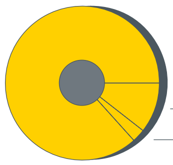
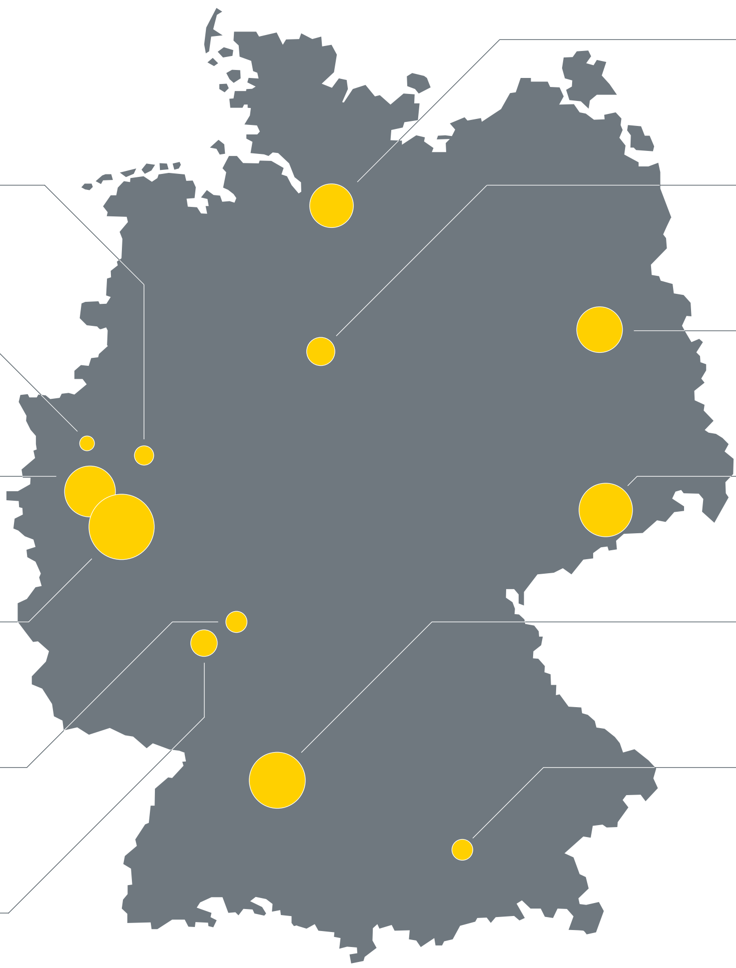
2010 Annual Report



Portfolio by use | *basis: m²*



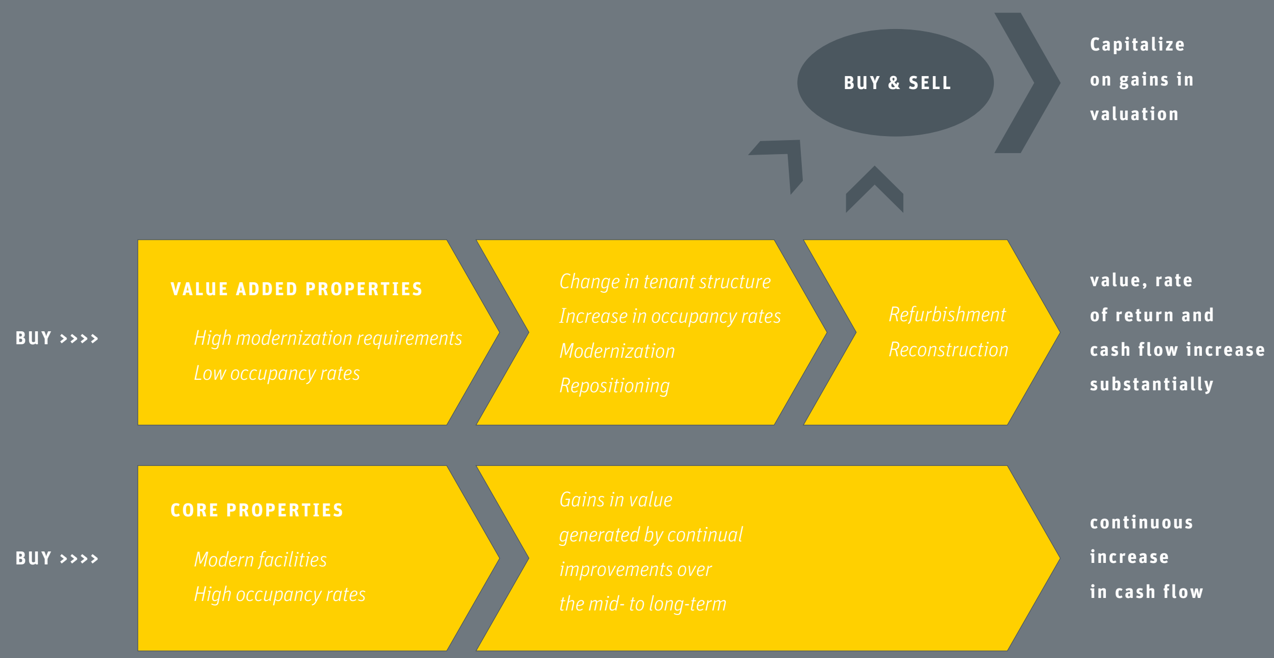
Portfolio by location | *appraisal as at 31 Dec. 2010*



1) as at 01.01.2011

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,

After a difficult year in 2009, property markets opened up again in 2010, enabling us to build on our past successes. We have made good use of this opportunity. After completing four modernization properties we can now provide high-quality office space at a time of economic recovery. Also, we have refurbished many spaces in our existing portfolio and upgraded them to a modern office standard.

Best rental income in our corporate history

By achieving the best rental income in our corporate history, we have already been able to let a part of the modernized spaces and to initially increase the occupancy rate to 73%. As soon as the rental space of 21,200 m² for which new tenants have already been found have been occupied by the end of 2011, the occupancy rate will increase to 79%. Since a large proportion of the vacant office spaces has been completed with the exception of the individual tenant fit-out, we expect rapid progress in letting the rental spaces in the course of the next financial year.

Sustainable growth requires investments and a temporary drop in rental income

In order to reach our objective of achieving sustainable growth we invested a total sum of € 18 million in the past financial year for modernizing our investment properties, thereby significantly increasing the quality of the buildings. We have thus not only upgraded many rental spaces to a modern office standard, but also enhanced the overall quality of the buildings by improving the entrance areas, the façades and the technical installations, thereby establishing the basis for the sustainable growth of our rental income. In the short term, rental revenues fell again by 6%, to € 13 million, due to modernization-related vacancies and the low rental income in 2009 resulting from the weak economy, with net rental income falling to € 9.6 million. As discovered during the valuation of the investment properties, the property portfolio in its current composition has a rent potential of around € 21.5 million per year. This can be achieved once all modernization work has been completed, all vacancies have been eliminated, and all rents have been adjusted to reflect current market levels.

Significant increase in earnings relative to the previous year

Comprehensive income before taxes of € 2 million largely corresponds to the »funds from operations« (FFO) ratio and represents a significant before-tax increase when compared to the previous year's loss of € 6.8 million.

The change is primarily based on the significantly improved valuation results of the investment properties, which increased by € 0.8 million compared to the previous year, underscoring the value of our considerable investments of € 18 million in modernizing the investment properties. In the previous year, we had reported a market-related valuation loss of € 9.3 million.

The further drop in market rates again led to a valuation loss of € 0.8 million for the hedging instruments, which means that the valuation results nearly cancel each other out.

Portfolio optimization and our new location of Dresden

We have used the improved market environment to sell four investment properties for € 14 million, thereby optimizing the property portfolio. As a result of this measure we were able to wind down our operations at three non-core locations, saving future costs in this regard. At the end of the year, we succeeded in acquiring three new investment properties in Dresden, with intentions to acquire a fourth property later this year. All in all, the new investment properties have a rental space spanning 31,000 m² and an occupancy rate of 73%. All properties are situated in attractive central locations directly at the Altmarkt, next to the Dresden-Mitte suburban railway station, and at the Palaisplatz. By rapidly securing leases for the vacant spaces we are able to realize a significant potential for increases in value. We are confident that we will succeed in doing so at the new location due to Dresden's ongoing growth and the positive market trend. Including these new investment properties, we have now achieved a portfolio volume of € 306 million.

Sound capital structure and low costs of financing

In the past, we have benefited from our sound capital structure, which helped us overcome the financial and economic crisis without major challenges. Because our share price losses were limited during the crisis, there was not much need to make up for lost ground during the recovery. Judging by the net asset value (NAV) our shares are still being traded at a significant discount and thus have a potential for share price increases. With an equity ratio of 47% and a loan-to-value ratio of 51% for our investment portfolio, we continue to stand on a sound financial footing and thus have a high degree of investment security. As a result of the drop in market rates, it has been possible to further reduce the weighted average rate for debt financing from 3.8% to 3.4%.

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

In our modernization projects, we consistently pursue an environmentally sustainable refurbishment in order to achieve long-term value. Two modernization projects have been awarded a preliminary silver certificate for sustainable building by the German Sustainable Building Council (DGNB). 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 solid reputation in the market as a specialist and as a 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. The good location of our properties and a large number of tenants from a variety of industries (»multi-tenant concept«) serve to increase the investment security for our shareholders. This approach gives us unique advantages in the competitive environment of listed German property companies.

Economic recovery to continue in 2011, interest rates to increase moderately

Since last year's economic upswing is set to continue, we expect to again see a high letting performance in 2011. We do not expect to see an enhanced level of new construction activities since the willingness of the banks to finance project developments appears to be low. Despite the economic recovery, we can initially expect the ECB to keep the short-term rates low even if the long–term rates have already begun to rise from their past lows and can be expected to continue to increase.

Increase in occupancy rates as a basis for continued growth

The focus of our activities in the financial year ahead will be to further increase occupancy rates and to integrate the new location of Dresden. By the end of the year, we intend to achieve a letting performance that will lead to an occupancy rate of 90% for all rented areas once all tenants have moved in. The 2011 result will initially still be characterized by further investments in the investment properties and by letting-related expenses. Rental revenues will increase in line with the development of our letting activities. All in all, we intend to achieve an increase in the net rental income in 2011 and establish the foundations for further growth in 2012.

Compliance with high standards of transparency

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 our website. Such information includes the level of rent, the potential level of rent, vacancies, property ratings and current market values. We have already received several awards for this type of open communication.

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.

After serving for eleven years, our Chief Financial Officer Dr. von Bodecker left our Company in January 2011 to take up new professional challenges. The work among the members of the Board of Management during the past years was always characterized by a strong spirit of trust. The Board of Management would like to thank Dr. von Bodecker for his dedication and wishes him all the best in his new capacity.

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

Berlin, March 2011

POLIS Immobilien AG
– The Board of Management –

Dr. Alan Cadmus | Rüdiger Freiherr von Maltzahn

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 of 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 results of operations 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 Board of Management also outside of meetings.

Supervisory Board meetings and resolutions

In the reporting period, the Supervisory Board was convened for a total of four meetings, one of which in the form of a telephone conference. In the meetings, the Board of Management informed the Supervisory Board in detail and in a timely manner of the current business performance, in particular of the strategy, the plans, the economic situation and development, referring to documents that had been submitted, and consulted with the Supervisory Board in this regard. All matters that were subject to the decision of the Supervisory Board were determined after diligent examination and consultation in the meetings, and to the extent required also on the basis of proposed resolutions prepared in writing prior to the meeting. Where required, the Supervisory Board adopted resolutions in writing.

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

In its meeting on 10 March 2010, the annual financial statements, the consolidated financial statements and the management reports were discussed in detail in the presence of the auditor and approved. A resolution was adopted on the declaration of conformity pursuant to Section 161 subsection 1 AktG (Aktiengesetz; German Stock Corporation Act). We consulted and adopted resolutions with respect to various possible investment projects and their financing as well as sales projects. Also, resolutions were adopted on the amount of the variable compensation for the Board of Management for the past financial year 2009 as well as on the target agreements for 2010 with the Board of Management.

As a result of the cancellation of flights due to ash clouds, the meeting on 23 April 2010 was held in the form of a telephone conference. The subject matter of the discussions was the status of acquisition and sales projects, the preliminary financial report for the 1st quarter as well as the agenda and the proposed resolutions for the General Meeting. Also, the chairs of the personnel and investment committees reported to the members of the Supervisory Board on the work of the committees.

In the meeting on 24 June 2010, we discussed in detail the status of various modernization projects and their profitability. Also, we critically reviewed the POLIS business model and intensively discussed financing. Furthermore, we discussed various acquisition and sales projects and adopted resolutions in this regard.

The key issue at the meeting on 3 November 2010 was the 2011 budget and the updated medium-term financial plan. Also, we discussed with the Board of Management the preliminary figures for the 3rd quarter and the forecast for financial year 2010. Also in this meeting, we discussed acquisition and sales projects as well as the future strategy of POLIS.

Committees

The investment committee, consisting of Mr. Müller (chairperson), Mr. Schmechel and Mr. Stein, prepares Supervisory Board decisions on investments that require its approval. The investment committee convened a total of three times and mainly discussed ongoing investment plans. To this end, the Supervisory Board carried out on-site visits and discussed the projects in detail with the Board of Management and external experts commissioned by the committee.

The personnel committee, consisting of Mr. von der Recke (chairperson), Mr. Brouns and Mr. Müller, convened a total of five times, two of which in the form of telephone conferences; in its meetings, it focused mainly on the variable compensation of the Board of Management, in particular the target agreements that needed to be concluded, as well as the search for a new chief financial officer. 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. The detailed corporate governance report including the compensation report as well as the declaration by management can be found in the annual report. On 3 March 2011, the Board of Management and the Supervisory Board issued the declaration of conformity pursuant to Section 161 AktG, which has been made permanently available to shareholders on the website.

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.

Annual and consolidated financial statements

KMPG AG Wirtschaftsprüfungsgesellschaft (Berlin) has audited the annual financial statements and the management report of POLIS Immobilien AG as of 31 December 2010 as well as the consolidated financial statements and the group management report as of 31 December 2010 and has issued an unqualified audit certificate (uneingeschränkter Bestätigungsvermerk).

The annual financial statements and the management report were prepared in accordance with the principles contained in the HGB (Handelsgesetzbuch, German Commercial Code). The consolidated financial statements and the group management report were prepared in accordance with Section 315a HGB 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.) and additionally in accordance with the International Standards on Auditing (ISA).

The annual financial statements and the consolidated financial statements as well as the audit reports of KPMG AG Wirtschaftsprüfungsgesellschaft were available to all members of the Supervisory Board and were discussed comprehensively in the relevant Supervisory Board meeting on 3 March 2011 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 focus areas and the costs of the audit. The audit's focus areas were the valuation of the investment properties and of the derivative financial instruments and the reporting contained in the management report, in particular with respect to the covenants and the financial and liquidity planning.

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 audit reports. In its resolutions adopted on 3 March 2011, the Supervisory Board formally approved (festgestellt) 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,
- in the case of the legal transactions detailed in the report, the expenditure of the Company was not unreasonably high.«

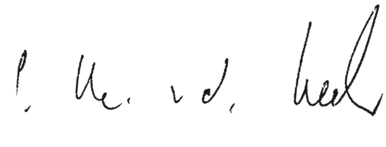
The Supervisory Board reviewed the report on the relationships with associated companies prepared by the Board of Management and audited by the auditor as well as the so-called dependency audit report (Abhängigkeitsprüfungsbericht) pursuant to Section 314 AktG. After concluding its review, the Supervisory 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 within the Board of Management

Dr. Matthias von Bodecker resigned from his office as member of the Board of Management effective 31 January 2011 in agreement with the Supervisory Board. By resolution of 24 January 2011, the Supervisory Board appointed Mr. Rüdiger Freiherr von Maltzahn as temporary member of the Board of Management.

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, 3 March 2011

The POLIS Share

Market environment in 2010/ development of the market for property stocks

After the dropping sharply as a result of the economic crisis in 2008/2009, stock markets continued to recover in 2010. For example, the DAX increased by about 16% in relation to the beginning of the year. Relative to the DAXsubsector Real Estate Performance Index, German property stocks increased by approximately 25% since the beginning of the year.

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.

Share price performance

The performance of the POLIS share was stable during the previous years and therefore did not benefit from the continued recovery of the market. It reached a year-end closing price of € 8.51, around 5% less than the previous year's closing price.

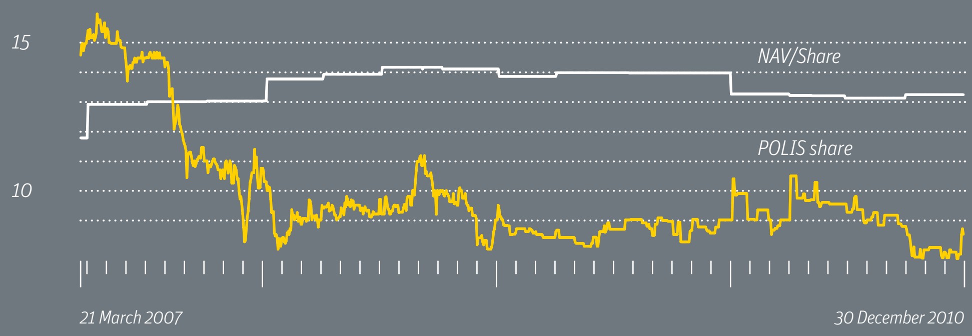
Despite the continuing recovery of the property stocks, some of the prices paid on the stock exchange are significantly lower than the value of the property less debt. The discounts have fallen over the course of the year, but have in individual instances reached up to 50%. At € 8.51 as of 31 December 2010, the price of the POLIS share represents a discount of around 37% relative to the net asset value (NAV) of € 13.45. The continuing high discount for some German real estate companies in relation to their NAV highlights the uncertainty regarding the financial situation of individual 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 scepticism 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 2010 was 651 shares, or € 5 thousand.

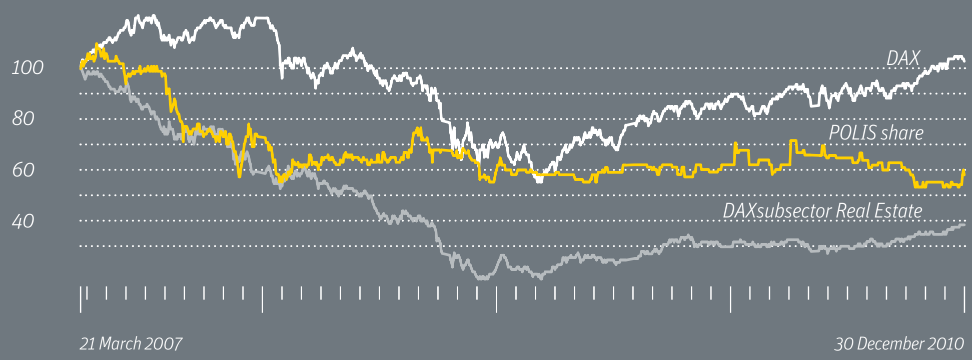
Shareholder structure

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 2010, 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	5.1%
Board of Management	0.5%
Other shareholders	7.6%
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. No use was made of this authorization. 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 provide information and communicate not only in the context of the General Meetings, but also in regular direct discussions and also by providing comprehensive financial information in the form of annual and interim reports as well as press statements with up-to-date information on specific events that can be accessed via our website at any time. 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 2010

ISIN	DE0006913304
Security identification code (WKN)	691330
Reuters/Bloomberg symbol	PQLG.DE/PQL GR
Closing price 2010	€ 8.51
Number of shares	11.05 million
Market capitalization	approx. € 94 million
Market segment	Prime Standard
Designated sponsor	UniCredit Markets & Investment Banking
Research coverage	HSH Nordbank, UniCredit Markets & Investment Banking
52 week high	€ 10.50
52 week low	€ 7.70
Average daily trading volume	€ 5,313
Average daily trading volume	651 shares
Earnings per share	€ 0.14
NAV per share	€ 13.45
Free float as defined by Deutsche Börse	26.6%
Annual General Meeting	27.05.2011

Dresden: strategic portfolio expansion

Kramergasse 2–4

Palaisplatz 3 (above), Koenneritzstrasse 29–31

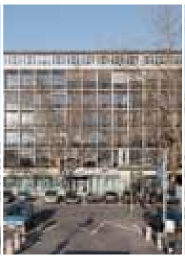
The acquired portfolio consists of three office buildings located in the center of Dresden. The transfer of possession of one additional building is planned shortly. The office buildings are ideally located right in the city center at »Altmarkt«, in »Kramergasse«, at »Palaisplatz« and in »Koenneritzstrasse«, and have a total rental space of approximately 31,000 m². By acquiring this portfolio, POLIS Immobilien AG has launched its activities at this new location, quickly establishing itself as an important player in Dresden.

As the economical and cultural center of the region, we believe Dresden has considerable potential as a real estate location: In contrast to other cities in eastern Germany, the number of inhabitants as well as the market for office buildings has shown a positive development in recent years. Rental revenues grew in 2010 by 14.2%[1] relative to the same period in the previous year, and real estate experts expect vacancy rates to continue to fall in the course of 2011.

Altmarkt

1 (source: Büromarkterhebung 2010; gif Gesellschaft für Immobilienwirtschaftliche Forschung e.V.)

Portfolio overview

		Berlin	Berlin	Berlin	Dortmund
		Luisenstrasse 46	Potsdamer Strasse 58	Rankestrasse 5–6	Kleppingstrasse 20
Transfer of possession		15.05.2002	25.02.2001	01.05.2008	31.12.2006
Year built		1936	1930	1955	1954
Renovated/modernized		2002	2004	1996	1994
Market value[1]	€ thsd.	10,360	14,160	17,570	5,410
Discount rate[1]	%	6.8%	7.0%	6.9%	7.2%
Total area (rounded)[2]	m²	3,100	5,500	7,700	2,900
Office	m²	2,622	4,149	6,463	2,156
Retail	m²	440	1,013	869	523
Residential	m²	0	0	0	0
Archive	m²	51	373	366	232
Parking space	number	24	22	79	13
Average remaining term of leases[3]	years	2.1	2.1	2.6	4.4
Occupancy rate (space-based) 31 Dec. 2009	%	100%	87%	80%	59%
Occupancy rate (space-based) 31 Dec. 2010[4]	%	100%	88%	90%	99%
Occupancy rate (revenue-based)[5]	%	98%	84%	79%	97%
Rent 2009[6]	€ thsd.	594	802	729	249
Rent 2010[6]	€ thsd.	639	764	803	306
Annualized current rent	€ thsd.	625	765	880	373
Rent if fully leased[7]	€ thsd.	641	908	1,114	383
Annualized potential rent[8]	€ thsd.	674	987	1,369	385
Return on potential rent[9]	%	6.5%	7.0%	7.8%	7.1%
Feri rating[10]		B+	B+	B	B

1 According to Feri EuroRating Services AG, discount rate used for the Discounted Cash Flow Model (IRR): According to Feri, it represents the rate of return that an individual property must generate to achieve a yield that is appropriate for the risk

2 Can deviate from the sum of the individual figures due to rounding

3 Weighted by rental income

4 In each case determined as the ratio of rented space and total space

5 Including reductions in earnings due to rent-free periods

6 According to audited consolidated financial statements in the year stated pursuant to IFRS

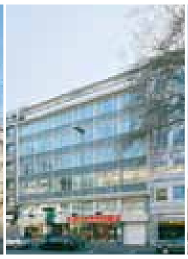
7 Sum of contractually secured income from rent and fictitious income from rent assuming that all vacant spaces have been let at the property-specific market rents as determined by Feri EuroRating Services AG

8 Fictitious income from rent assuming that all spaces have been let at the property-specific market rents as determined by Feri EuroRating Services AG

9 Ratio of annualized potential rent and current market value as of 31 December 2010

10 According to the appraisal prepared by Feri EuroRating Services AG as of the respective key valuation date.

11 Requires additional investments. Therefore, this refers to the planned potential rent and the planned market value upon completion



Duisburg	Dusseldorf	Dusseldorf	Dusseldorf	Dusseldorf	Dusseldorf	Dusseldorf
Gallenkamp-strasse 20	Berliner Allee 42	Berliner Allee 44	Berliner Allee 48	Immermann-strasse 11	Kasernenstrasse 1	Steinstrasse 27
01.11.2007	01.11.2007	01.08.2000	01.10.2006	01.12.2007	31.12.2006	01.09.2000
1954	1960	1957	1956	1960	1954	1960
1994	–	2001	–	–	2010	1998
1,610	5,990	7,490	5,100	2,970	18,290	8,580
7.2%	7.0%	6.9%	7.0%	6.9%	6.6%	7.0%
1,700	3,500	3,800	2,600	1,800	4,800	3,700
1,112	2,204	3,164	1,859	1,111	3,219	3,455
293	812	241	336	344	1,042	0
277	229	45	181	188	281	0
5	214	316	236	198	289	230
15	17	17	0	9	14	20
2.1	1.9	2.0	2.0	2.5	4.8	2.8
65%	80%	24%	88%	99%	76%	89%
80%	99%	24%	88%	85%	94%	99%
79%	99%	12%	89%	86%	96%	100%
100	286	138	255	207	696	526
117	304	113	319	214	521	573
133	354	67	309	193	914	587
167	359	535	347	225	951	590
155	462	577	376	233	1,223	594
9.6%	7.7%	7.7%	7.4%	7.8%	6.7%	6.9%
B	B+	B	B+	B+	B+	B

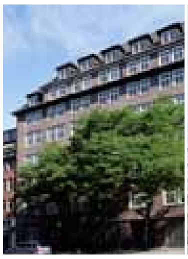
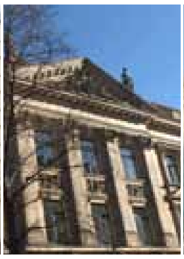
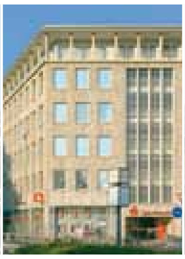
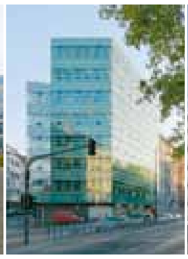
Feri rating categories

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

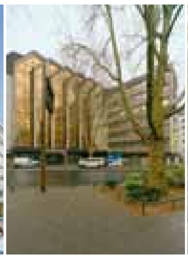
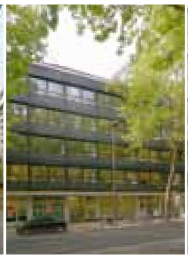
Visualization *Visualization*

		Frankfurt a. M.	Hamburg	Hamburg	Hamburg
		Gutleutstrasse 26	Bugenhagen-strasse 5	Domstrasse 10/ Schauenbuger Strasse 15 & 21	Ludwig-Erhard-Strasse 14
Transfer of possession		30.06.2006	01.04.2008	01.08.2007	01.10.2006
Year built		1970	1914	1906	1969
Renovated/modernized		1996	2010	2002	1996
Market value[1]	€ thsd.	11,100	5,370	10,970	12,590
Discount rate[1]	%	7.1%	7.0%	6.7%	6.9%
Total area (rounded)[2]	m²	3,500	2,600	6,600	5,000
Office	m²	3,446	1,815	4,797	4,656
Retail	m²	0	376	1,346	0
Residential	m²	0	0	0	0
Archive	m²	0	401	449	322
Parking space	number	29	15	12	29
Average remaining term of leases[3]	years	3.0	4.4	3.0	3.6
Occupancy rate (space-based) 31 Dec. 2009	%	100%	76%	3%	92%
Occupancy rate (space-based) 31 Dec. 2010[4]	%	100%	88%	3%	98%
Occupancy rate (revenue-based)[5]	%	100%	66%	2%	99%
Rent 2009[6]	€ thsd.	750	224	140	770
Rent 2010[6]	€ thsd.	762	229	24	775
Annualized current rent	€ thsd.	763	222	25	792
Rent if fully leased[7]	€ thsd.	763	338	1,080	797
Annualized potential rent[8]	€ thsd.	786	404	1,091	828
Return on potential rent[9]	%	6.7%	7.5%	6.6%[11]	6.6%
Feri rating[10]		B+	B+	A	B+

Explanations see page 12

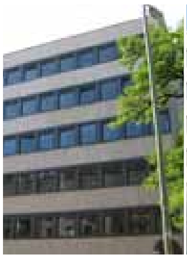
      

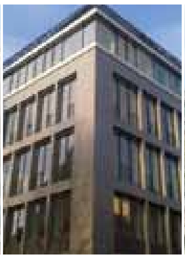
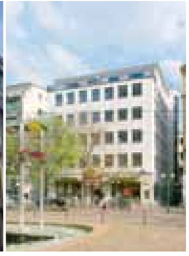
Hamburg	Hanover	Hanover	Cologne	Cologne	Cologne	Cologne
Steinstrasse 12–14	Landschaftstrasse 2	Landschaftstrasse 8	Ebertplatz 1	Gustav-Heine-mann-Ufer 54	Hansaring 20	Konrad-Adenauer-Ufer 41–45
01.05.2008	31.12.2006	31.12.2006	15.06.2007	01.10.2007	01.11.2007	01.04.2007
1925	1983	1885	1960	1989	1975	1953
1994	–	2006	2002	–	2006	2010
5,520	4,390	3,880	7,380	14,360	4,050	19,900
7.0%	7.2%	7.0%	6.9%	7.0%	7.2%	6.9%
2,700	3,600	2,600	4,100	7,600	2,200	6,100
2,546	3,582	2,166	3,786	6,995	2,093	5,581
0	0	0	220	0	0	0
0	0	0	66	0	0	0
192	13	437	63	565	146	473
5	53	0	0	193	10	53
0.0	6.8	6.0	1.3	3.0	1.2	5.4
92%	90%	100%	93%	47%	100%	0%
0%	100%	100%	93%	68%	99%	42%
0%	99%	100%	89%	60%	99%	0%
366	374	270	482	444	305	0
186	307	286	458	676	312	46
0	420	297	438	710	303	0
408	425	297	492	1,181	306	1,202
411	443	291	606	1,170	314	1,213
7.4%	10.1%	7.5%	8.2%	8.1%	7.8%	6.1%
B+	B	B	B+	B+	B	B+


		Cologne	Cologne	Mainz	Mainz
		Neumarkt 49	Weyerstrasse 79–83	Rheinstrasse 43–45	Rheinstrasse 105–107
Transfer of possession		31.12.2007	01.05.2008	01.11.2007	30.09.2007
Year built		1957	1962	1976	1968
Renovated/modernized		2005	2008	–	–
Market value[1]	€ thsd.	7,970	15,970	2,770	4,100
Discount rate[1]	%	7.2%	7.2%	7.3%	7.1%
Total area (rounded)[2]	m²	3,900	9,400	2,200	3,300
Office	m²	3,187	7,237	1,889	2,414
Retail	m²	565	1,308	89	0
Residential	m²	0	0	0	564
Archive	m²	177	878	212	277
Parking space	number	9	88	10	46
Average remaining term of leases[3]	years	3.9	4.6	1.0	1.6
Occupancy rate (space-based) 31 Dec. 2009	%	83%	96%	87%	94%
Occupancy rate (space-based) 31 Dec. 2010[4]	%	74%	97%	89%	99%
Occupancy rate (revenue-based)[5]	%	72%	99%	90%	100%
Rent 2009[6]	€ thsd.	481	872	176	293
Rent 2010[6]	€ thsd.	459	917	175	290
Annualized current rent	€ thsd.	401	944	173	295
Rent if fully leased[7]	€ thsd.	556	954	193	296
Annualized potential rent[8]	€ thsd.	598	1,171	264	393
Return on potential rent[9]	%	7.5%	7.3%	9.5%	9.6%
Feri rating[10]		B	B	C	B

Explanations see page 12



Munich	Stuttgart	Stuttgart	Stuttgart	Portfolio	Other properties & financial assets[13]	Total property assets
Lessingstrasse 14	Boeblinger Strasse 8/ Arminstrasse 15	Quartier Buechsenstrasse	Tuebinger Strasse 31/33			
15.12.2007	01.11.2007	30.06.2007	31.12.2006			
1967	1973	1907–1956	1949			
2002	2004	2010	2000			
9,550	4,060	38,910	9,240	289,610	243	**289,853**
7.0%	7.0%	6.8%	7.1%	6.9%[12]		
3,400	2,500	16,900	4,800	134,100		
2,602	1,289	11,708	2,731	106,033		
453	920	1,408	1,278	13,878		
0	242	1,350	220	3,644		
332	101	2,409	578	10,536		
38	36	139	11	1,006		
1.3	1.9	0.9	1.1	2.9[12]		
84%	91%	25%	92%	69%[12]		
84%	95%	27%	90%	73%[12]		
80%	93%	18%	94%	65%		
461	245	1,290	561	13,083[2]		
495	242	533	568	12,413[2]		
489	253	499	568	12,794		
613	273	2,712	602	19,707		
646	332	2,854	669	21,519		
6.8%	8.2%	7.3%	7.2%	7.4%		
B+	B+	A	B+	B+		

12 Weighted average

13 Interests (1 x 5.1%)

Financial Information

Group Management Report

of POLIS Immobilien AG for financial year 2010

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 in the value of our real estate holdings that we realize 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.

Group structure and management

POLIS Immobilien AG is an operational holding company and is managed by two Officers. The Speaker of the Board of Management is responsible for strategy, portfolio and asset management, legal matters and taxes, while the Chief Financial Officer is in charge of finances, 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 increases 3.6% in 2010
- Positive development and prospects in the labor market
- Inflation rate increases moderately to 1.1% over the course of the year
- Short-term interest rates rise from 0.7% to 1.0%, and 5-year interest rates fall from 2.8% to 2.5%

After the deep recession in 2009, the global economy recovered at an unexpectedly strong pace in 2010. The reasons for this development were the expansive monetary and fiscal actions taken by some countries as well as increasing global trade. The recovery of the German economy that commenced in spring 2010 strongly intensified in the course of the year. The recovery, fuelled by a revival of foreign trade, also began to affect the domestic economy. Increasingly, the German economy was supported by domestic demand. The recovery began to lose steam at the end of 2010.

	GDP growth rate	Inflation rate	3 month EURIBOR	5 years (swap-rate)	10 years (swap-rate)
2010	3.60%	1.10%	1.01%	2.47%	3.29%
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

As a result of the favorable economic conditions, the markets for office space have recovered significantly over the course of the year. The demand for office space developed very dynamically during 2010. If this development continues, the situation on the rental and investment markets will continue to improve. The low supply and the high demand for »Core« properties will increasingly direct investment activities towards Value Added and opportunity-oriented investments, associated with the remaining refinancing risks.

Trends in the investment market for office buildings in Germany

Transaction volume increases strongly

According to real estate brokerage reports, the overall transaction volume in the commercial property sector increased from around € 10 billion to around € 19 billion in 2010. By comparison, commercial properties totaling approximately € 20 billion were traded in 2008. In particular, the number of large-volume investments has increased again. As expected, institutional investors such as insurance companies and pension funds have increased the share of real estate in their investment portfolios.

Trends in the office property rental market in Germany

Turnover of rental space has stabilized

The economic development in 2010 had a considerable positive effect on the rental market for office buildings in Germany. The turnover of rental space (Flächenumsätze) in the seven largest real estate locations increased 22%, from 2.3 million m² to 2.8 million m². Growth was lowest in Munich (approximately 11%) and highest in Dusseldorf (58%).

Stable development of rents, but location-specific differences

The increase in the turnover of rental space has already had an effect on peak rents in Dusseldorf, Berlin, Frankfurt and Cologne. In Frankfurt, peak rents increased by 10%, at the remaining locations rents increased and between 1% and 4%. In Munich, peak rents remained constant. In Hamburg and Stuttgart, peak rents fell by between 2% and 3%. Overall, rents in the German market for office buildings were 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.

Slight increase in vacancies of office space

In 2010, vacancy rates increased slightly in all locations with the exception of Berlin and Cologne, most likely due to the increase of available space as a result of new construction in the seven office locations. The average vacancy rate for the seven major locations was 9.8%, up from 9.2% in the previous year. Overall, vacancies at these locations totaled approximately 8.1 million m². *(source: gif e.V., Büromarkterhebung 2010).*

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

Vacancies | Rental space turnover		in thousand m²				Vacancy rate in %
	2008	2009	2010	2008	2009	2010
Berlin	1,450 | 465	1,500 | 426	1,500 | 465	8.1	8.4	8.3
Hamburg	880 | 495	1,060 | 360	1,260 | 480	6.9	8.2	9.6
Dusseldorf	626 | 356	760 | 185	829 | 337	8.8	10.4	11.1
Frankfurt	1,580 | 510	1,690 | 350	1,752 | 364	13.6	14.3	14.7
Stuttgart	460 | 180	453 | 138	480 | 194	6.2	6.1	6.5
Munich	950 | 474	1,020 | 309	1,178 | 371	7.2	7.7	8.5
Cologne	600 | 300	665 | 230	625 | 218	8.3	9.0	8.4

Source: gif – Year-end Comparison Office Markets Germany 2010

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 overall rate of return by actively managing and continuously developing a high-quality office property portfolio with properties in central locations; the overall rate of return consists of a dividend yield and an increase in the net asset value (NAV).

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

From the time it was founded, 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 highlights our commitment to providing detailed information about 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.

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 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 »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 significantly reduces the risk of loss of rental revenues and of 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 tenant orientation:** The rigorous pursuit of value-adding strategies and the orientation of all processes in accordance with the needs of 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 carry out all of our (construction) projects and (procurement) processes in an environmentally optimized manner.
- **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. 24 of our employees are university graduates or have obtained other professional and/or vocational 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. Three 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:

- With consolidated comprehensive income before taxes of € 1,956 thousand, the results of operations have improved significantly compared to the previous year (€ -6,826 thousand).
- We achieved the best rental income in our corporate history on rental space totaling 21,200 m² (new leases) and benefited from growing demand for well-equipped office space. The occupancy rate increased to approximately 73% and will increase further to 79% upon commencement in 2011 of leases that have already been concluded.
- In financial year 2010, we invested € 18 million in our investment properties. In four modernization properties – »Konrad-Adenauer-Ufer 41–45« in Cologne, »Kasernenstrasse 1« in Dusseldorf, »Buechsenstrasse 26« and »Buechsenstrasse 28« in Stuttgart – the standard fit-out has been completed and the available space already largely been let.
- In order to optimize the portfolio structure and to reduce costs, we sold four properties in 2010 and reduced the number of our locations by three. Overall, the previous year's valuations of our properties were confirmed, leaving earnings unaffected.
- Three properties in the city center of Dresden were acquired effective 1 January 2011, as a result of which the portfolio will increase to nearly € 306 million. A fourth property is to be acquired in 2011.
- Due to the modernization-related vacancies and the poor rental income in 2009 as a result of the weak economy, rental revenues fell 6% to € 13,053 thousand, and net rental income dropped 17% to € 9,578 thousand. Consequently, the key funds from operations ratio (FFO)[1] fell 47% to € 1,988 thousand.
- The strategy of adding value by modernization and the improved market conditions have again led to overall positive valuation gains of € 776 thousand.
- The drop in market interest rates led to valuation losses of hedging instruments of € 800 thousand. Conversely, interest expenses fell again, to now € 4,724 thousand. The average weighted interest rate for debt financing fell from 3.8% to 3.4%.

Development of the real estate business

Portfolio optimization

In financial year 2010, we optimized our portfolio as planned by way of individual sales. In the context of these optimization efforts, we sold four properties: The office and commercial building at »Friedrichsring 46« in Mannheim in the 2nd quarter, the office and commercial buildings at »Koenigsplatz 57« in Kassel and »Viehofer Strasse 31« in Essen in the 3rd quarter, and the office and commercial building at »Steinstrasse 11« in Dusseldorf in the 4th quarter. Selling the properties in Mannheim, Kassel and Essen allowed us to close down those locations that do not represent key locations for POLIS.

Modernizations

- Cologne, Konrad-Adenauer-Ufer: *50% let, rental space has been handed over*

Upon completion of the modernization work, three stories were let to IMCD Deutschland, and two further lease agreements were concluded, which means that »Konrad-Adenauer-Ufer« is now 50% let. The rented space was handed over to the tenants. The successes in letting the spaces highlight the sound competitive position of the sustainably refurbished building with its efficient layouts and its high standard of equipment. The building has been awarded the DGNB preliminary silver certificate for sustainable building. Feri confirmed the investments in the property, resulting in valuation gains of € 742 thousand.

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

- Stuttgart, Quartier Buechsenstrasse: *Major lease agreement signed, standard fit-out completed*

The properties in the »Quartier Buechsenstrasse« were substantially upgraded during the past year. The office space in the revitalization properties at »Buechsenstrasse 26 and 28« have been completed including the standard fit-out.

As with other properties, sustainability is very important to us. The building at »Buechsenstrasse 26« has also been awarded the DGNB preliminary silver certificate for sustainable building. The Quartier is situated in an urban redevelopment area, which will contribute to a significant appreciation of the surrounding area. In particular, the extension of the pedestrian zone along our buildings planned for 2011 will serve to invigorate this location.

A lease agreement has already been concluded for the mezzanine floor in »Buechsenstrasse 26«. The hand over the office space is scheduled to take place upon completion of the tenant fit-out in June 2011. In the areas on the ground floor, the planned catering concept was successfully implemented together with the Renitenztheater and all rental spaces were handed over to the tenants in time for the opening of the theater on 2 October 2010. Substantial work in letting rental space remains to be done in the office floors of »Buechsenstrasse 26 and 28«.

The property register (Liegenschaftsamt) of the City of Stuttgart, a tenant with an excellent credit rating, is leasing around 4,000 m² of office space. The rental spaces have already largely been handed over to the tenant. Once all spaces have been handed over to the tenants, the buildings at »Heustrasse 1«, »Kienestrasse 33« and »Hospitalstrasse 8« will again be fully let. We are currently involved in discussions with a number of potential tenants.

The investment made in the Quartier was confirmed by Feri, which determined an increase in value of € 508 thousand.

- Dusseldorf, Kasernenstrasse: *Repositioning of the building successfully concluded*

The comprehensive redevelopment work on the building at »Kasernenstrasse 1« has been largely concluded. The redevelopment work takes advantage of the opportunities provided by the noticeable improvement of the location next to two pedestrian zones near the entrance to Dusseldorf's historic city center, the Altstadt. For this reason, the retail area was extended from the ground floor into the first floor. All shop spaces have been let. Well-known Dusseldorf-based retailers were retained and strong new parties signed on as tenants. The façade and windows were comprehensively refurbished. With its elegant natural stone façade and its new retail floor, the building has been repositioned as a high-quality location and represents a center of attraction in the »Kasernenstrasse«. We believe the high valuation gain of € 1,265 thousand determined by Feri underscores the economic success of the investments.

- Hamburg, Domstrasse: *Planning of modernization work completed*

The original concept of letting the vacant spaces in »Domstrasse 10« at a moderate level of expenditure turned out not to be feasible. The most viable current option in economic terms is to comprehensively modernize the property. Planning work for the modernization measures has been completed and approved by the authorities. The area between Rathausmarkt and the access to the Speicherstadt and the city's harbor district has shown a very positive development. The economic conditions for carrying out this modernization project have thus significantly improved. The time of the modernization and the decision on possible alternative actions are currently still under review. Due to the changed market assessment and based on the concept of a comprehensive modernization, the property value as of 31 December 2010 has fallen by € 2,016 thousand.

Letting performance more than doubles in 2010 relative to 2009, occupancy rate increases significantly

As a result of the recovering economic situation and the progress achieved in the modernization projects, we have managed to double the letting performance in relation to the previous year from 10,200 m² to 21,200 m². The occupancy rate in the portfolio as of 31 December 2010 has already improved from 69% to 73% and will increase to 79% once all spaces have been handed over for which new lease agreements were concluded in 2010, assuming all other leases remain unchanged. Since the standard fit-out for all rented areas in the modernization properties with the exception of »Domstrasse« in Hamburg has now been completed and all these spaces are thus available for letting, we expect rapid progress in letting the vacant spaces. With respect to the properties that have been part of the portfolio since 1 January 2009, and excluding the revitalization properties, the occupancy rate has increased from 68% as of 31 December 2009 to 76% as of 31 December 2010 (like for like).

By 31 December 2010, we were able to conclude new lease agreements or extend existing leases for rental space of around 24,650 m², representing rental income of around € 23,400 thousand and contractually secured over an average term of 6.6 years; this corresponds to an effective rent of € 12.14 per m².The largest lease agreement of the year was concluded with respect to »Quartier Buechsenstrasse« in Stuttgart, where office space totaling around 4,000 m² was leased to the property register (Liegenschaftsamt) of Stuttgart. The average remaining term of all current lease agreements is 2.9 years. The average rent in the portfolio currently amounts to approximately € 11.80 per m² for all types of use (office, retail, residential, archive).

	Rental space as at 31 Dec. 2009 m²	Occupancy rate as at 31 Dec. 2009 %	Rental space as at 31 Dec. 2010 m²	Occupancy rate as at 31 Dec. 2010 %
Berlin [1]	16,000	86%	16,300	91%
Dortmund	2,900	59%	2,900	99%
Dusseldorf [2]	19,300	73%	20,200	81%
Duisburg	1,600	65%	1,700	80%
Frankfurt a. M.	3,500	100%	3,500	100%
Hamburg	16,900	55%	16,900	44%
Hanover	6,200	94%	6,200	100%
Kassel	2,200	96%	Sold	Sold
Cologne	32,100	65%	33,300	77%
Mainz	4,700	91%	5,500	95%
Mannheim	1,600	96%	Sold	Sold
Munich	3,200	84%	3,400	84%
Stuttgart	23,200	46%	24,200	46%
	133,400	**69%**	**134,100**	**73%**

1) including the office floor used for own purposes
2) excluding Steinstrasse 11. Sold in 2010 (like-for-like)

Overview of rental revenues

The development of income from rent by individual property in the prime locations since 2007 is as follows:

€ thousand	2007	2008	2009	2010
Luisenstrasse 46	560	588	594	639
Potsdamer Strasse 58	778	856	802	764
Rankestrasse 5–6		437	729	803
Berlin	**1,338**	**1,881**	**2,125**	**2,206**
Berliner Allee 42	28	237	286	304
Berliner Allee 44	549	553	138	113
Berliner Allee 48	284	308	255	319
Immermannstrasse 11	16	170	207	214
Kasernenstrasse 1	699	776	696	521
Steinstrasse 27	532	523	526	573
Dusseldorf	**2,108**	**2,567**	**2,108**	**2,044**
Gutleutstrasse 26	972	750	750	762
Frankfurt a. M.	**972**	**750**	**750**	**762**
Domstrasse 10/Schauenburger Strasse 15 & 21	227	305	140	24
Ludwig-Erhard-Strasse 14	443	562	770	775
Bugenhagenstrasse 5		195	224	229
Steinstrasse 12–14		47	366	186
Hamburg	**670**	**1,109**	**1,500**	**1,214**
Ebertplatz 1	246	487	482	458
Gustav-Heinemann-Ufer 54	145	620	444	676
Hansaring 20	38	227	305	312
Konrad-Adenauer-Ufer 41–45	0	0	0	46
Neumarkt 49		488	481	459
Weyerstrasse 79–83		478	872	917
Cologne	**429**	**2,300**	**2,583**	**2,868**
Lessingstrasse 14	10	459	461	495
Munich	**10**	**459**	**461**	**495**
Boeblinger Strasse 8	36	241	245	242
Tuebinger Strasse 31 & 33	555	555	561	568
Quartier Buechsenstrasse	951	1,899	1,290	533
Stuttgart	**1,542**	**2,695**	**2,095**	**1,343**
Total »A-Cities«	**7,069**	**11,761**	**11,621**	**10,933**
Other properties	870	1,860	1,810	1,540
Sold properties 2007–2010	1,849	1,372	472	580
Total	**9,788**	**14,993**	**13,904**	**13,053**

In Berlin all office and shop areas have been successfully let.

In Dusseldorf, structural measures to support the building's marketability have commenced in the property at »Berliner Allee 44«. In the mean time, an additional story was let, and we expect to conclude a further lease agreement in the 1st quarter of 2011. The staircase of the property at »Steinstrasse 27« was modernized and its entrance area optimized, significantly improving the building's appearance.

At the property at »Gustav-Heinemann-Ufer« in Cologne, further success in letting the space was achieved by the expansion of existing tenants; the mezzanine floor with its view over the river Rhine will be modernized in 2011. In the property at »Neumarkt 49« in Cologne, part of the ground floor was extended into the basement, considerably enlarging the high-quality rental area. A modernized office floor was handed over to the main tenant, Debeka. The office floor in the mezzanine floor will be available for rent.

As a result of the expansion by the main tenant, all office areas in the property at »Ludwig-Erhard-Strasse« in Hamburg have been let. After repositioning the Kontorhaus »Bugenhagenstrasse«, one story designed in the modern loft style has been let. In »Steinstrasse«, all spaces have been let to an office center.

The building at »Landschaftstrasse 8« in Hanover is entirely let to Ernst & Young. The lease agreement was extended in the past year by further five years.

Acquisition of three investment properties and a planned acquisition of a fourth property in Dresden:

By acquiring three office buildings in Dresden with over 31,000 m² effective 1 January 2011, POLIS Immobilien AG has launched its activities at a new location, quickly establishing itself as an important player in Dresden. A purchase and sale agreement was concluded for a further property that is to come into effect in 2011 upon fulfillment of a condition precedent. The office buildings are ideally situated right in the city center at the Altmarkt, in the »Kramergasse«, at the »Palaisplatz« and in »Koenneritzstrasse«.

Overall assessment of business performance

Rental revenues in the portfolio have fallen again due to modernization-related vacancies and the low rental income in 2009 as a result of the weak economy. However, the good rental income achieved in 2010 as well as the quality improvements in the modernization properties and the other buildings in the portfolio will soon lead to a strong increase in rental revenues as soon as all rental areas have been occupied and the rent-free periods that were agreed in some instances have expired. One can also expect letting to progress further because the completed rental spaces in the modernization properties are now available for letting in the near term. The substantial investments have further improved the quality of the portfolio and have already been confirmed in the current year by positive valuation gains above and beyond the investments themselves. The optimization of the portfolio from selling four investment properties and acquiring three investment properties in Dresden and the plans for acquiring a fourth property in 2011 will also contribute to an improvement in earnings. This means that we have achieved a solid starting in 2010 that will soon lead to an increase of the key earnings ratios.

Results of operations, financial position and net assets

Results of operations

- Rental revenues drop as a result of revitalization measures and a weak market, valuations slightly positive.

Due to the modernization projects, **rental revenues** have fallen to € 13,053 thousand (previous year: € 13,904 thousand), € 851 thousand below last year's level. With respect to properties that have been part of the portfolio continuously since 1 January 2009, and excluding the revitalization properties (like for like), rental revenues have increased by 1.5%.

After deducting maintenance and property management expenses, **net rental income** fell by around 17%, to € 9,578 thousand (previous year: € 11,537 thousand).

The substantial investments in the property portfolio were confirmed by a valuation and led to an additional increase in value of € 776 thousand. The change in the market value is largely the result of the valuations of the modernization properties at »Kasernenstrasse 1« in Dusseldorf (€ 1,265 thousand), »Konrad-Adenauer-Ufer 41–45« in Cologne (€ 742 thousand), »Quartier Buechsenstrasse« in Stuttgart (€ 508 thousand) and »Domstrasse 10« in Hamburg (€ -2,016 thousand). Moreover, the results include effects from general changes in the market and from the results of the modernization work.

Administrative expenses in 2010 stood at € 3,166 thousand, about the level of the previous year (€ 3,148 thousand).

Due to the share of variable-rate loans, and despite taking up new loans, the interest expense was slightly less than during the previous year, at € 4,724 thousand (previous year: € 4,837 thousand). Valuation results from interest rate derivatives not affecting liquidity remained negative at € -800 thousand due to the market rates, which continued to fall. The financial results in financial year 2010 have improved by € 330 thousand or 6% in relation to the previous year and stood at € -5,454 thousand (previous year: € -5,784 thousand). The weighted average interest rate for all liabilities to banks including interest hedges fell to 3.4% as of the end of 2010, down from 3.8% as of 31 December 2009.

The consolidated financial statements show a **consolidated net income** for the year of € 1,547 thousand (previous year: € -6,655 thousand). Due to lower rental revenues, the key **funds from operations** indicator fell to € 1,988 thousand (previous year: € 3,726 thousand). On balance, the key operational figures such as **modernization and maintenance expense, property management expense** and **administrative expense** developed according to plan. The valuation results of the properties and interest rate derivatives remained virtually neutral at € -24 thousand.

Financial position

Cash flows

The cash flow from current business operations fell to € 7,688 thousand compared to € 9,519 thousand in the previous year. Due to payments for modernization investments and down payments for the acquisition of the Dresden properties, the cash flow from investment activities was negative despite payments received from sales. The cash flow from financing activities is largely the result of taking up loans during the financial year and is therefore positive.

€ thousand	2010	2009
Cash flow from operating activities	7,688	9,519
Cash flow from investment activities	–19,848	5,462
Cash flow from financing activities	15,842	–15,093
Cash in banks at the end of the period	5,626	1,944

High equity ratio, low loan-to-value ratio

With its equity ratio of around 47%, POLIS remains on a sound financial footing and continues to enjoy sufficient flexibility for obtaining debt capital at attractive terms and conditions. POLIS currently has access to credit lines of approximately € 16 million, of which around € 7 million are subject to the condition that a past occupancy rate is achieved.

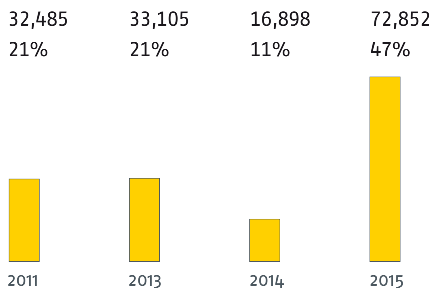
The loan-to-value ratio (ratio of liabilities to banks and the market value of the properties, including down payments for investment properties) increased to about 51% as of 31 December 2010 as a result of taking up loans, a rate that is conservative for companies with our risk structure. The strategic 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 2010 is 3.4 years. In 2011 bank loans totaling € 32,485 thousand will come due, most of which near the end of the year (previous year: € 11,957 thousand). Negotiations on extending these loans are currently being held. It is reasonable to assume that the loans can be extended without any problem due to the comfortable loan-to-value ratio (LTV), or that they can be repaid in part by using existing credit lines.

Maturity structure of bank loans

in € thousand, share in %



The proportion of unhedged variable-rate liabilities to banks was 35% as of 31 December 2010. The interest rates for these loans have fallen in line with the general market development. The weighted interest rate of all liabilities to banks after hedging was 3.4% as of 31 December 2010, compared to 3.8% as of 31 December 2009.

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). All covenants were observed in 2010. However, several properties in one loan portfolio are temporarily affected by modernization-related vacancies so that an agreement was reached with the financing bank to suspend the determination of the debt service coverage ratio (DSCR) until 30 June 2011. This does not establish any rights of termination for the bank in 2011.

Net assets

In the past financial year, the balance sheet total grew to approximately € 317 million as a result of down payments for investment properties (previous year: approximately € 294 million). Non-current assets largely consist of the investment properties and account for 91% of the balance sheet total in line with the business model. The 4th floor of the building at Rankestraße 5/6 that POLIS is using itself is stated as a fixed asset with a value of € 2,097 thousand.

€ thousand	2010	2009
Non-current assets	307,073	285,529
Current assets	10,245	8,078
Equity	147,989	146,436
Balance sheet total	317,318	293,607
Equity ratio	47%	50%
Loan-to-value ratio	51%	48%

Investments in investment properties

The investments in individual properties are presented in detail in section 3.1 of the notes to the financial statements under »Investment properties«.

Valuation of the properties

20 investment properties of the property portfolio of POLIS were appraised by Feri, using 31 December 2010 as the effective date. The remainder of the property portfolio was appraised internally by POLIS. Six properties were most recently appraised externally by Feri during the 3rd quarter of 2010, and the market values determined by the experts were now updated by internal appraisals.

For 2011, Feri was asked to determine the market values quarterly, each time for a quarter of the portfolio, and to document these market values in the form of expert reports. This means that the market value of each property is determined by an independent, external appraiser once per year. In future, those properties that are not appraised by Feri at the end of a given quarter will be subject to an internal appraisal. However, if a property has undergone fundamental changes it will be appraised externally in the following quarter. For details on the valuation method and the assumptions, please consult the information contained in section 3.1 of the notes to the financial statements.

The high quality of the portfolio was confirmed by a »B+« portfolio rating (»above average«).

The total fair value of the investment properties at the end of the year 2010 amounted to € 287,510 thousand (previous year: € 282,000 thousand). 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 in the Internet (www.polis.de) and in the annual report.

Net asset value

The net asset value of POLIS is calculated as follows:

€ thousand	
Carrying amounts of investment properties	303,596
Carrying amounts of investments	243
Other assets less other liabilities	201
Liabilities to banks	–155,389
Net Asset Value	**148,651**
Deferred taxes	–662
Net Net Asset Value	**147,989**

With respect to the existing 11,051,000 shares, the net asset value per share as of 31 December 2010 amounted to € 13.45 (previous year: € 13.27). The so-called net net asset value (NNAV) is then determined by taking into account the effect of deferred taxes. As of 31 December 2010, this figure amounted to € 13.39 per share.

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

Due to the positive net rental income and the operating cash flow, the outlook for the financial position and the results of operations of POLIS remains positive. The substantial investments in buildings improve future income from business operations. A balanced cash flow, our equity ratio of approximately 47% (loan-to-value ratio of around 51%) and the availability of credit lines represent a comfortable financial situation for absorbing potential risks, and at the same time give us the opportunity of obtaining additional capital on attractive terms in order to take advantage of investment opportunities.

Corporate governance report, compensation report and declaration by management

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 international investors in order to 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 26 May 2010. 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 with shareholders, business partners, employees and the general public.

Declaration of conformity pursuant to Section 161 AktG

In 2010, POLIS observed nearly all recommendations of the German Corporate Governance Code. The Board of Management and the Supervisory Board issued the following declaration of conformity pursuant to Section 161 AktG in March 2011 (Aktiengesetz; German Stock Corporation Act).

The current declaration of conformity of the Board of Management and the Supervisory Board as well as the previous years' declarations has been published on the POLIS website (www.polis.de).

Functioning of the Board of Management and the Supervisory Board

POLIS Immobilien AG is a company governed by German law, which also forms the basis of the German Corporate Governance Code. One of the fundamental principles of German corporate law is the two-tiered management system consisting of the corporate bodies of Board of Management and Supervisory Board, both of which have their independent areas of responsibility. In managing and supervising the Company, the Board of Management and Supervisory Board of POLIS Immobilien AG collaborate closely and in a spirit of mutual trust.

The Board of Management of POLIS Immobilien AG 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. As the Company's managerial body, the members of the Board of Management independently manage the Company's affairs in its best interests with the objective of adding long-term value. 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. 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.

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 in the last Supervisory Board meeting of the financial year to communicate 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.

The Supervisory Board advises and monitors the Board of Management with respect to the management of the Company. It is involved in strategy and planning as well as with respect to all issues of fundamental importance to the Company. In the case of significant business transactions such as the annual planning, major acquisitions, investments and divestments, the by-laws for the Board of Management stipulate the need to obtain the approval of the Supervisory Board. The chair of the Supervisory Board coordinates the work of the Supervisory Board, chairs its meetings and represents the concerns of the corporate body in relation to external parties.

The Board of Management informs the Supervisory Board promptly and comprehensively in writing as well as in the scheduled meetings of the planning, the business operations and the situation of the Group, including risk management. In the case of key developments, extraordinary Supervisory Board meetings are convened where necessary. The Supervisory Board has issued by-laws governing its work.

POLIS Immobilien AG has obtained D&O insurance coverage for all members of the Board of Management and the Supervisory Board.

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 take into account a broad range of interests, in particular those 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.

Composition of the Supervisory Board

In accordance with the Articles of Association, the Supervisory Board of POLIS Immobilien AG has six members that are elected by the General Meeting. The terms of office of all currently serving members of the Supervisory Board ends upon conclusion of the 2013 ordinary General Meeting. The terms of office are identical. According to the recommendations of the German Corporate Governance Code, the shareholders' representatives were elected individually at the last election of Supervisory Board members at the General Meeting on 4 July 2008. The General Meeting on 19 June 2009 elected a successor to take the place of a departing member of the Supervisory Board.

Key criteria in proposing members for the Supervisory Board are qualifications, skills and professional experience as well as the diversity of the composition of the Board. Former members of the Board of Management of POLIS Immobilien AG are not among the members of the Supervisory Board. The corporate body comprises a sufficient number of independent members who have no business or personal relations with the Company or the members of its Board of Management.

The Supervisory Board elects a chairperson and a deputy chairperson from among their members.

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 certain transactions require the prior approval of the Supervisory Board.

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

During the past financial year, there were no conflicts of interest that would have required prompt disclosure to the Supervisory Board.

Committees of the Supervisory Board

The members of the Supervisory Board have formed two committees to support and complement its work, the personnel committee and the investment committee.

The members of the personnel committee are Carl-Matthias von der Recke (Chairman), Klaus R. Müller and Arnoldus Brouns. In particular, the personnel committee prepares decisions by the Supervisory Board on staffing and compensation issues.

The members of the investment committee are Klaus R. Müller (Chairman), Ralf Schmechel and Benn Stein. In particular, the investment committee prepares decisions by the Supervisory Board on investments that require its approval.

The committee chairpersons regularly report in the meetings of the Supervisory Board on their work and prepare decisions for the Supervisory Board to the extent that the committee consulted on the issue in advance.

The Supervisory Board did not form an audit committee. The tasks for such a committee under Section 107 subsection 3 sentence 2 AktG are performed by the entire Supervisory Board.

Accounting and auditing

POLIS Immobilien AG prepares its consolidated financial statements as well as interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as applied in the European Union. The annual financial statements of POLIS Immobilien AG are prepared in accordance with German commercial law, the HGB (Handelsgesetzbuch, German Commercial Code). The consolidated financial statements and the annual financial statements are prepared by the Board of Management, audited by the auditor and reviewed by the Supervisory Board.

The consolidated financial statements and the annual financial statements of POLIS Immobilien AG as well as the so-called dependency report (Abhängigkeitsbericht) pursuant to Section 312 AktG were audited by the auditors KPMG AG Wirtschaftsprüfungsgesellschaft (Berlin), which was appointed by the 2010 General Meeting. The audits were carried out in accordance with the German audit regulations and observing the generally accepted German standards for the audit of financial statements issued by IDW (Institut der Wirtschaftsprüfer in Deutschland e. V.). They also included the risk management system and the compliance with the reporting obligations concerning corporate governance under Section 161 AktG.

Moreover, it was contractually agreed with the auditor that he is to inform the Supervisory Board promptly of any indications of bias or of grounds for disqualification and of key findings and events discovered during the audit. There was no reason to do so in the course of the audit of the financial year 2010.

Shareholders and General Meeting

The shareholders of POLIS Immobilien AG exercise their codetermination and monitoring rights at the General Meeting (Hauptversammlung), which convenes at least once a year. The General Meeting adopts resolutions on all issues as stipulated by law with binding effect for all shareholders and the Company. During voting, each share carries one vote.

Each shareholder who registers on time is entitled to take part in the General Meeting. Shareholders who cannot take part in person may ask a financial institution, an association of shareholders, the proxies provided by POLIS Immobilien AG who are bound to observe their instructions or another authorized person of their choosing to exercise their voting rights on their behalf.

The invitation for the General Meeting as well as the reports and information required for adopting the resolutions are published in accordance with the corporate-law provisions and made available on the website of POLIS Immobilien AG in German and English.

Risk management

The principles of good corporate governance include the responsible handling of business risks. The Board of Management of POLIS Immobilien AG and the management team within POLIS Immobilien AG Group can use company-specific reporting and monitoring systems that allow the identification, assessment and control of such risks. The systems are continuously developed and adjusted in line with changing conditions; they are reviewed by the auditors. The Board of Management informs the Supervisory Board regularly of existing risks and risk trends.

Details on the risk management with POLIS Immobilien AG Group are in contained in the risk report and the report on the accounting-related internal control and risk management systems.

Transparency

POLIS Immobilien AG informs capital market participants and the interested general public promptly, regularly and concurrently of the Group's economic position and of new developments. The annual report, the half-year financial report and the quarterly reports are published within the applicable deadlines. Press releases and ad-hoc notifications, where applicable, are issued to provide information on current events and new developments. All information is made available in German and English at the same time and is published in print as well as via appropriate electronic media such as e-mail and the Internet. Furthermore, the website at www.polis.de provides comprehensive information on POLIS Immobilien AG Group and the POLIS Immobilien AG share.

POLIS Immobilien AG has already been awarded several prizes for its high degree of transparency.

Compliance – the cornerstone of our entrepreneurial actions and our business management

For POLIS Immobilien AG, sustainable and responsible economic, environmental and social actions form a crucial element of its entrepreneurial culture. This also includes integrity in dealing with its employees, business partners, shareholders and the general public, which is expressed in its exemplary behavior.

As a property company, POLIS Immobilien AG strives to continuously optimize its property portfolio and to observe environmental standards in modernizing and revitalizing properties and in operating its buildings. In the case of the last two comprehensive revitalization projects, the objective is to obtain a certification of these efforts at achieving sustainability from the German Sustainable Building Council (DGNB), an organization which POLIS Immobilien AG co-founded.

Financial calendar

The planned dates for key recurring events such as the General Meeting and publications such as the annual report and the interim reports are compiled in a financial calendar. The calendar is published with sufficient lead time and is made available permanently on the website of POLIS Immobilien AG.

Directors' Dealings

Directors' Dealings and share ownership of members of corporate bodies

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 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. In financial year 2010, no transactions requiring disclosure were reported.

To the Company's knowledge, the following members of the Board of Management and the Supervisory Board hold shares and options to POLIS shares as follows:

Number of shares[1]	31 Dec. 2010	31 Dec. 2009
Dr. Alan Cadmus	32,500	32,500
Birgit Cadmus	16,500	16,500
Dr. Matthias von Bodecker	3,000	3,000

1 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 (Befangenheits-, Ausschlussgründe) 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, and/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:

			2010			2009
€ thousand	fixed compensation	variable compensation	total	fixed compensation	variable compensation	total
Dr. Alan Cadmus	200	50	250	185	46	231
Dr. Matthias von Bodecker	150	0	150	130	33	163
Total	**350**	**50**	**400**	**315**	**79**	**394**

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 fixed 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. The long-term objectives are specified in multi-year target agreements. 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 contract for services.

Effective 31 January 2011, Dr. von Bodecker has resigned his position with the Company as Chief Financial Officer. Rüdiger Freiherr von Maltzahn has taken over his responsibilities from 1 February 2011. His compensation consists solely of fixed monthly payments.

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 two times 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 2010, 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	10
Ralf Schmechel	11
Benn Stein	11
Total	**83**

Change of control

The contracts for services 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 2010 to 31 December 2010.

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 2010, 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 pursuant to Section 289 subsection 4 and 315 subsection 4 HGB

Subscribed and authorized capital

The subscribed capital is divided into 11,051,000 ordinary shares with a nominal value of € 10.00 each. By resolution of the General Meeting of 26 June 2007, the Board of Management was authorized subject to the approval of the Supervisory Board to increase the share capital by up to € 55 million by issuing up to 5,500,000 no-par value shares. The corresponding »authorized capital« (genehmigtes Kapital) within the meaning of Sections 202 et seq. AktG is governed by Section 4 subsection 4 of the Articles of Association.

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, and has supported our growth since before our initial public offering by investing substantial amounts of capital in our Company.

The Company is aware of the following overall direct and indirect interests in the capital that exceed 10%:

a) Direct interests as of 31 December 2010

- Mann Immobilien Verwaltung AG (Karlsruhe): 53.2%
- Bouwfonds Asset Management Deutschland GmbH (Berlin): 20.2%

b) Indirect interests as of 31 December 2010

The following entities hold indirect interests via Bouwfonds Asset Management Deutschland GmbH (Berlin):

- Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Utrecht, Netherlands): 20.2%
- Rabo Bouwfonds Holding N.V. (Hoevelaken, Netherlands): 20.2%
- Rabo Vastgoedgroep Holding N.V. (Hoevelaken, Netherlands): 20.2%
- Bouwfonds Real Estate Investment Management B.V. (Hoevelaken, Netherlands): 20.2%

The free float as defined by Deutsche Börse currently represents around 26.6% of the shares in POLIS.

Amendments to the Articles of Association and appointment of members of the Board of Management

The members of the Board of Management are appointed and dismissed in accordance with Sections 84 et seq. AktG. Under Section 8 of the Articles of Association, the Board of Management consists of one or more persons, and the number of members of the Board of Management is specified by the Supervisory Board. In accordance with Section 119 subsection 1 no 5 AktG, the General Meeting adopts resolutions on amendments to the Articles of Association. Amendments to the Articles of Association that pertain only to their wording may be carried out by the Supervisory Board pursuant to Section 179 subsection 1 sentence 2 AktG in conjunction with Section 18 subsection 3 of the Articles of Association. The General Meeting adopts resolutions on amendments to the Articles of Association pursuant to Section 133 AktG in conjunction with Section 179 subsection 2 AktG in conjunction with Section 27 subsection 1 of the Articles of Association with a simple majority of votes and the simple majority of the share capital that is represented during voting.

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 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 that 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 that reduces the risk of vacancies
- central monitoring (assessment and monitoring of creditworthiness, reminder procedures) for the early detection of credit risks
- conservative financing strategy with an equity ratio of at least 40% that reduces the influence of variations in the interest rate. At least 50% to 70% of the loans are to be routinely 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 finance 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 hedged with respect to between 50% and 70% of the credit volumes by means of interest hedges.

In financial year 2010, debt finance was only available subject to increased risk premiums, even to well-capitalized companies. Also in this market environment, POLIS was well positioned due to its strategy of keeping its leverage at a permanently low level of not more than 60%. Since then, the financing situation has improved noticeably but has not yet reached its pre-crisis level. With its equity ratio of around 47% and its available credit lines of € 9 million, and in view of the loans of approximately € 3 million that are coming due in the 1st quarter of 2011, POLIS is in no danger of encountering financing shortfalls. Furthermore, there are loan commitments of approximately € 7 million that can be drawn depending on occupancy rates. No refinancing problems are expected with respect to around € 29 million that are coming due at the end of the year.

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. However, several properties in one loan portfolio are temporarily affected by modernization-related vacancies so that an agreement was reached with the financing bank to suspend the determination of the debt service coverage ratio (DSCR) until 30 June 2011. This does not establish any rights of termination for the bank in 2011. In view of the low leverage ratio and the improvements of the properties expected as a result of the construction work, we also do not anticipate any future financing issues. We are currently engaged in discussions with the financing banks concerning a restructuring of the covenants. For a detailed presentation of our debt positions (structure of maturities and fixed interest periods) we refer to items 3.10 and 8.5 in the chapter entitled »Liabilities to banks« in the notes to the consolidated financial statements.

The planned investments 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, funding applications for additional loans are being prepared.

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 particularly influenced by the overall economic environment and 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 unpredictable fluctuations. 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 positive conditions, the development in 2011 will be characterized by increased demand for office rentals. 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 exhibited an average vacancy rate of 27% based on the rental space as of 31 December 2010. 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 2011, office space of around 36,500 m² is due to be let, of which approximately 8,000 m² are located in the recently acquired properties in Dresden, and an even larger part in buildings in which the modernization measures were recently concluded (for example »Buechsenstrasse 26«). The rental income of POLIS is generated in a wide number of different industries. The ten most important tenants generate approximately 35% of rental income.

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 2011, we will invest approximately € 10 million in our investment properties. In order to identify and control risks early on in the course of planning and executing such projects, we have commissioned external project management organizations to manage the majority of 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 valuation of properties is based on a large number of factors that also include subjective assessments 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 of 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 characteristics 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 as a matter of principle follows the COSO standard (Committee of Sponsoring Organizations of the Treadway Commission). 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 to reduce it 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 transactions 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.

1 Committee of Sponsoring Organizations of the Treadway 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 2011. 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.

Supplementary report

Effective 1 January 2011, POLIS acquired the properties at »Kramergasse«, »Koenneritzstrasse« and »Palaisplatz« in Dresden. A purchase and sale agreement was concluded for the »Altmarkt« property in Dresden that is to come into effect in 2011 upon fulfillment of a condition precedent. In February 2011, a lease agreement for retail space of approximately 2,300 m² in the property at »Kramergasse« was extended for a period of five years that specified a significant increase of the rent.

Dr. Matthias von Bodecker resigned his position as Chief Financial Officer from the Company with the approval of the Supervisory Board effective 31 January 2011 after serving for eleven years. Rüdiger Freiherr von Maltzahn has taken over his responsibilities from 1 February 2011.

Report on anticipated developments

Development of the overall economy and the market for office buildings

Office markets recovered in 2010, and the economic development has led to significantly higher rental revenues; however, vacancies on the office market as a result of new construction have continued to increase. Since the economic upswing is continuing, we expect the letting performance to remain high in 2011. We do not expect to see an enhanced level of new construction activities since the willingness of the banks to finance project developments appears to remain low. This means there are reasons to hope that the occupancy rates will significantly improve in the further course of the economic development in 2011.

While the ECB will continue to keep short-term interest rates low long-term interest rates have already clearly begun to increase again so that we expect interest rates to increase further.

Major opportunities for POLIS Group

In financial year 2010, POLIS has prepared the groundwork for a substantial improvement of key earnings ratios in 2011 by its good letting performance and the completion of four modernization projects. Due to our quality-focused business model and our homogeneous portfolio, our successes in letting rental space should continue during the next year. Our properties and rental spaces offer good value for money and meet the requirements for modern office space. Moreover, our excellent capital resources enable us to take 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 allows us 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 2011, we will focus our activities on further increasing occupancy rates in all portfolio properties and on integrating the new location of Dresden, including the property at »Altmarkt 10« that is yet to be handed over. By the end of 2011, we intend to achieve a letting performance that will lead to an occupancy rate of 90% for all rented areas once the tenants have moved in. In 2011, we plan to increase the net rental income and to establish the foundations for further growth in 2012 by increasing the occupancy rate. Due to higher financing costs, funds from operations in 2011 will amount to around € 2 million, about the level of 2010, and will double to approximately € 4 million in 2012.

With respect to the portfolio volume, we plan to continue pursuing moderate growth after reaching our target 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 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 materializes or the assumptions underlying the statements turn out to be incorrect.

Berlin, 3 March 2011

POLIS Immobilien AG
– Board of Management –

Dr. Alan Cadmus Rüdiger Freiherr von Maltzahn

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, 3 March 2011

POLIS Immobilien AG

– Board of Management –

Dr. Alan Cadmus

Rüdiger Freiherr von Maltzahn

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 comprehensive 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 2010. 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, 3 March 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Quitmann	Lommatzsch
Wirtschaftsprüfer	Wirtschaftsprüfer

Consolidated Financial Statements

Consolidated Financial Statements

Consolidated Statement of Financial Position

As of 31 December 2010
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

ASSETS

€ thousand	Note	31 Dec. 2010	31 Dec. 2009
Non-current assets			
Investment properties	3.1	287,510	282,000
Advance payments made for investment properties	3.1	16,086	0
Intangible assets	3.2	217	95
Property, plant and equipment	3.2	2,272	2,293
Financial assets	3.3	243	243
Deferred tax assets	3.4	533	742
Other financial assets	3.7	212	156
Total non-current assets		**307,073**	**285,529**
Current assets			
Receivables and other financial assets	3.5	4,442	5,097
Current tax receivables	3.5	26	34
Cash in banks	3.6	5,626	1,944
Other assets	3.7	151	93
Non-current assets held for sale	3.8	0	910
Total current assets		**10,245**	**8,078**
Total assets		**317,318**	**293,607**

EQUITY AND LIABILITIES

€ thousand	Note	31 Dec. 2010	31 Dec. 2009
Equity			
Subscribed capital	3.9	110,510	110,510
Capital reserves	3.9	21,388	26,476
Retained earnings	3.9	14,544	16,105
Consolidated net (income)/loss		1,547	–6,655
Share in equity allocable to the equity holder of the parent		147,989	146,436
Minority interests		0	0
Total equity		**147,989**	**146,436**
Liabilities			
Non-current liabilities			
Liabilities to banks	3.10	120,799	120,299
Deferred tax liabilities	3.4	1,195	991
Total non-current liabilities		**121,994**	**121,290**
Current liabilities			
Liabilites to banks	3.10	34,590	14,643
Payments received on account	3.10	2,997	3,209
Trade accounts payable	3.10	4,656	3,299
Income tax liabilities	3.10	3	101
Other financial liabilities	3.10	5,089	4,629
Total current liabilities		**47,335**	**25,881**
Total equity and liabilities		**317,318**	**293,607**

Consolidated Comprehensive Income Statement

for the period from 1 January to 31 December 2010
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	Note	2010	2009
Rental revenues	4.1	13,053	13,904
Renovation and maintenance expense	4.2	−1,464	−1,206
Property management expense	4.3	−2,011	−1,161
		−3,475	−2,367
Net rental income		**9,578**	**11,537**
Unrealised gains from the revaluation of investment properties		4,798	1,947
Unrealised losses from the revaluation of investment properties		−4,022	−11,099
Unrealised losses from the revaluation of non-current assets held for sale		0	−130
Result from the revaluation of investment properties	4.4	776	−9,282
Income fom the sale of investment properties		14,241	333
Carrying amount of the investment properties sold		−14,246	−370
Result from the sale of investment properties	4.5	−5	−37
Other income	4.6	541	881
Other expense	4.7	−314	−993
Administrative expense	4.8	−3,166	−3,148
Income before financing activity and taxes		**7,410**	**−1,042**
Investment income	4.9	40	34
Financial income	4.10	30	206
Result from the valuation of derivative financial instruments	4.11	−800	−1,187
Financial expenses	4.11	−4,724	−4,837
Result before taxes		**1,956**	**−6,826**
Deferred taxes	4.12	−412	125
Income taxes	4.12	3	46
Consolidated net income for the period (equates to comprehensive income)		**1,547**	**−6,655**
of which:			
allocable to minority interests		0	0
allocable to equity holder of the parent		1,547	−6,655

EUR		2010	2009
Earnings per share			
undiluted	2.4.12	0.14	−0.60
diluted	2.4.12	0.14	−0.60

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 2010
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	2010	2009
Result before taxes	1,956	-6,826
Adjusted for:		
Financial result	5,454	5,784
Income from revaluation of investment properties	-776	9,152
Result from the sale of properties	5	37
Result from the sale of property, plant and equipment and financial assets	0	2
Depreciation on intangible assets and property, plant and equipment	87	72
Losses from revaluation of non-current assets held for sale	0	130
Payments for equity options	6	6
Increase in trade receivables and other assets which cannot be allocated to the investment and financing activity	549	1,225
Changes in the trade payables and other liabilities which cannot be allocated to the investment and financing activity	499	-94
Income tax paid	-92	-21
Income tax received	0	52
Net cash (used by) from operating activities	**7,688**	**9,519**
Payments for the acquisition of software, fixtures and equipment	-190	-102
Proceeds from the sale of investment properties and financial assets	14,241	18,980
Payments for the acquisition of investment properties and investments in modernization	-33,899	-13,426
Proceeds from the sale of investment properties	0	10
Net cash (used by) from investment activities	**-19,848**	**5,462**
Payments for repayments of loans	-7,409	-18,923
Proceeds from debt	27,856	8,384
Interest received	30	169
Interest paid	-4,675	-4,756
Dividends received	40	34
Net cash (used by) from financing activities	**15,842**	**-15,093**
Net change in cash and cash equivalents	**3,682**	**-112**
Cash in banks at the beginnig of the period	**1,944**	**2,056**
Cash in banks at the end of the period	**5,626**	**1,944**

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 2010
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. 2008	**110,510**	**26,732**	**14,699**	**1,144**	**153,085**	**0**	**153,085**
Settlement	0	0	1,144	-1,144	0	0	0
Consolidated net income	0	0	0	-6,655	-6,655	0	-6,655
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**
Settlement	0	0	-6,655	6,655	0	0	0
Consolidated net income	0	0	0	1,547	1,547	0	1,547
Expense stock option plan	0	6	0	0	6	0	6
Offset against capital reserves	0	-5,094	5,094	0	0	0	0
Balance as of 31 Dec. 2010	**110,510**	**21,388**	**14,544**	**1,547**	**147,989**	**0**	**147,989**

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

as of 31 December 2010

1. General information

1.1. Accounting policies

The consolidated financial statements of POLIS Immobilien AG (hereinafter referred to as **»POLIS«)** for financial year 2010 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 2010 but not yet applied by POLIS.

The consolidated financial statements as of 31 December 2010 and the group management report for 2010 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 comprehensive 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 3 March 2011 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 within the meaning of an ability to determine 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 2010, the following subsidiaries were included:

Subsidiary	Share in the capital in %
POLIS Grundbesitz Objekt Verwaltungs GmbH, Berlin	100
POLIS Objekte Altmarkt Kramergasse 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 Objekt Koenneritzstrasse GmbH & Co. KG, Berlin	100
POLIS Objekt Palaisplatz GmbH & Co. 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

Relative to 31 December 2009, the consolidated group of POLIS decreased by two companies as a result of group-internal accruals. This change does not affect the comparability of the financial statements.

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 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 2010, 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 three and five 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 in accordance with the same principles as the appraisal of the investment properties. Fixtures and equipment are depreciated over a period of between three and 13 years. If tangible assets are sold or closed down, the acquisition costs or production costs and the appropriate accumulated depreciation of the fixed assets are written off; any resulting profits or losses are 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 assets*

Investments for which no listed price is available on an active market and whose fair value cannot be reliably estimated are stated at cost and 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 receivables.

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 with 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 reported at amortized cost exists if the carrying amount exceeds the amount that could be obtained by using or selling the asset. In this case, the value of the assets is adjusted and a corresponding expense recognized.

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

If doubts exist concerning the collectability 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

Investment income is recorded at the time at which the Company becomes entitled to receive distributions.

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

Assumptions and estimates are 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 particular, assumptions regarding future events are essential for 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:

	2010	2009
Group net profit/loss for the year after income allocable to minority interests (in € thousand)	1,547	–6,655
Average number of ordinary shares in circulation	11,051,000	11,051,000
Earnings per share (diluted and undiluted) (in €)	0.14	–0.60

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 so-called 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 so-called Chief Operating Decision Maker.

Pursuant to IFRS 8, POLIS has identified 33 segments with respect to which the Board of Management (i.e. the Chief Operating Decision Maker) 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 a similar long-term revenue prospects and are therefore aggregated to a single segment in accordance with IFRS 8.12 December.

3. Notes to the statement of financial position

3.1. Investment properties and down payments made for 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 2010 as well as for the reporting date for the previous year were determined largely on the basis of appraisals carried out by an independent expert.

The following table illustrates the changes in the investment properties in 2010:

€ thousand		1 Jan. 2010				31 Dec. 2010
Property	Location	Fair value	Additions moderni-zation	Disposals	Change in market value	Fair value
Luisenstrasse 46	Berlin	10,290	26	0	44	10,360
Potsdamer Strasse 58	Berlin	14,060	268	0	-168	14,160
Rankestrasse 5-6	Berlin	14,780	334	0	356	15,470
Kleppingstrasse 20	Dortmund	5,240	39	0	131	5,410
Gallenkampstrasse 20	Duisburg	1,610	110	0	-110	1,610
Berliner Allee 42	Dusseldorf	6,020	73	0	-103	5,990
Berliner Allee 44	Dusseldorf	7,990	98	0	-598	7,490
Berliner Allee 48	Dusseldorf	5,000	51	0	49	5,100
Immermannstrasse 11	Dusseldorf	2,910	0	0	60	2,970
Kasernenstrasse 1	Dusseldorf	12,720	4,305	0	1,265	18,290
Steinstrasse 11	Dusseldorf	8,070	0	8,070	0	0
Steinstrasse 27	Dusseldorf	8,440	59	0	81	8,580
Gutleutstrasse 26	Frankfurt a. M.	11,100	0	0	0	11,100
Bugenhagenstrasse 5	Hamburg	5,250	80	0	40	5,370
Ludwig-Erhard-Strasse 14	Hamburg	11,870	0	0	720	12,590
Domstrasse 10	Hamburg	12,940	46	0	-2,016	10,970
Steinstrasse 12-14	Hamburg	5,630	25	0	-135	5,520
Landschaftstrasse 2	Hanover	3,940	321	0	129	4,390
Landschaftstrasse 8	Hanover	3,870	0	0	10	3,880
Koenigsplatz 57	Kassel	2,700	0	2,700	0	0
Ebertplatz 1	Cologne	7,330	102	0	-52	7,380
Gustav-Heinemann-Ufer 54	Cologne	13,920	742	0	-302	14,360
Hansaring 20	Cologne	4,010	10	0	30	4,050
Konrad-Adenauer-Ufer 41-45	Cologne	17,570	1,588	0	742	19,900
Neumarkt 49	Cologne	7,290	625	0	55	7,970
Weyerstrasse 79-83	Cologne	15,410	93	0	467	15,970
Rheinstrasse 43-45	Mainz	2,770	75	0	-75	2,770
Rheinstrasse 105-107	Mainz	4,460	53	0	-413	4,100
Friedrichsring 46	Mannheim	2,550	16	2,566	0	0
Lessingstrasse 14	Munich	9,330	111	0	109	9,550
Boeblinger Strasse 8/ Arminstrasse 15	Stuttgart	3,930	128	0	2	4,060
Quartier Buechsenstrasse	Stuttgart	29,710	8,692	0	508	38,910
Tuebinger Strasse 31 & 33	Stuttgart	9,290	0	0	-50	9,240
		282,000	**18,070**	**13,336**	**776**	**287,510**

Additions mainly concern investments for the revitalization of »Quartier Buechsenstrasse« in Stuttgart, »Kasernenstrasse 1« in Dusseldorf and »Konrad-Adenauer-Ufer 41–45« in Cologne.

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 with respect to the disposability of the investment properties.

Down payments refer to the payment of the purchase price for the investment properties at »Kramergasse«, »Koenneritzstrasse« and »Palaisplatz« in Dresden.

The following table shows the development of the investment properties in 2009:

€ thousand		1 Jan. 2009					31 Dec. 2009
Property	Location	Fair value	Additions moderniza-tion	Disposals	Transfers	Change in market value	Fair value
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 41-45	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	Muenchen	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 transfers concern the reclassification of the property at »Gallenkampstrasse 20« in Duisburg, which in the previous year had been reported as a »Non-current asset held for sale« and which could not be sold by the end of 2009 as originally planned as a result of low demand on the market for property transactions.

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

€ thousand			2010			2009
Property	Total	Properties available for sale	Investment properties	Total	Properties available for sale	Investment properties
Rental revenues from investment properties	13,053	33	13,020	13,904	56	13,848
Directly attributable property management costs that led to rental revenues						
Renovation and maintenance	1,464	3	1,461	1,206	19	1,187
Property management	1,433	11	1,422	584	27	557
Total	**2,897**	**14**	**2,883**	**1,790**	**46**	**1,744**
Directly attributable property management costs that did not lead to rental revenues						
Property management	578	11	567	577	31	546
Total	**578**	**11**	**567**	**577**	**31**	**546**

Furthermore, the consolidated comprehensive income statement 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 2010

The market value that is determined is defined by the International Valuation Standards as follows: »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 determining the market value is the investment income method according to the 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 is given to taxes and costs of capital of any kind.

Valuation methodology and assumptions used for the external valuation

POLIS commissioned Feri EuroRating Services AG (hereinafter referred to as »Feri«) to determine the market values of the 20 buildings held by POLIS and to document them in the form of rating reports and market value appraisals.

The Feri real estate valuation comprehensively takes into account all factors that influence the value of the property. To the extent possible, subjective value judgments are confirmed objectively by applying quantitative analytical methods. All calculation methods are science-based and disclosed.

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 factor is based on the so-called break-even yield. The break-even yield represents the rate of return that an individual property must generate to achieve a yield that is appropriate for the risk. It reflects all risks 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 break-even yield is individually determined on the single property level:

- 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 4.23%.
- 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 an additional 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 6.93% (previous year: 7.12%).

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,* which assesses 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 may extend 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.

Valuation methodology and assumptions used for the internal valuation

The dynamic discounted cash flow method discounts future income streams across several periods using a risk-adjusted interest rate. The DCF value is defined as the present value of the future net payments. The DCF method determines the market value based on a two-phase model. Initially, payments received and paid pertaining to the property are planned over a detailed forecast period of ten years taking into account investments, inflation, vacancies, special items, and the period in which they accrue. The sales proceeds are then estimated by capitalizing the cash flow of the subsequent period (terminal value). Future increases in earnings as well as risks implicitly taken into consideration in the capitalization rate. The sum of the discounted net rental income of the detailed forecast period and the discounted terminal value yields the property's market value.

Internal planning is complemented by Feri's market research. At the end of each quarter, updated property-specific market rent forecasts are entered into a software-based valuation tool and form the basis for planning earnings. Also, the effects of overall interest rate trends and of location- and property-specific developments on the discount factor are researched and adjusted. The adjustment is based on Feri's interest rate forecast that is used for internal valuation purposes.

Combining the internal valuation with Feri's research data, which are updated quarterly, provides us with a quarterly market-oriented valuation for all properties.

Planned quarterly valuation of the entire property portfolio

Feri appraised twenty investment properties in POLIS' property portfolio, using 31 December 2010 as the effective date. The remainder of the property portfolio was appraised internally by POLIS. Six properties were most recently externally appraised by Feri during the 3rd quarter of 2010; the market values determined by the experts have now been updated by internal appraisals.

For 2011, Feri was asked to determine the market values on a quarterly basis in each case for a quarter of the portfolio and to document these market values in the form of appraisals. This means that the market value of each property is determined by an independent, external appraiser once per year. In future, the properties that were not appraised by Feri at a given end of a quarter will be appraised internally. However, if a property has undergone fundamental changes it will again be appraised externally in the following quarter.

3.2. Intangible and tangible assets

This position comprises software, the office area used for own purposes as well as the 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. 2010	Additions	31 Dec. 2010	1 Jan. 2010	1 Jan. 2010	Additions	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010
Software	137	169	306	–	42	47	89	95	217
Properties and buildings (own use)	2,184		2,184	-87	0		0	2,097	2,097
Fixtures and equipment	304	21	325	–	108	42	150	196	175
	2,625	**190**	**2,815**	**-87**	**150**	**89**	**239**	**2,388**	**2,489**

The value of the properties and buildings as of 31 December 2010 was determined applying the same principles und methods as were used in the revaluation of the investment properties; the value remained unchanged. If the properties and buildings recorded as tangible assets had been appraised using the historical cost model, their carrying amount as of 31 December 2010 would have amounted to € 2,129 thousand (previous year: € 2,152 thousand).

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

	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**

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. There are currently no plans to sell the participation.

€ thousand	Acquisition/production cost			Depreciation/amortization			Carrying amount	
	1 Jan. 2010	Additions	31 Dec. 2010	1 Jan. 2010	Additions	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010
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 € 662 thousand (previous year: € 249 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 2010 and 2009 are as follows:

Deferred tax credit

€ thousand	2010	2009
Tangible assets	1,130	1,383
Tax losses carried forward	906	504
Other financial liabilities	717	587
Balance of tax losses carried forward and other financial liabilities	−2,220	−1,732
Deferred tax claims	**533**	**742**

Deferred tax liabilities

€ thousand	2010	2009
Tangible assets	3,415	2,721
Balance of tax losses carried forward and other financial liabilities	−2,220	−1,732
Other assets	0	2
Deferred tax debts	**1,195**	**991**

As of 31 December 2010 and 31 December 2009, 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. No deferred tax assets were recognized for trade tax losses carried forward amounting to € 25,197 thousand because 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 2010	Non-current 2010	Current 2010
Trade receivables	3,640	0	3,640
of which allocable operating expenses	3,253	0	3,253
of which rent receivables	387	0	387
Sales tax credit	212	0	212
Other receivables	539	0	539
Derivative financial instruments	51	0	51
Total	**4,442**	**0**	**4,442**

As of 31 December 2010, receivables from operating costs not yet settled stood at € 3,253 thousand (previous year: € 3,400 thousand), and down payments for operating expenses amounted to € 2,997 thousand (previous year: € 3,209 thousand).

€ 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	829	0	829
Derivative financial instruments	11	0	11
Total	**5,097**	**0**	**5,097**

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

Regarding the rent receivables, specific valuation allowances totaling € 78 thousand were carried out in 2010 and in previous years. The following table presents the changes in the allowances on current trade receivables:

€ thousand	2010	2009
Status as of 1 January	193	452
Dissolution	–153	–383
Additions	38	124
Status as of 31 December	**78**	**193**

The current tax receivables in 2010 and the previous year pertain to 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 2010 and previous years.

3.8. Non-current assets held for sale

The property at »Viehofer Strasse 31« in Essen was sold as planned, resulting in a loss of € 80 thousand.

3.9. Equity

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

Subscribed capital

The share capital is composed of 11,051,000 no-par value ordinary bearer shares (no-par shares) with a notional share in the share capital of € 10.00.

Capital reserves

The capital reserves (2010: € 21,388 thousand; 2009: € 26,476 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. The reduction is the result of setting off the annual net loss in 2009 against capital reserves, which was carried out in the financial statements for POLIS Immobilien AG.

Retained earning

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	155,389	34,590	120,799	0
	(134,942)	(14,643)	(62,162)	(58,137)
Down payments received	2,997	2,997	0	0
	(3,209)	(3,209)		
Trade liabilities	4,656	4,554	102	0
	(3,299)	(3,051)	(248)	
Income tax liabilities	3	3	0	0
	(101)	(101)		
Other financial liabilities	5,089	5,089	0	0
	(4,629)	(4,629)		
	168,134	**47,233**	**120,901**	**0**
	(146,180)	**(25,633)**	**(62,410)**	**(58,137)**

The **liabilities to banks** are secured by mortgages in the amount of € 181,187 thousand (previous year: € 163,925 thousand) against the property portfolio (carrying amount: € 287,510). Of the liabilities to banks, a total of € 147,526 thousand (previous year: € 116,248 thousand) are at variable interest rates, and € 7,814 thousand (previous year: € 18,598 thousand) are at fixed interest rates; the item also includes accrued interest of € 49 thousand (previous year: € 96 thousand). The weighted average interest rate of all bank loans including derivative financial instruments as of 31 December 2010 was 3.4% (previous year: 3.8%). The weighted average remaining term of the bank loans is 3.4 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 2010 amount to € 7,861 thousand (previous year: € 19,199 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 rate used was 2.1 % including margin.

The following table shows the significant details of the contractual relations for the liabilities to banks as of 31 December 2010:

Time to maturity Year	Interest rate %	Initial amortization %	Remainder of debt € thousand
2011	4.93–5.68	1.5–2	7,863
2011	variable	1	24,671
2013	variable	1	33,105
2014	variable	1	16,898
2015	variable	2	72,852
Total			**155,389**

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.

Down payments received include the down 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 € 3 thousand (previous year: € 101 thousand). The carrying amounts correspond to the fair values.

Among others, **other liabilities** include derivative financial instruments with a negative market value of € 4,550 thousand. This refers to 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 directly observable market parameters. 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. 2010 € thsd.
Swap	10,000	30 Jun. 15	4.80%	–1,158
Swap	10,000	30 Dec. 16	3.58%	–612
Swap	10,000	31 Dec. 12	4.33%	–591
Swap	10,000	31 Dec. 15	3.48%	–579
Swap	8,100	31 Dec. 15	3.04%	–296
Swap	5,000	31 Dec. 12	4.15%	–277
Swap	5,000	31 Dec. 12	3.93%	–255
Floor	–5,000	29 Jun. 13	3.37%	–240
Forward Swap[1]	5,000	30 Sep. 16	3.47%	–188
Swap	5,000	30 Dec. 11	4.00%	–145
Swap	10,000	31 Mar. 15	2.41%	–137
Swap	2,675	31 Dec. 11	3.12%	–54
Swap	3,150	31 Dec. 15	2.40%	–18
				–4,550
Cap	5,000	28 Jun. 13	6.00%	4
Forward Swap[1]	5,000	30 Dec. 15	2.23%	13
Forward Swap[2]	10,000	30 Dec. 15	2.81%	34
				51
				–4,499

1 Starting 3 Jan. 2011
2 Starting 2 Jan. 2013

3.11. Leasing

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	54,291	13,153	31,571	9,567
	(37,780)	(11,357)	(24,613)	(1,810)

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	2010	2009
Financial assets		
Financial assets available for sale	243	243
Cash in banks and cash holdings	5,626	1,944
Financial assets held for trading	51	11
Receivables	4,391	5,086
	10,311	**7,284**

€ thousand	2010	2009
Financial liabilities		
Financial liabilities at amortized cost	163,581	142,370
Financial liabilities from derivatives	4,550	3,710
	168,131	**146,079**

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

€ thousand	2010	2009
Financial assets held for trading	-800	-1,187
Receivables	54	259
Financial investments	0	0
	-746	**-928**

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

4. Notes to the comprehensive 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 € 123 thousand (previous year: € -131 thousand) that are attributable to 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 expenses

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 properties

The 2010 income of € -5 thousand (previous year: € -37 thousand) from the sale of the investment properties at »Steinstrasse 11« in Dusseldorf, »Koenigsplatz 57« in Kassel, »Friedrichsring 46« in Mannheim and the property held for sale at »Viehofer Strasse 31« in Essen, which is represented in the income as a loss of € 80 thousand. Additional information is given in sections 3.1 and 3.8

4.6. Other income

Other income for financial year 2010 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	2010	2009
Staff costs	1,803	1,740
Legal, consulting and auditing fees	498	605
Office and travel expenses	526	466
Stock exchange-related expenses, financial reports, general shareholders' meeting	156	140
Marketing and advertising expenses	94	106
Other expenses	90	91
Total	**3,168**	**3,148**

In addition to the two members of the Board of Management, 24 persons were employed in financial year 2010 (previous year: 24), six in general administration, and 18 in asset and property management, including three trainees.

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

The financial income refers to interest income from the current accounts of POLIS.

4.11. Financial expense

Financial expenses relate to the following positions:

€ thousand	2010	2009
Interest expenses	4,511	4,818
Ancillary financing costs	213	19
Expenses from revaluation of derivative financial instruments	800	1,187
Total	**5,524**	**6,024**

4.12. Taxes

The profit before income taxes for financial year 2010 amounts to € 1,956 thousand. In the previous year, losses before tax were € 6,826 thousand.

The income tax expenses for financial years 2010 and 2009 break down as follows:

€ thousand	2010	2009
Expenses (–)/income (+)		
Deferred taxes on losses carried forward	401	-881
Deferred taxes from temporary differences	-813	1,006
Current taxes	3	46
Total	**-409**	**171**

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 2010 (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	2010	2009
Pre-tax result	1,956	-6,826
Group tax rate	15.8%	15.8%
Expected expenses from income taxes	**-310**	**1,080**
Non-deductible operating expenses	-8	-7
Trade tax	-66	-929
Corporate income tax – previous years	-25	27
Taxes on income	**-409**	**171**
Tax rate	20.9%	2.5%

The reconciliation item »Trade tax effects« in the previous year 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 € 2,550 thousand (previous year: € 8,505 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. The group of related companies also includes the majority shareholder Mann Immobilien-Verwaltung AG (Karlsruhe) together with its affiliated companies, its board of directors, its supervisory board, its majority shareholder and its close relatives as well as its major shareholder, Bouwfonds Asset Management Deutschland GmbH.

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: € 130 thousand) in financial year 2010 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 following persons were members of the Board of Management:

- Dr. Alan Cadmus, Speaker of the Board of Management, Berlin
- Dr. Matthias von Bodecker, Chief Financial Officer, Berlin (until 31 January 2011)
- Rüdiger Freiherr von Maltzahn, Chief Financial Officer, Berlin (since 1 February 2011)

The overall compensation of the Board of Management in financial year 2010 amounted to € 400 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]
- Wolfgang Herr, member of the board of management of Mann Immobilien-Verwaltung AG, residing in Baden Baden
- 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]

The overall compensation of the Supervisory Board in financial year 2010 amounted to € 83 thousand.

8.2. Corporate governance

In March 2011, the Board of Management and the Supervisory Board of POLIS issued statements concerning the recommendations expressed in the German Corporate Governance Code. In 2011, 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 2010 were not applied. It is not expected that the changes will have an impact on the future consolidated financial statements of POLIS.

IAS 24 – Related party disclosure

Until now, companies that were controlled or significantly influenced by a state were obliged to disclose information concerning all transactions with companies that were controlled or significantly influenced by the same state. As a result of amending IAS 24 it now is necessary to provide detailed information only with respect to specific, significant transactions.

The amendments are to be applied for the first time to financial years starting on or after 1 January 2011.

Amendments to IAS 32 – Classification of rights issue

The amendment to IAS 32 governs the accounting rules for subscription rights, options and warrants that are offered pro rata to all current owners of the same class of non-derivative equity instruments and that entitled the owner to acquire or obtain a fixed number of equity instruments in exchange for liquid funds in any currency. The amendments are to be applied for the first time to financial years starting on or after 1 February 2010.

IFRIC 19 – Extinguishing financial liabilities with equity instruments

IFRIC 19 clarifies the prerequisites for a company to extinguish a financial liability in part or in total by issuing shares or other equity instruments. The interpretation clarifies that the equity instruments issued to a creditor for the purpose of extinguishing a financial liability form a part of the »consideration paid« within the meaning of IAS 39.41. IFRIC 19 is to be applied to financial years starting on or after 1 July 2010.

Amendments to IFRIC 14 – Prepayments of a minimum funding requirement

The interpretation IFRIC 14 that the amendment refers to contains accounting provisions for defined benefit plans in cases in which existing plan assets exceed the pension liability. IFRIC 14 must be applied to financial years starting on or after 1 January 2011.

8.4. Share-based compensation

No share-based compensation was paid in financial year 2010. In 2008, 26,000 subscription rights with 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 2008 in financial year 2010 are € 5,936 (previous year: € 5,936).

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 Immobilien AG exceeds a price of € 14.50 within the reference period of six weeks prior to the first day of the first exercise period. The relevant figure is the share's highest weighted closing quotation on five consecutive days during the reference period. For each of the subsequent tranches, the share performance must increase by 24 %-points in total.

b) Relative success criterion

Also, subscription rights may only be exercised if the overall performance of POLIS Immobilien AG shares in percentage terms during the period between granting and exercising the subscription right exceeds the benchmark index, 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. Also, 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 2010, the variable-rate liabilities to banks of POLIS amounted to € 147,526 thousand, of which € 93,925 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 € 7,814 thousand. The proportion of unsecured, variable-rate liabilities to banks was thus 35%. This level is considered reasonable. POLIS uses a cash-flow-at-risk analysis to determine the effects of changes in the interest rates on earnings and 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 2010, the risk from a theoretical increase in interest rates by 100 basis points amounted to € 536 thousand per year (previous year: € 555 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	2010	2009
Financial assets		
Investments	243	243
Receivables and other financial assets	4,442	5,097
	4,685	**5,340**

As of 31 December 2010, receivables from operating costs not yet settled stood at € 3,253 thousand (previous year: € 3,400 thousand), and down payments for operating expenses amounted to € 2,997 thousand (previous year: € 3,209 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 non-impaired 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. 2010	317	133	19	29	46	90
Rent receivables 31 Dec. 2009	336	154	87	6	39	49

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 € 615 thousand, of which € 40 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	2010	2009
Impaired assets		
Carrying amount of receivables with individual allowances for doubtful accounts	148	193
Amount of individual allowances for doubtful accounts	-78	-193
Net carrying amount (after valuation allowances)	**70**	**0**

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 shows all contractually agreed payments as of 31 December 2010 for amortization, interest and repayments of financial liabilities reported in the statement of financial position:

Analysis of remaining terms as of 31 Dec. 2010

€ thousand	Total gross cash outflows	2011	2012	2013	2014	2015 or later
Non-derivative financial liabilities						
Liabilities to banks	179,573	39,830	7,177	38,838	22,066	71,662
Trade liabilities	4,656	4,656	0	0	0	0
Other liabilities	539	539	0	0	0	0
Loan commitments from banks	-16,479	-16,479	0	0	0	0
Total	**168,289**	**28,546**	**7,177**	**38,838**	**22,066**	**71,662**

The loan commitments only concern loans that have not yet been drawn and that can largely be drawn until the end of 2011. Drawing a partial amount of € 6.8 million is contingent upon reaching a 70% occupancy rate in »Quartier Buechsenstrasse«.

The liabilities to banks that are coming due in 2011 contain loans totaling € 32,485 thousand that are to be extended and increased by around € 4 million due to their low loan-to-value ratio. Bank balances and the cash flow from operating activities will be used for financing the investments planned for 2010, which total around € 10 million.

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. Buildings in one portfolio are temporarily affected by modernization-related vacancies; it was agreed with the financing bank to suspend determination of the Debt Service Coverage Ratio (DSCR) until 30 June 2011. However, this does not cause any loans to come due in 2011.

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

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**

8.6. Fees and services of the auditor

The fees incurred for the services provided by auditors KPMG in financials years 2010 and 2009 amounted to:

€ thousand	2010	2009
Audit fees	124	139
Total	**124**	**139**

8.7. Events after the reporting date

Effective 1 January 2011, POLIS has acquired the properties at »Kramergasse«, »Koenneritzstrasse« and »Palaisplatz« in Dresden. A purchase and sale agreement was concluded for a further property that is to come into effect in 2011 upon fulfillment of a condition precedent. The purchase prices have been paid in full and have been recorded as down payments for investment properties (see chapter 1).

After serving the Company for eleven years, Chief Financial Officer Dr. Matthias von Bodecker resigned his position with the Company effective 31 January 2011 with the approval of the Supervisory Board. The Supervisory Board has appointed Rüdiger Freiherr von Maltzahn as member of the Board of Management effective 1 February 2011.

Berlin, 3 March 2011

POLIS Immobilien AG

– Board of Management –

Dr. Alan Cadmus

Rüdiger Freiherr von Maltzahn

Financial Calendar

Report on first three months of 2011	5 May 2011
Annual General Meeting of 2011	27 May 2011
Report on first six months of 2011	4 August 2011
Real Estate Share Initiative, Frankfurt am Main	19 October 2011
Report on first nine months of 2011	3 November 2011
DVFA Conference Real Estate	February 2012

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Key financial data of POLIS Immobilien AG

Results in € thousand	2010	2009	2008	2007
Rental revenues	13,053	13,094	14,993	9,788
EBIT	7,410	-1,042	10,421	13,346
EBT	1,956	-6,826	1,157	10,662
Group net profit	1,547	-6,655	1,144	9,043
Cash flow from current business operations	7,688	9,519	8,862	5,690
Funds from operations (FFO)[1]	1,988	3,726	2,996	2,381

Balance sheet in € thousand	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007
Non-current liabilities	307,073	285,529	278,589	248,621
Current liabilities	10,245	8,078	32,808	23,403
Equity	147,989	146,436	153,085	151,939
Total assets	317,318	293,607	311,397	272,024
Equity ratio in %	47%	50%	49%	56%
Loan to value[2]	51%	48%	52%	39%

Net asset value of POLIS (€ thousand)[3]	148,651	146,685	153,459	152,422
Shares (no.)	11,051,000	11,051,000	11,051,000	11,051,000
Net asset value per share (€)[3]	13.45	13.27	13.89	13.79

Share	
Security identification code/ISIN	691330/DE0006913304
2010 high (Xetra)	€ 10.50
2010 low (Xetra)	€ 7.70
Closing price on 30.12.2010 (Xetra)	€ 8.51

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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