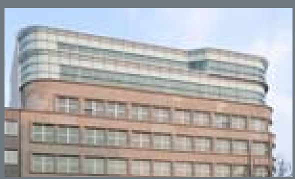
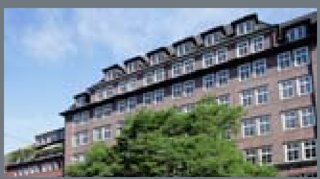
POLIS

2008 Annual Report

With our **focused** business model and financial strength, we are well placed to take advantage of market opportunities as they arise. We seek **profitable** growth in all business cycles and strive to illustrate our success in a **transparent** manner.

Successful business model

POLIS Immobilien AG is a real estate company that actively manages its portfolio and has a clearly defined strategy, many years of experience and a sound financial footing. The foundation of our earnings power is a portfolio of quality properties with stable cash flows. The high degree of investment security of these »Core« properties derives from their good central locations in the most important German business centers, their high technical standards and a strong diversification in the composition of tenants. The know-how we have acquired over many years of actively managing such properties allows us to successfully carry out modernization projects. We substantially increase the value of our »Core« and »Value Added« properties and realize these gains within the scope of a moderate buy-and-sell approach.

Luna Gilly, age 10

We asked the children of our employees to show us how they see the office building of the future. Some of the drawings submitted are printed in this Annual Report.

focused Since POLIS was founded in 1998, it has focused as a specialist in modernizing and managing properties 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.

profitable The objective of our work is to achieve long-term profitable growth by actively managing properties 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.

transparent 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 on page 11 of this report and on the POLIS website (www.polis.de).

Key financial data of POLIS Immobilien AG

Results in € thousand	2008	2007
Rental revenues	14,993	9,788
EBIT	10,421	13,346
EBT	1,157	10,662
Group net profit	1,144	9,043
Cash flow from current business operations	8,862	5,690
Funds from operations (FFO)[1]	2,996	2,381

Balance sheet in € thousand	31 Dec. 2008	31 Dec. 2007
Non-current liabilities	278,589	248,621
Current liabilities	32,808	23,403
Equity	153,085	151,939
Total assets	311,397	272,024
Equity ratio in %	49%	56%
Loan to value[2]	52%	39%

Net asset value of POLIS (€ thousand)[3]	153,459	152,422
Shares (no.)	11,051,000	11,051,000
Net asset value per share (€)[3]	13.89	13.79

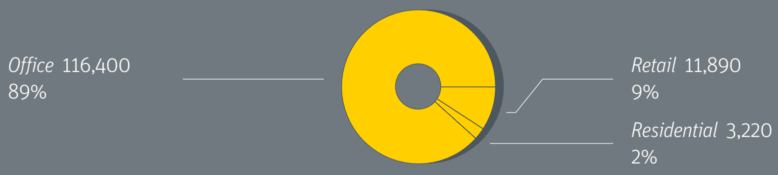
Share	
Security identification code/ISIN	691330/DE0006913304
2008 high (Xetra)	€ 11.19
2008 low (Xetra)	€ 8.00
Closing price on 30.12.2008 (Xetra)	€ 9.50

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*

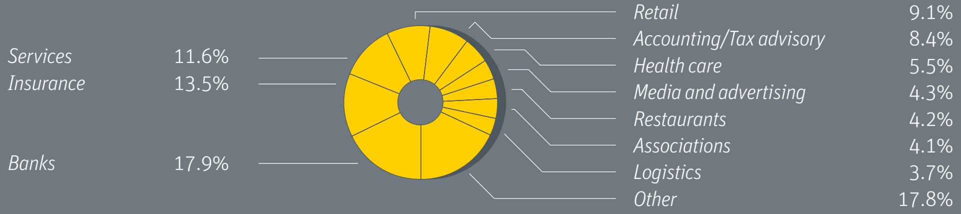
2 *Ratio of loan liabilities to the value of the properties*

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

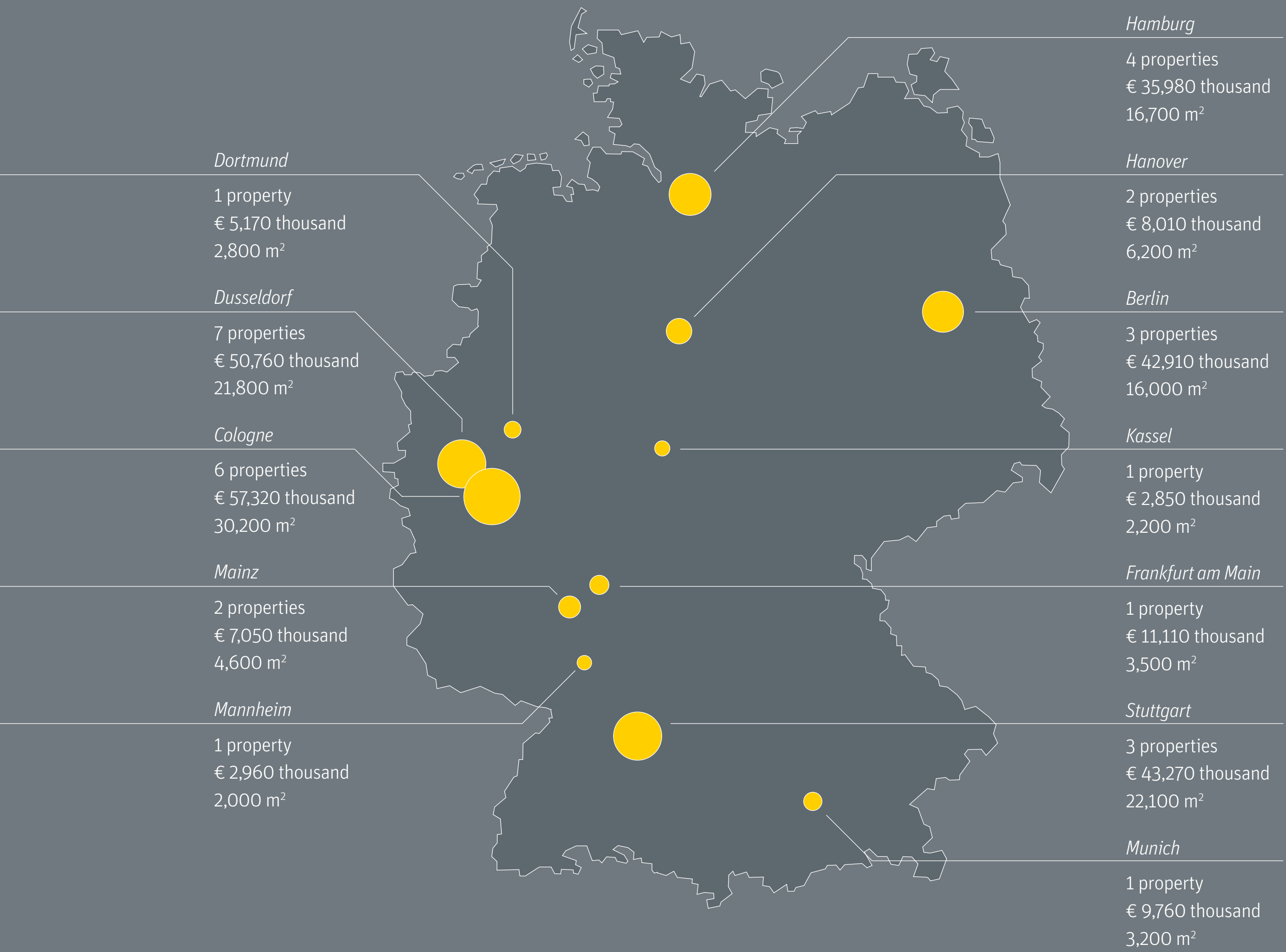
Portfolio by use | *Basis: m²*



Sources of rental revenue – sectors | *in %*



Portfolio by location | *source: appraisal by FERI as at 31 Dec. 2008*



Letter from the Board of Management

2008 **Dear Shareholders, Ladies and Gentlemen,** The turbulence on the money and capital markets is increasingly affecting the real economy, and Germany as a nation highly dependent on exports is now experiencing a recession after five years of growth. While employment levels and the demand on the rental market remain high for the time being, many business climate indices und GDP growth trends suggest a difficult market environment ahead. The money and capital markets currently lack the key elements that are indispensable to any functioning economy: trust and confidence. Lenders and investors are unsettled.

POLIS with its focus on quality properties in attractive central locations and its sound capital structure is well prepared for a weakening economy. Our equity ratio of 49% (loan to value: 52%) provides us with a strong margin of safety with respect to possible operational and financial risks. Furthermore, we deliberately chose early last year to slow down the rate of expansion of our portfolio. At the same time, we were able to sell at a profit two properties worth a total of € 35 million in 2008. As a result of our developing the portfolio cautiously and selling individual properties, we have retained the flexibility to acquire further properties while maintaining an appropriate balance between risk and return.

Regarding financing, we significantly extended the maturities of our liabilities to banks and converted a total of € 65 million in current bank loans to non-current bank loans. Only three bank loans totaling € 7.5 million are due in 2009. These can either be extended or repaid by means of existing credit facilities. Therefore, we are in a position to assure our shareholders, lenders and business partners that POLIS is on a very solid footing in terms of its operations and finances.

Stability The shareholder structure of POLIS with several financially strong institutional investors provides us with additional stability. In 2008, Mann Immobilien-Verwaltung AG increased its stake in POLIS within the context of a mandatory takeover offer and now holds a majority share of approximately 53%. We welcome the increased commitment of Mann Immobilien-Verwaltung AG to our Company. The visible support by the financially strong major shareholder strengthens our Company and reinforces our strategy. The Mann Group has consistently supported our concept and has fostered our growth since before our initial public offering by investing substantial sums.

The past financial year, the first complete financial year after our initial public offering, was very satisfactory in operational terms. We succeeded in increasing rental revenues by 53% to about € 15 million, and net rental income increased by 49% to € 12.7 million. We let around 15,300 m² of office space. The sale of two investment properties earned us profits of around € 2.4 million.

Photographed from the roof of the POLIS office building at Potsdamer Straße 58 in Berlin

Dr. Matthias von Bodecker

Born 1964, Economist, CFO,
Member of the POLIS Board of Management
since 2001

Dr. Alan Cadmus

Born 1955, Lawyer, Founding shareholder, CEO,
Member of the POLIS Board of Management
since 1998

Unfortunately, this trend in business operations was not reflected in our income from the revaluation of our investment properties. The income from the revaluation of investment properties was negative, at € 1.9 million, considerably lower than in the previous year (€ 8.8 million). In relation to the investment volume as of 31 December 2008 of around € 280 million, this represents a change in the market value of only 0.7%, a figure we consider comparatively insignificant in view of the current financial and economic crisis. In addition, we incurred valuation losses (non-cash) from hedging instruments in the amount of € 2.5 million as a result of the strong fall in interest rates at the end of the year, which will reduce our interest expenses in coming years. Hedging the interest rate risk is one of the principles we apply in order to avoid inappropriate risk levels.

2009 In financial year 2009, we will focus our activities on further increasing the occupancy rate of our properties and continue with modernizing promising properties in our portfolio. In addition, we will monitor and control our administrative expenses even more stringently. We assume that opportunities for acquiring further properties will arise in the course of the current financial year that we will examine. Whether this will lead to an expansion of our portfolio remains to be seen. Moreover, we will also review potential, lucrative options for selling properties. We are proceeding on the assumption that our rental revenues will remain stable in 2009 despite the planned revitalization measures and the resulting vacancies and despite the sales that have taken place in the mean time. For financial year 2010, we intend to increase our rental revenues to around € 18 million.

We will more than double our investments in the modernization of high-quality properties in attractive locations in order to contribute to the sustainable growth of POLIS. After expanding the impressive building on the Rhine at »Konrad-Adenauer-Ufer 41–45« by adding a full floor and a terraced top floor, it will be comprehensively refurbished and equipped with modern technical facilities. We will also convert the building at »Domstrasse 10« in Hamburg and the »Quartier Buechsenstrasse« in Stuttgart into modern, technically well-equipped and economical office buildings. In our modernization projects, we endeavor to use environmentally sustainable building materials and procedures, install modern thermal insulation, and use geothermal heating and cooling of buildings in order to achieve a sustainable increase in the values of our properties.

Despite the crisis in financial markets, the market for acquiring and managing office buildings in Germany provides major growth opportunities for specialized property companies that manage their own portfolio. Our office buildings are situated in locations where people have been working and living for generations, throughout all economic cycles. During its existence now spanning more than ten years, POLIS' proven business model has already allowed it to master challenging economic situations, and we are confident that we will continue to succeed in the market in the future.

Berlin, February 2009

POLIS Immobilien AG
The Board of Management

Dr. Alan Cadmus

Dr. Matthias von Bodecker

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 fundamental 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.

I regularly discussed and coordinated all issues and questions of key importance with the Board of Management, also outside of meetings.

Supervisory Board meetings and resolutions

In the period under review, the Supervisory Board held five meetings in which the members of the Board of Management participated. One further meeting was held over the telephone to discuss the changing situation on the financial and capital markets.

In the course of these meetings, the Board of Management informed the Supervisory Board in detail and in a timely manner in particular of the Company's strategy, plans, the 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 and the sale of two 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 issues in financial year 2008 concerned the changes in the economic situation as a result of the international financial and economic crisis and the resulting consequences for the strategy and the business model of POLIS also with respect to the acquisition of further properties.

Election of Supervisory Board members

The conclusion of the General Shareholders' Meeting on 4 July 2008 marked the end of the terms of office of all Supervisory Board members so that new Supervisory Board elections were required pursuant to the articles of association and the German Stock Corporation Act. The following members were nominated and elected by the General Shareholders' Meeting for the next four years:

- Carl-Matthias von der Recke, consultant, Frankfurt a. M.
- Klaus R. Müller, Mann Immobilien-Verwaltung AG, Karlsruhe
- Arnoldus Brouns, Bouwfonds Asset Management, Hoevelaken, the Netherlands
- Jürgen von Wendorff, HANNOVER Finanz GmbH, Hanover
- Ralf Schmechel, Mann Management GmbH, Karlsruhe
- Benn Stein, CT legal Stein und Partner, Hamburg

I wish to thank Hans Fehn, who as deputy chairman of the Supervisory Board has supported POLIS Immobilien AG since the time it was founded, for his very close and constructive, long-term cooperation.

Supervisory Board chair and personnel committee

At the Supervisory Board meeting on 4 July 2008, Mr. Carl-Matthias von der Recke was re-elected chairperson of the Supervisory Board, and Mr. Klaus Müller was elected deputy chairperson; the personnel committee was re-constituted and consists of Mr. Carl-Matthias von der Recke (chairperson), Mr. Arnoldus Brouns and Mr. Klaus Müller. The personnel committee met four times in total, during which its main focus was on preparing a longer-term, variable compensation plan, which was approved by the General Shareholders' Meeting on 4 July 2008.

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 increasing the long-term value of the Company. After the reporting date, the Board of Management and the Supervisory Board will issue a declaration of conformity in March 2009 in accordance with Section 161 AktG *(Aktiengesetz* (German Stock Corporation Act)), which has been made available for the long-term 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.

Mandatory takeover offer by Mann Immobilien-Verwaltung AG

In August 2008, Mann Immobilien-Verwaltung AG increased its share in POLIS to more than 30% and was obliged as a result to submit a mandatory takeover offer to the remaining shareholders. The mandatory takeover offer was published on 15 September 2008. In the extraordinary meeting on 18 September 2008, the situation was discussed in detail between the Board of Management and the Supervisory Board, and the visible support offered by the Company's major shareholder was greatly appreciated. On 24 September 2008, the Board of Management and the Supervisory Board issued a joint statement on the basis of an outline prepared at the Supervisory Board meeting on 18 September 2008.

By the time the acceptance period expired on 13 October 2008, the mandatory takeover offer had been accepted with respect to approximately 20% of the shares. Mann Immobilien-Verwaltung AG currently holds approximately 53.20% of the shares in POLIS.

Annual and consolidated financial statements for 2008

The auditor appointed by the General Shareholders' 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 2008 as well as the consolidated financial statements and the group management report as of 31 December 2008 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 3 March 2009 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. The Supervisory Board adopts the proposal by the Board of Management to offset against capital reserves the net accumulated losses of POLIS Immobilien AG determined in accordance with HGB.

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. They have worked successfully to secure the further growth of the Company and manage the portfolio also in difficult times and have taken all possible precautions in order to meet future challenges and continue to be in a position to take advantage of opportunities.

On behalf of the Supervisory Board

Carl-Matthias von der Recke
Chairperson

Berlin, 10 March 2009

The POLIS Share

Market environment in 2008 – development of the market for property stocks

Stock markets around the world responded to the financial and economic crisis with increased volatility and share price adjustments. After five straight years of increasing share prices, the DAX 30 index suffered a serious decline of around 40% in the year under review. After 2002, this was the second worst result in its entire history. The decline in German property stocks in 2008 was even greater when measured against the DAXsubsector Real Estate Price Index, reaching approximately 65%. Some German property companies lost 80% of their market value and traded at a discount of up to 80% relative to their net asset value. The POLIS share price was not affected to this extent; it achieved comparatively stable results, trading at a loss of around 8% in relation to the closing quotation of the previous year.

Share data for 2008

ISIN	DE0006913304
Security identification code (WKN)	691330
Reuters/Bloomberg symbol	PQLG.DE/PQL GR
Closing price 2008	€ 9.50
Number of shares	11.05 million
Market capitalization	€ 105 million
Market segment	Prime Standard
Designated sponsor	UniCredit Markets & Investment Banking
Research coverage	UniCredit Markets & Investment Banking, Viscardi Securities AG, HSH Nordbank
52 week high	€ 11.19
52 week low	€ 8.00
Average daily trading volume, €	€ 29 thousand
Average daily trading volume	3,112 shares
Earnings per share	€ 0.10
NAV per share	€ 13.89
Free float as defined by Deutsche Börse	31.7%

The POLIS share is listed in the Regulated Market of the Frankfurt Stock Exchange. It satisfies the transparency requirements that apply in the Prime Standard segment.

Public mandatory takeover offer by Mann Immobilien-Verwaltung AG

In August 2008, Mann Immobilien-Verwaltung AG increased its share in POLIS to more than 30% and was obliged as a result to submit a mandatory takeover offer to the remaining shareholders. By the time the acceptance period expired on 13 October 2008, the mandatory takeover offer had been accepted with respect to approximately 20% of the shares. According to information provided to the Company, Mann Immobilien-Verwaltung AG currently holds 53.2% of the shares in POLIS as of the end of the year. Other major shareholders in POLIS are Bouwfonds Asset Management Deutschland GmbH (15.1%) and Contrarian Capital (8.1%). The free float as defined by Deutsche Börse represents 31.7% of the shares in POLIS.

POLIS share price performance

The performance of POLIS shares was considerably better than the overall stock market trend. This development is also largely due to the mandatory takeover offer submitted by Mann Immobilien-Verwaltung AG. On 31 December 2008, the closing price of POLIS shares was € 9.50. The share price of POLIS was thus around 7.8% lower compared to the share's closing price on 31 December 2007. Despite the fact that the POLIS share outperformed the market during the reporting period, the share price performance was disappointing.

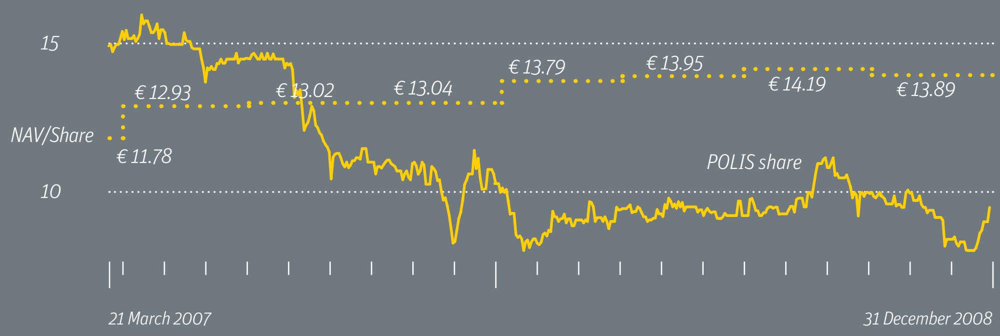
At current valuations on the stock market, real estate companies are trading significantly below the value of their total assets less debt. At € 9.50 on 31 December 2008, the price of the POLIS share represents a discount of around 32% relative to the net asset value (NAV) of € 13.89. The general decline in share prices suggests that market participants are uncertain regarding the future development of the economy. The unusually high discount for German real estate companies in relation to their NAV highlights the uncertainty regarding the financial situation of the companies, some of which are highly leveraged, and indicates a general skepticism of the capital market regarding the sustainability of property valuations. POLIS is responding to such skepticism by (i) disclosing all information relevant to financing and valuation, (ii) providing a transparent presentation of appraisals prepared by independent experts, and (iii) selectively selling properties for the purpose of realizing valuation gains that have been identified.

The average daily traded volume of POLIS shares at the Frankfurt Stock Exchange (XETRA) in 2008 was 3,112 shares, or € 29 thousand. Since the initial public offering, 6,859 shares have traded daily on average, corresponding to an average trading volume of € 88 thousand.

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 fosters the Company's financial flexibility, management and financial strength.

Shareholders	Shares	%
Mann Immobilien-Verwaltung AG	5,878,885	53.2%
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%
Board of Management	52,000	0.5%
Other shareholders	1,450,261	13.1%
Total	**11,051,000**	**100.0%**
Free float as defined by Deutsche Börse:		31.7%



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

As of 31 December 2008, the Board of Management held approximately 0.5% of the Company's share capital. For members of the Board of Management and the management team of POLIS, a stock option plan has been set up that satisfies the requirements of the German Corporate Governance Code.

Share buyback program

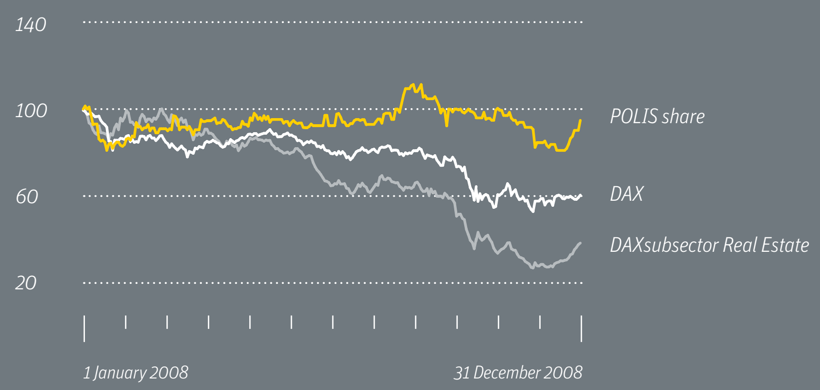
In the annual general meeting on 4 July 2008, the Company was authorized to acquire and dispose of POLIS shares representing a notional share in the share capital of up to € 11,051,000. Currently, there is no intention of exercising the authority to buy back own shares. To date, POLIS does not hold any own shares.

Investor relations

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

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 Shareholders' Meetings and in periodic direct discussions, and also by providing comprehensive financial information in the form of annual reports and interim reports as well as press statements with up-to-date information on specific events. The Board of Directors 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.

One focus of our work was to present our corporate strategy, to attract new investors and analysts as well as communicate with the capital market in the context of the mandatory takeover offer of the Mann Group. At the beginning of the year, POLIS was routinely covered by two analysts; in the mean time, three analysts publish company-specific studies concerning our Company, while two other analysts publish reports on POLIS in the context of industry studies.



Development of the POLIS share price | *in comparison to indexes, in %*

The main objectives of the investor relations work in 2009 are to increase the number of financial analysts covering POLIS, to improve the share's liquidity, 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

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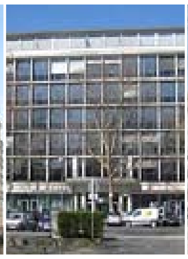
Portfolio overview



		Berlin	Berlin	Berlin	Dortmund
		Luisenstrasse 46	Potsdamer Strasse 58	Rankestrasse 5–6	Klepping-strasse 20
Transfer of possession		15.05.2002	25.05.2001	01.05.2008	31.12.2006
Year built		1936	1930	1955	1954
Renovated/Modernized		2002	2004	1996	1994
Market value[1]	€ thsd.	10,770	15,150	16,990	5,170
Discount rate[2]	%	7.1%	7.1%	7.2%	7.3%
Total area (rounded)[3]	m²	3,100	5,500	7,400	2,800
Office	m²	2,663	4,640	6,300	1,996
Retail	m²	438	493	488	514
Residential	m²	0	0	0	0
Archive	m²	45	347	590	275
Parking space	number	24	20	74	11
Average remaining term of leases[4]	years	2.7	0.9	3.5	4.4
Occupancy rate (per space) 31 Dec. 2007[5]	%	100%	97%	–	69%
Occupancy rate (per space) 31 Dec. 2008[5]	%	95%	92%	76%	84%
Occupancy rate (per revenue)	%	95%	92%	71%	90%
Rent 2007[6]	€ thsd.	553	818	–	291
Rent 2008[6]	€ thsd.	627	886	437	327
Annualized current-rent	€ thsd.	620	880	880	360
Rent if fully leased[7]	€ thsd.	650	950	1,140	400
Annualized potential-rent[8]	€ thsd.	670	980	1,250	390
Return on potential-rent[9]	%	6.2%	6.4%	7.5%	7.5%
Feri rating[1]		B+	B+	B+	B

Explanations

1 *According to value appraisal by Feri EuroRating Services AG as of 31.12.2008*

2 *According to value appraisal by Feri EuroRating Services 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 *Sum of the contractually agreed rent and notional rent assuming that all unoccupied rental space is leased at the market rate deemed appropiate*

		Dusseldorf	Dusseldorf	Dusseldorf	Dusseldorf
		Berliner Allee 42	Berliner Allee 44	Berliner Allee 48	Immermann-strasse 11
Transfer of possession		01.11.2007	01.08.2000	01.10.2006	01.12.2007
Year built		1960	1957	1956	1960
Renovated/Modernized		–	2001	–	–
Market value[1]	€ thsd.	6,050	7,790	5,330	3,060
Discount rate[2]	%	6.9%	7.0%	6.9%	6.9%
Total area (rounded)[3]	m²	3,200	3,700	2,500	1,700
Office	m²	2,024	2,729	1,827	1,050
Retail	m²	743	445	266	338
Residential	m²	141	139	237	163
Archive	m²	317	399	138	160
Parking space	number	29	17	0	10
Average remaining term of leases[4]	years	2.2	0.3	3.0	0.2
Occupancy rate (per space) 31 Dec. 2007[5]	%	57%	98%	81%	85%
Occupancy rate (per space) 31 Dec. 2008[5]	%	80%	94%	90%	72%
Occupancy rate (per revenue)	%	82%	99%	91%	71%
Rent 2007[6]	€ thsd.	28	563	277	16
Rent 2008[6]	€ thsd.	237	567	308	170
Annualized current-rent	€ thsd.	290	600	330	170
Rent if fully leased[7]	€ thsd.	340	610	360	220
Annualized potential-rent[8]	€ thsd.	470	560	340	230
Return on potential-rent[9]	%	7.8%	7.2%	6.4%	7.6%
Feri rating[1]		A	A	A	A

[8] *Notional rent assuming that all rental space is leased at the market rate deemed appropriate by Feri EuroRating Services AG*

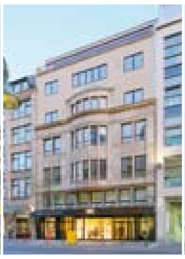
[9] *Relation of annualized potential rent to market value of the property*

[10] *Due to major refurbishment project, no letting activities undertaken*

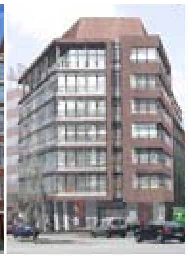
[11] *Achieving the potential rent is conditional upon major modernization work, therefore the yield is calculated on the basis of the presumed value following modernization*

[12] *excluding Konrad-Adenauer-Ufer 41–45*

[13] *Investment properties in current assets and financial investments (1 x 5.1%)*



Visualization

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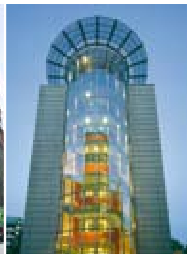


Dusseldorf	Dusseldorf	Dusseldorf	Frankfurt a.M.	Hamburg	Hamburg	Hamburg
Kasernen-strasse 1	Steinstrasse 11	Steinstrasse 27	Gutleutstrasse 26	Bugenhagen-strasse 5	Domstrasse 10/ Schauenburger Strasse 15 & 21	Ludwig-Erhard-Strasse 14
31.12.2006	31.12.1999	01.09.2000	30.06.2001	01.04.2008	01.08.2007	01.10.2006
1954	1913	1960	1970	1913/14	1906/11/86	1969
–	2000	1998	1996	–	2002	1996
11,740	8,460	8,330	11,110	5,070	13,080	12,060
6.9%	6.9%	6.9%	7.1%	7.0%	6.9%	7.1%
4,800	2,400	3,500	3,500	2,500	6,500	4,900
3,267	1,814	2,917	3,538	1,695	4,437	4,590
800	392	325	0	260	1,455	0
285	0	0	0	0	0	0
436	196	232	0	567	565	324
14	0	20	29	15	12	29
2.8	2.1	3.4	5.0	4.6	0.9	2.6
97%	81%	96%	100%	100%	51%	52%
82%	55%	98%	100%	90%	27%	91%
92%	65%	100%	100%	85%	27%	80%
695	519	540	972	–	227	443
777	389	531	750	195	304	510
770	360	600	750	250	270	780
840	490	600	750	290	470	930
850	520	590	810	370	1,010	780
7.2%	6.3%	7.1%	7.3%	7.2%	7.7%	6.4%
A	A	A	A	A	A	A

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-*

		Hamburg	Hanover	Hanover	Kassel
		Steinstrasse 12–14	Landschaftstrasse 2	Landschaftstrasse 8	Koenigsplatz 57
Transfer of possession		01.05.2008	31.12.2006	31.12.2006	01.11.2007
Year built		1925	1983	1885	1950
Renovated/Modernized		1994	–	2006	1995
Market value[1]	€ thsd.	5,770	4,070	3,940	2,850
Discount rate[2]	%	7.1%	7.3%	7.3%	7.3%
Total area (rounded)[3]	m²	2,800	3,600	2,600	2,200
Office	m²	2,540	3,622	2,166	1,921
Retail	m²	0	0	0	0
Residential	m²	0	0	0	0
Archive	m²	233	0	437	307
Parking space	number	5	54	0	4
Average remaining term of leases[4]	years	1.6	5.2	3.1	3.2
Occupancy rate (per space) 31 Dec. 2007[5]	%	–	61%	100%	95%
Occupancy rate (per space) 31 Dec. 2008[5]	%	92%	90%	100%	96%
Occupancy rate (per revenue)	%	96%	89%	100%	98%
Rent 2007[6]	€ thsd.	–	122	270	29
Rent 2008[6]	€ thsd.	2	280	270	178
Annualized current-rent	€ thsd.	390	370	270	180
Rent if fully leased[7]	€ thsd.	410	410	270	180
Annualized potential-rent[8]	€ thsd.	410	400	280	230
Return on potential-rent[9]	%	7.3%	10.7%	7.1%	8.2%
Feri rating[1]		A	B+	B+	B+

for explanations, see pages 11/12

Visualization

Cologne	Cologne	Cologne	Cologne	Cologne	Cologne	Mainz
Ebertplatz 1	Gustav-Heine-mann-Ufer 54	Hansaring 20	Konrad-Adenauer-Ufer 41-45	Neumarkt 49	Weyerstrasse 79-83	Rheinstrasse 43-45
15.06.2007	01.10.2007	01.11.2007	01.04.2007	31.12.2007	01.05.2008	01.11.2007
1960	1989	1975	1953	1957	1962	1976
2002	–	2006	–	2005	2008	–
7,290	14,210	4,030	9,300	7,370	15,120	2,650
7.0%	7.3%	7.3%	7.1%	7.2%	7.2%	7.3%
3,700	7,300	2,000	4,500	3,400	9,300	1,800
3,352	7,015	1,954	4,073	2,957	6,990	1,466
224	0	0	0	411	1,261	284
68	0	0	0	0	0	0
20	327	61	400	82	1,013	97
0	214	10	53	9	91	10
3.2	0.9	2.6	–[10]	5.4	5.5	0.8
100%	49%	73%	–[10]	98%	65%	76%
99%	46%	75%	–[10]	100%	83%	83%
100%	49%	75%	–[10]	100%	89%	83%
246	145	38	0	0	–	25
487	620	227	0	488	437	164
490	630	240	0	490	850	170
490	950	300	1,170	490	940	200
510	1,330	300	1,170	540	1,190	230
7.3%	9.0%	7.6%	6.6%[11]	7.3%	7.9%	9.0%
A	B+	B+	A	B+	B+	B+

		Mainz	Mannheim	Munich	Stuttgart
		Rheinstrasse 105–107	Friedrichsring 46	Lessingstrasse 14	Boeblinger Strasse 8
Transfer of possession		30.09.2007	01.11.2007	15.12.2007	01.11.2007
Year built		1968	1965	1967	1973
Renovated/Modernized		–	2002	2002	2004
Market value[1]	€ thsd.	4,400	2,960	9,760	3,790
Discount rate[2]	%	7.1%	7.3%	7.0%	7.1%
Total area (rounded)[3]	m²	2,800	2,000	3,200	2,200
Office	m²	2,290	1,440	2,611	953
Retail	m²	0	146	383	920
Residential	m²	330	406	0	364
Archive	m²	214	49	245	7
Parking space	number	45	0	37	36
Average remaining term of leases[4]	years	2.0	3.2	3.3	3.0
Occupancy rate (per space) 31 Dec. 2007[5]	%	94%	69%	74%	86%
Occupancy rate (per space) 31 Dec. 2008[5]	%	97%	90%	76%	100%
Occupancy rate (per revenue)	%	99%	90%	74%	98%
Rent 2007[6]	€ thsd.	72	23	10	36
Rent 2008[6]	€ thsd.	290	156	459	241
Annualized current-rent	€ thsd.	290	190	450	260
Rent if fully leased[7]	€ thsd.	290	210	570	270
Annualized potential-rent[8]	€ thsd.	360	230	710	300
Return on potential-rent[9]	%	7.8%	7.9%	7.2%	8.0%
Feri rating[1]		B+	B+	A	B+

for explanations, see pages 11/12


Stuttgart	Stuttgart	Portfolio	Other properties & Financial assets[13]	Total property assets
Tuebinger Strasse 31 & 33	Quartier Buechsenstrasse			
31.12.2006	30.06.2007			
1949	1907–1956			
2000	1985			
9,750	29,730	277,150	2,853	**280,003**
7.3%	7.0%	7.1%		
5,000	14,900	131,300		
2,643	11,809	105,290		
1,306	0	11,893		
168	918	3,220		
884	2,138	11,104		
11	142	1,025		
2.3	1.0	3.0		
92%	98%	79%		
89%	95%	81%		
98%	95%	80%		
555	951	8,464		
555	1,899	13,768		
550	1,860	15,590		
560	1,950	18,700		
700	2,280	20,990		
7.2%	7.7%	7.4%[12]		
B+	A	A		

Financial Information

Group Management Report

of POLIS Immobilien AG for financial year 2008

Business and economic environment

Group structure and business activities

The business model of POLIS Immobilien AG

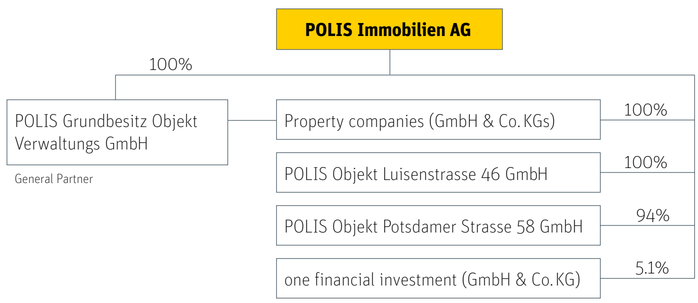
POLIS Immobilien AG, founded 1998 in Berlin, acquires office buildings for its own property portfolio. By actively managing our own properties including modifications, upgrades, extensions, elimination of vacancies and other measures, we continuously generate increases in the value of our real estate holdings. We capture this appreciation by selectively selling properties 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 meaningful potential for appreciation or a stable cash flow. The strong focus on the German market, selected cities, central locations and typically on buildings erected between 1950 and 1970 leads to a high degree of specialization, which increases the efficiency of our work and allows us to achieve excellent results in planning and carrying out projects. Our in-house asset management team, currently comprising 21 employees, manages the commercial and technical aspects of our property portfolio valued at approximately € 280 million and is responsible for performing all key operational tasks such as acquisition and sales, development, letting, administration and accounting.

Focus on office buildings in the leading German cities

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 Officer is responsible for strategy, portfolio management, staff, 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 held via 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 the POLIS Group



Commercial and industry-specific environment

Development of overall economic environment

After GDP initially grew by 5.7% in the first quarter of 2008, Germany's economic performance dropped noticeably in the following periods. The international financial market crisis has now become an economic crisis. It has caused a serious slowdown in economic activity among the major trading partners, in turn resulting in a decline in German exports. This has meant that Germany also entered a downward economic trend in late 2008; however, the high number of employed persons of approximately 40 million and the low inflation rate of only 1.1% in December represent positive aspects. Overall, the economic climate for office buildings in Germany has cooled down in the course of 2008.

- According to the German Federal Statistical Office, overall GDP growth in 2008 in real terms was only 1.3% compared to the previous year (increase 2007: 2.5%). According to the Kiel Institute for the World Economy, GDP will contract by a further 2.7% in 2009.
- In 2008, the labor market benefited from the previous year's economic growth. During the year under review, employment reached its highest level since the German reunification. Based on the total civilian workforce, the unemployment rate was 7.4% in December 2008, after 8.1% in the previous year (source: German Federal Employment Agency).
- As a result of falling commodity prices, the inflationary pressures decreased over the course of the year. The increase in consumer prices in Germany slowed down from 2.8% at the end of 2007 to 1.1% most recently; in October and November, consumer prices in seasonally adjusted terms even fell by 0.2% and 0.3%, respectively.
- After peaking at almost 1.60 USD/EUR in early July, the euro exchange rate was 1.41 USD/EUR as of 30 December 2008 (closing rate for 2007: 1.47 USD/EUR); this decline of the euro relative to the US dollar has helped the export sector.
- The assessment by German companies of their current situation at the end of 2008 as well as their prospects for the next six months are the most pessimistic since the time of the second oil crisis in 1982 (ifo Business Climate Index for trade and industry in Germany).
- Given the economic downturn and the reserved expectations of companies, a considerable reduction in employment levels in German industry is expected for 2009.
- After increasing its key lending rate from 4.00% to 4.25% in July 2008, the European Central Bank (ECB) then decided to cut interest rates down to 2.5% at the end of last year.
- The risk premiums for corporate bonds issued by companies with a medium credit rating were very high by historical standards. No new issues of mortgage bonds *(Pfandbriefe)* were carried out, which meant that banks were unable to refinance real estate loans via mortgage bonds.

+1.3% GDP

The economic climate for office buildings in Germany cooled down in the course of 2008.

	GDP growth	Inflation	3 month EURIBOR	5 years (swap-rate)	10 years (swap-rate)
2008	1.30%	1.10%	2.93%	3.28%	3.80%
2007	2.50%	2.20%	4.68%	4.55%	4.71%
2006	2.90%	1.70%	3.73%	4.12%	4.19%
2005	0.80%	2.00%	2.49%	3.20%	3.44%
2004	1.10%	1.60%	2.16%	3.15%	3.74%

Sources: Monthly report for December 2008, German Federal Employment Agency, German Federal Statistical Office, Ifo Institute, Deutsche Konjunktur im Winter 2008, Kiel Institute for the World Economy.

Industry-specific environment

The international financial and economic crisis is increasingly affecting the German property market. The equity base of a number of financial institutions has suffered considerably, and the willingness of banks to provide loans has declined. A more restrictive behavior of banks makes transactions more difficult, reducing the volume of modernization projects as a result. This development will tend to reduce demand for properties and construction services.

In the short to medium term, refinancing and the extension of credit lines will only be possible in return for substantially increased margins. At the same time, property companies are facing difficulties in accessing capital markets due to the negative performance of share prices – shares in some property companies are even trading below their nominal value. Individual companies will violate their terms of credit and thus be forced to absorb increased credit margins. It is conceivable that if the financial crisis grows worse, property owners will be forced to sell properties below the values stated in their accounts in order to comply with their terms of credit. At the moment, however, such distress sales are not widespread.

Rental revenues for office buildings correlate very closely with GDP growth. The increase in the number of office employees in the most important office markets in financial year 2008 led to an increase in the demand for property rental services and a reduction in vacancies. However, since companies' staffing plans indicate a reduction in employment levels, we are expecting lower rental revenues in the market for office buildings.

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 as of every reporting date also strongly influence our annual financial results. The terms of new and follow-on leases as well as of 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 overall economic growth, interest rates, 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 are determined by the markets at the locations of our properties. 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 be influenced by changes 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 many lease agreements contain a clause for adjusting the rent in line with inflationary trends, the development of the rate of inflation also influences the level of rental revenues achieved.

Financing expenses and interest rate levels

We typically finance the acquisition of properties by using bank loans, usually amounting to a debt ratio of 60% of the property value. POLIS' liabilities to banks 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 liabilities to banks that involve floating interest rates. This means that 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

Continued potential for POLIS' business model and the expansion of its portfolio

Decline in the transaction volume

According to real estate brokerage reports, the overall transaction volume in 2008 in the commercial property sector was around € 20 billion, compared to around € 55 billion in 2007. The volume of cross-border transactions has also declined. The financial crisis has led to reduced liquidity and a declining availability of credit, and the markets have changed significantly as a result. The obvious discrepancy between the sellers' asking prices and the prices offered by buyers has temporarily led to a complete standstill on transaction markets. At the end of 2008, many economic climate surveys are indicating a downward trend.

The situation for property market investors is currently unclear. On the one hand, major open-end real estate funds suspended the redemption of shares in October 2008 after incurring high outflows of funds. These funds represent a major group of buyers and a significant share of the market and have stopped their investment activities for the time being. On the other hand, institutional investors – such as insurance companies and pension funds – wish to substantially increase the share of real estate in their investment portfolios. Properties have become increasingly attractive in the eyes of such investors due to their balanced opportunity-risk profile. The stock market is subject to strong fluctuations, and the returns offered on the bond market are too low for pension and similar retirement funds to meet their commitments to their customers. According to the BVI (Bundesverband Investment and Asset Management; German investment and asset management association), special funds for institutional investors have been recording extremely high inflows of funds, for instance € 7.2 billion in November. Also, the behavior of wealthy private investors, who consider properties a safe and profitable investment, suggest a continued interest in investments. Investors with a strong equity base are following the developments on the property market intently, are expecting interesting opportunities to arise, and are occasionally engaging in transactions.

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. We expect to see an increase in transactions involving smaller units financed by a higher share of equity. This is the area where we have identified potential for our business model and the further expansion of our portfolio.

Trends in the office property rental market in Germany

Turnover at a high level

The high level of employment in Germany has had a positive effect on the German rental market for office buildings. Thus, according to Atisreal, the turnover of rental space at the nine most important office locations achieved the third-best results ever recorded, albeit lower than 2007. However, the economic downturn is beginning to affect the markets for rental space; according to real estate brokerage reports, rental turnover was at record levels until the middle of 2008; however, the turnover of rental space in the fourth quarter fell significantly compared to the previous year's level. The important issue for POLIS in this context is that the demand for office space with modern facilities remained strong.

Increase in rent levels

On average, top rents increased by approximately 4%; however, Berlin, Frankfurt and Leipzig were not able to achieve this rate of growth. In many local office property markets with different rent levels, top as well as average rents have increased. A strong distinction became apparent in the rent paid for modern rental space in good locations and 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

The areas under construction have increased by 28% compared to 2007; 46% of these areas are not used by owner-occupiers and became available on the rental market. For the time being, the completions of new buildings will remain at a low level because many new building projects are being postponed. Considering the low number of new buildings entering the market and the increasing age of existing office buildings in Germany, the present backlog of refurbishment work is substantial.

Reduction in vacancies

Sustained high employment levels have led to a reduction of vacancies in the seven major property locations. The following table illustrates this trend.

Vacancies			in thousand m²			Vacancy rate in %
	2006	2007	2008	2006	2007	2008
Berlin	1,650	1,550	1,450	9.3	8.7	8.1
Hamburg	1,030	980	880	7.9	7.7	6.9
Dusseldorf	752	661	626	10.6	9.3	8.8
Frankfurt	2,020	1,650	1,580	16.7	14.2	13.6
Stuttgart	467	466	460	6.5	6.4	6.2
Munich	1,073	978	950	7.7	7.6	7.2
Cologne	700	600	600	10.0	8.5	8.3

Source: gif – Year-end Comparison Office Markets Germany 2008

The relevant issue for our business model is again the development of vacancy rates for rental space with modern facilities. These rates decreased by around 10%, while overall vacancy rates only declined by 4%. 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 2009).

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 (NAV) of 5% p.a.

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

Internal control system

Control system

We apply a value-driven approach in managing POLIS 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 appropriate for 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 hand. 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 market value of new investment properties, the external expert also states his or her findings with respect to its classification. In the case of construction projects, we use experienced specialists to supervise the construction progress and monitor 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 income statement 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 indicators

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 »Net assets«).

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 guiding principles of our corporate management and 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« prepared by the research company BulwienGesa AG, which differentiates seven so-called A and thirteen so-called 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 results in a significant reduction in the risk of loss of rental revenues and the 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 where particularly attractive sales opportunities arise in order to either increase the potential for distributing dividends or to invest capital in new properties that represent more attractive opportunities.

Ben Waibel, age 6

- *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.
- *Sustainability:* We are committed to providing spaces to our tenants that are environmentally compatible, resource-efficient and economical and that support the health, performance and well-being of our tenants. We endeavor to optimize all (construction) measures and (procurement) processes in terms of their ecological impact and will document our efforts transparently.
- *Medium-term expansion of the property portfolio:* We plan to continue to expand our office property portfolio and maintain our current focus and high quality standards. We believe that by increasing the property 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 REIT law involving the permanent retention of the REIT status and the exposure of investments made in the process of converting into a REIT. Moreover, shareholders that take the form of corporations incur tax-related disadvantages from the fact that distributions of REITs are

subject to trade tax. It is the continued objective of POLIS to achieve the REIT status. As soon as the risk of inadvertently losing the REIT status has become manageable and the legislator has removed the trade tax disadvantages regarding the REIT dividends, the Board of Management will pursue REITs and act in the shareholders' interests. The Board of Management is actively taking part in the discussions surrounding the reform of the REIT law in order to increase the attractiveness of the REIT status.

Competitive position

Market environment

According to a study prepared by BulwienGesa AG, 60% of the rentable office space in Germany is located in the 20 most important office locations, the market focus of POLIS. 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 owned by companies or private 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 market environment, we consider ourselves a specialist for the modernization and active management of office buildings in a segment that is strongly focused on location as well as the sizes and qualities 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 represents a competitive advantage for POLIS. With its concept, POLIS holds a unique position among stock-listed German property companies.

+53%

Significant increase in the rental income as a result of the portfolio growth

Overview of business performance

The key highlights of the past financial year can be summarized as follows:

- Increase in rental revenues by 53% compared to financial year 2007, to € 14,993 thousand
- Increase in net rental income by 49%, to € 12,736 thousand
- Acquisition of four properties representing a volume of € 41,074 thousand
- Sale of two properties at a profit of € 2.4 million.
- Let space exceeding 15,300 m², increase in the occupancy rate to 81%
- Results of appraisal € -1.9 million for an overall portfolio volume of € 280 million at of the end of the year
- Extension of the term of real estate loans to a weighted average of 4.8 years
- Valuation losses regarding hedging instruments due to a drop in interest rates: € 2.6 million.
- POLIS was rated the most transparent real estate company in German-speaking countries by Feri EuroRating Services AG
- Mann Immobilien-Verwaltung AG increased its stake to 53.2% effective mid-October 2008 by way of a public mandatory takeover offer

Development of the real estate business

Acquisitions

In the first half of financial year 2008 we carried out four acquisitions.

In the second half of financial year 2008, we deliberately retained our scope for action given the developments on the credit and capital markets by maintaining a high equity ratio. The more cautious growth may provide us with future acquisition opportunities that many of our competitors cannot respond to.

City	Property	Transfer of possession	Transaction size € thousand
Hamburg	Bugenhagenstrasse 5	01.04.08	4,563
Hamburg	Steinstrasse 12–14	01.05.08	4,799
Cologne	Weyerstrasse 79–83	01.05.08	14,668
Berlin	Rankestrasse 5–6	01.05.08	17,044
			41,074

New acquisition in Berlin

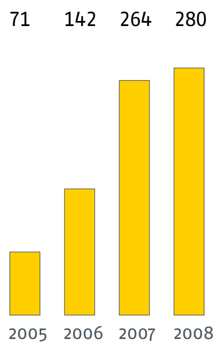
We acquired another office building located at »Rankestrasse 5–6« in Berlin for approximately € 17,044 thousand (net purchase price € 15,870 thousand). The property with a size of approximately 7,400 m² is located directly on Los-Angeles-Platz, only one block away from Kurfuerstendamm near the Kaiser-Wilhelm memorial church. The seven-story building with a current occupancy rate of 76% (up from 58% at the time it was acquired) was erected in 1955 and comprehensively refurbished in 1996 in conjunction with the construction of a new annex. The property includes a generously designed car park comprising 79 parking spaces. Due to its size and high-quality design, the building makes a remarkably elegant impression in the overall urban development context. The main tenant is a service company of Zurich Versicherung. Since 1 September 2008, our own offices are located in the fourth story of the building. As a result of the move and the expansion of one of the building's tenants, the third story has already been let. We have classified the building as a »Core Plus« property due to its vacancy rate. Feri EuroRating Services AG appraised the property and awarded it an overall rating of »B+«. The property's market value at the end of the year was € 16,990 thousand, meaning that some of the transaction-related incidental costs were not covered. The net initial yield (annualized actual rent as a proportion of the costs of acquisition) was 3.7% and is expected to increase to 7.0% within two years. By actively managing the property, POLIS will further increase the attractiveness of the building along with its occupancy rate, for instance by converting the top (sixth) floor from a current 40% residential use to high-quality office space in the course of 2009.

Portfolio in Hamburg expanded

By carrying out two acquisitions in Hamburg we expanded our portfolio of real estate holdings in this location to four properties. We purchased a historic office building in »Bugenhagenstrasse 5«, investing a total sum of € 4,563 thousand. The seven-story office and commercial building with a size of 2,500 m² is located at Hamburg's city center and lies within walking distance of the main train station, the Rathausmarkt and the main shopping street, Moenckebergstrasse. The historic building was erected in 1913/1914 as a massive construction and is let to several tenants. Feri appraised the property and awarded it an overall rating of »A« (= very good) and a market value of € 5,070 thousand, resulting in valuation gains of € 507 thousand in the reporting period. The net initial yield relative to the acquisition costs was 6.0%. We expect rental revenues of approximately € 240 thousand in financial year 2009 and will begin to modernize parts of the building and individual floors in 2009.

Portfolio values

in € million, as of 31 Dec.



We acquired another high-quality office building with a traditional, red brick façade located in the immediate vicinity of the property at »Bugenhagenstrasse 5« for a gross purchase price of € 4,799 thousand. The impressive property at »Steinstrasse 12–14« was built in the mid-twenties and was fully refurbished and modernized in 1994. The building, which was vacant at the time it was acquired, has an overall rental space of approximately 2,800 m² and eight aboveground floors and has in the mean time been fully let to Hamburger Hochbahn AG. The building provides bright, appealing office areas that are ideal for companies seeking a good location and modern facilities. Feri appraised the property and awarded it an overall rating of »A« (= very good) and a market value of € 5,770 thousand, resulting in valuation gains of € 971 thousand in the reporting period. For this building in Hamburg, we expect rental revenues of about € 390 thousand in financial year 2009.

Additional properties in Cologne acquired

In December 2007, we signed the purchase contract for our sixth property in Cologne. Purchased at a total price of € 14,668 thousand, the spacious office and commercial building located at »Weyerstrasse 79–83« in Cologne offers rental space of 9,300 m² and an excellent central location. It is easily accessible and situated only a few meters away from Barbarossaplatz in the immediate vicinity of numerous stores, hotels, restaurants, bars and cultural institutions. The seven-story building was erected in 1962 and has an occupancy rate of 83% (89% when measured by revenue when fully let). The main tenant is DAK, one of the largest German statutory health insurance companies, which has concluded a long-term lease agreement for all office areas (roughly 6,990 m²). The building has its own underground car park with 91 parking spaces.

Feri appraised the property and awarded it an overall rating of »B+« (= above average) and a market value of € 15,120 thousand, which after carrying out some minor modernization investments resulted in valuation gains of € 323 thousand in the reporting period. This acquisition resulted in a net initial yield of 5.2%. We have already succeeded in letting two retail spaces, one small area is still vacant. In view of the long-term lease agreement with the main tenant, we have classified the property at »Weyerstrasse 79–83« as a »Core« property.

Target volume of over € 300 million

Portfolio targeted to increase to over

€ 300m

We are seeking to expand the volume of investment properties to over € 300 million. In doing so, we will not compromise our high standards regarding location, building quality and yield, and will follow a cautious growth path in order to retain our scope for taking advantage of future opportunities.

Sales validate our business model

Sale in Stuttgart

Effective 31 March 2008, we sold our office building at »Torstrasse 15« in Stuttgart for € 18,230 thousand – an impressive corner building located in the city center and within walking distance of the pedestrian zone. We originally acquired the office and commercial building, for which the lease agreement with the main tenant expired at the end of 2008, in February 2007 for a total investment of € 14,927 thousand. In the third quarter of 2007, we succeeded in concluding a lease agreement for an area of 4,700 m² and a term of twelve years with Barmer Ersatzkasse. As of 31 December 2007, the valuation gains for the property amounted to € 423 thousand. Considering all contractual obligations (tenant modifications and compensation for loss of rent estimated at € 2,257 thousand), we achieved gains from sale of € 589 thousand in 2008. We will carry out planned tenant modifications in early 2009.

Sale in Dusseldorf

Effective 31 December 2008, we sold the office and commercial building at »Steinstrasse 20« in Dusseldorf to a German private investor. The purchase price was € 20,450 thousand. After deducting all contractual obligations we realized gains from sale in the amount of € 1,859 thousand. We had originally acquired the building with an area of 5,200 m² in July 2006, expanded it by an entire floor, and comprehensively refurbished it. In the course of revitalizing the building, the quality of the rental space was improved significantly. As a result, we were able to attract new tenants already during the construction phase. These measures greatly increased the value of the building, which we were subsequently able to realize by selling it.

Our approach in the context of »Torstrasse 15« and »Steinstrasse 20« – especially the acquisition, letting, modernization and sale – is a good example of our business model at work. As a result of this transaction, we were able to show that we invest in the right properties and that good letting performance and modernization know-how also generate increases in value in difficult market environments. The sale of such modernization properties is part of our moderate buy-and-sell strategy and confirms the valuation of the properties.

Within the scope of our portfolio management, we also examine whether or not certain properties should be offered for sale. Due to weak demand on the market for property transactions, it was not possible to sell the smaller properties at »Viehoferstrasse 31« in Essen and »Gallenkampstrasse 20« in Duisburg subject to terms that meet our minimum requirements. The intention to sell these properties in the short term remains unchanged. For this purpose, further preparatory measures have been carried out.

Modernizations

The modernization work on the building located at »Konrad-Adenauer-Ufer 41–45« in Cologne is at an advanced stage. Currently, the impressive building on the Rhine is being expanded by a full floor and a mezzanine floor. The existing floors were entirely gutted and reconstructed. The entire façade will be renovated and equipped with noise-protected and thermally insulated window systems as well as external sun protection. All building engineering services including elevators will be modernized. Moreover, all office areas will be equipped with cooling mechanisms. The heating and cooling requirements will be met by a geothermal system. The existing underground car park will be replaced with a new structure. Overall, 53 parking spaces will be built. In carrying out the entire project, special emphasis will be placed on the sustainability of the design and the building materials used, particularly with respect to managing the building in a resource-efficient manner.

Due to delays in the construction process, we estimate that the work on the building will be completed in the third quarter of 2009. At this time, the future value is difficult to predict due to the remaining uncertainties regarding construction costs and prior to letting. In this year, the decrease in value determined amounted to € 998 thousand.

Various options for modernizing »Domstrasse 10« in Hamburg are currently being investigated. We estimate that the modernization work will be completed in the second quarter of 2010. In the Quartier Buechsenstrasse in Stuttgart, the building at »Buechsenstrasse 26/26b« will be revitalized starting in the third quarter of 2009. The precise extent of the work has not yet been determined.

Letting as the basis of successful property management

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 financial year 2008, we succeeded in concluding lease agreements concerning an overall rental space of around 15,300 m². Of this space, around 11,700 m² represent lease agreements with new tenants (previous year: 13,000 m²), around 1,700 m² concern expansions, and around 1,900 m² concern extensions of existing lease agreements. Of the slightly higher results achieved in the previous year (16,900 m²), about 25% were due to the conclusion of one exceptional lease agreement. Overall, the agreements concluded in 2008 relate to a rental volume of around € 10,100 thousand, contractually secured over their respective terms. The average weighted term is 4.7 years. The effective rent as a result of concluding these agreements including all incentives (such as provisions stipulating rent-free periods) was € 13.09 per m². At 81%, the occupancy rate as of 31 December 2008 increased by two percentage points compared to 31 December 2007 despite the acquisition of new properties with high vacancy rates. For the 19 properties that have been held in the portfolio for one year (»like for like«), the occupancy rate increased from 80% as of 31 December 2007 to 81% as of 31 December 2008. Due to the

New rental agreements closed regarding a total rental space of approximately

15,300 m²

enhanced measures we implemented in our rental space, net rental income for properties held in the portfolio for at least two years (»like for like«) remained constant. The average remaining term of all lease agreements is three years. Considering all rented spaces and all types of use, the current average rent is approximately € 12.25 per m² (previous year: € 12.69 per m²).

The largest lease agreement concluded during the year concerned the historic office building at Steinstrasse 12–14 in Hamburg. We acquired the vacant, high-quality office building on 1 May 2008 and leased the entire building to Hamburger Hochbahn AG within six months, initially for a period of 20 months. Given the good results achieved in leasing the building, the property achieved a valuation gain of € 972 thousand.

Location-specific business performance

The following table presents the occupancy rates by location:

	Rental space as at 31 Dec. 2007 m²	Occupancy rate as at 31 Dec. 2007 %	Rental space as at 31 Dec. 2008 m²	Occupancy rate as at 31 Dec. 2008 %
Berlin	8,600	98%	16,000	85%
Dortmund	2,700	69%	2,800	84%
Dusseldorf	26,700	81%	21,800	83%
Frankfurt a. M.	3,500	100%	3,500	100%
Hamburg	11,400	52%	16,700	67%
Hanover	6,300	77%	6,200	94%
Kassel	2,200	95%	2,200	96%
Cologne	20,300	59%	30,200	65%
Mainz	4,600	87%	4,600	91%
Mannheim	2,000	69%	2,000	90%
Munich	3,200	74%	3,200	76%
Stuttgart	28,200	96%	22,100	94%
	119,700	**79%**	**131,300**	**81%**

** The occupancy rate in Berlin also includes the office floor used for own purposes.*

Except in Berlin and in Stuttgart, the occupancy rates in financial year 2008 were further increased in all locations. We were particularly successful in this regard in Dortmund (increase from 69% to 84%) and Hanover (increase from 77% to 94%). In Berlin, the high occupancy rate fell as a result of acquiring the partially vacant building at »Rankestrasse 5–6«, and in Stuttgart due to the sale of the fully let building at »Torstrasse 15«.

Seven properties representing a share of 14% of the area and 10% of the property value are situated in secondary cities (the 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.

Overview of rental revenues

The following table shows that rental income in A-cities, on a property by property basis, was increased very successfully between 2005 and 2008:

Rental income

€ thousand	2005	2006	2007	2008
Luisenstrasse 46	455	494	553	627
Potsdamer Strasse 58	388	525	818	886
Rankestrasse 5–6				437
Berlin	**843**	**1,019**	**1,371**	**1,950**
Berliner Allee 42			28	237
Berliner Allee 44	530	558	563	567
Berliner Allee 48		66	277	308
Immermannstrasse 11			16	170
Kasernenstrasse 1			695	777
Steinstrasse 11	466	513	519	389
Steinstrasse 27	507	503	540	531
Dusseldorf	**1,503**	**1,640**	**2,638**	**2,979**
Gutleutstrasse 26	937	972	972	750
Frankfurt a. M.	**937**	**972**	**972**	**750**
Domstrasse 10/Schauenburger Strasse 15 & 21			227	304
Ludwig-Erhard-Strasse 14		111	443	510
Bugenhagenstrasse 5				195
Steinstrasse 12–14				2
Hamburg		**111**	**670**	**1,011**
Ebertplatz 1			246	487
Gustav-Heinemann-Ufer 54			145	620
Hansaring 20			38	227
Konrad-Adenauer-Ufer 41–45			0	0
Neumarkt 49				488
Weyerstrasse 79–83				437
Cologne			**429**	**2,259**
Lessingstrasse 14			10	459
Munich			**10**	**459**
Boeblinger Strasse 8			36	241
Tuebinger Strasse 31 & 33			555	555
Quartier Buechsenstrasse			951	1,899
Stuttgart			**1,542**	**2,695**
Total »A-Cities«	**3,283**	**3,742**	**7,632**	**12,103**
Other properties			857	1,823
Sold properties	2,134	624	1,320	993
Exclusion of rent-free period	70	-51	-21	74
Total	**5,487**	**4,315**	**9,788**	**14,993**

Berlin

The Berlin portfolio was expanded as a result of acquiring the property at **»Rankestrasse 5–6«** (see section entitled »Acquisitions«). The shop area in the building at **»Potsdamer Strasse 58«** has been leased. The vacancy resulting from relocating our offices from »Potsdamer Strasse 58« to »Rankestrasse 5-6« at the end of the year has already been filled due to a new lease starting in 2009.

With the exception of a minor office space, the building at **»Luisenstrasse 46«** is fully let; and also at **»Rankestrasse«,** first lease agreements have been successfully concluded.

Dusseldorf

In Dusseldorf, our business model was validated by the sale of the building at **»Steinstrasse 20,«** which resulted in a sales profit of € 1,859 thousand. Prior to selling the building, we comprehensively refurbished it, added a floor, and found first-rate tenants for all but one area. The building was sold effective at the end of 2008. Except for some remaining work, the transaction has been completed. In the building at **»Steinstrasse 11«,** three floors were vacant as of the end of the year, two of which were let after the reporting date.

The office space in **»Berliner Allee 44«** has been leased to a tenant who has not paid rent since the middle of the year. The lease agreement was terminated, and the building was subsequently cleared after the reporting date. We will modernize the building and find new tenants in 2009.

Two floors in **»Immermannstrasse 11«** are also vacant. We are currently in the final stages of negotiating a lease agreement.

In **»Kasernenstrasse 1«,** we are considering refurbishing and restructuring the ground floor area and the top floor.

Overall, the development of the Dusseldorf portfolio has been favorable with the exception of the building at Berliner Allee 44. Nevertheless, the appraisals for the buildings in Dusseldorf all resulted in lower values than in the previous year. This is the result of a less favorable assessment by Feri of the potential for increasing the rent in Dusseldorf. Total valuation losses amounted to € 2.6 million, or approximately 4.9% of the market values determined in the previous year.

Frankfurt a. M.

We carried out the planned building improvements (€ 374 thousand) together with the tenant of the building at **»Gutleutstrasse 26«.** The tenant also carried out its own investments in the building.

Hamburg

We were able to let almost all rental spaces in **»Ludwig-Erhard-Strasse 14«** at favorable terms with the exception of half a floor. The increase in value as of the end of the year amounted to € 403 thousand. The Hamburg portfolio was further expanded by the acquisition of the buildings at **»Bugenhagenstrasse 5«** and **»Steinstrasse 12–14«** (see section entitled »Acquisitions«).

We are currently investigating various options for comprehensively modernizing **»Domstrasse 10«** in Hamburg. Technical problems concerning the façade have caused delays, resulting in a valuation loss of € -824 thousand.

Cologne

Our portfolio in Cologne also grew with the acquisition of **»Weyerstrasse 79–83«** effective 1 May 2008 (see section entitled »Acquisitions«). Our main activity in Cologne over the past year entailed structural work on the building at **»Konrad-Adenauer-Ufer 41–45«** described in detail above in the section entitled »Modernization«.

For the building at **»Gustav-Heinemann-Ufer 54«,** the first lease agreements have successfully been concluded. The entrance area was comprehensively modernized. We concluded an agreement with the City of Cologne regarding construction work on the underground railway in the immediate vicinity that led to a compensation payment totaling around € 591 thousand. In 2009, we will renovate the top floor, thereby repositioning the building with respect to its appearance and features.

The valuations in Cologne as of the end of 2008 remained almost unchanged compared to the previous year. As a result of exceeding the investment budget, we incurred valuation losses of € 1,152 thousand.

Munich

In **»Lessingstrasse 14«,** we did not achieve our objective of fully letting the building in the past year. We will improve the building by renovating the windows and optimizing the entrance area in the second quarter of 2009 in order to thereby support our attempts at finding tenants. Due to the good development of the Munich location, the market value remained unchanged compared to the previous year.

Stuttgart

In Stuttgart we succeeded in selling the building at **»Torstrasse 15«** (see section entitled »Sales«). The anchor tenant of our property at **»Quartier Buechsenstrasse«** will vacate the premises as planned by 30 June 2009. We will comprehensively revitalize the building at »Buechsenstrasse 26« in order to find a new tenant in 2010. The remaining rental spaces will be modernized and made available for rent at the end of the year.

Feri rated the Stuttgart location higher than in the previous year, resulting in an overall valuation gain for our buildings of € 1,259 thousand.

Secondary cities

The portfolio in the secondary cities remained unchanged in 2008. We completed the modernization work on **»Landschaftstrasse 2«** in Hanover and have fully let the building with the exception of a minor rental space. There were only a few minor changes at the remaining locations. Overall valuations have increased slightly (€ 126 thousand).

The buildings in Essen and Duisburg were not sold in 2008 as originally planned.

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 on the Internet (www.polis.de) and in the portfolio overview in the Annual Report.

Overall assessment of the business performance of our investment properties

The results for 2008 were affected by the strong growth of the Company in the previous year. As a result of further acquisitions, the portfolio reached a volume of around € 300 million at the middle of the year. Rental revenues increased more than 50 percent, to € 14,993 thousand, and the occupancy rate grew moderately, to 81%, despite additional acquisitions of partially vacant buildings. Despite the economic slowdown, the performance in letting rental space was remarkable in 2008. The sale of properties achieved good results, again validating the business model of POLIS. The good results achieved with respect to rental revenues as well as letting and selling properties were partially offset by the valuation losses incurred as a result of the economic crisis. However, given the negative development of the economy during the past year, we are nevertheless satisfied with the results we achieved with our properties.

Transparency rating

In 2008, Feri EuroRating Services AG rated POLIS the most transparent real estate company in German-speaking countries. For us, this represents an acknowledgement of our commitment to clear and open communication. Feri analyzed the annual reports of real estate companies based in Germany, Austria and Switzerland with a market capitalization of € 50 million or more. The focus was on property portfolio companies. 75% of the rating score was determined by transparency regarding assets (fixed and current assets), and 25% by debt capital und the calculation of the net asset value. The overall rating is based on 230 individual criteria. The main determinant of the rating score was the disclosure of information on a property-by-property basis.

Recognized as the most transparent listed real estate company in the German speaking countries

Results of operations, financial position and net assets

Results of operations

Significant increase of rental revenues

The results of operations of POLIS Immobilien AG remain positive and are characterized by the strong growth of the property management results. As a result of enlarging the portfolio and actively managing the properties, we were able to increase **rental revenues** by 53% compared to the previous year, to € 14,993 thousand (previous year: € 9,788 thousand). With respect to properties that have been in our portfolio since 1 January 2007 or earlier, rental revenues on a consistent basis (»like for like«) increased by 3% to € 6.8 million. After deducting modernization and maintenance expenses as well as expenses attributable to property management, **net rental income** for financial year 2008, a key operating figure, also increased considerably by 49% to € 12,736 thousand (previous year: € 8,524 thousand).

+49%

Net rental income

However, the positive development of rental revenues was not reflected in the results of the revaluation of our properties. While in the previous year we still recorded net valuation gains of € 8,772 thousand, the valuations for financial year 2008 resulted in a valuation loss of € 1,946 thousand. This result is the net balance of valuation gains of € 4,341 thousand for 15 investment properties and valuation losses of € 6,287 thousand for 17 properties. This is the result of effects from general changes in the market, but also the results of carrying out modernization work. Compared to the overall volume of assets of € 277,670 thousand at the end of the year, this change in the market value represents only 0.7%, which we believe is relatively insignificant in view of the current financial and economic crisis.

Despite the considerable lack of loans available to financial investors, we were fortunately able in 2008 to sell two investment properties at a profit, generating proceeds totaling € 35,422 thousand. The sale of two properties in Dusseldorf and Stuttgart yielded € 2,448 thousand. We held the property at »Torstrasse 15« in Stuttgart in our portfolio for a period of 14 months and the property at »Steinstrasse 20« in Dusseldorf for 30 months, realizing increases in value over these periods totaling € 3,020 thousand.

The resulting overall balance from revaluation (€ -1,946 thousand) and the sale of properties (€ 2,448 thousand) is positive.

Administrative expenses in 2008 amounted to € 3,278 thousand, less than in the previous year (€ 3,552 thousand).

Since the positive development of the key figures that are subject to influence by management (particularly net rental income and income from the sale of investment properties) could not compensate the considerable decline in the income from the revaluation of investment properties, earnings before financing activities and taxes (EBIT) in 2008 fell by 22% relative to the previous year, from € 13,346 thousand to € 10,421 thousand.

Financial results in financial year 2008 amounted to € -9,264 thousand, compared to € -2,684 thousand in the previous year. Financial expenses totaling € 9,794 (previous year: € 3,409 thousand) increased primarily as a result of the considerably expanded volume of loans due to portfolio growth as well as interest rates that had temporarily increased. In addition, we incurred valuation losses not affecting liquidity totaling € 2,564 thousand from hedging instruments (previous year: valuation gain of € 10 thousand), which are the result of the significant interest rate cuts at the end of the year; as a result of these cuts, financial expenses in subsequent years will be correspondingly lower. Hedging the interest rate risk for most of our debt financing is one of the principles we apply in order to avoid inappropriate risk levels. Furthermore, we were able to extend the maturity of our debt financing in the context of the loan agreements we concluded, while retaining the terms concluded in swap agreements for the corresponding period, thus greatly increasing the financial stability of our Company.

As a result of these measures, the weighted average interest rate for all liabilities to banks including interest hedges as of 31 December 2008 was 4.1%, compared to 5.2% as of 31 December 2007. The weighted average term of the loans increased from less than one year to 4.8 years.

The Consolidated Financial Statements show a **consolidated net income for the year** of € 1,144 thousand (previous year: € 9,043 thousand), taking into account all effects that influence liquidity and all effects that do not. The key **funds from operations** indicator amounted to € 2,996 thousand after adjustments for special items, roughly equivalent to previous year's figure of € 2,381 thousand.

For financial year 2008, we had originally expected earnings before taxes of between € 9 million and € 11 million, and had until recently considered earnings near the bottom end of this range possible. This forecast was based on the assumption of strong portfolio growth up to € 350 million as well as the successful conclusion of modernization work and lease agreements, as a result of which we had anticipated valuation gains of around € 7,000 thousand. The valuation gains would have corresponded to a change in the market value of the portfolio at the beginning of the financial year of around 2.7% (from € 264 million), a rate we considered feasible. In view of the developments on the international credit and capital markets, we deliberately slowed down our growth in the past year in order to preserve our ability to take advantage of future opportunities to acquire further properties. With respect to the savings in terms of financing expenses, the reduced growth has hardly affected results. On balance, the key operational figures such as **modernization and maintenance expenses, property management expenses** and **administrative expenses** are according to plan. The deviation of earnings before taxes relative to expected results is therefore largely the result of the valuation of properties and interest hedges.

The difference between the EBT and the expected result is attributable to the result from the revaluation of investment properties and interest hedges.

Financial position

High equity ratio

With an equity ratio of 49.2% as of 31 December 2008, POLIS is on a sound financial footing and continues to have sufficient flexibility for obtaining credit at attractive terms and conditions. Currently, we have access to unutilized bank loans totaling € 20,428 thousand. The structure of maturities of the liabilities to banks and derivatives is presented in detail in the Notes to the Consolidated Financial Statements in the chapter entitled »Liabilities to banks«. Some loan agreements contain typical covenants requiring that certain financial ratios be maintained with respect to individual properties or the loan portfolio (loan to value ratio of 65% or 70%/debt service coverage ratio of 1.15 or 1.20). The loan covenants have not been violated.

The bank balances at the end of the period stood at € 2,056 thousand, compared to € 1,821 thousand on 31 December 2007.

€ thousand	2008	2007	Change in %
Cash flow from current business operations	8,862	5,690	56%
Cash flow from investment activities	−44,385	−140,770	−68%
Cash flow from financing activities	35,758	136,026	−74%
Cash in banks at the end of the period	2,056	1,821	13%

[1] *Funds from operations = EBIT +/- Income from the revaluation of properties +/- Income from the sale of properties +/- Financial results (excluding changes in valuation of derivatives) + Income from minority interests - Paid taxes*

Cash flow from operating activities

From its operating activities, POLIS as in previous years generated a strong positive cash flow of € 8,862 thousand (previous year: € 5,690 thousand). The increase by about 50% is the result of the strong growth of the portfolio and the corresponding increase in rental revenues.

Cash flow from investment activities

The cash flow from investment activities in 2008 in the amount of € -44,385 thousand (previous year: € -140,770 thousand) illustrates the further expansion of the Company's portfolio 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«.

Cash flow from financing activities

Cash flow from financing activities of € 35,758 thousand is largely the result of the net increase of liabilities to banks of approximately € 42,258 thousand less interest paid in the amount of € 6,943 thousand. The substantially higher cash flow from financing activities in the previous year (€ 136,026 thousand) was mainly related to the capital increase/initial public offering (€ 81,193 thousand) and drawing on medium-term and long-term loans in the course of expanding the portfolio.

Low loan-to-value ratio

The »loan-to-value ratio« (ratio of liabilities to banks and the market value of the properties as shown in the balance sheet) of around 52% as of 31 December 2008 is comparatively conservative for companies with a similar risk structure. In relation to the previous year, the key indicator increased from 39.1% in the course of the growth of our portfolio. In order to keep leverage low, we do not intend to reach the eventual target loan-to-value ratio of 60% in the course of the current year.

Credit lines and liquidity are sufficient

At the end of the year, the Group had liquid funds of € 2,056 thousand at its disposal (previous year: € 1,821 thousand). In order to optimize interest expenses, the Group maintains a comprehensive liquidity management system for keeping liquidity levels low while ensuring its access to sufficient credit facilities.

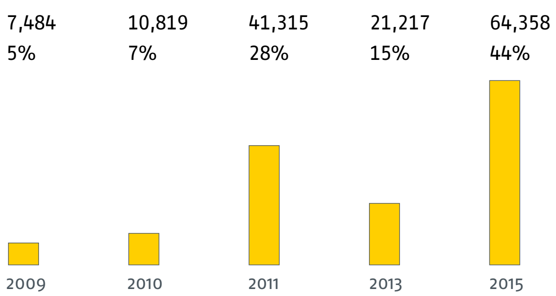
Loan facilities amounting to € 20,428 thousand (previous year: € 37,410 thousand) are currently available and have not been utilized, and can be drawn initially up to the end of 2009. Given the sale of the property at »Steinstrasse 20«, POLIS will receive € 9,353 thousand in 2009 after the debt has been repaid.

Low risk structure of maturities of liabilities to banks

The weighted average remaining term of the bank loans is 4.8 years as of 31 December 2008. Only three bank loans totaling € 7,484 thousand will come due in 2009 (previous year: € 74,538 thousand). These can either be extended, or repaid by utilizing existing credit facilities.

Maturity structure of bank loans

in € thousand, share in %



Refinancing costs fell significantly in the second half of the year

While short- and medium-term interest rates increased in the first half of 2008 in line with rising commodity prices, the yield curve fell strongly in the second half of the year as a result of the economic downturn. As a result, the terms for refinancing have become more favorable. The loan margins POLIS is obliged to pay have also remained stable due to the low loan-to-value ratio and existing financing agreements.

The proportion of unhedged, floating rate liabilities to banks was 37% as of 31 December 2008. The currently applicable interest rates for these variable-rate loans have fallen sharply in line with the general market development. The weighted interest rate of all liabilities to banks after hedging was 4.1% as of 31 December 2008, compared to 5.2% as of 31 December 2007.

Net assets

Structure of assets and capital

€ thousand	2008	2007	Change in %
Non-current assets	278,589	248,621	12%
Current assets	32,808	23,403	40%
Equity	153,085	151,939	1%
Balance sheet total	311,397	272,024	14%
Equity ratio	49.2%	55.9%	-12%
Loan-to-value ratio	52.4%	39.1%	34%

In the past financial year, the balance sheet total increased to approximately € 311 million (previous year: € 272 million). Non-current assets represent 89% of total assets. Only 11% of total assets are current. The overall structure of the balance sheet is characterized by the investment properties, which are reported together with the properties classified as »Non-current assets held for sale« and represent a volume of approximately € 278 million, or also approximately 89% of the balance sheet total.

The fourth floor of the building at »Rankestrasse 5–6« that POLIS is using itself is reported as a fixed asset with a value of € 2,090 thousand.

Investments in investment properties

The POLIS portfolio was successfully expanded in 2008 by four properties that were acquired for approximately € 41.1 million. The market values of the newly acquired properties as disclosed in the IFRS-compliant Consolidated Financial Statements (including the fourth floor of the building at »Rankestrasse 5–6« used for our own purposes) amount to € 43.0 million, so that we already achieved valuation gains of € 1.2 million in 2008 including investments.

Moreover, in the past financial year investments were carried out for the purpose of upgrading and extending the modernization properties at »Steinstrasse 20« in Dusseldorf (€ 2,194 thousand) and at »Konrad-Adenauer-Ufer 41–45« in Cologne (€ 3,328 thousand). The investments in the context of modernizing the building at »Steinstrasse 20« increased the value, which was fully realized by the subsequent sale. However, investments of € 998 thousand in the building at »Konrad-Adenauer-Ufer 41–45« were not recouped by increases in the market value.

Appraisal of the properties

As in the previous year, the appraisal of the properties as of 31 December 2008 was carried out by Feri EuroRating Services AG. Feri provided expert opinions on the market values, a property rating for each investment and an overall portfolio rating. The high quality of the portfolio was confirmed once more by its »A« portfolio rating (i.e. »very good«).

After the four acquisitions and two sales that occurred in the financial year, the fair value of the investment properties as of the end of 2008 totaled € 275,060 thousand (previous year: € 246,248 thousand). Two properties with a market value of € 2,610 thousand (previous year: three properties valued at € 17,990 thousand) are classified as »Non-current assets held for sale«.

The recognized 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 on the Internet and in the annual report.

High quality of receivables

Receivables and other financial assets have increased largely as a result of the sale of the property at »Steinstrasse 20« in Dusseldorf, from € 3,238 thousand as of 31 December 2007 to € 27,757 thousand. The purchase price of approximately € 20,450 thousand is due on 1 March 2009. The claim for payment has been secured by means of a bank guarantee. Further information is provided in the risk report in the Group Management Report and in the Notes to the Consolidated Financial Statements.

Net asset value

The net asset value of POLIS is calculated as follows:

€ thousand	
Carrying amounts of investment properties	277,670
Carrying amounts of investments	243
Other assets less other liabilities	21,027
Liabilities to banks	–145,481
Net Asset Value	**153,459**
Deferred taxes	–374
Net Net Asset Value	**153,085**

With respect to the existing 11,051,000 shares, the net asset value per share amounts to € 13.89 as of 31 December 2008 (previous year: € 13.79). The so-called net net asset value is then determined by taking into account the effect of deferred taxes. As of 31 December 2008, this figure amounted to € 13.85 per share.

Qualified 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. As of the end of the year, the number of employees has grown to 24, of which seven employees 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.

In September, two trainees began their vocational training as real estate managers with POLIS.

Concluding remarks concerning the results of operations, financial position and net assets

Compared to the previous years, the results of POLIS' operations have reached a new level as a result of the growth of the portfolio. Net rental income increased strongly and will continue to form the basis of our income. Growth in this year has been offset by valuation losses. Despite the intensifying financial crisis and the increasingly restrictive terms for loans stipulated by banks, POLIS with its focus on quality properties in attractive central locations and its sound capital structure is well prepared for a weakening economy. Our equity ratio of approximately 49% (loan to value ratio: approximately 52%) not only covers possible operational risks, it also provides us with the opportunity to obtain additional loans at terms that are still favorable in case we elect to take advantage of investment opportunities.

52%

Loan to value ratio

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 6 June 2008. 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 March 2009, the Board of Management and the Supervisory Board of POLIS will issue statements concerning the recommendations expressed in the German Corporate Governance Code. In 2008, 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.polis.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 its 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 stipulate that the Board of Management must obtain the prior approval of the Supervisory Board before carrying 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 reaches or exceeds € 5,000.

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

Number of shares*	31 Dec. 2008	31 Dec. 2007	Change
Dr. Alan Cadmus	32,500	32,500	0
Birgit Cadmus	16,500	16,500	0
Dr. Matthias von Bodecker	3,000	2,000	1,000
Jürgen von Wendorff	7,600	3,600	4,000

**Based on Submissions to the Company*

In accordance with a resolution adopted by the General Shareholders' Meeting on 4 July 2008, a stock option plan was implemented for the members of the Board of Management and the management team. Within the scope of this program, options (subscription rights) for up to 130,000 no-par value shares may be granted. Each subscription right confers the right to acquire one no-par value share. The members of the Supervisory Board do not hold any options conferring rights to acquire shares in the Company. Further details on the stock option plan of POLIS and on the outstanding subscription rights are contained in the chapter entitled »Share-based compensation« in the Notes to the Consolidated Financial Statements.

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, Berlin – that the auditor is to inform the chairman of the Supervisory Board also in this reporting year 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 2008:

€ thousand	Fixed compensation	Variable compensation	Total
Dr. Alan Cadmus	185	58	243
Dr. Matthias von Bodecker	130	40	170
Total	**315**	**98**	**413**

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

Dr. Cadmus receives a gross fixed annual compensation of € 185 thousand, and Dr. von Bodecker receives € 130 thousand. The Company provides each member of the Board of Management with a company car. The value of the remuneration 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 each 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.

For financial year 2008, the members of the Supervisory Board received the following fixed compensation.

€ thousand	
Carl-Matthias von der Recke (Chairman)	22
Hans Fehn (Deputy Chairman until 4 July 08)	8
Klaus R. Müller (Deputy Chairman since 4 July 08)	13
Arnoldus Brouns	10
Ralf Schmechel	10
Benn Stein (since 4 July 08)	5
Jürgen von Wendorff	10
Total	**79***

** Due to rounding differences not identical to the sum of each value*

Mandatory takeover offer of Mann Immobilien-Verwaltung AG and 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

In August 2008, Mann Immobilien-Verwaltung AG increased its share in POLIS to more than 30% and was obliged as a result to submit a mandatory takeover offer to the remaining shareholders. By the time the acceptance period expired on 13 October 2008, the mandatory takeover offer had been accepted with respect to approximately 20% of the shares. Since that time, the total stake of Mann Immobilien-Verwaltung AG in POLIS has been around 53.2%. We welcome the increased commitment of Mann Immobilien-Verwaltung AG to our Company. The visible support by such a financially strong major shareholder encourages us in pursuing our strategy. Mann Group has consistently backed our strategy and fostered our growth since before our initial public offering by investing substantial amounts of capital in our Company.

Mann Immobilien-Verwaltung AG raised its share in the company to approximately

53.2%

Other major shareholders in POLIS are Bouwfonds Asset Management Deutschland GmbH (15.1%) and Contrarian Capital (8.1%). The free float as defined by Deutsche Boerse currently represents approximately 31.7% of the shares in POLIS.

Shareholder	Share %
Mann Immobilien-Verwaltung AG, Karlsruhe	53.2
Bouwfonds Asset Management Deutschland GmbH, Berlin	15.1
Contrarian Capital Management L.L.C., Greenwich, CT, USA	8.1

Dependency report

Since Mann Immobilien-Verwaltung AG holds 53.2% of the shares in POLIS, POLIS is a dependent company of Mann Immobilien-Verwaltung AG within the meaning of Section 17 subsections 1, 2 AktG. Accordingly, the Board of Management has prepared a report *(Abhängigkeitsbericht)* in accordance with Section 312 AktG on the relationships with associated companies for the period from 13 October to 31 December 2008. The Board of Management submitted a report stating that legal transactions or other actions subject to reporting requirements committed or omitted by the Company at the instigation of or in the interest of the controlling company, Mann Immobilien-Verwaltung AG, did not occur for the period from 13 October to 31 December 2008.

The auditor reviewed the dependency report and issued the following audit opinion:

»Having audited the report in accordance with our professional duties, we confirm that the factual details contained in the report are accurate.«

Change of control

The service agreements with the members of the Board of Management of POLIS do not contain any special provisions in the event 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.

Supplementary report

No real estate transactions have been contractually agreed which would affect the balance sheet after the reporting date.

The change in interest rates after the reporting date led to a further negative market valuation of the interest rate derivatives currently amounting to approximately € 2 million.

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; these objectives have been prepared 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 risk of important leases expiring at the same time. We invest in high-quality buildings capable of third party uses situated in attractive locations that enhance the prospects for rapid follow-on leases. Our active portfolio management and the rapid and intensive marketing of vacant space further reduce the risk of vacancies.

In the context of risks of non-payment, 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 the routine monitoring of the tenants' financial standing, the continuous interaction with tenants and a stringent reminder system in order to minimize rent default. The company's default risk monitoring procedures gave no indications of any bad debts.

Following a conservative financing strategy with an equity ratio of at least 40% reduces the effect of interest rate fluctuations. The objective is to routinely hedge at least 50% to 70% of the loans against interest rate risks by stipulating fixed interest rates or by employing 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 also arise in the event of illiquidity in the banking system or on debt capital markets. Therefore, we also monitor the market conditions for loans and debt issuance as part of our liquidity planning.

As a result of the global financial and economic crisis, domestic banks have become more restrictive with respect to extending loans. In financial year 2008, the debt market was only accessible to well capitalized companies and subject to increased risk premiums, if at all. Also in the current market environment, POLIS is well positioned due to its strategy of keeping its leverage at a permanently low level of at most 60%. With an equity ratio of around 50% and available loan facilities of € 20,428 thousand, and in view of the loans of € 7,484 thousand that are coming due in 2009, POLIS is in no danger of encountering financing shortfalls. The loans are subject to the typical covenants: Debt service coverage ratios of 110% and 120% and loan-to-value ratios of 65% and 70% at the level of individual properties, and 70% and 80% at the portfolio level. All covenants were observed as of 31 December 2008. Also, the sanctions in the event the covenants are breached require that cash be deposited and do not include options for the immediate termination of loan agreements. For a detailed presentation of our debt positions (structure of maturities and fixed interest periods) we refer to sections 3.10 and 8.5 in the chapter entitled »Liabilities to banks« in the Notes to the Consolidated Financial Statements.

Anna Waibel, age 8

Possible investments of around € 15 million for modernizing the properties at »Konrad-Adenauer-Ufer«, »Domstrasse« and the »Quartier Buechsenstrasse« are covered by the aforementioned loans and the cash flow from operating activities and do not entail the need for further financing.

Given the current situation on the money and capital markets, we believe that the shareholder structure of POLIS with its financially strong institutional investors represents an additional stability factor.

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. The effects of the financial and economic crisis on the market for office buildings and thus on POLIS' results of operations, net assets and balance sheet in 2009 are difficult to ascertain. On the one hand, the demand for office space will decline due to the recession. The extent certainly depends on the severity and duration of the recession and currently cannot be determined accurately. Also, the demand for properties will tend to decrease due to the more difficult terms of financing and the uncertain market situation. On the other hand, properties are often favored by institutional investors in times of financial crisis compared to pure financial investments. We assume that the homogeneous and solid portfolio of POLIS is not exposed to serious valuation risks.

Risks associated with letting

The properties held by the Company had an average vacancy rate of 19% based on the rental space as of 31 December 2008. Furthermore, the lease agreements concluded by POLIS stipulate short average terms so that lease agreements are due for extension on a comparatively regular basis. In 2009, over 17,000 m² will become vacant, most of which in buildings which will be refurbished (i.e. approx. 9,500 m² in »Buechsenstrasse«). The rental income of POLIS is generated in a wide number of different industries. The ten most important tenants generate approximately 35% of rental income. For financial year 2009, we plan to conclude lease agreements concerning approximately 20,000 m². We have taken measures to achieve our ambitious letting objectives despite the difficult market environment.

Laura Goldau, age 5

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. A larger construction project is currently being carried out in the building at Konrad-Adenauer-Ufer, Cologne, and comprehensive revitalization measures are planned in several properties. In order to identify and control risks early on in the course of planning and executing such projects, we commissioned an external project management organization last year to manage the construction projects. The project controlling system we use for managing the projects produces all relevant key indicators. For financial year 2009, we are planning to invest approximately € 15 million in three investment properties.

Risks associated with revaluations

The properties are disclosed in the consolidated balance sheet of POLIS at their fair value according to IAS 40. The determination of the fair value as of the respective valuation date is based on an appraisal of the properties held in the portfolio. For this purpose, the property values determined by Feri were used for the end of financial year 2008.

The valuation of properties is based on a large number of factors that also include subjective assessments by the expert and that are subject to change at any time. 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.

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

With 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 risk of loss of rent 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 2009. Due to its regular and up-to-date reporting system, the Board of Management can react at short notice and rapidly take measures 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. We are aware of the economic and financial risks associated with the financial crisis; however, we believe that the risks we have identified are manageable. 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

According to leading economists, the economic downturn in Germany will continue at least until the middle of 2009, with GDP contracting by around 2.7% in 2009 after growing by 1.3% in 2008. The weaker economic performance is expected to lead to a decline in employment levels. However, the chances are good that the international measures taken for the purpose of stimulating the economy, the government bank rescue packages and the substantial reduction in key lending rates (down to between 0% and 0.25% in the US) will lead to a turnaround and that the German economy will again begin to grow by the end of 2009/early 2010.

Given the above, our assumptions for 2009 and 2010 are as follows:

- a period of economic weakness, but also an end of the recession,
- a reduced employment rate,
- price stability in the context of a strong euro, moderate commodity prices and an economic weakness of the major trading partners,
- falling short-term interest rates in the euro zone as a result of further relaxation of the ECB's monetary policies,
- moderately increasing long-term interest rates in view of the expanding money supply and increased national debt,
- overall weak demand on the markets for rental space that will remain weak for some time to come.

Positive development is expected in the following years for the German office real estate market

The recovery of the overall economic environment from 2010 onwards forms the basis for the expected positive development of the office property markets in Germany in subsequent years. We believe that the transaction volume and the rental space turnover achieved in the previous year will not be reached in 2009 due to more restrictive terms of credit, but that the rents for modern and well-equipped buildings will remain relatively stable. Investments in new buildings will remain at a low level due to the more restrictive attitude of banks in extending loans.

Furthermore, we believe that as a result of the portfolio transactions carried out in 2007 and 2008, and also of the portfolio transactions that were not concluded due to changed terms of financing, many properties will be sold individually or as parts of portfolios from the middle of 2009 onwards. If the financial crisis continues for a longer time, we believe larger sales are also possible as result of violations of loan convenants. Also, German companies and owners will continue to sell properties not required for their operations, and institutional investors will sell properties that they hold directly. Given the above, we believe that we will have significantly improved opportunities from the middle of 2009 onwards to acquire at attractive prices office buildings that can be modernized.

Major opportunities for the POLIS Group

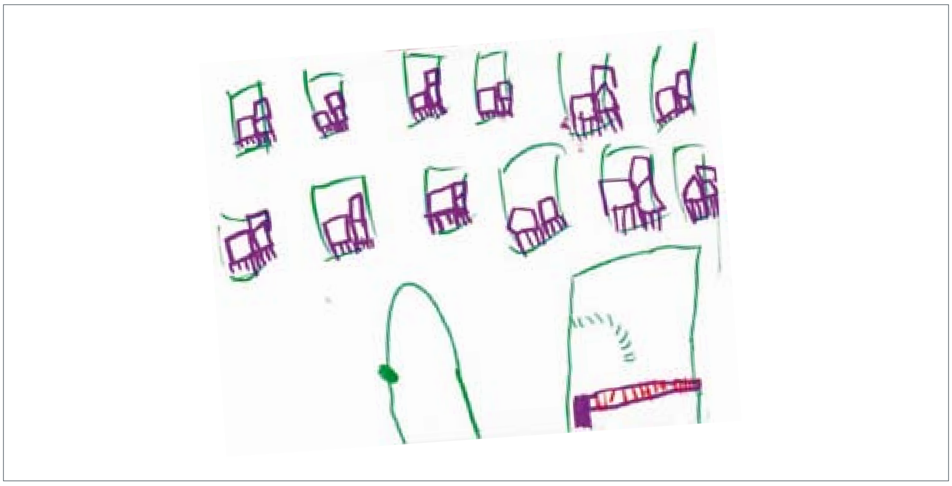
POLIS is active in a promising market with qualified employees, considerable financial flexibility and a proven business model. The market environment and the Company's strengths provide a promising perspective for increasing the Company's market value.

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 cities and urban 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 in future 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 provide for more or less stable rental revenues in 2009 and 2010 even in a difficult economic environment in Germany. Tenants in these locations prefer office buildings with modern facilities 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 central 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.



Olivia Hahn, age 5

If the rental market for office buildings should suffer over the next two years as a result of economic changes, POLIS has a good competitive position due to its presence in a promising market segment.

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 for 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 purchase opportunities ourselves and to tap the potential for added value 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 capital base thus allows us to take up additional loans at attractive terms and conditions in order to take advantage of and finance investment opportunities very rapidly once we have examined them carefully. Our shareholder structure provides the Company with additional stability and strategic opportunities.

Assessment of future business prospects

In financial year 2009, we will focus our activities on increasing the occupancy rate of our properties and modernizing promising properties in our portfolio. We intend to achieve an overall portfolio volume of around € 300 million, which means that we will continue to examine opportunities for further acquisitions. Given the planned revitalization measures, rental income will remain stable when occupancy rates in the remaining portfolio increase. For financial year 2010, we intend to further increase rental revenues to around € 18 million. After deducting expenses associated with modernization, maintenance and property management, we consider a further proportionate increase in the net rental income as well as the funds from operations possible in 2009.

In 2009, we will more than double our investments in the modernization of high-quality properties in attractive locations. The appealing building at »Konrad-Adenauer-Ufer 41–45«, situated directly on the Rhine, will be extended by a full floor and a terraced top floor and will be fundamentally refurbished in accordance with sustainable design principles. And also the building at »Domstrasse 10« in Hamburg and a part of the »Quartier Buechsenstrasse« in Stuttgart will be converted into modern, technically well equipped and economical office buildings.

2009

A doubling of investments in modernization sought

However, in view of the current situation on the international and national capital and property markets, predicting future valuation trends for our investment properties will necessarily be associated with a high degree of uncertainty, and would therefore not be helpful currently. Because the Group's results crucially depend on the results of valuations, they cannot be reliably forecast at this time.

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

Berlin, February 2009

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, 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, 12 February 2009

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, 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 2008. 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, 13 February 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

Quitmann	Lommatzsch
Wirtschaftsprüfer	Wirtschaftsprüfer

Consolidated Balance Sheet

As of 31 December 2008
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

ASSETS

€ thousand	Note	31 Dec. 2008	31 Dec. 2007
Non-current assets			
Investment properties	3.1	275,060	246,248
Intangible assets	3.2	54	59
Property, plant and equipment	3.2	2,316	186
Financial assets	3.3	243	1,035
Deferred tax assets	3.4	711	891
Receivables and other financial assets	3.7	205	202
Total non-current assets		**278,589**	**248,621**
Current assets			
Down payments for investment properties	3.1	0	35
Receivables and other financial assets	3.5	27,757	3,238
Current tax receivables	3.5	202	251
Cash in banks	3.6	2,056	1,821
Other assets	3.7	183	68
Non-current assets held for sale	3.8	2,610	17,990
Total current assets		**32,808**	**23,403**
Total assets		**311,397**	**272,024**

EQUITY AND LIABILITIES

€ thousand	Note	31 Dec. 2008	31 Dec. 2007
Equity			
Subscribed capital	3.9	110,510	110,510
Capital reserves	3.9	26,732	26,730
Retained earnings	3.9	14,699	5,656
Consolidated net profit		1,144	9,043
Share in equity allocable to the equity holder of the parent		153,085	151,939
Minority interests		0	0
Total equity		**153,085**	**151,939**
Liabilities			
Non-current liabilities			
Liabilities to banks	3.10	135,275	21,619
Deferred tax liabilities	3.4	1,085	1,374
Total non-current liabilities		**136,360**	**22,993**
Current liabilities			
Liabilites to banks	3.10	10,206	74,538
Payments received on account	3.10	3,423	1,982
Trade accounts payable	3.10	2,111	2,152
Income tax liabilities	3.10	155	34
Other financial liabilities	3.10	6,057	11,320
Liabilities in the content of the properties held for sale	3.8	0	7,066
Total current liabilities		**21,952**	**97,092**
Total equity and liabilities		**311,397**	**272,024**

Consolidated Income Statement

for the period from 1 January to 31 December 2008
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	Note	2008	2007
Rental revenues	4.1	14,993	9,788
Renovation and maintenance expense	4.2	-1,130	-498
Property management expense	4.3	-1,127	-766
		-2,257	-1,264
Net rental income		**12,736**	**8,524**
Unrealised gains from the revaluation of investment properties		4,341	9,341
Unrealised losses from the revaluation of investment properties		-6,287	-569
Result from the revaluation of investment properties	4.4	-1,946	8,772
Income fom the sale of investment properties		35,422	0
Carrying amount of the investment properties sold		-32,974	0
Result from the sale of investment properties	4.5	2,448	0
Other income	4.6	1,020	193
Other expense	4.7	-559	-591
Administrative expense	4.8	-3,278	-3,552
Income before financing activity and taxes		**10,421**	**13,346**
Investment income	4.9	101	91
Financial income	4.10	429	634
Financial expenses	4.11	-9,794	-3,409
Result before taxes		**1,157**	**10,662**
Deferred taxes	4.12	109	-1,613
Income taxes	4.12	-122	-6
Consolidated net income		**1,144**	**9,043**
of which:			
Allocable to minority interests		0	0
Allocable to equity holder of the parent		1,144	9,043

€		2008	2007
Earnings per share			
undiluted	2.4.12	0.10	0.93
diluted	2.4.12	0.10	0.93

Consolidated Cash Flow Statement

for the period from 1 January to 31 December 2008
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	2008	2007
Consolidated net income	1,144	9,043
Adjusted for:		
Financial result	9,264	2,684
Income from revaluation of investment properties	1,946	−8,772
Result from the sale of investment properties	−1,859	0
Result from the sale of properties held for sale	−589	0
Result from the sale of financial assets	−8	0
Deferred tax on IPO-expenses	0	213
Depreciation on intangible assets and property, plant and equipment	143	30
Losses from revaluation of non-current assets held for sale	30	497
Decrease of provisions	0	−104
Increase in trade receivables and other assets which cannot be allocated to the investment and financing activity	−2,077	−1,838
Changes in the trade payables and other liabilities which cannot be allocated to the investment and financing activity	866	3,937
Payments for equity options	2	0
Net cash (used by) from operating activities	**8,862**	**5,690**
Payments for the acquisition of software, fixtures and equipment	−91	−275
Proceeds from the sale of investment properties	15,972	0
Proceeds from the sale of investment properties and investments in modernization	−61,066	−140,495
Proceeds from the sale of financial assets	800	0
Net cash (used by) from investment activities	**−44,385**	**−140,770**
Contribution of owners (capital increase)	0	81,193
Payments of repayments of loans	−18,086	−40,712
Proceeds from debt	60,344	98,080
Interest received	368	615
Interest paid	−6,943	−3,241
Dividends received	75	91
Net cash (used by) from financing activities	**35,758**	**136,026**
Net change in cash and cash equivalents	**235**	**946**
Cash in banks at the beginnig of the period	**1,821**	**875**
Cash in banks at the end of the period	**2,056**	**1,821**

See section 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 2008
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. 2006	**51,400**	**4,328**	**5,177**	**479**	**61,384**	**0**	**61,384**
Expenses and income directly recognized in equity	0	–4,198	0	0	–4,198	0	–4,198
Consolidated net income	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**
Capital increase IPO	59,110	26,600	0	0	85,710	0	85,710
Withdrawal/addition	0	0	479	–479	0	0	0
Balance as of 31 Dec. 2007	**110,510**	**26,730**	**5,656**	**9,043**	**151,939**	**0**	**151,939**
Expense stock option plan	0	2	0	0	2	0	2
Expenses and income directly recognized in equity	**0**	**2**	**0**	**0**	**2**	**0**	**2**
Consolidated net income	0	0	0	1,144	1,144	0	1,144
Total expenses and income recognized in equity	**0**	**2**	**0**	**1,144**	**1,146**	**0**	**1,146**
Withdrawal/addition	0	0	9,043	–9,043	0	0	0
Balance as of 31 Dec. 2008	**110,510**	**26,732**	**14,699**	**1,144**	**153,085**	**0**	**153,085**

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

Notes to the Financial Statements pertaining to the Consolidated Financial Statements prepared in accordance with IFRS for POLIS Immobilien AG, Berlin

as of 31 December 2008

1. General information

1.1. Accounting policies

The consolidated financial statements of POLIS Immobilien AG (hereinafter referred to as **»POLIS«**) for the financial year 2008 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 2008 but not yet applied by POLIS.

The consolidated financial statements as of 31 December 2008 and the group management report for 2008 are prepared in accordance with Section 315a (1) HGB (German Commercial Code), and published in the electronic version of the German 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 items.

The consolidated financial statements were drawn up in euros. For improved clarity, amounts are generally shown in thousands of euros (€ '000).

Information on the objectives, methods and procedures of capital management, especially with respect to the capital structure, profit targets, the value strategy and risk management are comprehensively presented in the management report in the chapters entitled »Business and economic environment« and »Risk report«.

The Board of Management approved the consolidated financial statements on 12 February 2009 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 situated at the city centers in key German office locations and invests in properties that exhibit a concrete potential for value growth 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. Consolidated companies

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 Immobilien AG, the group of consolidated companies includes 39 fully consolidated companies in Germany.

As of 31 December 2008, 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
Buerohaus Berliner Allee GmbH & Co. KG, Berlin	100
Buerohaus 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	100
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
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 Koeln GmbH & Co. KG, Berlin	100
POLIS Objekt Lessingstrasse 14 GmbH & Co. KG, Berlin	100
POLIS Objekt Immermannstrasse GmbH & Co. KG, Berlin	100
POLIS Objekt Neumarkt GmbH & Co. KG, Berlin	100
POLIS Objekt Weyerstrasse GmbH & Co. KG, Berlin	100
POLIS Objekt Bugenhagenstrasse GmbH & Co. KG, Berlin	100

Subsidiary	Share in the capital in %
Companies founded in 2008	100
POLIS Objekt Rankestrasse GmbH & Co. KG, Berlin	100
POLIS Objekt HH Steinstrasse GmbH & Co. KG, Berlin	100
POLIS GmbH & Co. Dreiunddreissigste Objekt KG, Berlin	100
POLIS GmbH & Co. Vierunddreissigste Objekt KG, Berlin	100
POLIS GmbH & Co. Fünfunddreissigste Objekt KG, Berlin	100
POLIS GmbH & Co. Sechsunddreissigste Objekt KG, Berlin	100
POLIS GmbH & Co. Siebenunddreissigste Objekt KG, Berlin	100
POLIS GmbH & Co. Achtunddreissigste Objekt KG, Berlin	100
POLIS GmbH & Co. Neununddreissigste Objekt KG, Berlin	100
POLIS GmbH & Co. Vierzigste Objekt KG, Berlin	100

2.2. Change in the consolidated group

Compared to 31 December 2007, the consolidated group of POLIS increased by ten companies. All of these companies were established in financial year 2008 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 control ends.

Amalgamated companies were 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 measured net assets at the time of the purchase. Any remaining positive difference between the costs of acquisition and the Group's interest in the equity measured at market value must be recognized as goodwill and tested for impairment annually. A negative difference must be recognized in the income statement.

In financial year 2008, no business combinations within the meaning of IFRS 3 occurred.

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

2.4. Accounting and valuation policies

With the exception of investment properties and properties recorded as tangible assets, which are recognized at fair value, the consolidated financial statements have been drawn up in accordance with the historical cost principle. Also, derivatives are recorded at their fair value.

The financial instruments used by POLIS are classified by the IAS 39 measurement categories, cash in banks and financial instruments.

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

2.4.1. Investment properties

Properties are classified as investment properties if they are held for generating rental revenues and/or for the purpose of appreciation, and if the proportion of own use as a proportion of the rental area does not exceed 10%. POLIS acquires properties for its own portfolio and does not have specific intentions of selling them; however, opportunities that arise in the context of the moderate buy-and-sell strategy will be pursued.

Investment properties are measured 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 used 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 amortized in a straight line over a period of between 3 and 5 years depending on their expected operational lifetime.

2.4.3. Tangible assets

With the exception of properties recorded as tangible assets, tangible assets are measured at acquisition cost or production cost less scheduled straight-line depreciation and impairment. Properties recorded as tangible assets are regularly appraised and measured at their fair values. Fixtures and equipment are depreciated over a period of between three and 13 years. If tangible assets are sold or closed down, the acquisition costs or production costs and the appropriate accumulated depreciation of the fixed assets are written off; any resulting profits or losses are recognized in the income statement.

2.4.4. Financial assets

Financial assets are recognized on the date on which the Company becomes a contracting party with respect to the financial instrument 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 cash flows from the asset expire.

Financial assets are measured at fair value at the time they are first recognized. The subsequent measurement depends on the classification of the financial instruments in accordance with the measurement categories pursuant to IAS 39.

The classification is made in the categories »Measured at fair value and taken to income«, »Loans and receivables« and »Financial assets available for sale«.

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

a) *Financial investments*
   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 measured 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 measured 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 measured at fair value; changes in fair value are taken to income.

c) *Cash in banks*
   Cash in banks is recorded at nominal value as of 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 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. Where such assets represent investment properties, they are recorded at their fair value.

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 formed 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 the tax rates that currently apply.

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

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. If this is the case, the value of the assets is adjusted, and a corresponding expense is recognized.

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 cancellation of any previously recorded impairment provision is only implemented when a receivable has become irrecoverable.

2.4.9. Investment income, financial income and financial expenses

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

Financial income includes interest income from cash in banks as well as income from changes in the fair value of financial instruments.

The financial expenses include interest expenses for loans as well as expenses from the change of the fair value of financial instruments.

Interest income and interest expenses are recognized based on the effective interest method.

2.4.10. Expense and income realization

Income is recognized if it is probable that the economic benefit will accrue and if the income can be reliably quantified.

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 properties are sold, profit is realized as a matter of principle at the time at which the title passes to the buyer under civil law. Profits are realized earlier if the essential risks and opportunities associated with the properties in question are transferred already prior to the time at which the legal requirements have been met, the seller no longer has any authority to dispose of the property, and the costs incurred in the context of the sale can be accurately quantified.

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

Interest is recognized as expense or income on an accrual basis using the effective interest method.

2.4.11. Estimates

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

In particular, assumptions regarding future events are essential in determining the fair values of the investment properties. Please see section 3.1 for information on individual factors in the context of property valuation. However, due to the nature of the industry significant uncertainties remain with respect to the valuation of the property portfolio that cannot be quantified accurately.

In addition, POLIS Immobilien AG's eligibility regarding trade tax losses carried forward depends on the realization of profits from the sale of properties that are subject to trade tax by the Group's parent enterprise.

2.4.12. Earnings per share

Earnings per share are determined as follows:

	2008	2007
Group net profit/loss for the year after income allocable to minority interests (in € thousand)	1,144	9,043
Average number of ordinary shares in circulation	11,051,000	9,721,520
Earnings per share (diluted and undiluted) (in €)	0.10	0.93

2.4.13. Share-based payment transactions

The compensation of members of the Board of Management and the management team of POLIS also includes a share-based compensation involving the issuance of shares

The options are measured at their fair value on the day they are granted. The fair value of the stock options is determined using financial valuation methods based on option price models. The calculation is carried out using Monte Carlo simulation methods. The fair value of the options is recognized in the income statement as staff costs distributed over a vesting period of three years, resulting in a corresponding increase in equity.

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 segment reporting is required.

3. Notes to the balance sheet

3.1. Investment properties

The investment properties are measured at fair value. All investment properties of POLIS are held for the purpose of generating rental revenues and/or increasing their value; there is no own use.

The fair values of the properties as of 31 December 2008 as well as for the reporting date for the previous year were determined on the basis of appraisals carried out by an independent expert.

The following table illustrates the changes in the investment properties in 2008:

€ thousand		1 Jan. 2008						31 Dec. 2008
Property	Location	Fair value	Additions acquisition	Additions moderniza-tion	Disposals	Transfers	Change in market value	Fair value
Luisenstrasse 46	Berlin	10,560	0	0	0	0	210	10,770
Potsdamer Strasse 58	Berlin	14,780	0	64	0	0	306	15,150
Rankestrasse 5–6	Berlin	0	17,044	617	0	–2,177	–584	14,900
Kleppingstrasse 20	Dortmund	5,330	0	23	0	0	–183	5,170
Berliner Allee 42	Dusseldorf	6,240	0	213	0	0	–403	6,050
Berliner Allee 44	Dusseldorf	8,620	0	0	0	0	–830	7,790
Berliner Allee 48	Dusseldorf	5,640	0	82	0	0	–392	5,330
Immermannstrasse 11	Dusseldorf	3,380	0	8	0	0	–328	3,060
Kasernenstrasse 1	Dusseldorf	12,130	0	0	0	0	–390	11,740
Steinstrasse 11	Dusseldorf	8,770	0	0	0	0	–310	8,460
Steinstrasse 20	Dusseldorf	15,430	0	2,194	17,624	0	0	0
Steinstrasse 27	Dusseldorf	8,620	0	0	0	0	–290	8,330
Gutleutstrasse 26	Frankfurt a.M.	10,940	0	374	0	0	–204	11,110
Bugenhagenstrasse 5	Hamburg	0	4,563	0	0	0	507	5,070
Ludwig-Erhard-Strasse 14	Hamburg	11,270	0	387	0	0	403	12,060
Domstrasse 10	Hamburg	13,790	0	114	0	0	–824	13,080
Steinstrasse 12–14	Hamburg	0	4,799	0	0	0	971	5,770
Landschaftstrasse 2	Hanover	3,200	0	825	0	0	45	4,070
Landschaftstrasse 8	Hanover	3,910	0	0	0	0	30	3,940
Koenigsplatz 57	Kassel	2,840	0	61	0	0	–51	2,850
Ebertplatz 1	Cologne	7,280	8	0	0	0	2	7,290
Gustav-Heinemann-Ufer 54	Cologne	13,990	0	488	0	0	–268	14,210
Hansaring 20	Cologne	3,980	0	127	0	0	–77	4,030
Konrad-Adenauer-Ufer 51–54	Cologne	6,970	0	3,328	0	0	–998	9,300
Neumarkt 49	Cologne	7,498	6	0	0	0	–134	7,370
Weyerstrasse 79–83	Cologne	0	14,668	129	0	0	323	15,120
Rheinstrasse 43–45	Mainz	2,460	4	55	0	0	131	2,650
Rheinstrasse 105–107	Mainz	4,310	0	0	0	0	90	4,400
Friedrichsring 46/Collinistrasse 2	Mannheim	2,690	7	199	0	0	64	2,960
Lessingstrasse 14	Munich	9,770	11	0	0	0	–21	9,760
Boeblinger Strasse 8/ Arminstrasse 15	Stuttgart	3,400	0	108	0	0	282	3,790
Quartier Buechsenstrasse	Stuttgart	29,280	8	36	0	0	406	29,730
Tuebinger Strasse 31 & 33	Stuttgart	9,170	9	0	0	0	571	9,750
		246,248	**41,127**	**9,432**	**17,624**	**–2,177**	**–1,946**	**275,060**

In addition to the acquisitions of »Rankestrasse 5–6« in Berlin, »Bugenhagenstrasse 5« and »Steinstrasse 12–14« in Hamburg as well as »Weyerstrasse 79–83« in Cologne, the additions mainly relate to investments regarding the extension and revitalization of »Steinstrasse 20« in Dusseldorf, the revitalization of »Landschaftstrasse 2« in Hanover and the modification and extension of »Konrad-Adenauer-Ufer 41–45« in Cologne.

The investment property at »Steinstrasse 20« in Dusseldorf was sold for a price of € 20,450 thousand effective 31 December 2008 within the scope of an asset deal; taking into account the assumed obligations of € 968 thousand (for construction costs and rent guarantees), the sales profit was € 1,859 thousand.

The transfers concern the use of space in the investment property at »Rankestrasse 5-6« in Berlin for own purposes from 1 September 2008. This property is now recognized as a tangible asset.

There are no restrictions as to the disposability of the investment properties.

The following table shows the development of the investment properties in 2007:

€ thousand		1 Jan. 2007						31 Dec. 2007
Property	Location	Fair value	Additions acquisition	Additions modernization	Disposals	Transfers	Change in market value	Fair value
Luisenstrasse 46	Berlin	10,510	0	0	0	0	50	10,560
Potsdamer Strasse 58	Berlin	14,240	0	238	0	0	302	14,780
Kleppingstrasse 20	Dortmund	5,421	23	32	0	-60	-86	5,330
Berliner Allee 42	Dusseldorf	0	4,499	0	0	0	1,741	6,240
Berliner Allee 44	Dusseldorf	8,630	0	0	0	0	-10	8,620
Berliner Allee 48	Dusseldorf	5,360	19	0	0	0	261	5,640
Immermannstrasse 11	Dusseldorf	0	3,421	0	0	0	-41	3,380
Kasernenstrasse 1	Dusseldorf	11,254	7	0	0	0	869	12,130
Steinstrasse 11	Dusseldorf	8,540	0	0	0	0	230	8,770
Steinstrasse 20	Dusseldorf	10,880	0	4,503	0	0	47	15,430
Steinstrasse 27	Dusseldorf	8,610	0	0	0	0	10	8,620
Gutleutstrasse 26	Frankfurt a.M.	9,950	0	0	0	0	990	10,940
Ludwig-Erhard-Strasse 14	Hamburg	11,160	0	110	0	0	0	11,270
Domstrasse 10	Hamburg	0	13,851	4	0	0	-65	13,790
Landschaftstrasse 2	Hanover	1,715	0	1,493	0	0	-8	3,200
Landschaftstrasse 8	Hanover	3,581	0	0	0	-2	331	3,910
Koenigsplatz 57	Kassel	0	2,454	0	0	0	386	2,840
Ebertplatz 1	Cologne	0	7,522	0	0	0	-242	7,280
Gustav-Heinemann-Ufer 54	Cologne	0	12,242	5	0	0	1,743	13,990
Hansaring 20	Cologne	0	3,500	0	0	0	480	3,980
Konrad-Adenauer-Ufer 51-54	Cologne	0	6,252	180	0	0	538	6,970
Neumarkt 49	Cologne	0	7,498	0	0	0	0	7,498
Rheinstrasse 43-45	Mainz	0	2,140	19	0	0	301	2,460
Rheinstrasse 105-107	Mainz	0	4,283	32	0	0	-5	4,310
Friedrichsring 46/Collinistrasse 2	Mannheim	0	2,397	8	0	0	285	2,690
Lessingstrasse 14	Munich	0	9,682	0	0	0	88	9,770
Boeblinger Strasse 8/ Arminstrasse 15	Stuttgart	0	3,289	0	0	0	111	3,400
Portfolio Buechsenstrasse	Stuttgart	0	29,392	0	0	0	-112	29,280
Tuebinger Strasse 31 & 33	Stuttgart	9,030	0	0	0	-15	155	9,170
Torstrasse 15	Stuttgart	0	14,927	0	0	-15,350	423	0
		118,881	**127,398**	**6,624**	**0**	**-15,427**	**8,772**	**246,248**

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

€ thousand	2008	2007
Rental revenues from investment properties	14,475	9,763
Directly attributable property management costs that led to rental revenues		
Renovation and maintenance	988	497
Property management	749	447
Total	**1,737**	**944**
Directly attributable property management costs that did not lead to rental revenues		
Property management	228	309
Total	**228**	**309**

Furthermore, the consolidated profit and loss account also includes income and expenses attributable to »properties held for sale«.

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

Information concerning property valuation as of 31 December 2008

POLIS commissioned Feri EuroRating Services AG (hereinafter referred to as »Feri«) to determine the market values of all buildings held by POLIS and to document its analysis 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 kind. 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 science-based and are 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 discount 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 yield that is appropriate for the risk. It reflects all risks that are associated with the investment in an individual property.

Rental revenues initially contain the contractually agreed rents. The rental revenues from letting vacant areas and from follow-on letting 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 break-even yield is the base interest rate that takes into account the rate of return of a risk-free investment. In Feri's 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, the long-term average value of this rate was 4.62%. The break-even yield is individually determined on the single property level.

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

The property risk is a risk mark-up that takes into account all risks of the particular property. The key factors determining this risk factor are 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 7.07% (previous year: 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 these net cash flows 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 required for determining the net cash flow and the discount factors.

Rating indicators for the desirability of a property are the macro position, the micro position and the quality of the property. As part of determining the risk profile of a property, the tenant-specific risk is determined by evaluating the tenant creditworthiness, the tenant concentration and the contract design.

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

Observation period/periodization

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

Compensation

For appraising the entire portfolio, Feri receives an all-inclusive compensation that is independent of the market values it has determined.

3.2. Intangible and tangible assets

This position comprises software, one office area used for own purposes as well as fixtures and equipment. The development of this position is shown in the following table:

	Acquisition/ production cost			Revalu- tion	Depreciation/amortization			Carrying amount	
€ thousand	1 Jan. 2008	Additions	31 Dec. 2008		1 Jan. 2008	Additions	31 Dec. 2008	31 Dec. 2007	31 Dec. 2008
Software	64	10	74	–	5	15	20	59	54
Properties and buildings (own use)	0	2,177	2,177	-87	0	0	0	0	2,090
Fixtures and equipment	211	81	292	–	25	41	66	186	226
	275	**2,268**	**2,543**	**-87**	**30**	**56**	**86**	**245**	**2,370**

The value of the properties and buildings as of 31 December 2008 was determined applying the same principles und methods as were used in the revaluation of the investment properties. If the properties and buildings recorded as tangible assets had been appraised using the historical cost model, their carrying amount as of 31 December 2008 would have amounted to € 2,169 thousand.

Depreciation and impairment losses for the year are included in the administrative expenses item as part of the income statement.

	Acquisition/ production cost			Depreciation/amortization			Carrying amount	
€ thousand	1 Jan. 2007	Additions	31 Dec. 2007	1 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

The financial assets consist of a 5.1%-stake in Bouwfonds GmbH & Co. Objekt Stinnesplatz KG, Berlin, valued at € 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 for determining the fair value. A 5.15%-stake in ABN AMRO Immobilienfonds GmbH & Co. Ringbahnstrasse KG, Berlin, with a carrying amount of € 792 thousand (previous year: € 792 thousand) was sold effective 31 December 2008. The sale generated a profit of € 8 thousand.

	Acquisition/ production cost			Depreciation/amortization			Carrying amount	
€ thousand	1 Jan. 2008	Disposals	31 Dec. 2008	1 Jan. 2008	Additions	31 Dec. 2008	31 Dec. 2007	31 Dec. 2008
Investments	1,035	792	243	0	0	0	1,035	243
	1,035	**792**	**243**	**0**	**0**	**0**	**1,035**	**243**

3.4. Deferred tax assets and liabilities

The net deferred tax liabilities totaling € 374 thousand (previous year: € 483 thousand) due to temporary differences between the IFRS and the tax balance sheet and tax losses carried forward as of 31 December 2008 and 2007 are as follows:

Deferred tax credit

€ thousand	2008	2007
Tangible assets	427	521
Tax losses carried forward	1,385	1,542
Other financial liabilities	398	0
Balance of tax losses carried forward and other financial liabilities	−1,499	−1,172
Deferred tax claims	**711**	**891**

Deferred tax liabilities

€ thousand	2008	2007
Tangible assets	2,582	2,538
Balance of tax losses carried forward and other financial liabilities	−1,499	−1,172
Other assets	2	8
Deferred tax debts	**1,085**	**1,374**

As of 31 December 2008 and 31 December 2007, deferred taxes were formed with respect to the corporate and trade tax losses carried forward of all taxable units in full because the tax losses carried forward based on the fair value of the investment properties can be realized in accordance with the business plan. Any changes in the deferred tax assets and tax liabilities are recognized in the income statement.

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:

€ thousand	Total 2008	Non-current 2008	Current 2008
Trade receivables	4,221	0	4,221
of which allocable operating expenses	3,702	0	3,702
of which rent receivables	519	0	519
Sales tax credit	269	0	269
Other receivables	23,267	0	23,267
Total	**27,757**	**0**	**27,757**

Other receivables mainly include a purchase price claim totaling € 20,450 thousand from the sale of the investment property at »Steinstrasse 20« in Dusseldorf. Also, other receivables include derivative financial instruments with a positive market value (see Section 3.10).

As of 31 December 2008, receivables from operating costs not yet settled stood at € 3,702 thousand (previous year: € 2,106 thousand), and advance payments for operating expenses amounted to € 3,423 thousand (previous year: € 1,982 thousand).

€ thousand	Total 2007	Non-current 2007	Current 2007
Trade receivables	2,442	0	2,442
of which allocable operating expenses	2,106	0	2,106
of which rent receivables	336	0	336
Sales tax credit	626	0	626
Other receivables	372	202	170
Total	**3,440**	**202**	**3,238**

The carrying amounts correspond to the fair values due to their short remaining term.

Regarding the claims for rent of € 597 thousand, specific value allowances totaling € 452 thousand (previous year: € 167 thousand) were carried out in 2008 and in previous years. The following table presents the changes in the allowances on current trade receivables:

	2008	2007
Status as of 1 January	167	117
Dissolution	-6	-24
Additions	291	74
Status as of 31 December	**452**	**167**

The current tax receivables in 2008 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. There are no restrictions on disposal.

3.7. Other assets

In addition to accruals relating to rent-free periods, other assets include expenses for an insurance policy that will be recognized as an expense in the following year. The accruals relating to rent-free periods were calculated based on the terms of the lease agreements, taking into account the rents attributable to the rent-free periods in 2008 and previous years.

3.8. Non-current assets held for sale

The property at »Torstrasse 15« in Stuttgart was sold in the context of an asset deal for € 18,230 thousand under a notarized purchase and sale agreement dated 31 March 2008. Transfer of possession occurred on 1 May 2008. Obligations in the context of this sale are expected to amount to € 2,257 thousand (construction costs and loss of rent). The sales profit after deducting these expenses is € 589 thousand. Due to weak demand on the market for property transactions it was not possible to sell the properties at »Viehoferstrasse 31« in Essen and »Gallenkampstrasse 20« in Duisburg by 31 December 2008 as originally planned. The intention to sell these properties in the short term remains unchanged. Preparations to this end have been carried out, and the expectations regarding the achievable income have been reviewed.

€ thousand		1 Jan. 2008				31 Dec. 2008
Property	Location	Fair value	Additions	Disposals	Impairment	Fair value
Viehoferstrasse 31	Essen	1,070	0	0	-30	1,040
Gallenkampstrasse 20	Duisburg	1,570	0	0	0	1,570
Torstrasse 15	Stuttgart	15,350	0	15,350	0	0
		17,990	**0**	**15,350**	**-30**	**2,610**

3.9. Equity

The change in equity is apparent from the consolidated statement of changes in equity.

In financial year 2008, POLIS Immobilien AG carried out the following capital measures based on the resolution adopted by the General Shareholders' Meeting on 4 July 2008:

Conditional capital 2008/I

The share capital was further increased by up to € 1,300,000 by issuing up to 130,000 ordinary bearer shares in the context of a conditional capital increase. The sole purpose of the conditional capital increase is to fulfill option rights of members of the Company's Board of Management (up to 100,000 subscription rights) and management team (up to 30,000 subscription rights) that the Company is granting on or before 31 December 2012 in the context of a stock option plan in accordance with the authorization by the General Shareholders' Meeting.

The conditional capital increase will only be carried out insofar as the holders of the granted option rights exercise their option right and the Company does not fulfill the option rights by transferring own shares or by means of cash payments. The new shares shall participate in the profits as of the beginning of the financial year in which they were created as a result of exercising option rights.

Cancellation of the authorization of POLIS Immobilien AG to issue bonds with warrants and conditional capital 2007/1

The authorization granted by the Company's General Shareholders' Meeting on 23 January 2007 to issue bonds with warrants (Optionsschuldverschreibungen) and the conditional capital 2007/1 (increase in the share capital by up to € 1,540,000 for the purpose of granting rights to shares to the bearers/bondholders) were cancelled, as was Section 4 (3) of the Company's Articles of Association.

Authorization to acquire and dispose of own shares

The Company was authorized until 31 December 2009 to acquire own shares representing a notional share in the share capital of up to € 11,051,000 in full or in part, and in one or more steps. The shares may be acquired via the stock exchange or in the context of a public buyback offer; when such acquisition has taken place, the Board of Management is obliged to inform the General Shareholders' Meeting with respect to the reasons and the purpose.

Capital reserves

The capital reserves (€ 26,732 thousand, previous year: € 26,730 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	Total	Remaining maturities		
€ thousand		up to 1 year	1 to 5 years	more than 5 years
Liabilities to banks	145,481	10,206	76,773	58,502
	(103,223)	(81,604)	(21,619)	(–)
Down payments received	3,423	3,423	–	–
	(1,982)	(1,982)	(–)	(–)
Trade liabilities	2,111	2,111	–	–
	(2,152)	(2,152)	(–)	(–)
Income tax liabilities	155	155	–	–
	(34)	(34)	(–)	(–)
Other financial liabilities	6,057	6,057	–	–
	(11,320)	(11,320)	(–)	(–)
	157,227	**21,952**	**76,773**	**58,502**
	(118,711)	**(97,092)**	**(21,619)**	**(–)**

The figures given for the previous year concerning **liabilities to banks** include liabilities of € 7,066 thousand in the context of non-current assets held for sale.

The **liabilities to banks** are secured by mortgages in the amount of € 179,744 thousand (previous year: € 100,066 thousand). Of the liabilities to banks, a total of € 120,141 thousand (previous year: € 75,040 thousand) are at variable interest rates and € 25,053 thousand (previous year: € 28,183 thousand) are at fixed interest rates. The weighted average interest rate of all bank loans including derivative financial instruments was 4.1% as of 31 December 2008 (previous year: 5.2%). The weighted average remaining term of the bank loans is 4.8 years.

The fair values of the variable-rate liabilities correspond to their carrying amount. The fair values of the fixed rate liabilities amount to € 25,813 thousand as of 31 December 2008 (previous year: € 28,246 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 discount interest rates assumed were between 2.8% and 3.1% (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
2009	5.60	1	6,071
2009	variable	–	1,700
2010	5.98	1–2	10,819
2011	4.93–5.68	1.5–2	8,450
2011	variable	1	32,866
2013	variable	1	21,217
2015	variable	2	64,358
Total			**145,481**

Fixed rate loans will already be repaid during their term as stated so that the remaining term of the remaining debt specified is shorter than the term of the corresponding loan agreement.

Advance payments received include the advance payments for operating costs paid by tenants. The amount stated corresponds to the fair values.

The income tax liabilities concern corporate income tax and solidarity surcharge totaling € 155 thousand (previous year: € 34 thousand). The carrying amounts correspond to the fair values.

Other liabilities include derivative financial instruments with a negative market value, among others. These are the interest rate caps, interest rate floors and interest rate swaps set forth below that were implemented in order to limit the interest rate risk associated with variable-rate loans.

However, the interest rate caps, swaps and floors do not satisfy the requirements of IAS 39 with respect to hedge accounting and are consequently measured at fair value; changes in current values are recognized in income. In determining current values, market data are used.

	Volume € thsd.	Maturity	Rate in %	Market value 31 Dec. 2008 € thsd.
Interest rate swap	5,000	02.03.2009	3.66%	2
Interest rate swap	10,000	31.12.2010	3.82%	-262
Interest rate swap	5,000	30.12.2011	4.00%	-181
Interest rate swap	2,675	31.12.2011	3.12%	-18
Interest rate swap	10,000	31.12.2012	4.33%	-554
Interest rate swap	5,000	31.12.2012	3.93%	-189
Interest rate swap	5,000	31.12.2012	4.15%	-232
Interest rate swap	10,000	30.06.2015	4.80%	-923
	52,675			-2,357
Interest rate cap	4,000	02.03.2009	5.00%	0
Interest rate cap	5,000	28.06.2013	6.00%	8
	9,000			8
Interest rate floor	5,000	28.06.2013	3.37%	-162
	66,675			**-2,511**

Furthermore, other financial liabilities mainly include obligations assumed (construction costs and loss of rent) in the context of the sale of the property at »Torstrasse 15« in Stuttgart (€ 2,258 thousand) and at »Steinstrasse 20« in Dusseldorf (€ 968 thousand). 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 since all opportunities and risks associated with ownership remain with the Group. Accordingly, POLIS is the lessor in all leases (operating leases) of varying design concerning investment properties.

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

€ thousand	Total	Remaining maturities up to 1 year	1 to 5 years	more than 5 years
Minimum lease payments	55,390	13,803	32,410	9,177
	(54,723)	(13,077)	(29,356)	(12,290)

The contractually secured lease payments include net rents until the agreed end of the contract or until the earliest possible termination date for the tenant (lessee).

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 of financial assets and liabilities:

€ thousand	2008	2007
Financial assets		
Financial assets available for sale	243	1,035
Cash in banks and cash holdings	2,056	1,821
Financial assets held for trading	10	52
Receivables	27,747	3,388
	30,056	**6,296**

€ thousand	2008	2007
Financial liabilities		
Financial liabilities at amortized cost	154,551	118,677
Financial liabilities from derivatives	2,521	0
	157,072	**118,677**

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

€ thousand	2008	2007
Financial assets held for trading	-2,564	10
Receivables	-285	-50
Financial investments	8	0
	-2,841	**-40**

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

4. Notes to the income statement

4.1. Rental revenues

This position 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 (€ -75 thousand; previous year: € -21 thousand) from the recognition of rent-free periods.

4.2. Renovation and maintenance expense

The figures represent the expenses incurred for renovating rental and common-use space as well as general expenses for maintenance and repair work on the properties.

€ thousand	2008	2007
Renovation and maintenance expenses		
Maintenance expenses	431	222
Renovation expenses	700	276
	1,130	**498**

4.3. Property management expenses

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

4.4. Result 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 (see also section 3.8).

4.5. Income from the sale of investment properties and of properties held for sale

In 2008, total income of € 2,448 thousand (previous year: € 0 thousand) was the result of the sale of the investment property at »Steinstrasse 20« in Dusseldorf (€ 1,859 thousand) and the property at »Torstrasse 15« (€ 589 thousand) in Stuttgart that is held for sale. No investment properties were sold in 2007. Additional information is given in sections 3.1 and 3.8.

4.6. Other income

Other income for financial year 2008 mainly includes a compensation payment for the decrease in value of the investment property at »Gustav-Heinemann-Ufer« in Cologne as the result of an infrastructure project of the public transport services as well as income from compensation payments of tenants for the premature termination of lease agreements. In the previous year, the other income position primarily included costs that were passed on.

4.7. Other expenses

The other expenses item includes value adjustments on claims for rent and due diligence expenses, among others.

4.8. Administrative expense

The following table shows the breakdown of the administrative expense:

€ thousand	2008	2007
Staff costs	1,662	999
Legal, consulting and auditing fees	587	516
Office and travel expenses	503	305
Stock exchange-related expenses, financial reports, general shareholders' meeting	212	150
Marketing and advertising expenses	134	98
Supervisory Board expenses	111	89
Asset management fees	0	1,315
Other expenses	68	80
Total	**3,278**	**3,552**

In addition to the two members of the Board of Management, 21 persons were employed in financial year 2008 (previous year: 19), 5 in general administration, and 16 in asset and property management.

4.9. Investment income

This position 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

Financial income relates to interest income from the current rate of return of the current accounts of POLIS in the amount of € 429 thousand (previous year: € 624 thousand) and income from hedging transactions from the measurement of the derivative financial instruments at fair value in the amount of € 0 thousand (previous year: € 10 thousand).

4.11. Financial expenses

Financial expenses relate to the following positions:

€ thousand	2008	2007
Interest expenses	6,761	3,100
Ancillary financing costs	470	309
Expenses from revaluation of derivative financial instruments	2,564	0
Total	**9,794**	**3,409**

4.12. Taxes

Profit before income taxes amounted to € 1,157 thousand for financial year 2008 and € 10,662 thousand for financial year 2007.

The income tax expenses for financial years 2008 and 2007 were as follows:

€ thousand	2008	2007
Expenses (–)/income (+)		
Deferred taxes on losses carried forward	–157	103
Deferred taxes from temporary differences	266	–1,716
Current taxes	–122	–6
Total	**–13**	**–1,619**

Deferred taxes are calculated based on the applicable tax rates in accordance with current laws. They are based on the legal regulations that apply or have been enacted as of the reporting date. Due to the extended trade tax reduction *(erweiterte Gewerbesteuerkürzung)*, the income from properties owned by the property companies is not subject to trade tax. Trade tax that may arise (on the level of POLIS Immobilien AG) will therefore be recognized as a reconciliation item. The corporate income tax rate in Germany was 15% in 2008 (previous year: 25%), and the solidarity surcharge was 5.5% thereof. The resulting combined tax rate is 15.825% (previous year: 26.375%). The following calculation shows how the reported income taxes expenses are derived from the expected tax expenses.

€ thousand	2008	2007
Pre-tax result	1,157	10,662
Group tax rate	15.8 %	26.4 %
Expected expenses from income taxes	**–183**	**–2,812**
Non-deductible operating expenses	–8	–6
Trade tax	528	435
Effect of tax reduction	0	764
Corporate income tax – previous years	–350	0
Taxes on income	**–13**	**–1,619**
Tax rate	1.1%	15.2%

The reconciliation item entitled »Trade tax effects« now contains for the first time the amount of the trade tax losses carried forward of POLIS Objekt Potsdamer Strasse 58 GmbH (€ 96 thousand).

The reconciliation item »Income tax for previous years« mainly relates to the reduction of tax losses carried forward as a result of a change of shareholders.

5. Other financial liabilities

As of the reporting date, other financial obligations amount to € 1,976 thousand (previous year: € 1,116 thousand) from order commitments in the context of construction contracts.

6. Disclosures concerning relationships with related companies and parties

Affiliated persons are the members of the Supervisory Board, the Board of Management and close family members of such persons. In addition, the group of related companies also includes the majority shareholder, Mann Immobilien-Verwaltung AG, Karlsruhe, together with its affiliated companies and the major shareholder, Bouwfonds Asset Management Deutschland GmbH, Berlin.

Please see section 8.1 and the explanations in the compensation report 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 a lease agreement with Bouwfonds Asset Management Group, services were rendered worth € 129 thousand (previous year: € 94 thousand) in financial year 2008 that were settled at prevailing market conditions.

7. Disclosures concerning the cash flow statement

The cash flow statement was drawn up using the indirect method, with net cash from operating activities 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 information

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 2008 were:

Dr. Alan Cadmus, Speaker of the Board of Management, Berlin

Dr. Matthias von Bodecker, Chief Financial Officer, Berlin

The overall compensation of the Board of Management in financial year 2008 amounted to € 413 thousand.

The following persons were members of the Supervisory Board:

- Carl-Matthias von der Recke, consultant, residing in Frankfurt/Main (chairperson of the Supervisory Board)
- Hans Fehn, member of the board of directors (retired) of the Church Pension Fund (KZVK), Darmstadt, residing in Karlsruhe (deputy chairman until 4 July 2008)
- Klaus R. Müller, member of the management team of Mann Immobilien-Verwaltung AG, Karlsruhe, residing in Germersheim (deputy chairperson as of 4 July 2008)
- Arnoldus Brouns, Director International Markets with Bouwfonds Asset Management, Hoevelaken, the Netherlands, residing in Maastricht, the Netherlands
- Jürgen von Wendorff, member of the management board/managing director of HANNOVER Finanz GmbH, Commerz Unternehmensbeteiligungs AG and HF Fonds VII GmbH, Hanover/Frankfurt, residing in Ingeln

  Mr. Jürgen von Wendorff is also a member of the following supervisory boards:

  - Advisory Board of Neumann und Esser Verwaltungs GmbH (Chairman)
  - Supervisory Board of GBK Beteiligungen AG (Member)
  - Advisory Board of BAG Lich GmbH (Member)
  - Advisory Board of Hego Partner Holding GmbH (Member)
  - Advisory Board of PARTE GmbH (Member)
- Ralf Schmechel, member of the management team of Mann Management GmbH, Karlsruhe, residing in Malsch
- Benn Stein, lawyer, tax law specialist and certified accountant, CT legal Stein und Partner, Hamburg, residing in Hamburg (since 4 July 2008)

According to Section 12 of the Articles of Association, the members of the Supervisory Board are entitled to reimbursement of their expenses as well as appropriate compensation, the amount of which is decided by the General Shareholders' Meeting. A resolution to that effect has been adopted. The overall compensation of the Supervisory Board in financial year 2008 amounted to € 79 thousand.

** Members of the Personnel Commitee of the Supervisory Board*

8.2. Corporate governance

In February 2008, the Board of Management and the Supervisory Board of POLIS issued statements concerning the recommendations expressed in the German Corporate Governance Code. In 2008, POLIS almost fully observed all recommendations of the German Corporate Governance Code. The current declaration of conformity of the Board of Management and the Supervisory Board has been published on the website of POLIS (www.polis.de).

8.3. IFRS standards already adopted and approved by the EU but not yet applied

The following IFRS standards that have already been adopted and approved by the EU but were not yet mandatory as of 31 December 2008 were not applied.

The revised IFRS 2 mainly concern changes to the provisions concerning the terms under which stock options can be exercised. Applying the revised standards is mandatory from 2009 onwards. It is not expected that the amendment to IFRS 2 will have a significant impact on future consolidated financial statements of POLIS.

The revised IFRS 3 »Business Combinations« modifies the definition of business operations, the valuation of minority interests, the treatment of transaction costs and the adjustment of acquisition costs in the case of business combinations. The revised IFRS 3 must be applied prospectively from 2010 onwards.

IFRS 8 converts segment reporting from the so-called Risk and Reward Approach of IAS 14 to the Management Approach with regard to segment identification. Of critical importance is the information that is provided regularly to the so-called Chief Operating Decision Maker for decision-making purposes. At the same time, the valuation will be converted from the Financial Accounting Approach of IAS 14 to the Management Approach. Application of IFRS 8 is mandatory from 2009 onwards. It is not expected that IFRS 8 will have a significant impact on future consolidated financial statements of POLIS.

The revised IAS 1 »Presentation of Financial Statements« requires the disclosure of total comprehensive income that includes all changes in equity with the exception of such changes that are the result of transactions with shareholders. The revised IAS 1 must be applied starting in 2009 and will affect the presentation of the financial statement accordingly.

The revised IAS 23 »Borrowing Costs« removes the option of immediately deducting as expenses borrowing costs that pertain to the acquisition or production of qualified assets. The revised IAS 23 is to be applied prospectively to assets that are produced beginning in 2009 or later.

The revised IAS 27 »Consolidated and Separate Financial Statements in accordance with IFRS« governs the presentation of the acquisition of minority interests and deconsolidations that involve the continued ownership of minority interests. The revised IAS 27 must be applied prospectively from 2010 onwards.

The revised IAS 32 »Financial Instruments: Presentation« and IAS 1 »Presentation of Financial Statements« contain provisions for the presentation of so-called »puttable instruments«. The revised IAS 32 and IAS 1 are to be applied starting in 2009; however, they are not expected to have an effect on the presentation of the financial statement of POLIS.

IFRIC 13 – »Customer Loyalty Programmes« concerns customer loyalty programs, in particular premiums and discounts granted in the context of such programs. IFRS 13 is to be applied from 2009 onwards. IFRS 13 is not expected to have an impact on future consolidated financial statements of POLIS.

8.4. Share-based compensation

By resolution adopted by the General Shareholders' Meeting on 4 July 2008, the Board of Management of POLIS AG was authorized to implement a stock option plan for the members of the Board of Management and the management team subject to the approval of the Supervisory Board. Within the scope of this program, options (subscription rights) for up to 130,000 no-par value shares are to be granted. Each subscription right confers the right to acquire one no-par value share.

The subscription rights depend on the development of two success criteria, both of which are directly related to the performance of the Company's shares:

a) Absolute success criterion
The subscription rights of the first tranche may only be exercised if the quoted share price of POLIS AG exceeds a price of € 14.50 within the reference period of six weeks prior to the first day of the first exercise period. The relevant figure is the share's highest weighted closing quotation on five consecutive days during the reference period. For each of the subsequent tranches, the share performance must increase by 24%-points in total.

b) Relative success criterion
Also, subscription rights may only be exercised if the overall performance of POLIS Immobilien AG shares in percentage terms during the period between granting and exercising the subscription right exceeds the benchmark index, DAX-subsector Real Estate Performance Index of Deutsche Börse Group, by more than five percentage points.

The stock options may be exercised up to the end of five years after the date on which they were granted and are subject to a lock-up period of three years. During the relevant period, the subscription rights may be exercised in part or in total during two defined periods of 20 trading days per financial year. The exercise periods commence on the sixth day of trading on the Frankfurt Stock Exchange after the publication date of POLIS Immobilien AG's annual report and the semi-annual report for the financial year.

Options not exercised within five years of the date on which they were granted expire without compensation. Also, options not transferred at the time an employee leaves the Company also expire.

The weighted average of the contractual term of the options outstanding as of 31 December 2008 are between four and seven months (previous year: 0).

The outstanding subscription rights are shown in the following table:

	2008		2007	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding at beginning of year	–	–	–	–
Granted during the year	26,000	€ 14.50	–	–
Outstanding at year end	26,000	€ 14.50	–	–
Issuable at year end	–	–	–	–

On 1 August 2008, 26,000 subscription rights were granted for financial year 2008. The market value at the time was € 17,810. No subscription rights were granted in 2007.

The fair market price *(beizulegender Marktpreis)* of the share options issued under the Company's stock option plan was calculated applying the binomial method. The effects of the development of the success criteria were taken into account using Monte Carlo simulation techniques. The following basic assumptions were made in determining the value of the options:

	2008	2007
Price per share	€ 9.20	–
Exercise price	€ 14.50	–
Expected volatility	38%	–
Expected maturity	3 years	–
Risk free rate of interest	4.3%	–
Expected dividend rate	3%	

The expected volatility of the share was determined based on the historic fluctuations of the Company's share price as well as comparable companies. The expected term used by the model is based on the best possible estimates of the Board of Management assuming non-transferability, exercise restrictions, and behavior-related considerations.

Based on the fair market price stated above and the Company's assessment regarding employee fluctuation, the expenses associated with granting subscription rights to employees on 31 December 2008 amount to € 2,474 (previous year: € 0). Other share-based payment transactions did not take place.

8.5. Financial risk management goals and methods

Due to its business activities, the Group is exposed to various financial risks. The chapter of the management report entitled »Risk report« contains a comprehensive discussion of POLIS' risk management. Financial risks primarily include 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 the early identification of complex risk situations. The Supervisory Board advises and monitors the Board of Management.

a) Interest rate risk

Risks of changes in interest rates arise through market-related fluctuations of interest rates. These have an impact on the level of interest expenses. As of 31 December 2008, the variable rate liabilities to banks of POLIS amounted to € 120,141 thousand, of which € 52,675 thousand was converted to fixed-rate loans by means of interest rate swaps, and a further € 9,000 thousand was secured by means of interest rate caps. The fixed-rate liabilities to banks amounted to € 25,053 thousand. The proportion of unsecured, variable-rate liabilities to banks was thus 40%. This level is considered reasonable. POLIS uses a cash-flow-at-risk analysis to determine the effects of changes in the interest rates on profit and loss and on equity. 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 2008, the risk from a theoretical increase in interest rates by 100 basis points amounted to € 585 thousand per year (previous year: € 660 thousand). A decrease in interest rates would lead to corresponding positive effects on net income.

Changes in interest rates would also have an effect on the market value of the derivatives. A reduction of the interest rates by 100 basis points would change the market value of the derivatives as shown in the balance sheet by approximately € 2 million. In view of the development of the Euribor after the reporting date, such a change is expected for the first quarter of 2009.

b) Default risk/credit risk

Default risks concern the claims for rent. Centralized monitoring of all existing receivables is used for early detection of default risks. The following table presents the maximum default risk by balance sheet item:

€ thousand	2008	2007
Financial assets		
Investments	243	1,035
Receivables and other financial assets	27,757	3,440
	28,000	**4,475**

POLIS has obtained a bank guarantee as security for the purchase price claims of € 20,450 thousand included in the receivables relating to the sale of the investment property at »Steinstrasse 20« in Dusseldorf.

As of 31 December 2008, receivables from operating costs not yet settled stood at € 3,702 thousand (previous year: € 2,106 thousand), and advance payments for operating expenses amounted to € 3,423 thousand (previous year: € 1,982 thousand); receivables relating to operating costs that can be charged to tenants were neither impaired nor due.

Also, POLIS has received comprehensive collateral in the form of rent deposits (cash deposits and guarantees).

The following table gives an overview of the age of the rent receivables:

		of which:	of which: not impaired, and past due in the following periods:			
€ thousand	Carrying amount	neither impaired nor past due	more than 90 days	61–90 days	31–60 days	0–30 days
31 Dec. 2008						
Rent receivables	519	73	130	1	129	186
31 Dec. 2007						
Rent receivables	336	169	5	9	68	85

All claims for rent shown relate to commercial tenants. For the claims for rent that are due, POLIS has received collateral in the form of rent deposits (cash deposits and guarantees) amounting to € 1,482 thousand.

Regarding 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 following table presents an analysis of impaired assets:

€ thousand	2008	2007
Impaired assets		
Carrying amount of receivables with individual allowances for doubtful accounts	597	167
Amount of individual allowances for doubtful accounts	–452	–167
Net carrying amount (after value adjustments)	**145**	**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 regulated market 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 the liquidity planning with a multi-year planning horizon, the Board of Management also uses comprehensive rolling monthly liquidity planning with a 12-month planning horizon for the early detection of the liquidity situation. Group-wide cash management is used to monitor the current liquidity situation.

The following table presents all contractually agreed payments as of 31 December 2008 for amortization, interest and repayments of financial liabilities reported in the balance sheet:

Analysis of remaining terms

€ thousand	Total	2009	2010	2011	2012	2013 or later
Non-derivative financial liabilities						
Liabilities to banks	173,125	16,401	17,998	46,176	4,662	87,888
Trade liabilities	2,111	2,111	0	0	0	0
Derivative financial instruments	2,521	2,521				
Other liabilities	3,536	3,536	0	0	0	0
Loan commitments from banks	–20,428	–20,428	0	0	0	0
Total	**160,865**	**4,141**	**17,998**	**46,176**	**4,662**	**87,888**

The loan commitments only concern loans that have not yet been drawn and that can initially be used until the end of 2009.

As a result of selling the investment property at »Steinstrasse 20« Dusseldorf, POLIS will receive liquid funds in 2009 amounting to € 20,450 thousand. These can be used to cover the gross cash outflows in 2009 as shown in the above table.

Analysis of remaining terms as of 31 December 2007

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
Trade liabilities	2,152	2,152	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
Total	**48,314**	**24,670**	**7,503**	**11,254**	**4,886**	**0**

8.6. Fees and services of the auditor

The fees incurred for the services provided by auditors KPMG in financial years 2008 and 2007 amounted to:

€ thousand	2008	2007
Audit fees	130	156
Fees for related services		
– Comfort letter	0	109
– IFRS consulting	0	20
Total	**130**	**285**

Berlin, 12 February 2009

POLIS Immobilien AG
The Board of Management

Dr. Alan Cadmus

Dr. Matthias von Bodecker

Financial calendar

Interim Report, 1st Quarter 2009	7 May 2009
Annual General Meeting 2009	19 June 2009
Interim Report, Half Year 2009	4 August 2009
Real Estate Share Initiative, Frankfurt am Main	20–21 October 2009
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