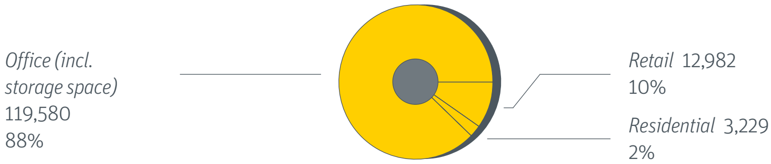
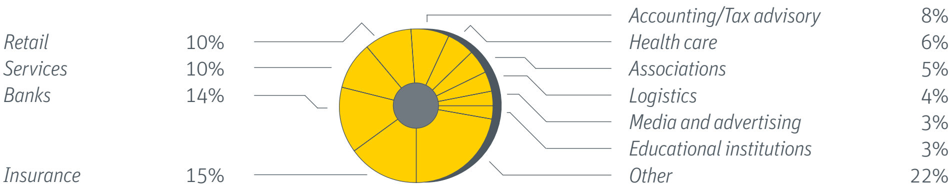
POLIS

Annual Report 2009

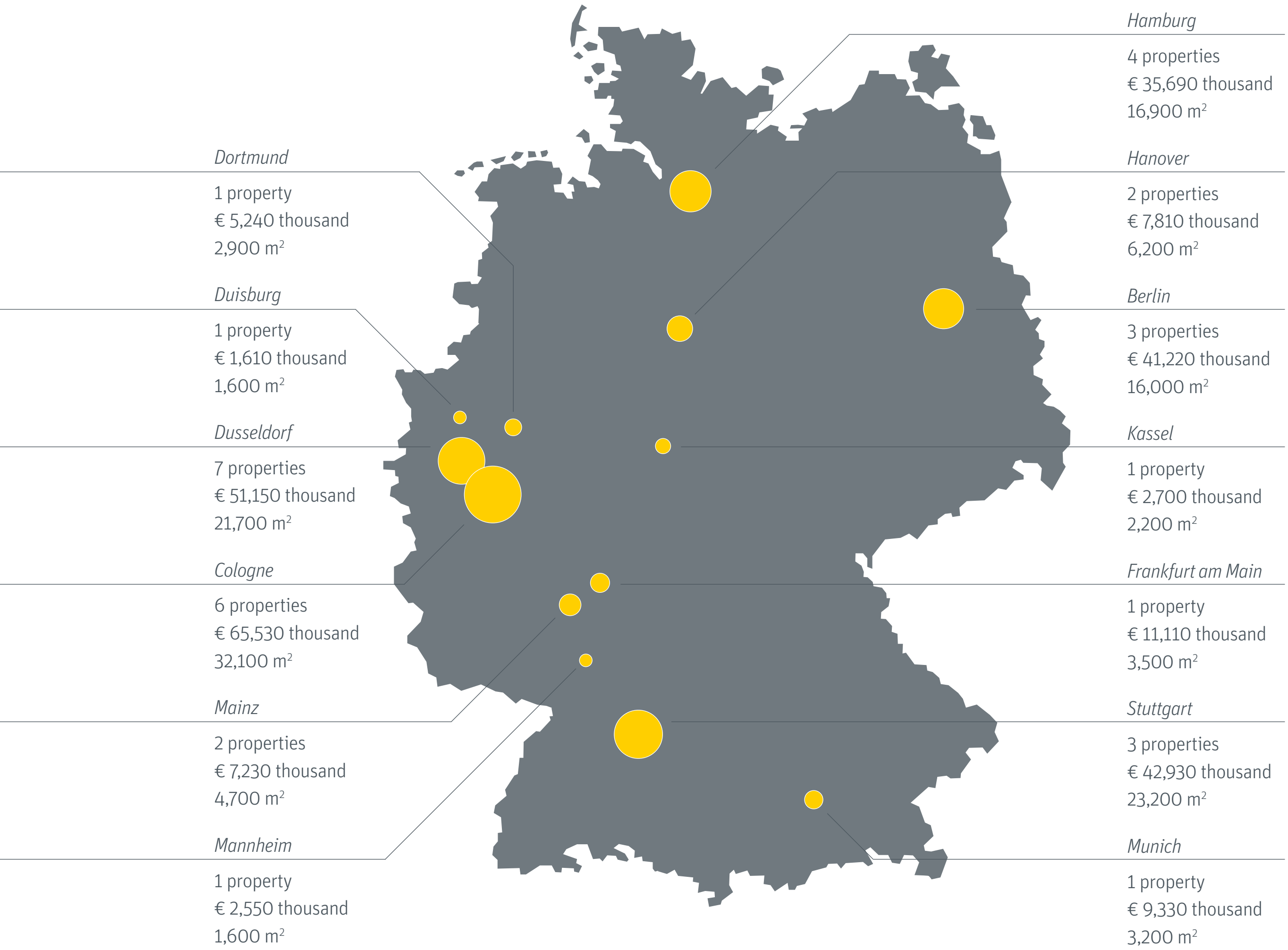
Portfolio by use | *basis: m^2*



Sources of rental revenue – sectors | *in %*



Portfolio by location | *source: appraisal by FERI as at 31 Dec. 2009*



Actively managed portfolio

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.

The table containing the key financial data is provided on the inside of the rear cover.

Letter from the Board of Management

Dear Shareholders, Ladies and Gentlemen,

The past year has brought great challenges for providers of office space in Germany. The international financial and economic crisis of 2008 has had the expected delayed impact on the German market for office space in 2009. According to real estate brokerage reports, the overall transaction volume in the commercial property sector fell from around € 20 billion in 2008 to around € 10 billion in 2009. In the past year, we also refrained from carrying out new acquisitions. We have, however, also discovered opportunities in the current market environment to expand our property portfolio. In doing so, we will continue to meet our high standards in terms of location and quality and only acquire centrally located office properties in the 20 most important German office locations. Thanks to our solid financial position we are able to respond to lucrative opportunities to buy properties. We are interested in properties with modern facilities and good occupancy rates that generate a stable cash flow as well as in properties in need of modernization provided they have a potential for an increase in value.

Operating results (funds from operations) increase by 24%

Given the overall economic background, we are pleased with the development of our Company's business operations in 2009. We were able to further increase the cash flow and funds from operations, i.e. the inflow of funds from our business operations, thus making good progress in the further development of our Company. In financial year 2009, the funds from operations funds achieved by POLIS amounted to € 3.7 million, representing a 24% increase relative to the previous year. Due to the modernization-related vacancies and current market conditions, rental revenues and net rental income fell, while interest income improved considerably due the lower market rates and the repayment of loans. The cash flow from operating activities increased during the past financial year to € 9.5 million, from € 8.9 million in the previous year.

High degree of stability despite difficult market conditions

As in the previous year, the valuation of our investment properties is currently associated with considerable uncertainties and can therefore not be predicted with any degree of confidence. Despite significant investments in the property portfolio and active property management, it was not possible to avoid a downward adjustment of the valuation of our property portfolio by € 9.3 million in the past year due to the market environment. Relative to the volume of assets, the market value fell by 3.2%, compared to 0.7% in the previous year.

The change in the market value is primarily based on the assumption that future increases in rent will be lower than expected during the previous year as a result of the financial and economic crisis. We believe that the adjustment in the market value is moderate in view of the substantial economic changes and reflects the portfolio's high degree of stability. Furthermore, with its equity ratio of 50%, our Company retains its robust financial position and thus possesses a high degree of investment security.

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

POLIS focuses on the sustainable modernization of office buildings

We are currently concentrating on completing and letting our ongoing modernization projects. The objective is to permanently increase the occupancy rates in the properties and in the other buildings in our portfolio. In accordance with our multi-tenant concept as part of our corporate strategy, we achieve income from a large number of tenants in a variety of industries. In our modernization projects, we consistently pursue an environmentally sustainable refurbishment in order to achieve long-term value. Currently, four projects are under construction, two of which have already been awarded the preliminary silver certificate (Vorzertifikat) of the DGNB (German Sustainable Building Council). We are convinced that this strategy will allow our Company to identify and take advantage of attractive opportunities on the market for office buildings. We have a sound reputation in the market as a specialist and reliable partner for the environmentally sustainable modernization and management of office buildings in a segment that is focused on location, property size and the quality of the space. The volume of assets of our properties typically lies between that of private and institutional investors. This approach gives us unique advantages in the competitive environment of listed German property companies.

Office property market expected to recover in 2011

In financial year 2010, we intend to keep rental revenues approximately constant despite the vacancies in the revitalization properties. Also, we intend to increase our net rental income and the funds from operations. However, due to the uncertain financial and economic environment, we are not in a position to forecast in quantitative terms the net rental income or funds from operations.

In 2010, we will devote our full energy to preparing ourselves for the recovery of the market for office buildings, which we expect will occur in 2011. In pursuing this objective, we will seek acquisitions that represent a sensible addition to our portfolio.

However, market demand for office buildings will still remain subdued in 2010. While the economy appears to have begun to recover somewhat, we expect further obstacles to economic growth due to the approaching end of a number of government support measures that will affect demand by companies, i. e. our tenants. Given the above, we believe it is not possible to issue a reliable forecast of future valuations and the net income for the financial year in accordance with IFRS.

Long-term profitable growth increases the rate of return for shareholders

Our shareholder structure, which largely consists of long-term, strategic investors, had a positive effect on the share price, which as in the previous year remained relatively stable in 2009. These shareholders already supported our growth prior to our initial public offering. We welcome their commitment to our Company, and our objective is to generate attractive rates of return for our shareholders by letting, active property management and long-term growth. For POLIS, managing a company with the objective of increasing long-term value on the one hand and providing a high degree of transparency on the other are inseparable. For us, transparency means that we communicate what we do, where we stand, and what we intend to achieve. All investment properties including their key valuation determinants are presented in the notes to the consolidated financial statements and on the POLIS website. Such information includes the level of rent, the potential level of rent, vacancies, property ratings and current market values. As a result of our open communications policy, the real estate experts at the DVFA (Society of Investment Professionals in Germany) recently named us Germany's most transparent real estate company.

During its existence now spanning over ten years, POLIS' proven business model has already allowed it to overcome challenging economic situations, and we are confident that we will continue to be successful in the marketplace.

To a large extent, the development of our Company is supported by the performance and the commitment of our employees. We are proud of our team and the entrepreneurial manner in which it thinks, decides and acts in accordance with our corporate strategy. We wish to thank all our employees and express our sincere appreciation for their work.

We also wish to thank our shareholders, tenants, contractors and financial partners for their trust in our Company.

Berlin, March 2010

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 in accordance with the 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 for the Company. Wherever transactions were subject to the approval of the Supervisory Board, it reached its decision upon thoroughly reviewing and considering the issue.

In addition, the chairman of the Supervisory Board regularly discussed and coordinated all issues and questions of key importance with the Management Board also outside of meetings.

Supervisory Board meetings and resolutions

During the period under review, four Supervisory Board meetings took place in which the members of the Board of Management participated, as well as one Supervisory Board meeting by telephone conference. Where required, the Supervisory Board adopted resolutions in writing.

In the course of the meetings, the Board of Management informed the Supervisory Board in detail and in a timely manner in particular of the Company's strategy and plans and the economic situation and development and consulted with the Supervisory Board in this regard. All matters that are subject to the decision of the Supervisory Board were determined after diligent examination and consultation in the meetings, and to the required extent also on the basis of written proposals prepared prior to the meeting.

The key issues in financial year 2009 included

- the economic developments as a result of the international financial and economic crisis and the consequences for the strategy and the business model of POLIS,
- the planning and implementation of the revitalization measures in the Quartier Buechsenstrasse in Stuttgart, Kasernenstrasse in Dusseldorf, Konrad-Adenauer-Ufer in Cologne and Domstrasse in Hamburg, and
- the valuation of the properties and interest hedges.

The Supervisory Board also discussed the issue of monitoring the accounting process as well as the effectiveness of the internal control and risk management systems.

Committees

The investment committee that the Supervisory Board established in its meeting on 8 May 2009, which consists of Mr. Müller (chairman), Mr. Schmechel and Mr. Stein, prepares the decisions of the Supervisory Board concerning investments that are subject to its approval. The investment committee met a total of five times and primarily discussed the plans regarding the aforementioned revitalization properties and the associated investments. To this end, the Supervisory Board carried out several on-site visits and discussed the projects in detail with the Board of Management, external experts of the committee, and the architects in charge.

The personnel committee with its members Mr. von der Recke (chairman), Mr. Brouns and Mr. Müller convened a total of three times, mainly to discuss the compensation and the future compensation structure of the Board of Management. The personnel committee prepared the Supervisory Board resolutions in matters pertaining to the members of the Board of Management.

The committee chairmen reported regularly to the other members during the meetings of the Supervisory Board.

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. On 10 March 2010, the Board of Management and the Supervisory Board issued the declaration of conformity pursuant to Section 161 AktG (Aktiengesetz; German Stock Corporation Act).

In the year under review, no conflicts of interest concerning the members of the Board of Management and the Supervisory Board occurred that would need to be immediately disclosed to the Supervisory Board and communicated to the General Shareholders' Meeting. Furthermore, the Supervisory Board stated that it believes it has a sufficient number of independent members.

The management report contains a detailed report on the amount and structure of the compensation for the members of the Supervisory Board and of the Board of Management.

Annual and consolidated financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft (Berlin) has audited the annual financial statements and the management report of POLIS Immobilien AG as of 31 December 2009 as well as the consolidated financial statements and the group management report as of 31 December 2009 and has issued an unqualified audit certificate (uneingeschränkter Bestätigungsvermerk). The consolidated financial statements and the group management report were prepared in accordance with Section 315a a HGB (Handelsgesetzbuch; German Commercial Code) on the basis of the International Financial Reporting Standards (IFRS) as applicable in the EU. The auditor conducted the audit in accordance with the generally accepted German standards for the audit of financial statements as approved by the IDW (Institut der Wirtschaftsprüfer in Deutschland e. V.).

The audit reports prepared by KPMG AG Wirtschaftsprüfungsgesellschaft were available to all members of the Supervisory Board and were discussed in detail in the relevant Supervisory Board meeting on 10 March 2010 in the presence of the auditor. The auditor presented the key findings of his audit and stated that the internal control and risk management systems had no essential weaknesses. In particular, he commented on the Company's and the Group's net assets, financial position and results of operations and was available to us for questions.

The auditor also provided information on the scope, the main focuses and the costs of the audit. The audit focused on the valuations of the properties and swaps and on the additions to assets.

We reviewed the annual financial statements of the Company and of the Group as well as the management report and the group management report. No objections were raised. We reviewed and approved the auditor's reports.

The Supervisory Board formally approved the annual financial statements prepared by the Board of Management. The Supervisory Board also approved the consolidated financial statements. We approved the management report and the group management report, in particular the assessment concerning the further development of the Company.

Relationships with associated companies

The auditor also audited the report on the relationships with associated companies (verbundene Unternehmen) prepared by the Board of Management pursuant to Section 312 AktG. The auditor issued the following unqualified audit certificate with respect to this report:

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

- the factual details contained in the report are accurate,
- the consideration of the Company in the context of the legal transactions set forth in the report were not unduly high.«

The Supervisory Board reviewed the report on the relationships with associated companies prepared by the Board of Management and audited by the auditor as well as dependency audit report (Abhängigkeitsprüfungsbericht) pursuant to Section 314 AktG. After concluding its review, the Supervisory Board has no objections with regard to the dependency report and the declaration by the Board of Management that it contains, and agrees with the results of the audit conducted by the auditor.

Changes to the Supervisory Board

Effective at the end of the General Shareholders' Meeting on 19 June 2009, Mr. Jürgen von Wendorff resigned his position as member of the Supervisory Board. We wish to express our sincere gratitude for the many years in which he served as member of the Supervisory Board and supported the Company. The General Shareholders' Meeting elected Mr. Wolfgang Herr as Mr. von Wendorff's successor in office for the remainder of the term.

The Supervisory Board wishes to thank the Board of Management and the employees of POLIS Immobilien AG for their commitment during the past financial year. They have worked well also in difficult times, taking all possible precautions in order to meet future challenges and to be able to take advantage of opportunities.

On behalf of the Supervisory Board

Carl-Matthias von der Recke
Chairman

Berlin, 10 March 2010

The POLIS Share

Market environment in 2009/development of the market for property stocks

After the collapse of the stock markets as a result of the economic crisis, stock markets recovered over the course of the year. For example, compared to the beginning of the year, the DAX increased by around 24%, and by around 62% when compared to the year's low. Relative to the DAXsubsector Real Estate Performance Index, German property stocks increased by approximately 15% since the beginning of the year.

Share price performance

The performance of the POLIS share was stable during the previous years and therefore did not benefit from the recovery of the market. It reached a year-end closing price of € 9.00, around 5% less than the previous year's closing price.

At current stock market valuations, real estate companies are trading significantly below the value of their total assets less debt. The discounts have grown smaller over the course of the year, but remain substantial, at times reaching up to 50%. At € 9.00 as of 31 December 2009, the price of the POLIS share represents a discount of around 32% relative to the net asset value (NAV) of € 13.27.

The continuing 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 and (ii) providing a transparent presentation of the appraisals that have been prepared by independent experts.

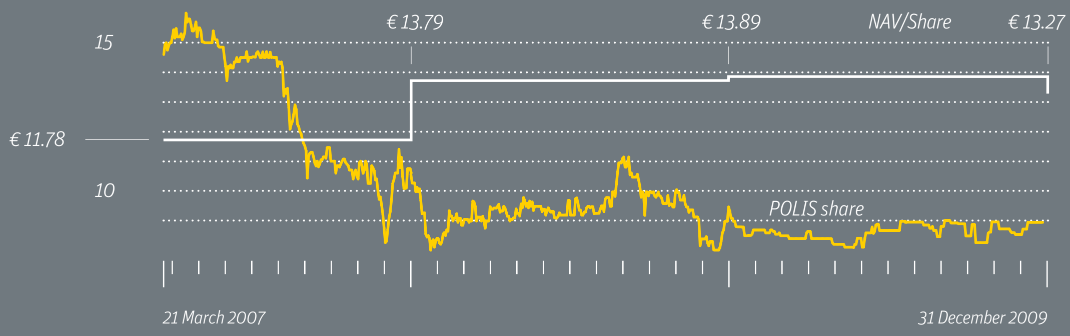
The average daily traded volume of POLIS shares at the Frankfurt Stock Exchange (XETRA) in 2009 was 865 shares, or € 9 thousand.

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

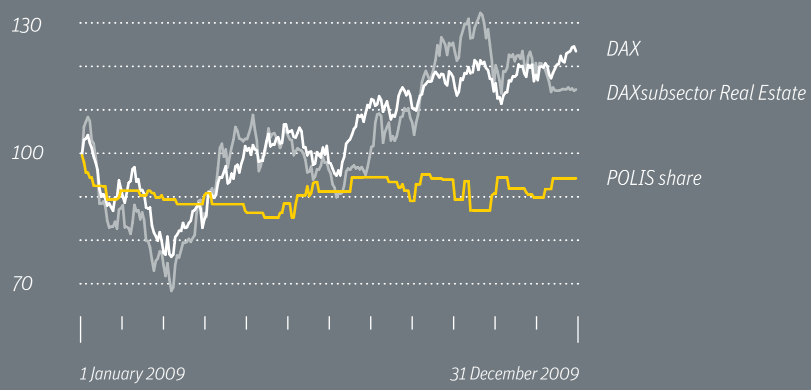
Shareholder structure

The combination of widely distributed shares and financially strong, strategic investors supports the Company's financial flexibility, management and financial strength.

As of 31 December 2009, the Board of Management held approximately 0.5% of the Company's share capital. A stock option plan has been set up for members of the Board of Management and the management team of POLIS that satisfies the requirements of the German Corporate Governance Code.



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



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

Shareholders	%
Mann Immobilien-Verwaltung AG	53.2%
Bouwfonds Asset Management Deutschland GmbH	20.2%
Contrarian Capital Management L.L.C./Jon R. Bauer	8.1%
Perennial Investment Partners Ltd., Melbourne, Australia	5.3%
KZVK Darmstadt	4.7%
Board of Management	0.5%
Other shareholders	8.0%
Total	**100.0%**
Free float as defined by Deutsche Börse	26.6%

Share buyback program

In the General Shareholders' Meeting on 19 June 2009, 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 during the period up to 15 December 2010. 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 represents the Company in regular intervals at conferences and conducts one-on-one discussions with investors and financial analysts both from Germany and abroad.

Share data for 2009

ISIN	DE0006913304
Security identification code (WKN)	691330
Reuters/Bloomberg symbol	PQLG.DE/PQL GR
Closing price 2008	€ 9.00
Number of shares	11.05 million
Market capitalization	approx. € 100 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	€ 9.35
52 week low	€ 8.09
Average daily trading volume	€ 8,644
Average daily trading volume	865 shares
Earnings per share	€ –0.60
NAV per share	€ 13.27
Free float as defined by Deutsche Börse	26.6%
Annual General Meeting	25.06.2010

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.	10,290	14,060	16,870	5,240
Discount rate[2]	%	7.1%	7.1%	7.2%	7.3%
Total area (rounded)[3]	m²	3,100	5,500	7,400	2,900
Office	m²	2,652	4,637	6,237	2,038
Retail	m²	438	493	488	523
Residential	m²	0	0	0	0
Archive	m²	51	348	696	290
Parking space	number	24	22	78	11
Average remaining term of leases[4]	years	3.1	2.3	2.7	1.2
Occupancy rate (space-based) 31 Dec. 2008[5]	%	95%	92%	76%	84%
Occupancy rate (space-based) 31 Dec. 2009[5]	%	100%	87%	80%	59%
Occupancy rate (revenue-based)	%	97%	88%	77%	50%
Rent 2008[6]	€ thsd.	627	886	437	327
Rent 2009[6]	€ thsd.	607	830	719	249
Annualized current rent	€ thsd.	620	820	950	190
Rent if fully leased[7]	€ thsd.	640	930	1,230	380
Annualized potential rent[8]	€ thsd.	670	950	1,230	370
Return on potential rent[9]	%	6.5%	6.8%	7.3%	7.1%
Feri rating[1]		B+	B	B	B

Explanations

1 *According to value appraisal by Feri EuroRating Services AG as of 31.12.2009*

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 by Feri EuroRating Services AG*

		Duisburg	Dusseldorf	Dusseldorf	Dusseldorf
		Gallenkamp-strasse 20	Berliner Allee 42	Berliner Allee 44	Berliner Allee 48
Transfer of possession		01.11.2007	01.11.2007	01.08.2000	01.10.2006
Year built		1953/54	1960	1957	1956
Renovated/modernized		1994	–	2001	–
Market value[1]	€ thsd.	1,610	6,020	7,990	5,000
Discount rate[2]	%	7.3%	7.0%	7.1%	7.0%
Total area (rounded)[3]	m²	1,600	3,200	3,800	2,500
Office	m²	1,082	2,024	2,943	1,852
Retail	m²	292	743	444	266
Residential	m²	220	141	45	214
Archive	m²	0	329	365	138
Parking space	number	15	17	16	0
Average remaining term of leases[4]	years	1.5	1.6	0.8	1.9
Occupancy rate (space-based) 31 Dec. 2008[5]	%	76%	80%	94%	90%
Occupancy rate (space-based) 31 Dec. 2009[5]	%	65%	80%	24%	88%
Occupancy rate (revenue-based)	%	69%	78%	24%	89%
Rent 2008[6]	€ thsd.	104	237	567	308
Rent 2009[6]	€ thsd.	100	286	138	318
Annualized current rent	€ thsd.	110	280	130	330
Rent if fully leased[7]	€ thsd.	160	360	550	370
Annualized potential rent[8]	€ thsd.	150	450	550	340
Return on potential rent[9]	%	9.3%	7.5%	6.9%	6.8%
Feri rating[1]		B	B+	B+	B+

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 and the market value of the property*

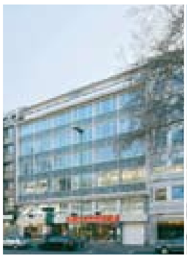
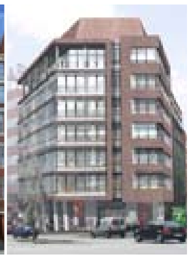
10 *Due to major refurbishment project, no letting activities undertaken*

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 *Weighted average*

13 *Investment properties classified as current assets*

14 *Financial investment (1 x 5.1%)*

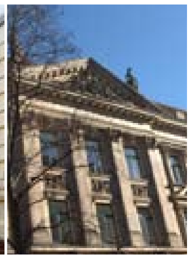
Visualization (image 2) · Visualization (image 6) · Visualization (image 7)

Dusseldorf	Dusseldorf	Dusseldorf	Dusseldorf	Frankfurt a. M.	Hamburg	Hamburg
Immermann-strasse 11	Kasernen-strasse 1	Steinstrasse 11	Steinstrasse 27	Gutleutstrasse 26	Bugenhagen-strasse 5	Domstrasse 10/ Schauenburger Strasse 15 & 21
01.12.2007	31.12.2006	31.12.1999	01.09.2000	30.06.2006	01.04.2008	01.08.2007
1960	1954	1913	1960	1970	1913/14	1906/11/86
–	–	2000	1998	1996	–	2002
2,910	12,720	8,070	8,440	11,100	5,250	12,940
7.0%	7.0%	7.0%	7.0%	7.2%	7.1%	7.0%
1,700	4,600	2,400	3,500	3,500	2,600	6,600
1,052	2,660	1,819	2,914	3,538	1,745	4,597
338	1,372	392	330	0	260	1,379
163	225	0	0	0	0	0
160	315	208	240	0	567	589
9	15	0	20	29	15	12
2.5	1.9	1.5	1.5	4.0	4.6	4.0
72%	82%	55%	98%	100%	90%	27%
99%	76%	83%	89%	100%	76%	3%
100%	69%	89%	90%	100%	67%	2%
170	777	389	531	750	195	304
202	697	426	534	750	224	139
220	650	470	530	750	220	20
220	940	530	590	750	330	1,060
230	1,130	520	580	770	370	1,060
7.9%	6.8%[11]	6.4%	6.9%	6.9%	7.0%	8.2%
B+	B+	B+	B+	B+	B+	B+

Feri rating categories

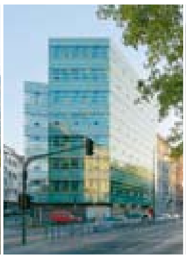
- *»Outstanding«* .... *AAA*
- *»Excellent«* .... *AA*
- *»Very good«* .... *A*
- *»Above average«* .... *B+*
- *»Slightly above average«* .... *B*
- *»Average«* .... *C*
- *»Slightly below average«* .... *D*
- *»Below average«* .... *D-*
- *»Poor«* .... *E*
- *»Very poor«* .... *E-*



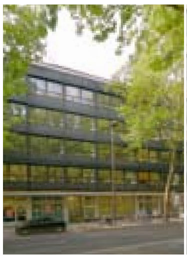
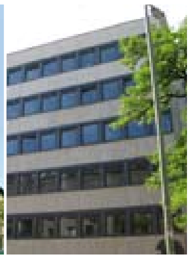



		Hamburg	Hamburg	Hanover	Hanover
		Ludwig-Erhard-Strasse 14	Steinstrasse 12-14	Landschaftstrasse 2	Landschaftstrasse 8
Transfer of possession		01.10.2006	01.05.2008	31.12.2006	31.12.2006
Year built		1969	1925	1983	1885
Renovated/modernized		1996	1994	–	2006
Market value[1]	€ thsd.	11,870	5,630	3,940	3,870
Discount rate[2]	%	7.2%	7.2%	7.3%	7.2%
Total area (rounded)[3]	m²	4,900	2,800	3,600	2,600
Office	m²	4,593	2,540	3,623	2,166
Retail	m²	0	0	0	0
Residential	m²	0	0	0	0
Archive	m²	320	233	13	437
Parking space	number	29	5	53	0
Average remaining term of leases[4]	years	3.3	0.5	4.5	2.0
Occupancy rate (space-based) 31 Dec. 2008[5]	%	91%	92%	90%	100%
Occupancy rate (space-based) 31 Dec. 2009[5]	%	92%	92%	90%	100%
Occupancy rate (revenue-based)	%	95%	98%	86%	100%
Rent 2008[6]	€ thsd.	510	2	280	270
Rent 2009[6]	€ thsd.	781	396	374	270
Annualized current rent	€ thsd.	790	400	370	270
Rent if fully leased[7]	€ thsd.	830	410	430	270
Annualized potential rent[8]	€ thsd.	800	410	440	280
Return on potential rent[9]	%	6.7%	7.3%	11.2%	7.2%
Feri rating[1]		B+	B+	B	B

for explanations, see pages 11/12/13



Kassel	Cologne	Cologne	Cologne	Cologne	Cologne	Cologne
Koenigsplatz 57	Ebertplatz 1	Gustav-Heine-mann-Ufer 54	Hansaring 20	Konrad-Adenauer-Ufer 41-45	Neumarkt 49	Weyerstrasse 79-83
01.11.2007	15.06.2007	01.10.2007	01.11.2007	01.04.2007	31.12.2007	01.05.2008
1950	1960	1989	1975	1953	1957	1962
1995	2002	–	2006	–	2005	2008
2,700	7,330	13,920	4,010	17,570	7,290	15,410
7.3%	7.1%	7.3%	7.3%	7.1%	7.3%	7.3%
2,200	3,700	7,500	2,000	6,200	3,500	9,200
1,927	3,352	6,922	1,954	5,604	3,002	6,990
0	224	0	0	0	411	1,303
0	68	0	0	0	0	0
259	20	581	61	606	82	883
4	0	195	10	53	9	91
3.9	1.4	3.1	1.8	0.0	4.1	4.4
96%	99%	46%	75%	0%	100%	83%
96%	93%	47%	100%	0%[10]	83%	96%
95%	92%	44%	100%	0%	83%	96%
178	487	620	227	0	488	437
180	482	444	305	0	481	873
180	440	530	310	0[10]	440	940
190	480	1,210	310	1,140	530	980
220	520	1,190	300	1,140	530	1,130
8.1%	7.1%	8.5%	7.5%	5.8%[11]	7.3%	7.3%
C	B+	B	B	B+	B	B

		Mainz	Mainz	Mannheim	Munich
		Rheinstrasse 43–45	Rheinstrasse 105–107	Friedrichsring 46	Lessingstrasse 14
Transfer of possession		01.11.2007	30.09.2007	01.11.2007	15.12.2007
Year built		1976	1968	1965	1967
Renovated/modernized		–	–	2002	2002
Market value[1]	€ thsd.	2,770	4,460	2,550	9,330
Discount rate[2]	%	7.4%	7.2%	7.3%	7.1%
Total area (rounded)[3]	m²	1,900	2,800	1,600	3,200
Office	m²	1,494	2,290	1,445	2,597
Retail	m²	281	0	153	383
Residential	m²	0	330	0	0
Archive	m²	97	214	49	245
Parking space	number	10	46	0	40
Average remaining term of leases[4]	years	0.6	1.6	3.0	2.3
Occupancy rate (space-based) 31 Dec. 2008[5]	%	83%	97%	90%	76%
Occupancy rate (space-based) 31 Dec. 2009[5]	%	87%	94%	96%	84%
Occupancy rate (revenue-based)	%	76%	97%	94%	79%
Rent 2008[6]	€ thsd.	164	290	156	459
Rent 2009[6]	€ thsd.	176	293	159	458
Annualized current rent	€ thsd.	160	290	170	490
Rent if fully leased[7]	€ thsd.	210	300	180	620
Annualized potential rent[8]	€ thsd.	240	350	200	640
Return on potential rent[9]	%	8.7%	7.8%	7.8%	6.9%
Feri rating[1]		C	B	B	B+

for explanations, see pages 11/12/13

Visualization

Stuttgart	Stuttgart	Stuttgart	Portfolio	Other properties & financial assets[13, 14]	Total property assets
Boeblinger Strasse 8	Quartier Buechsenstrasse	Tuebinger Strasse 31 & 33			
01.11.2007	30.06.2007	31.12.2006			
1973	1907–1956	1949			
2004	1985	2000			
3,930	29,710	9,290	284,090	1,153	**285,243**
7.1%	6.9%	7.2%	7.1%		
2,300	16,100	4,800	135,800		
980	12,544	2,643	108,455		
920	242	1,306	12,982		
364	1,291	168	3,229		
7	2,005	717	11,124		
36	139	11	1,014		
2.4	1.1	1.2	2.5[12]		
100%	95%	89%	81%[12]		
91%	25%[10]	92%	69%[12]		
89%	18%	93%	65%		
241	1,899	555	13,872		
245	1,289	561	13,986		
240	470[10]	560	13,340		
270	2,580	600	20,580		
310	2,660	670	21,400		
7.9%	6.9%[11]	7.2%	7.2%		
B+	B+	B+	B+		

Financial Information

Group Management Report

of POLIS Immobilien AG for financial year 2009

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, letting and other measures, we continuously generate increases the value of our real estate holdings we capture 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 own asset and property management team manages the property portfolio in commercial and technical terms and is responsible for all key aspects of business operations such as acquisitions and sales, development, letting, administration and accounting.

We invest in properties with with a meaningful potential for appreciation or a stable cash flow

Group structure and management

POLIS Immobilien AG is an operational holding company managed by two members of the Board of Management. The Speaker of the Board of Management is responsible for strategy, portfolio and asset management, staff, legal matters and taxes, while the Chief Financial Officer is in charge of finances, property 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.

Commercial and industry–specific environment

Development of overall economic environment

- GDP declines by 5.0% in 2009
- Labor market remains stable due to short-time working schemes
- Inflation rate at times negative over the course of the year
- Short-term interest rates fall from 2.9% to 0.7%, and 5-year interest rates from 3.3% to 2.8%

In the spring of 2009, the German economy was suffering from the most severe recession since the Federal Republic of Germany was founded. As a result of the worsening international financial crisis in the fall of 2008, the global downturn deteriorated dramatically. Global demand for capital goods collapsed. This was an extremely severe blow to the export industry, which was the driving force of the previous economic recovery. Over time, the crisis spread and affected the entire economy. In the summer of 2009, the global economy began to recover, and by fall 2009 the situation on the markets had relaxed considerably. A key reason for the improvement was the stabilization on the financial markets in spring that was the result of massive interventions by central banks as well as the announcement of state support programs and guarantees for the financial sector.

	GDP growth rate	Inflation rate	3 month EURIBOR	5 years (swap-rate)	10 years (swap-rate)
2009	-5.00%	0.40%	0.70%	2.79%	3.59%
2008	1.30%	2.60%	2.93%	3.28%	3.80%
2007	2.50%	2.30%	4.68%	4.55%	4.71%
2006	2.90%	1.60%	3.73%	4.12%	4.19%
2005	0.80%	1.50%	2.49%	3.20%	3.44%
2004	1.10%	1.70%	2.16%	3.15%	3.74%

Industry-specific environment

The international financial and economic crisis has a delayed effect on the German property market. The equity base of many financial institutions has contracted considerably, and the willingness of banks to provide loans has declined. As a result, transactions remain difficult, leading to a low volume of new construction projects. Therefore, the development of new construction projects is expected to be low over the next years by historical standards. This development will tend to reduce the supply of modern rental space, slow down construction work and limit the increase of construction prices.

Refinancing and the extension of credit lines are currently only possible in exchange for increased margins. Individual companies will permanently violate their terms of credit and thus be forced to absorb increased credit margins. In return, companies with a high equity ratio will benefit strongly from low interest rates.

Rental revenues for office buildings correlate very closely with GDP growth. Employment levels are expected to fall once economic support measures have expired. Therefore, rental revenues are expected to fall also in the market for office buildings. Because the weakened demand is facing a historically low supply of new space, we believe that the adjustment period will be relatively brief.

Trends in the investment market for office buildings in Germany

Continued decline in transaction volumes

According to real estate brokerage reports, the overall transaction volume in the commercial property sector fell from around € 20 billion to around € 10 billion in 2009. By comparison, commercial properties totaling approximately € 55 billion were traded in 2007. A mild recovery of the market for property transactions occurred in the third and fourth quarters of 2009; however, this did not yet constitute a trend reversal. German buyers are again dominating the market, while the volume of cross-border transactions has continued to decline.

As a result of the economic crisis, 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 for these investors. However, this fact has not yet led to significant transactions.

Trends in the office property rental market in Germany

Turnover of rental space drops sharply

The economic development in 2009 had a considerable negative effect on the rental market for office buildings in Germany. According to a study carried out by the Gesellschaft für immobilienwirtschaftliche Forschung (gif), the turnover of rental space in the seven largest property locations fell from 3.1 million m² to 2.3 million m². The decline was lowest in Berlin (approximately 8%) and highest in Dusseldorf (at nearly 50%).

Rents fall slightly

The sharp drop of the turnover of rental space has not affected peak rents to the same extent. At the locations mentioned above, peak rents fell by between 2% and 9%, but in part only very moderately. In Stuttgart, the peak rent even remained unchanged. Average rents also changed only slightly, and even increased somewhat in Dusseldorf and Frankfurt, while dropping by around 10% in Berlin. These figures show that the rents in the German market for office buildings are very stable. We believe there is a trend towards a strong differentiation between modern rental space in good locations and older rental space, for which demand is poor.

Vacancies of office space increase

In 2009, vacancy rates increased in all locations with the exception of Stuttgart. The average vacancy rate for the seven major locations was 9.2%, after 8.6% for the previous year. All in all, the total vacant space at these locations amounts to approximately 7.6 million m².

The following table shows the figures for the past three years:

Vacancies | Rental space turnover	in thousand m²			Vacancy rate in %		
	2007	2008	2009	2007	2008	2009
Berlin	1,550 | 500	1,450 | 465	1,500 | 426	8.7	8.1	8.4
Hamburg	980 | 549	880 | 495	1,060 | 360	7.7	6.9	8.2
Dusseldorf	661 | 452	626 | 356	760 | 185	9.3	8.8	10.4
Frankfurt	1,650 | 506	1,580 | 510	1,690 | 350	14.2	13.6	14.3
Stuttgart	466 | 165	460 | 180	453 | 138	6.4	6.2	6.1
Munich	978 | 408	950 | 474	1,020 | 309	7.6	7.2	7.7
Cologne	600 | 285	600 | 300	665 | 230	8.5	8.3	9.0

Source: gif – Year-end Comparison Office Markets Germany 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.
- dividend yield of 3% p.a.
- increase in the net asset value (NAV) of 5% p.a.

We want to maintain a balanced risk/return profile by establishing an appropriate portfolio structure and ensuring that debt capital remains at moderate levels.

Corporate strategy

Since it was established, POLIS AG has endeavored to satisfy the requirements of the capital market. The long-term creation of value and a high degree of transparency have always been the guiding principles of our corporate management. Several times, POLIS has been named a transparent property company, most recently in the DVFA transparency index for German real estate corporations. This underscores our commitment to providing detailed information on our property portfolio. Key information on each building and its valuation are published online (www.polis.de) and in the portfolio overview in the annual report.

Creation of value and a high degree of transparency have always been our guiding principles

We have consistently pursued our focused strategy right from the very start:

- *Focus:* We focus on office buildings in central areas of the 20 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.
- *»Core« and »Value Added«:* We buy properties with good occupancy rates and modern facilities and at most a 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 a 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%.
- *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 capital to at most 60% of the market values.
- *Securing rental revenues by pursuing a »multi-tenant strategy«:* Our business model is primarily focused on office buildings with several tenants. This results in a significant reduction of 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 way of individual sales.
- *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:* A transparent disclosure of our business model and the information on our properties as well as the observance of EPRA standards are second nature to us and in our view represent the fundamental basis of sound 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 and performance of our tenants. We endeavor to optimize all (construction) measures and (procurement) processes in terms of their ecological impact and will document our efforts regularly and in detail.
- *Medium-term development of the property portfolio:* We plan to continue to develop our office property portfolio while maintaining our current focus and high quality standards. This will allow us to achieve economies of scale that will increase profitability.
- *Achieving the status of a REIT AG:* POLIS satisfies nearly all requirements of the German REIT Act and could quickly achieve the REIT status. However, the REIT Act contains serious risks and disadvantages for REITs and their shareholders, especially with respect to the lacking means of securing the REIT status in the context of actions by third parties and with respect to trade tax. The Board of Management and the Supervisory Board will decide on the adoption of the REIT status in the Company's and its shareholders' best interest as soon as the disadvantages of the REIT Act have been removed.

Qualified employees

Qualified and motivated employees are indispensable if we are to achieve our corporate objectives. Flat hierarchies and open communications are the prerequisites for initiative, trust and performance. The number of staff is 23, 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. Two trainees are being trained to become real estate management assistants (Immobilienkauffrauen).

Key economic factors

Development of the commercial property market in Germany

We generate our income from rental revenues and from the sale of properties. In addition, the results of the revaluation of our property portfolio also strongly influence our annual financial results. The terms of new and follow-on leases as well as of 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 as well as the attractiveness of Germany as a business location and the legal and fiscal environment.

Furthermore, the results achieved by POLIS depend on market trends at the specific locations where our properties are situated, which are exposed to specific regional factors such as demographic trends, regional economic growth, the development of the service sector, the supply of office space and changes in the number of companies looking for office space.

Development of rental income

Due to the general level of rent for office properties in Germany or to property- or location-specific reasons, different rents per m² can be achieved when concluding follow-on leases. As a general rule, increasing vacancy rates in a 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 inflation, the inflation rate also influences the level of rental revenues.

Financing expenses and interest rate levels

We typically finance the acquisition of properties with the help of bank loans, typically amounting to a debt ratio of 60% of the property value. Where reasonable, bank loans are kept on a floating rate basis to a reasonable extent in order to benefit from low short-term interest rates. Interest rate hedges are used to secure some of the liabilities to banks that involve variable interest rates. This means that the earning power of POLIS is influenced to a considerable degree by the general development of interest rates.

Competitive position

Market environment

According to a study prepared by BulwienGesa AG, 60% of the office space in Germany is located at the 20 most important office locations that represent the focus of POLIS. The ownership structure is strongly fragmented. Only a small proportion of the overall office space in Germany is owned by stock-listed property companies or investment companies, while ownership by companies and private investors continues to represent a relatively high share by international standards. The market for acquiring and managing office buildings remains substantial and continues to provide development opportunities 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 the location, size and quality of spaces. Our properties are often situated in excellent office locations, typically represent an order of magnitude that is interesting for private as well as institutional investors, and offer high quality at moderate rents. With its concept, POLIS holds a unique position among stock-listed German property companies.

Overview of business performance

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

- POLIS increased net rental income as indicated by the key »Funds from Operations« (FFO) ratio by a solid rate of 24%, to € 3,726 thousand.
- Construction work on four modernization properties is underway after the planning was concluded and the building permit was issued.
- Two modernization properties were awarded the preliminary silver certificate (Vorzertifikat) of the DGNB (German Sustainable Building Council).
- Due to the overall market environment and vacancies resulting from the modernization work, rental revenues fell by 7% to € 13,904 thousand, and net rental income by 9% to € 11,537 thousand.
- Despite the challenging situation, lease agreements were concluded for a rental space of 10,200 m². However, the occupancy rate fell to approximately 69% of the rental space also due to vacancies resulting from modernization work.
- As a result of the financial and economic crisis, the growth of rents is expected to slow down. This led to a downward adjustment in the valuation of approximately € 9 million (around 3.2% of the previous year's portfolio volume).
- Due to the fall in market interest rates and the repayment of loans after the sale of two investment properties in the previous year, the interest expense fell by around 33%, to € 4,838 thousand. At the same time, decreased interest rates resulted in valuation losses for hedging instruments of € 1,187 thousand.
- Apart from the sale of the residential part of the property at »Collinistrasse 2« in Mannheim, the portfolio remained unchanged.

We continuously try to optimize our portfolio

Development of the real estate business

In financial year 2009, our property portfolio remained essentially unchanged. We continuously try to optimize our portfolio through individual sales. In the context of these optimization efforts, we sold the residential building at »Collinistrasse 2« in Mannheim in the third quarter after physically separating it from the neighboring office building.

Modernizations

Cologne, »Konrad-Adenauer-Ufer«: Standard fit-out has been completed

The standard fit-out for the modernization property at »Konrad-Adenauer-Ufer« has been completed. As a result, we expect the marketability of the comprehensively refurbished, efficient and high-quality building with its excellent location directly on the Rhine to be good despite current market conditions. Our modernization activities were awarded the DGNB preliminary silver certificate for sustainable building. The building's heating and cooling systems involve the use of geothermal energy. We are currently engaged in discussions with potential tenants.

Stuttgart, »Quartier Buechsenstrasse«: Revitalization work has commenced

We have commenced comprehensive revitalization work on the property at »Buechsenstrasse 26/26b« after the tenants vacated the premises as planned. The plans involve a considerable upgrade of the ground floor area of the building, which is situated directly next to the Stadtmitte suburban railway station, by including a theatre and catering services, removing the insufficiently used top floor, and instead erecting a mezzanine floor that can be ideally used as office space, adding a further floor for residential use, and equipping it with a new façade in order to position the building as a high-quality office building. Construction work has begun, and completion is expected in the third quarter of 2010. As with other properties, sustainability is highly important to us. The building has also been awarded the DGNB preliminary silver certificate for sustainable building. The first lease agreement with a term of 15 years was concluded with the Renitenztheater, a public supported theatre, in February 2010. We therefore expect the catering concept to be implemented on the ground floor in the near term as planned. We are currently involved in promising talks with further potential tenants.

The adjacent building at »Buechsenstrasse 28« will also be comprehensively modernized, significantly upgraded, and will be ready for occupancy in the third quarter of 2010. Concepts for subsequent use are being prepared and implemented successively for the other buildings in the Quartier for the time after the relevant lease agreements have expired, so that the Quartier will offer a range of different rental spaces and qualities. The Quartier is located in an urban redevelopment area, which will help improve the entire vicinity and become a lively and well-known office location, not only as a result of our own measures.

Dusseldorf, »Kasernenstrasse«: Repositioning of the building has begun

The building in the »Kasernenstrasse« is also being comprehensively rehabilitated. The building's location next to two pedestrian zones has substantially improved over the last years. For this reason, the retail area on the ground floor will be redesigned and expanded to include parts of the first floor. The façade and the windows will be modernized, and the mezzanine floor will be expanded. Except for one retail area, all rental units have already been let. Upon its completion, which is scheduled for the summer of 2010, the building will have a new appearance and represent a center of attraction in Kasernenstrasse.

New lease agreements were concluded for 10,215 m²

Hamburg, »Domstrasse«: Planning of modernization work completed

In the »Domstrasse«, the planning for the modernization work has been completed and approved, so that the modernization work can now commence. Because four modernization projects are currently underway, no decision has been reached yet regarding the timing of the modernization and possible alternative actions.

Occupancy rate decreases temporarily largely as the result of planned revitalization work

The occupancy rate in the portfolio as of 31 December 2009 compared to the previous year has dropped to 69% (previous year: 81%) due to the commencement of the revitalization measures in three properties as planned as well as the difficult market environment. With respect to the properties that have been part of the portfolio since at least 1 January 2008, and excluding the revitalization properties, the 85% occupancy rate as of 31 December 2008 has fallen to 80% as of 31 December 2009 on a like for like basis.

By 31 December 2009, we were able to conclude new lease agreements for rental space totaling 10,215 m² representing rental income of around € 7,880 thousand and contractually secured over an average term of 4.5 years, corresponding to an effective rent of € 12.73 m². The largest set of new lease agreements during the year concerned approximately 2,800 m² in the »Gustav-Heinemann-Ufer« in Cologne and was concluded with the Cologne University of Applied Sciences. The average remaining term of all current lease agreements is 2.5 years. The average rent in the portfolio currently stands at approximately € 11.50 per m².

Location-specific occupancy rates

At the locations with revitalization properties (Hamburg, Cologne and Stuttgart), the occupancy rate has fallen considerably, or has not increased in the case of Cologne despite successful efforts to let other properties. In Dortmund, a long-term lease agreement for the ground floor space was concluded with a restaurant chain after the reporting date, already increasing the occupancy rate to 85%. The occupancy rates for the individual buildings are presented in the portfolio overview in the annual report on pages 11–17.

	Rental space as at 31 Dec. 2008 m²	Occupancy rate as at 31 Dec. 2008 %	Rental space as at 31 Dec. 2009 m²	Occupancy rate as at 31 Dec. 2009 %
Berlin	16,000	85%	16,000	86%*
Dortmund	2,800	84%	2,900	59%
Dusseldorf	21,800	83%	21,700	73%
Duisburg	1,600	90%	1,600	65%
Frankfurt a. M.	3,500	100%	3,500	100%
Hamburg	16,700	67%	16,900	55%
Hanover	6,200	94%	6,200	94%
Kassel	2,200	96%	2,200	96%
Cologne	30,200	65%	32,100	65%
Mainz	4,600	91%	4,700	91%
Mannheim	2,000	90%	1,600**	96%**
Munich	3,200	76%	3,200	84%
Stuttgart	22,100	94%	23,200	46%
	132,900	**81%**	**135,800**	**69%**

** including the office floor used for own purposes*

*** excluding Collinistrasse (sold 31 December 2009)*

Overview of rental revenues

The development of income from rent by individual property in the prime locations since 2005 is as follows:

Rental income

€ thousand	2005	2006	2007	2008	2009
Luisenstrasse 46	455	494	553	627	607
Potsdamer Strasse 58	388	525	818	886	830
Rankestrasse 5–6				437	719
Berlin	**843**	**1,019**	**1,371**	**1,950**	**2,156**
Berliner Allee 42			28	237	286
Berliner Allee 44	530	558	563	567	138
Berliner Allee 48		66	277	308	318
Immermannstrasse 11			16	170	202
Kasernenstrasse 1			695	777	697
Steinstrasse 11	466	513	519	389	426
Steinstrasse 27	507	503	540	531	534
Dusseldorf	**1,503**	**1,640**	**2,638**	**2,979**	**2,600**

€ thousand	2005	2006	2007	2008	2009
Gutleutstrasse 26	937	972	972	750	750
Frankfurt a. M.	**937**	**972**	**972**	**750**	**750**
Domstrasse 10/Schauenburger Strasse 15 & 21			227	304	139
Ludwig-Erhard-Strasse 14		111	443	510	781
Bugenhagenstrasse 5				195	224
Steinstrasse 12–14				2	396
Hamburg		**111**	**670**	**1,011**	**1,540**
Ebertplatz 1			246	487	482
Gustav-Heinemann-Ufer 54			145	620	444
Hansaring 20			38	227	305
Konrad-Adenauer-Ufer 41–45			0	0	0
Neumarkt 49				488	481
Weyerstrasse 79–83				437	873
Cologne			**429**	**2,259**	**2,584**
Lessingstrasse 14			10	459	458
Munich			**10**	**459**	**458**
Boeblinger Strasse 8			36	241	245
Tuebinger Strasse 31 & 33			555	555	561
Quartier Buechsenstrasse			951	1,899	1,290
Stuttgart			**1,542**	**2,695**	**2,095**
Total »A-Cities«	**3,283**	**3,742**	**7,632**	**12,103**	**12,183**
Other properties			857	1,823	1,833
Sold properties 2004–2009	2,134	624	1,320	993	19
Exclusion of rent-free period	70	-51	-21	74	-131
Total	**5,487**	**4,315**	**9,788**	**14,993**	**13,904**

New high-quality office space has been built in the mezzanine floor of the building at **»Rankestrasse«** in *Berlin* that we expect to let in the course of 2010. In *Dusseldorf,* the lease agreement with the anchor tenant of the property at **»Steinstrasse 27«** was extended and expanded to include the ground floor, where high-quality reception and office space has been constructed. The main tenant in the building at **»Berliner Allee 44«** vacated the premises in the first quarter due to insolvency. In the mean time, we modernized the building and concluded a new lease agreement for one floor. In *Hamburg,* we modernized the façade, the entrance area and stairwell in the building at **»Bugenhagenstrasse«** and repositioned two floors as loft offices. Planning of the modernization work on the penthouses in the building at **»Gustav-Heinemann-Ufer«** in *Cologne* is at an advanced stage and will be implemented in 2010. The loss of our largest tenant, who vacated the premises in early 2009 as planned, has in the mean time been offset by new lease agreements. In the **»Weyerstrasse«** property, the retail space was restructured and has been fully let. In the building at **»Lessingstrasse«** in *Munich,* the stairwell was modernized, and all windows were renewed; the entrance area will be optimized in 2010, thereby substantially improving the building's appearance.

Overall assessment of the business performance

Rental revenues in the portfolio have fallen due to the measures in several revitalization properties. Many substantial investments have further improved the quality of the portfolio and will in future lead to improved results; however, they were not able to prevent a downward adjustment of valuations in this year. Letting activities were comparatively successful considering the difficult year. While the occupancy rate has fallen as a result of the aforementioned measures, it should be possible to improve the situation rapidly once the construction work has been completed.

Results of operations, financial position and net assets

Results of operations

While FFO increased, values of the properties decreased due to the actual economic crises

Rental revenues fell slightly due to the revitalization work and weak demand, valuations negative as a result of the economic crisis, financial results benefited from low interest rates

Due to the modernization projects and the weak market situation, **rental revenues** have fallen to € 13,904 thousand (previous year: € 14,993 thousand), which is approximately € 1 million below target. With respect to properties that have been part of the portfolio since at least 1 January 2008, and excluding the revitalization properties, rental revenues fell by only 3% on a like for like basis.

After deducting maintenance and property management expenses, **net rental income** fell by around 9%, to € 11,537 thousand (previous year: € 12,736 thousand).

Despite significant investments in the property portfolio and active property management, it was not possible to avoid a downward adjustment of the valuation of the property portfolio by € 9,282 thousand as a result of the current market environment. This is the result of effects from general changes in the market, but also the result of modernization work. Relative to the investment volume, the reduction in market value corresponds to 3.2%, a decline we consider moderate in view of the financial and economic crisis.

Administrative expenses in 2009 amounted to € 3,148 thousand, less than in the previous year (€ 3,278 thousand).

The interest expense fell substantially due to the share of variable-rate loans and the repayment of debt financing for the two properties sold in 2008 (€ 4,838 thousand; previous year: € 7,230 thousand). The results of the valuation of interest rate derivatives not affecting liquidity remained negative due to the continued fall of market interest rates, but also declined, so that the financial results in financial year 2009 in the amount of € -5,785 thousand improved by around 37% relative to the previous year (€ -9,264 thousand). The weighted average interest rate for all liabilities to banks including interest hedges fell to 3.8% as of the end of 2009, down from 4.1% as of 31 December 2008.

The consolidated financial statements show a **consolidated net loss** for the year of € 6,655 thousand (previous year: € 1,144 thousand). As a result in the improvement of the financial results, the key **funds from operations** indicator increased to € 3,726 thousand (previous year: € 2,996 thousand). On balance, the key operational figures such as **modernization and maintenance expense, property management expense** and **administrative expense** developed according to plan. As a result of the economic crisis, the results of the valuations of the properties and the interest rate derivatives were clearly negative, and business operations were insufficient to compensate the effect.

Financial position

Cash flows

€ thousand	2009	2008	Change in %
Cash flow from operating activities	9,519	8,862	7%
Cash flow from investment activities	5,462	–44,385	112%
Cash flow from financing activities	–15,093	35,758	113%
Cash in banks at the end of the period	1,944	2,056	–5%

The cash flow from operating activities was increased to € 9,519 thousand relative to € 8,862 thousand in the previous year. The cash receipts from sales during the previous financial year resulted in a positive cash flow from investment activities, despite high investments in the building stock. Cash flow from financing activities largely reflects the repayments made and is therefore negative.

High equity ratio – low loan-to-value ratio

With its equity ratio of around 50%, POLIS remains on a sound financial footing and continues to have sufficient flexibility for obtaining debt capital at attractive terms and conditions. Currently, we have access to available credit lines of around € 17 million.

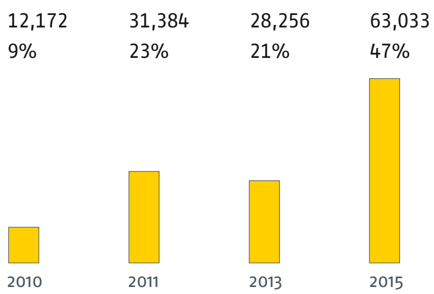
The loan-to-value ratio (ratio of liabilities to banks and the market value of the properties) of around 48% as of 31 December 2009 has fallen due to the repayments we made and is comparatively conservative for companies with a similar risk structure. The strategic 60% mark can be reached by using the available credit lines and obtaining new financing, but should not be exceeded also in future in order to keep the leverage ratio at a permanently low level.

Low risk structure of maturities of liabilities to banks

The weighted average remaining term of the bank loans as of 31 December 2009 is 4.1 years. In 2010, four bank loans with a remainder totaling € 11,957 thousand will come due (previous year: € 7,484 thousand). The overall loan-to-value ratio of these loans is around 39%; this means that it should be readily possible to either extend them, or to redeem them by drawing on existing credit lines.

Maturity structure of bank loans

in € thousand, share in %



The proportion of unhedged variable-rate liabilities to banks was 41% as of 31 December 2009. The interest rates for these loans have fallen sharply in line with the general market development. The weighted interest rate of all liabilities to banks after hedging was 3.8% as of 31 December 2009, compared to 4.1% as of 31 December 2008.

Some loan agreements contain typical clauses requiring that certain financial indicators be maintained with respect to individual properties or the loan portfolio (loan-to-value ratio of between 65% and 80%/debt service coverage ratio of between 1.10 and 1.20). The credit terms were breached once on 30 September 2009 as a result of the vacancies in the revitalization properties and the weak market environment; however, this issue has been resolved in the mean time.

Net assets

€ thousand	2009	2008	Change in %
Non-current assets	285,529	278,589	2%
Current assets	8,078	32,808	-75%
Equity	146,436	153,085	-4%
Balance sheet total	293,607	311,397	-6%
Equity ratio	49.9%	49.2%	1%
Loan-to-value ratio	47.7%	52.4%	-9%

In the past financial year, the balance sheet total fell to approximately € 294 million (previous year: € 311 million) as a result of the sales carried out last year. The non-current assets largely consist of the investment properties and account for 93% of the balance sheet total in line with the business model. The fourth floor of the building at »Rankestrasse 5/6« that POLIS is using itself is stated as a fixed asset with a value of € 2,090 thousand.

Investments in investment properties

The investments in individual properties are presented in detail in the notes to the financial statements under »Investment properties«.

Valuation of the properties

As in the previous year, the appraisal of the properties as of 31 December 2009 was again 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 by a »B+« portfolio rating (»above average«). The slight change relative to the previous year (portfolio rating »A« – »very good«) is based on Feri's opinion that the attractiveness of all German office locations has fallen noticeably. The total fair value of the investment properties at the end of the year 2009 amounted to € 282,000 thousand (previous year: € 275,060 thousand). One property with a market value of € 910 thousand (previous year: two properties valued at € 2,610 thousand) is classified as a »Non-current asset 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.

Level of receivables reduced to normal

After the high volume of receivables in the previous year pertaining to the sale of the property at »Steinstrasse 20« in Dusseldorf as of the end of 2008, the amount of receivables has fallen back to normal levels as of 31 December 2009. Details on the receivables are provided in the notes to the financial statements.

Net asset value

The net asset value of POLIS is calculated as follows:

€ thousand	
Carrying amounts of investment properties	282,910
Carrying amounts of investments	243
Other assets less other liabilities	–1,526
Liabilities to banks	–134,942
Net Asset Value	**146,685**
Deferred taxes	–249
Net Net Asset Value	**146,436**

With respect to the existing 11,051,000 shares, the net asset value per share as of 31 December 2009 amounts to € 13.27 (previous year: € 13.89). The net net asset value is then determined by taking into account the effect of deferred taxes. As of 31 December 2009, this figure amounted to € 13.25 per share.

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

The results of operations of POLIS are negative in 2009 due to the valuation results. The relevant positive net rental income, operating cash flow and FFO show that the results of operations remain positive. The substantial investments in buildings improve future income from business operations. A balanced cash flow, our equity ratio of approximately 50% (loan-to-value ratio of around 48%) and the availability of credit lines represent a comfortable financial situation for absorbing risks that may yet appear in the course of the economic crisis, and at the same time give us the opportunity to obtaining additional capital on attractive terms in order to take advantage of investment opportunities.

Corporate governance and compensation report

POLIS identifies with the objectives of the German Corporate Governance Code

The German Corporate Governance Code is intended to make the rules governing corporate management and supervision that apply in Germany transparent for national and international investors in order to thereby increase confidence in the management of German companies.

POLIS identifies with the recommendations contained in the German Corporate Governance Code, which was issued in 2002 and last amended on 18 June 2009. 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 2009, POLIS almost fully observed all recommendations of the German Corporate Governance Code.

The declaration by management pursuant to Section 298a HGB (Handelsgesetzbuch; German Commercial Code) and the current declaration of conformity of the Board of Management and the Supervisory Board have 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 their members. The Supervisory Board has adopted by-laws and formed a personnel committee and an investment 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 reach or exceed € 5,000.

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

Number of shares*	31 Dec. 2009	31 Dec. 2008	Change
Dr. Alan Cadmus	32,500	32,500	0
Birgit Cadmus	16,500	16,500	0
Dr. Matthias von Bodecker	3,000	3,000	0

As reported to the Company

Accounting and auditing

Since financial year 2005, the accounts of POLIS have been prepared in accordance with 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) or the International Financial Reporting Standards forms part of the notes to the consolidated financial statements and/or the group management report. The stock option plan of POLIS is presented in the notes to the consolidated financial statements.

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

			2009			2008
€ thousand	Fixed compensation	Variable compensation	Total	Fixed compensation	Variable compensation	Total
Dr. Alan Cadmus	185	46	231	185	58	243
Dr. Matthias von Bodecker	130	33	163	130	40	170
Total	**315**	**79**	**394**	**315**	**98**	**413**

Under the supplements to the contracts for services of December 2006 that were concluded with both members of the Board of Management in March 2009 for the time from 1 January 2010, the following provisions apply:

Fixed compensation: Dr. Cadmus receives a gross fixed annual compensation of € 200 thousand, and Dr. von Bodecker receives € 150 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 € 9 thousand each.

Variable compensation: Each member of the Board of Management receives an annual variable component of up to 50% of the agreed fix compensation, which is determined on the basis of the degree of success in achieving corporate objectives and individual goals as specified by the Supervisory Board at the beginning of the financial year in question. If the requirements for such a claim are not met, the Supervisory Board may nevertheless in consideration of the annual results, the personal responsibility of the specific member of the Board of Management in relation to the annual results, 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 upon ceasing to be a member of the Board of Management: In the event a member of the Board of Management ceases employment prematurely, any settlement is limited to twice the annual compensation, and at most one annual compensation for the remaining term of the contracts for service.

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 2009, the members of the Supervisory Board receive the following fixed compensation:

€ thousand	
Carl-Matthias von der Recke (Chairman)	22
Klaus R. Müller (Deputy Chairman)	18
Arnoldus Brouns	11
Wolfgang Herr (since 19 June 2009)	5
Ralf Schmechel	11
Benn Stein	11
Jürgen von Wendorff (until 19 June 2009)	5
Total	**83**

Change of control

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

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 affiliated companies for the period from 1 January 2009 to 31 December 2009.

The final declaration of the Board of Management was as follows: »For each legal transaction mentioned in the report of the Board of Management on relationships with affiliated companies of POLIS Immobilien AG in the period from 1 January through 31 December 2009, our Company received an appropriate consideration. This assessment is based on the circumstances known to us at the time at which the legal transactions were carried out. No measure was undertaken or omitted in the interests of or at the instigation of the controlling company or of one of its affiliated companies that placed the Company at a disadvantage.«

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 possibilities for issuing new shares and to acquire own shares are presented in the notes to the consolidated financial statements (section 3.9).

Shareholder structure

With a stake in POLIS of around 53.2%, Mann Immobilien-Verwaltung AG has been a majority shareholder since October 2008. The support by such a financially strong major shareholder encourages us in pursuing our strategy. Mann Group has consistently backed our strategy, supporting our growth even prior to our initial public offering by investing substantially in our Company.

Other major shareholders in POLIS are Bouwfonds Asset Management Deutschland GmbH, Berlin (20.2%), and Contrarian Capital Management LLC, Greenwich, USA (8.1%). The free float as defined by Deutsche Börse currently represents around 31.7% of the shares in POLIS.

Supplementary report

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

On 15 January 2010, a forward swap with a nominal value of € 5 million and a term from 3 October 2011 through 30 September 2016 was concluded at a swap rate of 3.47%. On 5 March 2010, a swap with a nominal value of € 10 million and a term of 5 years was concluded at a swap rate of 2.41%.

Risk report

Control system for risks and opportunities

The risk management system introduced by the Board of Management has proven to be efficient. It allows us to manage our risk situation appropriately so that all risks currently known are limited and manageable, and the continued viability of the Company is ensured.

Our risk management system is efficient

Our risk strategy is based on our corporate strategy and involves the systematic detection of risks at an early stage. The corporate objectives and strategy of POLIS have been developed by the Board of Management in consultation with the Supervisory Board. They have been incorporated in the strategic plans and are appropriately monitored by our reporting system.

Strategic corporate planning represents a core aspect of risk management. It is prepared in consideration of operational and financial risks with the purpose of assessing potential risks before they materialize.

Our risk strategy has the following key aspects:

- selective acquisition and sale of individual properties for the purpose of improving the structure of the portfolio
- a multi-tenant strategy reduces the risk of rent defaults and the risk of important leases expiring at the same time
- active portfolio management and the rapid and intensive marketing of vacant spaces reduce the risk of vacancies
- central monitoring (assessment and monitoring of creditworthiness, reminder procedures) for the early detection of credit risks
- a conservative financing strategy with an equity ratio of at least 40 % reduces the influence of variations in interest rates. At least 50% up to 70% of the loans will routinely be hedged against interest rate risks by stipulating fixed interest rates or by employing derivative financial instruments

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 the finances and controlling departments on the other hand. 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

We determine the internal rate of return (IRR) of possible investments and compare it to a minimum interest rate that is commensurate to 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«).

Presentation and quantification of individual risks

Financial risks

POLIS is in particular exposed to interest rate and liquidity risks that are presented in general terms in the following paragraphs. Regarding risk management of financial instruments, we refer to the explanations in section 8.5 of the notes to the consolidated financial statements. Throughout the entire Group, interest rate risks are limited by using interest hedges to hedge between 50% and 70% of the credit volumes.

In financial year 2009, debt finance was only available subject to increased risk premiums, even to well-capitalized companies. 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 its equity ratio of around 50% and its available credit lines of € 17,207 thousand, and in view of the loans of € 11,957 thousand that are coming due in 2010, POLIS is in no danger of encountering financing shortfalls.

The loans are subject to the typical covenants: Debt service coverage ratios of between 110% and 120%, and loan-to-value ratios of between 65% and 70% at the level of individual properties and between 70% and 80% at the portfolio level. In one instance, a covenant was not met as of 30 September 2009. This issue has been resolved in the mean time. In the event covenants are breached, the agreements stipulate a sanction requiring cash deposits rather than 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.

Planned investments of around € 15 million for modernizing work are covered by the aforementioned loans and the cash flow from operating activities and do not entail the need for further financing. Nevertheless, financing of € 6 million has been requested.

Given the current situation on the money and capital market, 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. The market for office buildings depends on numerous factors, some of which are interdependent, and can therefore experience fluctuations that are unpredictable. For instance, factors that influence the market include

- 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. Due to the trailing effect of the recession on the office market, the development in 2010 will involve a decline in the demand for office rental space. On the other hand, properties are often favored by institutional investors in times of financial crises compared to pure financial investments. We are assuming that the homogenous 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 31% based on the rental space as of 31 December 2009. 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 2010, lease agreements need to be concluded for approximately 30,000 m² of office space, the largest share of which is situated in buildings in which modernization work has begun (such as in the property at Buechsenstrasse, around 9,500 m²). The rental income of POLIS is generated in a wide number of different industries. The ten most important tenants generate approximately 34% of rental income.

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. In financial year 2010, we will invest approximately € 15 million in revitalizing the properties at »Konrad-Adenauer-Ufer 41–45« in Cologne, the »Quartier Buechsenstrasse« in Stuttgart and the property at »Kasernenstrasse 1« in Dusseldorf. 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 to manage the construction projects. Projects are managed by way of intensive project controlling, weekly project meetings, and monthly project reports.

Risks associated with revaluations

The properties are disclosed in the consolidated statement of financial position of POLIS at their fair value according to IAS 40. The fair values were determined by Feri as of the end of financial year 2009.

The valuation of properties is based on a large number of factors that also include subjective assessments by the expert and that may 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. 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 the services of an external IT service provider. The information technologies used are continuously checked, developed and adjusted. Continuous backups guard against loss of data.

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 promote the involvement of the 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.

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.

Description of the key properties of the internal control and risk management systems with respect to the Group accounting process

In order to ensure the effectiveness and regularity of the accounting processes, the internal control system of POLIS encompasses all principles, processes and measures as an integrated component of the risk management system. The internal control system is a uniform and centrally managed system under the supervision of the Chief Financial Officer in his capacity as the member of the Board of Management responsible for finances, accounting, planning, controlling, and risk management.

In designing its risk management system, POLIS observes the COSO standard as a matter of principle. We have documented the overall conditions of the risk management system in the form of a guideline, according to which risks are assessed and classified in relation to their probability of occurrence and the associated damage. For each risk, actions its reduction are specified; the early warning indicators are updated regularly and discussed with the persons responsible. Information on risks is systematically and transparently recorded, processed and presented to the Board of Management, which also discusses the current development of risks in its bi-weekly meetings. Occurring damages are reported directly and independently of the regular reporting channels. Also, we have formulated binding rules for recording, managing, communicating and controlling processes in the form of an organization manual. Each employee is required to be aware of the relevant risks and to act accordingly within the scope of his or her responsibilities.

Monitoring activities are carried out on a strategic as well as an operational level. The timely execution of risk management measures approved by the responsible persons is monitored. The implementation of risk management measures is up to the responsible employees and is monitored by the Board of Management.

The Supervisory Board is involved in the internal control system by way of process-independent reviews and regular reports by the Board of Management. The review of the consolidated financial statements by the group auditor represents the essential process-independent monitoring function with respect to the accounting process.

In the separate financial statements of the POLIS subsidiaries, the processes relevant to accounting are recorded with the help of Navision's ERP software. Also, all processes required for preparing the consolidated financial statements such as consolidation and analysis are generated by the reporting and analysis functions provided by the Navision software.

Specific risks related to the group accounting can arise from complex transactions or transaction that are not processed in accordance with established routines. Furthermore, the employees have a degree of discretion in the recognition and the measurement of assets and liabilities.

The measures associated with the internal control system measures implemented by the Board of Management with respect to the group accounting process ensure that all transactions are recorded in a comprehensive and timely manner in accordance with the regulations under the law and the Company's articles of association. The control activities also comprise the routine analysis of circumstances. Furthermore, measures such as the separation of decision-making and execution, access and authorization in the IT system and manual control procedures (such as the dual-control-principle) ensure the effectiveness of the internal control system.

However, it must be pointed out that the systems that have been established do not provide absolute certainty regarding the correct, complete and timely recording of circumstances in group accounting.

* *COSO – Committee of Sponsoring Organizations of the Tradeway Commission*

Risk assessment

The materialization of the risks described above can have negative effects on the business activities and the profits of POLIS. The Board of Management of POLIS is continuously analyzing these risks. 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 implemented 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 2010. 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 trends 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

We will emerge from the crisis stronger than before

Development of the overall economy and the market for office buildings

A reversal of the current economic trend appears to have set in, but an economic recovery in the near term is not considered imminent. On the contrary, the approaching end of a variety of government support measures signals further challenges for the economic development. The growth path for 2010 that was anticipated in the past year will in all probability not occur before 2011. BulwienGesa even expects the number of office employees to drop by more than 2% in 2010.

The European Central Bank will keep short-term interest rates low so that no additional interest burdens are expected in the near to medium-term.

The economic situation will lead to overall weak demand on the market for office buildings, while the turnover of rental space is not expected to continue to fall. New office space entering the market will lead to higher vacancy rates and a decline in peak rents. Once prospects improve, the market for office buildings will also recover starting in 2011.

Major opportunities for POLIS Group

With its business model that is focused on quality and its uniform portfolio, POLIS will emerge from the crisis stronger than before. With our properties and rental space, we offer good value for money that meets market requirements in economically challenging times. As soon as the demand for rental space recovers, our properties will be in high demand. We can benefit from the difficult market and financing environment due to our excellent capital resources by taking advantage of acquisition opportunities. Overall, our concept with its focus on office buildings in attractive locations in the most important German business locations allows us 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. This provides us with opportunities to target and exploit opportunities in our own property portfolio particularly in challenging times.

Assessment of future business prospects

In financial year 2010, our activities are focused on completing the ongoing revitalization measures and increasing the occupancy rate in these properties and in the remaining buildings in our portfolio. Overall, we intend to conclude new lease agreements for a substantial share of the available spaces. In financial year 2010, we will keep rental revenues approximately constant despite the vacancies in the revitalization properties. In 2010, we plan to increase net rental income as well as funds from operations and use the leases in 2010 as a foundation for a substantial increase in the income from rent in 2011.

We continue to pursue our target of an overall portfolio volume of around € 300 million. We will continue to maintain a conservative financing structure and a maximum loan-to-value ratio of 60%.

The valuation trends for the investment properties are currently associated with considerable uncertainties and can therefore not be determined with any degree of reliability. Therefore, we will not issue any forecasts regarding future valuations. Because the valuations strongly influence the net income for the financial year pursuant to IFRS, we are also not in a position to provide a forecast in this regard.

Independently 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, March 2010

POLIS Immobilien AG
The Board of Management

Dr. Alan Cadmus Dr. Matthias von Bodecker

Responsibility statement by management

To the best of our knowledge, and in accordance with the applicable financial reporting framework, the consolidated financial statements give a true and fair view of the net assets, financial position, and result of operations of the Group, and the group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks relating to the expected future development of the Group.

Berlin, March 2010

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 2009. 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, 10 March 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Quitmann	Lommatzsch
Wirtschaftsprüfer	Wirtschaftsprüfer

Consolidated Statement of Financial Position

As of 31 December 2009
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

ASSETS

€ thousand	Note	31 Dec. 2009	31 Dec. 2008
Non-current assets			
Investment properties	3.1.	282,000	275,060
Intangible assets	3.2.	95	54
Property, plant and equipment	3.2.	2,293	2,316
Financial assets	3.3.	243	243
Deferred tax assets	3.4.	742	711
Receivables and other financial assets	3.7.	156	205
Total non-current assets		**285,529**	**278,589**
Current assets			
Receivables and other financial assets	3.5.	5,097	27,757
Current tax receivables	3.5.	34	202
Cash in banks	3.6.	1,944	2,056
Other assets	3.7.	93	183
Non-current assets held for sale	3.8.	910	2,610
Total current assets		**8,078**	**32,808**
Total assets		**293,607**	**311,397**

EQUITY AND LIABILITIES

€ thousand	Note	31 Dec. 2009	31 Dec. 2008
Equity			
Subscribed capital	3.9.	110,510	110,510
Capital reserves	3.9.	26,476	26,732
Retained earnings	3.9.	16,105	14,699
Consolidated net (income)/loss		-6,655	1,144
Share in equity allocable to the equity holder of the parent		146,436	153,085
Minority interests		0	0
Total equity		**146,436**	**153,085**
Liabilities			
Non-current liabilities			
Liabilities to banks	3.10.	120,299	135,275
Deferred tax liabilities	3.4.	991	1,085
Total non-current liabilities		**121,290**	**136,360**
Current liabilities			
Liabilites to banks	3.10.	14,643	10,206
Payments received on account	3.10.	3,209	3,423
Trade accounts payable	3.10.	3,299	2,111
Income tax liabilities	3.10.	101	155
Other financial liabilities	3.10.	4,629	6,057
Total current liabilities		**25,881**	**21,952**
Total equity and liabilities		**293,607**	**311,397**

Consolidated Income Statement

for the period from 1 January to 31 December 2009
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	Note	2009	2008
Rental revenues	4.1.	13,904	14,993
Renovation and maintenance expense	4.2.	-1,206	-1,130
Property management expense	4.3.	-1,161	-1,127
		-2,367	-2,257
Net rental income		**11,537**	**12,736**
Unrealised gains from the revaluation of investment properties		1,947	4,341
Unrealised losses from the revaluation of investment properties		-11,099	-6,257
Unrealised losses from the revaluation of non-current assets held for sale		-130	-30
Result from the revaluation of investment properties	4.4.	-9,282	-1,946
Income fom the sale of investment properties		333	35,422
Carrying amount of the investment properties sold		-370	-32,974
Result from the sale of investment properties	4.5.	-37	2,448
Other income	4.6.	881	1,020
Other expense	4.7.	-992	-559
Administrative expense	4.8.	-3,148	-3,278
Income before financing activity and taxes		**-1,041**	**10,421**
Investment income	4.9.	34	101
Financial income	4.10.	206	429
Result from the valuation of derivative financial instruments		-1,187	-2,564
Financial expenses	4.11.	-4,838	-7,230
Result before taxes		**-6,826**	**1,157**
Deferred taxes	4.12.	125	109
Income taxes	4.12.	46	-122
Consolidated net income for the period (equates to comprehensive income)		**-6,655**	**1,144**
of which:			
allocable to minority interests		0	0
allocable to equity holder of the parent		-6,655	1,144

€		2009	2008
Earnings per share			
undiluted	2.4.12.	-0.60	0.10
diluted	2.4.12.	-0.60	0.10

A more detailed consolidated comprehensive income statement was not prepared since no expense or income was directly recognized in equity.

Consolidated Cash Flow Statement

for the period from 1 January to 31 December 2009
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	2009	2008
Result before taxes	–6,826	1,157
Adjusted for:		
Financial result	5,784	9,264
Income from revaluation of investment properties	9,152	1,946
Result from the sale of investment properties	37	–1,859
Result from the sale of properties held for sale	0	–589
Result from the sale of financial assets	2	–8
Depreciation on intangible assets and property, plant and equipment	72	143
Losses from revaluation of non-current assets held for sale	130	30
Payments for equity options	6	2
Increase in trade receivables and other assets which cannot be allocated to the investment and financing activity	1,225	–2,077
Changes in the trade payables and other liabilities which cannot be allocated to the investment and financing activity	–94	859
Income tax paid	–21	–6
Income tax received	52	0
Net cash (used by) from operating activities	**9,519**	**8,862**
Payments for the acquisition of software, fixtures and equipment	–102	–91
Proceeds from the sale of investment properties and financial assets	10	800
Payments for the acquisition of investment properties and investments in modernization	–13,426	–61,066
Proceeds from the sale of investment properties	18,980	15,972
Net cash (used by) from investment activities	**5,462**	**–44,385**
Payments of repayments of loans	–18,923	–18,086
Proceeds from debt	8,384	60,344
Interest received	169	368
Interest paid	–4,756	–6,943
Dividends received	34	75
Net cash (used by) from financing activities	**–15,093**	**35,758**
Net change in cash and cash equivalents	**–112**	**235**
Cash in banks at the beginnig of the period	**2,056**	**1,821**
Cash in banks at the end of the period	**1,944**	**2,056**

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 2009
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. 2007	**110,510**	**26,730**	**5,656**	**9,043**	**151,939**	**0**	**151,939**
Offset	0	0	9,043	−9,043	0	0	0
Expense stock option plan	0	2	0	0	2	0	2
Consolidated net income	0	0	0	1,144	1,144	0	1,144
Balance as of 31 Dec. 2008	**110,510**	**26,732**	**14,699**	**1,144**	**153,085**	**0**	**153,085**
Consolidated net income	0	0	0	−6,655	−6,655	0	−6,655
Settlement	0	0	1,144	−1,144	0	0	0
Expense stock option plan	0	6	0	0	6	0	6
Offset against capital reserves	0	−262	262	0	0	0	0
Balance as of 31 Dec. 2009	**110,510**	**26,476**	**16,105**	**−6,655**	**146,436**	**0**	**146,436**

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 2009

1. General information

1.1. Accounting policies

The consolidated financial statements of POLIS Immobilien AG (hereinafter referred to as **»POLIS«**) for financial year 2009 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 2009 but not yet applied by POLIS.

The consolidated financial statements as of 31 December 2009 and the group management report for 2009 have been 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.

The consolidated financial statements were drawn up in euro. For improved clarity, amounts are generally shown in thousands of euro (€ '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 Directors approved the consolidated financial statements on 23 February 2010 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 37 fully consolidated companies in Germany.

As of 31 December 2009, 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 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 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
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

Subsidiary	Share in the capital in %
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 2009, the consolidated group of POLIS decreased by two companies. The companies POLIS Objekt Torstrasse GmbH & Co. KG as well as POLIS Objekt Steinstrasse 20 GmbH & Co. KG were liquidated in financial year 2009. Both companies had no active business operations as the properties had already been sold in previous years.

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 market value of the equity must be recognized as goodwill and tested for impairment annually. A negative difference must be taken to income immediately.

In financial year 2009, 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, properties recorded as tangible assets and derivatives, which are recognized at fair value, the consolidated financial statements have been drawn up in accordance with the historical cost principle.

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 3 and 13 years. If tangible assets are sold or closed down, the acquisition costs or production costs and the appropriate accumulated depreciation of the fixed assets are written off; any resulting profits or losses are taken to income.

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 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 at 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 statement of financial position 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.

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 statement of financial position.

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.

2.4.12. Earnings per share

Earnings per share are determined as follows:

	2009	2008
Group net profit/loss for the year after income allocable to minority interests (in € thousand)	–6,655	1,144
Average number of ordinary shares in circulation	11,051,000	11,051,000
Earnings per share (diluted and undiluted) (in €)	–0.60	0.10

2.4.13. Share-based compensation

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

IFRS 8 »Operating Segments«, which applies as of 1 January 2009, changed the segment reporting from the risk and rewards approach of IAS 14 to the management approach in which the information on individual segments is presented using the same basis that is used for the purposes of internal reporting to the Executive Board.

Pursuant to IFRS 8, POLIS has identified thirty-four segments with respect to which the Board of Management receives reports. In general terms, one segment corresponds to one property. All operating segments have comparable economic characteristics (office buildings situated at the city centers of key German office locations) and similar long-term revenue prospects and are therefore aggregated to a single segment in accordance with IFRS 8.12.

3. Notes to the statement of financial position

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.

The fair values of the properties as of 31 December 2009 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 2009:

Property	Location	1 Jan. 2009 Fair value	Additions moderni-zation	Disposals	Transfers	Change in market value	31 Dec. 2009 Fair value
€ thousand							
Luisenstrasse 46	Berlin	10,770	69	0	0	-549	10,290
Potsdamer Strasse 58	Berlin	15,150	10	0	0	-1,100	14,060
Rankestrasse 5-6	Berlin	14,900	661	0	0	-781	14,780
Kleppingstrasse 20	Dortmund	5,170	0	0	0	70	5,240
Gallenkampstrasse 20	Duisburg	0	0	0	1,570	40	1,610
Berliner Allee 42	Dusseldorf	6,050	119	0	0	-149	6,020
Berliner Allee 44	Dusseldorf	7,790	408	0	0	-208	7,990
Berliner Allee 48	Dusseldorf	5,330	157	0	0	-487	5,000
Immermannstrasse 11	Dusseldorf	3,060	0	0	0	-150	2,910
Kasernenstrasse 1	Dusseldorf	11,740	827	0	0	153	12,720
Steinstrasse 11	Dusseldorf	8,460	0	0	0	-390	8,070
Steinstrasse 27	Dusseldorf	8,330	316	0	0	-206	8,440
Gutleutstrasse 26	Frankfurt a. M.	11,110	21	0	0	-31	11,100
Bugenhagenstrasse 5	Hamburg	5,070	662	0	0	-482	5,250
Ludwig-Erhard-Strasse 14	Hamburg	12,060	0	0	0	-190	11,870
Domstrasse 10	Hamburg	13,080	429	0	0	-569	12,940
Steinstrasse 12-14	Hamburg	5,770	0	0	0	-140	5,630
Landschaftstrasse 2	Hanover	4,070	89	0	0	-219	3,940
Landschaftstrasse 8	Hanover	3,940	0	0	0	-70	3,870
Koenigsplatz 57	Kassel	2,850	0	0	0	-150	2,700
Ebertplatz 1	Cologne	7,290	6	0	0	34	7,330
Gustav-Heinemann-Ufer 54	Cologne	14,210	613	0	0	-903	13,920
Hansaring 20	Cologne	4,030	101	0	0	-121	4,010
Konrad-Adenauer-Ufer 51-54	Cologne	9,300	6,827	0	0	1,443	17,570
Neumarkt 49	Cologne	7,370	17	0	0	-97	7,290
Weyerstrasse 79-83	Cologne	15,120	303	0	0	-13	15,410
Rheinstrasse 43-45	Mainz	2,650	96	0	0	24	2,770
Rheinstrasse 105-107	Mainz	4,400	0	0	0	60	4,460
Friedrichsring 46/Collinistrasse 2	Mannheim	2,960	115	370	0	-155	2,550
Lessingstrasse 14	Munich	9,760	299	0	0	-729	9,330
Boeblinger Strasse 8/ Arminstrasse 15	Stuttgart	3,790	17	0	0	123	3,930
Quartier Buechsenstrasse	Stuttgart	29,730	2,730	0	0	-2,750	29,710
Tuebinger Strasse 31 & 33	Stuttgart	9,750	0	0	0	-460	9,290
		275,060	**14,892**	**370**	**1,570**	**-9,152**	**282,000**

The additions concern mainly investments in the modification of and the addition of a floor to the property at »Konrad-Adenauer-Ufer 51-54« in Cologne and the »Quartier Buechsenstrasse« in Stuttgart. The transfers concern the reclassification of the property at »Gallenkampstrasse 20« in Duisburg, which in the previous year was reported as a »Non-current asset held for sale«.

The modernization investments include comprehensive construction work for the modernization of the properties as well as all measures required for establishing the contractually agreed condition of individual rental units upon conclusion or extension of lease agreements.

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

The following table shows the development of 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	13,790	0	114	0	0	–824	13,080
Domstrasse 10	Hamburg	11,270	0	387	0	0	403	12,060
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
Tuebinger Strasse 31 & 33	Stuttgart	9,170	9	0	0	0	571	9,750
Quartier Buechsenstrasse	Stuttgart	29,280	8	36	0	0	406	29,730
		246,248	**41,127**	**9,432**	**17,624**	**–2,177**	**–1,946**	**275,060**

The transfers in 2008 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 recognized as a tangible asset.

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

€ thousand	2009	2008
Rental revenues from investment properties	13,848	14,475
Directly attributable property management costs that led to rental revenues		
Renovation and maintenance	1,187	988
Property management	557	749
Total	**1,744**	**1,737**
Directly attributable property management costs that did not lead to rental revenues		
Property management	546	228
Total	**546**	**228**

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 2009

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

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

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

The basis for measuring market value is the investment income method according to International Valuation Standards. This was carried out as a dynamic cash value method using the discounted cash flow method. Therefore, no separate calculation of the value of land is made in the individual reports. Also, 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 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 mark-ups and mark-downs 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 4.54%. 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 7.12% (previous year: 7.07%).

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 at the reporting date were analyzed and valued as refurbishments on a case-by-case basis, thus extending the property-specific remaining useful life.

Fee

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				Revaluation accumulated	Depreciation/amortization				Carrying amount	
€ thousand	1 Jan. 2009	Additions	Disposals	31 Dec. 2009	1 Jan. 2009	1 Jan. 2009	Additions	Disposals	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009
Software	74	63	–	137	–	20	22	0	42	54	95
Properties and buildings (own use)	2,177	7	–	2,184	–87	0	0	0	0	2,090	2,097
Fixtures and equipment	292	32	20	304	–	66	50	8	108	226	196
	2,543	**102**	**20**	**2,625**	**–87**	**86**	**72**	**8**	**150**	**2,370**	**2,388**

The value of the properties and buildings as of 31 December 2008 was determined applying the same principles and 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 2009 would have amounted to € 2,152 thousand (previous year: € 2,169 thousand).

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

€ thousand	1 Jan. 2008	Additions	Acquisition/ production cost 31 Dec. 2008	Revalu-ation 1 Jan. 2008	1 Jan. 2008	Additions	Depreciation/amortization 31 Dec. 2008	31 Dec. 2007	Carrying amount 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**

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 does not have the information required for determining the fair value.

€ thousand	1 Jan. 2009	Additions	Acquisition/ production cost 31 Dec. 2009	1 Jan. 2009	Additions	Depreciation/amortization 31 Dec. 2009	31 Dec. 2008	Carrying amount 31 Dec. 2009
Investments	243	0	243	0	0	0	243	243
	243	**0**	**243**	**0**	**0**	**0**	**243**	**243**

3.4. Deferred tax assets and liabilities

The net deferred tax liabilities totaling € 249 thousand (previous year: € 374 thousand) due to temporary differences between the statement of financial position according to IFRS and the statement for tax purposes (Steuerbilanz) and tax losses carried forward as of 31 December 2009 and 2008 are as follows:

Deferred tax credit

€ thousand	2009	2008
Tangible assets	1,383	427
Tax losses carried forward	504	1,385
Other financial liabilities	587	398
Balance of tax losses carried forward and other financial liabilities	-1,732	-1,499
Deferred tax claims	**742**	**711**

Deferred tax liabilities

€ thousand	2009	2008
Tangible assets	2,721	2,582
Balance of tax losses carried forward and other financial liabilities	-1,732	-1,499
Other assets	2	2
Deferred tax debts	**991**	**1,085**

As of 31 December 2009 and 31 December 2008, deferred taxes were formed in full with respect to the corporate tax losses carried forward for POLIS Immobilien AG and POLIS Objekt Potsdamer Strasse 58 GmbH 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. For corporate tax losses carried forward amounting to € 1,889 thousand and trade tax losses carried forward of € 10,320 thousand, no deferred tax assets were recognized, since they are not used according to the business plan.

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 2009	Non-current 2009	Current 2009
Trade receivables	3,736	0	3,736
of which allocable operating expenses	3,400	0	3,400
of which rent receivables	336	0	336
Sales tax credit	521	0	521
Other receivables	840	0	840
Total	**5,097**	**0**	**5,097**

Other receivables include derivative financial instruments with a positive market value (cp. Section 3.10).

As of 31 December 2009, receivables from operating costs not yet settled stood at € 3,400 thousand (previous year: € 3,702 thousand), and advance payments for operating expenses amounted to € 3,209 thousand (previous year: € 3,423 thousand).

€ 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**

In the previous year, the »other receivables« item included a purchase price receivable totaling € 20,450 thousand from the sale of the investment property at »Steinstrasse 20« in Dusseldorf.

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

Regarding the rent receivables, specific valuation allowances totaling € 193 thousand were carried out in 2009 and in previous years. The following table presents the changes in the allowances on current trade receivables:

€ thousand	2009	2008
Status as of 1 January	452	167
Dissolution	-383	-6
Additions	124	291
Status as of 31 December	**193**	**452**

The current tax receivables in 2009 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 2009 and previous years.

3.8. Non-current assets held for sale

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 2009 as originally planned. Therefore, the property at »Gallenkampstrasse 20« in Duisburg was reclassified as an investment property. The intention to sell the property at »Viehoferstrasse 31« 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. 2009			31 Dec. 2009
Property	Location	Fair value	Reclassifi-cations	Change in market value	Fair value
Viehoferstrasse 31	Essen	1,040	0	–130	910
Gallenkampstrasse 20	Duisburg	1,570	–1,570	0	0
		2,610	**1,570**	**–130**	**910**

3.9. Equity

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

Authorization to acquire and dispose of own shares

In financial year 2009, POLIS Immobilien AG carried out the following capital measure based on the resolution adopted by the General Shareholders' Meeting on 19 June 2009: The Company was authorized until 15 December 2010 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 (2009: € 26,476 thousand, 2008: € 26,732 thousand) include the premium from the issue of shares of POLIS less the expenses associated with the initial public offer, taking into account deferred taxes.

Retained earnings

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

3.10. Liabilities

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

Overview of liabilities € thousand	Total	Remaining maturities up to 1 year	1 to 5 years	more than 5 years
Liabilities to banks	134,942	14,643	62,162	58,137
	(145,481)	(10,206)	(76,773)	(58,502)
Down payments received	3,209	3,209	0	0
	(3,423)	(3,423)		
Trade liabilities	3,299	3,051	248	0
	(2,111)	(2,088)	(23)	
Income tax liabilities	101	101	0	0
	(155)	(155)		
Other financial liabilities	4,629	4,629	0	0
	(6,057)	(6,057)		
	146,180	**25,633**	**62,410**	**58,137**
	(157,227)	**(21,929)**	**(76,796)**	**(58,502)**

The **liabilities to banks** are secured by mortgages in the amount of € 163,925 thousand (previous year: € 179,744 thousand). Of the liabilities to banks, a total of € 116,248 thousand (previous year: € 120,141 thousand) are at variable interest rates, and € 18,598 thousand (previous year: € 25,053 thousand) are at fixed interest rates; the item also includes accrued interest of € 96 thousand (previous year: € 287 thousand). The weighted average interest rate of all bank loans including derivative financial instruments as of 31 December 2009 was 3.8% (previous year: 4.1%). The weighted average remaining term of the bank loans is 4.1 years.

The fair values of the variable-rate liabilities correspond to their carrying amount. The fair values of the fixed rate liabilities as of 31 December 2009 amount to € 19,199 thousand (previous year: € 25,813 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 1.9% and 2.4% (including margin).

The following table shows the significant details of the contractual relations for the liabilities to banks as of 31 December 2009:

Time to maturity Year	Interest rate %	Initial amortization %	Remainder of debt € thousand
2010	variable	–	1,700
2010	5.98	1–2	10,569
2011	4.93–5.68	1.5–2	8,125
2011	variable	1	23,259
2013	variable	1	28,256
2015	variable	2	63,033
Total			**134,942**

The 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 € 101 thousand (previous year: € 155 thousand). The carrying amounts correspond to the fair values.

Among others, the other liabilities item includes derivative financial instruments with a negative market value. 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. The fair values were determined using market parameters that are directly observable. Accordingly, derivative liabilities are classified in the second level according to IFRS 7.27A (determination of the fair value based on observable inputs that do not represent observable prices on active markets).

Derivative financial instrument	Volume € thsd.	Maturity	Rate in %	Market value 31 Dec. 2009 € thsd.
Swap	10,000	31 Dec. 10	3.82%	-277
Swap	5,000	30 Dec. 11	4.00%	-236
Swap	2,675	31 Dec. 11	3.12%	-80
Swap	10,000	31 Dec. 12	4.33%	-679
Swap	5,000	31 Dec. 12	3.93%	-280
Swap	5,000	31 Dec. 12	4.15%	-313
Swap	10,000	30 Jun. 15	4.80%	-1,095
Swap	8,100	31 Dec. 15	3.04%	-106
Forward Swap[1]	10,000	30 Dec. 16	3.58%	-195
Forward Swap[1]	10,000	31 Dec. 15	3.48%	-203
Cap	5,000	28 Jun. 13	6.00%	11
Floor	5,000	29 Jun. 13	3.37%	-246
	85,775			**-3,699**

[1] *starting 1 Sep. 2010*

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	37,780	11,357	24,613	1,810
	(55,390)	(13,803)	(32,410)	(9,177)

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 items that include financial instruments.

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

€ thousand	2009	2008
Financial assets		
Financial assets available for sale	243	243
Cash in banks and cash holdings	1,944	2,056
Financial assets held for trading	11	10
Receivables	5,086	27,747
	7,284	**30,056**

€ thousand	2009	2008
Financial liabilities		
Financial liabilities at amortized cost	142,369	154,551
Financial liabilities from derivatives	3,710	2,521
	146,079	**157,072**

The net profits/losses from financial instruments are:

€ thousand	2009	2008
Financial assets held for trading	-1,187	-2,564
Receivables	259	-285
Financial investments	0	8
	-928	**-2,841**

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 effects totaling € -131 thousand (previous year: € -75 thousand) from the recognition of rent-free periods.

4.2. Maintenance expense

The figures represent general expenses incurred in the context of repairs and maintenance work on the rental and common-use space as well as interior decorative repairs.

4.3. Property management expense

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

4.4. Income from the revaluation of investment properties

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

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

In 2009, a total of € -37 thousand (previous year: € 2,448 thousand) was the result of the sale of the investment property at »Collinistrasse 2« in Mannheim. Additional information is given in sections 3.1 and 3.8.

4.6. Other income

Other income for financial year 2009 as well as the previous year mainly includes income from compensation payments of tenants for the premature termination of lease agreements.

4.7. Other expenses

The other expenses item includes valuation allowances for and derecognition of rent receivables, due diligence expenses, and trailing costs incurred in the context of property sales, among others.

4.8. Administrative expense

The following table shows the breakdown of the administrative expense:

€ thousand	2009	2008
Staff costs	1,740	1,662
Legal, consulting and auditing fees	605	587
Office and travel expenses	466	503
Stock exchange-related expenses, financial reports, general shareholders' meeting	140	212
Marketing and advertising expenses	106	134
Other expenses	91	179
Total	**3,148**	**3,278**

In addition to the two members of the Board of Management, 24 persons were employed in financial year 2009 (previous year: 24), 6 in general administration, and 18 in asset and property management.

4.9. Investment income

As in the previous year, this position primarily concerns distributions from the investment in 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 € 122 thousand (previous year: € 369 thousand) and interest income from purchase price receivables of € 84 thousand (previous year: € 60 thousand).

4.11. Financial expenses

Financial expenses relate to the following positions:

€ thousand	2009	2008
Interest expenses	4,818	6,761
Ancillary financing costs	19	470
Expenses from revaluation of derivative financial instruments	1,187	2,564
Total	**6,024**	**9,794**

4.12. Taxes

The losses before income taxes for financial year 2009 amount to € 6,826 thousand. In the previous year, profit before tax was € 1,157 thousand.

The income tax expenses for financial years 2009 and 2008 break down as follows:

€ thousand	2009	2008
Expenses (–)/income (+)		
Deferred taxes on losses carried forward	–881	–157
Deferred taxes from temporary differences	1,006	266
Current taxes	46	–122
Total	**171**	**–13**

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 at 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 2009 (previous year: 15%), and the solidarity surcharge was 5.5% thereof. The resulting combined tax rate is 15,825% (previous year: 15,825%). The following calculation shows how the reported income tax expenses are derived from the expected tax expenses.

€ thousand	2009	2008
Pre-tax result	–6,826	1,157
Group tax rate	15.8%	15.8%
Expected expenses from income taxes	**1,080**	**–183**
Non-deductible operating expenses	–7	–8
Trade tax	–929	528
Corporate income tax – previous years	27	–350
Taxes on income	**171**	**–13**
Tax rate	2.5%	1.1%

The reconciliation item »Trade tax effects« is largely the result of the deferred taxes for trade tax losses carried forward that were recognized in previous years that will not be realized according to the current business plan and were therefore written down in 2009.

5. Other financial liabilities

As of the reporting date, other financial obligations amounted to € 8,505 thousand (previous year: € 1,976 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 members of 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 in 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 € 130 thousand (previous year: € 129 thousand) in financial year 2009 that were settled at typical market conditions.

7. Disclosures concerning the statement of cash flows

The statement of cash flows 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 items and income and expenses in connection with the investing and financing activities.

The cash and cash equivalents used in the statement of cash flows consist exclusively of the cash in banks and cash holdings disclosed in the statement of financial position.

8. Other disclosures

8.1. Supervisory Board and Board of Management

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

The members of the Board of Management during financial year 2009 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 2009 amounted to € 394 thousand.

The following persons were members of the Supervisory Board:

- Carl-Matthias von der Recke, consultant, residing in Frankfurt/Main (chairman of the Supervisory Board)[1]
- Klaus R. Müller, member of the management team of Mann Immobilien-Verwaltung AG, Karlsruhe, residing in Germersheim (deputy chairman)[1, 2]
- Arnoldus Brouns, managing director of bouwfonds real estate investment management, Hoevelaken/The Netherlands, residing in Maastricht/The Netherlands[1]
- 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 (until 19 June 2009)

  Jürgen von Wendorff also holds positions in the following supervisory bodies:

  - 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[2]
- Benn Stein, lawyer, tax law specialist and certified accountant, CT legal Stein und Partner, Hamburg, residing in Hamburg[2]
- Wolfgang Herr, member of the board of management of Mann Immobilien-Verwaltung AG, residing in Baden Baden (since 19 June 2009)

The overall compensation of the Supervisory Board in financial year 2009 amounted to € 83 thousand.

8.2. Corporate governance

In February 2010, the Board of Management and the Supervisory Board of POLIS issued statements concerning the recommendations expressed in the German Corporate Governance Code. In 2009, 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).

[1] *member of the personnel committee of the Supervisory Board*

[2] *member of the investment committee of the Supervisory Board*

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 2009 were not applied. It is not expected that the changes will have an impact on the future consolidated financial statements of POLIS.

The amendments to IAS 32 Financial Instruments: Presentation govern the accounting for issuers of subscription rights, options and warrants granting rights to acquire a specific number of equity instruments that are denominated in a currency other than the issuer's functional currency. The amendment is to be applied for the first time to financial years starting on or after 1 February 2010.

The new IFRIC 15 – Agreements for the Construction of Real Estate governs the accounting for companies that develop properties and that in this capacity sell units such as apartments or houses before they are completed. IFRIC 15 defines criteria that decide whether the accounting is governed by IAS 11 Construction Contracts or IAS 18 Revenue. IFRS 15 is to be applied to financial years starting on or after 1 January 2010.

The new IFRIC 16 – Hedges of a Net Investment in a Foreign Operation concerns hedge accounting of net investments in a foreign business operation. IFRS 16 is to be applied to financial years starting on or after 30 June 2009.

The new IFRIC 17 – Distributions of Non-Cash Assets to Owners regulates how a company is to value non-cash assets that it distributes to shareholders by way of distributing profits. IFRS 17 is to be applied to financial years starting on or after 1 July 2009.

The new IFRIC 18 – Transfers of Assets from Customers clarifies the IFRS requirements concerning agreements in which a company receives a property, a plant or equipment from a customer that the company can then either use to connect the customer to a network or to grant the customer permanent access to the supply with goods or services. IFRS 18 is to be applied to financial years starting on or after 1 November 2009.

8.4. Share-based compensation

No share-based compensation was paid in financial year 2009. In the previous year, 26,000 subscription rights having a market value of € 17,810 were granted. These subscription rights remain outstanding, they cannot yet be exercised.

The expenses associated with granting subscription rights to employees in the previous year in financial year 2009 are € 5,936 (previous year: € 2,474).

Description of the stock option plan:

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 percentage points in total.

b) *Relative success criterion*

   Also, subscription rights may only be exercised if the overall performance of POLIS AG shares in percentage terms during the period between granting and exercising the subscription right exceeds the benchmark index, DAXsubsector 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 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. Options not transferred at the time an employee leaves the Company also expire.

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 2009, the variable-rate liabilities to banks of POLIS amounted to € 116,248 thousand, of which € 55,775 thousand was converted to fixed-rate loans by means of interest rate swaps, and a further € 5,000 thousand was secured by means of interest rate caps. Fixed-rate liabilities to banks amounted to € 18,598 thousand. The proportion of unsecured, variable-rate liabilities to banks was thus 41%. 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 resulting 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 2009, the risk from a theoretical increase in interest rates by 100 basis points amounted to € 555 thousand per year (previous year: € 585 thousand). A decrease in interest rates would lead to corresponding positive effects on net income.

b) Default risk/credit risk

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

€ thousand	2009	2008
Financial assets		
Investments	243	243
Receivables and other financial assets	5,097	27,757
	5,340	**28,000**

As of 31 December 2009, receivables from operating costs not yet settled stood at € 3,400 thousand (previous year: € 3,702 thousand), and advance payments for operating expenses amounted to € 3,209 thousand (previous year: € 3,423 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:

€ thousand	Carrying amount	of which: neither impaired nor past due	of which: not impaired, and past due in the following periods: more than 90 days	61–90 days	31–60 days	0–30 days
Rent receivables 31 Dec. 2009	336	154	87	6	39	49
Rent receivables 31 Dec. 2008	519	73	130	1	129	186

All rent receivables shown relate to commercial tenants located in Germany. For the rent receivables that are already due, POLIS has received collateral in the form of rent deposits (cash deposits and guarantees) amounting to € 448 thousand, of which € 44 thousand relate to value-adjusted receivables.

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

The following table presents an analysis of impaired assets:

€ thousand	2009	2008
Impaired assets		
Carrying amount of receivables with individual allowances for doubtful accounts	193	597
Amount of individual allowances for doubtful accounts	–193	–452
Net carrying amount (after valuation allowances)	**0**	**145**

c) Liquidity risk

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 2009 for amortization, interest and repayments of financial liabilities reported in the statement of financial position:

Analysis of remaining terms as of 31 Dec. 2009

€ thousand	Total gross cash outflows	2010	2011	2012	2013	2014 or later
Non-derivative financial liabilities						
Liabilities to banks	156,450	17,342	37,157	5,920	33,243	62,788
Trade liabilities	3,299	3,299	0	0	0	0
Other liabilities	919	919	0	0	0	0
Loan commitments from banks	-17,207	-17,207	0	0	0	0
Total	**143,461**	**4,353**	**37,157**	**5,920**	**33,243**	**62,788**

The loan commitments only concern loans that have not yet been drawn and that can largely be drawn until the middle of 2013.

The liabilities to banks coming due in 2010 contain loans totaling € 11,957 thousand that are to be extended and increased by € 6.7 million due to their low loan-to-value ratio of 39%. The financing of the investments planned for 2010 totaling around € 15 million involve a loan of € 6 million, with the remainder being provided by the supplementary financing mentioned above as well as the cash flow from operating activities.

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. In one instance, a covenant was not met as of 30 September 2009. This issue has been resolved in the mean time. In the event covenants are breached, the agreements stipulate sanctions requiring cash deposits rather than the immediate termination of loan agreements.

The terms of derivative financial instruments are set forth in the table under point 3.10.

Analysis of remaining terms as of 31 Dec. 2008

€ thousand	Total gross cash outflows	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
Other liabilities	3,536	3,536	0	0	0	0
Loan commitments from banks	-20,428	-20,428	0	0	0	0
Total	**155,344**	**1,620**	**17,998**	**46,176**	**4,662**	**87,888**

8.6. Fees and services of the auditor

The fees incurred for the services provided by auditors KPMG in financials years 2009 and 2008 amounted to:

€ thousand	2009	2008
Audit fees	139	130
Total	**139**	**130**

8.7. Events after the reporting date

Interest rate hedges

After the reporting date, two interest rate swap transactions were carried out for the purpose of eliminating the interest rate risk of variable-rate loans with an overall nominal volume of € 15 million and a term of 5 years. The interest rate swaps do not comply with the requirements of IAS 39 with respect to hedge accounting; fair value changes are therefore recognized in income.

Berlin, 10 March 2010

POLIS Immobilien AG
The Board of Management

Dr. Alan Cadmus | Dr. Matthias von Bodecker

Financial Calendar

Report on first three months of 2010	6 May 2010
Annual General Meeting of 2010	25 June 2010
Report on first six months of 2010	5 August 2010
Real Estate Share Initiative, Frankfurt am Main	19 October 2010
Report on first nine months of 2010	4 November 2010

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Key financial data of POLIS Immobilien AG

Results in € thousand	2009	2008	2007
Rental revenues	13,094	14,993	9,788
EBIT	-1,041	10,421	13,346
EBT	-6,826	1,157	10,662
Group net profit	-6,655	1,144	9,043
Cash flow from current business operations	9,519	8,862	5,690
Funds from operations (FFO)[1]	3,726	2,996	2,381

Balance sheet in € thousand	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007
Non-current liabilities	285,529	278,589	248,621
Current liabilities	8,078	32,808	23,403
Equity	146,436	153,085	151,939
Total assets	293,607	311,397	272,024
Equity ratio in %	50%	49%	56%
Loan to value[2]	48%	52%	39%

Net asset value of POLIS (€ thousand)[3]	146,685	153,459	152,422
Shares (no.)	11,051,000	11,051,000	11,051,000
Net asset value per share (€)[3]	13.27	13.89	13.79

Share

Security identification code/ISIN	691330/DE0006913304
2008 high (Xetra)	€ 9.35
2008 low (Xetra)	€ 8.09
Closing price on 30.12.2009 (Xetra)	€ 9.00

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*

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