Member of the Management Board of POLIS since 1998, responsible for strategy, portfolio management and investor relations

> What are the success factors of POLIS Immobilien AG?

POLIS is the active manager among the real estate companies and has a clearly defined strategy with years of experience. We have a portfolio of quality properties with stable cash flows which is the foundation of our earnings power. The high degree of investment security of these properties derives from their good central locations in the most important German business centers, the maintenance of high technical standards and a strong diversification in the composition of tenants. We call this the »multi-tenant concept«. The know-how we have acquired over many years of actively managing such properties allows us to successfully carry out modernization projects, to realize the potential for value increases within our portfolio and to thereby generate additional returns. Within the scope of a moderate buy and sell concept, we are able to realize some of the increases in value by selling properties and using the proceeds inter alia for paying dividends.

Over the past years, we have focused in particular on buildings built in the 50s and 60s. This segment encompasses approximately one third of the overall market of all office space in Germany and is in need of a high degree of modernization. Many of these properties were built in central locations of German cities in order to close gaps left after the war. Many buildings from that period have an appealing architectural design and a clear floorplan, which makes them particularly suitable to be modernization properties.

> How do you judge the share price performance of POLIS Immobilien AG?

In 2007, we observed turbulent times in the capital markets which were caused by a variety of external factors, in particular the sub-prime crisis. Initially, the global share price indices for real estate companies reached an all-time high, which coincided almost exactly with our initial public offering. Subsequently, the property stocks continuously fell to new lows which meant that the entire market was valued at high discounts to the net asset value. In the past year, property stocks have clearly suffered from the sub-prime crisis and the changes in the capital market environment, as have overall real estate investments as such. In material terms, this does not affect well-financed property investments in Germany. As a result, POLIS in early 2008 suffered from a glaring contrast between the Company's sound economic footing and its valuation at the stock exchange as expressed in the share price. POLIS has a well-proven business model, a clear strategy, good earnings power and major unique advantages over competitors. We are convinced that this will be reflected in the future share price. In our view, share price situations such as the one prevailing in early 2008 represent an attractive opportunity for investors.

> What can the shareholders expect from POLIS Immobilien AG in 2008?

We are well prepared for financial year 2008. With an equity ratio of around 56%, we have an extraordinarily sound capital structure and can finance further growth on our own. We are thus in an advantageous competitive position and can capitalize on opportunities to acquire new investment properties up to a total of around € 100 million.

Our property portfolio includes several properties for which comprehensive refurbishments will be carried out shortly. By redesigning the rental space and – where required – completely upgrading the technical equipment, these buildings will be refurbished to market standard, thus eliminating vacancies. Overall, we expect to further increase the value of our investment portfolio as a result of our effective modernization work.

It is the continued objective of POLIS to achieve the REIT status. However, the German REIT law, which took effect in June 2007, unfortunately does not contain any protection of the REIT status against planned or unplanned measures by third parties. The conversion into a REIT is to take place as soon as the associated risks can be managed.

The 2008 financial year will again be characterized by a strong increase in rental revenues and the income from current property management. Assuming a stable economic environment and further success in our acquisition, modernization and letting operations, we expect rental income to reach around € 17 million in 2008. This increase is primarily based on the strong growth achieved in the previous year, bearing in mind that numerous investment properties were acquired in the second half of the year that will therefore only begin to contribute noticeably to financial results in 2008. Even if the modernization properties will only be able to contribute to financial results once letting has intensified, the increased refurbishment expenditures for these properties will in our assessment be more than compensated by the resulting increases in value, so that we again expect overall results to be satisfactory. Along with the positive development of the market values, we also assume that our net asset value will increase substantially by the end of 2008. Since extraordinary expenses are not discernible at this time, we are optimistic that the net profits expected for 2008 and the possible proceeds from sales will mean that a significant dividend can be paid for financial year 2008. In the mid term, we are aiming for a dividend yield of approximately 3% and an increase of the net asset value of approximately 5% p.a.

Due to its sound capital structure, POLIS currently does not require any new funds. However, in the event that conditions on the capital market improve and the prospects for further investments in the real estate market remain favorable, a capital increase is also conceivable.

We wish to thank our shareholders for their trust and all our staff for their continued commitment and their successful work over the past year. We look forward to continue to successfully develop POLIS in the future, together with our shareholders, employees and business partners.

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

Sustainable business model

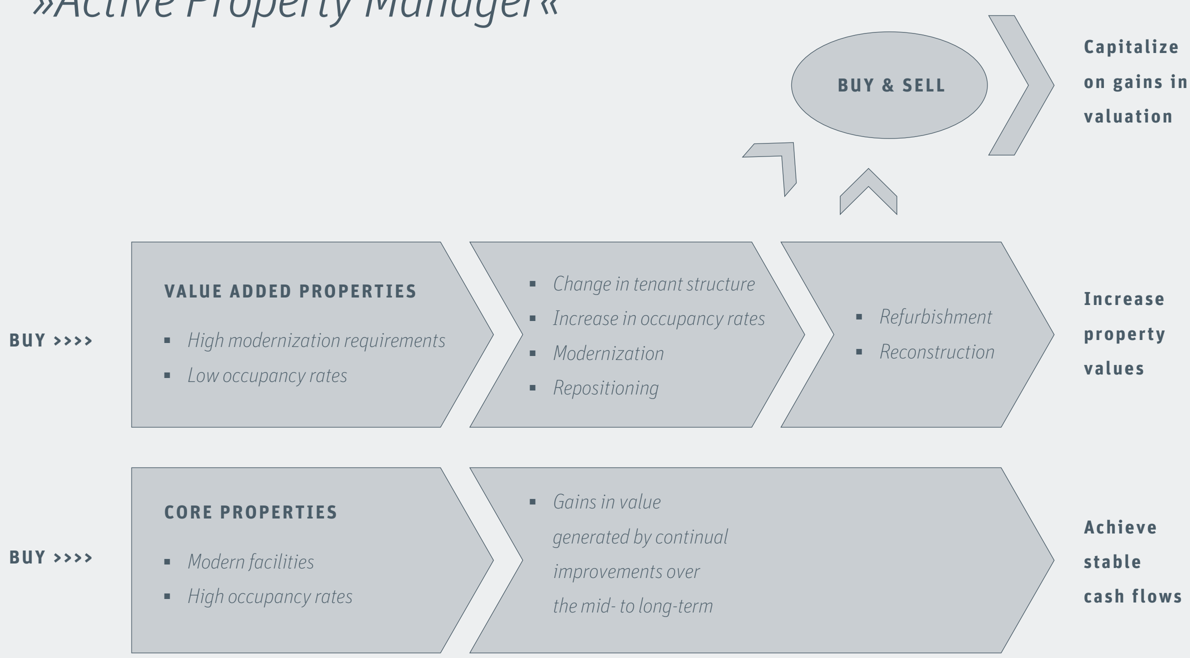
› *Focus on office buildings*

› **Attractive locations** Our properties are located in vibrant inner-city business districts with good infrastructure. This is where people will continue to work and conduct business for generations. We invest in high-quality buildings in good locations which are suitable for numerous users and thus have improved prospects for immediate follow-on leases. The results speak for themselves: Feri Research & Rating AG has appraised our investment properties within the context of its annual portfolio rating, again awarding our portfolio an »A« rating (»very good«).

› **Stable cash flow and potential for added value** We acquire properties that are fully let, well equipped and generate a stable cash flow (»Core properties«) as well as vacant properties or properties that require upgrading provided they possess tangible added value potential (»Value Added properties«). For example, added value is achieved by eliminating vacancies, changing the leasing concept, changing the use, building extensions or carrying out architectural or technical upgrades including complete revitalization.

› **Multi-tenant strategy** We pursue a multi-tenant strategy, meaning that our business model is primarily focused on office properties with several tenants rather than with single tenants. This strategy reduces the risk of loss of rental revenues and the probability that large rental spaces become available and need to be let at the same time.

»Active Property Manager«



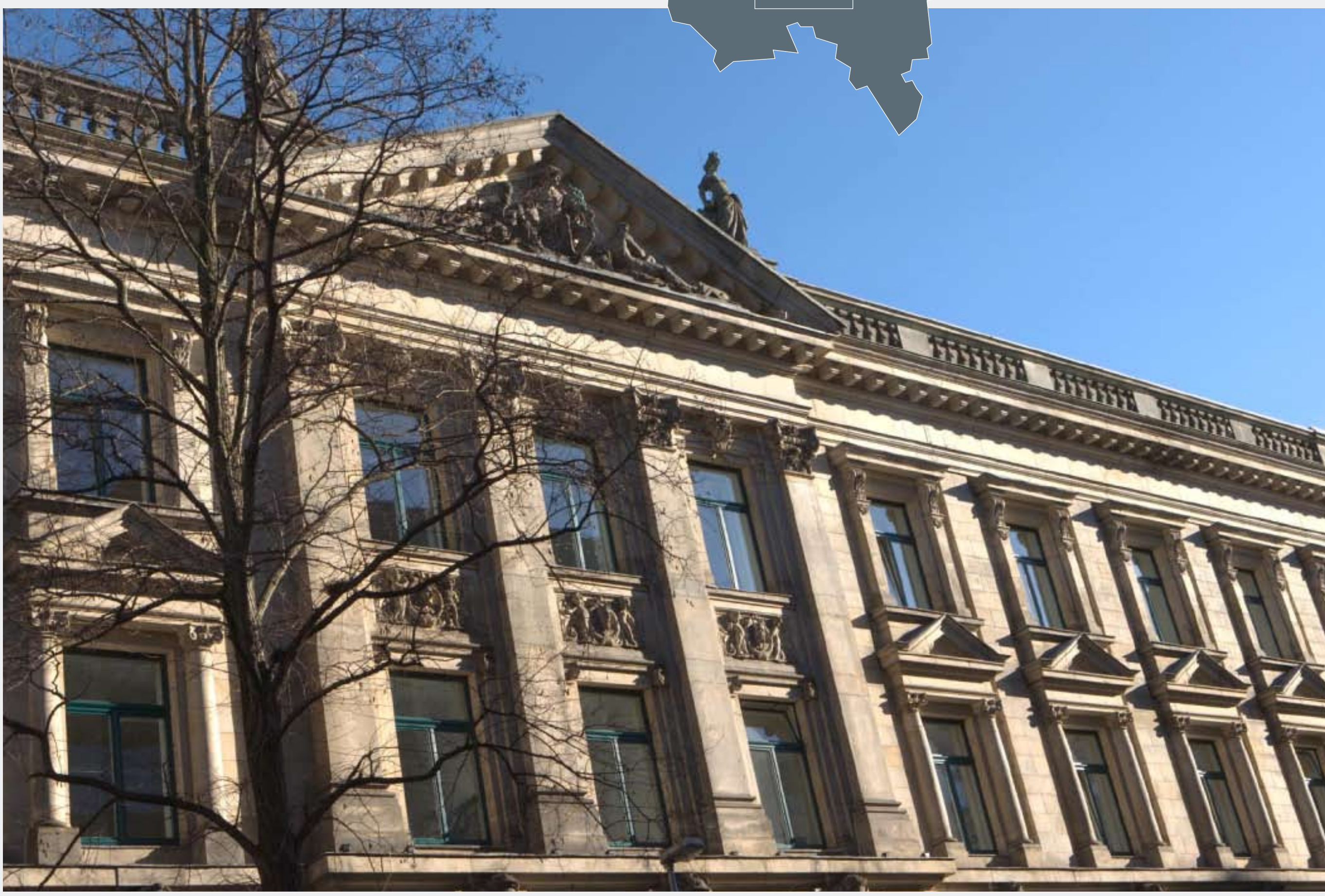
> **Attractive rates of return involving moderate risk** Our risk policy reflects our goal of increasing the value of the Company while keeping risks at a moderate level and generating an attractive rate of return for our shareholders. The continuous stream of rental payments from our core properties is the foundation for financing value added projects.

> **Buy & sell strategy** Once our properties have been modernized or fully occupied, we sell a limited number of them in order to realize their gains in valuation.

Example of a property | **Landschaftstrasse 8, Hanover**

»Core«

B+



The property located at **Landschaftstrasse 8, Hanover**, a historic bank building in excellent condition, is a fully let **»Core« property**. We acquire core properties in established locations within A and B cities in order to achieve good rates of return and stable cash flows. Thanks to the network we have developed over many years, we were able to acquire directly from the owner the fully refurbished property together with another building in need of refurbishment, which is situated nearby in Landschaftstrasse 2. Both are located within walking distance of prime retail locations and a magnificent opera house. Stable cash flows from core properties rented long-term form the secure foundation on which we build our overall property portfolio.

Feri property rating | **B+ (= significantly above average)**

Gross cost of acquisition | **€ 3,580 thousand**

Current market value as of 31 December 2007 (according to Feri) | **€ 3,910 thousand**

Refurbished in | **2006**

Overall rental space | **2,600 m²**

Occupancy rate | **100%**

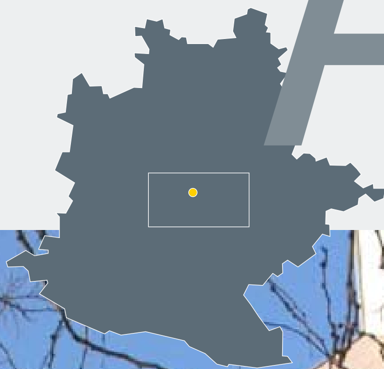
Main tenant | **Ernst & Young (100%)**

Net initial rate of return | **6.5%**

Remaining term of the lease agreement | **31 December 2011+ (2 options of 5 years each)**

Example of a property | **Torstrasse 15, Stuttgart**

»Core Plus«



A

We classified our property in **Torstrasse 15, Stuttgart** – an elegant corner building in the city center and within walking distance of the pedestrian zone – as a **»Core Plus« property**. We use this term to refer to properties with a slightly higher risk profile as a result of partial vacancies, a moderate need of renovation, or lease agreements with a short remaining term. Core plus properties must therefore generate a higher overall rate of return than properties classified as »Core properties«. We acquired this office and commercial building in February 2007 despite the fact that the lease agreement with the main tenant will expire at the end of 2008. We were able to conclude a lease agreement with a tenant with an excellent credit rating for an area of 4,700 m² and a term of twelve years in the third quarter of 2007. As a result of good letting and active property management, we expect a substantial increase in value once we have completed the required modifications for the next rental period.

Feri property rating | **A (= very good)**

Gross cost of acquisition | **€ 14,930 thousand**

Current market value as of 31 December 2007 (according to Feri) | **€ 15,350 thousand**

Overall rental space | **6,300 m²**

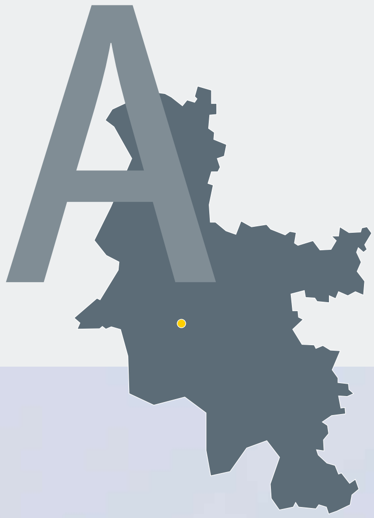
Occupancy rate | **100%**

Main tenants | **until 2008: Bankhaus Ellwanger & Geiger KG**
from 2009: Barmer Ersatzkasse (approx. 95% of the office space)

Remaining term of the main lease agreement | **31 December 2008,**
thereafter 31 December 2021

Example of a property | **Steinstrasse 20, Dusseldorf**

»Value Added«



We acquired our property **Steinstrasse 20, Dusseldorf** – a first-rate office location in the direct vicinity of Koenigsallee in 2006. **»Value Added« properties** such as this one entail an increased risk profile on account of their high vacancy rate or need of refurbishment. However, their higher risk profile is also reflected in a greater potential for appreciation. We seek to capture this potential by changing the tenant structure, redefining the property's use or refurbishing the building in an innovative way. We increased the value of this property by adding two floors, substantially improving the quality of the rental space and attracting reputable new tenants during the construction phase. Upon completion of this work, we expect to generate a significant increase in the value of the property.

Feri property rating | **A (= very good)**

Gross cost of acquisition | **€ 10,780 thousand**

Capital investments for modernization | **€ 5,600 thousand (planned)**

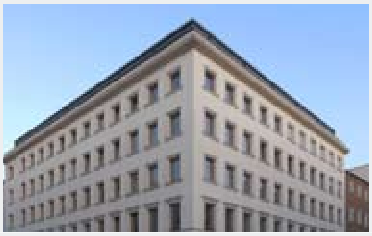
Current market value as of 31 December 2007 (according to Feri) | **€ 16,530 thousand**

Overall rental space after completion of construction work | **5,200 m²**

Occupancy rate | **100%**

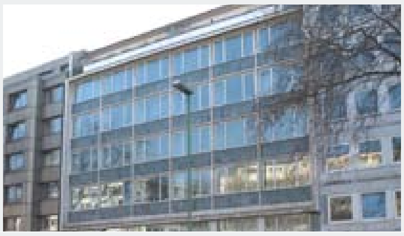
Composition of tenants | **Multi-tenant, inter alia a specialist law firm and a private equity company**

Portfolio Overview


Luisenstrasse 46, Berlin


Potsdamer Strasse 58/Schoeneberger Ufer 47, Berlin


Kleppingstrasse 20, Dortmund


Immermannstrasse 11, Dusseldorf


Kasernenstrasse 1, Dusseldorf


Steinstrasse 11, Dusseldorf


Gustav-Heinemann-Ufer 54, Cologne


Hansaring 20, Cologne


Konrad-Adenauer-Ufer 41–45, Cologne


Domstrasse 10/Schauenburger Strasse 15 + 21, Hamburg


Ludwig-Erhard-Strasse 14, Hamburg


Landschaftstrasse 2, Hanover


Rheinstrasse 105–107, Mainz


Friedrichsring 46/Collinistrasse 2, Mannheim


Lessingstrasse 14, Munich


Berliner Allee 42, Dusseldorf


Berliner Allee 44, Dusseldorf

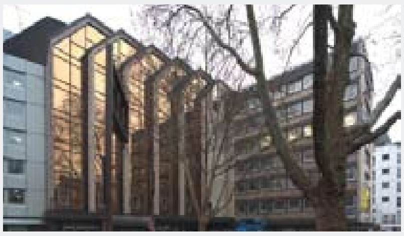

Berliner Allee 48, Dusseldorf


Steinstrasse 20, Dusseldorf


Steinstrasse 27, Dusseldorf


Gutleutstrasse 26, Frankfurt am Main


Neumarkt 49, Cologne


Weyerstrasse 79–83, Cologne


Rheinstrasse 43–45, Mainz


Landschaftstrasse 8, Hanover


Koenigsplatz 57, Kassel


Ebertplatz 1, Cologne

Boeblinger Strasse 8, Stuttgart


Torstrasse 15, Stuttgart


Tuebinger Strasse 31 + 33, Stuttgart


Quartier Buechsenstrasse, Stuttgart

Portfolio Overview (As of February 2008)

Property	Transfer of possession	Year built	Renovated	Market value[1] € thousand	Discount rate[2]	Total area (rounded)[3] m²	Office m²	Retail m²	Residential m²
Luisenstrasse 46	15.05.2002	1936	2002	10,560	7.12%	3,100	2,663	438	0
Potsdamer Strasse 58	25.05.2001	1930	2004	14,780	7.12%	5,500	4,643	493	0
Berlin				**25,340**		**8,600**	**7,306**	**931**	**0**
Kleppingstrasse 20	31.12.2006	1953/54	1994	5,330	7.29%	2,700	2,016	484	0
Dortmund				**5,330**		**2,700**	**2,016**	**484**	**0**
Berliner Allee 42	01.11.2007	1960	–	6,240	7.05%	3,300	2,024	812	141
Berliner Allee 44	01.08.2000	1957	2001	8,620	7.20%	3,600	2,657	456	138
Berliner Allee 48	01.10.2006	1956	–	5,640	7.00%	2,500	1,824	266	237
Immermannstrasse 11	01.12.2007	1960	–	3,380	7.02%	1,700	1,040	338	163
Kasernenstrasse 1	31.12.2006	1954	–	12,130	7.02%	4,600	3,172	832	241
Steinstrasse 11	31.12.1999	1913	2000	8,770	7.00%	2,500	1,883	392	0
Steinstrasse 20	01.07.2006	1954	2007	15,430	6.99%	5,100	4,142	562	0
Steinstrasse 27	01.09.2000	1960	1998	8,620	7.05%	3,400	2,822	324	0
Dusseldorf				**68,830**		**26,700**	**19,564**	**3,983**	**921**
Gutleutstrasse 26	30.06.2006	1970	1996	10,940	7.11%	3,500	3,538	0	0
Frankfurt am Main				**10,940**		**3,500**	**3,538**	**0**	**0**
Domstrasse 10/ Schauenburger Strasse 15 + 21	01.08.2007	1906/11 /86	2002	13,790	7.01%	6,500	4,437	1,455	0
Ludwig-Erhard-Strasse 14	01.10.2006	1969	1996	11,270	7.05%	4,900	4,530	0	0
Hamburg				**25,060**		**11,400**	**8,967**	**1,455**	**0**
Landschaftstrasse 2	31.12.2006	1983	–	3,200	7.31%	3,700	3,667	0	0
Landschaftstrasse 8	31.12.2006	1885	2006	3,910	7.28%	2,600	2,166	0	0
Hanover				**7,110**		**6,300**	**5,833**	**0**	**0**
Koenigsplatz 57	01.11.2007	1950	1995	2,840	7.40%	2,200	1,920	0	0
Kassel				**2,840**		**2,200**	**1,920**	**0**	**0**

Explanation p. 16–19

[1] *According to value appraisal by Feri Rating & Research AG as of 31.12.2007*

[2] *According to value appraisal by Feri Rating & Research AG; Discount rate of the discounted-cash-flow-model (IRR): According to Feri, this is the return that a particular property must generate in order to earn a risk-adjusted rate of return*

[3] *May differ from sum of individual values due to rounding differences*

[4] *Weighted average based on rental revenues*

[5] *Calculated as a ratio of the leased space to the overall space*

[6] *Based on audited Group financial statements as of the respective year applying IFRS*

[7] *Consists of presumed rental revenues assuming that all unoccupied rental space is leased at the market rate deemed appropriate by Feri Rating & Research AG for the property concerned*

[8] *Relation of annualized potential rent to market value of the property*

[9] *Achieving the potential rent is conditional upon major modernization work, therefore the yield is calculated on the basis of the presumed value following modernization (presumed completion 1st quarter 2008)*

Archive m²	Parking space number	Average remaining term of leases[4] 31 Dec. 2007	Occupancy rate (space)[5] 31 Dec. 2006	Occupancy rate (space)[5] 31 Dec. 2007	Occupancy rate (turnover) € thousand 31 Dec. 2007	Rent 2006[6] € thousand	Rent 2007[6] € thousand	Annualised actual rent € thousand 31 Dec. 2007	Annualised potential rent[7] € thousand 31 Dec. 2007	Return on potential rent[8] 31 Dec. 2007	Feri Rating[1]
45	23	2.3	88%	100%	100%	494	553	656	657	6.2%	B+
347	20	1.6	88%	97%	98%	525	818	905	931	6.3%	B+
392	**43**			**98%**		**1,019**	**1,371**	**1,561**	**1,588**		
246	11	5.0	60%	69%	79%	0	291	314	412	7.7%	B+
246	**11**			**69%**		**0**	**291**	**314**	**412**		
317	19	2.2	–	57%	53%	-	28	171	353	5.7%	A
399	19	4.8	100%	98%	100%	558	563	568	590	6.8%	A
140	0	3.1	77%	81%	80%	66	277	239	352	6.2%	A
160	10	0.5	–	85%	85%	–	16	197	230	6.8%	A
371	14	3.2	93%	97%	99%	0	695	842	842	6.9%	A
196	0	1.7	99%	81%	89%	513	519	482	541	6.2%	A
433	12	2.5	55%	58%	49%	202	339	519	997[9]	6.0%[9]	A
204	20	3.4	98%	96%	97%	503	540	526	563	6.5%	A
2,220	**94**			**81%**		**1,842**	**2,977**	**3,544**	**4,468**		
0	29	5.9	100%	100%	100%	972	935	972	750	6.9%	A
0	**29**			**100%**		**972**	**935**	**972**	**750**		
565	12	0.8	–	51%	56%	–	227	546	1,010	7.3%	A
324	29	2.3	53%	52%	56%	111	443	442	799	7.1%	A
889	**41**			**52%**		**111**	**670**	**988**	**1,809**		
0	52	6.4	20%	61%	60%	0	122	251	407[9]	11.3%[9]	B+
437	0	4.1	100%	100%	100%	0	270	270	270	6.9%	B+
437	**52**			**77%**		**0**	**392**	**520**	**677**		
307	4	4.0	–	95%	97%	–	29	175	182	6.4%	B
307	**4**			**95%**		**–**	**29**	**175**	**182**		

[10] *Due to major refurbishment project, no letting activities undertaken*
[11] *Since the potential rent is conditional upon extensive modernization work being carried out, a comparison with the current market value of the property is not appropriate*
[12] *Weighted average*
[13] *excluding Konrad-Adenauer-Ufer 41–45*
[14] *Investment properties in current assets*
[15] *Preliminary gross acquisition costs*
[16] *Values based on date of transfer of possession*
[17] *Financial Investments (2 x 5.1%)*

Feri rating categories

»Outstanding«	*AAA*
»Excellent«	*AA*
»Very good«	*A*
»Above Average«	*B+*
»Slightly Above Average«	*B*
»Average«	*C*
»Slightly Below Average«	*D*
»Below Average«	*D-*
»Poor«	*E*
»Very poor«	*E-*

Property	Transfer of possession	Year built	Renovated	Market value[1] € thousand	Discount rate[2]	Total area rounded[3] m²	Office m²	Retail m²	Residential m²
Ebertplatz 1	15.06.2007	1960	2002	7.280	7.12%	3.700	3.352	224	68
Gustav-Heinemann-Ufer 54	01.10.2007	1989	–	13,990	7.19%	7,000	6,684	0	0
Hansaring 20	01.11.2007	1975	2006	3,980	7.31%	2,000	1,931	0	0
Konrad-Adenauer-Ufer 41–45	01.04.2007	1953	–	6,970	7.13%	4,200	3,873	0	0
Neumarkt 49	31.12.2007	1957	2005	7,498	7.22%	3,400	2,957	411	0
Cologne				**39,718**		**20,300**	**18,797**	**635**	**68**
Rheinstrasse 43–45	01.11.2007	1976	–	2,460	7.36%	1,800	1,451	284	0
Rheinstrasse 105–107	30.09.2007	1968	–	4,310	7.11%	2,800	2,290	0	330
Mainz				**6,770**		**4,600**	**3,741**	**284**	**330**
Friedrichsring 46	01.11.2007	1965	2002	2,690	7.28%	2,000	1,432	146	406
Mannheim				**2,690**		**2,000**	**1,432**	**146**	**406**
Lessingstrasse 14	15.12.2007	1967	2002	9,770	6.91%	3,200	2,606	383	0
Munich				**9,770**		**3,200**	**2,606**	**383**	**0**
Böblinger Strasse 8	01.11.2007	1973	2004	3,400	7.21%	2,200	942	920	354
Torstrasse 15	01.02.2007	1989	–	15,350	6.98%	6,300	4,759	722	106
Tuebinger Strasse 31+33	31.12.2006	1949	2000	9,170	7.24%	4,900	2,643	1,306	189
Quartier Büchsenstrasse	30.06.2007	1907–1956	1985	29,280	7.10%	14,800	11,809	0	913
Stuttgart				**57,200**		**28,200**	**20,154**	**2,948**	**1,562**
Subtotal				**261,598**	**7.10%**	**119,700**	**95,873**	**11,249**	**3,287**
Other properties[14]				2,640[14]					
Subtotal				**264,238**					
Properties acquired after the reporting date									
Hamburg, Bugenhagenstrasse 5	q2 2008	1913/14	–	4,550[15]		2,500	1,695	260	0
Cologne, Weyerstrasse 79–83	q2 2008	1962	2008	14,720[15]		9,200	6,990	1,216	0
Subtotal				**19,270**		**11,700**	**8,685**	**1,476**	**0**
Portfolio				**283,508**		**131,400**	**104,558**	**12,725**	**3,287**
Other property investments				1,035[17]					
Total property assets				**284,543**					

Archive	Parking space	Average remaining term of leases[4]	Occupancy rate (space)[5]	Occupancy rate (space)[5]	Occupancy rate (turnover) € thousand	Rent 2006[6]	Rent 2007[6]	Annualised actual rent € thousand	Annualised potential rent[7] € thousand	Return on potential rent[8]	Feri Rating[1]
m²	number	31 Dec. 2007	31 Dec. 2006	31 Dec. 2007	31 Dec. 2007	€ thousand	€ thousand	31 Dec. 2007	31 Dec. 2007	31 Dec. 2007	
20	0	4.1	–	100%	100%	–	246	443	443	6.1%	A
300	206	1.5	–	48%	49%	–	145	592	1,316	9.4%	A
61	10	3.5	–	76%	73%	–	38	220	295	7.4%	B+
350	64	–	–	0[10]	0[10]	–	0	0	808	–[11]	A
82	7	6.1	–	98%	98%	–	0	471	480	6.4%	A
813	**287**			**59%**		**–**	**429**	**1,726**	**3,342**		
97	10	1.0	–	76%	75%	–	25	150	199	8.1%	B+
214	45	1.1	–	94%	97%	–	72	288	295	6.8%	A
311	**55**			**87%**		**–**	**97**	**437**	**494**		
0	0	3.0	–	69%	68%	–	23	138	208	7.7%	B+
0	**0**			**69%**		**–**	**23**	**138**	**208**		
235	39	3.4	–	74%	71%	–	10	444	632	6.5%	A
235	**39**			**74%**		**–**	**10**	**444**	**632**		
7	36	3.1	-	86%	87%	–	36	214	261	7.7%	B+
734	48	1.5	100%	100%	100%	–	981	1,068	1,077	7.0%	A
717	13	3.2	92%	92%	96%	0	555	555	590	6.4%	A
2,028	142	1.5	–	98%	99%	–	951	1,866	1,944	6.6%	A
3,486	**239**			**96%**		**0**	**2,523**	**3,702**	**3,872**		
9,335	**894**	**2.8**	**76%**[12]	**79%**[12]	**79%**[12]	**3,944**	**9,784**	**14,484**	**18,434**	**6.9%**[13]	**A**
567	8	4.8[16]	–	100%[16]							
2,017	91	6.1[16]	–	65%[16]							
2,584	**99**										
11,919	**993**										

Our Values

Our entrepreneurial actions are guided by certain core values. These values determine how we work and commit us to ethical and responsible behaviour in relation to our shareholders, business partners, employees and the community:

> **Integrity and transparency** Sincerity and openness are prerequisites for establishing trust. We set standards for transparency by publishing all information relevant to the valuation of our investment properties. We engage our shareholders, business partners and interested parties with a high degree of openness.

> **Customer orientation** We strive to provide modern, well-equipped and efficient office space with an appealing work environment so that our tenants can achieve the greatest possible success in their business. We seek to ensure high levels of customer satisfaction by maintaining high standards of service. In the past year, we have systematically analyzed the level of incidental expenses for all investment properties in order to assess and optimize their economic efficiency in the interests of our tenants. In the final analysis, we exceeded the benchmark by a significant margin.

> **Creating sustainable value** Our focus on attractive city center locations, our emphasis on high quality standards and our multi-tenant strategy lead to a high degree of investment security for our property portfolio and foster a long-term appreciation in value to the benefit of our shareholders. To ensure the sustainability of this growth in value, we also stress environmental aspects such as the use of resources, waste management and the environmental compatibility of building materials. POLIS is a founding member of the Deutsche Gesellschaft für nachhaltiges Bauen e.V. (German Sustainable Building Council).

Our corporate objectives are based on these core values.

Our operational objectives:

- Create office and commercial space in line with market requirements that fulfill the expectations of our tenants and their employees
- Create lasting value by buying, renovating, maintaining and managing high-quality properties in attractive locations
- Achieve excellent results in the planning and execution of projects
- Focus on the client and service

Our financial objectives:

- Achieve long-term, profitable growth in order to increase the value of the Company
- Achieve an attractive rate of return for our shareholders commensurate with a moderate degree of operational and financial risk
- Distribute a large proportion of our net income as dividends to our shareholders

> **Involvement of our employees** We can only achieve our corporate objectives and growth targets if we succeed in attracting and retaining highly motivated and competent employees. We foster a culture of flat hierarchies and open communication and have established the conditions for initiative, trust and performance. The employees of POLIS have a high level of professional competence based on academic studies and specialized, professional training focusing on real estate, and/or many years of professional work experience. We support the development of our employees' qualifications by means of continued training. As a result, POLIS today has a highly motivated and effective asset management team comprising 19 employees of which 6 are university graduates, and most of the other staff members have completed professional vocational training, many with additional professional or academic qualifications obtained within the scope of further education courses.

The POLIS share

Focus. Since it was founded in 1998, POLIS has focused on one market segment: office buildings in prime central locations in the leading German cities. We have the expertise to acquire and manage properties with

- a clear potential for gains in value, increases in rent or stable cash flows.

Profits. The objective of our work is to achieve long-term profitable growth by active property management in order to

- increase the value of the Company and to ensure an attractive rate of return for our shareholders while maintaining moderate risk levels.

Transparency. For POLIS, managing a company for the purpose of maximizing long-term value and providing a high degree of transparency are two inseparable aspects.

- We communicate what we are doing, what we want to achieve and the degree to which we meet our targets. All investment properties including their key valuation determinants are presented in the POLIS annual report (see pages 16 et sqq.) and on the POLIS website.

The distribution of a high proportion of our annual net profits in the form of dividends is a declared objective of the Company.

The POLIS share constitutes a transparent and fungible investment in the property market, bolstered by sustainable earnings power and the potential for gains in real estate value.

Market climate 2007/Development of the market for property stocks

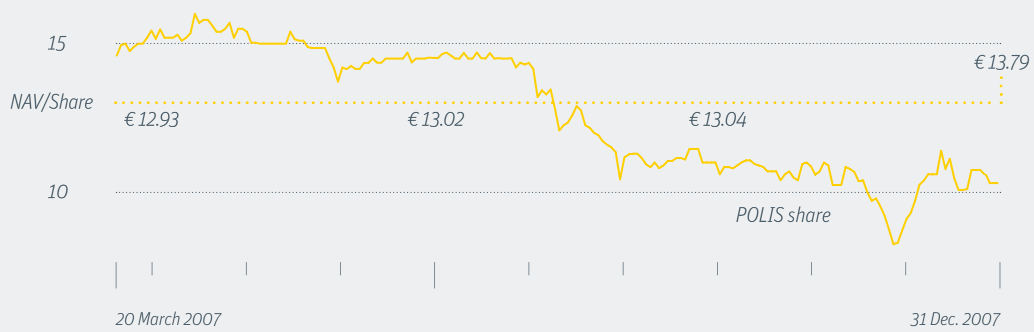
The outperformance of German property stocks in 2006 vis a vis major share price indices did not continue in 2007. While the DAX benefited from its high proportion of exporting companies in 2007 and grew by 22%, and while the MDAX grew by 3.8%, the EPRA index, which is representative of property stocks in Germany, fell by approximately 43% during the same period. This development was partly a reflection of the reduced margins between the rental yields in the property market and the increased financing costs. In addition, turbulence in the banking sector led to expectations of a reduced availability of credit for property companies and thus to a slowdown in the rise in real estate prices.

Successful IPO of POLIS

In conjunction with an initial public offering (IPO) in March 2007, the shares in POLIS were admitted to the Prime Standard of the Official Market (Amtlicher Markt) of the Frankfurt Stock Exchange. The successful transaction was heavily oversubscribed at an issue price of € 14.50, the greenshoe option was fully exercised, and the Company received equity of approximately € 81.5 million net of issuing costs. POLIS thereby gained access to a wide range of investors, significantly enhancing the Company's financial flexibility.

Key figures regarding the initial public offering

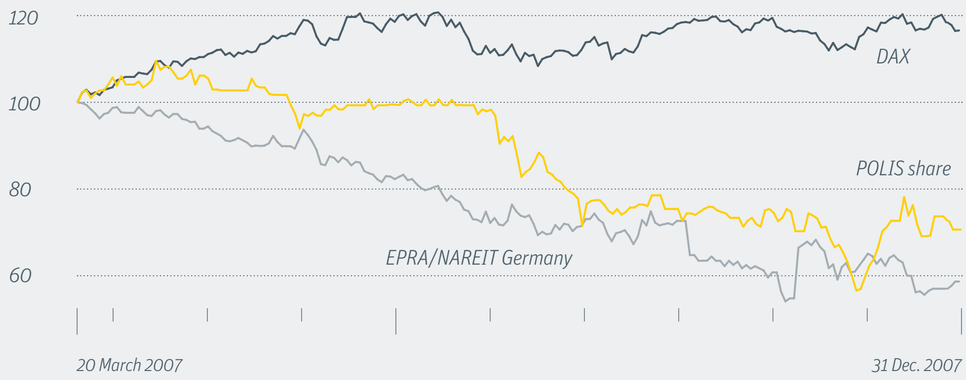
Day of initial listing	21 March 2007
Issue price	€ 14.50
Price range	€ 13.75 to € 16.75
Opening price / initial listing	€ 14.90
Closing price on 21 March 2007	€ 14.95
Total number of shares issued	6,191,572 shares with a nominal value of € 10 each
– of which: shares from the capital increase on 23 January 2007	5,140,000 shares
– of which: shares sold by existing shareholders	280,572 shares
– of which: over-allotment / greenshoe option	771,000 shares
Issue proceeds after deducting the issuing costs	approximately € 81.5 million
Purpose	further development of the property portfolio
Lead manager	UniCredit Markets & Investment Banking (Bayerische Hypo- und Vereinsbank Aktiengesellschaft)
Co-lead manager	Viscardi Securities Wertpapierhandelsbank GmbH



Development of POLIS share since IPO | *compared to net asset value per share, in €*

Share data for 2007

ISIN	DE0006913304
Security identification code (WKN)	691330
Reuters / Bloomberg symbol	PQLG.DE / PQL GR
Price (on 28 December 2007)	€ 10.30
Number of shares	11.05 million
Market capitalization	€ 114 million
Market segment	Prime Standard
Designated sponsor	UniCredit Markets & Investment Banking
Research coverage	UniCredit Markets & Investment Banking, Viscardi Securities
52 week high	€ 16.44
52 week low	€ 8.25
Closing price 2007	€ 10.30
Average daily trading volume	€ 163,810 / 11,841 shares
Earnings per share	€ 1.09
NAV per share	€ 13.79
Freefloat	45.9%



Development of POLIS share since IPO | *in comparison to indeces, in %*

The POLIS share

Since the initial public offering on 21 March 2007, the POLIS share has been listed in the Official Market of the Frankfurt Stock Exchange. It satisfies the internationally applicable transparency requirements of the »Prime Standard« market segment.

POLIS share price performance

While the POLIS share performed solidly in the second quarter after its successful IPO, it became caught up, from the third quarter onwards, in the downward price trend affecting the entire sector of property stocks nationally and internationally. The share price did not benefit from the positive operational performance of the Group. The price of the POLIS share, which exhibited average daily trading volumes of approximately € 164 thousand at the Frankfurt Stock Exchange (XETRA), thus deteriorated from an initial price of € 14.50 on 21 March 2007 to € 10.30 at the end of 2007. Thus the price of the POLIS share fell by approximately 29% during 2007 when compared to the issue price on the day of the initial public offering. During the same period, the EPRA Index Germany fell by approximately 41%.

Shareholder structure

The POLIS shares are held by a broad range of private and institutional investors. The combination of widely distributed shares and financially strong, strategic investors supports the Company's financial flexibility, management and financial strength. As a result of the freefloat, the share price can provide financial incentives and signals to the Company's management. And due to the involvement of financially strong institutional investors, POLIS is in a position to consider large-volume transactions. As of 31 December 2007, the Board of Management held approximately 0.5% of the Company's shares.

Shareholder structure as of 31 December 2007 according to notices received by the Company

Category/name	Shares	in %
Mann Immobilien-Verwaltung AG*	3,073,112	27.8%
Bouwfonds Asset Management Deutschland GmbH*	1,673,112	15.1%
Contrarian Capital Management L.L.C./Jon R. Bauer	900,335	8.1%
Perennial Investment Partners Ltd., Melbourne, Australia	582,407	5.3%
KZVK Darmstadt*	514,000	4.7%
Danske Invest	350,399	3.2%
Other existing shareholders bound by lock-up agreement*	718,338	6.5%
Board of Management**	51,000	0.5%
Other freefloat***	3,193,897	28.9%
Total	**11,051,000**	**100.0%**

** Lock-up until 21 March 2008 ** Lock-up until 21 September 2008 *** Freefloat in accordance with the definition of Deutsche Börse AG: 45.9%*

Investor relations

Capital market participants expect a transparent flow of information about a company. By openly and continuously exchanging information with the capital markets, POLIS strives to establish a relationship of trust with the financial community and to facilitate a realistic assessment of the value of the Company.

Our investor relations work is mainly focused on financial analysts, institutional and private investors and financial journalists. We communicate with them in the context of General Meetings and in periodic direct discussions. In addition, we provide comprehensive financial information in the form of annual reports and interim reports as well as press statements with up-to-date information on current events. The Board of Management and the investor relations team represent the Company in regular intervals at conferences with investors and financial analysts and conduct one-on-one discussions nationally and internationally. For the purpose of reporting, we make use of modern communication tools: The internet is one important instrument; but we also use conference calls with live feeds to our internet site to hold presentations; we used this approach for the first time in presenting our key financial data for the financial year 2007 on 7 March 2008.

In the past financial year, we met with numerous investors and analysts in the context of our initial public offering. In September 2007, we hired an Investor Relations Manager. Since that time, we have carried out seveal road shows and given company presentations at four conventions for real estate and capital market specialists.

The main objective of the investor relations work in 2008 is to increase the number of financial analysts covering POLIS to five (from a current member of two), to foster the positive reputation POLIS enjoys in the capital markets with respect to reliability, trustworthiness and its sense of responsibility, to engage in an active dialogue with investors in order to best appreciate their needs and to communicate this information within the Company to support a value-driven management.

Contact details for the POLIS Investor Relations team:

POLIS Immobilien AG

Potsdamer Strasse 58
10785 Berlin, Germany

Roger Sturm
Phone: +49 (0) 30 856 217.27
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Website: www.polisag.de
Email: IR@polisag.de

Report of the Supervisory Board

Dear Shareholders,

During the year under review, the Supervisory Board fulfilled its responsibilities under statutory regulations, the articles of association and the by-laws. We regularly advised and monitored the Board of Management in matters relating to the management of the Company. The Supervisory Board was directly involved in all major decisions affecting the Company. The Board of Management regularly informed the Supervisory Board verbally as well as in writing about the situation and development of the Company. In this context, the Supervisory Board discussed key issues with the Board of Management that concern the Company's business and corporate policies, its corporate strategy, its financial development and earnings position as well as matters pertaining to transactions that are important to the Company. The Supervisory Board approved the draft resolutions submitted by the Board of Management after thorough review and discussion.

Mr. Michael Haupt – chairman of the Supervisory Board until 23 January 2007 – and I also regularly discussed and coordinated with the Board of Management all issues and questions of key importance in between meetings.

Supervisory Board meetings and resolutions

In the period under review, the Supervisory Board held six meetings in which the members of the Board of Management participated. Four additional meetings took place over the telephone in the context of the initial public offering.

In the course of these meetings, the Board of Management informed the Supervisory Board in detail and in a timely manner in particular with respect to the Company's strategy, its plans and economic situation and development and consulted with the Supervisory Board in this context. The Supervisory Board also adopted resolutions in writing, in particular regarding acquisitions of properties. All matters that are subject to the Supervisory Board's decision were determined after diligent review and discussion in the meetings, and to the extent required also on the basis of written draft resolutions prepared prior to the meetings.

Important matters in financial year 2007 concerned the further strategic development of POLIS Immobilien AG, the implementation of capital measures in the context of the initial public offering, the cancellation of the asset management agreement with Bouwfonds Group and the achievement of growth by acquiring a large number of properties.

Personnel committee

The new members of the personnel committee were elected during the meeting on 23 January 2007. Its members are Mr. Carl-Matthias von der Recke (chairman), Mr. Hans Fehn and Mr. Klaus Müller. The personnel committee met four times in total, primarily to discuss the development of a longer-term, variable compensation plan.

Corporate governance

The Company's Board of Management and its Supervisory Board identify with the objectives of the German Corporate Governance Code to promote responsible, transparent corporate management and supervision aimed at a increasing the long-term value of the Company. After the reporting date, the Board of Management and the Supervisory Board issued a declaration of conformity in February 2008 in accordance with Section 161 AktG (Aktiengesetz (German Stock Corporation Act)), which has been made available permanently to shareholders on the Company's website. POLIS Immobilien AG has largely observed the recommendations of the German Corporate Governance Code as amended.

A detailed report on the level and structure of the compensation of the Supervisory Board and the Board of Management is contained in the Company's group management report.

Annual and consolidated financial accounts for 2007

The auditor appointed by the general meeting – KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (Berlin) – has audited the annual financial statements and the management report of POLIS Immobilien AG as of 31 December 2007 as well as the consolidated financial statements and the group management report as of 31 December 2007 and has issued an unqualified audit certificate (uneingeschränkter Bestätigungsvermerk). The consolidated financial statements and the group management report were prepared in accordance with Section 315 a HGB (Handelsgesetzbuch (German Commercial Code)) on the basis of the International Financial Reporting Standards (IFRS) as applicable in the EU. The auditors conducted the audit in accordance with the generally accepted German standards for the audit of financial statements issued by IDW (Institut der Wirtschaftsprüfer in Deutschland e.V.). The audit reports prepared by KPMG were available to all members of the Supervisory Board and were discussed in detail in the relevant Supervisory Board meeting on 5 March 2008 in the presence of the auditor, who presented the key results of his audit. During this meeting, the Board of Management explained the annual financial statements of POLIS Immobilien AG and of the Group as well as the risk management system. We agree with the results of the audit and have determined on the basis of our own review that no objections exist. The Supervisory Board has accepted the financial statements prepared by the Board of Management, thereby formally approving them (festgestellt). The Supervisory Board endorses the proposal submitted by the Board of Management to carry forward the net earnings for the year of POLIS Immobilien AG to new account.

Changes to the Supervisory Board

Effective at the end of the extraordinary general meeting on 23 January 2007, Mr. Ralf Schmechel resigned as member of the Supervisory Board. The general meeting appointed Mr. Carl-Matthias von der Recke member of the Supervisory Board in his place. During the subsequent meeting of the Supervisory Board, Mr. Michael Haupt resigned his position as chairman of the Supervisory Board. In his place, Mr. Carl-Matthias von der Recke was appointed chairman of the Supervisory Board.

Mr. Michael Haupt resigned as member of the Supervisory Board effective at the end of the ordinary general meeting on 26 June 2007. Mr. Ralf Schmechel was appointed member of the Supervisory Board in his place. The Supervisory Board wishes to express its gratitude to Mr. Haupt for his constructive work and involvement.

The Supervisory Board wishes to thank the Board of Management and the employees of POLIS Immobilien AG for their work during the past financial year. By achieving the growth of the Company and successfully executing the initial public offering, they have laid the foundation for a successful future of POLIS Immobilien AG.

Berlin, 15 March 2008

On behalf of the Supervisory Board

Carl-Matthias von der Recke
Chairman

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Group Management Report

of POLIS Immobilien AG for the financial year 2007

Business and economic environment

Group structure and business activities

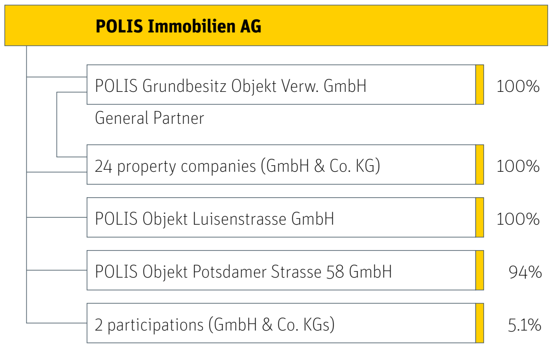
The business model of POLIS Immobilien AG

POLIS Immobilien AG, founded 1998 in Berlin, acquires office buildings for its own property portfolio. By actively managing our own properties including modifications, upgrades, extensions, elimination of vacancies and other measures, we continuously achieve increases in value that we realize within the scope of our moderate buy-and-sell strategy. We focus exclusively on office buildings in attractive central locations in key German business centers and invest in properties with a tangible potential for appreciation or a stable cash flow. The strong focus on the domestic market, few cities, central locations and typically on buildings erected between 1950 and 1970 leads to a high level of specialization, which increases the efficiency of our work and reduces the risk of wrong decisions. Our in-house asset management team, currently comprising 19 employees, manages the commercial and technical aspects of the property portfolio, which is valued at approximately € 264 million, and is responsible for performing key management tasks such as acquisition and sales, development, letting and accounting.

Group structure and management

POLIS Immobilien AG is an operational holding company managed by two members of the Board of Management. The Speaker and Chief Executive Officers responsible for strategy, portfolio management, employment, legal matters and taxes, while the Chief Financial Officer manages finances, asset management, organization and information technology. Our employees are employed by the holding company while the properties are currently held by 26 property companies (which usually take the German legal form of »GmbH & Co. KG«). POLIS and all property companies have their registered offices in Berlin. There are no branch offices.

Simplified illustration of the corporate structure of POLIS Group



Commercial and industry-specific environment

Development of overall economic environment

In 2007, **Germany** was able to catch up with other industrialized countries in terms of economic growth. Due to the profound adjustment processes that many companies have undergone and also as a result of the overall political environment, GDP continued to grow at 2.5% (growth in 2006: 2.9%).

The positive economic situation in 2007 led to a marked upturn in the labor market and strongly increased overall employment levels (+1.7%) to approximately 40 million persons; jobs that contribute to the social security system grew by +2.2%; and the number of unemployed was substantially reduced by approximately 700,000 persons. According to the most recent Creditreform analyses, the number of insolvencies of companies across Germany fell by 10% in 2007.

While growth conditions in Germany improved in 2007, the turbulence associated with the sub-prime lending business created a somber mood in the **global economy** and initially led to a liquidity squeeze in the interbank money markets. As a result, the syndication and placement of loans became more difficult, and the willingness of banks to assume risks decreased. Central banks in many countries provided significant liquidity assistance in order to ensure the stability of the banking system.

In the course of the year, the European Central Bank (ECB) increased its main interest rate for refinancing operations in two steps of 25 basis points each to an overall rate of 4.0%, the highest level since September 2001. Furthermore, the turbulence in the interbank money market led to a considerable widening of spreads, causing the three-month EURIBOR to reach 4.68% at the end of 2007.

	GDP growth	Inflation	Interest rates*		
			3 month EURIBOR	5 years (swap rate)	10 years (swap rate)
2007	2.5%	2.2%	4.68%	4.55%	4.71%
2006	2.9%	1.7%	3.73%	4.12%	4.19%
2005	0.8%	2.0%	2.49%	3.20%	3.44%
2004	1.1%	1.6%	2.16%	3.15%	3.74%

*Source: German Federal Statistical Office: * end of year, source: Reuters*

Industry-specific environment

The positive economic development in Germany since 2005 has also affected the market for office space which closely correlates with GDP. The increase of office employees in the most important **office markets** in financial year 2007 highlights an increased demand for property rental services, a reduction of vacancies and a continued inclination to invest.

Key economic factors

Development of the commercial property market in Germany

We generate our income in particular from rental revenues as well as from the sale of properties. The results of the revaluation of our property portfolio also strongly influence our annual financial results. The terms of new and follow-on leases as well as of property acquisitions and sales and the development of market values are primarily determined by the development of the German office property market. This development is influenced by macroeconomic factors, in particular the overall economic growth, interest rates, the Company's expectations regarding their future economic development, the supply of and demand for office properties in relevant locations as well as special factors in local markets, the attractiveness of Germany as a business location in comparison to other countries and global markets and the legal and fiscal environment.

Furthermore, the results achieved by POLIS depend on market developments at the specific locations where our properties are situated. Each location is exposed to specific regional factors. Developments at the individual locations such as demographic trends, regional/local economic trends or the development of the service sector, the supply of office space, the economic strength or purchasing power, unemployment trends, and the arrival or departure of companies can all influence the economic success of POLIS.

Development of rental income

Rental revenues can be influenced by the general level of rent for office properties in Germany or at the respective location because the terms at which new and follow-on leases are agreed change accordingly. The level of rental revenues may also be influenced by a change in prices per square meter in the context of follow-on leases as a result of property- or location-specific factors. As a general rule, increasing vacancy rates in a given property market usually lead to reduced rental revenues and vice versa. And since various lease agreements contain a clause for adjusting the rent in line with inflationary trends, the development of the rate of inflation also has an influence on the level of rental revenues achieved.

Financing expenses and interest rate levels

We finance the acquisition of properties by using bank loans, usually amounting to a debt ratio of 60% of the property value. The liabilities to banks of POLIS Group are kept on a floating rate basis to a reasonable extent in order to benefit from low short-term interest rates. To guard against interest rate fluctuations, derivative financial instruments-are used to hedge some of the floating rate liabilities to banks. The earnings power of POLIS is influenced to a considerable degree by the development of the general interest rate level.

Trends in the investment market for office buildings in Germany

Attractive market

The investment markets are continuing to benefit from the inflow of foreign capital into Germany. Many international funds have raised capital for investments in German properties. The German office market is considered undervalued when compared to international benchmarks and is therefore seen as one of the most attractive property markets, with positive expectations for future developments. The transaction volume for commercial properties reached a record level in 2007, although transactions in the fourth quarter involving a high proportion of debt often failed to materialize due to the increasingly difficult terms of financing (in particular increased loan margins and stricter equity requirements).

Transaction volume 2007, in € billion	61.3
Change compared to 2006	+ 33%
Share of office properties	34%

Source: DEGI Research, 2008

The increases in the transaction volume achieved in 2007 were again based mainly on high-volume portfolio transactions. Sellers primarily included domestic institutional property investors such as open-ended real estate funds and insurance companies, but also international investors selling their recently acquired properties. While investor interest in German office properties continues to be high, the increasing reluctance of banks to provide credit finance has led to a reduction in large-volume portfolio sales in the fourth quarter of 2007. Since these transactions have become more difficult, POLIS expects an increase of smaller-scale transactions financed to a higher degree with equity. We view this as a good opportunity for our business model and for the further expansion of our portfolio.

Strong interest in top locations

As financing costs have increased, investor interest has shifted to office properties in top locations where increases in rental income can be expected. According to analyses prepared by BulwienGesa AG, the net initial yields for newly erected office buildings in the centers of Munich and Frankfurt are currently around 4.8% given the potential for rent increases. Despite slight decreases over the course of the year, the yields for office properties in Berlin, Cologne and Dusseldorf are still comparatively high at 5%.

Trends in the office property rental market in Germany

Growth in demand

The positive developments in the economic environment have also affected the rental market for office properties in Germany. According to Atisreal, the volume of rental agreements closed in the nine most important office locations increased by 14.5%. The important aspect for POLIS in this context is that this growth was driven by a vigorous demand across all size categories. This supports the assessment that the market is stable and promises long-term growth.

Increase in rent levels

The top rents increased by approximately 4.7% on average, however, both the top rents and the average rents increased in a wide range of local office property markets with different rent levels. A strong distinction became apparent in the rent paid for modern rental space in good locations and that paid for older rental space where rents barely increased at all. We benefit from this development due to our concept for upgrading buildings.

Low volume of completions

Completions of new office buildings reached a low point in 2007. The areas under construction increased by 38% compared to 2006. However, the volume of new office space entering the market so far has been limited. Considering the low number of new buildings completed and the increasing age of existing office buildings in Germany, the present backlog of refurbishment work is substantial.

Reduction in vacancies

The economic development has largely led to a reduction in vacancies. The following table illustrates this trend.

Locations	Vacancies in thousand m² 2005	2006	2007	Vacancy rate in % 2005	2006	2007
Berlin	1,535	1,535	1,516	8.3	8.3	8.2
Dusseldorf	1,034	997	923	12.0	11.7	10.9
Frankfurt am Main	2,233	2,170	1,992	15.2	14.5	13.3
Hamburg	908	867	830	7.0	6.6	6.3
Cologne	n.s.	706	622	n.s.	10.0	8.7
Munich	1,740	1,500	1,650	10.3	8.8	9.6
Stuttgart	n.s.	386	352	n.s.	5.5	5.0

Source: Atisreal GmbH. Office Market Report 2008

The relevant issue for our business model is again the development of vacancy rates for rental space with modern equipment. These rates fell by approximately 14 percentage points, compared to a drop in the overall vacancy rate by only 3.5 percentage points. This means that the base level of vacant, old, poorly marketable space continued to rise, while the supply of modern rental space decreased rapidly (source: Atisreal GmbH, Office Market Report 2008).

Corporate management, objectives and strategy

Corporate objectives

The objective of POLIS is to permanently increase the value of the Company. Our aim is to generate a stable and attractive rate of return by actively managing and continuously developing a high-quality office property portfolio with properties in central locations. In the mid-term, we intend to achieve the following financial objectives:

- overall rate of return for POLIS of 8% p.a. via a
- dividend yield of 3% p.a. and an
- increase in the net asset value of 5% p.a.

We want to maintain a balanced risk/return profile by maintaining an appropriate portfolio structure and a moderate degree of leverage.

Internal control system

Control system

We use a value-driven approach in managing POLIS Immobilien AG in order to increase the long-term value of the Company and to generate a rate of return for the Company's shareholders that is in line with capital market requirements and appropriate considering the Company's risk profile.

The control system represents an integrated process between asset and portfolio management on the one hand and finances and controlling on the other. Prior to every purchase decision, management uses a software program specifically designed for determining the **net present value** of an investment as maximum purchase price, taking into account all projected income and expenses as well as gains from sale. In using this program, we take into consideration the planned modernization work and the rent development over a planning horizon that spans several years. The purchase prices are verified by an appraisal prepared by independent experts. In addition to determining the current market value, the external real estate expert also provides guidance regarding the classification of the new investment property in terms of quality (for details on the valuation approach used by Feri, please see the section entitled »Information concerning property valuation« in the Notes to the Consolidated Financial Statements). In the case of construction projects, our own experienced specialists supervise the construction progress and monitor the costs. We integrate the forecasts used in the context of the acquisition in our business plan and use them as a basis for preparing the result analysis for the properties. Management regularly compares the results actually achieved to the projected data within the scope of a target-performance comparison. Discrepancies trigger the development of options that are then implemented in the context of letting or optimizing the portfolio.

Key control system ratios

Furthermore, we determine the **internal rate of return** (IRR) of possible investments and compare it to a minimum interest rate that is commensurate with the risk.

As a property holding real estate company, POLIS also uses a net asset value model for managing the Company and enhancing transparency. The net asset value represents the sum of the values of the properties and other assets less the Company's liabilities and related items (see section entitled »Financial Position«).

Corporate strategy

Since POLIS was founded, we have endeavored to satisfy the requirements of the capital market. We have always considered the long-term creation of value and transparency as the principle guiding our corporate management and have pursued our focused strategy from the beginning:

- *Focus*: Focus on centrally located office buildings in the twenty most important German business locations. One of the inputs we use in this context is the »City Ranking Report« (Städte-Ranking) prepared by the research company BulwienGesa AG, which distinguishes between prime and secondary locations (so-called A and B cities).
- *Core and Value Added*: We buy fully let properties with modern facilities or at most minor potential for optimization that generate a stable cash flow (»Core«) as well as properties that are vacant or are in need of modernization and exhibit tangible potential for added value (»Value added«). The target share of core properties as a basis for generating a continuous and stable cash flow is approximately 75%. The goal is to increase the rate of return of the entire portfolio by creating higher added value in the remaining share of the portfolio.
- *Balanced risk/return profile:* A balanced risk/return profile is maintained by continuously evaluating and managing the composition of the portfolio between the »Core« and »Value Added« qualities and by limiting the proportion of debt to at most 60% of the market values.
- *Stabilizing rental revenues by pursuing a »multi-tenant strategy«:* We pursue a multi-tenant strategy as opposed to a single-tenant strategy, meaning that our business model is primarily focused on office properties with several tenants as opposed to properties with a single occupier. This generally results in a significant reduction in the risk of loss of rental revenues and the simultaneous expiry of individual lease agreements as well as the dependency on specific industry trends.
- *Fungible property sizes*: We invest in properties with market values ranging between € 5 million and € 25 million.
- *Moderate buy and sell-concept:* The achieved value added is to be realized by a select number of sales in order to either increase the potential for distributing dividends or to invest capital in new properties that represent attractive opportunities.
- *Active asset management and customer orientation:* The rigorous pursuit of value-adding strategies and orientation of all processes in accordance with the needs of the tenants are some of the fundamental principles that guide our activities.
- *Capital market orientation:* Transparency with respect to the business model and the information on properties as well as the observance of EPRA standards are part of our way of doing business and form the basis of good investor relations.
- *Further expansion of the property portfolio*: We plan to continue to expand our portfolio of office properties and maintain our current focus and high quality standards. We believe that by increasing the size of our investment portfolio we can achieve economies of scale that will further increase the Company's profitability.
- *Achieving the status as a REIT AG*: With its clear focus, POLIS remains destined to become a REIT. However, there are risks arising from the current REIT law involving the permanent retention of the REIT status and the exposure of investments made in the process of converting into a REIT. It is the continued objective of POLIS to achieve the REIT status as soon as such risks have become manageable. The Board of Management is actively taking part in the discussions surrounding the reform of the REIT law in order to reduce or mitigate such risks.

Competitive position

Market environment

The office property market in Germany comprises approximately 290 million m² of office space that according to studies carried out by realtors are valued at around € 500 billion. Roughly 40% of the office areas are located in the 20 most important business locations which POLIS focuses upon. This market is characterized by a strongly fragmented ownership structure. Only a small proportion of the overall office space in Germany is owned by stock-listed property companies and investment companies, and a relatively high share by international standards is still company-owned or held by non-institutional investors. The market for acquiring and managing office buildings remains substantial and continues to provide opportunities for growth to specialized property companies.

The positioning of POLIS

In this large market, we consider ourselves specialists in the modernization and active management of office buildings in a segment that is strongly focused on location as well as the size and quality of properties. Our properties are often too large for private investors; however, for large institutional property owners or closed-end real estate funds, they are rather small. This specialization constitutes a competitive advantage for POLIS. With its concept, POLIS holds a unique position among the stock listed German property companies.

Overview of business performance

Major events

Successful initial public offering

In financial year 2007, we laid the foundation for robust and profitable growth. We carried out a capital increase in conjunction with the initial public offering (IPO) in March 2007, and the POLIS shares were subsequently admitted to the Prime Standard of the Official Market (Amtlicher Markt) of the Frankfurt Stock Exchange. The successful transaction was heavily oversubscribed, and the greenshoe option was fully exercised. The IPO increased our equity by an overall amount of approximately € 82 million (net of issuing costs). The initial public offering provided us with access to a wide range of potential investors and significantly enhanced the Company's financial strength.

Bouwfonds asset management team taken over and built up

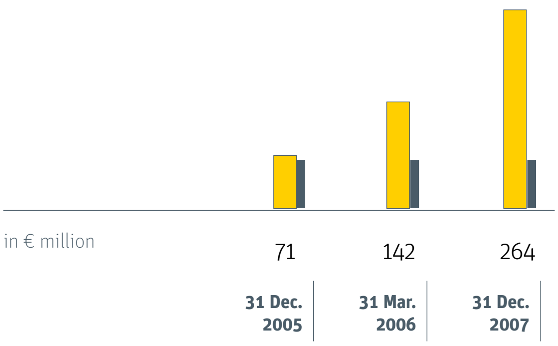
As a result of the amicable cancellation of the asset management agreement with Bouwfonds Real Estate Services Deutschland GmbH effective 30 June 2007, we achieved organizational independence, a major strategic objective. In the course of these changes, we took over the Bouwfonds asset management team consisting of ten persons that had until then managed our property portfolio and further expanded it in the second half of the year. Today, we are in a position to carry out independently all management and supervisory functions required in the context of acquisitions, asset and property management and portfolio development. In the context of canceling the asset management agreement, we paid a settlement totalling approximately € 1.2 million that covered the entire compensation for all services provided by Bouwfonds including the stock option plan that had been agreed as performance-related compensation. The results of this measure are already visible – positive effects on the Company's operative management and costs.

Qualified employees

Qualified and motivated employees are indispensable if we are to achieve our corporate objectives. Flat hierarchies and open communications are the prerequisites for initiative, trust and performance. As of the end of the year, the number of employees has grown to 19, of which seven are university graduates, and most of the other staff members have completed professional vocational training, many with additional professional or academic qualifications. A high proportion of our employees have variable compensation components, the level of which is determined on the basis of the Company's success and their personal contribution to this success.

Development of the property portfolio

Current market values



Substantial growth to € 264 million

In financial year 2007, we acquired 18 office buildings representing a total investment of € 131 million, thereby more than doubling our portfolio compared to the previous year, reaching a total of 32 properties and an overall volume of € 264 million. Overall, the acquired buildings have a rental space of approximately 67,300 m². The total rental space of the entire portfolio thus amounts to about 119,700 m² (previous year: 52,400 m²) as of the end of the year.

New locations

Over the course of the year, we invested in the locations Cologne, Munich, Mainz, Mannheim and Kassel for the first time and expanded our portfolio in Stuttgart, Dusseldorf and Hamburg.

Target volume of € 350 million

This means that we are well on the way of achieving our objective of growing the volume of our investment properties to € 350 million. In doing so, we will not compromise our high standards regarding location, building quality and yield.

Detailed overview of the portfolio

An in-depth and detailed overview of the portfolio including key information on each building and its valuation is published in the Internet (www.polisag.de) and in the portfolio overview on page 16 of this annual report.

Development of the renting operations

The renting operations constitute an important core area and form the basis of our successful property management business. In addition to providing optimum support to our tenants, the sustainable and prompt follow-on letting of vacant rental space is of critical importance.

In 2007, we were able to benefit from the increasing demand for well-equipped office space and to substantially increase our rental revenues and the number of our tenants. Our portfolio now comprises approximately 200 tenants in various industries throughout Germany. We concluded lease agreements that cover a total area of approximately 16,900 m². Of these, roughly 12,900 m² related to new agreements and approximately 4,000 m² concerned extensions of existing agreements. The total space leased is almost five times the space leased in 2006 (3,450 m²).

Excluding the new investments carried out in 2007, the occupancy rate for the portfolio properties increased from 80% as of 31 December 2006 to 84% as of 31 December 2007. This does not include those lease agreements for approximately 3,000 m² (around 6% of the rental space as of 31 December 2006) that were concluded in 2007, but whose rental period commences in 2008.

The properties we acquired in 2007 had an occupancy rate of 76% as of 31 December 2007 so that the occupancy rate for the current overall portfolio amounted to 79%.

Location-specific business performance

Seven properties representing a share of 15% of the rentable space and 9% of the property value are situated in secondary cities (so-called B-Cities). Therefore, the following section presents the trends in the prime cities (the so-called A-Cities) individually, while the secondary cities are discussed in summary form.

The following table presents the occupancy rates by location:

	31 Dec. 2006		**31 Dec. 2007**	
Locations	Rental space m²	Occupancy rate %	Rental space m²	Occupancy rate %
Berlin	8,600	88%	8,600	98%
Dortmund	2,700	60%	2,700	69%
Dusseldorf	21,800	86%	26,700	81%
Frankfurt am Main	3,500	100%	3,500	100%
Hamburg	4,900	53%	11,400	52%
Hanover	6,100	54%	6,300	77%
Kassel	–	–	2,200	95%
Cologne	–	–	20,300	59%
Mainz	–	–	4,600	87%
Mannheim	–	–	2,000	69%
Munich	–	–	3,200	74%
Stuttgart	4,800	92%	28,200	96%
	52,400	**80%**	**119,700**	**79%**

We were again able to further reduce the vacancy rates in financial year 2007. We were particularly successful in this regard in Berlin (from 12% down to 2%), Dortmund (from 40% down to 31%), and Hanover (from 46% down to 23%). This does not include the lease agreements that have already been concluded but whose terms start in 2008 (550 m² in Hanover, 2,850 m² in Dusseldorf).

Overview of rental revenues

The following table shows on a property by property basis that rental revenues from the individual properties in the prime locations were increased very successfully between 2005 and 2007:

€ thousand	2005	2006	2007
Luisenstrasse 46	455	494	553
Potsdamer Strasse 58	388	525	818
Berlin	**843**	**1,019**	**1,371**
Berliner Allee 42	–	–	28
Berliner Allee 44	530	558	563
Berliner Allee 48	–	66	277
Immermannstrasse 11	–	–	16
Kasernenstrasse 1	–	–	695
Steinstrasse 11	466	513	519
Steinstrasse 20	–	202	339
Steinstrasse 27	507	503	540
Dusseldorf	**1,503**	**1,842**	**2,977**
Gutleutstrasse 26	937	972	972
Frankfurt am Main	**937**	**972**	**972**
Domstrasse 10/Schauenburger Strasse 15 + 21	–	–	227
Ludwig-Erhard-Strasse 14	–	111	443
Hamburg	**–**	**111**	**670**
Ebertplatz 1	–	–	246
Gustav-Heinemann-Ufer 54	–	–	145
Hansaring 20	–	–	38
Konrad-Adenauer-Ufer 41–45	–	–	0
Cologne	**–**	**–**	**429**
Lessingstrasse 14	–	–	10
Munich	**–**	**–**	**10**
Boeblinger Strasse 8	–	–	29
Arminstrasse 15	–	–	7
Torstrasse 15	–	–	981
Tuebinger Strasse 31 + 33	–	–	555
Quartier Buechsenstrasse	–	–	951
Stuttgart	**–**	**–**	**2,523**
Total for »prime cities«	**–**	**–**	**8,952**
Other properties	–	–	857
Sold properties	2,134	422	0
Accrual of rent-free periods	70	-51	-21
Total	**5,487**	**4,315**	**9,788**

Berlin

The Berlin portfolio remained unchanged. We succeeded in further increasing the occupancy rates in the two properties Potsdamer Strasse 58 and Luisenstrasse 46. Only a small shop area remains vacant. On 1 July 2007, POLIS moved into its own offices in the 2nd floor of the Potsdamer Strasse property. The good development was also confirmed by the results of the appraisal carried out by Feri Rating & Research AG (hereinafter »Feri«).

Dusseldorf

This location was further strengthened by acquiring additional properties in Berliner Allee 42 and Immermannstrasse 11. The focus in 2007 was to modernize and extend the property Steinstrasse 20. By repositioning the building, we were able to let a total of 2,800 m² even before the refurbishment was completed. Only a shop and an upper floor remain vacant. The first completed rental space has already been handed over to the tenant. Completion of the building is expected in spring 2008. The expected construction costs of around € 5.6 million have already been fully recouped by the additional value as confirmed by Feri.

Our investments in Duesseldorf have also shown an overall positive trend. The increase in value totaling € 3.1 million is composed of roughly € 1.4 million for the »old« portfolio and € 1.7 million for acquisitions in 2007. A large part of the increase in value is attributable to an increase in the rentable space of the property Berliner Allee 42.

In financial year 2008, the main objective will be to complete the work on the property Steinstrasse 20 and to carefully modernize further buildings in order to increase occupancy rates. There are several follow-on leases that are about to be concluded regarding Steinstrasse 11.

Frankfurt am Main

The building in Gutleutstrasse 26 on the edge of the banking district has been fully let to Dresdner Bank AG. In the past year, the lease agreement was extended beyond the previous fixed term. We will invest a total of around € 450 thousand in improvements for the building in 2008. The extension of the lease agreement and the improved market situation in Frankfurt have now led to an increase in the current market value by € 990 thousand, thus reversing losses on valuation recorded in the past.

Hamburg

In Ludwig-Erhard-Strasse 14, we were not able to achieve our leasing objectives in the past year. After the reporting date, we concluded a lease agreement for the 6th floor, so that only two and a half floors remain vacant. The Hamburg location was supplemented in 2007 by the addition of the building Domstrasse 10. We are currently examining the possibility of enlarging the building. Only then will we begin to market the property that currently has an occupancy rate of 51%. The market values of both buildings have therefore remained approximately unchanged.

Cologne

With five properties representing about € 40 million, Cologne represents POLIS' third largest location. At Konrad-Adenauer-Ufer, we will thoroughly upgrade the entire building and probably extend it. The building permit has not yet been issued, but we expect the work to be completed in the first quarter of 2009. Major challenges remain to be addressed in the context of letting the rental space in the Gustav-Heinemann-Ufer and Hansaring properties. With a total space to be let of approximately 10,000 m², the main focus of our rental activities in the next year will be in Cologne. Feri has confirmed our investments in the Cologne location with good appraisal results (valuation gain of € 2.5 million).

In 2007, we also acquired Weyerstrasse 79–83; however, the transfer of possession will not occur before 1 April 2008. Long-term leases have been concluded for all office areas in the upper floors. We have already begun to lease the retail and restaurant areas on the ground floor.

Munich

We now also own a building in Munich having acquired Lessingstrasse 14 on 15 December 2007. The building has an occupancy rate of 74%. After modernizing the vacant space and carrying out some improvements to the building and the façade, we should be able to fully let the building in 2008. Feri has confirmed the level of investment and determined that we achieved a slight valuation gain (€ 88 thousand).

Stuttgart

The Stuttgart location was also substantially expanded in financial year 2007. In acquiring »Quartier Buechsenstrasse« located at the center of the city, we purchased an entire block consisting of 5 individual buildings. The Quartier, which in total represents the largest single investment of POLIS, is let until 2009 and thereafter offers a variety of options: small-scale letting or letting to tenants with substantial space requirements, letting or modernizing the existing buildings or possibly expanding the rental space.

Regarding the Torstrasse building, we were able to conclude a lease agreement with Barmer Ersatzkasse for approximately 4,700 m² that commences in 2009 and has a term of 12 years. This means that the gap resulting from the departure of Bankhaus Ellwanger & Geiger (the lease agreement expired on 31 December 2008) has already been closed. With an occupancy rate of 96%, our buildings in Stuttgart are virtually fully let. No important lease agreements are set to expire in 2008. Feri confirmed the value of our investments in Stuttgart by determining that the increase in values amounted to around € 0.6 million.

Secondary cities

In addition to the existing two buildings in Hanover (transfer of possession occurred on 31 December 2006), we have now for the first time acquired properties in Dortmund (1 building), Kassel (1), Mainz (2) and Mannheim (1). In Hanover, we were able to conclude several lease agreements for the modernization property Landschaftstrasse 2 for approximately 2,100 m². Several areas have already been handed over to the tenant upon completion of modernization work. Modernization work will be completed in the second quarter of 2008. We were also successful in letting rental space in Dortmund. The overall occupancy rate is 69%. External valuation has confirmed value increases totaling around € 1.2 million.

A portfolio of eight buildings we acquired included two buildings in Essen and Duisburg for an aggregate price of around € 3.1 million that do not satisfy the investment criteria of POLIS. We intend to sell these buildings in 2008 and have therefore excluded them from all presentations of our portfolio.

Overall assessment of the business performance

The results achieved in 2007 were characterized by the strong growth of the Company and the incorporation of asset management functions. The portfolio reached a volume of € 264 million, the number of employees grew to 19. Rental revenues more than doubled reaching € 9,788 thousand (an increase of 127%), and pre-tax profits reached a new order of magnitude at € 10,662 thousand (previous year: € 876 thousand) (representing an increase of 1,117%).

At the time of the initial public offering, our objective was to expand the volume of our investment portfolio to € 350 million. We have succeeded in achieving the milestones we specified concerning the growth of our portfolio. In our property rental business, we were able to achieve considerable success in attracting new tenants and increasing rental revenues.

The Board of Management's overall assessment of the business development in 2007 is extraordinarily positive.

Results of operations, financial position and net assets

Results of operations

€ thousand	2007	2006	Change
Rental revenues	9,788	4,315	127%
Income from current property management	8,524	3,236	163%
Income from the revaluation of investment properties	8,772	-339	2,688%
Earnings before financing activities and taxes (EBIT)	13,346	2,576	418%
Earnings before taxes (EBT)	10,662	876	1,117%
Group net profit/loss	9,043	479	1,788%

Substantially improved results

As a result of the portfolio growth, **rental revenues** more than doubled when compared to the past year, reaching € 9,788 thousand (previous year: € 4,315 thousand). Accordingly, property management expenses also increased while the expenses incurred for renovation and maintenance work fell. Noteworthy in this regard is that € 6,467 thousand are included in the additions as modernization-related investments since such balances can be capitalized since they increase the properties' values.

The income from current property management for financial year 2007 also increased significantly, reaching € 8,524 thousand (previous year: € 3,236 thousand).

While in the previous year the net valuation result was still slightly negative (€ -339 thousand), a significant valuation gain of € 8,772 thousand arose in financial year 2007. This consists of a valuation gain of € 3,141 thousand for the portfolio as of 31 December 2006 and € 5,631 thousand for the buildings acquired in 2007. Due to the non-recurrent expense associated with the cancellation of the asset management agreement with Bouwfonds Real Estate Services Deutschland GmbH and the integration and expansion of their asset management team, administrative expenses increased to € 3,552 thousand (previous year: € 822 thousand).

As a result, earnings before financing activities and taxes (EBIT) multiplied by a factor of five compared to the previous year (€ 13,346 thousand, previous year: € 2.576 thousand). Due to the inflow of proceeds from the initial public offering, the average financing volume during the financial year did not grow to the same extent as the portfolio. The negative financial result only increased by approximately € 800 thousand.

Deferred tax expenses (€ 1,613 thousand) are primarily the result of revaluations. However, the actual tax on income will presumably amount to zero since the depreciation on buildings and the deductible expenses associated with the initial public offering will lead to a negative result in the tax accounts.

The consolidated financial statements show a **consolidated net income** for the year of € 9,043 thousand (previous year: € 479 thousand).

Financial position

Additional equity from initial public offering

As a result of the initial public offering and the two associated capital increases involving cash contributions, POLIS was able to increase its equity by approximately € 82 million.

In preparing the initial public offering, the nominal value of the share was converted from € 1.00 to € 10.00. After subsequently completing the capital increase, the number of shares amounts to 11,051,000. Equity as of 31 December 2007 amounts to € 151,939 thousand.

Constant loan-to-value ratio

The »loan-to-value ratio« (ratio of liabilities to banks to the current market value of the properties as reported in the balance sheet) as of 31 December 2007 has remained roughly constant and amounts to 39.1% (previous year: 38.6%). It should be noted that short-term liabilities related to purchase prices in the amount of € 10,480 thousand that accrued at the end of the year were paid via a loan at the beginning of this year, causing this ratio to increase. The targeted loan-to-value ratio of 60% is expected to be reached once additional investments have been made.

At the end of the year, the Group had liquid funds of € 1,821 thousand at its disposal. In order to optimize interest expenses, the Group-wide liquidity management system minimizes existing liquidity while at the same time taking into account existing credit facilities.

Credit facilities for long-term financings totalling € 37,410 thousand have not yet been used and are available to the Company.

Some of the new and/or follow-on financings of the properties do not involve long-term fixed rates, but variable rates based on the EURIBOR. We use hedging instruments (caps and swaps) in order to limit the risk of interest rate fluctuations.

€ thousand	2007	2006	Change
Cash flow from financing activities	5,690	2,753	107%
Cash flow from investment activities	-140,770	-33,770	317%
Cash flow from current business operations	136,026	30,707	343%
Cash in banks at the end of the period	1,821	875	108%

Cash flow from operating activities

From its operating activities, POLIS as in previous years generated a strong positive cash flow of € 5,690 thousand (previous year: € 2,753 thousand). The increase of 107% is the result of the strong growth in the portfolio and the corresponding increase in rental revenues.

Cash flow from investment activities

The negative cash flow from investment activities in 2007 in the amount of € -140,770 thousand (previous year: € 33,770 thousand) illustrates the strong growth of the Company and the associated outflows of funds in the context of acquiring new investment properties. For details, please consult the explanations contained in the section entitled »Development of the property portfolio« (see page 37).

Cash flow from financing activities

The clearly positive cash flow from financing activities in the amount of € 136,026 thousand (previous year: € 30,707 thousand) is in particular the result of increasing the share capital in the context of the initial public offering (€ 81,193 thousand) and drawing on medium-term and long-term loans in the course of expanding the portfolio.

Net assets

Assets and capital structure

€ thousand	2007	2006	Change
Non-current assets	248,621	121,786	104%
Current assets	23,403	2,595	802%
Equity	151,939	61,384	148%
Balance sheet total	272,024	124,381	119%
Equity ratio	55.9%	49.4%	13%
Loan-to-value ratio	39.1%	38.6%	1%

In the past financial year, the **balance sheet total** increased to € 272 million (previous year: € 124 million). Non-current assets represent 91% of total assets. Only 9% of total assets are current. The overall structure of the balance sheet is dominated by the investment properties, which are reported together with the properties classified as »Non-current assets held for sale« and account for a volume of approximately € 264 million, a share of approximately 97% of total assets.

Investments in investment properties

The POLIS portfolio was successfully expanded in 2007 by 18 properties that were acquired for € 131 million. The current market values of the newly acquired properties reported in the IFRS-compliant Consolidated Financial Statements amount to € 136 million, meaning that valuation gains were already achieved in 2007.

Moreover, in the past financial year investments in the enlargement and extension of the modernization properties Steinstrasse 20 in Dusseldorf (€ 4,503 thousand) and Landschaftstrasse 2 in Hanover (€ 1,493 thousand) were carried out.

Appraisal of the properties

The appraisal of the properties as of 31 December 2007 was carried out by Feri Rating & Research AG as in the previous year. Feri provided expert opinions on the current market values, a property rating for each investment and an overall portfolio rating. The high quality of the portfolio was re-confirmed when it was again awarded the »A« portfolio rating (i.e. »very good«).

The total fair value of the investment properties at the end of the year pursuant to IAS 40 amounted to € 246,248 thousand (previous year: € 118,881 thousand). Three properties with a current market value of € 17,990 thousand are classified as »Non-current assets held for sale«.

The recognized current market values of the individual properties are set forth in the Notes to the Consolidated Financial Statements; the rating prepared by Feri is published in the portfolio overview in the Internet and in the annual report (see page 16).

Net asset value

The net asset value of POLIS is calculated as follows:

€ thousand	
Carrying amounts of investment properties	264,238
Carrying amounts of investments	1,035
Other assets less other liabilities	-9,628
Liabilities to banks	-103,223
Net Asset Value	**152,422**
Deferred taxes	-483
Net Net Asset Value	**151,939**

Based on the existing 11,051,000 shares, the net asset value per share amounts to € 13.79 as of 31 December 2007.

The so-called net net asset value is then determined by taking into account the effect of deferred taxes. As of 31 December 2007, this figure amounted to € 13.75 per share.

Concluding remarks regarding the earnings, financial and assets position

Compared to previous years, the earnings position of POLIS has reached a new level as a result of the initial public offering and the subsequent growth of the portfolio. The income from current property management increased strongly due to the growth and will continue to form the basis of our earnings. The solid results achieved in the context of the revaluation of the investment properties reflect the recent positive changes in the market and our successful acquisitions in the past year. The assets and financial position has further improved as a result of the proceeds received from the initial public offering and the expansion of the portfolio during the second half of the year. The sound structure of the balance sheet is reflected by the low loan-to-value ratio, which also underscores our high capacity for carrying out further investments in 2008.

Corporate governance and compensation report

POLIS identifies with the objectives of the German Corporate Governance Code

The German Corporate Governance Code is intended to provide national and international investors with a transparent view of the rules applying in Germany to the management and supervision of companies in order to foster trust in the corporate governance of German corporations.

POLIS identifies with the recommendations contained in the German Corporate Governance Code, which was issued in 2002 and last amended on 14 June 2007. We believe corporate governance means responsible management and supervision in support of achieving long-term added value. We are committed to acting in an ethical, transparent and responsible manner in our relations to shareholders, business partners, employees and the general public.

In February 2008, the Board of Management and the Supervisory Board of POLIS issued a declaration concerning the recommendations expressed in the German Corporate Governance Code. In 2007, POLIS complied almost entirely with the recommendations of the German Corporate Governance Code. The current Compliance Statement of the Management Board and Supervisory Board has been published on the website of POLIS (www.polisag.de).

Close cooperation between the Board of Management and the Supervisory Board

As a German Aktiengesellschaft, POLIS is governed by German corporate law and therefore has a two-tiered management and control structure that consists of a Board of Management and a Supervisory Board.

Board of Management

The Board of Management currently consists of two members. The Board of Management manages the Company's business operations in accordance with the law, the Company's Articles of Association and the by-laws for the Board of Management. It represents the Company in relation to third parties. It is the responsibility of the Board of Management to ensure that an appropriate risk management and control structure is implemented so that developments that pose a risk to the continued existence of the Company can be identified early on. Furthermore, the Board of Management is obliged to report to the Supervisory Board regularly – at least quarterly – regarding business operations, in particular with respect to revenues and the situation of the Company and its subsidiaries, and to communicate in the last Supervisory Board meeting of the financial year the intended business policy and other fundamental corporate planning issues and to present a budget for the following financial year as well as a medium-term financial plan, which are then to be approved by way of a resolution. Moreover, the Board of Management is obliged to report to the Supervisory Board any business transactions that could be of material importance with respect to the Company's profitability or liquidity in such a timely manner that the Supervisory Board has the opportunity to comment before any such business transactions are carried out. In the case of important issues, the Board of Management is obliged to report to the chairman of the Supervisory Board

Supervisory Board

According to the Company's Articles of Association as well as Sections 95, 96 AktG (Aktiengesetz; German Stock Corporation Act), the Supervisory Board consists of six members who are elected by the General Meeting. The Supervisory Board elects a chairperson and a deputy chairperson from among their members. The Supervisory Board has adopted by-laws and formed a personnel committee.

The Supervisory Board appoints the members of the Board of Management and is authorized to dismiss them for cause. The Supervisory Board advises the Board of Management with respect to the management of the Company and monitors the conduct of management. Under German corporate law, the Supervisory Board is not authorized to manage the Company. However, the by-laws for the Board of Management require that the Board of Management require the prior approval of the Supervisory Board before it carries out certain transactions.

The Supervisory Board discusses the quarterly and semiannual reports and approves the annual financial statements of POLIS Immobilien AG and of the Group taking into account the reports prepared by the auditor. It monitors compliance of the Company with the legal provisions, official regulations and the corporate guidelines.

Duties of care and loyalty

The members of the Board of Management and of the Supervisory Board are obliged to observe duties of care and loyalty in relation to the Company. In observing these duties, the members of these corporate bodies must observe a broad range of interests, in particular of the Company, its shareholders, its employees and its creditors. Furthermore, the Board of Management must also observe the rights of the shareholders to equal treatment and the equal provision of information.

Directors' Dealings

Under Section 15a WpHG (Wertpapierhandelsgesetz; German Securities Trading Act), the members of the Supervisory Board and of the Board of Management are legally obliged to disclose the purchase or sale of shares in POLIS or any financial instruments that are related to said shares whenever the value of the transactions carried out by the member or persons associated with such member within one calendar year reach or exceed € 5,000.

To the Company's knowledge, the shareholdings of the Board of Management and of the Supervisory Board are as follows:

	31 Dec. 2007	31 Dec. 2006	
	Number of shares	Number of shares	Change
Dr. Alan Cadmus	32,500	20,000	+12,500
Birgit Cadmus	16,500	16,500	–
Dr. Matthias von Bodecker	2,000	0	+2,000
Juergen von Wendorff	3,600	0	+3,600

The members of the Board of Management and of the Supervisory Board do not hold any options for acquiring shares in the Company.

Accounting and auditing

Since financial year 2005, the accounts of POLIS have been prepared on the basis of the International Financial Reporting Standards (IFRS). As before, we agreed with the auditor – KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin – that the auditor also in this reporting year is to inform the chairman of the Supervisory Board immediately of any indications of bias or of grounds for disqualification that become apparent in the course of auditing if they are not resolved immediately. Moreover, the auditor is also to report immediately all findings or events arising in the course of the audit that are relevant to the tasks of the Supervisory Board. Also, the auditor shall inform the Supervisory Board if it discovers facts in the course of carrying out the audit that are irreconcilable with the declaration of conformity issued by the Board of Management and the Supervisory Board in accordance with Section 161 AktG, or include a note to that effect in the audit report.

Compensation report

The report was prepared in accordance with the recommendations of the German Corporate Governance Code and contains information that pursuant to the requirements of the German Commercial Code (Handelsgesetzbuch) and/or the International Financial Reporting Standards forms part of the Notes to the Consolidated Financial Statements or the Group Management Report.

Compensation of the Board of Management

The following overview illustrates the compensation for each member of the Board of Management for 2007.

	31 Dec. 2007		
€ thousand	Fixed compensation	Variable compensation	Total
Dr. Alan Cadmus	193	67	260
Dr. Matthias von Bodecker	137	45	182
	330	112	**442**

Current provisions

The compensation of the Company's Board of Management and management team consists of a fixed component and a variable component that depends on performance (a so-called Tantieme). Under the contracts for services concluded with both members of the Board of Management on 20 December 2006, the following provisions apply:

Fixed compensation

For their work, Dr. Cadmus receives a fixed annual compensation in the gross amount of € 185 thousand, and Dr. von Bodecker of € 130 thousand. The Company provides each member of the Board of Management with a company car. Payments in kind for Dr. Cadmus and Dr. von Bodecker amounted to € 8 thousand and € 7 thousand, respectively.

Variable compensation

In addition, each member of the Board of Management receives for their work an annual variable component in the amount of up to 50% of the agreed fix compensation, which is determined on the basis of the degree of success in achieving corporate objectives and individual goals as specified by the Supervisory Board at the beginning of the respective financial year. If the requirements for such a claim are not met, the Supervisory Board may nevertheless in consideration of the Company's annual results, other successes achieved by the Company, or the personal responsibility of the specific member of the Board of Management for the Company's annual results and other successes as well as the Company's economic situation grant the members of the Board of Management a bonus of up to € 30 thousand each, which it may determine at its discretion, exercising all due care and diligence.

Compensation of the Supervisory Board

(1) Each member of the Supervisory Board receives a fixed annual remuneration in the amount of € 10,000 per financial year. If a person has only been a member of the Supervisory Board for a part of the financial year, the compensation shall be determined on a pro rata basis.

(2) In addition to the fixed compensation pursuant to subsection (1), the members of the Supervisory Board also receive compensation depending on dividends of up to 100% of the fixed compensation pursuant to subsection (1).

(3) The chairman of the Supervisory Board receives twice the amounts stated in subsections (1) and (2), and the deputy chairman receives one and a half times the amount stated in subsections (1) and (2).

(4) Each member of a committee of the Supervisory Board that has convened independently of a Supervisory Board meeting at least once in the financial year receives 10% of the compensation stated in subsections (1) and (2), and the chairman of a committee of the Supervisory Board that has convened independently of a Supervisory Board meeting at least once in the financial year receives 20% of the compensation stated in subsections (1) und (2).

(5) No member of the Supervisory Board may receive more than three times the compensation stated in subsections (1) and (2).

(6) The Company has obtained in its own name liability insurance covering economic loss for the benefit of the members of the Board of Management and the Supervisory Board in accordance with terms that are customary in the market.

(7) Each member of the Supervisory Board is reimbursed for expenses incurred in the course of exercising his or her responsibilities as member.

In financial year 2007, the members of the Supervisory Board received the following fixed compensation.

€ thousand	
Carl-Matthias von der Recke (Chairman)	16
Hans Fehn (Deputy Chairman)	14
Juergen von Wendorff	10
Klaus R. Mueller	16
Michael Haupt	5
Ralf Schmechel	6
Arnoldus Brouns	10
	77

Report on takeover issues

Subscribed capital

The subscribed capital is divided into 11,051,000 ordinary shares with a nominal value of € 10.00 each. The option for issuing new shares within the context of the capital increase is discussed in the Notes to the Consolidated Financial Statements in section 3.9.

Shareholder structure

As a result of the initial public offering in March 2007, POLIS' group of shareholders has expanded considerably. The proportion of shareholders that are bound by a lock-up period is 41%. The period expires on 21 March 2008. The freefloat in accordance with the definition of Deutsche Börse AG is 45.9% as of the last day of the year. The following table shows shareholders that hold a share of more than 10%:

Shareholder	Share
Mann Immobilien-Verwaltung AG, Karlsruhe	27.8%
Bouwfonds Asset Management Deutschland GmbH, Berlin	15.1%

Change of control

The service agreements with the members of the Board of Management of POLIS do not contain any special provisions in the context of a takeover of the Company. The appointment and dismissal of members of the Board of Management and any changes to the Articles of Association are governed by the statutory provisions contained in Sections 84, 85, 133 and 179 AktG (German stock corporation law).

Supplementary report

After the reporting date, POLIS acquired the properties Weyerstrasse in Cologne and Bugenhagenstrasse in Hamburg. In each case, the transfer of possession will not occur prior to 1 April 2008.

As an additional hedge against interest rate risks, the Company concluded two interest rate swaps in the aggregate nominal amount of € 15 million.

Details are contained in the Notes to the Consolidated Financial Statements, section 8.7 entitled »Events after the reporting date«.

Risk report

Control system for risks and opportunities

On the basis of the corporate strategy, we define the Company's risk strategy in order to systematically detect risks at an early stage. We have presented the corporate objectives and strategy of POLIS in the annual report; they have been developed by the Board of Management in consultation with the Supervisory Board. They have been incorporated into the strategic plans and are appropriately monitored by our reporting system. We regularly compare the results actually achieved to the projected data within the scope of a target-performance comparison. Discrepancies trigger the development of options and the implementation of suitable measures.

In designing and documenting the system for the early detection of risks, the focus is on risks only. Opportunities are monitored and observed by the Board of Management. Within the scope of the early detection system, there is no separate documentation of opportunities.

We have implemented an appropriate risk management and control system so that developments that pose a risk to the continued existence of the Company can be identified early on. For us, strategic corporate planning represents a core aspect of risk management. In preparing our strategic plans, we incorporate operational and financial risks in order to assess potential risks before they materialize.

Our risk strategy has the following key aspects:

We permanently observe the office property market in order to form our decisions regarding the selective acquisition and sale of individual properties for the purpose of improving the structure of the portfolio.

As a part of our risk management, we focus on office properties with several tenants. This »multi-tenant strategy« reduces the risk of rent defaults and the probability that significant expanses of rental space become vacant simultaneously.

We invest in high-quality buildings capable of third party uses in good locations with improved prospects for immediate follow-on leases. Our active portfolio management and the rapid and intensive marketing of vacant space further reduce the risk of vacancies.

In connection with the default risk, we have established a central monitoring function for the early detection of an unexpected loss of rental revenues. The system comprises a thorough examination of the credit rating of new tenants and routine monitoring of the tenants' financial standing, the continuous interaction with tenants and a stringent reminder system in order to minimize the loss of rent. The central default risk monitoring procedures gave no indication that further receivables are in doubt.

Maintaining a conservative financing strategy with an equity ratio of approximately 40% reduces the effect of interest rate fluctuations. The goal is to routinely hedge at least 50% of variable-rate loans against interest rate risks by means of derivative financial instruments.

Presentation and quantification of individual risks

Financial risks

Within the scope of its business activities, POLIS is in particular exposed to interest rate and liquidity risks that are presented in general terms in the following paragraphs. Regarding the risk management of financial instruments, we refer to the explanations in section 8.5 of the Notes to the Consolidated Financial Statements. Negative trends in the credit and capital markets may limit the financing options that are available to POLIS. Risks can arise in the event of illiquidity in the banking system or on debt markets. Therefore, we also monitor the conditions for bank loans and debt market issuance as a part of our liquidity planning. In financial year 2007, German banks were still willing to extend loans to, and the debt market was still available to, well capitalized companies despite recent developments in the US mortgage market. Recent negotiations with several banks have shown that POLIS continues to have access to ample amounts of debt at attractive terms.

With respect to the risks associated with its business operations and the objective to generate a stable and attractive rate of return for its shareholders, POLIS will continue to maintain its equity ratio at a conservative level of 40%.

Business-related risks

Risks associated with the market for office buildings

The German market for office properties is influenced to a particular extent by the overall economic environment as well as the investment decisions of the market participants. Overall, the market for office buildings depends on numerous factors, some of which are interdependent and therefore subject to fluctuations that are unpredictable.

For instance, factors that influence the market include

- macroeconomic factors, in particular overall economic growth, the level of interest rates and the expectations of companies regarding future economic trends,
- the supply and demand for office properties in individual locations as well as factors specific to local markets,
- the attractiveness of Germany as a business location compared to other countries and global markets, and
- the overall legal and tax framework.

POLIS cannot influence the factors determining the market for office buildings. As a result of its focus on office buildings, POLIS cannot diversify risks via other segments within the property market. POLIS expects the effects of office property market risks on the assets, financial and earnings position for 2008 to be low.

Risks associated with letting

The properties held by the Company had an average vacancy rate of 21% based on the rental space as of 31 December 2007. Furthermore, on average, the lease agreements concluded by POLIS are short term so that lease agreements are due for extension on a comparatively frequent basis. The rental income of POLIS is diversified over a a wide range of branches. The ten most important tenants generate approximately 43% of rental revenues. For financial year 2008, a maximum proportion of 11% of the rental space – representing a volume of € 800 thousand – will come due for follow-on leases. With respect to about 80% of these areas, we do not expect any significant risks in the context of securing follow-on leases. The risk of follow-on leases was measured on the basis of an estimate of a statistical expectation value. It amounts to € 160 thousand.

Risks associated with construction costs

POLIS invests in properties with different levels of modernization requirements. The strategy of actively managing the portfolio includes modernizations as well as – to a lesser extent – project developments. These may be associated with risks such as cost overruns, delays and defects in the construction work. Currently, major construction work is being planned or carried out in three properties. We manage the construction projects using our own specialist staff in order to quickly detect and control risks that arise during planning and execution. The project controlling system we use for managing the projects produces all relevant key ratios. For financial year 2008, we are planning to invest approximately € 15 million in three investment properties. The risks associated with construction costs were measured on the basis of a statistical expected value. It amounts to € 400 thousand.

Risks associated with revaluations

The investment properties of POLIS are reported in the consolidated balance sheet using their fair value according to IAS 40. The determination of the fair value as of the respective valuation date is based on a valuation of the held properties. For this purpose, the property values determined by Feri were used for the end of financial year 2007.

The valuation of properties is based on a large number of factors that also include subjective assessments by the expert that are subject to change. The valuation of properties is therefore associated with a wide range of uncertainties. An objectively correct valuation of properties is not possible. The valuation of one or more properties may exceed the value that is actually achievable in the case of a sale. Also an erroneous assessment or changes in the factors underlying the appraisal may in future result in different values.

In planning future real estate valuations, we use a comprehensive software-based planning model. The risk assessment for the entire planned investment volume of POLIS of roughly € 350 million (including the acquisitions planned for 2008) has resulted in a statistical expected value of € 3 million. The estimate is based on historical data and subjective assessments regarding the probability of occurrence.

Risks associated with IT systems

The reliability and security of the IT system might be insufficient to withstand major disruptions or failures, resulting in interruptions of business activities and thus higher costs. For the purpose of securing our IT-based business processes, we employ two external IT service providers.

The information technologies used are continuously checked, developed and adjusted. Continuous backups guard against loss of data. We therefore believe that the risk of problems in this regard is low.

Risks related to staff

By incorporating and further expanding our asset management team, we are in a position to perform all property-related tasks. We use highly trained specialists in all areas in order to achieve our corporate objectives. Therefore, our commercial success depends crucially on the management team and our employees.

In order to retain employees in the Company, we offer attractive, well-equipped workplaces and a performance-based compensation as well as the prospect of further training and development. The interaction between employees and managers is characterized by trust and the awareness that we can only succeed in achieving the corporate objectives if we work together. This enables us to identify potential problems in their early stages before they can result in increased employee turnover.

Insurance policies

POLIS has procured adequate insurance coverage with respect to the risks of its business. The properties are insured against damages including loss of rent. The required liability insurance policies and the appropriate coverage have been obtained.

Risk assessment

The materialization of the risks described above can have negative effects on the business operations and profits of POLIS. The Board of Management of POLIS analyzes these risks continuously. The strategy of diversifying risks by investing in high-quality buildings that are capable of third party uses and are situated in attractive locations is monitored by portfolio management. The rent default risk is reduced by controlling the tenant mix, monitoring the tenants' financial standing and by actively supporting the tenants. The degree to which the operational and strategic objectives are reached is continuously supervised by a comprehensive risk management system. The forecast period for major risks extends beyond financial year 2008. Due to its regular and up-to-date reporting system, the Board of Management can react at short notice and rapidly take action in the case of deviations from the plan.

It is the belief of the Board of Management that there are no risks discernible from past or future developments that would threaten the existence of POLIS. Adequate precautions have been taken to guard against any risks that are discernible.

Report on anticipated developments

Development of the overall economy and the markets for office buildings

In 2008, the economic upswing will continue, but at a somewhat less dynamic pace. The German Council of Economic Experts (the Sachverständigenrat) expects GDP to increase by 1.9%, and the inflation rate to amount to 2.0%. The German Institute for Economic Research (Deutsches Institut für Wirtschaftsforschung, DIW) projects that economic growth will continue at its high level, predicting that GDP will increase by 2.1% in 2008 and by 1.7% in 2009.

Given the above, we believe that over the next two years

- the German economy will grow by approximately 2% per year,
- the employment rate will remain high in 2008 and 2009,
- the inflation rate will decrease as a result of the strong Euro and a slight slowdown of the global economy,
- short-term interest rates in the Eurozone will fall,
- long-term interest rates will increase moderately.

This overall good economic climate forms the basis for the expected positive development of the office property markets in Germany. We do not expect the volume of investment properties bought and sold and the volume of lease agreements signed in 2008 will reach the levels of the prior year. However, we expect that the rent levels for modern and well-equipped buildings will continue to rise.

Furthermore, we believe that as a result of the portfolio transactions which were and were not carried out in 2007, that many properties will be sold individually on account of the changed conditions in the credit markets. Also, German companies and public-sector owners will continue to sell properties not required for their operations, and institutional investors will sell properties that they hold directly. Given the above, POLIS will continue to identify office buildings with potential for modernization which are favorably priced in 2008.

Major opportunities for POLIS Group

POLIS is active in a growing market with qualified employees, significant financial flexibility and a proven business model. The market environment and the strengths of the Company provide a promising perspective for increasing the Company's market value.

Market-specific opportunities

The market for acquiring and managing office buildings in Germany provides significant growth opportunities for specialized property companies. The increasing importance of the service sector as a proportion of GDP will underpin sustainable increases in the demand for office buildings in the large metropolitan centers in Germany. Moreover, the practice of using company-owned properties will decline in Germany, as it has in other developed economies. 60% of commercial properties in Germany are owned by their users. British companies own only 40% of the properties they use. In the US, this ownership ratio is only 30%. Since too much capital of German companies is tied up in properties, we believe that there will be an increasing need for sale-and-lease-back transactions and a continuation of the sale of properties that are not required for the business.

The locations of POLIS – the most important German office market centers – are characterized by excellent infrastructure and dynamic economic activity. The preferred locations in the office and services sector are located in the city centers. This is where economic strength and purchasing power has been concentrated for generations. These locations will benefit from the continued positive economic environment in Germany in the years 2008 and 2009. Tenants in these locations prefer office buildings with modern equipment such as those offered by POLIS.

Regarding the supply side, the market constellation is favorable for us as well. For a large proportion of the inner-city areas in which buildings were erected in the fifties, sixties and seventies, there is a substantial need for modernization. At the same time, the level of new construction activities that would compete with office modernization is currently low, and the cost situation gives modernized buildings a significant competitive advantage over new buildings.

Company-specific opportunities

With our concept that focuses on office buildings in attractive locations in the most important German business locations, we are in a position to take advantage of opportunities as they arise. We consider ourselves active portfolio managers and specialists in the modernization of office buildings and can address all key areas of the property management value chain with our in-house expertise. Our experienced asset management team puts us in a position to identify attractive buying opportunities ourselves and to tap the potential for value creation through optimization and/or letting.

We also believe that we have substantial opportunities as a result of our solid capital structure and financial strength. Our favorable equity base allows us to raise debt at attractive terms and capitalize on investment opportunities very rapidly upon completion of our thorough evaluation process. Our shareholder structure provides the Company with additional stability and strategic opportunities.

Assessment of future business prospects

By substantially expanding the portfolio to approximately € 350 million in financial year 2008, the completion of the two modernization properties and the increase of the overall occupancy rate, revenues and profits from current property management will increase considerably in 2008. We are planning to almost double rental income to roughly € 17 million in financial year 2008 and further increase rental income to around € 20 million in 2009.

The projected valuation results are associated with particular uncertainty due to the fact that they depend on a large number of factors. Because of the positive market environment and the expected success of our modernization efforts, we believe valuation results and results from the sale of individual properties will amount to around € 10 million in total. In the following year, we intend to achieve results from revaluation and from sales of around € 15 million.

The growth in the area of the Value Added properties that are characterized by their proportion of vacancies will again lead to significant modernization and revitalization expenses.

For financial year 2008, we expect overall results before taxes of between € 9 million and € 11 million. For financial year 2009, we intend to achieve results before taxes of between € 12 million and € 15 million.

We plan to increase the net asset value to more than € 14.50 per share for the current year 2008 and to above € 15.50 per share in the next year.

On this basis, we expect profits in accordance with German commercial law that will allow us to distribute an appropriately sized dividend to our shareholders for financial year 2008.

Actual results can deviate substantially from our expectations of the probable development if one of the uncertainties mentioned in the risk report or other uncertainties materialize or the assumptions underlying the statements turn out to be incorrect.

Berlin, February 2008

POLIS Immobilien AG
The Board of Management

Dr. Alan Cadmus Dr. Matthias von Bodecker

Responsibility Statement

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

Berlin, 26 February 2008

POLIS Immobilien AG
The Board of Management

Dr. Alan Cadmus Dr. Matthias von Bodecker

Consolidated Balance Sheet

As of 31 December 2007
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

ASSETS

€ thousand	Note	31 Dec. 2007	31 Dec. 2006
Non-current assets			
Investment properties	3.1	246,248	118,881
Intangible assets	3.2	59	0
Property, plant and equipment	3.2	186	0
Financial assets	3.3	1,035	1,035
Deferred tax assets	3.4	891	1,688
Receivables and other financial assets	3.5	202	182
Total non-current assets		**248,621**	**121,786**
Current assets			
Down payments for investment properties	3.1	35	0
Receivables and other financial assets	3.5	3,238	1,118
Current tax receivables	3.5	251	197
Cash in banks	3.6	1,821	875
Other assets	3.7	68	405
Non-current assets held for sale	3.8	17,990	0
Total current assets		**23,403**	**2,595**
Total assets		**272,024**	**124,381**

EQUITY AND LIABILITIES

€ thousand	Note	31 Dec. 2007	31 Dec. 2006
Equity			
Subscribed capital	3.9	110,510	51,400
Capital reserves	3.9	26,730	4,328
Retained earnings	3.9	5,656	5,177
Consolidated net profit		9,043	479
Share in equity allocable to the equity holder of the parent		151,939	61,384
Minority interests		0	0
Total equity		**151,939**	**61,384**
Non-current liabilities			
Liabilities to banks	3.10	21,619	27,863
Deferred tax liabilities	3.4	1,374	876
Total non-current liabilities		**22,993**	**28,739**
Current liabilities			
Liabilites to banks	3.10	74,538	17,992
Payments received on account	3.10	1,982	656
Trade accounts payable	3.10	2,152	782
Other provisions		0	104
Income tax liabilities	3.10	34	32
Other financial liabilities	3.10	11,320	14,692
Liabilities in the content of the properties held for sale	3.8	7,066	0
Total current liabilities		**97,092**	**34,258**
Total equity and liabilities		**272,024**	**124,381**

Consolidated Income Statement

for the period from 1 January to 31 December 2007
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	Note	2007	2006
Rental revenues	4.1	9,788	4,315
Renovation and maintenance express	4.2	-498	-866
Property management expense	4.3	-766	-213
		-1,264	-1,079
Income from current property management		**8,524**	**3,236**
Unrealised gains from the revaluation of investment properties		9,341	1,921
Unrealised losses from the revaluation of investment properties		-569	-2,260
Income from the revaluation of investment properties	4.4	8,772	-339
Income fom the sale of investment properties		0	10,160
Carrying amount of the investment properties sold		0	-9,710
Result from the sale of investment properties	4.5	0	450
Other income	4.6	193	131
Other expense	4.7	-591	-80
Administrative expense	4.8	-3,552	-822
Income before financing activity and taxes		**13,346**	**2,576**
Investment income	4.9	91	274
Financial income	4.10	634	473
Financial expenses	4.11	-3,409	-2,447
Result before taxes		**10,662**	**876**
Deferred taxes	4.12	-1,613	-207
Income taxes	4.12	-6	-190
Consolidated net income		**9,043**	**479**
of which:			
Allocable to minority interests		0	0
Allocable to equity holder of the parent		9,043	479

€	Note	2007	2006
Earnings per share			
undiluted	2.4.12	0.93	0.10
diluted	2.4.12	0.93	0.10

Consolidated Cash Flow Statement

for the period from 1 January to 31 December 2007
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	2007	2006
Consolidated net income	9,043	479
Adjusted for:		
Financial result	2,684	1,701
Income from revaluation of investment properties	-8,772	339
Result from the sale of investment properties	0	-450
Deferred tax on IPO-expenses	213	0
Depreciation on intangible assets and property, plant and equipment	30	0
Losses from revaluation of non-current assets held for sale	497	0
Decrease of provisions	-104	-74
Increase in trade receivables and other assets which cannot be allocated to the investment and financing activity	-1,838	-754
Changes in the trade payables and other liabilities which cannot be allocated to the investment and financing activity	3,937	1,806
Tax paid	0	-294
Net cash (used by) from operation activities	**5,690**	**2,753**
Payments for the acquisition of software, fixtures and equipment	-275	0
Proceeds from the sale of investment properties	0	10,160
Payments for the acquisition of investment properties	-140,495	-43,930
Payments for the acquisition of investment properties	0	0
Net cash (used by) from investment activities	**-140,770**	**-33,770**
Contribution of owners (capital increase)	81,193	31,368
Payments of repayments of loans	-40,712	-3,584
Proceeds from debt	98,080	4,500
Interests received	615	473
Interests paid	-3,241	-2,323
Dividends received	91	273
Net cash (used by) from financing activities	**136,026**	**30,707**
Net change in cash and cash equivalents	**946**	**-310**
Cash in banks at the beginnig of the period	**875**	**1,185**
Cash in banks at the end of the period	**1,821**	**875**

See point 7 in the notes for additional explanatory information on the cash flow statement.

Consolidated Statement of Changes in Equity

for the period from 1 January to 31 December 2007
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	Subscribed capital	Capital reserves	Retained earnings	Consolidated net income	Share in equity allocable to the equity holders of the parent	Minority interest	Total equity
Balance as of 31 Dec. 2005	**19,500**	**6,342**	**3,695**	**0**	**29,537**	**0**	**29,537**
Expenses and income directly recognized in equity	0	0	0	0	0	0	0
Consolidated net profit	0	0	0	479	479	0	479
Total expenses and income recognized in equity	**0**	**0**	**0**	**479**	**479**	**0**	**479**
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
Balance as of 31 Dec. 2006	**51,400**	**4,328**	**5,177**	**479**	**61,384**	**0**	**61,384**
IPO-expenses	0	-4,198	0	0	-4,198	0	-4,198
Expenses and income directly recognized in equity	0	**-4,198**	**0**	**0**	**-4,198**	**0**	**-4,198**
Consolidated net profit	0	0	0	9,043	9,043	0	9,043
Total expenses and income recognized in equity	0	**-4,198**	**0**	**9,043**	**4,845**	**0**	**4,845**
Withdrawal/addition	0	0	479	-479	0	0	0
Capital increase	59,110	26,600	0	0	85,710	0	85,710
Balance as of 31 Dec. 2007	**110,510**	**26,730**	**5,656**	**9,043**	**151,939**	**0**	**151,939**

See point 3.9 in the notes for an explanation of the changes in equity.

Notes to the Consolidated Financial Statements as at 31 December 2007

1. General information

1.1. Accounting policies

The consolidated financial statements of POLIS Immobilien AG (hereinafter referred to as »POLIS«) for financial year 2007 have been drawn up in accordance with the International Financial Reporting Standards (IFRS) as they are to be applied in the EU as well as their interpretation by the International Financial Reporting Interpretation Committee (IFRIC).

See section 8.3 for IFRS standards already adopted as of 31 December 2007 but not yet applied by POLIS.

The consolidated financial statements as of 31 December 2007 and the group management report for 2007 are prepared in accordance with Section 315a (1) HGB [German Commercial Code], and published in the electronic version of the Federal Official Gazette (Bundesanzeiger).

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 cost of sales method – in other respects, the recommendations of EPRA (European Public Real Estate Association) were applied in addition.

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

The Board of Management approved the consolidated financial statements on 26 February 2008 and forwarded them to the Supervisory Board. It is the Supervisory Board's responsibility to review the consolidated financial statements and to declare whether it approves them.

1.2. Disclosures concerning business activities

POLIS Immobilien AG, a listed company founded in Berlin in 1998, purchases office buildings for its own portfolio, which are then renovated and extended to the extent required. POLIS focuses exclusively on office buildings in the central business districts of German office locations and invests in properties that exhibit tangible potential for appreciation or a stable cash flow. POLIS has its own asset management team and manages its entire portfolio of properties itself.

2. Accounting, measurement and consolidation methods

2.1. Basis of consolidation

The consolidated financial statements include POLIS Immobilien AG and all companies controlled by POLIS. Control as a possibility for determining the financial and business policies of the consolidated companies is ensured by holding a majority of the voting rights. In addition to POLIS, the group of consolidated companies includes 29 fully consolidated companies in Germany.

As of 31 December 2007, the following subsidiaries were included:

Subsidiary	Share in the capital in %
POLIS Grundbesitz Objekt Verwaltungs GmbH, Berlin	100
Haus Steinstrasse GmbH & Co. KG, Berlin	100
Office building Berliner Allee GmbH & Co. KG, Berlin	100
Office building Steinstrasse 27 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
POLIS Objekt Steinstrasse 20 GmbH & Co. KG, Berlin	100
POLIS Objekt Ludwig-Erhard-Strasse 14 GmbH & Co. KG, Berlin	100
POLIS Objekte Dusseldorf GmbH & Co. KG, Berlin	100
POLIS Objekt Landschaftstrasse GmbH & Co. KG, Berlin	100
POLIS Objekt Kasernenstrasse GmbH & Co. KG, Berlin	100
POLIS Objekt Torstrasse GmbH & Co. KG, Berlin	97
POLIS Objekt Tuebinger Strasse 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 Ebertplatz GmbH & Co. KG, Berlin	100
POLIS Quartier Buechsenstrasse GmbH & Co. KG, Berlin	100

Subsidiary	Share in the capital in %
Companies founded in 2007:	
POLIS Objekt Domstrasse GmbH & Co. KG, Berlin	100
POLIS Objekt Gustav-Heinemann-Ufer GmbH & Co. KG, Berlin	100
POLIS Objekte Duisburg Essen GmbH & Co. KG, Berlin	100
POLIS Objekte Mainz GmbH & Co. KG, Berlin	100
POLIS Objekte Mannheim Stuttgart GmbH & Co. KG, Berlin	100
POLIS Objekte Kassel Cologne GmbH & Co. KG, Berlin	100
POLIS Objekt Lessingstrasse 14 GmbH & Co. KG, Berlin	100
POLIS Objekt Immermannstrasse GmbH & Co. KG, Berlin	100
POLIS GmbH & Co. Achtundzwanzigste KG, Berlin	100
POLIS GmbH & Co. Neunundzwanzigste KG, Berlin	100
POLIS GmbH & Co. Dreissigste KG, Berlin	100

2.2. Change in the consolidated group

Compared to 31 December 2006, the consolidated group of POLIS increased by eleven companies. All eleven companies were established in financial year 2007 by 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 controls the financial and business policies directly or indirectly. Control is assumed when the percentage of voting rights exceeds 50%.

Subsidiaries are fully consolidated as of the time at which control passes to the parent enterprise. They are deconsolidated when the control ends.

Amalgamated companies must be accounted for in compliance with the rules of IFRS 3. Accordingly, the capital consolidation is carried out using the purchase method by offsetting the costs of the investment against the newly valued 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 valued at market value must be recognized as goodwill and tested for impairment annually. A negative difference must be reflected in the income statement immediately.

In financial year 2007, no business combinations within the meaning of IFRS 3 took place.

Inter-company receivables, liabilities, revenues, interim results, expenses and income are eliminated in consolidation.

2.4. Accounting and valuation policies

The consolidated financial statements have been drawn up in accordance with the historical cost principle except for the investment properties, which are recognized at fair value. Furthermore, financial instruments recognized in the income statement at their fair value were reported at their fair value. Non-current assets held for sale are valued at the lower of the carrying amount and fair value less the costs to sell.

The accounting and valuation principles shown below are unchanged from the previous year and applied 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 as a proportion of the rental area does not exceed 10%.

Investment properties are valued at the time of their acquisition at cost including ancillary costs. The subsequent valuation of the investment properties occurs at fair value, with gains or losses from the change of fair value being recognized in the income statement. Fair value is the amount at which real property can be exchanged between expert business partners who are willing to enter into a contract and who are independent of one another.

See section 3.1 for a more detailed explanation of the principles for determining fair value.

2.4.2. Intangible assets

Intangible assets with a limited operational lifetime are recognized at acquisition cost or production cost and are generally amortized on a straightline basis over a period of between 3 and 5 years depending on their expected operational lifetime.

2.4.3. Tangible assets

Tangible assets that are subject to wear and tear are valued at acquisition cost or production cost less scheduled depreciation and impairment. Depreciable tangible assets are depreciated on a straightline basis. Fixtures and equipment are depreciated over a period of between 3 and 13 years. If tangible assets are sold or closed down, the acquisition costs or production costs and the appropriate accumulated depreciation of the asset are deleted from the balance sheet; any resulting profits or losses are reflected in the income statement.

2.4.4. Financial assets

Financial assets are principally recognized on the date on which a company becomes a contracting party in the disposition of the financial asset and thus becomes entitled or obligated to render 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 cash flow from the asset expire.

Financial assets are valued at fair value at the time they are first recognized. The subsequent measurement depends on the classification of the financial instruments by measurement category pursuant to IAS 39.

The classification depends on the particular purpose for which the financial asset was acquired by POLIS. The classification is made in the categories »Valued at fair value and taken to income« and »Loans and receivables«.

The financial assets of POLIS 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 fair value cannot be reliably estimated are stated at cost and valued in the following years at amortized cost.

b) *Receivables and other financial 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 valued at fair 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 valued at fair value; changes in fair value are reflected in the income statement.

c) *Cash in banks*
Cash in banks is valued at fair value on the reporting date.

2.4.5. Non-current assets held for sale

A non-current asset (or a group of assets held for sale) is to be classified as »held for sale« if the associated carrying amount is largely realized by a sale transaction rather than by continued use. The consolidated financial statements separately disclose as properties held for sale in accordance with IFRS 5 those non-current assets that are to be sold by way of an asset deal if a sale is highly probable within the next twelve months.

2.4.6. Income taxes

The amount of actual income taxes still unpaid is shown as a liability. Overpayments of income taxes are reported as a receivable.

Deferred taxes are set up using the balance sheet-oriented liabilities method for all temporary differences between the carrying amounts of the consolidated balance sheet and the fair values for tax purposes. In addition, deferred taxes are reported for expected future tax reductions from losses carried forward. Deferred tax assets for temporary differences and for tax losses 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 realization 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.

2.4.7. Financial liabilities

A financial liability is recognized if the Company is a contracting party to the disposition of the financial liability.

Financial liabilities are deleted from the accounts when the corresponding obligation has been discharged, i.e. when it has been paid or cancelled or it has expired.

Loans are valued when recognized for the first time at the fair 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 valued at the amount corresponding to the anticipated outflow of funds. Derivative financial instruments having a negative market value are valued on each reporting date based on the first-time recognition, changes of the fair value being recognized in the income statement.

2.4.8. Impairment

An impairment of financial assets that are reported at amortized cost exists if the carrying amount exceeds the amount that could be obtained by using or selling the asset. In this case, the asset is classified as impaired, resulting in the recognition of an impairment charge.

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 lower realizable amount. Recognizable individual risks are reported as value adjustments. Impairments of trade receivables and other receivables are recorded in separate allowance accounts. In order to determine impairments, individual receivables are comprehensively assessed and evaluated on the basis of credit ratings and analyses of historical defaults on receivables. A direct reduction in the carrying amounts or a utilization of any previously recorded impairment provision is only implemented when a receivable has become irrecoverable.

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

Planned dividends are reported as investment income. The income is recognized at the time at which the Company obtains the right to receive the dividend.

The financial results include interest income from cash in banks as well as income from the change of the fair value of financial instruments and are recognized on the basis of the effective interest method.

The financial expenses include interest expenses for loans as well as expenses from the change of the fair value of financial instruments. Interest expenses are recognized based on the effective interest method.

2.4.10. Expense and income realization

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

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

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

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

Interest is recognized as an expense or income on an accrual basis using the effective interest method. Borrowing costs for qualified assets are recognized as an asset.

2.4.11. 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 fair value of investment properties. Please see section 3.1 for information on property valuation with regard to individual risks.

2.4.12. Earnings per share

Earnings per share are determined as follows:

	2007	2006
Group net profit/ loss for the year after income allocable to minority interests (in € '000)	9,043	479
Average number of ordinary shares in circulation	9,721,520	4,671,663
Earnings per share (diluted and undiluted) (in €)	**0.93**	**0.10**

2.5. Segment reporting

POLIS 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 are valued at fair value. All properties of POLIS are held to generate rental revenues and/or for the purpose of increasing their value; there is only a small degree of own use.

The fair values of the properties as of 31 December 2007 as well as for the previous year were determined on the basis of appraisals carried out by an expert.

The following table illustrates the changes in the investment properties in 2007:

€ thousand		01 Jan. 2007					31 Dec. 2007
Property	Location	Fair value	Additions	Disposals	Transfers	Change in market value	Fair value
Luisenstrasse 46	Berlin	10,510	0	0	0	50	10,560
Potsdamer Strasse 58	Berlin	14,240	238	0	0	302	14,780
Kleppingstrasse 20	Dortmund	5,421	55	0	-60	-86	5,330
Berliner Allee 42	Dusseldorf	0	4,499	0	0	1,741	6,240
Berliner Allee 44	Dusseldorf	8,630	0	0	0	-10	8,620
Berliner Allee 48	Dusseldorf	5,360	19	0	0	261	5,640
Immermannstrasse 11	Dusseldorf	0	3,421	0	0	-41	3,380
Kasernenstrasse 1	Dusseldorf	11,254	7	0	0	869	12,130
Steinstrasse 11	Dusseldorf	8,540	0	0	0	230	8,770
Steinstrasse 20	Dusseldorf	10,880	4,503	0	0	47	15,430
Steinstrasse 27	Dusseldorf	8,610	0	0	0	10	8,620
Gutleutstrasse 26	Frankfurt am Main	9,950	0	0	0	990	10,940
Ludwig-Erhard-Strasse 14	Hamburg	11,160	110	0	0	0	11,270
Domstrasse 10	Hamburg	0	13,855	0	0	-65	13,790
Landschaftstrasse 2	Hanover	1,715	1,493	0	0	-8	3,200
Landschaftstrasse 8	Hanover	3,581	0	0	-2	331	3,910
Koenigsplatz 57	Kassel	0	2,454	0	0	386	2,840
Ebertplatz 1	Cologne	0	7,522	0	0	-242	7,280
Gustav-Heinemann-Ufer 54	Cologne	0	12,247	0	0	1,743	13,990
Hansaring 20	Cologne	0	3,500	0	0	480	3,980
Konrad-Adenauer-Ufer 51–54	Cologne	0	6,432	0	0	538	6,970
Neumarkt 49	Cologne	0	7,498	0	0	0	7,498
Rheinstrasse 105-107	Mainz	0	4,315	0	0	-5	4,310
Rheinstrasse 43–45	Mainz	0	2,159	0	0	301	2,460
Friedrichsring 46/Collinistr. 2	Mannheim	0	2,405	0	0	285	2,690
Lessingstrasse 14	Munich	0	9,682	0	0	88	9,770
Boeblinger Strasse 8	Stuttgart	0	3,289	0	0	111	3,400
Portfolio Buechsenstrasse	Stuttgart	0	29,392	0	0	-112	29,280
Torstrasse 15	Stuttgart	0	14,927	0	-15,350	423	0
Tuebinger Strasse 31 + 33	Stuttgart	9,030	0	0	-15	155	9,170
		118,881	**134,022**	**0**	**-15,427**	**8,772**	**246,248**

The transfers largely concern the classification of the investment property Torstrasse 15 in Stuttgart as »Non-current investment property held for sale« (for further details, see section 3.8).

The changes in market value are shown separately in the income statement. The additions contain investments in renovations of € 6,337 thousand (previous year: € 0 thousand).

There are no restrictions as to the disposability of the Group's investment properties. Contractual obligations amounting to € 375 thousand exist to carry out maintenance work/improvements on the investment property Gutleutstrasse 26, Frankfurt am Main.

The following table shows the development of the investment properties in 2006.

€ thousand		01 Jan. 2006					31 Dec. 2006
Property	Location	Fair value	Additions	Disposals	Transfers	Change in market value	Fair value
Rankestrasse 17	Berlin	9,710	0	9,710	0	0	0
Luisenstrasse 46	Berlin	11,380	0	0	0	-870	10,510
Potsdamer Strasse 58	Berlin	14,790	0	0	0	-550	14,240
Kleppingstrasse 20	Dortmund	0	5,421	0	0	0	5,421
Berliner Allee 44	Dusseldorf	8,050	0	0	0	580	8,630
Berliner Allee 48	Dusseldorf	0	4,715	0	0	645	5,360
Kasernenstrasse 1	Dusseldorf	0	11,254	0	0	0	11,254
Steinstrasse 11	Dusseldorf	8,530	0	0	0	10	8,540
Steinstrasse 20	Dusseldorf	0	10,778	0	0	102	10,880
Steinstrasse 27	Dusseldorf	8,200	0	0	0	410	8,610
Gutleutstrasse 26	Frankfurt am Main	10,790	0	0	0	-840	9,950
Ludwig-Erhard-Strasse 14	Hamburg	0	10,986	0	0	174	11,160
Landschaftstrasse 2	Hanover	0	1,715	0	0	0	1,715
Landschaftstrasse 8	Hanover	0	3,581	0	0	0	3,581
Tuebinger Strasse 31 + 33	Stuttgart	0	9,030	0	0	0	9,030
		71,450	**57,480**	**9,710**	**0**	**-339**	**118,881**

Down payments for investment properties concern notarial expenses associated with the purchase of the investment property Weyerstrasse in Cologne.

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

€ thousand	2007	2006
Rental revenues from investment properties	9,763	4,315
Directly attributable property management costs that led to rental revenues		
Renovation and maintenance	497	866
Property management	447	173
	944	**1,039**

€ thousand	2007	2006
Directly attributable property management costs that did not lead to rental revenues		
Property management	309	40
	309	**40**

Directly attributable property management costs that did not lead to rental revenues are determined on the basis of the individual vacancy rates of the investment properties.

Information concerning property valuation as of 31 December 2007

POLIS commissioned Feri Rating & Research AG (hereinafter referred to as »Feri«) to determine the market values of all buildings held by POLIS and to document it in the form of rating reports and market value appraisals.

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 knowledgeably, 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 cash flow 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 cash flow method was performed using the Feri Immobilienobjekt Rating property valuation software package.

The Feri real estate valuation comprehensively takes into account all factors that influence the value of the property. Subjective value judgments 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 the market value

The market value of the property is determined using the discounted cash flow method. The difference between rental revenues and management costs is the net cash flow, which is determined for all periods of the remaining useful life of the property. The present value calculation is based on the so-called break-even yield. 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 rental revenues initially contain the contractually agreed rents. The rental revenues from letting vacant areas and from reletting properties after the existing lease agreements have expired are forecast on the basis of the market rents that are expected for each property and then added to the above figure.

The market rent that is expected for each property is derived from markups and markdowns on the general market rent based on the rating results for the desirability of the property.

The starting point for calculating the breakeven yield 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 value of this 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 break-even yield is individually determined at the single property level.

The property risk is finally a risk mark-up that takes into account all risks of the particular property.

The key factors determining this risk factor are each of the following, in equal measure: location-specific risk, property-specific risk, and tenant-specific risk.

The final weighted break-even yield for all properties is 7.10%.

The net cash flow components were disclosed in presenting the results of the market value calculation. The sum of the cash values of this net cash flow 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 cash flow and the discount factors.

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

As part of determining the risk profile of a property, the tenant-specific risk is determined by evaluating the tenant creditworthiness, the tenant concentrations 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/periodization

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.

Compensation

The valuation of the entire portfolio contains a lump-sum compensation that does not depend on the level of the determined market values.

3.2. Intangible and tangible assets

This position comprises software, fixtures and equipment. The development of this position is shown in the following table:

	Acquisition/ production cost			Depreciation/amortization			Carrying amount	
€ thousand	**01 Jan. 2007**	Additions	**31 Dec. 2007**	**01 Jan. 2007**	Additions	**31 Dec. 2007**	**31 Dec. 2006**	**31 Dec. 2007**
Software	0	64	64	0	5	5	0	59
Fixtures and equipment	0	211	211	0	25	25	0	186
	0	**275**	**275**	**0**	**30**	**30**	**0**	**245**

3.3. Financial assets

Financial assets are investments that as in the past consist of 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 valuation was carried out at cost due to the lack of an active market and the fact that POLIS as minority shareholder does not have the information required to determine the fair value.

	Acquisition/ production cost			Depreciation/amortization			Carrying amount	
€ thousand	**01 Jan. 2007**	Additions	**31 Dec. 2007**	**01 Jan. 2007**	Additions	**31 Dec. 2007**	**31 Dec. 2006**	**31 Dec. 2007**
Investments	1,035	0	1,035	0	0	0	1,035	1,035
	1,035	**0**	**1,035**	**0**	**0**	**0**	**1,035**	**1,035**

3.4. Deferred tax assets and liabilities

The net deferred tax liabilities totaling € 483 thousand (previous year: overall deferred tax assets of € 812 thousand) due to temporary differences between the IFRS and the tax balance sheet and tax losses carried forward as of 31 December 2007 and 2006 are determined by balance sheet items as follows:

As of 31 December 2007 and 31 December 2006, deferred taxes were formed on the corporate tax and trade tax loss carried forward of all taxable units in the full amount since a realization is probable on the basis of medium term corporate planning.

Deferred tax credit

€ thousand	2007	2006
Tangible assets	521	667
Tax losses carried forward	1,542	1,793
Balance	-1,172	-772
Deferred tax claims	**891**	**1,688**

Deferred tax liabilities

€ thousand	2007	2006
Tangible assets	2,538	1,530
Other assets	8	117
Other	0	1
Balance	-1,172	-772
Deferred tax debts	**1,374**	**876**

3.5. Receivables and other financial assets as well as current tax receivables

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

	2007			2006		
€ thousand	Total	non-current	current	Total	non-current	current
Trade receivables	2,442	0	2,442	860	0	860
of which allocable operating expenses	2,106	0	2,106	699	0	699
of which rent receivables	336	0	336	161	0	161
Receivables from rent-free periods	256	202	54	277	182	95
Sales tax credit	626	0	626	100	0	100
Other receivables	116	0	116	63	0	63
	3,440	**202**	**3,238**	**1,300**	**182**	**1,118**

The carrying amounts correspond to the fair values.

The individual allowances for doubtful accounts totalled € 167 thousand in 2007 and € 117 thousand in the previous year. The following table presents the changes in the allowances for doubtful accounts on current trade receivables:

€ thousand	2007	2006
Status as of 1 January	**117**	**60**
Dissolution	-24	-30
Use	0	0
Additions	74	87
Status as of 31 December	**167**	**117**

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 2007 and in previous years.

Other receivables include two derivative financial instruments, among others. This concerns an interest rate cap with a positive fair value of € 1 thousand (previous year: € 2 thousand) for limiting the interest rate risk of variable rate loans with a nominal volume of € 4,000 thousand and a remaining term of 2 years. The interest rate cap is at 5%. In addition, this item includes an interest rate swap with a positive fair value of € 51 thousand (previous year: € 40 thousand) for eliminating interest rate risk of variable-rate loans with a nominal volume of € 5,000 thousand and a remaining term of 2 years. The fixed interest rate is 3.66%. However, the interest rate cap and the interest rate swap do not comply with the requirements of IAS 39 with respect to hedge accounting and are consequently valued at fair value; changes in current values are recognized in the income statement. In determining current values, market data are applied.

The current tax receivables in 2007 and in the previous year concern creditable interest withholding taxes, the solidarity surcharge and income tax credits.

3.6. Cash in banks

The reported figures represent cash in banks and cash holdings.

3.7. Other assets

The Other Assets position contains expenses for an insurance policy that will be recognized as an expense in the following year.

3.8. Non-current assets held for sale

The reported properties held for sale concern the investment property Torstrasse 15 in Stuttgart (see section 3.1) as well as two properties not classified as investment properties due to the fact that they were acquired with the intention to sell them. In the case of the property Viehoferstrasse 31, Essen, impairment charges were recorded because the fair value was less than the carrying amount. The impairment charge is disclosed in the Other expenses position. The reported properties held for sale will be sold within the following twelve months.

€ thousand		01 Jan. 2007			31 Dec. 2007
Property	Location	Fair value	Additions	Impairment	Fair value
Viehoferstrasse 31	Essen	0	1,567	-497	1,070
Gallenkampstrasse 20	Duisburg	0	1,570	0	1,570
Torstrasse 15	Stuttgart	0	15,350	0	15,350
		0	**18,487**	**-497**	**17,990**

Liabilities in the context of the properties held for sale concern the current, variable-rate financing of the investment property Torstrasse 15 in the amount of € 7,066 thousand (previous year: € 0 thousand).

3.9. Equity

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

In financial year 2007, POLIS Immobilien AG carried out the following capital measures:

General Shareholders' Meeting on 23 January 2007

On the basis of resolutions adopted by the Extraordinary General Shareholders' Meeting on 23 January 2007, the following measures were carried out:

Reclassification of share capital

The share capital of **€ 51,400,000** formerly composed of 51,400,000 ordinary shares with a notional portion of the share capital of € 1.00 each, was redivided into 5,140,000 ordinary shares with a notional portion of the share capital of € 10.00 each.

Capital increase

The share capital of € 51,400,000 was increased in exchange for cash contributions by € 51,400,000 to **€ 102,800,000** by issuing up to 5,140,000 new ordinary shares, each representing a notional portion of the share capital of € 10.00. The new shares were issued at an issue amount of € 10.00 per ordinary share. They have been participating in profits since 1 January 2006. The shareholders' statutory subscription right was excluded. Only Bayerische Hypo- und Vereinsbank and/or Viscardi Securities Wertpapierhandelsbank GmbH were to be entitled to subscribe to the new shares, which were to offer the new ordinary shares by obligation under an underwriting agreement in the Federal Republic of Germany within the context of a public offer, and in the EU and Switzerland in the context of a private placement, at a price that was yet to be determined. It was only possible to implement the resolution concerning the increase of the share capital to the extent that new ordinary shares were subscribed by the end of 23 April 2007, at least, however, 2,570,000.

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 (Authorized Capital 2006/I of up to € 87,222), and thus Section 4 (3) of the Articles of Association, was cancelled.

The authorization for the issue of convertible bonds granted by the General Shareholders' Meeting on 5 July 2006 (Conditional Capital 2006/I of up to € 4,500,000), and thus Section 4 (4) of the Articles of Association, was cancelled.

Authorized capital 2007/I

The Board of Management was authorized to increase the Company's share capital until 30 June 2007 subject to the approval of the Supervisory Board in one or more steps by up to € 7,710,000 in total by issuing up to 771,000 new ordinary shares in exchange for cash contributions. The Board of Management was authorized subject to the approval of the Supervisory Board to exclude the shareholders' subscription right if the shares were issued to the underwriting banks or the syndicate leader in the context of the initial public offering for exercising the greenshoe option granted by the Company.

Conditional capital 2007/I

The share capital was increased by up to € 1,540,000 by issuing up to 154,000 ordinary bearer shares in the context of a conditional capital increase. The conditional capital increase solely served the purpose of granting rights inherent in shares to the holders or creditors of bonds, who had until 31 July 2007 to exercise their option rights. The holders and creditors definitively waived their right to exercise these option rights on 30 June 2007.

Initial public offering on 21 March 2007

Following a draft resolution proposed by the Board of Management and the Supervisory Board, the General Shareholders' Meeting on 23 January 2007 approved the Company's initial public offer in the course of which the Company's entire share capital was to be admitted for trading on the official market (Amtlicher Markt) of the Frankfurt Stock Exchange as well as at the same time in a segment of the official market with post-admission duties (Prime Standard).

Pricing

The Board of Management decided on 20 March 2007 with the approval of the Supervisory Board to set the placement price at € 14.50 per share for the issuance of shares of POLIS Immobilien AG within the context of the initial public offering; the Company's shares were admitted for trading on the Frankfurt Stock Exchange on 21 March 2007.

Use of authorized capital 2007/I/greenshoe

In accordance with the resolution passed by the Board of Management and the Supervisory Board on 2 April 2007, capital was increased from the authorized capital 2007/I by a nominal amount of € 7,710,000 by issuing up to 771,000 new ordinary bearer shares each with a notional proportion of the share capital of € 10.00 at an issue amount of € 14.50 per new ordinary share for the purpose of exercising the greenshoe option granted by the Company; only Bayerische Hypo- and Vereinsbank AG (Munich) was entitled to subscribe.

The company's share capital thus increased to **€ 110,510,000** and is composed of 11,051,000 ordinary shares. All shares belong to the same class, and each share represents one vote. The notional portion of an ordinary share of the share capital is € 10.00.

General Shareholders' Meeting on 26 June 2007

Authorized capital 2007/II

The Board of Management was authorized by the General Shareholders' Meeting on 26 June 2007 to increase the Company's share capital until 26 June 2012 subject to the approval of the Supervisory Board in one or more steps by up to € 55,000,000 in total by issuing up to 5,550,000 new ordinary shares in exchange for cash contributions and / or contributions in kind.

Capital reserves

The **capital reserves** (2007: € 26,730 thousand, 2006: € 4,328 thousand) include the premium from the issue of shares of POLIS less the expenses associated with the initial public offering taking into account deferred taxes.

Retained earnings

Setting off POLIS Immobilien AG's net income under commercial law against the capital reserves in previous years has affected the retained earnings at the Group level. Furthermore, the adjustments taken to equity in connection with the first-time application of IFRS (primarily: fair value measurement of the investment properties) are a component of the retained earnings.

3.10. Liabilities

The following table shows the remaining maturities of the liabilities (previous year's figures in brackets):

Overview of liabilities

€ thousand	Total	Remaining maturities up to 1 year	1 to 5 years	more than 5 years
Liabilities to banks	103,223 (45,855)	81,604 (17,992)	21,619 (27,863)	0 (0)
Down payments received	1,982 (656)	1,982 (656)	0	0
Trade liabilities	2,152 (782)	2,152 (782)	0	0
Income tax liabilities	34 (32)	34 (32)	0	0
Other financial liabilities	11,320 (14,692)	11,320 (14,692)	0	0
	118,711 (62,017)	**97,092** (34,154)	**21,619** (27,863)	**0** (0,000)

The liabilities to banks include liabilities of € 7,066 thousand (previous year: € 0 thousand) in the context of non-current assets held for sale.

The liabilities to banks are secured by mortgages in the amount of € 100,066 thousand (previous year: € 60,582 thousand). Of the liabilities to banks, a total of € 75,040 thousand (previous year: € 6,200 thousand) are at variable interest rates and € 28,183 thousand (previous year: € 39,655 thousand) are at fixed interest rates.

The fair values of the fixed rate liabilities amount to € 28,246 thousand as of 31 December 2007 (previous year: € 39,985 thousand). The fair values of the liabilities to banks are based on discounted cash flows that were determined on the basis of current market interest rates. The underlying discount interest rates were between 5.15% and 5.24% (including margin).

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

Time to maturity Year	Interest rate %	Initial amortization %	Remainder of debt € thousand
2008	variable	-	75,040
2008	5.40	2	5,716
2009	5.60–6.18	1	6,117
2010	5.98	1–2	11,145
2011	5.46	2	5,205
			103,223

The advance payments received in 2007 and in the previous year include the advance payments for operating expenses from the tenants. The amount stated corresponds to the fair values.

The income tax liabilities concern corporate income tax and solidarity surcharge totaling € 34 thousand (previous year: € 32 thousand). The carrying amounts correspond to the fair values.

The other financial liabilities include current purchase price liabilities totaling € 10,480 thousand from the acquisition of two investment properties. Also included are value added tax liabilities. The carrying amounts correspond to the fair values.

3.11. Leases

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

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

€ thousand	Total	up to 1 year	1 to 5 years	more than 5 years
Minimum lease payments	54,723 (24,418)	13,077 (6,552)	29,356 (14,874)	12,290 (2,992)

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.

3.12. Additional information concerning financial instruments

Additional information is provided below concerning balance sheet items that include financial instruments.

The following table shows the carrying amounts for all categories of financial assets and liabilities:

Financial assets

€ thousand	2007	2006
Cash in banks and cash holdings	1,821	875
Financial assets held for trading	52	42
Receivables	3,388	1,258
Financial assets available for sale	1,035	1,035
	6,296	**3,210**

Financial liabilities

€ thousand	2007	2006
Financial liabilities at amortized cost	118,677	61,985
	118,677	**61,985**

The net profits/losses from financial instruments are as follows:

€ thousand	2007	2006
Financial assets held for trading	10	131
Receivables	-50	-57
	-40	**74**

Net profits of financial assets held for trading include valuation gains from the valuation of derivative financial instruments (interest rate cap, interest rate swap) regarding which hedge accounting is not applied. Net losses from receivables contain changes in the value adjustments.

4. Disclosures concerning the income statement

4.1. Rental revenues

This only includes rental revenues from the investment properties and the properties disclosed as Non-current assets held for sale. The rental revenues include deferred rental revenues (€ -21 thousand; previous year: € -51 thousand) from the recognition of rent-free periods.

4.2. Renovation and maintenance expense

This position reports expenses in connection with the reletting of rental space in the investment properties as well as general expenses for renovation and repair work on the investment properties.

€ thousand	2007	2006
Renovation	222	624
Maintenance expenses	276	242
	498	**866**

4.3. Property management expense

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

4.4. Income from the revaluation of investment properties

The table of changes in the properties in section 3.1 provides a detailed summary of the composition of this item (also see section 3.8).

4.5. Result from the sale of investment properties

In the previous year, the net income of € 450 thousand resulted from disposal of the investment property Rankeplatz in Berlin. No investment properties were sold in 2007.

4.6. Other income

As in the previous year, the other income position for financial year 2007 primarily includes costs that were passed on.

4.7. Other expenses

The other expenses item includes value adjustments on non-current assets held for sale in the amount of € 497 thousand (previous year: € 0 thousand) as well as value adjustments on rents receivable, among others.

4.8. Administrative expense

The following table shows the breakdown of the administrative expense:

€ thousand	2007	2006
Asset management	1,315	349
Staff costs	999	28
Legal, consulting and auditing fees	516	249
Office and travel expenses	305	0
Stock exchange-related expenses, financial reports, general shareholders' meeting	150	32
Marketing and advertising expenses	98	52
Other expenses	169	112
	3,552	**822**

Asset management expenses include the settlement in the context of the cancellation of the asset management agreement effective 30 June 2007 (€ 1,235 thousand, previous year: € 0 thousand) and the costs of current asset management (€ 80 thousand, previous year: € 349 thousand). Other expenses primarily consist of the compensation of the Supervisory Board and insurance expenses as well as amortization of software, fixtures and equipment in the amount of € 30 thousand (previous year: € 0 thousand).

In addition to the two members of the Board of Management, nineteen persons were employed in the second half of 2007 after the asset management team from Bouwfonds was taken over.

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.

4.10. Financial income

The financial income relates to interest income in the amount of € 624 thousand (previous year: € 342 thousand) from current accounts of POLIS and income from hedging transactions from the valuation of the derivative financial instruments at fair value in the amount of € 10 thousand (previous year: € 131 thousand).

4.11. Financial expenses

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

€ thousand	2007	2006
Interest expenses	2,973	2,301
Ancillary financing costs	309	146
Ground rent	127	0
	3,409	**2,447**

In financial year 2007, ground rent was paid for hereditary building rights for the properties Landschaftstrasse 2 in Hanover and a property that forms part of Quartier Buechsenstrasse in Stuttgart.

4.12. Taxes

Profit before income taxes amounted to € 10,662 thousand for financial year 2007 and € 876 thousand for financial year 2006.

The income tax expenses for financial years 2007 and 2006 break down as follows:

Expenses (-)/Income (+)

€ thousand	2007	2006
Deferred taxes on losses carried forward	103	234
Deferred taxes from temporary differences	-1,716	-441
Current taxes	-6	-190
	-1,619	**-397**

According to current regulations, deferred taxes are calculated based on the applicable or expected tax rates at the time of realization. These rates are in principle based on the legal regulations valid or enacted on the reporting date. Based on the business model of POLIS, no trade tax is levied on the income earned. Trade tax that may arise (at the level of POLIS Immobilien AG) will therefore be recognized as a reconciliation item. The corporate income tax rate in Germany was 25% in 2007 and 2006, and the solidarity surcharge was 5.5% of this number. The resulting combined tax rate is 26.375%. Due to the business tax reform act (Unternehmenssteuerreformgesetz), the combined tax rate will decrease to 15.825% from 2008 onwards. This is the effect of a reduction in the corporate income tax rate from 25% to 15%.

In calculating the deferred tax assets and the deferred tax liabilities, the reduction in the tax rate has already been taken into account. This resulted in a deferred tax asset of € 764 thousand. The following calculation shows how the reported income tax expenses are derived from the expected tax expenses. The expected tax expense is calculated on the basis of a combined tax rate of 26.375% for financial years 2007 and 2006.

€ thousand	2007	2006
Pre-tax result	10,662	876
Group tax rate	26.375%	26.375%
Expected expenses from income taxes	-2,812	-231
Non-deductible operating expenses	-6	-12
Trade tax	435	-8
Effect of tax reduction	764	0
Corporate income tax – previous years	0	-146
Taxes on income	-1,619	-397
Tax rate	15.2%	45.3%

5. Other financial liabilities

As of the reporting date, other financial obligations exist in the amount of € 1,116 thousand (previous year: € 0 thousand) from order commitments involving construction contracts and in the amount of € 14,100 thousand in the context of the agreement regarding the purchase of the investment property Weyerstrasse 79–83 in Cologne.

6. Disclosures concerning relationships with related companies and parties

Closely related parties are the members of the Supervisory Board, the Board of Management 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 section 8.1 and the explanations in the compensation report in Section III of the Management Report for information on the relations with members of the Board of Management and the Supervisory Board. No transactions were concluded with close family members of the Supervisory Board and the Board of Management.

Under an asset management agreement, POLIS Group received services from Bouwfonds Asset Management Group worth € 1,941 thousand (previous year: € 1,069 thousand), which were settled at market conditions until the agreement was cancelled.

Under a lease agreement with Bouwfonds Asset Management Group, services were rendered in the amount of € 94 thousand (previous year: € 112 thousand) in the financial year which were settled at market conditions.

7. Disclosures concerning the cash flow statement

The cash flow 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 cash flow statement consist exclusively of the cash in banks and cash holdings disclosed in the balance sheet.

8. Other disclosures

8.1. Supervisory Board and Board of Management

The compensation report in Section III of the Group Management Report summarizes the principles governing the compensation of the Board of Management of POLIS and details the level and structure of the compensation of the members of the Board of Management and the Supervisory Board.

The members of the Board of Management during financial year 2007 were:

Dr. Alan Cadmus, Speaker of the Board of Management and Chief Executive Officer, Berlin

Dr. Matthias von Bodecker, Chief Financial Officer, Berlin

The overall compensation of the Board of Management in financial year 2007 amounted to € 442 thousand. The following persons were members of the Supervisory Board:

- Michael Haupt, Berlin, Managing Director of Bouwfonds Asset Management GmbH (member of the Supervisory Board (until 26 June 2007), chairman (until 23 January 2007))
- Carl-Matthias von der Recke, Frankfurt am Main, Deputy Chairman of the Management Board of Mehl-Muelhens Foundation (chairman (since 23 January 2007)
- Hans Fehn, Karlsruhe, Member of the Board of Management of the Church Pension Fund (KZVK) (retired) (deputy chairman)
- Arnoldus Brouns, Maastricht / Netherlands, Managing Director of Bouwfonds Asset Management GmbH

- Juergen von Wendorff, Ingeln, Member of the Board of Management of HANNOVER Finanz GmbH
- Klaus R. Mueller, Germersheim, member of the management, Mann Immobilien-Verwaltung AG
- Ralf Schmechel, Malsch, member of the management, Mann Management GmbH (since 26 June 2007)

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

The overall compensation of the Supervisory Board amounted to € 77 thousand in financial year 2007.

8.2. Corporate governance

In February 2008, the Board of Management and the Supervisory Board of POLIS issued declarations concerning the recommendations contained in the German Corporate Governance Code. In 2007, POLIS complied almost entirely with the recommendations of the German Corporate Governance Code. The current compliance statement of the Board of Management and the Supervisory Board has been published on the website of POLIS (www.polisag.de).

8.3. IFRS standards already adopted but not yet applied

The following IFRS standards which have already been passed but were not yet bindingly applicable as of 31 December 2007 have not been applied.

IFRS 8 Segment Reporting: IFRS 8 converts 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 a significant impact on future consolidated financial statements of POLIS.

IFRIC 11 IFRS 2-Group and Treasury Share Transactions gives guidance on how group-wide share-based payments are to be recognized, how the effects of the transfer of employees within a group are to be treated and how share-based payments are to be treated when companies 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. It is not expected that IFRIC 11 will have any significant impact on future consolidated financial statements of POLIS.

IFRS not yet adopted by the EU in the course of the endorsement process:

IFRIC 12 Service Concession Arrangements covers 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.

IFRIC 13 Customer Loyalty Programmes deals with accounting and valuation issues concerning customer loyalty programs such as »Miles & More«, bonus points in department stores or service stations and similar programs. The interpretation is to be applied to financial years that commence on or after 1 July 2008. Earlier application is recommended. It is not expected that IFRIC 13 will have a significant impact on future consolidated financial statements of POLIS.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – the interpretation suggests how to define a limit in accordance with IAS 19 Employee Benefits for surpluses that can be recognized as a defined benefit asset. Also, it explains the effects on the valuation of assets and provisions from performance-based plans on the basis of a legal obligation to pay a minimum contribution, for instance due to statutory requirements or under the terms of the plan. This ensures that companies consistently record pension plan surpluses as assets. Application of the interpretation is mandatory for financial years starting on or after 1 January 2008. Earlier application is recommended. It is not expected that IFRIC 14 will have a significant impact on future consolidated financial statements of POLIS.

IAS 23 revised Standard – Borrowing Costs – The main difference from the previous version is the cancellation of the option to immediately recognize borrowing costs as an expense if the borrowing costs are associated with assets that require significant time to become operational. The revised Standard is to be applied to qualified assets that are recognized as assets from 1 January 2009. Earlier application is recommended. It is not expected that the revised Standard will have a significant impact on future consolidated financial statements of POLIS.

8.4. Share-based payment transactions

The convertible bond program agreed on 29 December 2006 as part of the asset management agreement between POLIS and Bouwfonds Real Estate Services Deutschland GmbH was cancelled retroactively effective 30 June 2007 along with the asset management agreement.

8.5. Financial risk management goals and methods

The Group is exposed to various risks arising from its business operations. These risks consist primarily of the letting risk, the interest rate risk, the default risk and the liquidity risk. The Board of Management of POLIS is responsible for risk management. It uses an extensive, software-supported planning model for early detection of a complex risk situation.

a) *Interest rate risk*

Interest rate risks arise from market-related fluctuations in interest rates. These have an impact on the level of interest expenses. As of 31 December 2007, the variable rate liabilities to banks of POLIS amounted to € 75,040 thousand, of which € 5,000 thousand were converted to a fixed-rate loan by means of an interest rate swap, and another € 4,000 thousand were secured by means of an interest rate cap. The fixed-rate liabilities to banks stood at € 28,183 thousand. The proportion of unsecured, variable-rate liabilities to banks was thus 64%. After the reporting date, further interest rate swap transactions were carried out that involved a nominal volume of € 15,000 thousand and a remaining term of 5 years. The fixed interest rates on these transactions are 4.33% and 3.93%. Taking into account these hedging transactions, the share of unsecured, variable-rate liabilities to banks amounts to 50%. This level is considered reasonable. POLIS uses a cash flow-at-risk analysis to determine the profit and loss effects and the effects on equity of interest rate changes. In carrying out this analysis, the cash flow that results from a parallel shift of the interest rate curve by 100 basis points is calculated for a forecast period of four years. As of 31 December 2007, the risk from a theoretical increase in interest rates by 100 basis points amounted to € 660 thousand (previous year: € 62 thousand).

b) *Default risk/credit risk*

Default risks relate to the non-settlement of rent receivables. A centralized monitoring of all existing receivables is used for the early detection of bad debts. The following table presents the maximum default risk by balance sheet item:

Financial assets

€ thousand	2007	2006
Investments	1,035	1,035
Receivables and other financial assets	3,440	1,300
	4,475	**2,335**

POLIS has received significant collateral in the form of rent deposits (cash deposits and guarantees). The following table gives an overview of the age of the rent receivables:

Rent receivables

€ thousand	31 Dec. 2007	31 Dec. 2006
Carrying amount	**336**	**161**
of which neither impaired nor past due	169	0
of which not impaired, and past due in the following periods		
more than 90 days	5	0
61–90 days	9	4
31–60 days	68	61
0–30 days	85	96

Regarding the existing rent receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The receivables from allocable operating expenses in the amount of € 2,106 thousand (previous year: € 699 thousand) are neither impaired nor due.

The following table presents an analysis of impaired assets:

Impaired assets

€ thousand	2007	2006
Carrying amount of receivables with individual allowances for doubtful accounts	167	117
Amount of individual allowances for doubtful accounts	-167	-117
Net carrying amount (after value adjustments)	0	0

c) *Liquidity risk*

POLIS strives to gain and maintain access to a wide range of sources of finance in order to secure the Company's liquidity. Since its successful initial public offering in March 2007, POLIS has been listed in the Prime Standard of the official market (Amtlicher Markt) of the Frankfurt Stock Exchange. The listing of the Company's shares provides POLIS with access to a wide range of institutional and private investors and enhances the Company's financial flexibility. In addition to using the multi-year liquidity planning, the Board of Management also avails itself of a comprehensive rolling monthly liquidity plan 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.

The following table presents all contractually agreed payments as of 31 December 2007 for amortization, interest and repayments of financial liabilities reported in the balance sheet:

Analysis of remaining terms

€ thousand	Total	2008	2009	2010	2011	2012 or later
Non-derivative financial liabilities						
Liabilities to banks	106,752	83,108	7,503	11,254	4,886	0
Down payments received	1,982	1,982	0	0	0	0
Trade liabilities	2,152	2,152	0	0	0	0
Income tax liabilities	34	34	0	0	0	0
Other liabilities	11,320	11,320	0	0	0	0
Loan commitments from banks	**-71,910**	**-71,910**	**0**	**0**	**0**	**0**
	50,330	**26,686**	**7,503**	**11,254**	**4,886**	**0**

8.6. Fees and services of the auditor

The fees incurred for the services provided by the auditors KPMG in financials years 2007 and 2006 amounted to:

€ thousand	2007	2006
Audit fees	156	157
Fees for related services		
Comfort letter	109	0
IFRS consulting	20	0
	285	**157**

8.7. Events after the reporting date

a) *Purchase of significant assets*

Purchase of the investment property Weyerstrasse 79–83, Cologne

The investment property Weyerstrasse 79–83 in Cologne was acquired by notarized purchase and sale agreement dated 19 December 2007. Possession, benefits and burdens pass at the time the purchase price is paid. The purchase price is € 14,100 thousand.

Purchase of the investment property Bugenhagenstrasse 5, Hamburg

The investment property Bugenhagenstrasse 6 in Hamburg was acquired by notarized purchase and sale agreement dated 19 February 2008. Possession, benefits and burdens pass at the time the purchase price is paid. The purchase price is € 4,260 thousand.

b) *Conclusion of interest rate hedges*

After the reporting date, two interest rate swap transactions were consummated for the purpose of eliminating the interest rate risk of variable-rate loans with a nominal volume of € 15,000 thousand and a remaining term of five years. The interest rate swaps do not comply with the requirements of IAS 39 with respect to hedge accounting and are valued at fair value; fair value changes are therefore recognized in the income statement.

Berlin, 26 February 2008

POLIS Immobilien AG
The Board of Management

Dr. Alan Cadmus

Dr. Matthias von Bodecker

Auditor‘s report

We audited the consolidated financial statements prepared by POLIS Immobilien AG, Berlin (until 1 February 2007: POLIS Grundbesitz und Beteiligungs Aktiengesellschaft, Berlin), comprising the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and the notes to the consolidated financial statements as well as the group management report for the financial year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and the group management report in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU and the applicable supplementary provisions under commercial law in accordance with Section 315a Para. 1 HGB (Handelsgesetzbuch (German Commercial Code)) is the responsibility of the legal representatives of the Company. It is our responsibility to express an opinion on the consolidated financial statements and the group 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 HGB and the generally accepted German standards for the audit of financial statements issued by the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW). These standards require that we plan and perform the audit in such a way that inaccuracies or misstatements materially affecting the presentation of the assets, financial and earnings position conveyed by the consolidated financial statements in observance of applicable reporting requirements and by the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the consolidated group as well as an assessment of potential misstatements are taken into account in determining the audit procedures. The effectiveness of the internal control system relating to the accounting functions and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined within the scope of the audit primarily on the basis of random samples. 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 by the legal representatives as well as an assessment of the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not result in any qualifications.

Based on the findings of our audit, we are convinced that the consolidated financial statements comply with the International Financial Reporting Standards (IFRS) as applicable in the EU and the applicable supplementary provisions under commercial law in accordance with Section 315a Para. 1 HGB and convey a view of the assets, financial, and earnings position of the consolidated group that corresponds to the actual situation in compliance with these provisions. The group management report is in accord with the consolidated financial statements, conveys an overall accurate image of the status of the consolidated group and accurately portrays the opportunities and risks of future developments.

Berlin, 27 February 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Graf von Hardenberg	Beuth
Auditor	Auditor

Financial Calendar

Interim Report, 1st Quarter 2008	8 May 2008
Annual General Meeting 2008	4 July 2008
Interim Report, Half Year 2008	7 August 2008
EXPO REAL 2008, DVFA Real Estate Conference, Munich	6–8 October 2008
Real Estate Share Initiative, Frankfurt am Main	20–21 October 2008
Interim Report 1st–3rd Quarter 2008	5 November 2008
German Equity Forum, Frankfurt am Main	10–12 November 2008

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