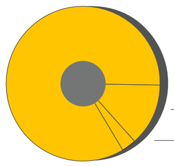
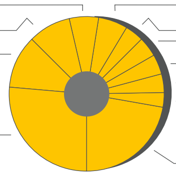
POLIS

2011 Annual Report

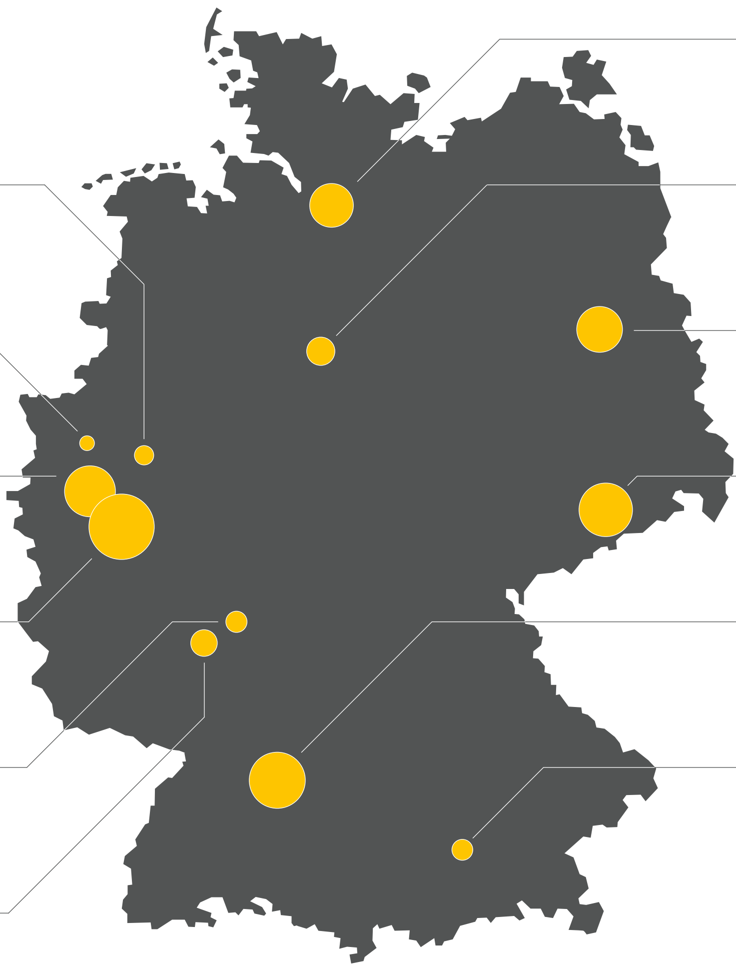
Portfolio by use | *basis: sqm*



Distribution of rental revenues by industry | *in %*



Portfolio by location | *appraisal as at 31 Dec 2011*



Actively managed portfolio

POLIS Immobilien AG actively manages its portfolio based on a clearly defined strategy, many years of experience, and a sound financial footing. The foundation of our earning power is a portfolio of quality properties with stable cash flows. The high degree of investment security of these »Core« properties is based on their good central locations in the most important German business centers, 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 carry out modernization projects successfully. We substantially increase the value of our »Core« and »Value Added« properties, which we realize within the scope of a moderate buy-and-sell concept. Starting in 2011, we are also offering our expertise within the scope of our new third-party asset management services business for investment properties in which we hold interests.

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,

In the past financial year we were able to continue the successes achieved in the previous year and again achieved very good rental income. In time for the beginning of the economic recovery we were able to offer high-quality office space in the face of strong demand. In the past year, the occupancy rate increased from 73% to 80% and is set to grow further to 84% as a result of lease agreements that have already been concluded and will commence in 2012. In this context, one must bear in mind that four fully let investment properties were sold, while three properties were added that were only partially let.

Very good rental income achieved again

In all, we concluded new lease agreements for rental space totaling 19,900 sqm. Furthermore, we were able to extend lease agreements for approximately 10,700 sqm at in part significantly improved terms and conditions. Our successes in letting rental space have continued in the new year without any disruption. By the end of February 2012 we have already concluded new or extended existing lease agreements for rental space totaling 3,000 sqm.

Significant increases in value achieved for four properties

After completing the modernization property at »Kasernenstrasse 1« in Dusseldorf in August 2011, we sold it to a foreign Investor at a purchase price above the current valuation. As a result we realized considerable increases in value. Furthermore, we sold 85% stakes in each of the three investment properties at »Ludwig-Erhard-Strasse 14« and »Bugenhagenstrasse 5« in Hamburg as well as »Rankestrasse 5–6« in Berlin to a foreign foundation. These interests were transferred based on the current valuation, as a result of which we also realized a substantial increase in value. At the same time, the foundation commissioned us with providing asset management services for a period of 10 years, a transaction that for us represents the successful launch of our new third-party asset management business.

New location in Dresden successfully integrated and developed

At the beginning of the financial year we opened our Dresden location by initially acquiring three investment properties. The office buildings are situated in highly attractive, central locations at »Altmarkt/Kramergasse« as well as at »Palaisplatz« and »Koenneritzstrasse«. In November, we took over the building at »Altmarkt 10« as planned, which is connected with the neighboring building at »Kramergasse« by means of a shared underground car park. The Dresden location has proved itself by generating very good rental income. We attracted many new tenants, and a number of lease agreements were extended at in part substantially improved terms and conditions. These successes have contributed to the very good valuation results at the Dresden location of approximately € 7,905 thousand.

Further increase in earnings

Due to solid letting during the years 2010 and 2011 we have already been able to increase the rental income substantially. Together with the rents from the new investment properties at the Dresden location, we have not only compensated for the rental income of the four sold properties but also increased them by approximately 14%, to € 14,886 thousand. At the same time, the net rental income increased 8%, to € 10,329 thousand. The appraisal of the investment properties was characterized by positive changes in the market value, so that our overall valuation gains are € 4,497 thousand. In addition, the sale of investment properties generated positive income from the sale of properties of € 885 thousand. This means that the value increases achieved in the past and already included in the last appraisal have not only been realized, but even exceeded. In these four instances we were able to show that our appraisals are market-based and sound.

Overall, we achieved a 66% increase in our earnings before taxes of € 3,239 thousand.

An even better result was prevented primarily by valuation losses not affecting liquidity from derivative financial instruments of € 3,692 thousand. Given the uncertain financing environment for companies, especially real estate companies in Germany, and in order to reduce the resulting risks, we extended the terms of several loan agreements and concurrently extended and increased the interest rate hedges by means of financial derivatives. A part of the interest rate hedges was demanded by the lending banks. The strong drop in market rates in the second half of the year led to valuation losses not affecting liquidity that will be equalized over the terms of the relevant derivatives.

Eligibility for payment of dividends postponed

After last year's successful disposals, we initially expected a substantially positive result under German accounting rules (HGB), provided no unexpected events occurred. Because dividend payments are governed by the HGB, this would have meant that the prerequisites for payments of dividends would have been met, and under the circumstances the Board of Management felt it was appropriate to inform the shareholders accordingly in the context of the quarterly reports during the last year and by means of an ad-hoc notification. After we reported a positive change in valuation of € 1,159 thousand as of 30 June 2011, the valuation loss from financial derivatives caused an unexpected deviation. Furthermore, financial reporting pursuant to HGB requires the inclusion in addition to the regular depreciation on buildings also of permanent impairment losses for the investment properties above and beyond the current carrying amounts pursuant to HGB, while positive changes in the market value are not taken into consideration. As a result of the above, and contrary to our original expectations, the resulting income pursuant to HGB unfortunately was a slight loss of € -1,011 thousand pursuant to HGB, again postponing the beginning of the eligibility to pay dividends.

Continued sound financial footing

With its equity ratio of 49%, our Company continues to retain its sound financial position and thus possesses a high degree of investment security. Also, our solid capital structure allows us to take advantage of opportunities in the property market as they arise, and we intend to take advantage of this ability. Within the scope of our new third-party asset management business we also intend to carry out joint investments with third parties and to assume the asset and property management responsibilities for the acquired properties.

Property market developments expected to remain positive

Typically, the property market follows economic developments with a certain lag. Due to the continued vibrant state of the economy we expect to see a continuation of the positive development on the market for office buildings well into the new year. The good rental income in January and February 2012 so far has been very encouraging. Overall, we expect to be able to let all rental space available for letting in 2012 with the exception of vacancies caused by normal fluctuation. Because the modernization work has been completed up to the standard fit-out in all investment properties with one exception, nearly all rental spaces are available for letting.

Due to the positive development of the occupancy rate we expect to see an additional increase in rental income, an improvement of the net rental income, and an increase in the funds from operations. However, due to the uncertain financial and economic situation we are not in a position to provide a forecast for the development of the appraisals and the overall profit and loss.

Solid shareholder structure has stabilized the share price

Our solid capital situation and the stable shareholder structure with its majority of long-term, strategic investors have contributed to a stable development of the share price. While the leading index for German stocks (DAX) dropped 15% in 2011 and the share prices of German property stocks decreased by approximately 20% according to the DAXsubsector Real Estate Performance Index, the share price of POLIS increased by around 11%.

We welcome the commitment of our major shareholders to our Company; our objective is to generate attractive rates of return for our shareholders by letting, active property management, and long-term growth. For POLIS, managing a company with the objective of increasing long-term value on the one hand and providing a high degree of transparency on the other are inseparable. For us, transparency means that we communicate what we do, where we stand, and what we intend to achieve. All investment properties including their key valuation determinants are presented in the notes to the financial statements and on the POLIS website. Such information includes the level of rent, the potential level of rent, vacancies, property ratings and current market values. In recent years we have received several awards for this open style of communication.

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

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

From February until September of the past year, Rüdiger Freiherr von Maltzahn temporarily held the position of Chief Finance Officer. We wish to thank Rüdiger Freiherr von Maltzahn for his good and successful work. We also wish to thank our shareholders, tenants, contractors and financial partners for placing their trust in our Company.

Berlin, March 2012

POLIS Immobilien AG

– The Board of Management –

Dr. Alan Cadmus

Peter E. Muth

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 convened for a total of four meetings, one of which was held 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. The Supervisory Board received all quarterly reports promptly and discussed them in its next meeting.

In its meeting on 3 March 2011, 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 discussed various possible investment projects and their financing as well as sales projects and the prospects of our new third-party asset management business, and adopted resolutions. Also, resolutions were adopted on the amount of the variable compensation for the Board of Management for the past financial year 2010 as well as on the target agreements for 2011 with the Board of Management. A further subject matter discussed in this meeting was the agenda for the General Meeting on 27 May 2011; the proposed resolutions for the General Meeting were adopted after the meeting in writing.

In the meeting on 26 May 2011, we discussed in detail the status of various modernization projects and their profitability. In addition, we adopted key resolutions concerning the new third-party asset management business and discussed current financing issues in detail. Furthermore, we discussed various acquisition and sales projects and adopted resolutions in this regard.

In a telephone conference on 25 July 2011, the Supervisory Board mainly discussed the issue of selecting and appointing a new Chief Financial Officer.

The key issue at the meeting on 3 November 2011 was the 2012 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 2011. 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 two times, one of which via telephone conference, as well as at various times in the context of Supervisory Board meetings; the main topic of consultations concerned ongoing investment projects. To this end, the projects were discussed 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 chairpersons 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 2 March 2012, 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 Meeting. Furthermore, the Supervisory Board stated that it believes it has a sufficient number of independent members.

Annual and consolidated financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft (Berlin) has audited the annual financial statements and the management report of POLIS Immobilien AG as of 31 December 2011 as well as the consolidated financial statements and the group management report as of 31 December 2011 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 on the basis of the International Financial Reporting Standards (IFRS) as applicable in the EU pursuant to Regulation (EC) No. 1606/2002 and Section 315a HGB.

The auditor conducted the audit in accordance with the generally accepted German standards for the audit of financial statements issued by IDW (Institut der Wirtschaftsprüfer in Deutschland e.V.).

The 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 2 March 2012 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 and the main focus areas of the audit. The audit's focus areas were the valuation of the investment properties and of the derivative financial instruments as well as the reporting contained in the management report, in particular with respect to the covenants and the financial and liquidity planning.

We reviewed the Company's annual financial statements and the consolidated financial statements 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 resolution adopted on 27 March 2012, 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 affiliated companies

The auditor also audited the report on the relationships with affiliated companies 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 affiliated 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 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 his office as member of the Board of Management effective as of 31 January 2011 in agreement with the Supervisory Board. By resolution of 24 January 2011, the Supervisory Board appointed Rüdiger Freiherr von Maltzahn as temporary member of the Board of Management. Rüdiger Freiherr von Maltzahn resigned his office in agreement with the Supervisory Board effective as of 30 September 2011. Subsequently, the Supervisory Board appointed Mr. Peter E. Muth as member of the Board of Management effective as of 1 October 2011.

The Supervisory Board wishes to thank the Board of Management and the employees of POLIS Immobilien AG for their commitment and their work during the year under review.

On behalf of the Supervisory Board

Carl-Matthias von der Recke
Chairman

Berlin, 27 March 2012

The POLIS Share

Stock market in 2011–development of the market for property stocks

While stock markets performed well in the previous year until July 2011, the financial crisis led to a strong market correction in late July and in August, in the course of which the DAX fell by more than 30% in relation to that year's peak. By the end of the year, the leading index for German stocks had regained some lost ground, ending the calendar year with a share price approximately 15% below its level at the beginning of the year. German property stocks were also affected by the general trend: The DAXsubsector Real Estate Performance Index fell by approximately 20% 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

Compared to the development of German property stocks and the overall German stock market, the POLIS share in the past financial year showed a more stable performance, increasing about 11% to € 9.45, against the general trend.

As already noted in past years, some of the prices paid for property stocks on the stock exchange are significantly lower than the value of the property assets less debt. Over the course of the year, the discounts have not changed substantially, exceeding 50% in individual instances. With its price of € 9.45 as of 31 December 2011, the POLIS share was able to reduce its discount from slightly more than 30% relative to the net asset value (NAV) of € 13.58 by around 7 %-points compared to the previous year. The in part very high discounts for German real estate companies in relation to their NAV highlights the continued uncertainty regarding the financial situation of individual, highly leveraged companies and indicates a general skepticism of the capital market regarding the sustainability of property valuations. POLIS responds to such skepticism by (i) disclosing all information relevant to financing and valuation, (ii) providing a transparent presentation of the appraisals that have been prepared by independent experts, and (iii) occasionally selling selected investment properties at or above their current market value within the scope of its moderate buy-and-sell strategy.

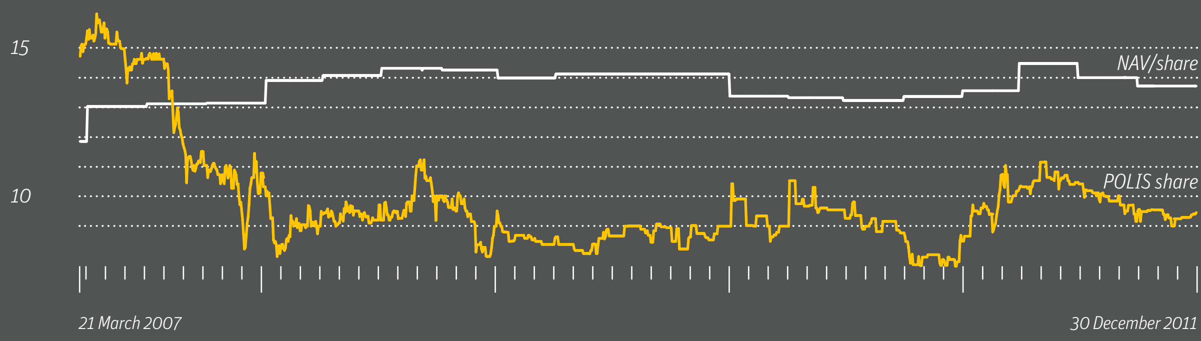
The average daily traded volume of POLIS shares at the Frankfurt Stock Exchange (XETRA) in 2011 was 471 shares, or € 5,362 thousand.

Shareholder structure

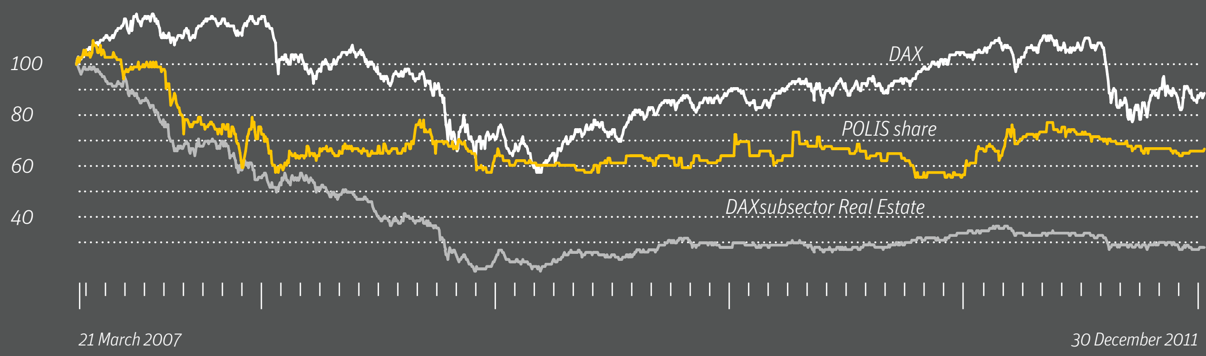
The combination of widely distributed shares and financially strong, strategic investors supports the Company's financial flexibility, management and financial strength.

As of 31 December 2011, 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 the IPO on 21 March 2007 | *compared to net asset value per share, in €*



Development of the POLIS share price since the IPO on 21 March 2007 | *in comparison to indices, in %*

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

*Status: 31 December 2011

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.

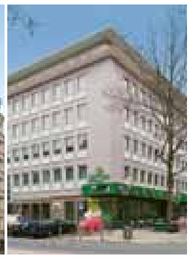
Our investor relations work is mainly focused on financial analysts, institutional and private investors, and financial journalists. We provide information and communicate not only in the context of the General Meetings, but also in regular direct discussions and also by providing comprehensive financial 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 2011

ISIN	DE0006913304
Security identification code (WKN)	691330
Reuters/Bloomberg symbol	PQLG.DE/PQL GR
Closing price 2011 (Xetra)	€ 9.45
Number of shares	11.05 million
Market capitalization	approx. € 104.4 million
Market segment	Prime Standard
Designated sponsor	Close Brothers Seydler Bank AG
Research coverage	Close Brothers Seydler Research AG
52 week high	€ 11.12
52 week low	€ 8.51
Average daily trading volume	€ 5,362
Average daily trading volume	471 shares
Earnings per share	€ 0.23
NAV per share	€ 13.58
Free float as defined by Deutsche Börse	26.6%
Annual General Meeting	22 June 2012

Portfolio overview





		Berlin	Berlin	Dortmund
		Luisenstrasse 46	Potsdamer Strasse 58	Kleppingstrasse 20
Transfer of possession		15 May 2002	25 Feb 2001	31 Dec 2006
Year built		1936	1930	1954
Renovated/modernized		2002	2004	1994
Market value	€ thsd.	10,760	14,220	5,020
Date of last external appraisal		30 Jun 2011	30 Sep 2011	31 Mar 2011
Discount rate[1]	%	6.5%	6.9%	7.1%
Total area (rounded)[2]	sqm	3,150	5,550	2,900
Office	sqm	2,622	4,149	2,156
Retail	sqm	440	1,006	523
Residential	sqm	0	0	0
Archive	sqm	51	373	232
Parking space	number	24	22	13
Average remaining term of leases[3]	years	2.2	2.1	6.2
Occupancy rate (space-based) 2011[4]	%	100%	99%	90%
Occupancy rate (space-based) 2010[4]	%	100%	88%	99%
Occupancy rate (revenue-based)[5]	%	98%	100%	91%
Rent 2010[6]	€ thsd.	639	764	306
Rent 2011[6]	€ thsd.	646	870	326
Annualized current rent[5]	€ thsd.	660	913	378
Rent if fully leased[7]	€ thsd.	674	918	415
Annualized potential rent (Feri)[8]	€ thsd.	689	987	388
Return on potential rent[9]	%	6.4%	6.9%	7.7%
Feri rating[10]		B+	A–	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 2011

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

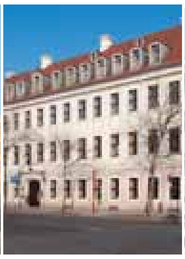
11 Requires additional investments. Therefore, this refers to the planned potential rent and the planned market value upon completion

12 Weighted Average

13 Investment properties classified as current assets

14 Financial investment (1 x 5.1%)



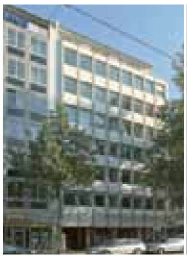
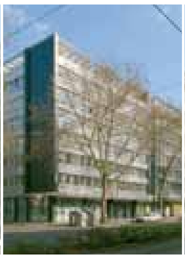
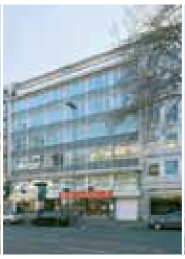



		Dresden	Dresden	Dresden	Duisburg
		Altmarkt 10/ Kramergasse 2/4	Könneritzstrasse 29, 31, 33	Palaisplatz 3/3a	Gallenkamp-strasse 20
Transfer of possession		1 Nov/1 Jan 2011	1 Jan 2011	1 Jan 2011	1 Nov 2007
Year built		2000	1998	1840	1954
Renovated/modernized		–	–	1997	1994
Market value	€ thsd.	34,760	9,390	4,720	1,620
Date of last external appraisal		31 Dec 2011	31 Mar 2011	31 Mar 2011	31 Mar 2011
Discount rate[1]	%	6.7%	7.1%	6.9%	7.2%
Total area (rounded)[2]	sqm	19,000	10,500	3,900	1,700
Office	sqm	11,591	9,124	3,690	1,112
Retail	sqm	5,273	1,030	0	293
Residential	sqm	1,313	0	0	277
Archive	sqm	833	317	196	5
Parking space	number	199	90	0	15
Average remaining term of leases[3]	years	2.5	3.2	1.4	1.8
Occupancy rate (space-based) 2011[4]	%	80%	76%	55%	89%
Occupancy rate (space-based) 2010[4]	%	–	–	–	80%
Occupancy rate (revenue-based)[5]	%	70%	62%	53%	88%
Rent 2010[6]	€ thsd.	–	–	–	117
Rent 2011[6]	€ thsd.	641	527	233	142
Annualized current rent[5]	€ thsd.	1,579	544	236	149
Rent if fully leased[7]	€ thsd.	2,262	876	442	169
Annualized potential rent (Feri)[8]	€ thsd.	2,685	914	453	159
Return on potential rent[9]	%	7.7%	9.7%	9.6%	9.8%
Feri rating[10]		A–	C	B	B

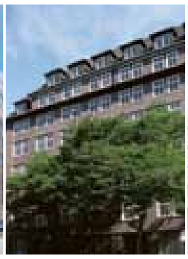
Explanations see page 11

Feri rating categories

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



Dusseldorf	Dusseldorf	Dusseldorf	Dusseldorf	Dusseldorf	Frankfurt a. M.
Berliner Allee 42	Berliner Allee 44	Berliner Allee 48	Immermann-strasse 11	Steinstrasse 27	Gutleutstrasse 26
1 Nov 2007	1 Aug 2000	1 Oct 2006	1 Dec 2007	1 Sep 2000	30 Jun 2006
1960	1957	1956	1960	1960	1970
–	2001	–	–	1998	1996
6,380	8,240	5,310	3,110	8,860	10,710
30 Jun 2011	31 Dec 2011	30 Sep 2011	30 Jun 2011	30 Jun 2011	30 Sep 2011
6.8%	6.9%	7.0%	6.7%	6.8%	7.0%
3,500	3,800	2,650	1,850	3,700	3,450
2,170	3,162	1,858	1,111	3,455	3,446
812	241	336	344	0	0
229	45	214	188	0	0
247	316	236	198	230	0
17	17	0	9	20	29
1.5	3.8	2.2	3.6	2.8	2.1
90%	58%	86%	83%	88%	100%
99%	24%	88%	85%	99%	100%
85%	33%	84%	85%	89%	100%
304	113	319	214	573	762
338	149	307	176	522	762
327	161	312	181	527	762
384	485	373	213	593	762
525	598	380	234	592	785
8.2%	7.3%	7.2%	7.5%	6.7%	7.3%
B+	B+	A–	B+	B+	B+

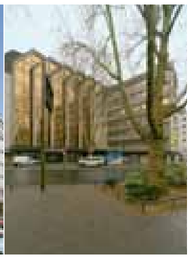

Visualization


		Hamburg	Hamburg	Hanover	Hanover
		Domstrasse 10/ Schauenburger Strasse 15 & 21	Steinstrasse 12–14	Landschaftstrasse 2	Landschaftstrasse 8
Transfer of possession		1 Aug 2007	1 May 2008	31 Dec 2006	31 Dec 2006
Year built		1906	1925	1983	1885
Renovated/modernized		2002	1994	–	2006
Market value	€ thsd.	10,410	5,500	4,430	3,930
Date of last external appraisal		31 Dec 2011	30 Sep 2011	31 Mar 2011	30 Jun 2011
Discount rate[1]	%	6.6%	6.9%	7.0%	6.8%
Total area (rounded)[2]	sqm	6,600	2,800	3,600	2,600
Office	sqm	4,797	2,425	3,582	2,166
Retail	sqm	1,390	121	0	0
Residential	sqm	0	0	0	0
Archive	sqm	407	262	13	437
Parking space	number	12	5	53	0
Average remaining term of leases[3]	years	0.1	3.9	4.5	5.0
Occupancy rate (space-based) 2011[4]	%	3%	100%	100%	100%
Occupancy rate (space-based) 2010[4]	%	3%	0%	100%	100%
Occupancy rate (revenue-based)[5]	%	0%	33%	99%	100%
Rent 2010[6]	€ thsd.	24	186	307	286
Rent 2011[6]	€ thsd.	19	81	397	297
Annualized current rent[5]	€ thsd.	1	136	452	297
Rent if fully leased[7]	€ thsd.	1,096	414	454	297
Annualized potential rent (Feri)[8]	€ thsd.	1,096	414	452	295
Return on potential rent[9]	%	5.7%[11]	7.5%	10.2%	7.5%
Feri rating[10]		A–	A–	B+	B+

Explanations see page 11



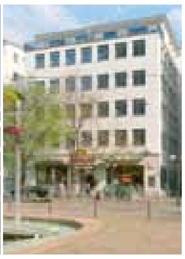


Cologne	Cologne	Cologne	Cologne	Cologne	Cologne
Ebertplatz 1	Gustav-Heine-mann-Ufer 54	Hansaring 20	Konrad-Adenauer-Ufer 41–45	Neumarkt 49	Weyerstrasse 79–83
15 Jun 2007	1 Oct 2007	1 Nov 2007	1 Apr 2007	31 Dec 2007	1 May 2008
1960	1989	1975	1953	1957	1962
2002	–	2006	2010	2005	2008
7,520	15,320	4,280	21,190	8,220	16,300
30 Jun 2011	31 Dec 2011	31 Mar 2011	31 Dec 2011	30 Sep 2011	30 Jun 2011
7.0%	6.8%	7.0%	6.7%	7.0%	7.1%
4,150	7,600	2,250	6,050	3,900	9,400
2,678	7,036	2,093	5,581	3,187	7,237
1,351	0	0	0	544	1,302
66	0	0	0	0	0
63	565	146	473	177	878
0	197	10	53	9	88
6.2	2.6	1.9	4.5	4.0	3.0
97%	73%	100%	83%	99%	97%
93%	68%	99%	42%	74%	97%
87%	71%	100%	60%	88%	99%
458	676	312	46	459	917
445	875	320	705	498	933
454	821	327	730	506	945
523	1,158	329	1,212	577	955
552	1,145	318	1,256	592	1,199
7.3%	7.5%	7.4%	5.9%	7.2%	7.4%
B+	B+	B	A–	B	B

		Mainz	Mainz	Munich	Stuttgart
		Rheinstrasse 43–45	Rheinstrasse 105–107	Lessingstrasse 14	Boeblinger Strasse 8/ Arminstrasse 15
Transfer of possession		1 Nov 2007	30 Sep 2007	15 Dec 2007	1 Nov 2007
Year built		1976	1968	1967	1973
Renovated/modernized		–	–	2010	2004
Market value	€ thsd.	2,540	4,070	9,580	4,180
Date of last external appraisal		31 Mar 2011	31 Mar 2011	31 Mar 2011	30 Jun 11
Discount rate[1]	%	7.1%	7.0%	6.9%	7.0%
Total area (rounded)[2]	sqm	2,200	3,250	3,350	2,550
Office	sqm	1,889	2,414	2,613	1,289
Retail	sqm	89	0	438	920
Residential	sqm	0	564	0	242
Archive	sqm	212	277	292	101
Parking space	number	11	47	38	36
Average remaining term of leases[3]	years	1.0	1.5	4.2	1.5
Occupancy rate (space-based) 2011[4]	%	64%	94%	100%	94%
Occupancy rate (space-based) 2010[4]	%	89%	99%	84%	95%
Occupancy rate (revenue-based)[5]	%	64%	93%	90%	93%
Rent 2010[6]	€ thsd.	175	290	495	242
Rent 2011[6]	€ thsd.	160	296	525	264
Annualized current rent[5]	€ thsd.	153	280	546	263
Rent if fully leased[7]	€ thsd.	239	301	605	281
Annualized potential rent (Feri)[8]	€ thsd.	255	395	662	329
Return on potential rent[9]	%	10.0%	9.7%	6.9%	7.9%
Feri rating[10]		B	B	B+	B+

Explanations see page 11

Stuttgart	Stuttgart	Portfolio	Other properties & financial assets [13, 14]	Total property assets
Quartier Buechsenstrasse	Tuebinger Strasse 31/33			
30 Jun 2007	31 Dec 2006			
1907–1970	1949			
2010	2000			
40,170	8,390	289,130	3,772	**292,902**
31 Dec 2011	30 Sep 2011	–		
6.6%	7.0%	6.8%		
16,800	4,800	147,400		
11,705	2,731	113,070		
1,408	1,278	19,140		
1,346	220	4,704		
2,347	578	10,463		
125	11	1,150		
6.9	0.6	3.4[12]		
64%	92%	80%[12]		
27%	90%	69%[12]		
52%	96%	72%		
533	568	10,085		
863	576	12,892		
1,377	576	14,593		
2,642	602	20,253		
2,803	678	21,831		
7.0%	8.1%	7.6%		
A–	B+	B+		

Financial Information

Group Management Report

of POLIS Immobilien AG for financial year 2011

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 (hereinafter POLIS) is an operational holding company and is managed by two Officers. The Speaker of the Board of Management is responsible for portfolio and asset management, property management, human resources, legal matters and taxes, while the Chief Financial Officer is in charge of controlling, finances and accounting, risk management, organization and information technology. Our employees are employed by the holding company while the properties are held via property companies (which usually take the German legal form of GmbH & Co. KG). POLIS and all property companies have their registered offices in Berlin. There are no branch offices.

Commercial and industry-specific environment

Development of overall economic environment

- GDP increases by 3.0% in 2011
- Continued positive development and prospects in the labor market
- Inflation rate in Germany is 2.3% in 2011
- Short-term interest rates remain low at 1.1%, while 5-year interest rates fall from 2.5% to 1.7%

After the rapid recovery of the global economy in 2010, the German economy continued to grow vigorously, with GDP increasing 3.0% in 2011. The economic boom occurred primarily in the first half of the year. The growth impulses were primarily domestic in origin, in particular due to private consumption, and also due to capital expenditure on machinery and equipment. While foreign trade accounted for a lower share of GDP growth than domestic demand, it remained dynamic, recording an 8.2% increase relative to the previous year. In fall, industrial production and exports fell below the average level of the previous months; also, the sentiment in the service sector deteriorated somewhat.

However, the continued positive situation on the labor market and the resulting effect on private consumption as well as the construction sector were relatively robust.

	GDP growth rate	Inflation rate	3 month EURIBOR	5 years (swap-rate)	10 years (swap-rate)
2011	3.00%	2.30%	1.13%	1.74%	2.38%
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%

Industry-specific environment

Compared to the previous year, office markets experienced a strong recovery. The increased demand for office space remains high despite the increasingly negative economic data and is following the positive development on the labor market. Overall, turnover of rental space at the seven largest real estate locations reached approximately 3.4 million sqm. In view of slower GDP growth and the anticipated delayed reaction on the property market, a decline in the sales revenue appears likely in 2012, especially in the second half of the year.

Trends in the investment market for office buildings in Germany

Transaction volume increases strongly

According to real estate brokerage reports, the transaction volume in the commercial property sector increased from around € 19 billion in 2010 to around € 23 billion in 2011, the highest level since the peak years 2006/2007. This development is largely attributable to investments in retail properties, which accounted for approximately 47% of the transaction volume, followed by transactions concerning office buildings, at approximately 36%. Among others, falling unemployment rates and increasing household income highlight Germany's attractiveness as an investment location in 2012, especially given that Germany with its large number of commercial centers represents Europe's largest market. The investment strategy emphasizing safety will continue to focus on Core products. Moreover, the banks' tendency to reduce the risks contained in their balance sheets is expected to lead to an increased supply of distressed properties requiring intensive management in the second half of 2012.

Trends in the office property rental market in Germany

Stable development of rents, with location-specific differences

Peak rents in five of the seven largest real estate locations increased 3% in 2011, with Berlin recording the highest nominal increase at 4.9%, followed by Hamburg (4.4%) and Dusseldorf (4.3%). The peak rents achieved across all seven locations serve as an indication of the willingness on the part of tenants to accept at times substantial rent premiums for high-quality and presentable rental space. The clear focus of users on rental areas that satisfy high standards should lead to further rent increases also in 2012, while demand for areas in central locations will continue to be strong. However, the increase, which is estimated at around 2%, is expected to be slightly less than in 2011.

Falling vacancies on the office market

In 2011, increased demand and lower new construction volumes led to overall reduced vacancies of below 10% at the seven largest real estate locations. The highest vacancy rates in the office portfolio were recorded in Frankfurt (14%) and Dusseldorf (11%). Relative to the previous year, vacancy rates fell most significantly in Stuttgart (-14%), Dusseldorf (-13%) and Hamburg (-10%). The volume of completed spaces in 2011 fell significantly relative to the previous year, by 25%. In numerical terms, this space was fully absorbed by the demand.

The following table shows the figures for the past years:

Rental space turnover | Vacancies	thousand sqm		%	
	2010	2011	2010	2011
Berlin	1,530 | 512	1,446 | 543	9.1	8.5
Hamburg	1,377 | 503	1,237 | 540	9.6	8.5
Dusseldorf	1,152 | 401	999 | 394	13.0	11.2
Frankfurt a. M.	1,765 | 470	1,662 | 424	14.7	13.9
Stuttgart	582 | 191	500 | 280	7.1	6.1
Munich (including surroundings)	2,068 | 584	1,912 | 887	10.5	9.6
Cologne	635 | 228	604 | 332	8.6	8.1

Source: JLL – Büromarktüberblick Q4 2011

Corporate management, objectives and strategy

Corporate objectives

The objective of POLIS is to achieve a sustainable increase of 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 as reflected in a sustainable dividend yield and an increase in the net asset value (NAV).

We strive 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 has endeavored to satisfy the requirements of the capital market. Since that time, the long-term creation of value and a high degree of transparency have been the guiding principles of our corporate management. POLIS has been awarded several prizes as 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 is 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 income 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 income 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 € 50 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.
- **Third party asset management:** We intend to offer our Company's know-how also to third parties by assuming asset management responsibilities for investment properties in which we are invested together with a further investor. This way, the business partner benefits from access to professional asset management, and we improve our earnings by generating additional income from services.

Qualified employees

Qualified and motivated employees are indispensable if we are to achieve our corporate objectives. Flat management structures and open communications are the prerequisites for initiative, trust and performance. 25 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. One trainee is being trained to become a real estate management assistant (Immobilienkaufmann), and one student is being supported within the scope of an integrated practical and academic course of studies (duales Studium) in real estate management (Immobilienwirtschaft) who will graduate with the degree of »Bachelor of Arts«.

Key economic factors

Development of the commercial property market in Germany

We generate our income from rental income 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 the market values of our own properties 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, companies' 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 for property- or location-specific reasons, different rents per sqm can be achieved when concluding follow-on leases. As a general rule, increasing vacancy rates in a market usually lead to reduced rental income 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 income.

Financing expenses and interest rate levels

The earnings potential of POLIS is influenced by the development of general interest levels since we typically finance the acquisition of properties with the help of bank loans that often amount to a debt ratio of up to 60% of the property value. Where reasonable, we intend to keep bank loans on a floating rate basis in order to benefit from low short-term interest rates. Interest rate hedges are used to secure the liabilities to banks that involve variable interest rates.

Competitive position

Market environment

According to a study prepared by BulwienGesa AG, 60% of the office space in Germany is situated at the 20 most important office locations that represent our focus area. 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.

Positioning

In this market environment, we consider ourselves a specialist for the modernization and active management of office buildings in a segment that is focused on the location, size and quality of spaces. Our properties are situated in good to excellent office locations, typically represent an order of magnitude that is interesting for private as well as institutional investors, and offer high quality spaces at good value for money. With its concept, POLIS holds a unique position among listed German property companies.

Overview of business performance

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

- We again achieved a very good rental income, concluding new lease agreements for approximately 19,900 sqm. The occupancy rate increased to approximately 80% and will increase further to 84% upon commencement in 2012 of leases that have already been concluded. Without the remaining revitalization project at »Domstrasse« in Hamburg, the occupancy rate at the end of the year was 84%, and will increase to over 87%.
- In financial year 2011, we invested around € 9.7 million in our investment properties. In the modernization properties at »Konrad-Adenauer-Ufer 41–45« in Cologne and at »Buechsenstrasse 26« in Stuttgart, we already achieved a high occupancy rate and have handed over nearly all rental spaces to the tenants.
- We were able to sell the modernization property at »Kasernenstrasse 1« to a foreign investor for a purchase price above its last valuation, thereby realizing a substantial increase in value.
- A foreign foundation acquired 85% stakes in each of the three investment properties at »Ludwig-Erhard-Strasse 14« and »Bugenhagenstrasse 5« in Hamburg as well as at »Rankestrasse 5–6« in Berlin and commissioned POLIS with providing property and asset management services for these properties for an initial period of 10 years. Significant increases in value were also achieved with respect to these properties. Moreover, we successfully started our new third-party asset management business.
- At our new location in Dresden, we acquired three investment properties: »Altmarkt 10/Kramergasse 2/4« as well as »Palaisplatz 3« and »Koenneritzstrasse 29–31«, all situated in highly attractive central locations.
- Also as a result of the rapid and highly successful conclusion of lease agreements for vacant rental spaces and the extension of existing lease agreements at improved terms and conditions, the investment properties in Dresden recorded very positive valuation results. On the other hand, an expiring lease agreement and concrete maintenance requirements led to negative changes in the market value of two investment properties in Stuttgart. The overall valuation result was positive, at € 4,497 thousand.
- As a result of the completion of the modernization projects, the continued good letting performance and the new investment properties, rental income increased 14% in 2011 relative to the previous year despite the sale of four fully let properties, to € 14,886 thousand, while current net rental income increased 8%, to € 10,329 thousand.
- The consolidated comprehensive income before taxes of € 3,239 thousand is significantly higher than in the previous year (€ 1,956 thousand). Cash flow from operating activities fell 24% in relation to the previous year largely due to increased accruals for rent-free periods and reduced trade payables, to € 5,857 thousand (previous year: € 7,688 thousand).
- The continued strong drop in market interest rates towards historic lows has led to a valuation loss for the interest hedging instruments of € -3,692 thousand.
- The net asset value as of 31 December 2011 increased 1% relative to the previous year to € 150,109 thousand, and the net asset value per share increased from € 13.45 to € 13.58.

Development of the real estate business

Changes in the portfolio

At the beginning of financial year 2011 we commenced operations at our new Dresden location by initially acquiring three investment properties. The office buildings are ideally situated right in the city center at the »Altmarkt 10/Kramergasse 2/4«, at »Palaisplatz 3«, and in »Koenneritzstrasse 29–31«. In November, we took over the building at Altmarkt 10 as planned, which is connected with the neighboring building at Kramergasse by means of a shared underground car park. Therefore, both buildings are viewed as one investment property (»Altmarkt 10/Kramergasse 2/4«) and reported as one entity in the portfolio overview. The Dresden location has proved itself by generating very good rental income. Not only was it possible to attract numerous new tenants, but also to extend a number of lease agreements at in part substantially improved terms and conditions. Among others, the solid letting performance has contributed to very good valuation results for the Dresden location, totaling € 7,905 thousand.

The sale of the office and commercial building at »Kasernenstrasse 1« in Dusseldorf in August 2011 to a foreign institutional investor occurred at a purchase price above the current valuation. This allowed us to successfully conclude a modernization project and to realize the intended increase in value.

Furthermore, a foreign foundation acquired 85% stakes in each of the three investment properties at »Ludwig-Erhard-Strasse 14« and »Bugenhagenstrasse 5« in Hamburg as well as »Rankestrasse 5–6« in Berlin. The sale of the concerned investment properties occurred at their market values, which approximately correspond to the previous year's valuation results. Also in this context, we realized a considerable increase in value, confirming our strategy in this regard. The subsequent contract for providing property and asset management services for 10 years represents the successful launch of POLIS' new third-party asset management business.

Modernizations

- Cologne, Konrad-Adenauer-Ufer: *Continued significant increase of the occupancy rate*

As a result of letting another two and a half stories and an extension by the main tenant by one rental unit, we were able to increase the occupancy rate in 2011 significantly. Almost all newly let areas have been taken over by the tenants, and one rental unit is scheduled to be handed over to the tenant in the 2nd quarter of 2012. Merely one rental unit on the ground floor is still available for letting. The appraisal prepared by Feri Euro RatingServices AG (hereinafter Feri) determined an increase in value of this property of € 615 thousand.

- Stuttgart, Quartier Buechsenstrasse: *Substantially increased attractiveness, occupancy rate of 62% achieved*

The comprehensive revitalization of the building at »Buechsenstrasse 26« has been largely completed, and the office spaces, which have been let in the mean time, have been handed over to the tenants. As with other properties, sustainability is highly important to us. The building at »Buechsenstrasse 26« was awarded the preliminary silver certificate for sustainable construction by the German Sustainable Building Council (DGNB). The Quartier is situated in an urban redevelopment area, which will contribute to an appreciation of the surrounding area. In particular, the planned extension of the pedestrian zone alongside our buildings will serve to invigorate this location. In 2011, we were able to let the last remaining retail area. Effective as of the end of the year, a tenant was found for the remaining office space; a corresponding letter of intent to conclude a lease agreement was signed.

The buildings at »Heustrasse 1«, »Kienestrasse 33« and »Hospitalstrasse 8« are fully let. The standard fit-out of the modernization project at »Buechsenstrasse 28« has been completed. We are currently involved in promising discussions with prospective tenants and expect to let the premises shortly.

Unfortunately, it has become apparent that some areas of the basement level require concrete refurbishment as well as a number of fire prevention measures. Among others, this maintenance work has led to a decrease in the value of the »Quartier Buechsenstrasse« of € 2,506 thousand.

- Stuttgart, Tuebinger Strasse 31 and 33: *Office tenant leaves building*

In the investment properties at »Tuebinger Strasse 31 and 33« in Stuttgart, the sole office tenant, who occupied approximately 61% of the rental space, terminated the lease agreement effective 29 February 2012 and will leave the premises. Since potential tenants already exist for all office spaces, we are confident that we will be able to identify one or more subsequent tenants in the near term. Despite the above, the tenant's imminent departure led to a valuation loss of € 857 thousand as a result of the expected vacancy, modernization and letting-related costs as well as the loss of rent.

- Hamburg, Domstrasse: *Modernization planning has progressed*

The modification and modernization plans for the revitalization project at »Domstrasse 10« have been approved in accordance with construction law. The immediate area surrounding the investment properties between Rathausmarkt und the access to the Speicherstadt and the city's harbor district has improved considerably over the past years as a result of numerous construction projects. In the past year, we discussed in greater detail the opportunities for carrying out the modernization project with the investment committee of the Supervisory Board. The decision on the next steps of the project and possible alternative courses of action is expected shortly. Based on the estimated construction costs, the value of the property fell by € 562 thousand as of 31 December 2011.

Occupancy rate increases significantly

As a result of completing the modernization projects and applying our active lease management, we managed to achieve very good results in concluding new lease agreements for a total of 19,900 sqm. Together with the letter of intent for the remaining rental space in the modernization property at »Buechsenstrasse 26« in Stuttgart, we even surpassed the record result we achieved in the previous year (21,200 sqm). As a result, the occupancy rate in the portfolio as of 31 December 2011 has increased from 73% to 80% relative to the previous year (on a like for like basis), and will increase to 84% in 2012 once all spaces for which new lease agreements were concluded have been handed over, assuming the other leases remain unchanged. Without the remaining revitalization project at »Domstrasse« in Hamburg, the occupancy rate at the end of the year was 84% and will increase to over 87% as a result of the lease agreements that have already been concluded. Since with the exception of »Domstrasse« in Hamburg all rental spaces in the modernization properties have now been completed at least as a standard fit-out, we expect to let the remaining vacant spaces in the near term. With respect to the properties that have continuously been part of the portfolio since 1 January 2010, and excluding the revitalization properties at »Konrad-Adenauer-Ufer« in Cologne, »Buechsenstrasse 26 and 28« in Stuttgart and »Domstrasse 10« in Hamburg, the occupancy rate has increased from 85% as of 31 December 2010 to 91% as of 31 December 2011 on a like for like basis.

In addition to the good results from the conclusion of new lease agreements, the lease agreements for rental space of around 10,700 sqm have been extended at in part substantially improved terms and conditions. This means that we have been able to conclude new lease agreements or extend existing leases for rental space totaling around 30,600 sqm, representing rental income of around € 23,870 thousand contractually secured over an average weighted term of 5.3 years; this corresponds to an effective rent of € 11.87 per sqm. The largest new lease of the year concerned office space of around 1,400 sqm in the »Gustav-Heinemann-Ufer 54« in Cologne. The economically most important extension of a lease agreement concerned retail space of around 2,700 sqm in the property at »Kramergasse 2/4« at Dresden, where we significantly improved the terms and conditions. The average remaining term of all existing lease agreements is 3.4 years, with an average rent across the portfolio of approximately € 11.20 per sqm for all types of use (office, retail, residential, archive).

	Rental space as of 31 Dec 2010 sqm	Occupancy rate as of 31 Dec 2010 %	Rental space as of 31 Dec 2011 sqm	Occupancy rate as of 31 Dec 2011 %
Berlin	16,300	91%	8,650	99%
Dortmund	2,900	99%	2,900	90%
Dresden	–	–	33,350	76%
Dusseldorf	20,200	81%	15,400	80%
Duisburg	1,700	80%	1,700	89%
Frankfurt a. M.	3,500	100%	3,450	100%
Hamburg*	16,900	44%	9,400	30%
Hanover	6,200	100%	6,200	100%
Cologne	33,300	77%	33,400	90%
Mainz	5,500	95%	5,450	82%
Munich	3,400	84%	3,350	100%
Stuttgart	24,200	46%	24,150	73%
	134,100	**73%**	**147,400**	**80%**

Based on portfolio as of the respective date of reporting
*Occupancy rate based on contractually let space

Overview of rental income

The development of income from rent by individual property in the prime locations since 2008 is as follows:

€ thousand	2008	2009	2010	2011
Luisenstrasse 46	588	594	639	646
Potsdamer Strasse 58	856	802	764	870
Berlin	**1,444**	**1,396**	**1,403**	**1,515**
Berliner Allee 42	237	286	304	338
Berliner Allee 44	553	138	113	149
Berliner Allee 48	308	255	319	307
Immermannstrasse 11	170	207	214	176
Steinstrasse 27	523	526	573	522
Dusseldorf	**1,791**	**1,412**	**1,523**	**1,491**
Gutleutstrasse 26	750	750	762	762
Frankfurt a. M.	**750**	**750**	**762**	**762**
Domstrasse 10/Schauenburger Strasse 15 & 21	305	140	24	19
Steinstrasse 12–14	47	366	186	81
Hamburg	**352**	**506**	**210**	**100**
Ebertplatz 1	487	482	458	445
Gustav-Heinemann-Ufer 54	620	444	676	875
Hansaring 20	227	305	312	320
Konrad-Adenauer-Ufer 41–45	0	0	46	705
Neumarkt 49	488	481	459	498
Weyerstrasse 79–83	478	872	917	933
Cologne	**2,300**	**2,583**	**2,868**	**3,776**
Lessingstrasse 14	459	461	495	525
Munich	**459**	**461**	**495**	**525**
Boeblinger Strasse 8	241	245	242	264
Tuebinger Strasse 31 & 33	555	561	568	576
Quartier Buechsenstrasse	1,899	1,290	533	863
Stuttgart	**2,695**	**2,095**	**1,343**	**1,703**
Total »A-Cities«	**9,791**	**9,203**	**8,604**	**9,873**
Other properties	1,860	1,810	1,540	3,019
Sold properties 2008–2011	3,342	2,890	2,909	1,994
Total	**14,993**	**13,904**	**13,053**	**14,886**

Overall assessment of the business performance

Due to the completion of the modernization projects, solid letting during the past two years, and the acquisition of the new investment properties, rental income increased significantly despite selling four fully let investment properties and will increase further as soon as the tenants have moved into all the rental spaces in the course of 2012 for which lease agreements have already been concluded. The large number of substantial investments has further improved the quality of the portfolio and has contributed to the positive rental income, and has been confirmed by positive valuation results above and beyond these investments. By selling the property at »Kasernenstrasse 1« in Dusseldorf and involving a foreign investor in three investment properties, we realized considerable increases in value. Moreover, we successfully started our new third-party asset management business by concluding a 10-year asset management contract. The acquisition of the new investment properties in Dresden has generated significant positive changes of the market value as a result of the good rental income. On the other hand, the termination of a lease agreement and concrete maintenance requirements concerning one investment property have led to negative changes in the valuation; also, interest hedging instruments recorded losses not affecting liquidity as a result of the continued drop in market interest rates.

Overall, the results of operations have improved substantially, establishing a good foundation in 2011 for a further increase of the key earnings figures in 2012.

Results of operations, financial position and net assets

Results of operations

- Rental income above previous year, valuations slightly positive, additions of investment properties

As a result of successful letting, **rental income** increased to € 14,886 thousand (previous year: € 13,053 thousand), or € 1,833 thousand above the previous year.

After deducting maintenance and property management expenses, **net rental income** increased by around 8%, to € 10,329 thousand (previous year: € 9,578 thousand).

The **valuation of the investment properties** led to a moderate net increase in the valuation of the overall portfolio of € 4,497 thousand. The change in the market value is largely due to the valuations of the properties in Dresden at »Altmarkt 10/Kramergasse 2/4« (€ 5,407 thousand) and »Koenneritzstrasse 29–31« (€ 2,944 thousand) as well as the modernization property at »Konrad-Adenauer-Ufer 41–45« in Cologne (€ 615 thousand), the Stuttgart properties »Quartier Buechsenstrasse« (€ -2,506 thousand) and »Tuebinger Strasse 31–33« (€ -857 thousand) as well as »Domstrasse 10« in Hamburg (€ -562 thousand). This is the result of effects from general changes in the market, but also of modernization work.

Administrative expenses in 2011 stood at € 3,475 thousand, or about 10% above the previous year's level (€ 3,166 thousand). A detailed list is included in the notes to the financial statements in section 4.8 (administrative expenses).

Due to the increased use of loans in financial year 2011 compared to 2010, **interest expense** increased 17% compared to the previous year, to € 5,548 thousand (previous year: € 4,724 thousand). Valuation results from interest rate derivatives not affecting liquidity remained strongly negative at € -3,692 thousand as a result of extending existing and concluding new hedging instruments as well as due to the market rates, which continued to drop substantially. As a result, the financial results in financial year 2011 deteriorated by

€ 3,692 thousand, or around 68% in relation to the previous year, and stood at € -9,146 thousand (previous year: € -5,454 thousand). In addition to the valuation losses included in income, negative market values of interest rate swaps that are components of effective hedges (€ 1,457 thousand) less the associated deferred taxes (€ 231 thousand) have been recorded in other income.

The weighted average interest rate for debt financing increased to 3.9% (previous year: 3.4%) as a result of concluding additional interest hedges.

The consolidated financial statements show a **consolidated net income** for the year of € 2,563 thousand, 66% higher than during the previous year (€ 1,547 thousand). The increase is largely the result of the income from the sale of properties, a net positive result from the revaluation of investment properties, derivative financial instruments and interest expense, which also increased. The key **funds from operations**[1] figure dropped despite the increased net rental income due to likewise increased interest expenses and accrued taxes on earnings, to € 1,221 thousand (previous year: € 1,988 thousand). Overall, the key operational figures such as **modernization and maintenance expense,** which increased significantly, and **property management expense,** which fell due to the successful conclusion of new lease agreements, and **administrative expense,** which increased, developed as planned. The overall valuation results of the properties and interest rate derivatives were positive, at € 805 thousand.

Financial position

Cash flows

€ thousand	2011	2010	%
Cash flow from operating activities	5,857	7,688	-24%
Cash flow from investment activities	3,157	-19,848	-116%
Cash flow from financing activities	-13,014	15,842	-182%
Cash in banks at the end of the period	1,626	5,626	-71%

The cash flow from operating activities fell despite the higher net rental income largely due to the rise of the accruals for rent-free periods, increased trade receivables as well as higher administrative and other expenses, to € 5,857 thousand, compared to € 7,688 thousand in the previous year. The cash receipts from the sale of investment properties resulted in a positive cash flow from investment activities, despite high payments for modernization investments and acquisitions associated with the properties in Dresden. The cash flow from financing activities is largely due to the repayment of loans during the financial year and therefore is negative.

High equity ratio, low loan-to-value ratio

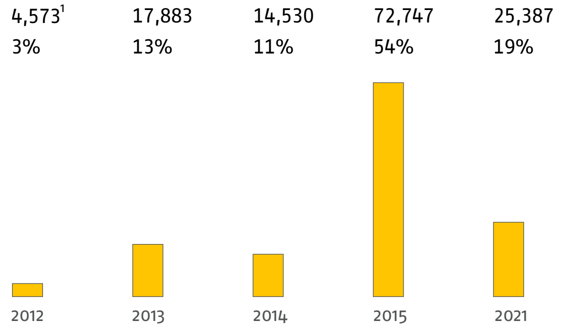
With its equity ratio of around 49%, POLIS remains on a sound financial footing and continues to have sufficient flexibility for obtaining debt capital at attractive terms and conditions. Currently, we have access to available credit lines of around € 14.4 million.

1 Net income for the financial year adjusted for income from the revaluation and sale of properties, income from the valuation of the financial derivatives, and deferred taxes

The loan-to-value ratio (ratio of liabilities to banks and the market value of the properties, including down payments for investment properties) decreased to about 47% as of 31 December 2011 as a result of taking up fewer loans, a rate that is conservative for companies with our risk structure. The strategic 60% mark could be reached by using the available credit lines and obtaining new financing, but should not be exceeded also in future in order to keep leverage permanently low.

Maturity structure of bank loans

in € thousand, share in %



1 Loan volume in 2012 including interest of € 92 thousand

Low risk structure of maturities of liabilities to banks

The weighted average remaining term of the bank loans as of 31 December 2011 was 4.8 years. A bank loan totaling € 4,481 thousand will come due on 31 May 2012 (previous year: € 32,485 thousand); however, the extension of this loan has already been secured via existing credit lines. Overall, POLIS already has access to secured credit lines of approximately € 14.4 million.

As of 31 December 2011, temporarily all variable-rate bank loans were hedged due to the loans that had been repaid as a result of sales. The weighted interest rate of all liabilities to banks after hedging was 3.9% as of 31 December 2011, compared to 3.4% as of 31 December 2010.

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/interest service coverage ratio of between 1.40 and 1.49). Due to modernization-related vacancies, the debt service coverage ratio (DSCR) in two loan portfolios temporarily fell below the minimum level. However, this shortfall was remediated by contributing additional collateral. The routine review of the covenants as of 31 December 2011 by the banks shows that all credit terms are again being met as a result of the reduction in the vacancy rate that has been achieved in the mean time. Based on the information currently available, all financial indicators for 2012 will remain within the limits required by the banks.

Net assets

In the course of financial year 2011, the balance sheet total fell as a result of the down payments for investment properties already made in 2010 for the acquisitions in Dresden and the executed sales of properties, to approximately € 302 million (previous year: approximately € 317 million). Non-current assets largely consist of the 33 investment properties and account for around 96% of the balance sheet total in line with the business model.

€ thousand	2011	2010
Non-current assets	294,452	307,073
Current assets	7,614	10,245
Equity	149,330	147,989
Balance sheet total	302,066	317,318
Equity ratio	49%	47%
Loan-to-value ratio	47%	51%

Investments in investment properties

Details of the investments in individual properties totaling approximately € 9.7 million as well as around € 40 million for the acquisition of the Dresden properties are provided in the notes to the financial statements under section 3.1 (investment properties).

Valuation of the properties

For financial year 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 appraisals. Feri appraised 11 investment properties of the POLIS property portfolio as of 31 December 2011. This means that the market value of each property is determined by an independent, external appraiser once per year. Properties not appraised by Feri at the end of a given quarter are subject to an internal appraisal. However, properties that have undergone fundamental changes 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 2011 amounted to € 289,130 thousand (previous year: € 287,510 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 on 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	289,130
Carrying amounts of investments	3,772
Other assets less other liabilities	–7,673
Liabilities to banks	–135,120
Net Asset Value	**150,109**
Deferred taxes	–779
Net Net Asset Value	**149,330**

With respect to the existing 11,051,000 shares, the net asset value per share as of 31 December 2011 amounted to € 13.58 (previous year: € 13.45). The so-called net net asset value (NNAV) is then determined by taking into account the effect of deferred taxes. As of 31 December 2011, this figure amounted to € 13.51 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 will improve future income from business operations. A balanced cash flow, our equity ratio of approximately 49% (loan-to-value ratio of around 47%), and the availability of credit lines represent a comfortable financial situation for absorbing potential risks, and at the same time provide us with 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 and 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 to shareholders, business partners, employees and the general public.

Declaration of conformity pursuant to Section 161 AktG

In 2011, 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 2012 (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 have been published on the POLIS website (www.polis.de).

Shareholders and General Meeting

The shareholders of POLIS Immobilien AG exercise their 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 instruct a financial institution, an association of shareholders, the proxies designated by POLIS Immobilien AG who are bound to follow 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.

Functioning of the Board of Management and the Supervisory Board

POLIS Immobilien AG is a company incorporated under German law. 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 as the managerial body 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. 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 appropriate risk management and control structures are implemented so that developments that pose a risk to the continued existence of the Company can be identified early on. 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 interests 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 Group's planning, business operations and situation, 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 the qualifications, skills and professional experience required to perform the required functions. Former members of the Board of Management of POLIS Immobilien AG are not among the members of the Supervisory Board. The corporate body consists of independent members, the number of which is sufficient in the Supervisory Board's assessment, who have no commercial or personal relations with the Company or the members of its Board of Management that could give rise to a conflict of interest.

The Supervisory Board elects a chairperson and a deputy chairperson from among their members. The Supervisory Board has issued by-laws governing its work.

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 (chair), 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 (chair), Ralf Schmechel and Benn Stein. The investment committee considers investments that require the approval by the Supervisory Board and prepares its decisions.

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 annual and consolidated 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 dependency report (Abhängigkeitsbericht) pursuant to Section 312 AktG were audited by the auditor KPMG AG Wirtschaftsprüfungsgesellschaft (Berlin), which was appointed by the 2011 General Meeting. The audits were carried out in accordance with the German audit regulations, 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 2011.

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 Group have company-specific reporting and monitoring systems that allow such risks to be identified, assessed and controlled. These systems are continuously developed and adjusted in line with changing conditions and are checked by the auditors. The Board of Management informs the Supervisory Board regularly of existing risks and risk trends.

Details on the management of risks within POLIS Group are contained in the risk report and in the report on the accounting-related internal control and risk management system.

Transparency and financial calendar

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. In addition, the www.polis.de website provides comprehensive information on POLIS Group and the POLIS share.

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

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.

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 continuously to 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 intention is to obtain a certification for these efforts at achieving sustainability from the German Sustainable Building Council (DGNB), an organization which POLIS Immobilien AG co-founded.

Compensation report

Compensation system of the Board of Management

The compensation of the Board of Management consists of a fixed component and a variable component that depends on performance (a so-called Tantieme).

Fixed compensation: In addition to a fixed compensation paid in monthly installments, the members of the Board of Management receive supplementary and non-cash benefits in the form of company cars.

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. 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.

In addition, the option exists to issue stock options to the members of the Board of Management within the framework of the stock option plan adopted by the General Meeting on 4 July 2008. In 2008, stock options were issued to the then members of the Board of Management.

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. 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. Retirement or survivor's pensions are not provided.

Rüdiger Freiherr von Maltzahn, who was appointed temporary Chief Financial Officer from 1 February 2011 through 30 September 2011, solely received a fixed compensation.

Disclosure of individual compensation paid to the members of the Board of Management

In financial year 2011, the members of the Board of Management received the following compensation:

€ thousand	fixed	value of non-cash benefits	variable	Total 2011	fixed	value of non-cash benefits	variable	Total 2010
Dr. Alan Cadmus	200	13	70	283	200	14	50	264
Peter E. Muth[1]	40	2	0	42	–	–	–	–
Rüdiger Freiherr von Maltzahn[2]	149	0	0	149	–	–	–	–
Dr. Matthias von Bodecker[3]	13	2	0	15	150	11	0	161
Total	**402**	**17**	**70**	**489**	**350**	**25**	**50**	**425**

1) Since 1 Oct 2011, 2) From 1 Feb 2011 – 30 Sep 2011, 3) Up to 31 Jan 2011

Compensation of the Supervisory Board

The compensation of the Supervisory Board is set forth in Section 21 of the Articles of Association. In addition to a fixed compensation, which also takes into account the function of chairperson as well as membership in committees, the Articles of Association also provide for a variable component that depends on dividends.

For financial year 2011, the members of the Supervisory Board received the following compensation and reimbursement of expenses:

In 2011, no member of the Supervisory Board received compensation or advantages for services rendered personally, in particular for consulting and brokerage services.

€ thousand	Fixed compensation	Compensation for members of committees	Variable compensation	Reimbursement of expenses	Total 2011
Carl-Matthias von der Recke	20	2	0	2	24
Klaus R. Müller	15	3	0	1	19
Arnoldus Brouns	10	1	0	0	11
Wolfgang Herr	10	0	0	1	11
Ralf Schmechel	10	1	0	2	13
Benn Stein	10	1	0	1	12
Total	**75**	**8**	**0**	**7**	**90**

Stock option plan

The stock option plan adopted by the Company's General Meeting on 4 July 2008 is presented in detail in the notes to the financial statements on section 2.4.11 on page 58.

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 2011, 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:

31 Dec 2011	Number of shares[1]	Number of stock options
Dr. Alan Cadmus	32,500	11,000
Birgit Cadmus	16,500	

1 As reported to the Company

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 2011 to 31 December 2011.

In financial year 2011, no legal transactions were carried out with Mann Immobilien-Verwaltung AG. Legal transactions with affiliated companies were only carried out with the subsidiaries of POLIS Immobilien AG.

The final declaration of the Board of Management is 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 2011, 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 Section 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 on 26 June 2007, the Board of Management is 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 (Stückaktien). 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 2011

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

b) Indirect interests as of 31 December 2011

   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

In designing its risk management system, POLIS follows the COSO standard[1] as a matter of principle. We have documented the overall conditions of the risk management system in the form of a guideline in 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.

Risk strategy

- 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 – rapid and intensive marketing of vacant spaces 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 by optimizing the portfolio.

1 Committee of Sponsoring Organizations of the Treadway Commission

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«).

Description of the key properties of the internal control and risk management systems with respect to the group accounting process pursuant to Section 289 subsection 5 HGB

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.

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 business transactions or from 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 cannot provide absolute certainty regarding the correct, complete and timely recording of circumstances in group accounting.

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 6.4 of the notes to the consolidated financial statements. Throughout the entire Group, the objective is to hedge interest rate risks by means of interest hedges with respect to between 50% and 70% of the credit volumes. In the mean time, this range has been exceeded due to new and extended interest hedges as well as existing credit lines that were not fully exploited; the intention is to reach this range again in the course of the planned investments.

In financial year 2011, debt finance was only available subject to increased risk premiums, even to well-capitalized companies. Even 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%.

With its equity ratio of around 49% and its available credit lines of around € 14 million, and in view of the loans of approximately € 4 million that are coming due in the first half of 2012, POLIS is in no danger of encountering financing shortfalls.

The loans are subject to the typical covenants: Debt service coverage ratios of between 110% and 120%, interest service coverage ratios of between 140% and 149%, and loan-to-value ratios of between 65% and 80%. In view of the low leverage and the improvements of the properties expected as a result of the construction work, we also do not anticipate any future financing issues. Scenario calculations of the covenants assuming a 10% reduction of the net rents (excluding heating expenses) did not result in a breach of the lower limits of the covenants required by the banks. For a detailed presentation of our debt positions (structure of maturities and fixed interest periods) we refer to items 3.9 and 6.4 in the chapter entitled »Liabilities to banks« in the notes to the consolidated financial statements.

The planned modernization investments are covered by the aforementioned loans and the cash flow from operating activities and do not entail the need for further financing.

Business-related risks

(i) 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 anticipated conditions, the development in 2012 will be characterized by an increase in the demand for office space. We believe that the homogeneous and solid portfolio of POLIS is not exposed to serious valuation risks.

(ii) Risks associated with letting

The properties held by the Company exhibited an average vacancy rate of 20% based on the rental space as of 31 December 2011. On average, the lease agreements concluded by POLIS stipulate medium terms, so that lease agreements are regularly due for extension. In 2012, approximately 22,800 sqm of office space will be available for letting, of which approximately 7,400 sqm are situated in the Dresden properties acquired in 2011, as well as a larger share in those modernization properties that were completed recently (for example, »Quartier Buechsenstrasse«). The rental income of POLIS is generated in a wide number of different industries. The ten most important tenants generate approximately 28% of the rental income.

(iii) 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 2012, we will invest approximately € 11 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 means of intensive project controlling, weekly project meetings, and monthly project reports.

(iv) 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.

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 2012. 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

No significant events that would need to be reported occurred between the end of financial year 2011 and the editorial deadline for this management report.

Report on anticipated developments

Development of the overall economy and the market for office buildings

In 2011, office markets showed vigorous activity and a considerable revival compared to the previous year. The seven largest office markets registered an aggregate turnover of rental space totaling 3.4 million sqm, an 18% increase over the previous year. The simultaneous drop in new construction activity in 2011 has led to a reduction in vacancies in the market for office space.

Due to the expected reduction in Germany's GDP growth rate and the typical delayed reaction of property markets to economic effects, turnover is expected to drop in 2012. As a result of the continued restrictive lending policies by the banks, new construction activity is not expected to intensify in the near term. As a result, occupancy rates should remain stable in the course of the further economic development in 2012.

Major opportunities for POLIS Group

In financial year 2011, POLIS with its good letting performance has prepared the groundwork for a further improvement of key earnings ratios in 2012. Due to our quality-focused business model and our homogenous 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 options to take advantage of opportunities in our own property portfolio particularly in challenging times.

Assessment of future business prospects

Compared to 2011, financial year 2012 will be considerably more positive in operational terms. By the end of 2012, we intend to achieve an occupancy rate of 89% of all rental spaces. All in all, we intend to achieve an increase in the net rental income in 2012 and establish the foundations for further significant growth in 2013. As a result of the increased net rental income in 2012, funds from operations will continue to increase to approximately € 2.5 million, double the figure for 2011, and is set to increase further in 2013.

We intend to increase the assets under management to over € 350 million in 2012 by carrying out additional projects with third parties. 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 and the interest rate derivatives 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 materialize or the assumptions underlying the statements turn out to be incorrect.

Berlin, 12 March 2012

POLIS Immobilien AG

– The Board of Management –

Dr. Alan Cadmus　　　　Peter E. Muth

Consolidated Financial Statements

Consolidated Financial Statements

Consolidated Statement of Financial Position

As of 31 December 2011
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

ASSETS

€ thousand	Note	31 Dec 2011	31 Dec 2010
Non-current assets			
Investment properties	3.1	289,130	287,510
Advance payments made for investment properties		0	16,086
Intangible assets	3.2	243	217
Property, plant and equipment	3.2	187	2,272
Financial assets	3.3	3,772	243
Deferred tax assets	3.4	433	533
Other financial assets	3.7	687	212
Total non-current assets		**294,452**	**307,073**
Current assets			
Receivables and other financial assets	3.5	5,585	4,442
Current tax receivables	3.5	12	26
Cash in banks	3.6	1,626	5,626
Other assets	3.7	391	151
Total current assets		**7,614**	**10,245**
Total assets		**302,066**	**317,318**

EQUITY AND LIABILITIES

€ thousand	Note	31 Dec 2011	31 Dec 2010
Equity			
Subscribed capital	3.8	110,510	110,510
Capital reserves	3.8	19,196	21,388
Retained earnings	3.8	18,287	14,544
Consolidated net income		2,563	1,547
Other income		-1,226	0
Share in equity allocable to the equity holder of the parent		149,330	147,989
Minority interests		0	0
Total equity		**149,330**	**147,989**
Liabilities			
Non-current liabilities			
Liabilities to banks	3.9	128,916	120,799
Deferred tax liabilities	3.4	1,212	1,195
Total non-current liabilities		**130,128**	**121,994**
Current liabilities			
Liabilities to banks	3.9	6,204	34,590
Payments received on account	3.9	3,567	2,997
Trade accounts payable	3.9	2,662	4,656
Income tax liabilities	3.9	41	3
Other financial liabilities	3.9	10,134	5,089
Total current liabilities		**22,608**	**47,335**
Total equity and liabilities		**302,066**	**317,318**

Consolidated Comprehensive Income Statement

for the period from 1 January to 31 December 2011
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	Note	2011	2010
Rental revenues	4.1	14,886	13,053
Renovation and maintenance expense	4.2	-2,881	-1,464
Property management expense	4.3	-1,676	-2,011
		-4,557	-3,475
Net rental income		**10,329**	**9,578**
unrealized gains from the revaluation of investment properties		11,498	4,798
unrealized losses from the revaluation of investment properties		-7,001	-4,022
Income from the revaluation of investment properties	4.4	4,497	776
Income from the sale of investment properties		53,537	14,241
Carrying amount of the investment properties sold		-52,652	-14,246
Income from the valuation of derivative financial instruments	4.5	885	-5
Other income	4.6	776	541
Other expense	4.7	-627	-314
Administrative expense	4.8	-3,475	-3,166
Income before financing activity and taxes		**12,385**	**7,410**
Investment income	4.9	37	40
Financial income	4.10	57	30
Income from the valuation of derivative financial instruments	4.11	-3,692	-800
Financial expenses	4.11	-5,548	-4,724
Income before taxes		**3,239**	**1,956**
Deferred taxes	4.12	-348	-412
Income taxes	4.12	-328	3
Consolidated net income for the period		**2,563**	**1,547**
Negative value of cash flow hedges recorded in other income		0	0
of which allocable to equity holder of parent		2,563	1,547
Consolidated net income		**2,563**	**1,547**
Negative value of cash flow hedges recorded in other income	3.9	-1,457	0
Attributable deferred tax assets	3.4	231	0
Other income		-1,226	0
Consolidated comprehensive income		**1,337**	**1,547**

€	Note	2011	2010
Earnings per share			
undiluted	4.13	0.23	0.14
diluted	4.13	0.23	0.14

Consolidated Cash Flow Statement

for the period from 1 January to 31 December 2011
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	2011	2010
Income before taxes	3,239	1,956
Adjusted for:		
Financial result	9,146	5,454
Income from revaluation of investment properties	-4,497	-776
Income from the sale of property, plant and equipment and financial assets	-885	5
Depreciation/amortization on intangible assets and property, plant and equipment	107	87
Payments for equity options	4	6
Increase in trade receivables and other assets which cannot be allocated to the investment and financing activity	-1,427	549
Changes in the trade payables and other liabilities which cannot be allocated to the investment and financing activity	413	499
Income tax paid	-243	-92
Net cash from operating activities	**5,857**	**7,688**
Payments for the acquisition of software, fixtures and equipment	-146	-190
Proceeds from the sale of consolidated investments	7,912	0
Proceeds from the sale of investment properties	30,558	14,241
Payments for the acquisition of investment properties and investments in modernization	-35,131	-33,899
Payments for the acquisition of financial assets	-2,133	0
Proceeds from the sale of property, plant and equipment	2,097	0
Net cash (used by) from investment activities	**3,157**	**-19,848**
Payments for repayments of loans	-41,829	-7,409
Proceeds from debt	34,177	27,856
Interest received	57	30
Interest paid	-5,456	-4,675
Dividends received	37	40
Net cash (used by) from financing activities	**-13,014**	**15,842**
Net change in cash and cash equivalents	**-4,000**	**3,682**
Cash in banks at the beginning of the period	**5,626**	**1,944**
Cash in banks at the end of the period	**1,626**	**5,626**

See section 5 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 2011
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	Subscribed capital	Capital reserves	Retained earnings	Consoli-dated net income	Other income	Share in equity allocable to the equity holders of the parent	Minority interest	Total equity
Balance as of 31 Dec 2009	**110,510**	**26,476**	**16,105**	**-6,655**	**0**	**146,436**	**0**	**146,436**
Settlement	0	0	-6,655	6,655	0	0	0	0
Consolidated net income	0	0	0	1,547	0	1,547	0	1,547
Expense stock option plan	0	6	0	0	0	6	0	6
Offset against capital reserves	0	-5,094	5,094	0	0	0	0	0
Balance as of 31 Dec 2010	**110,510**	**21,388**	**14,544**	**1,547**	**0**	**147,989**	**0**	**147,989**
Settlement	0	0	1,547	-1,547	0	0	0	0
Consolidated net income	0	0	0	2,563	-1,226	1,337	0	1,337
Expense stock option plan	0	4	0	0	0	4	0	4
Offset against capital reserves	0	-2,196	2,196	0	0	0	0	0
Balance as of 31 Dec 2011	**110,510**	**19,196**	**18,287**	**2,563**	**-1,226**	**149,330**	**0**	**149,330**

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 2011

1. General information

POLIS Immobilien AG (hereinafter POLIS), a listed company founded in Berlin in 1998, acquires office buildings for its own portfolio, which are then renovated and extended where 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.

The consolidated financial statements of POLIS for financial year 2011 have been drawn up in accordance with the International Financial Reporting Standards (IFRS) and their interpretation by the International Financial Reporting Interpretations Committee (IFRIC) as applicable in the EU, and further pursuant to the applicable commercial law provisions under Section 315a subsection 1 HGB (Handelsgesetzbuch, German Commercial Code).

The conformity of the consolidated financial statements with IFRS is declared expressly and without reservation.

The comprehensive income statement was structured applying the cost of sales method and further in accordance with the recommendations of EPRA (European Public Real Estate Association).

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).

Comprehensive 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 is provided in the group 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 2012 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.

2. Accounting, measurement and consolidation methods

2.1. Consolidation 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%.

The annual financial statements of all individual subsidiaries are incorporated in the consolidated financial statements using uniform accounting and measurement principles. The reporting date for all subsidiaries is 31 December 2011.

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

Business combinations (Unternehmenszusammenschlüsse) are accounted for in accordance with IFRS 3. Accordingly, 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.

No business combinations occurred in financial year 2011.

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

Minority interests represent the share of the result and of the net assets that is not attributable to the shareholders of the parent enterprise. Minority interests are reported separately in the consolidated comprehensive income statement and in the consolidated balance sheet. In the consolidated balance sheet, minority interests are reported as equity, separate from the equity attributable to the shareholders of the parent enterprise.

2.2. Consolidated companies

The consolidated financial statements include POLIS Immobilien AG and all companies controlled by POLIS. In addition to POLIS Immobilien AG, the group of consolidated companies includes the 32 fully consolidated companies in Germany as set forth in the following overview. Compared to 31 December 2010, the consolidated group of POLIS decreased by five companies as a result of three sales of shares and two accruals (Anwachsungen) within the Group. This change does not affect the comparability of the financial statements with the previous year.

Subsidiary	Share in the capital %
POLIS Objekte Altmarkt Kramergasse GmbH & Co. KG (formerly Haus Steinstrasse GmbH & Co. KG)	100
Buerohaus Berliner Allee GmbH & Co. KG	100
Buerohaus Steinstrasse 27 GmbH & Co. KG	100
POLIS Objekt Gutleutstrasse 26 GmbH & Co. KG	100
POLIS Objekte Dusseldorf GmbH & Co. KG	100
POLIS Objekt Landschaftstrasse GmbH & Co. KG	100
POLIS Objekt Tuebinger Strasse GmbH & Co. KG	100
POLIS Objekt Kleppingstrasse GmbH & Co. KG	100
POLIS Objekt Konrad-Adenauer-Ufer GmbH & Co. KG	100
POLIS Objekt Ebertplatz GmbH & Co. KG	100
POLIS Quartier Buechsenstrasse GmbH & Co. KG	100
POLIS Objekt Domstrasse GmbH & Co. KG	100
POLIS Objekt Gustav-Heinemann-Ufer GmbH & Co. KG	100
POLIS Objekte Duisburg Essen GmbH & Co. KG	100
POLIS Objekte Mainz GmbH & Co. KG	100
POLIS Objekte Mannheim Stuttgart GmbH & Co. KG	100
POLIS Objekte Kassel Koeln GmbH & Co. KG	100
POLIS Objekt Immermannstrasse GmbH & Co. KG	100
POLIS Objekt Neumarkt GmbH & Co. KG	100
POLIS Objekt Weyerstrasse GmbH & Co. KG	100
POLIS Objekt HH Steinstrasse GmbH & Co. KG	100
POLIS Objekt Koenneritzstrasse GmbH & Co. KG, Berlin	100
POLIS Objekt Palaisplatz GmbH & Co. KG, Berlin	100
POLIS Cityfonds GmbH & Co. KG	100
POLIS GmbH & Co. Siebenunddreissigste Objekt KG	100
POLIS GmbH & Co. Achtunddreissigste Objekt KG	100
POLIS GmbH & Co. Neununddreissigste Objekt KG	100
POLIS GmbH & Co. Vierzigste Objekt KG	100

Subsidiary	Share in the capital %
POLIS Cityfonds Objekt Lessingstrasse GmbH & Co. KG	100
POLIS Objekt Potsdamer Strasse 58 GmbH	94
POLIS Objekt Luisenstrasse 46 GmbH	100
POLIS Grundbesitz Objekt Verwaltungs GmbH	100

2.3. Discretionary decisions and 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 in determining the fair values of the investment properties. Please see section 3.1 for information on individual factors in the context of property valuation. However, due to the nature of the industry significant uncertainties remain with respect to the valuation of the property portfolio that cannot be quantified accurately.

2.4. 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 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 5%. 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.

Investment properties are written off if they are sold or become permanently unfit for use and no future economic benefit is expected from their disposal. Gains or losses from the disposal or retirement of investment properties are recognized in income in the year in which the sale or retirement occurs.

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 apply to the appraisal of the investment properties. Fixtures and equipment are depreciated over a period of between 3 and 13 years. If tangible assets are sold or closed down, the acquisition costs or production costs and the appropriate accumulated depreciation of the fixed assets are written off; any resulting profits or losses are taken to income.

2.4.4. *Financial assets*

Financial assets are recognized on the date on which the Company becomes a contracting party with respect to the financial instrument and thus becomes entitled or obligated to render performance or counter-performance.

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

Financial assets are measured at fair value at the time they are first recognized.

The subsequent measurement depends on the classification of the financial instruments in accordance with the measurement categories pursuant to IAS 39. The classification is made in the categories »Measured at fair value and taken to income«, »Loans and receivables« and »Financial assets available for sale.«

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

a) Financial assets

Interests 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.

Interests whose fair value can be reliably estimated are recognized at their fair value at the time of acquisition and are measured in the following years at their fair value. Fair value changes are recorded as other income for the duration of the investment. Since these interests concern property companies, the fair values are determined using market parameters that can only be observed indirectly. Consequently, they are classified as level 3 in accordance with IFRS 7.27A (determination of fair values based on unobservable market inputs).

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 (interest rate caps, floors and swaps) are used to hedge interest rate risks. They largely do not satisfy the criteria of IAS 39 with respect to the representation of hedging relationships (hedge accounting).

Derivative financial instruments are reported and measured at fair value. The fair values were determined using directly observable market parameters. Accordingly, the derivative assets and liabilities are classified as second level according to IFRS 7.27A (determination of the fair values based on observable inputs that do not represent observable prices on active markets).

Fair value changes are recognized in income unless the derivative financial instruments are used in a designated and sufficiently effective hedging relationship in the context of an underlying transaction.

Cash flow hedges are designated in order to represent in the balance sheet the hedge against the risk of their variation in line with an asset or liability entered in the balance sheet, or with future cash flows associated with a planned transaction that will materialize with a high degree of probability. In this context, the unrealized gains and losses of the hedge are initially recognized in other income. They are only transferred to the profit-and-loss account once the underlying transaction that is being hedged has been recognized in income.

In addition to documenting the hedging relationship between the hedge and the underlying transaction, hedge accounting requires proof of the effectiveness of the hedging relationship between the hedge and underlying transaction. In the case of an effective relationship, the effective part of the change in value of the hedge is recorded in other income, while the non-effective part is recognized in the income statement.

If planned transactions are hedged, and if such transactions lead to the recognition of a financial asset or a financial liability in subsequent periods, the sums recorded in other income up to such time are reversed affecting income in the reporting period in which also the hedged underlying financial transaction influences the results of that period. If the transaction leads to the recognition of non-financial assets or liabilities, the sums recorded in other income are set off against the initially recognized value of the asset or liability.

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 current income taxes still unpaid is shown as a liability. Overpayments of income taxes are reported as a receivable.

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

Deferred taxes are 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.

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.

The financial liabilities of POLIS are made up of the following items:

a) Liabilities to banks

When recognized for the first time, loans are measured at the fair value of the consideration received for the exchange of the obligations less the transaction costs directly attributable to taking up the loans. The subsequent measurement is at amortized cost using the effective interest method.

b) Trade payables and other financial liabilities

Financial liabilities are measured at the amount corresponding to the anticipated outflow of funds.

After their first-time recognition, derivative financial instruments with a negative market value are measured on each reporting date at their fair value.

Fair value changes are recognized in income unless the derivative financial instruments are used in a designated and sufficiently effective hedging relationship in the context of an underlying transaction (cf. section 2.4.4.b).

2.4.8. Impairment

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

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

If doubts exist concerning the 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. 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.

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 to the extent they are not recorded in other income.

The financial expenses include interest expenses for loans as well as expenses from the change of the fair value of financial instruments to the extent they are not recorded in other income.

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

2.4.10. Leases

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

The Group has leased an office floor as well as vehicles and office equipment. In terms of their economic substance, these rentals and leases represent operating leases.

2.4.11. 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.

2.4.12. Standards 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 2011 were not applied. It is not expected that the changes will have an impact on the future consolidated financial statements of POLIS.

IFRS 7 – Enhanced disclosure requirements for transfer transactions of financial assets

The amendments to IFRS 7 call for enhanced disclosure requirements with respect to transfers of financial assets. This is intended to make more transparent the relationships between financial assets that are not to be written off completely and the associated financial liabilities. Furthermore, the intention is to make the nature and in particular the risks of a continuing involvement of financial assets that have been written off more readily assessable. These changes also require additional information in the case of a disproportionately large number of transfers with a continuing involvement, for example near the end of a reporting period. The amendment is to be applied for the first time to financial years starting on or after 1 July 2011.

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 similar long-term revenue prospects and are therefore aggregated to a single segment in accordance with IFRS 8.12.

3. Notes to the statement of financial position

3.1. Investment properties and advance payments made for investment properties

All investment properties of POLIS are held for the purpose of generating rental revenues and/or increasing their value. There are no restrictions as to the disposability of the investment properties.

The investment properties are measured at fair value. Changes in the fair value are recognized as income in the comprehensive income statement in the form of unrealized gains and losses from the revaluation of investment properties.

The modernization investments largely concern investments in the revitalization of the »Quartier Buechsenstrasse« in Stuttgart.

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.

The investment properties at the new location in Dresden were appraised externally as of 31 March 2011 for the first time after their acquisition, resulting in a positive change in the market value of € 6,091 thousand. In the mean time, the change in the market value has improved further due to progress in letting, primarily as the result of extending a lease agreement for retail space spanning approximately 2,700 sqm at improved terms and conditions in the investment property at »Kramergasse 2/4«, Dresden.

The investment property at »Kasernenstrasse 1« in Dusseldorf was sold within the context of an asset deal effective 1 August 2011. The investment property at »Ludwig-Erhard-Strasse 14« in Hamburg was sold within the context of an asset deal effective 30 September 2011. The investment properties at »Rankestrasse 5–6« in Berlin and »Bugenhagenstrasse 5« in Hamburg were sold within the context of a share deal effective 30 September 2011. These sales resulted in total disposal gains of € 830 thousand.

The following table illustrates the changes in the investment properties in 2011:

€ thousand		1 Jan 2011					31 Dec 2011
Property	Location	Fair value	additions from acquisition	moderniza-tion invest-ments	disposals	changes in market value	fair value
Luisenstrasse 46	Berlin	10,360	0	0	0	400	10,760
Potsdamer Strasse 58	Berlin	14,160	0	236	0	-176	14,220
Rankestrasse 5–6	Berlin	15,470	0	265	15,735	0	0
Kleppingstrasse 20	Dortmund	5,410	0	25	0	-415	5,020
Altmarkt 10/Kramergasse 2/4	Dresden	0	29,030	323	0	5,407	34,760
Koenneritzstrasse 29–31	Dresden	0	6,000	446	0	2,944	9,390
Palaisplatz	Dresden	0	5,139	27	0	-446	4,720
Gallenkampstrasse 20	Duisburg	1,610	0	72	0	-62	1,620
Berliner Allee 42	Dusseldorf	5,990	0	0	0	390	6,380
Berliner Allee 44	Dusseldorf	7,490	0	253	0	497	8,240
Berliner Allee 48	Dusseldorf	5,100	0	171	0	39	5,310
Immermannstrasse 11	Dusseldorf	2,970	0	19	0	121	3,110
Kasernenstrasse 1	Dusseldorf	18,290	0	626	18,916	0	0
Steinstrasse 27	Dusseldorf	8,580	0	251	0	29	8,860
Gutleutstrasse 26	Frankfurt a. M.	11,100	0	0	0	-390	10,710
Bugenhagenstrasse 5	Hamburg	5,370	0	96	5,466	0	0
Ludwig-Erhard-Strasse 14	Hamburg	12,590	0	0	12,590	0	0
Domstrasse 10	Hamburg	10,970	0	2	0	-562	10,410
Steinstrasse 12–14	Hamburg	5,520	0	258	0	-278	5,500
Landschaftstrasse 2	Hanover	4,390	0	78	0	-38	4,430
Landschaftstrasse 8	Hanover	3,880	0	0	0	50	3,930
Ebertplatz 1	Cologne	7,380	0	183	0	-43	7,520
Gustav-Heinemann-Ufer 54	Cologne	14,360	0	1,028	0	-68	15,320
Hansaring 20	Cologne	4,050	0	16	0	214	4,280
Konrad-Adenauer-Ufer 41–45	Cologne	19,900	0	675	0	615	21,190
Neumarkt 49	Cologne	7,970	0	204	0	46	8,220
Weyerstrasse 79–83	Cologne	15,970	0	174	0	156	16,300
Rheinstrasse 43–45	Mainz	2,770	0	5	0	-235	2,540
Rheinstrasse 105-107	Mainz	4,100	0	137	0	-167	4,070
Lessingstrasse 14	Munich	9,550	0	209	0	-179	9,580
Boeblinger Strasse 8/ Arminstrasse 15	Stuttgart	4,060	0	109	0	11	4,180
Quartier Buechsenstrasse	Stuttgart	38,910	0	3,766	0	-2,506	40,170
Tuebinger Strasse 31 & 33	Stuttgart	9,240	0	7	0	-857	8,390
Total		**287,510**	**40,169**	**9,661**	**52,707**	**4,497**	**289,130**

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

€ thousand		1 Jan 2010				31 Dec 2010
Property	Location	Fair value	modernization investments	disposals	changes 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
Total		**282,000**	**18,070**	**13,336**	**776**	**287,510**

Expenses and income directly attributable to investment properties

In addition to the unrealized gains and losses from the revaluation of investment properties as well as the income from the sale of investment properties, the comprehensive income statement includes the following directly attributable sums associated with the investment properties:

€ thousand	2011 Total	2011 Properties available for sale	2011 Investment properties	2010 Total	2010 Properties available for sale	2010 Investment properties
Rental revenues from investment properties	14,886	0	14,886	13,053	33	13,020
Directly attributable property management costs that led to rental revenues						
Renovation and maintenance	2,881	0	2,881	1,464	3	1,461
Property management	1,010	0	1,010	1,433	11	1,422
Total	**3,891**	0	**3,891**	**2,897**	**14**	**2,883**
Directly attributable property management costs that did not lead to rental revenues						
Property management	666	0	666	578	11	567
Total	**666**	0	**666**	**578**	**11**	**567**

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 2011

The fair values of the properties as of 31 December 2011 as well as for the reporting date for the previous year were determined on the basis of appraisals carried out by an independent expert as well as internal appraisers. POLIS commissioned Feri EuroRating Services AG (hereinafter Feri) to determine the market values of 11 buildings held by POLIS and to document these in the form of rating reports and market value appraisals. For appraising the entire portfolio, Feri receives an all-inclusive compensation that is independent of the market values it has determined.

Also, properties were appraised internally based on Feri's appraisals from previous periods.

The value determined is the market value as 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. The real estate appraisal 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.

The property's market value is determined using the discounted cash flow method. The difference between the rental income and the renovation and maintenance costs as well as the costs of managing the property yields the net cash flow, which is then discounted using the so-called break-even yield.

Rental revenues initially contain the contractually agreed rents. The rental revenues from letting vacant areas and from re-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. Feri's real estate appraisal evaluates the desirability and the risk of a property and measures the factors required for determining the net cash flow and the discount factor. 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 tenant creditworthiness, tenant concentration and 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).

The break-even yield represents the rate of return that an individual property must generate to achieve a yield that is appropriate for the risk. It reflects all risks that are associated with the investment in an individual property. 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. For this purpose, Feri's real estate appraisal system uses the interest rate of the current yield for ten-year government bonds. As of the valuation date, the long-term average value of this rate was 3.11%.
- A mark-up (risk premium) on the base interest rate takes into account the general market risk of a real estate investment.
- The property risk is a further 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 6.82% (previous year: 6.93%). Assuming an increase or a decrease in the average break-even yield of 0.5 %-points increases or decreases the market values by approximately 3%.

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 and the overall structural state of preservation as of the reporting date were analyzed and extend the remaining useful life of the property in question, where applicable.

The internal appraisal of the properties is carried out in accordance with the same principles, using Feri's market research to complement the internal detailed planning. At the end of each quarter, updated property-specific market rent forecasts determined by Feri 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-specific and property-specific developments on the discount factor are researched and adjusted based on Feri's interest rate forecast.

3.2. Intangible and tangible assets

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

	Acquisition/ production cost				Revaluation accumulated		Depreciation/amortization				Carrying amount	
€ thousand	1 Jan 2011	Additions	Disposals	31 Dec 2011	1 Jan 2011	Disposals	1 Jan 2011	Additions	Disposals	31 Dec 2010	31 Dec 2010	31 Dec 2011
Software	306	96	0	402	–	–	89	70	0	159	217	243
Properties and buildings (own use)	2,184	0	2,184	0	-87	87	0		0	0	2,097	0
Fixtures and equipment	325	50	0	375	–	–	150	38	0	188	175	187
	2,815	**146**	**2,184**	**777**	**-87**	**87**	**239**	**108**	**0**	**347**	**2,489**	**430**

The disposal among the fixed assets concerns the sale of the permanent right of use regarding the office floor used for own purposes in »Rankestrasse 5–6«, Berlin, effective 30 September 2011.

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

€ thousand	Acquisition/ production cost 1 Jan 2010	Additions	31 Dec 2010	Revaluation accumulated 1 Jan 2010	Depreciation/amortization 1 Jan 2010	Additions	Disposals	31 Dec 2010	Carrying amount 31 Dec 2009	31 Dec 2010
Software	137	169	306	–	42	47	0	89	95	217
Properties and buildings (own use)	2,184		2,184	-87	0		0	0	2,097	2,097
Fixtures and equipment	304	21	325	–	108	42	0	150	196	175
	2,625	**190**	**2,815**	**-87**	**150**	**89**	**0**	**239**	**2,388**	**2,489**

3.3. Financial assets

Effective 30 September 2011, 85% of the shares in each of POLIS Objekt Rankestrasse GmbH & Co. KG, POLIS Objekt Bugenhagenstrasse GmbH & Co. KG and POLIS Objekt Ludwig-Erhard-Strasse GmbH & Co. KG (formerly POLIS GmbH & Co. Dreiunddreissigste Objekt KG) were sold. The intention is to hold each of the remaining 15% stakes indefinitely; POLIS will perform asset and property management services for each of these companies.

The interests were measured at fair value as of 30 September 2011 based on the fair values assumed for the properties held by the companies at the time the shares were sold. As of 31 December 2011, the values had not changed relative to 30 September 2011.

The investment in Bouwfonds GmbH & Co. Stinnesplatz KG was valued at cost due to the lack of an active market and the fact that POLIS does not have the information required for determining the fair value.

€ thousand Subsidiary	Location	Share %	Acquisition/ production cost 1 Jan 2011	Additions	31 Dec 2011	Depreciation/amortization 1 Jan 2011	Additions	31 Dec 2011	Carrying amount 31 Dec 2010	31 Dec 2010
POLIS Objekt Rankestrasse GmbH & Co. KG	Berlin	15.00	0	1,770	1,770	0	0	0	0	1,770
POLIS Objekt Ludwig-Erhard-Strasse GmbH & Co. KG	Berlin	15.00	0	1,200	1,200	0	0	0	0	1,200
POLIS Objekt Bugenhagenstrasse GmbH & Co. KG	Berlin	15.00	0	559	559	0	0	0	0	559
Bouwfonds GmbH & Co. Objekt Stinnesplatz KG	Berlin	5.10	243	0	243	0	0	0	243	243
			243	**3,529**	**3,772**	**0**	**0**	**0**	**243**	**3,772**

3.4. Deferred tax assets and liabilities

The net deferred tax liabilities totaling € 779 thousand (previous year: € 662 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 are as follows:

Deferred tax credit

€ thousand	2011	2010
Tangible assets	1,299	1,130
Tax losses carried forward	721	906
Other financial liabilities	1,526	717
Balance of tax losses carried forward and other financial liabilities	–3,113	–2,220
Deferred tax claims	**433**	**533**

Deferred tax liabilities

€ thousand	2011	2010
Tangible assets	4,325	3,415
Balance of tax losses carried forward and other financial liabilities	–3,113	–2,220
Other assets	0	0
Deferred tax debts	**1,212**	**1,195**

As of 31 December 2011 and 31 December 2010, 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.

The portion of the deferred tax assets pertaining to derivatives (interest rate swaps) that form part of an effective cash flow hedge (€ 230 thousand) are recorded in other income.

The other 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 € 30,394 thousand because they are not used according to the business plan.

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

All receivables and other financial assets have a remaining term of up to one year and are composed as follows:

€ thousand	31 Dec 2011	31 Dec 2010
Trade receivables	3,932	3,640
of which allocable operating expenses	3,676	3,253
of which rent receivables	256	387
Receivables from the sale of investment properties	784	127
Other receivables	446	272
Derivative financial instruments	0	51
Financial instruments	**5,162**	**4,090**
Sales tax credit and input tax that is deductible in the following year	423	352
Total	**5,585**	**4,442**

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

As of 31 December 2011, receivables from operating costs not yet settled stood at € 3,676 thousand (previous year: € 3,253 thousand), and down payments for operating costs amounted to € 3,567 thousand (previous year: € 2,997 thousand).

The rent receivables are composed as follows:

€ thousand	31 Dec 2011	31 Dec 2010
Non-impaired rent receivables	243	317
Gross claim	165	148
Value adjustment	-152	-78
Impaired rent receivables	13	70
Total	**256**	**387**

All rent receivables shown relate to commercial tenants located in Germany. The rent receivables have largely been assigned as collateral for bank loans.

The rent receivables that are not impaired have the following age structure:

€ thousand	Carrying amount	of which: neither impaired nor past due	of which: not impaired, and past due in the following periods: 0–30 days	31–60 days	61–90 days	more than 90 days
Rent receivables 31 Dec 2011	243	122	80	14	0	27
Rent receivables 31 Dec 2010	317	133	90	46	29	19

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

The value adjustments on rent receivables have developed as follows:

€ thousand	2011	2010
Status as of 1 January	78	193
Dissolution	-8	-153
Additions	82	38
Status as of 31 December	**152**	**78**

For the rent receivables that are already due, POLIS has received collateral in the form of rent deposits (cash deposits and guarantees) amounting to € 470 thousand, of which € 201 thousand relate to value-adjusted receivables.

Value adjustments for other receivables and other assets were not required.

The current tax receivables in 2011 and in the previous year concern creditable interest withholding taxes, the solidarity surcharge, and income tax credits.

3.6. Cash in banks

The reported figures represent cash in banks and cash holdings. Restraints on disposal exist with respect to a sum of € 589 thousand in the context of a breach of covenants during the year. Since the covenants were met as of the reporting date, the bank is expected to release the funds shortly.

3.7. Other assets

Other assets largely pertain to accruals relating to rent-free periods. 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 2011 and previous years.

3.8. Equity

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

Subscribed capital

The fully paid up 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 (2011: € 19,196 thousand; 2010: € 21,388 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 2010 against capital reserves, which was carried out in the financial statements for POLIS Immobilien AG.

Retained earnings

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

3.9. 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	135,120	6,806	103,930	24,384
	(155,389)	(34,590)	(120,799)	(0)
Down payments received	3,567	3,567	0	0
	(2,997)	(2,997)		
Trade liabilities	2,662	2,523	139	0
	(4,656)	(4,554)	(102)	
Income tax liabilities	41	41	0	0
	(3)	(3)		
Other liabilities	10,134	10,134	0	0
	(5,089)	(5,089)		
	151,524	**23,071**	**104,069**	**24,384**
	(168,134)	**(47,233)**	**(120,901)**	**(0)**

The key terms of the loan agreements with financial institutions are set forth in the following table:

Time to maturity Year	Interest rate %	Initial amortization %	Remainder of debt € thousand
2012	variable	1	4,574
2013	variable	1	17,883
2014	variable	1	14,530
2015	variable	2	60,447
2015	3.55	1	12,300
2021	variable	1	6,036
2021	3.51	1	19,350
Total			**135,120**

Of the **liabilities to banks,** a total of € 103,378 thousand (previous year: € 147,526 thousand) are at variable interest rates, and € 31,650 thousand (previous year: € 7,814 thousand) are at fixed interest rates; the item also includes accrued interest of € 92 thousand (previous year: € 49 thousand).

The loans will already be repaid in part during their term as stated, which means that partial amounts of the stated remaining debt have a shorter residual term than the term of the corresponding loan agreement.

The loans are secured by charges on real property of € 184,016 thousand (previous year: € 181,187 thousand) against the property portfolio (carrying amount: € 289,130 thousand) as well as by assignments of claims for rent.

The weighted average interest rate of all bank loans including derivative financial instruments as of 31 December 2011 was 3.9% (previous year: 3.4%). The weighted average remaining term of the bank loans is 4.8 years.

The fair values of the variable-rate liabilities correspond to their carrying amount. The fair values of the fixed rate liabilities as of 31 December 2011 amount to € 32,302 thousand (previous year: € 7,861 thousand). The fair values of the liabilities to banks are based on discounted cash flows that were determined on the basis of current market interest rates. The discount interest rates assumed were between 2.6% and 3.6% (including margin).

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

The **income tax liabilities** concern corporate income tax and solidarity surcharge totaling € 41 thousand (previous year: € 3 thousand). The carrying amounts correspond to the fair values.

Trade payables largely pertain to construction work. The carrying amounts correspond to the fair values.

The **other liabilities** item is composed as follows:

€ thousand	31 Dec 2011	31 Dec 2010
Negative market value of derivative financial instruments	9,649	4,550
Liabilities to employees	215	370
Other	270	170
Total	**10,134**	**5,089**

Key characteristics of the employed derivative financial instruments are presented below:

Hedging instruments	Volume € thsd.	Original maturity	Rate %	Market value 31 Dec 2010 € thsd.	Market value 31 Dec 2011 € thsd.	Effect and results € thsd.	Equity € thsd.
Financial instruments not designated in the context of cash flow hedges that expired in 2011 or were redeemed prematurely:							
Swap	5,000	30 Dec 11	4.00%	-145	0	145	0
Swap	2,675	31 Dec 11	3.12%	-54	0	54	0
Swap	10,000	31 Dec 12	4.33%	-591	0	591	0
Swap	5,000	31 Dec 12	4.15%	-277	0	277	0
	22,675			-1,067	0	1,067	0
Financial instruments not designated in the context of cash flow hedges:							
Swap	5,000	31 Dec 12	3.93%	-255	-144	110	0
Swap	10,000	31 Mar 15	2.41%	-137	-402	-265	0
Swap	10,000	30 Jun 15	4.80%	-1,158	-1,248	-89	0
Forward Swap[1]	10,000	30 Dec 15	2.81%	34	-420	-453	0
Swap	5,000	30 Dec 15	2.23%	13	-184	-197	0
Swap	8,100	31 Dec 15	3.14%	-296	-581	-285	0
Swap	10,000	31 Dec 15	3.48%	-579	-865	-286	0
Swap	3,150	31 Dec 15	2.40%	-18	-134	-116	0
Swap	5,000	30 Sep 16	3.47%	-188	-471	-283	0
Swap	10,000	30 Dec 16	3.58%	-612	-1,019	-407	0
Swap	10,000	29 Jun 18	3.64%	0	-1,166	-1,166	0
Swap	10,000	29 Jun 19	3.69%	0	-1,264	-1,264	0
Floor	-5,000	29 Jun 13	3.37%	-240	-176	64	0
Cap	5,000	28 Jun 13	6.00%	4	0	-4	0
	96,250			-3,432	-8,074	-4,642	0
Financial instruments designated in the context of cash flow hedges:							
Swap	6,063	1 Jul 21	3.06%	0	-789	-45	-744
Swap	6,036	1 Jul 21	3.06%	0	-786	-73	-713
	12,099			0	-1,575	-118	-1,457
				-4,499	**-9,649**	**-3,693**	**-1,457**

1 Starting 2 Jan. 2013

The income statement records changes in the market values to the extent that the hedging relationship between the derivative financial instrument and the underlying transaction is not effective. Changes in the market value of effective hedging relationships are recorded in other income.

3.10. Additional information concerning financial instruments

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

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

€ thousand

Balance sheet item	Category	2011	2010
Financial assets	Financial assets available for sale	3,772	243
Receivables and other financial assets	Loans and receivables	5,162	4,039
	Financial assets (derivatives) held for trading	0	51
Cash in banks	Cash and cash equivalents	1,626	5,626
		10,560	10,311
Liabilities to banks	Financial liabilities at amortized cost	135,120	155,389
Trade payables	Financial liabilities at amortized cost	2,662	4,656
Other financial liabilites	Financial liabilities at amortized cost	485	539
	Financial assets (derivatives) held for trading	9,649	4,550
		147,916	**165,134**

Differences between the fair values and the carrying amounts only exist in the liabilities to banks. The fair values of the liabilities to banks as of 31 December 2011 amount to € 135,680 thousand (previous year: € 155,387 thousand).

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

€ thousand		2011	2010
Financial assets	Financial assets held for sale	37	40
Receivables and other financial assets	Receivables	–142	54
other financial liabilities	Financial assets held for trading (derivatives)	–3,692	–800
		–3,797	**–706**

The net profits from receivables in the previous year are the result of reductions in value adjustments.

The 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.

The negative changes in the market value of derivatives that form part of effective cash flow hedges (€ 1,457 thousand) were reported in other income after deducting deferred taxes (€ 231 thousand).

According to IFRS 7.27A and B, companies are required to apply a hierarchical classification when determining the fair values of financial instruments that takes into account the relevance of the factors included in the valuation. This classification involves three levels:

a) the prices quoted on active markets for identical assets or liabilities that are adopted without change (level 1),

b) inputs other than the quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2), and

c) inputs not based on observable market data used for the valuation of the asset or liability (non-observable inputs) (level 3).

The portfolio of financial instruments that are measured at fair values is composed as follows:

€ thousand		level 1	level 2	level 3	Total	level 1	level 2	level 3	Total
					31 Dec 2011				31 Dec 2010
Financial assets (interests)	Assets held for sale; value changes recognized in other income	–	–	3,529	**3,529**	–	–	–	0
Receivables and other financial assets	Financial assets (derivatives) held for trading; value changes recognized in the income statement	–	–	–	0	–	51	–	51
Oher financial liabilities	Financial liabilities (derivatives) held for trading; value changes recognized in the income statement	–	-8,074	–	**-8,074**	–	-4,550	–	-4,550
	Financial liabilities (derivatives) held for trading; value changes recognized in other income	–	-1,575	–	**1,575**	–	–	–	–
		0	**-9,649**	**3,529**	**-6,120**	**0**	**-4,499**	**0**	**-4,499**

The interests classified as level 3 have performed as follows:

€ thousand	2011 Total	2010 Total
1 Jan	–	–
Additions from acquisition	3,529	–
31 Dec	**3,529**	**0**

Additional information concerning these interests is contained in section 3.3.

Since these interests were only acquired in October 2011, the assumption is that the market value as of 31 December 2011 does not differ substantially from the value at the time of acquisition.

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 € 520 thousand (previous year: € 123 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 expense

This item includes the following:

€ thousand	2011	2010
Operating costs that cannot be charged to tenants	723	639
Letting-related costs	576	811
Other property m anagement expenses	376	561
	1,675	**2,011**

4.4. Income from the revaluation of investment properties

The overview of the development of the properties in section 3.1 provides further details on the composition of this item.

4.5. Income from the sale of properties

In 2011, the income from the sale of properties totaling € 885 thousand (previous year: € -5 thousand) resulted from the sale of the investment properties at »Kasernenstrasse 1« in Dusseldorf, »Ludwig-Erhard-Strasse 14« in Hamburg, »Rankestrasse 5–6« in Berlin and »Bugenhagenstrasse 5« in Hamburg.

4.6. Other income

Other income for financial year 2011 mainly includes income from asset and property management services for the three companies in which POLIS holds 15% interests (€ 368 thousand) and compensation payments by tenants and authorities for negative effects on rental properties.

4.7. Other expenses

The other expenses item includes value adjustments 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 composition of the administrative expense:

€ thousand	2011	2010
Staff costs	1,836	1,803
Legal, consulting and auditing fees	605	498
Office and travel expenses	726	526
Stock exchange-related expenses, financial reports, general shareholders' meeting	121	156
Marketing and advertising expenses	97	92
Other expenses	90	90
Total	**3,475**	**3,166**

In addition to the two members of the Board of Management, 25 persons were employed in financial year 2011 (previous year: 24), 6 in general administration, and 19 in asset and property management, including 2 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 expenses

Financial expenses relate to the following positions:

€ thousand	2011	2010
Interest expenses		
from loans	3,460	2,232
from swaps	1,898	2,279
Ancillary financing costs	190	213
Expenses from revaluation of derivative financial instruments	3,692	800
Total	**9,240**	**5,524**

The interest expense pertaining to loans corresponds to the overall interest expense for financial liabilities that are not measured at their fair values.

4.12. Income taxes

The income tax expenses for financial years 2011 and 2010 are composed as follows:

€ thousand	2011	2010
Expenses (–)/income (+)		
Deferred taxes on losses carried forward	–185	401
Deferred taxes from temporary differences	–163	–813
Current taxes	–328	3
Total	**–676**	**–409**

The corporate income tax rate in Germany was 15% in 2011 (previous year: 15%), and the solidarity surcharge was 5.5% thereof. The resulting combined tax rate is 15.825% (previous year: 15.825%).

Since income from the properties held in the property companies are not subject to trade tax due to the extended trade tax reduction (erweiterte Gewerbesteuerkürzung), any trade tax (in this case: originating at the level of POLIS Immobilien AG) is taken into account as a reconciliation item.

The following calculation shows how the reported income taxes expenses are derived from the expected tax expenses.

€ thousand	2011	2010
Pre-tax result	3,239	1,956
Group tax rate	15.8%	15.8%
Expected expenses from income taxes	**–513**	**–310**
Non-deductible operating expenses	–7	–8
Trade tax	0	–66
Corporate income tax – previous years	–156	–25
Taxes on income	**–676**	**–409**
Tax rate	20.9%	20.9%

4.13. Earnings per share

Earnings per share are determined as follows:

	2011	2010
Group net profit/loss for the year after income allocable to minority interests (in € thousand)	2,563	1,547
Average number of ordinary shares in circulation	11,051,000	11,051,000
Earnings per share (diluted and undiluted) (in €)	0.23	0.14

5. Disclosures concerning the statement of cash flows

The statement of cash flows was drawn up using the indirect method, with cash from operating activities determined through a correction of the net income by non-cash business events, adjustment 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.

Restraints on disposal exist with respect to a sum of € 589 thousand in the context of a breach of covenants during the year.

In return for the sale of 85% stakes in each of two consolidated subsidiaries, POLIS received an overall sum of € 7,912 thousand. At the time of the sale, the assets of the subsidiaries mainly consisted of investment properties with an overall current market value of € 22,193 thousand and liabilities to banks totaling € 12,617 thousand. At the time of sale there were no liquid funds.

6. Other disclosures

6.1. Other disclosures

The compensation report in 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.

Members of the Board of Management were:

- 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 (from 1 February 2011 until 30 September 2011)
- Peter E. Muth, Chief Financial Officer, Berlin (from 1 October 2011)

The overall compensation of the Board of Management in financial year 2011 amounted to € 489 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, 3]
- Arnoldus Brouns, managing director of Bouwfonds real estate investment management, Hoevelaken/Netherlands, residing in Maastricht/Netherlands[1]
- Wolfgang Herr, member of the board of management of Mann Immobilien-Verwaltung AG, residing in Baden Baden[3]
- 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 2011 amounted to € 90 thousand.

1 member of the personnel committee of the Supervisory Board
2 member of the investment committee of the Supervisory Board
3 also active in the following supervisory body: Supervisory board of IVG Immobilien AG

6.2. 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 6.1 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 worth € 142 thousand (previous year: € 130 thousand) were provided in financial year 2011 that were settled at typical market conditions.

6.3. Share-based compensation

No share-based compensation was paid in financial year 2011. In 2008, 26,000 subscription rights with a market value of € 18 thousand were granted. These subscription rights remain outstanding. The lockup period of three years since issuing the options has expired; however, exercising these options has not been possible because the required success criteria have not been met to date.

The expenses associated with granting subscription rights to employees in 2008 in financial year 2011 are € 4 thousand (previous year: € 6 thousand). The reduction is the result of the forfeiture of 9,000 subscription rights upon the withdrawal of a member of the Board of Management.

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 the exercise 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 cumulative 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 5 %-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.

6.4. 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, which on the one hand influence the level of interest expenses, and on the other hand influence the market value of the derivative financial instruments. As of 31 December 2011, the variable-rate bank liabilities of POLIS stood at € 103,378 thousand (previous year: € 147,526 thousand). A total sum of € 108,350 thousand (previous year: € 93,925 thousand) was converted into fixed-rate liabilities using interest rate swaps; in addition, a sum of € 5,000 thousand (previous year: € 5,000 thousand) was hedged using interest rate caps. Fixed-rate liabilities to banks amounted to € 31,650 thousand (previous year: € 7,814 thousand). This means that all variable-rate liabilities to banks have been hedged; in the previous year, the share of variable-rate, un-hedged liabilities to banks was 35%.

POLIS uses a cash flow-at-risk analysis to determine the effects of changes in interest rates on its profit or loss and its 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. Since all variable-rate loans are hedged as of 31 December 2011, there is no risk from an assumed increase in interest rates.

The market price of derivative financial instruments is also subject to interest rate risks. An increase in interest rates by 100 basis points would have increased the value of the derivatives as of 31 December 2011 by about € 6 million, while a corresponding drop in interest rates would have reduced this value accordingly.

b) *Default risk/credit risk*

The maximum default risk of the financial assets corresponds to their carrying amount.

Concrete default risks exist with respect to the rent receivables. Centralized monitoring of all existing receivables is used for early detection of default risks.

As of 31 December 2011, receivables from operating costs not yet settled stood at € 3,676 thousand (previous year: € 3,253 thousand), and down payments for operating expenses amounted to € 3,567 thousand (previous year: € 2,997 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).

c) *Liquidity risk*

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

POLIS will receive the following contractually secured rent payments (net rents up to the agreed date of termination of the agreement or the earliest possible date of termination/minimum lease payments by the tenant/lessee) under existing leases with third parties:

€ thousand	Total	Minimum leasing payments up to 1 year	1 to 5 years	more than 5 years
31 Dec 2011	56,061	13,901	33,538	8,622
31 Dec 2010	54,291	13,153	31,571	9,567

The following table presents all payments contractually agreed as of 31 December 2011 for amortization, interest and repayment pertaining to financial liabilities:

Analysis of remaining terms as of 31 Dec 2011

€ thousand	Total gross cash outflows	2012	2013	2014	2015	2016 or later
Liabilities to banks	147,370	9,527	22,875	18,288	70,142	26,537
Trade payables	2,662	2,523	139	0	0	0
Other liabilities	485	485	0	0	0	0
Non-derivative financial liabilities	**150,517**	**12,535**	**23,014**	**18,288**	**70,142**	**26,537**
Designated derivative financial instruments	1,747	189	189	189	189	991
Non-designated derivative financial instruments	9,551	2,355	1,660	1,706	1,539	2,292
Derivative financial liabilities	**11,298**	**2,544**	**1,849**	**1,895**	**1,728**	**3,283**
Loan commitments from banks	**-14,400**	**-14,400**	**0**	**0**	**0**	**0**
Total	**-147,415**	**679**	**24,863**	**20,183**	**71,870**	**29,820**

Payments from the variable-rate liabilities to banks and the derivative financial instruments (hedging instruments) are reported assuming constant interest rates. Due to the hedging relationship, a change in the interest rates would not have any influence on the overall outflow of funds, but would only affect the composition.

The loan commitments only concern loans that have not yet been drawn and that can largely be drawn until the end of 2012. Drawing a partial amount of € 5.6 million is contingent upon reaching a 70% occupancy rate in »Quartier Buechsenstrasse«.

The liabilities to banks that are coming due in 2012 contain loans totaling € 4.5 million that have already been extended and will be increased by approximately € 2.7 million due to their low loan-to-value ratio.

As of the reporting date, other financial obligations resulting from order commitments in the context of construction contracts amounted to € 2,036 thousand (previous year: € 2,550 thousand). Bank balances, credit lines as well as the cash flow from operating activities will be used for financing the investments planned for 2012, which total around € 11.7 million.

The expense incurred in the financial year from operating leases for vehicles, office equipment and (since October 2011) office rents amounts to € 86 thousand (previous year: € 35 thousand). The future lease payments are as follows:

€ thousand	Total	Minimum leasing payments up to 1 year	1 to 5 years	more than 5 years
31 Dec 2011	1,133	247	886	0
31 Dec 2010	67	28	39	0

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.

Details on the individual derivative financial instruments are set forth in the table under point 3.10.

Analysis of remaining terms as of 31 Dec 2010

€ thousand	Total gross cash outflows	2011	2012	2013	2014	2015 or later
Liabilities to banks	169,731	37,266	4,820	37,177	20,464	70,005
Trade payables	4,656	4,656	0	0	0	0
Other liabilities	539	539	0	0	0	0
Non-derivative financial liabilities	**174,926**	**42,461**	**4,820**	**37,177**	**20,464**	**70,005**
Derivative financial liabilities	9,842	2,564	2,357	1,661	1,602	1,657
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**

6.5. Fees and services of the auditor

The fees for the services provided by the auditor KPMG AG Wirtschaftsprüfungsgesellschaft in financial years 2011 and 2010 were:

€ thousand	2011	2010
Audit fees	140	124
Other services	15	0
Total	**155**	**124**

6.6. Corporate governance

In March 2012, the Board of Management and the Supervisory Board of POLIS issued statements concerning the recommendations expressed in the German Corporate Governance Code. With a few exceptions that are justified and have been explained, these recommendations have been observed since 3 March 2011 and will be observed in future. 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).

Berlin, 12 March 2012

POLIS Immobilien AG

– Board of Management –

Dr. Alan Cadmus

Peter E. Muth

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, 12 March 2012

POLIS Immobilien AG
– Board of Management –

Dr. Alan Cadmus

Peter E. Muth

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 2011. 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, 12 March 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Quitmann	Lommatzsch
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial Calendar

Report on first three months of 2012	3 May 2012
Annual General Meeting of 2012	22 June 2012
Report on first six months of 2012	2 August 2012
Real Estate Share Initiative, Frankfurt a. M.	September/October 2012
Report on first nine months of 2012	8 November 2012
DVFA Conference Real Estate	February 2013

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Key financial data of POLIS Immobilien AG

Results in € thousand	2011	2010	2009	2008	2007
Rental revenues	14,886	13,053	13,904	14,993	9,788
EBIT	12,385	7,410	-1,042	10,421	13,346
EBT	3,239	1,956	-6,826	1,157	10,662
Group net profit	2,563	1,547	-6,655	1,144	9,043
Cash flow from current business operations	5,857	7,688	9,519	8,862	5,690
Funds from operations (FFO)[1]	1,221	1,988	3,726	2,996	2,381

Balance sheet in € thousand	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
Non-current liabilities	294,452	307,073	285,529	278,589	248,621
Current liabilities	7,614	10,245	8,078	32,808	23,403
Equity	149,330	147,989	146,436	153,085	151,939
Total assets	302,066	317,318	293,607	311,397	272,024
Equity ratio in %	49%	47%	50%	49%	56%
Loan to value[2]	47%	51%	48%	52%	39%

Net asset value of POLIS (€ thousand)[3]	150,109	148,651	146,685	153,459	152,422
Shares (no.)	11,051,00	11,051,000	11,051,000	11,051,000	11,051,000
Net asset value per share (€)[3]	13.58	13.45	13.27	13.89	13.79

Share

Security identification code/ISIN	691330/DE0006913304
2011 high (Xetra)	€ 11.12
2011 low (Xetra)	€ 8.51
Closing price on 30 Dec 2011 (Xetra)	€ 9.45

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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