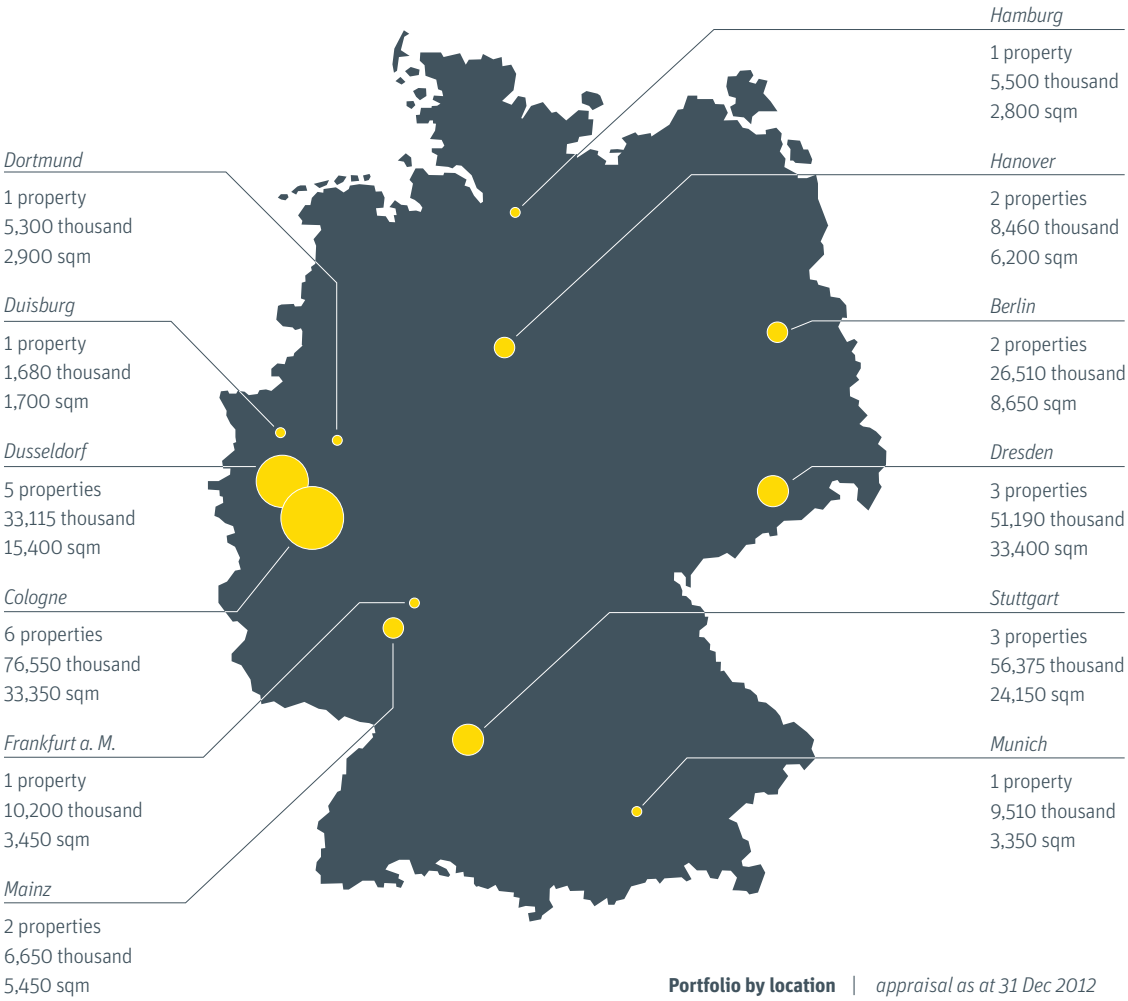
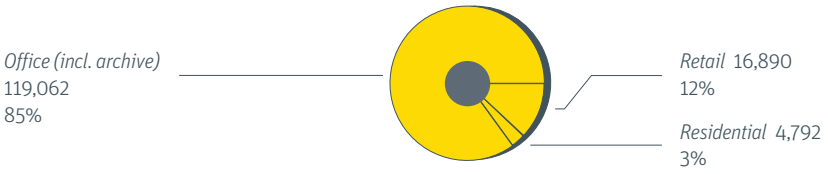
POLIS

Annual Report 2012

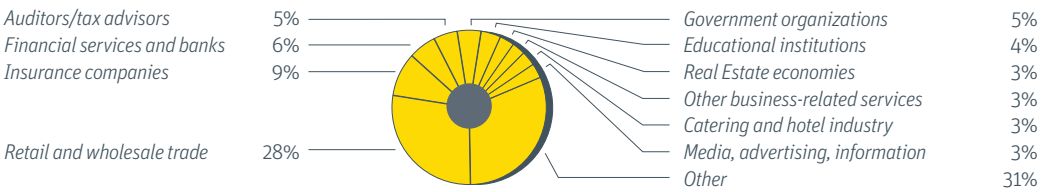


Portfolio by location | *appraisal as at 31 Dec 2012*

Portfolio by use | *basis: sqm*



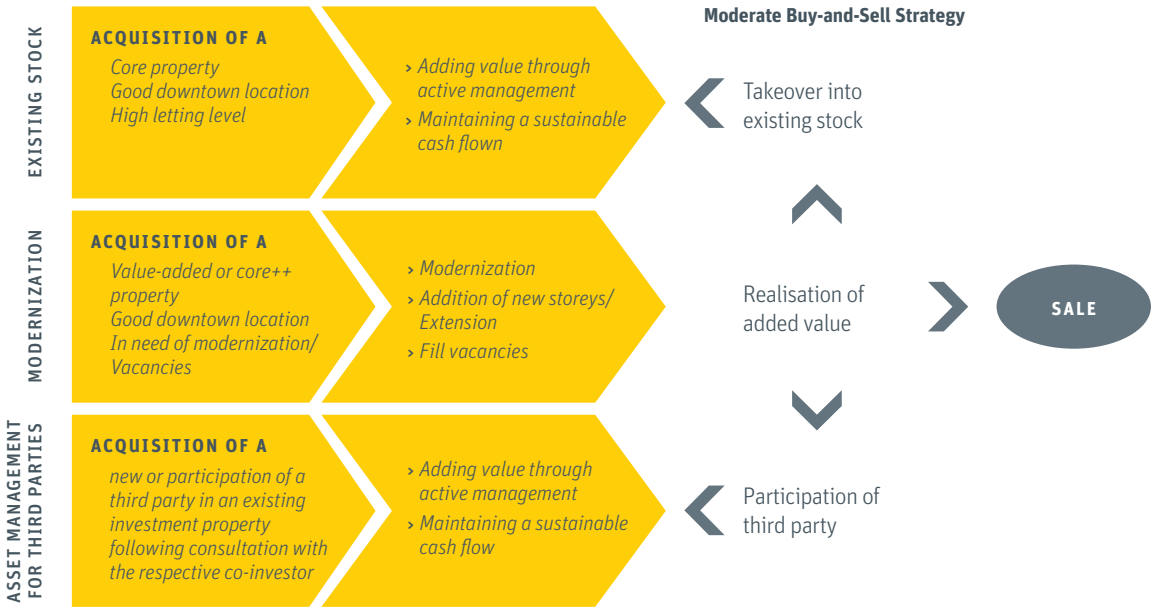
Distribution of rental revenues by industry | *in %*



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

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 knowhow 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. Since 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.



Contents

Letter from the Board of Management

Dear Shareholders, Ladies and Gentlemen,

During the past financial year we again achieved good rental income for the third year running. As a result, modernization-related vacancies fell to 13%. As a direct consequence, all key operational figures have already improved significantly.

Good rental income achieved again

In all, we concluded new lease agreements in 2012 for rental space totalling 17,790 sqm. A particularly positive development is the extension of lease agreements for an area of approximately 15,365 sqm. The positive increase in the extensions of existing lease agreements is very important for the stability of the development of our income stream. Our successes in letting rental space have continued in the new year without any disruption. By the end of February 2013 we already concluded new or extended existing lease agreements for rental space totalling 5,000 sqm.

Two refurbishment projects completed and fully let

The refurbishment projects at »Konrad-Adenauer-Ufer 41–45« in Cologne and »Buechsenstrasse 26« in Stuttgart have been completed in the meantime and have been fully let. The standard fit-out of a rental unit in »Buechsenstrasse 28« has been completed; the unit is currently vacant. The entire office space in the property at »Tuebinger Strasse 31, 33« in Stuttgart has been let to the German federal state of Baden-Wuerttemberg for the Duale Hochschule and is currently being modified for use as an educational facility. All other vacant rental spaces in our portfolio properties are available for near-term letting, which means that we expect the occupancy rate to increase further in the current financial year. Currently, 87% of all rental areas have been let. Due to lease agreements that have already been concluded but will not come into effect before 2013, the occupancy rate will increase to 91%, assuming conditions remain unchanged in other respects.

Two properties sold to optimise the portfolio

In order to optimize our property portfolio, we sold the investment property at »Domstrasse 10« in Hamburg at a price slightly above the most recent valuation. We sold the investment property at »Steinstrasse 12–14« in Hamburg on the basis of the last valuation, thus realising the past increase in its market value. This property is scheduled to be handed over to the buyer in the 1st quarter of 2013.

Positive development of the key operational figures

The improved occupancy rate has led to an increase in gross rental income by 8%, to € 16,020 thousand; net rental income also increased by 8%, to € 11,205 thousand. After adjusting for valuation effects, funds from operations (FFO) more than doubled during the past financial year to € 2,567 thousand, as expected. Cash flow from operating activities increased by 16%, to € 6,786 thousand.

Positive valuation results for investment properties, losses for interest rate hedges

The successful letting of the modernized rental spaces and the extension of existing lease agreements has led to positive valuation results for some investment properties. Due to expiring lease agreements, concrete need for maintenance work, or changed rental forecasts at specific locations, some investment properties suffered a drop in their market values. The overall valuation result was positive, at € 2,410 thousand. The higher valuation gains of € 4,497 thousand recorded in the previous year were largely due to the non-recurring effect of the first-time valuation of the investment properties at the new Dresden location.

The continued fall in market interest rates has caused unexpected valuation losses not affecting liquidity related to interest rate hedges of € 2,531 thousand, which will be reversed over the term of the individual derivatives.

Due to these negative valuation results for the investment properties, earnings before taxes fell by 21%, to € 2,574 thousand.

New financing structure reduces dependency on market interest rates and enhances financing flexibility

In order to reduce the future dependency of financing issues on valuation effects and to enhance flexibility for financing new acquisitions, we have successfully restructured a part of the external financing in the second half of the year, increased the share of financial instruments designated in the context of cash flow hedges, extended loan agreements and individual interest rate hedges, simultaneously reduced the high interest rate hedging ratio, and used options for supplementary financing. These measures can be expected to reduce the risk of further valuation losses from interest rate hedges; also, concrete credit lines are now available for new acquisitions, and it is intended to use these in the current financial year. Moreover, the new financing structure reduced the average weighted interest rate for external financing from 3.9% to 3.2%.

With its equity ratio of 49%, our Company continues to retain its sound financial position and thus possesses a high degree of investment security. 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.

Positive results pursuant to HGB, but no proposal for payment of dividends

An internal reorganization, which in October 2012 resulted in the realization of considerable hidden reserves, led to a net income for the year of € 6,114 thousand pursuant to German accounting rules (HGB), which govern the payment of dividends. However, because this net income for the year is entirely due to an internal process without affecting liquidity, and because without the reorganization a loss would have been incurred pursuant to HGB due to the valuation losses from interest rate hedges alone, a part of the net income for the year totalling € 3,057 thousand was allocated to the revenue reserves. Also, the Board of Management proposes to carry the remaining net earnings for the year, also € 3,057 thousand, forward to new account.

Property market developments expected to remain positive

Since Germany did not suffer an economic downturn in the past year, the property market continued to perform strongly and will lead to a very positive rental income. The likewise positive rental income in January and February 2013 has so far been encouraging. New office building construction activities are not expected to increase in the near term. Therefore, we expect to be able to let most of the rental space available for letting in 2013 except where vacancies are the result of normal fluctuation.

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

Firm shareholder structure has increased stability

Our solid capital situation and stable shareholder structure involving long-term, strategic investors have in the past contributed to a stable development of the share price. For this reason, the POLIS share developed positively in the previous year, contrary to the prevailing downward trend for stocks. In the past financial year, the POLIS share has continued its share price increase, recording a plus of 18%.

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.

»Our team«

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.

In July 2012, the Supervisory Board of POLIS Immobilien AG and Mr. Peter E. Muth amicably agreed that Mr. Muth will step down as member of the Company's Board of Management. The reasons were differences of opinion regarding the future business policy of the Company. The then CEO Dr. Alan Cadmus temporarily managed the Company's business activities as sole member of the Board of Management. The Supervisory Board has appointed Mr. Michael Piontek as CFO effective 1 April 2013.

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. We would also like to thank our shareholders, tenants, contractors and financial partners for their close collaboration in the past financial year, which we look forward to continuing.

Berlin, March 2013

POLIS Immobilien AG

– The Board of Management –

Dr. Alan Cadmus

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 after 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 period under review, the Supervisory Board held five meetings, two of which in the form of telephone conferences. 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 by way of circulation.

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

In its meeting on 2 March 2012, the annual financial statements, the consolidated financial statements and the management reports were discussed in detail in the presence of the auditor. A resolution was adopted on the declaration of conformity pursuant to Section 161 subsection 1 AktG (Aktiengesetz; German Stock Corporation Act). We discussed various sales projects, occupancy rates, modification and rehabilitation measures and possible investment projects, and adopted resolutions, where required. Also, the Board passed a resolution on the level of variable compensation for the CEO for financial year 2011 as well as on the renewed appointment and contract for service of Dr. Cadmus until 31 December 2017. A further subject matter discussed in this meeting was the agenda for the General Meeting on 22 June 2012. Also, the Board approved the issuance of special powers of representation (Prokuren) to Mr. Ebert and Mr. Ostermann. The resolutions concerning the approval of the annual and consolidated financial statements as well as the draft resolutions for the General Meeting were subsequently approved in writing by way of circulation.

In the meeting of 21 June 2012, we discussed in detail the status and prospects of various projects. Moreover, we discussed the expansion of the third-party asset management business and the financing strategy. In addition, we discussed various acquisition and sales projects as well as occupancy rates, and adopted resolutions in this regard.

After the ordinary General Meeting of 22 June 2012, the Supervisory Board confirmed its chairperson and deputy chairperson, elected Mr. Eberhardt as member of the personnel committee, and confirmed Mr. von der Recke and Mr. Müller as members of the personnel committee. Also, the members of the investment committee were confirmed.

On 12 July 2012, the Supervisory Board approved the withdrawal of Mr. Muth as member of the Company's Board of Management by way of circulation and passed a resolution concerning the termination agreement with Mr. Muth.

The key issue at the meeting on 22 November 2012 was the 2013 budget and the updated medium-term financial plan. Moreover, we discussed with the Board of Management the figures for the 3rd quarter and the forecast for financial year 2012. Also in this meeting, we discussed acquisition and sales projects as well as the future strategy of POLIS.

After preparatory work by the personnel committee, the Supervisory Board held a telephone conference on 12 December 2012 and approved the appointment of Mr. Michael Piontek as CFO as well as the conclusion of the contract of employment.

Also, the Supervisory Board passed numerous additional resolutions in writing by way of circulation, including approvals for business transactions requiring Supervisory Board consent such as the sale of properties in our portfolio, the conclusion of loan agreements, the restructuring of the portfolio in the investment companies, as well as an amendment of the declaration of conformity pursuant to the German Corporate Governance Code.

Committees

The investment committee, consisting of Mr. Müller (chairperson), Mr. Schmechel and Mr. Stein, was briefed periodically in the context of Supervisory Board meetings and in direct discussions with the Board of Management about potential investment properties, and discussed these projects in detail with the Board of Management and the committee's external experts. Investment decisions were not made in 2012.

The personnel committee, consisting of Mr. von der Recke (chairperson), Mr. Müller, Mr. Brouns (until 22 June 2012) and Mr. Eberhardt (from 22 June 2012), convened a total of five times and held several telephone conferences, initially to discuss the variable compensation for members of the Board of Management and the target agreements. In several conversations and at a meeting on 29 June 2012, the personnel committee discussed the withdrawal of Mr. Peter E. Muth from the Company's Board of Management and coordinated the negotiations with the other members of the Supervisory Board. 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. On 2 March 2012, the Board of Management and the Supervisory Board issued the declaration of conformity pursuant to Section 161 AktG (Aktiengesetz; German Stock Corporation Act), which was amended on 27 July 2012 after the temporary reduction in the number of members of the Board of Management. On 5 March 2013, the Board of Management and the Supervisory Board issued a new declaration of conformity. The declarations of conformity have been made permanently available on the Company's 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

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (Berlin) has audited the annual financial statements and the management report of POLIS Immobilien AG as of 31 December 2012 as well as the consolidated financial statements and the group management report as of 31 December 2012 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 Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft were available to all members of the Supervisory Board and were discussed comprehensively in the relevant Supervisory Board meeting on 5 March 2013 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 focus areas of the audit of the consolidated financial statements were the structure of the IFRS financial statements, recognition and measurement of the investment properties, methods used in the internal valuation of the investment properties, completeness of the trade payables, recognition and measurement of the deferred taxes, recognition and measurement of the derivative financial instruments, information provided in the consolidated statement of changes in equity, information concerning the financial instruments provided in the notes to the financial statements, and the completeness of the disclosures in the IFRS notes to the financial statements.

We reviewed the Company's annual financial statements, the consolidated financial statements, the management report und the group management report as well as the proposal of the Board of Management for the appropriation of net income to the General Meeting. No objections were raised. We reviewed and approved the auditor's audit reports. In its resolution adopted on 20 March 2013 in writing by way of circulation, 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. The Supervisory Board endorses the appropriation of net income as proposed by the Board of Management.

Relationships with affiliated companies

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

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

- the factual details contained in the report are accurate,
- in the case of the legal transactions detailed in the report, the expenditure of the Company was not unreasonably high.«

The Supervisory Board reviewed the report on the relationships with 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 and the Supervisory Board

Mr. Peter E. Muth resigned his office as member of the Board of Management effective 12 July 2012 in agreement with the Supervisory Board. By resolution dated 12 December 2012, the Supervisory Board appointed Mr. Michael Piontek as member of the Board of Management effective 1 April 2013.

Mr. Arnoldus Brouns resigned his office as member of the Supervisory Board effective at the end of the ordinary General Meeting on 22 June 2012. In this General Meeting, Mr. Martin Eberhardt was elected as successor.

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, March 2013

The POLIS Share

Stock market in 2012 – development of the market for property stocks

After experiencing a strong correction in the previous year, stock markets developed positively in 2012. The key German stock index, the DAX, increased by approximately 29% to 7,612 in the course of the financial year. German property stocks also showed a very favourable development and grew by 34% relative to the DAXsubsector Real Estate Performance Index, more than sufficient to compensate for the losses incurred during the previous year. However, this development was largely determined by residential property stocks, which fared better than average apparently because investors expect them to provide secure cash flows.

Share price performance

POLIS shares are listed on the Official Market of the Frankfurt Stock Exchange. They satisfy the transparency requirements of the Prime Standard and are included in the DAXsubsector Real Estate Performance Index.

During the financial year, the price of POLIS shares increased 18%, to € 11.15, trailing German property stocks and the overall stock market in Germany. However, one must bear in mind that POLIS shares increased in the previous year contrary to the general trend.

Property stocks continue to trade on the stock exchange at prices that are significantly lower than the value of the real estate assets less debt. Over the course of the year, discounts have fallen but still exceed 50% in individual instances. At € 11.15 as of 28 December 2012, the price of the POLIS share showed a 19% discount relative to the net asset value (NAV) of € 13.73, approximately 11 percentage points less than during the previous year. The very high discounts relative to the NAV for some German real estate companies could indicate continued uncertainty regarding the financial situation of individual, highly leveraged companies, and might suggest a general scepticism of the capital market concerning the long-term soundness of property valuations. POLIS responds to such scepticism by (i) disclosing all information relevant to financing and valuation, (ii) providing a transparent presentation of the valuations 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 2012 was 232 shares, or € 2,004.

Shareholder structure

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

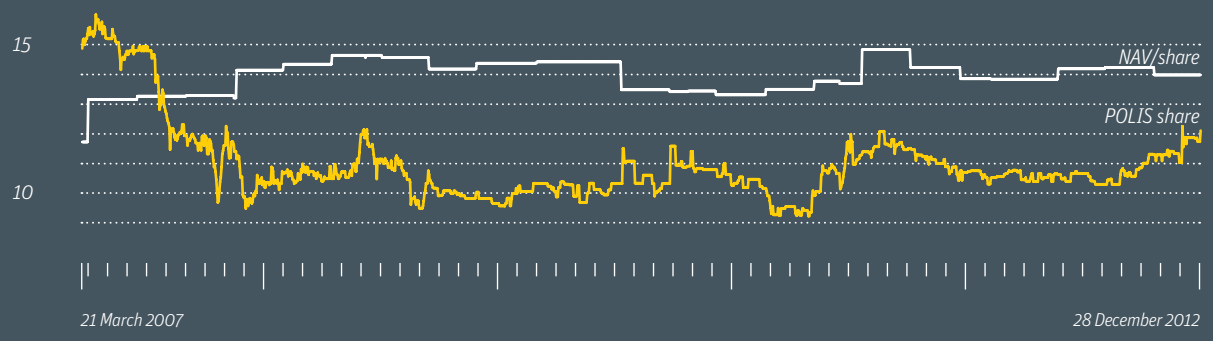
As of 31 December 2012, the Board of Management held approximately 0.5% of the Company's share capital.

Investor relations

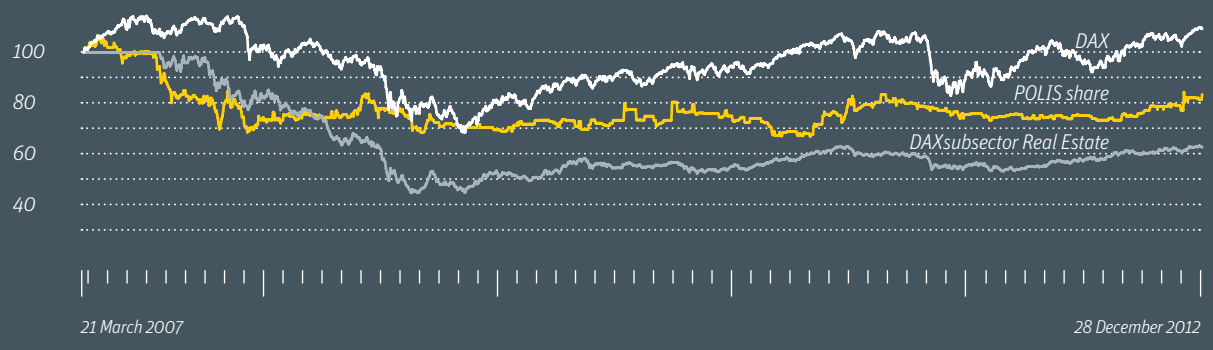
Capital market participants expect a transparent flow of information about a company. By openly and continuously exchanging information with the capital market, POLIS strives to establish a relationship of trust with the financial community and to facilitate a realistic assessment of the Company's value.

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 Management represents the Company in regular intervals at conferences and conducts one-on-one discussions with investors and financial analysts both from Germany and abroad.



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 %*

Share data for 2012

ISIN	DE0006913304
Security identification code (WKN)	691330
Reuters/Bloomberg symbol	PQLG.DE/PQL GR
Closing price 2012 (Xetra)	€ 11.15
Number of shares	11.05 million
Market capitalization	€ 123.22 million
Market segment	Prime Standard
Designated sponsor	Close Brothers Seydler Bank AG
Research coverage	Close Brothers Seydler Bank AG
52 week high	€ 11.33
52 week low	€ 9.01
Average daily trading volume	€ 2.004
Average daily trading volume	232 shares
Earnings per share	€ 0.20
NAV per share	€ 13.73
Annual General Meeting	14 June 2013

Shareholders*	%
Mann Unternehmensbeteiligungen GmbH**	69.8%
Bouwfonds Asset Management Deutschland GmbH	20.2%
EZVK Darmstadt	5.1%
Board of Management	0.5%
Other shareholders	4.4%
Total	**100.0%**
Free float as defined by Deutsche Börse	10.0%

*Status: 31 December 2012

**formerly Doris Verwaltungsgesellschaft mbH

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.	11,150	15,360	5,300
Date of last external appraisal		30 Jun 2012	30 Sep 2012	31 Mar 2012
Discount rate[1]		6.6%	6.8%	7.1%
Total area (rounded)[2]	sqm	3,100	5,550	2,900
Office	sqm	2,622	4,096	2,156
Retail	sqm	440	1,072	523
Residential	sqm	0	0	0
Archive	sqm	51	373	232
Parking space	number	24	20	11
Average remaining term of leases[3]	years	2.5	3.5	6.2
Occupancy rate (space-based) 2012[4]		100%	98%	100%
Occupancy rate (space-based) 2011[4]		100%	99%	90%
Occupancy rate (revenue-based)[5]		100%	99%	81%
Rent 2011[6]	€ thsd.	646	870	326
Rent 2012[6]	€ thsd.	671	818	264
Annualized current rent[5]	€ thsd.	689	935	294
Rent if fully leased[7]	€ thsd.	689	940	365
Annualized potential rent (Feri)[8]	€ thsd.	664	987	374
Return on potential rent[9]		6.0%	6.4%	7.1%
Feri rating[10]		A-	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 2012

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

11 Weighted Average

12 Investment properties classified as current assets

13 Financial investment (1 x 5.1% and 2 x 15%)

		Dresden	Dresden	Dresden	Duisburg
		Altmarkt 10/ Kramergasse 2/4	Koenneritzstrasse 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.	35,790	10,330	5,070	1,680
Date of last external appraisal		31 Dec 2012	31 Mar 2012	31 Mar 2012	31 Mar 2012
Discount rate[1]		6.7%	6.9%	6.9%	7.1%
Total area (rounded)[2]	m²	18,950	10,500	3,900	1,700
Office	m²	11,473	9,124	3,690	1,112
Retail	m²	5,273	1,030	0	293
Residential	m²	1,313	0	0	277
Archive	m²	962	317	196	5
Parking space	Anzahl	201	90	0	15
Average remaining term of leases[3]	Jahre	2.8	4.6	4.5	2.2
Occupancy rate (space-based) 2012[4]		89%	94%	50%	100%
Occupancy rate (space-based) 2011[4]		80%	76%	55%	89%
Occupancy rate (revenue-based)[5]		88%	91%	51%	100%
Rent 2011[6]	€ thsd.	641	527	233	142
Rent 2012[6]	€ thsd.	2,199	714	232	156
Annualized current rent[5]	€ thsd.	2,272	811	220	166
Rent if fully leased[7]	€ thsd.	2,592	887	430	166
Annualized potential rent (Feri)[8]	€ thsd.	2,456	879	415	142
Return on potential rent[9]		6.9%	8.5%	8.2%	8.5%
Feri rating[10]		B+	C	B+	B

Explanations see page 13

Feri rating categories

»Outstanding«	*AAA*	*»Satisfactory«*	*B*
»Excellent«	*AA*	*»Sufficient«*	*C*
»Very good (+)«	*A+*	*»Moderate«*	*D*
»Very good«	*A*	*»Weak«*	*D-*
»Very good (-)«	*A-*	*»Poor«*	*E*
»Good«	*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 2001
1960	1957	1956	1960	1960	1970
–	2001	–	–	1998	1996
6,760	8,050	5,415	3,180	9,710	10,200
30 Jun 2012	31 Dec 2012	30 Sep 2012	30 Jun 2012	30 Jun 2012	30 Sep 2012
6.9%	6.9%	6.9%	6.8%	6.6%	6.9%
3,450	3,650	2,650	1,850	3,700	3,450
2,170	3,157	1,858	1,111	3,455	3,446
812	241	336	344	0	0
229	23	214	188	0	0
269	272	242	198	230	0
17	17	0	9	20	29
2.6	2.4	2.0	3.2	3.2	1.0
87%	55%	86%	97%	99%	100%
90%	58%	86%	83%	88%	100%
74%	57%	88%	84%	99%	100%
338	149	307	176	522	762
328	285	311	173	566	794
335	331	330	160	592	794
451	577	377	191	595	794
517	545	381	234	607	800
7.6%	6.8%	7.0%	7.4%	6.3%	7.8%
B+	B+	A–	A–	B+	B+

		Hamburg	Hanover	Hanover	Cologne
		Steinstrasse 12–14	Landschaftstrasse 2	Landschaftstrasse 8	Ebertplatz 1
Transfer of possession		1 May 2008	31 Dec 006	31 Dec 006	15 Jun 2007
Year built		1925	1983	1885	1960
Renovated/modernized		1994	–	2006	2002
Market value	€ thsd.	5,500	4,500	3,960	9,000
Date of last external appraisal		30 Sep 12	31 Mar 12	30 Jun 12	30 Jun 12
Discount rate[1]		6.8%	7.0%	6.8%	6.8%
Total area (rounded)[2]	sqm	2,800	3,600	2,600	4,150
Office	sqm	2,425	3,582	2,166	3,225
Retail	sqm	121	0	0	220
Residential	sqm	0	0	0	66
Archive	sqm	262	13	437	648
Parking space	number	5	53	0	0
Average remaining term of leases[3]	years	0.1	3.9	4.0	7.8
Occupancy rate (space-based) 2012[4]		96%	100%	100%	84%
Occupancy rate (space-based) 2011[4]		100%	100%	100%	97%
Occupancy rate (revenue-based)[5]		59%	100%	100%	84%
Rent 2011[6]	€ thsd.	81	397	297	445
Rent 2012[6]	€ thsd.	217	448	243	469
Annualized current rent[5]	€ thsd.	246	454	291	466
Rent if fully leased[7]	€ thsd.	419	454	291	555
Annualized potential rent (Feri)[8]	€ thsd.	420	453	296	554
Return on potential rent[9]		7.6%	10.1%	7.5%	6.2%
Feri rating[10]		A–	B+	B+	B+

Explanations see page 13

Cologne	Cologne	Cologne	Cologne	Cologne	Mainz
Gustav-Heinemann-Ufer 54	Hansaring 20	Konrad-Adenauer-Ufer 41–45	Neumarkt 49	Weyerstrasse 79–83	Rheinstrasse 43–45
01 Oct 2007	01 Nov 2007	01 Apr 2007	31 Dec 2007	01 May 2008	01 Nov 2007
1989	1975	1953	1957	1962	1976
–	2006	2010	2005	2008	–
16,570	4,200	22,280	8,570	15,930	2,560
30 Sep 12	31 Mar 12	30 Sep 12	30 Sep 12	30 Jun 12	31 Mar 12
6.8%	7.0%	6.3%	6.8%	6.9%	7.1%
7,600	2,250	6,050	3,900	9,400	2,200
7,010	2,093	5,582	3,187	7,237	1,683
0	0	0	544	1,302	294
0	0	0	0	0	0
565	146	473	177	878	212
197	10	53	9	94	11
4.3	2.1	4.3	5.9	2.4	2.7
90%	43%	94%	100%	97%	79%
73%	100%	83%	99%	97%	64%
90%	49%	87%	100%	99%	37%
875	320	705	498	933	160
1,301	245	994	537	974	148
1,056	168	1,036	579	994	72
1,176	346	1,197	580	1,008	194
1,141	319	1,247	628	1,207	250
6.9%	7.6%	5.6%	7.3%	7.6%	9.8%
B+	B+	A–	B	B	B

		Mainz	Munich	Stuttgart	Stuttgart
		Rheinstrasse 105–107	Lessingstrasse 14	Boeblinger Strasse 8/ Arminstrasse 15	Quartier Buechsenstrasse
Transfer of possession		30 Sep 2007	15 Dec 2007	01 Nov 2007	30 Jun 2007
Year built		1968	1967	1973	1907–1970
Renovated/modernized		–	2010	2004	2010
Market value	€ thsd.	4,090	9,510	4,230	43,575
Date of last external appraisal		31 Mar 12	31 Mar 12	30 Jun 12	31 Dec 12
Discount rate[1]		6.9%	6.7%	6.9%	6.6%
Total area (rounded)[2]	sqm	3,250	3,350	2,450	16,800
Office	sqm	2,414	2,613	1,157	11,709
Retail	sqm	0	438	920	1,408
Residential	sqm	564	0	359	1,339
Archive	sqm	277	292	101	2,371
Parking space	number	47	38	36	125
Average remaining term of leases[3]	years	1.4	3.7	2.5	5.6
Occupancy rate (space-based) 2012[4]		99%	100%	95%	81%
Occupancy rate (space-based) 2011[4]		94%	100%	94%	64%
Occupancy rate (revenue-based)[5]		100%	100%	95%	77%
Rent 2011[6]	€ thsd.	296	525	264	863
Rent 2012[6]	€ thsd.	293	564	264	1,641
Annualized current rent[5]	€ thsd.	300	601	264	2,094
Rent if fully leased[7]	€ thsd.	301	601	278	2,716
Annualized potential rent (Feri)[8]	€ thsd.	379	678	310	2,797
Return on potential rent[9]		9.3%	7.1%	7.3%	6.4%
Feri rating[10]		B+	B+	B+	A–

Explanations see page 13

Stuttgart	Portfolio	Other properties & financial assets [12, 13]	Total property assets
Tuebinger Strasse 31/33			
31 Dec 2006			
1949			
2000			
8,570	291,040	3,772	**294,812**
31 Dec 2012	–		
6.7%	6.7%		
4,800	140,750		
2,731	108,284		
1,278	16,890		
220	4,792		
578	10,777		
11	1,142		
1.9	3.7[11]		
29%	87%[11]		
92%	80%[11]		
15%	84%		
576	12,892		
175	16,025		
97	16,647		
644	19,814		
696	20,376		
8.1%	7.0%		
B+	B+		

Financial Information

Group Management Report

of POLIS Immobilien AG for financial year 2012

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 centres 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 to be managed by two officers as a matter of principle. The Chief Executive Officer is responsible for portfolio and asset management, property management, human resources and legal matters, while the Chief Financial Officer is in charge of controlling, finances and accounting, taxes, risk management, organisation and information technology. Since the resignation of the CFO in July 2012, the CEO has been managing the Company's business matters temporarily as sole member of the Board of Management. From 1 April 2013, the Board of Management will again consist of two members. 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 0.7% in 2012
- Stable situation on the labour market
- Inflation rate in Germany 2% in 2012
- Short-term interest rates fall from 1.4% to 0.2% (three-month EURIRBOR), while long-term interest rates fall from 1.7% to 0.8% (5 years)

After showing strong growth of 3% in 2011, German GDP increased by only 0.7% in 2012 due to the crisis in the euro area. The frail foreign trade environment and uncertainties about the economic policy response to the crisis in the euro area have slowed down the economy.

Despite the weak foreign trade and the uncertainties pertaining to the debt crisis, the German economy with its moderate price increase, stable consumption levels, favourable terms of financing and historically low unemployment rate is in good shape.

	GDP growth rate	Inflation rate	3 month EURIBOR	5 years (swap-rate)	10 years (swap-rate)
2012	0.90%	2.00%	0.19%	0.78%	1.57%
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%
2004	1.10%	1.70%	2.16%	3.15%	3.74%

Sources: Dexia Kommunalbank Deutschland, Destatis – German Federal Statistical Office, Kiel Institute for the World Economy: Deutsche Konjunktur im Winter 2012

Industry-specific environment

Compared to the previous year, the markets for office buildings slowed down slightly. The weaker demand for office space is in line with the increasingly negative economic trends coupled with a stable but worsening labour market. Overall, the seven largest property locations recorded approximately 3.0 million sqm turnover of rental space, compared to 3.4 million sqm in the previous year. In view of the GDP growth forecast of 0.8% for 2013, turnover could stabilise at 2012 levels.

Source: Jones Lang LaSalle, Büromarktüberblick Q4 2012

Trends in the investment market for office buildings in Germany

Transaction volume rises again

According to real estate brokerage reports, the transaction volume in the commercial property sector increased again, from approximately € 23 billion in 2011 to approximately € 25 billion in 2012, the best result since the peak years of 2006/07. Investments in large-volume office properties accounted for approximately 44% of the transaction volume, followed by retail properties, which represented a share of approximately 36% of the transactions. The robust state of the overall economy and the stable labour market coupled with a focus on safety in the investment strategies pursued by investors due to the uncertainties on the international capital markets also bode well for Germany as an investment location in 2013. Restrictive funding by banks is causing the share of equity in property investments to rise, which means that »core« products will continue to be at the focus of attention.

Source: CBRE Investmentmarkt Deutschland Q4/2012

Trends in the office property rental market in Germany

Stable development of rents, with location-specific differences

Peak rents in the seven largest real estate locations increased 3% in 2012, with Dusseldorf (8.3%) showing the highest nominal increase, followed by Munich (3.3%) and Stuttgart (2.8%). 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 2013, while demand for areas in central locations will continue to be strong. However, the increase, which is estimated at around 1%, is expected to be less than in 2012.

Source: Jones Lang LaSalle, Büromarktüberblick, Q4 2012

Office markets record falling vacancies

In 2012, increased demand and lower new construction volumes led to an overall reduced vacancy rate of 8.8% in the seven largest real estate locations. The highest vacancy rates for office space were recorded in Frankfurt (14%) and Dusseldorf (11%). Relative to the previous year, vacancy rates fell most significantly in Frankfurt (-14%), Munich (-13%) and Stuttgart (-8%). The volume of completed spaces fell slightly in 2012 relative to the previous year, by 7%. 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			%		
	2012	2011	2010	2012	2011	2010
Berlin	1,441 | 544	1,446 | 543	1,530 | 512	8.5	8.5	9.1
Hamburg	1,206 | 436	1,237 | 540	1,377 | 503	8.2	8.5	9.6
Dusseldorf	991 | 348	999 | 394	1,152 | 401	11.0	11.2	13.0
Frankfurt a. M.	1,416 | 512	1,662 | 424	1,765 | 470	11.9	13.9	14.7
Stuttgart	463 | 190	500 | 280	582 | 191	5.6	6.1	7.1
Munich (including surroundings)	1,674 | 754	1,912 | 887	2,068 | 584	8.4	9.6	10.5
Cologne	590 | 255	604 | 332	635 | 228	7.9	8.1	8.6

Source: Jones Lang LaSalle, Büromarktüberblick Q4 2012; vacancies incl. subleases, rental space turnover incl. owner-occupation

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 endeavoured 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 2009 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 realised 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 endeavour to carry out all of our (construction) projects and (procurement) processes in an environmentally optimised 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. Two trainees are being trained as real estate management assistants (Immobilienkaufleute), 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 for specialised 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 let approximately 17,790 sqm, again achieving a high level of take-up. A particularly positive aspect is the increase in the extensions of existing lease agreements, to 15,365 sqm. The occupancy rate increased to over 87%, and is expected to increase to 91% as a result of lease agreements that have already been concluded in 2012 and will commence in 2013, assuming conditions remain unchanged in other respects.
- In financial year 2012, we invested approximately € 10.0 million in our investment properties. The two refurbishment projects at »Konrad-Adenauer-Ufer 41–45« in Cologne and at »Buechsenstrasse 26« in Stuttgart have been completed and are fully let.
- In order to optimize our investment portfolio, we sold the investment property at »Domstrasse 10« in Hamburg at a price slightly above the most recent valuation. We sold the investment property at »Steinstrasse 12–14« on the basis of the last valuation, thus realising the past increase in its market value. Transfer of possession will occur in the 1st quarter of 2013.
- As a result of successfully letting modernised rental areas and extending existing lease agreements at improved terms and conditions, valuation gains amounted to € 2,410 thousand. The higher valuation gains of € 4,497 thousand recorded in the previous year were largely due to the non-recurring effect of the first-time valuation of the investment properties at the new Dresden location.
- Despite the sale of four fully let properties in the previous year, the improved occupancy rate led to an increase in gross rental income by 8%, to € 16,020 thousand; net rental income increased by 8%, to € 11,205 thousand. After adjusting for valuation effects, funds from operations (FFO) more than doubled during the past financial year to € 2,567 thousand, as expected.
- The continued fall in market interest rates has caused unexpected valuation losses not affecting liquidity of € 2,531 thousand related to interest rate hedges (previous year: € -3,692 thousand).
- Consolidated comprehensive income before taxes is € 2,574 thousand, about 21% lower than in the previous year. The decline is primarily due to the lower valuation result of the investment properties (€ 2,410 thousand, previous year: € 4,497 thousand).
- Compared to the previous year, cash flow from operating activities increased by 16%, to € 6,786 thousand.
- The net asset value as of 31 December 2012 increased 1% relative to the previous year to € 151,706 thousand, and the net asset value per share increased from € 13.58 to € 13.73.

Development of the real estate business

Changes in the portfolio

Purchase agreements concerning the sale of the two investment properties at »Domstrasse 10« and »Steinstrasse 12–14« in Hamburg were concluded in September. The property at »Domstrasse 10« has been handed over the buyer in the meantime, and the sale of »Steinstrasse 12–14« is to be concluded in the 1st quarter of 2013. Since in the context of our current planning we did not expect the value of either investment property to increase they were sold for the purpose of optimising our portfolio. The properties were sold at nearly their market value, so that the sales did not affect comprehensive income, and will not affect comprehensive income in 2013.

Modernizations

- Cologne, Konrad-Adenauer-Ufer: *Modernisation work completed, property is fully let*

The handover of the last remaining rental unit means that all office areas in »Konrad-Adenauer-Ufer 41–45« have now been modernized and let. The completion of the modernization work and the termination of rent-free periods have led to an increase in the market value of € 810 thousand relative to the previous year. The building is heated and cooled using geothermal energy and was awarded a preliminary silver certificate by the German Sustainable Building Council (DGNB).

- Stuttgart, Quartier Buechsenstrasse: *Project completion and full occupancy nearly achieved*

The comprehensive revitalization work on the building at »Buechsenstrasse 26« has been completed. All retail and office areas are let and have been handed over to the tenants. Also in the case of this property, special attention was paid to the issue of sustainability, and we were awarded the preliminary silver certificate by the German Sustainable Building Council (DGNB). The comprehensive refurbishment work on the underground car park has been completed.

Two rental spaces in the modernization project at »Buechsenstrasse 28« totalling around 1,130 sqm have been let and will be handed over to tenants in the 1st quarter of 2013. The tenant fit-out work is at an advanced stage. Standard fit-out work on the last vacant area has been completed. We expect to let this area in the near future.

Only three smaller rental spaces are available for letting in the other buildings of the Quartiers Buechsenstrasse. 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.

- Stuttgart, Tuebinger Strasse 31 and 33: *Follow-on leases secured for all office areas*

The German federal state of Baden-Wuerttemberg represents a financially sound tenant for office space totalling approximately 2,700 sqm. Handover of the rental areas, which are to be used by the Duale Hochschule DHBW, is scheduled for March/April 2013. Until then, most of the rental space will be modified for use as an educational facility.

Occupancy rate again increases significantly

As a result of completing the modernization projects and our active lease management, we again managed to achieve very good results in concluding new lease agreements for a total of 17,790 sqm (previous year: 19,900 sqm). Leases in Stuttgart contributed most to the successful letting activities in 2012. Thus, the rental spaces in »Tuebinger Strasse 31, 33« totalling approximately 2,700 sqm that became vacant in March 2012 were already let in June 2012 to the German federal state of Baden-Wuerttemberg for the Duale Hochschule Baden Wuerttemberg (DHBW), and are to be handed over to the tenant in March/April 2013 upon completion of the modification of a large part of the areas for use as an educational facility. In the building at »Buechsenstrasse 26« in Stuttgart, we let an area of approximately 2,300 sqm to an auditing firm; the rental

space has been handed over to the tenant. Due to the successful letting activities and the sale of the vacant property at »Domstrasse 10« in Hamburg, the occupancy rate in the portfolio as of 31 December 2012 increased to 87%, compared to 80% in the previous year, and will increase to 91% taking into account all departures of tenants that we know of and all lease agreements concluded by 31 December 2012 that commence in 2013. Since all rental areas are completed at least as a standard fit-out and are available for letting, we expect to be able to let all remaining vacant areas in the near term.

In addition to the good results from the conclusion of new lease agreements, lease agreements for rental space of around 15,365 sqm (previous year: 10,700 sqm) have been extended at in part substantially improved terms and conditions, again highlighting the benefits of our close and active approach to tenant support in the past year. This means that we have been able to conclude new lease agreements and/or extend existing leases for rental space totalling around 33,150 sqm (previous year: 30,600 sqm), representing rental income of around € 20,730 thousand contractually secured over an average weighted term of 4.5 years; this corresponds to an effective rent of € 11.37 per sqm. The most important extension of an existing lease agreement in economic terms concerns an office space of around 2,880 sqm in the property at »Neumarkt 49« in Cologne. The average remaining term of all existing lease agreements is 3.7 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 2012 sqm	Occupancy rate as of 31 Dec 2012	Rental space as of 31 Dec 2011 sqm	Occupancy rate as of 31 Dec 2011
Berlin	8,650	99%	8,650	99%
Dortmund	2,900	100%	2,900	90%
Dresden	33,400	86%	33,350	76%
Dusseldorf	15,400	83%	15,400	80%
Duisburg	1,700	100%	1,700	89%
Frankfurt a. M.	3,450	100%	3,450	100%
Hamburg*	2,800	96%	9,400	30%
Hanover	6,200	100%	6,200	100%
Cologne	33,350	90%	33,400	90%
Mainz	5,450	91%	5,450	82%
Munich	3,350	100%	3,350	100%
Stuttgart	24,150	72%	24,150	73%
	140,750**	**87%**	**147,400****	**80%**

Based on portfolio as of the respective date of reporting
*Occupancy rate based on contractually let space
**Possible rounding differences in total amount

Overview of rental income

The development of rental income by individual property in the prime locations since 2009 is as follows:

€ thousand	2012	2011	2010	2009
Luisenstrasse 46	671	646	639	594
Potsdamer Strasse 58	818	870	764	802
Berlin	**1,489**	**1,515**	**1,403**	**1,396**
Berliner Allee 42	328	338	304	286
Berliner Allee 44	285	149	113	138
Berliner Allee 48	311	307	319	255
Immermannstrasse 11	173	176	214	207
Steinstrasse 27	566	522	573	526
Dusseldorf	**1,663**	**1,491**	**1,523**	**1,412**
Gutleutstrasse 26	794	762	762	750
Frankfurt a. M.	**794**	**762**	**762**	**750**
Steinstrasse 12–14	217	81	186	366
Hamburg	**217**	**81**	**186**	**366**
Ebertplatz 1	469	445	458	482
Gustav-Heinemann-Ufer 54	1,301	875	676	444
Hansaring 20	245	320	312	305
Konrad-Adenauer-Ufer 41–45	994	705	46	0
Neumarkt 49	537	498	459	481
Weyerstrasse 79–83	974	933	917	872
Cologne	**4,520**	**3,776**	**2,868**	**2,583**
Lessingstrasse 14	564	525	495	461
Munich	**564**	**525**	**495**	**461**
Boeblinger Str. 8/Arminstrasse 15	264	264	242	245
Tuebinger Strasse 31 & 33	175	576	568	561
Quartier Buechsenstrasse	1,641	863	533	1,290
Stuttgart	**2,080**	**1,703**	**1,343**	**2,096**
Total »A-Cities«	**11,327**	**9,855**	**8,580**	**9,065**
Other properties	4,693	3,019	1,540	1,810
Sold properties 2009–2012	0	2,012	2,933	3,028
Total	**16,020**	**14,886**	**13,053**	**13,904**

Overall assessment of the business performance

As a result of the successes in modernizing and letting our properties in the past, the last financial year showed an increase in the key operational figures, as expected. In line with the occupancy rate, gross rental income, net rental income and operating cash flow also increased. After adjusting for valuation effects, funds from operations (FFO) more than doubled relative to the previous year, as anticipated in our forecast. The overall positive valuation results confirm that the large modernization investments in the past have led to concrete increases in value, even if individual investment properties due to the nature of the business suffered value adjustments as a result of expiring lease agreements or other causes. The positive increase in the extensions of existing lease agreements is very important for the stability of the development of our income stream.

On the other hand, the unexpected, continued fall in the level of market interest rates again resulted in valuation losses not affecting liquidity from interest rate hedging instruments. In order to reduce the dependency of financing issues on valuation effects and to enhance flexibility for financing new acquisitions, we have successfully restructured a part of the external financing in the second half of the year, increased the share of financial instruments designated in the context of cash flow hedges, extended loan agreements and individual interest rate hedges, simultaneously reduced the high interest rate hedging ratio, and used options for supplementary financing. The means that now concrete credit lines are available for new acquisitions, and it is intended to use these in the current financial year.

The improved earnings situation supports a further increase of the key earnings ratios in 2013.

An internal reorganization, which in October 2012 resulted in the realization of considerable hidden reserves, led to a net income for the year for POLIS Immobilien AG of € 6,114 thousand pursuant to German accounting rules (HGB), which govern the payment of dividends. However, because this net income for the year is entirely due to an internal process without affecting liquidity, and because without the reorganisation a loss would have been incurred pursuant to HGB, € 3,057 thousand of the net income for the year were allocated to the revenue reserves. The Board of Management proposes to carry the remaining net income for the year of € 3,057 thousand forward to new account.

Financial performance, financial position and net assets

Financial performance

- Net rental income increases, positive valuation results for investment properties, FFO more than doubles

Due to the good rental situation, gross **rental income** increased to € 16,020 thousand (previous year: € 14,886 thousand), 8% higher than during the previous year. After deducting maintenance and property management expenses, **net rental income** increased by around 8%, to € 11,205 thousand (previous year: € 10,329 thousand).

The **valuation of the investment properties** led to a moderate net increase in the valuation of the overall portfolio of € 2,410 thousand. The changes in the market value are largely attributable to the valuations of the properties at »Ebertplatz 1« (€ 928 thousand) in Cologne and »Potsdamer Str. 58« (€ 815 thousand) in Berlin, the modernization property at »Konrad-Adenauer-Ufer 41–45« in Cologne (€ 810 thousand), the properties at »Rheinstrasse 43–45« (€ -601 thousand) in Mainz and »Gutleutstrasse 26« (€ -510 thousand) in Frankfurt am Main as well as »Weyerstrasse 79–83« in Cologne (€ -405 thousand). This is the result of effects from general changes in the market, but also of modernization work.

Administrative expenses in 2012 stood at € 3,787 thousand, or about 9% above the previous year's level (€ 3,475 thousand). A detailed list is included in the notes to the financial statements in section 4.8 (administrative expense).

At € 5,383 thousand, **interest expense** was 3% below the previous year (€ 5,548 thousand). Valuation results from interest rate derivatives not affecting liquidity remained strongly negative at € -2,531 thousand (previous year: € -3,692 thousand) due to market interest rate levels, which continued to drop. The financial result improved in financial year 2012 by € 1,255 thousand, or approximately 14%, compared to the previous year, reaching € -7,891 thousand (previous year: € -9,146 thousand). In addition to the valuation losses included in income, negative market values of interest rate swaps that form part of effective cash flow hedges (€ 1,007 thousand) less attributable deferred taxes (€ 159 thousand) have been recorded in other income.

The weighted average interest rate for debt financing has dropped to 3.2% (previous year: 3.9%) as a result of cancelling interest hedges.

The consolidated financial statements record a **consolidated net income** for the year of € 2,171 thousand (previous year: € 2,563 thousand), 15% or € 392 thousand less than in the previous year. **Funds from operations**[1] more than doubled, from € 1,221 thousand in the previous year by € 1,346 thousand to € 2,567 thousand, largely due to the increase in the net rental income.

Financial position

Cash flows

€ thousand	2012	2011	change
Cash flow from operating activities	6,786	5,857	16%
Cash flow from investment activities	–7,104	3,157	–325%
Cash flow from financing activities	7,004	–13,014	–154%
Cash in banks at the end of the period	8,312	1,626	411%

Cash flow from operating activities increased largely due to the higher net rental income. Payments for modernization investments resulted in a negative cash flow from investment activities. The cash flow from financing activities largely reflects the loans drawn during the financial year and as a result is negative.

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

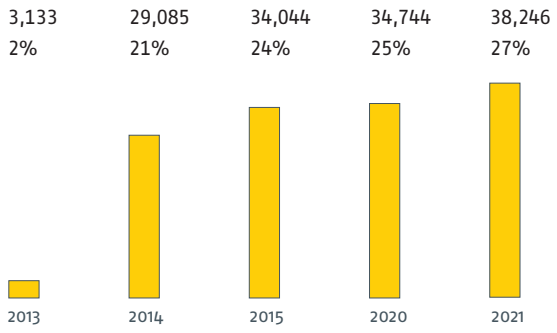
High equity ratio, low loan-to-value ratio

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. As of the reporting date, the available credit lines amounted to approximately € 10 million.

The loan-to-value ratio (ratio of liabilities to banks and the market value of the properties, including down payments for investment properties) increased to about 48% as of 31 December 2012 as a result of taking up more loans. 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 %



Low risk structure of maturities of liabilities to banks

The weighted average remaining term of the bank loans as of 31 December 2012 was 5.5 years. As a result of the timely extension of the terms of the bank loans, no loans will come due in 2013. Due to the conclusion new loan agreements, POLIS now has access to unused, secured credit lines totalling approximately € 10 million.

As of 31 December 2012, 69% of the interest-bearing bank loans were temporarily hedged due to the interest hedges that had been cancelled in the context of concluding a new portfolio financing agreement.

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 the high occupancy rates, the financial ratios in all loan portfolios are currently within the limits required by the banks. Based on the information available today, this will continue to be the case in 2013.

Net assets

Due to investments in the investment properties in financial year 2012, total assets increased to approximately € 310 million (previous year: approximately € 302 million). Non-current assets largely consist of the 33 investment properties and account for around 94% of total assets, in line with the business model.

€ thousand	2012	2011
Non-current assets	290,690	294,452
Current assets	19,302	7,614
Equity	150,653	149,330
Balance sheet total	309,992	302,066
Equity ratio	49%	49%
Loan-to-value ratio	48%	47%

Investments in investment properties

The investments of approximately € 10 million in the individual properties are presented in detail in the notes to the financial statements in section 3.1. (investment properties).

Valuation of the properties

In financial year 2012, Feri EuroRating Services AG (hereinafter referred to as »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. 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 valuation. However, properties that have undergone fundamental changes will be appraised externally by Feri in the following quarter. Feri appraised 9 investment properties of the POLIS property portfolio as of 31 December 2012. 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 fair values of the properties as of the end of 2012 amounted to € 291,040 thousand (previous year: € 289,130 thousand) including the property recorded as non-current assets held for sale (€ 5,500 thousand).

The recognized market values of the individual properties are set forth in the notes to the consolidated financial statements in section 3.1. (page 62 et seqq.) The rating prepared by Feri is published in the portfolio overview in the Internet (www.polis.de) and in the annual report.

Net asset value

At 11,051,000 shares in total, the net asset value per share as of 31 December 2012 amounted to € 13.73 (previous year: € 13.58). Taking the effect of deferred taxes into consideration yields the so-called net net asset value (NNAV) as of 31 December 2012, € 13.63 per share.

€ thousand	
Carrying amounts of investment properties	291,040
Carrying amounts of investments	3,772
Other assets less other liabilities	–3,854
Liabilities to banks	–139,252
Net Asset Value	**151,706**
Deferred taxes	–1,054
Net Net Asset Value	**150,652**

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 continues to be positive. The increase in the occupancy rates and the investments in the buildings will improve future income from business operations. A positive cash flow, an equity ratio of approximately 49% (a loan-to-value ratio of approximately 48%) and the availability of credit lines represent a comfortable financial situation conducive to taking advantage of investment opportunities.

Declaration and Statement on Corporate Governance

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 15 May 2012. 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

On 2 March 2012, the Board of Management and the Supervisory Board issued the following declaration of conformity, which was amended on 27 July 2012:

The Board of Management and the Supervisory Board of POLIS Immobilien AG declare pursuant to Section 161 subsection 1 AktG:

The recommendations of the »Governmental Commission on the German Corporate Governance Code« as published by the German Federal Ministry of Justice on 2 July 2010 in the official section of the electronic German Federal Official Gazette (Bundesanzeiger) as amended on 26 May 2010 have been observed since 3 March 2011 and will continue to be observed, with the following exceptions:

Invitation to the General Meeting

In item 2.3.2, the German Corporate Governance Code recommends that the invitation to the General Meeting including the required documents be transmitted to all domestic and foreign financial service providers, shareholders and associations of shareholders by electronic means, provided the required consent has been obtained. POLIS Immobilien AG transmits the invitation together with documents by electronic means only to shareholders, shareholder associations and financial service providers if they so request. It is not possible to send messages by electronic means to all parties specified in item 2.3.2 since POLIS Immobilien AG has issued bearer shares and does not know the shareholders and their addresses.

Absentee voting

In item 2.3.3 sentence 2, the German Corporate Governance Code recommends that the Company support shareholders in submitting their votes by mail. The option provided by the German Act to implement the Shareholders' Rights Directive (Gesetz zur Umsetzung der Aktionärsrechterichtlinie, ARUG) for absentee voting is still associated with a number of legal and practical problems. In view of the above, and given the administrative cost associated with absentee voting as well as the possibility to authorise company-designated proxies and to issue specific instructions on how to vote on the agenda items, POLIS Immobilien AG chooses not to implement this recommendation for the time being.

Deductibles for D&O insurance policies

In item 3.8, the German Corporate Governance Code recommends stipulating deductibles for Supervisory Board members when concluding a Directors' and Officers' liability insurance (pecuniary loss liability insurance) that correspond to the statutory requirements for members of the Board of Management. POLIS Immobilien AG has already obtained D&O insurance coverage for several years without stipulating deductibles for the Supervisory Board that are specific to that corporate body. POLIS Immobilien AG does not believe that stipulating a corresponding deductible would encourage more responsible actions by the Supervisory Board.

Audit and nomination committee

In items 5.3.2 and 5.3.3, the German Corporate Governance Code recommends the establishment of an audit committee and a nomination committee, respectively. Considering the limited size of the six-member Supervisory Board, and in the interest of close and efficient work, the Supervisory Board chooses not to establish such committees.

Objectives for the composition of the Supervisory Board

In item 5.4.1, the German Corporate Governance Code recommends that the Supervisory Board should specify concrete objectives with respect to its composition; these should take into consideration the Company's international activities and potential conflicts of interest, stipulate an age limit for Supervisory Board members, and encourage diversity, all with due regard to the company-specific situation. In particular, these concrete objectives are to provide for an appropriate involvement of women. Moreover, the recommendations of the Supervisory Board to the responsible election bodies should reflect these objectives. The objectives of the Supervisory Board and the implementation status are to be published in the corporate governance report. This recommendation is currently not yet implemented, bearing in mind that the terms of office of the current members of the Supervisory Board do not end before the end of the ordinary 2013 General Meeting.

Conflicts of interest

The Company does not comply with the recommendation pursuant to item 5.5.3 of the German Corporate Governance Code, according to which the existence of a material and non-temporary conflict of interest of a member of the Supervisory Board shall result in the termination of such member's term of office. In view of the vagueness of the provision, the Board of Management and the Supervisory Board will attempt to identify specific solutions to any potential conflicts of interest that are appropriate for the situation and that ensure the independence of the Supervisory Board.

Discussion of interim financial reports

In item 7.12, the German Corporate Governance Code recommends that the Supervisory Board discuss semi-annual and quarterly financial reports with the Board of Management prior to publication. In the interest of a rapid publication of the interim financial reports, the Supervisory Board chooses not to require a discussion of such reports with the Board of Management prior to publication.

On 27 July 2012, the declaration of conformity was amended as follows:

»The Board of Management and the Supervisory Board declare that from 13 July 2012 the Company has not complied with the recommendation in item 4.2.1 sentence 1 of the German Corporate Governance Code according to which the Board of Management should consist of several persons and have a chairperson or speaker. The previous CFO, Mr. Peter E. Muth, resigned his office as member of the Board of Management effective 12 July 2012 on amicable terms and in agreement with the Supervisory Board. Since that time, the previous CEO, Dr. Alan Cadmus, has been the sole member of the Board of Management until a new CFO has been appointed.

In other respects, the declaration of conformity issued on 2 March 2012 remains unchanged.«

The Board of Management and the Supervisory Board will issue a new declaration of conformity on 5 March 2013.

The declaration of conformity dated 2 March 2012 as amended on 27 July 2012 is publicly available on the Company's website in the Investor Relations/Corporate Governance section. This is also where the new declaration of conformity will be published.

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 authorised 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.

POLIS Immobilien AG is currently being managed by the CEO of the Board of Management, Dr. Alan Cadmus, as sole member of the Board of Management. The previous CFO, Mr. Peter E. Muth, had resigned his office as member of the Board of Management effective 12 July 2012 in agreement with the Supervisory Board. The Supervisory Board has appointed Mr. Michael Piontek as additional member of the Board of Management effective 1 April 2013. From 1 April 2013, the Company will be managed by Dr. Alan Cadmus as CEO and Mr. Michael Piontek as CFO.

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 end 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. In each of the General Meetings on 19 June 2009 and 22 June 2012, a successor was elected 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 authorised 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 Mr. Carl-Matthias von der Recke (chairperson), Mr. Klaus R. Müller and Mr. Arnoldus Brouns (until 22 June 2012) and Mr. Martin Eberhardt (from 22 June 2012). In particular, the personnel committee prepares decisions by the Supervisory Board on staffing and compensation issues.

The members of the investment committee are Mr. Klaus R. Müller (chair), Mr. Ralf Schmechel and Mr. 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 Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (Berlin), which was appointed by the 2012 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 2012.

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 semi-annual 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 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 behaviour.

As a property company, POLIS Immobilien AG continuously strives to optimize its property portfolio and to observe environmental standards in modernising and revitalising 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 instalments, the members of the Board of Management receive supplementary and non-cash benefits in the form of company cars and health insurance allowances.

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.

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 a 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.

The compensation for the members of the Board of Management in financial year 2012 is specified in section 6.1 of the notes to the financial statements.

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 2012, the members of the Supervisory Board received the compensation and reimbursement of expenses as stated in section 6.1 of the notes to the financial statements.

In 2012, no member of the Supervisory Board received compensation or advantages for services rendered personally, in particular for consulting and brokerage services.

Stock option plan

The stock option plan adopted by the Company's General Meeting on 4 July 2008 and that expired on 31 December 2012 is presented in section 6.3 of the notes to the financial statements.

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 reaches or exceeds € 5,000. In financial year 2012, 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 as follows:

31 Dec 2012	Number of shares[1]
Dr. Alan Cadmus	32,500
Birgit Cadmus	16,500

1 As reported to the Company

Dependency report

From 17 October 2012, Mann Unternehmensbeteiligungen GmbH (Karlsruhe) (formerly Doris Verwaltungsgesellschaft mbH (Karlsruhe)), which is part of the Mann Group (Karlsruhe), holds 69.8% of the shares in POLIS previously held by Mann Immobilien-Verwaltungs AG (Karlsruhe). Therefore, POLIS is a company controlled by Mann Unternehmensbeteiligungen GmbH (Karlsruhe) (formerly Doris Verwaltungsgesellschaft mbH (Karlsruhe)) within the meaning of Section 17 subsections 1 and 2 AktG (abhängiges Unternehmen). 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 2012 to 31 December 2012.

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 2012, 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 authorised 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 22 June 2012, the Board of Management is authorised subject to the approval of the Supervisory Board to increase the share capital by up to € 55,255,000.00 by issuing up to 5,525,500 no–par value shares (Stückaktien). The corresponding »authorised capital« (genehmigtes Kapital) within the meaning of Sections 202 et seq AktG is governed by Section 4 subsection 3 of the Articles of Association.

Shareholder structure

Since October 2012, the majority shareholder with approximately 69.8% of the shares in POLIS is Mann Unternehmensbeteiligungen GmbH (Karlsruhe) (formerly Doris Verwaltungsgesellschaft mbH (Karlsruhe)). Previously, Mann Immobilien-Verwaltung AG, which likewise belongs to Mann Group, was majority shareholder with a reported share of approximately 53.2%. The support by such a financially strong major shareholder encourages us in pursuing our strategy. Mann Group has consistently backed our strategy, and has been supporting our growth since before our initial public offering by investing substantial amounts of capital.

Based on notifications of voting rights, the Company is aware of the following direct and indirect interests in the capital that exceed 10% of voting rights:

a) Direct interests as of 31 December 2012

- Mann Unternehmensbeteiligungen GmbH (Karlsruhe) (formerly Doris Verwaltungsgesellschaft mbH (Karlsruhe)): 69.8%
- Bouwfonds Asset Management Deutschland GmbH (Berlin): 20.2%

b) Indirect interests as of 31 December 2012

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%

Indirectly via Mann Unternehmensbeteiligungen GmbH (Karlsruhe) (formerly Doris Verwaltungsgesellschaft mbH (Karlsruhe)):

- Mann Immobilien-Verwaltung AG (Karlsruhe, Germany): 69.8%

The free float as defined by Deutsche Börse currently represents 10.0% 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 about 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 or the meetings of the management team. 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 organisation 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. Loans are to be routinely and predominantly hedged against interest rate risks by stipulating fixed interest rates or by employing derivative financial instruments. The extent of the interest rate hedges shall be in line with current market data as agreed with the Supervisory Board.

1 Committee of Sponsoring Organizations of the Treadway Commission

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 optimising the portfolio.

Key control system indicators

We determine the internal rate of return (IRR) of possible investments and compare it to a minimum interest rate that is commensurate to the risk. As a property holding real estate company POLIS also uses a net asset value model for managing the Company and enhancing transparency. The net asset value represents the sum of the values of the properties and other assets less the Company's liabilities and related items (see section entitled »Net assets«).

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 (these duties currently temporarily performed by the sole member of the Board of Management).

The review of the consolidated financial statements by the group auditor represents the essential process-independent monitoring function with respect to the accounting process.

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

Specific risks related to the group accounting can arise from complex 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 authorisation 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, and that the dual control principle is currently not observed at the level of the Board of Management until the position of CFO has been filled. As long as the position of Chief Financial Officer is not filled, the head of accounting is supporting the Board of Management in these areas of responsibility.

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. In the past, interest rate risks were to be hedged throughout the entire group by means of interest hedges with respect to between 50% and 70% of the credit volumes. Due to the sales of investment properties in 2011, new and extended interest hedges as well as existing credit lines that were not fully exploited, this range was temporarily exceeded. As a result of changes in market interest rates, the Board of Management and the Supervisory Board have stipulated a variable range of between 50% and 90% as well terms between 3 and 7 years that depend on the specific market interest rate environment. The currently required range of between 70% and 90% is being observed.

In financial year 2012, debt finance was only available subject to increased risk premiums, even to well-capitalised 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 the Group's equity ratio of around 49%, bank balances of around € 8 million, and available credit lines of around € 10 million, and in view of the modernization investments of around € 8 million planned for 2013, 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%. 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 section entitled »Liabilities to banks« in the notes to the consolidated financial statements.

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

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

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 location relative to other countries and global market and
- the overall legal and fiscal environment.

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 2013 will be characterised by an increase in the demand for office space. We believe that the homogenous 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 13% based on the rental space as of 31 December 2012. On average, the lease agreements concluded by POLIS stipulate medium-length terms, so that lease agreements are regularly due for extension. In 2013, office space totalling approximately 16,650 sqm will be available for letting. The rental income of POLIS is generated in a wide number of different industries. The ten most important tenants account for approximately 29% of the rental income.

(iii) Risks associated with construction costs

POLIS invests in properties with different levels of modernisation requirements. The strategy of actively managing the portfolio includes modernisations 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 2013, we will invest approximately € 10 million in our investment properties.

In order to identify and control risks early on in the course of planning and executing modernisation work, we have commissioned external project management organisations and architects to manage the majority of such projects. Projects are managed by means of intensive project controlling, weekly project meetings, and monthly project reports.

(iv) Risks associated with revaluations

The investment properties of POLIS are reported in the consolidated balance sheet using their fair value according to IAS 40. The 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 materialisation 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 analysing these risks. The strategy of diversifying risks by investing in high-quality buildings that are capable to accommodate alternative 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 2013. Due to its regular and up-to-date reporting system, the Board of Management can react at short notice and rapidly take measures in the case of deviations from the plan.

It is the belief of the Board of Management that there are no risks discernible from past or future trends that would threaten the existence of POLIS. We are aware of the economic and financial risks associated with the financial crisis; however, we believe that the risks we have identified are manageable. Adequate precautions have been taken to guard against any risks that are discernible.

Report on subsequent events

No significant events that would need to be reported occurred between the end of financial year 2012 and the editorial deadline for this management report.

Report on expected developments

Development of the overall economy and the market for office buildings

In 2012, office markets stabilised at a high level. The simultaneous drop in new construction activity has led to a reduction in vacancies in the market for office space. Since the economy is expected to grow slightly in the current year, we believe this trend will continue in the next year.

Major opportunities for POLIS Group

Due to its successes in letting rental space in the past three years, POLIS has established the basis for a stabilisation and improvement of the key earnings ratios in 2013. 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 modernisation 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 optimisation and/or letting. This provides us with options to take advantage of opportunities in our own property portfolio especially in challenging times.

Business outlook

The key operational figures will continue to improve in financial year 2013 as a result of the increased occupancy rate. By the end of 2013, we would like to stabilise the occupancy rate at a level significantly above 90% of all rental areas. In 2013, we want to achieve a further increase in net rental income and generate further growth by acquiring new investment properties. Based on the information currently available, funds from operations will continue to increase as a result of the higher net rental income, to more than € 4.0 million in 2013 and more than € 5.0 million in 2014.

We intend to increase the assets under management to over € 350 million in 2013 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 materialises or the assumptions underlying the statements turn out to be incorrect.

The Board of Management affirms that to the best of its knowledge the management report gives a true and fair view of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks relating to the expected future development of the Company.

Berlin, 5 March 2013

POLIS Immobilien AG

– The Board of Management –

Dr. Alan Cadmus

Consolidated Financial Statements

Consolidated Statement of Financial Position

As of 31 December 2012
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

ASSETS

€ thousand	Note	31 Dec 2012	31 Dec 2011
Non-current assets			
Investment properties	3.1	285,540	289,130
Intangible assets	3.2	221	243
Property, plant and equipment	3.2	178	187
Financial assets	3.3	3,772	3,772
Deferred tax assets	3.4	206	433
Other financial assets	3.7	773	687
Total non-current assets		**290,690**	**294,452**
Current assets			
Receivables and other financial assets	3.5	5,142	5,585
Current tax receivables	3.5	11	12
Cash in banks	3.6	8,312	1,626
Other assets	3.7	337	391
Financial assets held for sale	3.1	5,500	0
Total current assets		**19,302**	**7,614**
Total assets		**309,992**	**302,066**

Equity and Liabilities

€ thousand	Note	31 Dec 2012	31 Dec 2011
Equity			
Subscribed capital	3.8	110,510	110,510
Capital reserves	3.8	18,185	19,196
Reserves for cash flow hedges		–2,074	–1,226
Retained earnings	3.8	21,861	18,287
Consolidated net income		2,171	2,563
Share in equity allocable to the equity holder of the parent		150,653	149,330
Total equity		**150,653**	**149,330**
Liabilities			
Non-current liabilities			
Liabilities to banks	3.9	133,793	128,916
Deferred tax liabilities	3.4	1,260	1,212
Other financial liabilities	3.9	9,282	7,105
Total non-current liabilities		**144,335**	**137,233**
Current liabilities			
Liabilities to banks	3.9	5,459	6,204
Payments received on account	3.9	3,616	3,567
Trade accounts payable	3.9	3,193	2,662
Income tax liabilities	3.9	81	41
Other financial liabilities	3.9	2,655	3,029
Total current liabilities		**15,004**	**15,503**
Total equity and liabilities		**309,992**	**302,066**

Consolidated Comprehensive Income Statement

for the period from 1 January to 31 December 2012
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	Note	2012	2011
Rental revenues	4.1	16,020	14,886
Renovation and maintenance expense	4.2	–3,194	–2,881
Property management expense	4.3	–1,621	–1,676
		–4,815	–4,557
Net rental income		**11,205**	**10,329**
unrealized gains from the revaluation of investment properties		5,419	11,498
unrealized losses from the revaluation of investment properties		–3,009	–7,001
Income from the revaluation of investment properties	4.4	2,410	4,497
Income from the sale of investment properties		10,500	53,537
Carrying amount of the investment properties sold		–10,500	–52,652
Income from the sale of investment properties	4.5	0	885
Other income	4.6	948	776
Other expense	4.7	–311	–627
Administrative expense	4.8	–3,787	–3,475
Income before financing activity and taxes		**10,465**	**12,385**
Investment income	4.9	17	37
Financial income	4.10	6	57
Income from the valuation of derivative financial instruments	4.11	–2,531	–3,692
Financial expenses	4.11	–5,383	–5,548
Income before taxes		**2,574**	**3,239**
Deferred taxes	4.12	–275	–348
Income taxes	4.12	–128	–328
Consolidated net income for the period		**2,171**	**2,563**
of which allocable to equity holder of parent		2,171	2,563
Consolidated net income		**2,171**	**2,563**
Negative value of cash flow hedges recorded in other income	3.9	–1,007	–1,457
Attributable deferred tax assets	3.4	159	231
Other income		**–848**	**–1,226**
Consolidated comprehensive income		**1,323**	**1,337**

€		2012	2011
Earnings per share			
undiluted	4.13	0.20	0.23
diluted	4.13	0.20	0.23

Consolidated Cash Flow Statement

for the period from 1 January to 31 December 2012
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	2012	2011
Income before taxes	2,574	3,239
Adjusted for:		
Financial result	7,891	9,146
Income from revaluation of investment properties	-2,410	-4,497
Income from the sale of property, plant and equipment and financial assets	0	-885
Depreciation/amortization on intangible assets and property, plant and equipment	125	107
Payments for equity options	0	4
Increase in trade receivables and other assets which cannot be allocated to the investment and financing activity	337	-1,427
Changes in the trade payables and other liabilities which cannot be allocated to the investment and financing activity	-1,647	413
Income tax paid	-88	-243
Net cash from operating activities	**6,786**	**5,857**
Payments for the acquisition of software, fixtures and equipment	-105	-146
Proceeds from the sale of consolidated investments	1,900	7,912
Proceeds from the sale of investment properties	680	30,558
Payments for the acquisition of investment properties and investments in modernization	-9,586	-35,131
Payments for the acquisition of financial assets	0	-2,133
Proceeds from the sale of property, plant and equipment	7	2,097
Net cash (used by) from investment activities	**-7,104**	**3,157**
Payments for repayments of loans	-8,966	-41,829
Proceeds from debt	21,698	34,177
Interest received	6	57
Interest paid	-5,751	-5,456
Dividends received	17	37
Net cash (used by) from financing activities	**7,004**	**-13,014**
Net change in cash and cash equivalents	**6,686**	**-4,000**
Cash in banks at the beginning of the period	**1,626**	**5,626**
Cash in banks at the end of the period	**8,312**	**1,626**

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 2012
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

€ thousand	Subscribed capital	Capital reserves	Retained earnings	Consolidated net income	Reserves for cash flow hedges	Share in equity allocable to the equity holders of the parent	Total equity
Balance as of 31 Dec 2010	**110,510**	**21,388**	**14,544**	**1,547**	**0**	**147,989**	**147,989**
Settlement	0	0	1,547	−1,547	0	0	0
Consolidated net income	0	0	0	2,563	−1,226	1,337	1,337
Expense stock option plan	0	4	0	0	0	4	4
Offset against capital reserves	0	−2,196	2,196	0	0	0	0
Balance as of 31 Dec 2011	**110,510**	**19,196**	**18,287**	**2,563**	**−1,226**	**149,330**	**149,330**
Settlement	0	0	2,563	−2,563	0	0	0
Consolidated net income	0	0	0	2,171	−848	1,323	1,323
Expense stock option plan	0	0	0	0	0	0	0
Offset against capital reserves	0	−1,011	1,011	0	0	0	0
Balance as of 31 Dec 2012	**110,510**	**18,185**	**21,861**	**2,171**	**−2,074**	**150,653**	**150,653**

Notes to the consolidated financial statements prepared in accordance with IFRS for POLIS Immobilien AG, Berlin

as of 31 December 2012

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 centres 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 2012 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 Management approved the consolidated financial statements on 5 March 2013 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 2012.

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 recognised as goodwill and tested for impairment annually. A negative difference must be taken to income immediately.

No business combinations occurred in financial years 2011 and 2012.

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

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 24 fully consolidated companies in Germany as set forth in the following overview. Relative to 31 December 2011, the consolidated group of POLIS decreased by eight companies as a result of the sale of an interest, nine group-internal accruals (Anwachsungen) as well as of the establishment of two entities. This change does not affect the comparability of the financial statements with the previous year.

Company	Share in the capital %
POLIS Grundbesitz Objekt Verwaltungs GmbH	100
POLIS Cityfonds Verwaltungs GmbH	100
POLIS Objekte Altmarkt Kramergasse GmbH & Co. KG	100
POLIS Objekt Gutleutstrasse 26 GmbH & Co. KG	100
POLIS Objekt Luisenstrasse 46 GmbH	100
POLIS Objekt Landschaftstrasse GmbH & Co. KG	100
POLIS Objekt Konrad-Adenauer-Ufer GmbH & Co. KG	100
POLIS Quartier Buechsenstrasse 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 Cityfonds Objekt Lessingstrasse GmbH & Co. KG	100
POLIS Zweite Objektgesellschaft Duesseldorf GmbH & Co. KG	100
POLIS Zweite Objektgesellschaft Koeln GmbH & Co. KG	100
POLIS Objekt Koenneritzstrasse GmbH & Co. KG	100
POLIS Objekt Palaisplatz GmbH & Co. KG	100
POLIS Objekte Berliner Allee GmbH & Co. KG	100
POLIS Erste Objektgesellschaft Koeln GmbH & Co. KG	100
POLIS Zweite Objektgesellschaft Stuttgart GmbH & Co. KG	100
POLIS Objekte Dortmund GmbH & Co. KG	100
POLIS Objekt Potsdamer Strasse 58 GmbH	94
POLIS GmbH & Co. Einundvierzigste Objekt KG	100
POLIS GmbH & Co. Zweiundvierzigste Objekt KG	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 and derivatives, which are recognised at fair value, the consolidated financial statements have been drawn up in accordance with the historical cost principle.

Compared to the consolidated financial statements for 2011, some accounting items were reclassified from current other liabilities to non-current other liabilities; the figures for the previous year stated for comparison purposes were adjusted accordingly. Please refer to section 3.9 for further details. Furthermore, 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 income 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 recognised 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 recognised 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 recognised at historical cost or production cost and are amortised in a straight line over a period of between three and five years depending on their expected operational lifetime.

2.4.3. Tangible assets

Tangible assets are measured at historical cost or production cost less scheduled straight-line depreciation and impairment. Fixtures and equipment are depreciated over a period of between 3 and 13 years. If tangible assets are sold or closed down, the historical 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 recognised 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 recognised.

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 amortised cost.

Interests whose fair value can be reliably estimated are recognised 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 are non-derivative financial assets, with payments that are fixed or can be determined and that are not listed in an active market. Receivables and other financial assets are initially measured at fair value and on subsequent reporting dates at amortised cost using the effective interest method, less any impairments.

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 realised 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 tax basis. 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 recognised 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 recognised 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 occurs at amortised cost. Gains and losses are recognised in income if the liability is written off as well as in the context of repayment using the effective interest method.

b) Trade payables and other financial liabilities, and financial liabilities

to the extent that they do not represent derivative financial instruments, are measured at the fair value of the consideration received for the exchange of the obligations. 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 recognised in income unless the derivative financial instruments are used in a designated and sufficiently effective hedging relationship in the context of an underlying transaction.

Derivative financial instruments (interest rate caps, floors and swaps) are used to hedge the interest rate risks of loans subject to variable interest rates. Some of them do not satisfy the criteria of IAS 39 with respect to the representation of hedging relationships (hedge accounting).

The derivative financial instruments are initially and subsequently recognised and measured at fair value. The fair values were determined using directly observable market parameters. Accordingly, the derivative assets and liabilities are classified as level 2 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 recognised in income unless the derivative financial instruments are used in a designated and sufficiently effective hedging relationship in the context of an underlying transaction.

The derivative financial instruments are designated as hedging instruments in order to represent in the balance sheet the hedge against the risk of their variation in line with an asset or liability reported in the balance sheet, or with future cash flows associated with a planned transaction that will materialise with a high degree of probability. In this context, the unrealised gains and losses of the hedge are initially recognised in other income. They are only transferred to the profit-and-loss account once the underlying transaction that is being hedged has been recognised 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 recognised 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 equity 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 recognised value of the asset or liability.

2.4.8. Impairment

An impairment of financial assets that are reported at amortised 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 recognised in other expenses.

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 realisable amount. Recognisable 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.

If not measured at fair value, non-financial, non-current assets are tested for impairment whenever an impairment indicator is identified.

2.4.9. Expense and income realisation

Income is recognised 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 recognised as soon as the service has been rendered. Rental revenues are realised 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 recognise the income that is attributable to the rent-free periods.

When properties are sold, profit is realised as a matter of principle at the time at which the title passes to the buyer under civil law. Profits are realised 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 recognised 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 recognised 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.

POLIS has not concluded any non-cancellable lease agreements within the meaning of IAS 17.56. Lease agreements with tenants stipulate individual terms and conditions.

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 recognised 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 2012 were not applied. While the changes will lead to new disclosures in the notes to the financial statements, it is expected that they will not have an impact on the presentation of accounts in future consolidated financial statements of POLIS.

Amendment to IAS 32 und IFRS 7 – Offsetting financial assets and financial liabilities

The amendment to IAS 32 and IFRS 7 was published in December 2011 and is to be applied for the first time in financial years commencing on or after 1 January 2014 and 1 January 2013, respectively. The amendments are meant to remove existing inconsistencies concerning a supplement to the application guidance. However, the existing basic provisions for offsetting financial instruments have been retained. Moreover, the amendment defines additional disclosures.

IFRS 10 Consolidated financial statements

IFRS 10 was published in May 2011 and is to be applied for the first time in the financial year commencing on or after 1 January 2014. The new standard replaces the provisions of the previous IAS 27 (Consolidated and separate financial statements) concerning group accounting and Interpretation SIC-12 (Consolidation – special purpose entities).

IFRS 10 establishes a uniform concept of control that applies to all companies including special purpose entities. Moreover, in June 2012 the revised transition guidance was published for IFRS 10-12, which is meant to facilitate the first application of the new standards.

IFRS 11 Joint arrangements

IFRS 11 was published in May 2011 and is to be applied for the first time in the financial year commencing on or after 1 January 2014. The standard replaces IAS 31 (Interests in joint ventures) and Interpretation SIC-13 (Jointly controlled entities – non-monetary contributions by venturers).

IFRS 11 removes the previous option of applying proportional consolidation in the case of joint ventures. In future, these entities will be included at-equity in the consolidated financial statements.

IFRS 12 Disclosure of interests in other entities

IFRS 12 was published in May 2011 and is to be applied for the first time in the financial year commencing on or after 1 January 2014. The standard stipulates uniform rules governing disclosure requirements concerning group accounting and consolidates the disclosures for subsidiaries previously contained in IAS 27, disclosures for jointly controlled entities and associates previously contained in IAS 31 and/or IAS 28, as well as for structured entities.

IFRS 13 Fair value measurement

IFRS 13 was published in May 2011 and is to be applied for the first time in the financial year commencing on or after 1 January 2013. The standard stipulates rules for determining fair value and defines comprehensive quantitative and qualitative disclosures concerning fair value measurement.

However, the issue of when assets and liabilities must or may be measured at fair value is not included in the scope of this standard. IFRS 13 defines fair value as the price that a party would receive for the sale of an asset or would pay for the transfer of a liability in an orderly transaction between market participants at the measurement date.

Amendment to IAS 1 – Presentation of items of other income

The amendment to IAS 1 was published in June 2011 and is to be applied in the financial year on or after 1 July 2012. The amendment to IAS 1 concerns the presentation of items of other income. It requires that items that are to be reclassified in future such that they are recognised in the income statement (so-called recycling) are presented separate from items that remain in equity.

Amendment to IAS 12 – Deferred tax: recovery of underlying assets

The amendment to IAS 12 was published in December 2010 and is to be applied for the first time in the financial year commencing on or after 1 January 2013. The amendment to IAS 12 introduces a simplification. It makes the (refutable) assumption that the measurement of the deferred taxes in the case of properties that were measured at fair value will in principle depend on the recovery of the carrying amount by way of a sale. In the case of tangible assets not subject to wear and tear that are measured using the revaluation model, one is always to assume a sale.

IAS 19 Employee benefits (revised 2011)

The revised standard IAS 19 was published in June 2011 and is to be applied for the first time in the financial year commencing on or after 1 January 2013. The changes include fundamental changes such as the determination of the expected return on plan assets and the cancellation of the corridor method, which served to distribute and/or reduce the volatility over time resulting from pension obligations, as well as mere clarifications and re-worded clauses.

2.5. Segment reporting

Pursuant to IFRS 8, POLIS has identified thirty-three 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 centres of key German office locations) and similar long-term revenue prospects and are therefore aggregated to a single segment subject to reporting obligations in accordance with IFRS 8.12

3. Notes to the statement of financial position

3.1. Investment properties and properties held for sale

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 recognised as income in the comprehensive income statement in the form of unrealised gains and losses from the revaluation of investment properties.

The modernisation investments include comprehensive construction work for the modernisation 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 modernisation investments largely concern investments for the revitalisation of the »Quartier Buechsenstrasse« in Stuttgart.

The investment property at »Domstrasse 10« in Hamburg was sold effective 1 October 2012 in the context of a share deal.

A purchase and sale agreement was concluded in the 4th quarter of 2012 concerning the sale of the investment property at »Steinstrasse 12–14« in Hamburg. Transfer of possession is expected to occur in the course of the 1st quarter 2013. The property is being sold in the context of an asset deal. It was reclassified as a non-current asset held for sale.

Of the modernisation investments, € 9,586 thousand (previous year: € 9,661 thousand) affect cash.

The following table illustrates the changes in the investment properties in 2012:

€ thousand		1 Jan 2012						31 Dec 2012
Property	Location	Fair value	additions from acquisition	modernization investments	disposals	reclassification	changes in market value	fair value
Luisenstrasse 46	Berlin	10,760	0	0	0	0	390	11,150
Potsdamer Str. 58	Berlin	14,220	0	325	0	0	815	15,360
Kleppingstrasse 20	Dortmund	5,020	0	405	0	0	-125	5,300
Altmarkt 10/Kramergasse 2	Dresden	34,760	19	840	0	0	171	35,790
Koenneritzstrasse 29, 31, 33	Dresden	9,390	0	689	0	0	251	10,330
Palaisplatz 3, 3a	Dresden	4,720	0	204	0	0	146	5,070
Gallenkampstr. 20	Duisburg	1,620	0	91	0	0	-31	1,680
Berliner Allee 42	Dusseldorf	6,380	0	198	0	0	182	6,760
Berliner Allee 44	Dusseldorf	8,240	0	126	0	0	-316	8,050
Berliner Allee 48	Dusseldorf	5,310	0	101	0	0	4	5,415
Immermannstr. 11	Dusseldorf	3,110	0	116	0	0	-46	3,180
Steinstrasse 27	Dusseldorf	8,860	0	297	0	0	553	9,710
Gutleutstrasse 26	Frankfurt a. M.	10,710	0	0	0	0	-510	10,200
Domstrasse 10	Hamburg	10,410	0	0	-10,500	0	90	0
Steinstrasse 12-14	Hamburg	5,500	0	159	0	-5,500	-159	0
Landschaftstrasse 2	Hanover	4,430	0	18	0	0	52	4,500
Landschaftstrasse 8	Hanover	3,930	0	0	0	0	30	3,960
Ebertplatz 1	Cologne	7,520	0	552	0	0	928	9,000
Gustav-Heinemann-Ufer 54	Cologne	15,320	0	583	0	0	667	16,570
Hansaring 20	Cologne	4,280	0	189	0	0	-269	4,200
Konrad-Adenauer-Ufer 41-45	Cologne	21,190	0	280	0	0	810	22,280
Neumarkt 49	Cologne	8,220	0	26	0	0	324	8,570
Weyerstrasse 79-83	Cologne	16,300	0	35	0	0	-405	15,930
Rheinstrasse 43-45	Mainz	2,540	0	621	0	0	-601	2,560
Rheinstrasse 105-107	Mainz	4,070	0	54	0	0	-34	4,090
Lessingstrasse 14	Munich	9,580	0	8	0	0	-78	9,510
Boeblinger Strasse 8/ Arminstrasse 15	Stuttgart	4,180	0	66	0	0	-16	4,230
Quartier Buechsenstrasse	Stuttgart	40,170	0	3,823	0	0	-418	43,575
Tuebinger Strasse 31 & 33	Stuttgart	8,390	0	175	0	0	5	8,570
Total		**289,130**	**19**	**9,981**	**-10,500**	**-5,500**	**2,410**	**285,540**

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	modernization investments	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, 33	Dresden	0	6,000	446	0	2,944	9,390
Palaisplatz 3, 3a	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**

Expenses and income directly attributable to investment properties

In addition to the unrealised 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:

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

	2012			2011		
€ thousand	Total	Properties available for sale	Investment properties	Total	Properties available for sale	Investment properties
Rental revenues from investment properties	16,020	217	15,803	14,886	0	14,886
Directly attributable property management costs that led to rental revenues						
Renovation and maintenance	3,194	23	3,171	2,881	0	2,881
Property management	1,071	0	1,071	1,010	0	1,010
Total	**4,265**	23	**4,242**	**3,891**	0	**3,891**
Directly attributable property management costs that did not lead to rental revenues						
Property management	550	85	465	666	0	666
Total	**550**	85	**465**	**666**	0	**666**

Of the unrealised gains and losses from the revaluation of investment properties, € -159 thousand are the result of non-current assets held for sale.

Information concerning property valuation as of 31 December 2012

The fair values of the properties as of 31 December 2012 as well as for the reporting date for the previous year were determined on the basis of valuations 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 nine 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 the first three quarters of the financial year.

The internal property appraisal is carried out in accordance with the same principles as the appraisal by Feri EuroRating Services AG. 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.

The value determined is the market value 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 valuation comprehensively takes into account all factors that influence the value of the property. To the extent possible, subjective value judgments are confirmed objectively by applying quantitative analytical methods.

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 income initially contains the contractually agreed rents. The rental income 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 2.54% (previous year: 3.11%).
- A mark-up (risk premium) on the base interest rate takes into account the general market risk of a real estate investment. According to the experts, the average risk premium for the portfolio is 4.18% (previous year: 3.71%).
- 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, property-specific, and tenant-specific risk.

The resulting weighted break-even yield for all properties is 6.72% (previous year: 6.82%). Assuming an increase or a decrease in the average break-even yield of 0.5%-points increases or decreases the market values by approximately 4%.

A basic total useful life of 65 years starting with 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 analysed and extend the remaining useful life of the property in question, where applicable.

Furthermore, the cash flow projections are based on the following assumptions:

- Based on the vacancy rates as of the valuation date of 13% (previous year: 20%), vacancies will be largely reduced within one year. The mid-term planning horizon assumes vacancy rates of between approximately 4% and approximately 7%.
- The valuation scenario shows an increase in rents of approximately 11% in the first year. The predominant share of this increase in the rent is in line with the aforementioned reduction in vacancies and the rent increase due to index-linked lease agreements. The resulting assumed increase in rents is approximately 1.9% per year until the end of the ten-year planning horizon.
- In the long-term, our plans include assumed maintenance expenses of € 0.75 per month and square metre of rental space, the same as in the previous year.

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:

€ thousand	Acquisition/ production cost 1 Jan 2012	Add-itions	Dis-posals	31 Dec 2012	Revalu-ation accu-mulated 1 Jan 2012	Depreciation/ amortization Add-itions	Dis-posals	31 Dec 2012	Carrying amount 31 Dec 2011	31 Dec 2012
Software	402	59	0	461	159	81	0	240	243	221
Fixtures and equipment	368	46	16	398	181	43	4	220	187	178
	770	**105**	**16**	**859**	**340**	**124**	**4**	**460**	**430**	**399**

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

€ thousand	Acquisition/ production cost 1 Jan 2011	Add-itions	Dis-posals	31 Dec 2011	Revalu-ation accu-mulated 1 Jan 2011	Dis-posals	Depreciation/amortization 1 Jan 2011	Add-itions	Dis-posals	31 Dec 2011	Carrying amount 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	318	50	0	368	–	–	143	38	0	181	175	187
	2,808	**146**	**2,184**	**770**	**–87**	**87**	**232**	**108**	**0**	**340**	**2,489**	**430**

3.3. Financial assets

The financial assets in each case include 15% of the shares in POLIS Objekt Rankestrasse GmbH & Co. KG, in POLIS Objekt Bugenhagenstrasse GmbH & Co. KG and in POLIS Objekt Ludwig-Erhard-Strasse GmbH & Co. KG. It is intended to hold each of the 15% interests permanently. POLIS provides asset and property management services for these entities. The interests were measured at fair value based on the fair values assumed for the properties held by the entities. Valuations did not change compared to the previous year.

Furthermore, the financial assets include 5.1% of the shares in Bouwfonds GmbH & Co. Stinnesplatz KG. The interest 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				Acquisition/ production cost		Depreciation/amortization			Carrying amount	
Subsidiary	Location	Share %	1 Jan 2012	Additions	31 Dec 2012	1 Jan 2012	Additions/ Disposals	31 Dec 2012	31 Dec 2011	31 Dec 2012
POLIS Objekt Rankestrasse GmbH & Co. KG	Berlin	15.00	1,770	0	1,770	0	0	0	1,770	1,770
POLIS Objekt Ludwig-Erhard-Strasse GmbH & Co. KG	Berlin	15.00	1,200	0	1,200	0	0	0	1,200	1,200
POLIS Objekt Bugenhagenstrasse GmbH & Co. KG	Berlin	15.00	559	0	559	0	0	0	559	559
Bouwfonds GmbH & Co. Objekt Stinnesplatz KG	Berlin	5.10	243	0	243	0	0	0	243	243
			3,772	**0**	**3,772**	**0**	**0**	**0**	**3,772**	**3,772**

3.4. Deferred tax assets and liabilities

The net deferred tax liabilities totalling € 1,054 thousand (previous year: € 779 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	2012	2011
Tangible assets	565	1,299
Tax losses carried forward	474	721
Hedging reserves	389	230
Other financial liabilities	1,386	1,296
Balance of tax losses carried forward and other financial liabilities	-2,608	-3,113
Deferred tax claims	**206**	**433**

Deferred tax liabilities

€ thousand	2012	2011
Tangible assets	3,868	4,325
Balance of tax losses carried forward, other financial liabilities and hedging reserves	-2,608	-3,113
Deferred tax debts	**1,260**	**1,212**

Deferred tax assets are offset against deferred tax liabilities (€ 2,608 thousand) only to the extent that they pertain to income taxes that are levied by the same tax authority for the same taxable entity.

As of 31 December 2012, deferred taxes were formed in full with respect to the corporate tax losses carried forward for POLIS Immobilien AG (€ 3,330 thousand, previous year: € 4,558 thousand), since it is assumed that the corporate tax losses carried forward will be used by future corporate tax profits from the realisation of existing tax-relevant hidden reserves in the investment properties. The changes of the deferred tax assets pertaining to derivatives (interest rate swaps) that form part of an effective cash flow hedge (€ 159 thousand, previous year: € 231 thousand) were recorded in other income. The other changes in the deferred tax assets and tax liabilities are recognised in the income statement.

No deferred tax assets were recognised for trade tax losses carried forward amounting to € 37,100 thousand (previous year: € 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 2012	31 Dec 2011
Trade receivables	4,388	3,932
of which allocable operating expenses	3,930	3,676
of which rent receivables	458	256
Sales tax credit and input tax that is deductible in the following year	529	423
Receivables from the sale of investment properties	0	784
Advance payments for income taxes	0	19
Other receivables	225	427
Total	**5,142**	**5,585**

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

As of 31 December 2012, receivables from operating costs not yet settled stood at € 3,930 thousand (previous year: € 3,676 thousand), and down payments for operating costs amounted to € 3,616 thousand (previous year: € 3,567 thousand).

The trade receivables are composed as follows:

€ thousand	31 Dec 2012	31 Dec 2011
Non-impaired rent receivables	**4,385**	**3,919**
Gross claim	41	165
Value adjustment	–38	–152
Impaired rent receivables	**3**	**13**
Total	**4,388**	**3,932**

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

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

		of which:	of which: not impaired, and past due in the following periods:			
€ thousand	Carrying amount	neither impaired nor past due	0–30 days	31–60 days	61–90 days	more than 90 days
Rent receivables 31 Dec 2012	4,385	4,209	148	7	0	21
Rent receivables 31 Dec 2011	3,919	3,797	80	15	0	27

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

The value adjustments on trade receivables concerning claims for rent and developed as follows:

€ thousand	2012	2011
Status as of 1 January	152	78
Dissolution	–142	–8
Additions	28	82
Status as of 31 December	**38**	**152**

For the rent receivables that are already due, POLIS has received collateral in the form of rent deposits (cash deposits and guarantees) amounting to € 485 thousand (previous year: € 470 thousand), of which € 40 thousand (previous year: € 201 thousand) relate to impaired receivables.

Impairments for other receivables and other assets were not required.

The current tax receivables in 2012 and in the previous year concern creditable interest withholding taxes, the solidarity surcharge, and income tax credits.

3.6. Cash in banks

The reported figures represent cash in banks and cash holdings. There are no restrictions on disposal.

3.7. Other assets

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 2012 and previous years.

3.8. Equity capital

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) (nennwertlose auf den Inhaber lautende Stammaktien (Stückaktien)) with a notional share in the share capital of € 10.00.

Capital reserves

The capital reserves (2012: € 18,185 thousand; 2011: € 19,196 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 offsetting the net loss for 2011 and/or for the previous year 2010 against capital reserves, which was carried out in the separate 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	Total	Remaining maturities		
€ thousand		up to 1 year	1 to 5 years	more than 5 years
Liabilities to banks	139,252	5,459	98,138	35,655
	(135,120)	(6,204)	(103,930)	(24,986)
Down payments received	3,616	3,616	0	0
	(3,567)	(3,567)		
Trade liabilities	3,193	3,193	0	0
	(2,662)	(2,662)		
Income tax liabilities	81	81	0	0
	(41)	(41)		
Other liabilities	11,937	2,655	7,560	1,722
	(10,134)	(3,029)	(6,912)	(193)
	158,079	**15,004**	**105,698**	**37,377**
	(151,524)	**(15,503)**	**(110,842)**	**(25,179)**

Compared to the annual financial statements of 2011, the non-current part of the derivative financial instruments was reclassified from current other liabilities to non-current liabilities (2012: € 9,282 thousand, 2011: € 7,105 thousand).

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
2013	variable	1	3,133
2014	variable	2	29,085
2015	variable	2	21,744
2015	3.55	1	12,300
2020	variable	2	34,744
2021	variable	1	13,267
2021	3.51	1	24,979
Total			**139,252**

The key terms of the loan agreements with financial institutions in the previous year 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 € 101,737 thousand (previous year: € 103,378 thousand) is at variable interest rates, and € 37,279 thousand (previous year: € 31,650 thousand) is at fixed interest rates; the item also includes accrued interest of € 236 thousand (previous year: € 92 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: € 184,016 thousand) against the property portfolio (carrying amount: € 291,040 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 2012 was 3.2% (previous year: 3.9%). The weighted average remaining term of the bank loans is 5.5 years (previous year: 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 2012 amount to € 39,323 thousand (previous year: € 32,302 thousand). The fair values of the liabilities to banks are based on discounted cash flows that were determined on the basis of current market interest rates. The discount interest rates assumed were between 1.4% and 3.0% including margin (previous year: between 2.6% and 3.6%).

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 totalling € 81 thousand (previous year: € 41 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 current liabilities item is composed as follows:

€ thousand	31 Dec 2012	31 Dec 2011
Negative market value of derivative financial instruments	1,890	2,544
Liabilities to employees	243	215
Other	522	270
Total	**2,655**	**3,029**

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

Hedging instruments	Volume € thsd.	Original maturity	Rate %	Market value 31 Dec 2011 € thsd.	Changes recognized in income	Redeemed by payments	Recorded in other income	Market value 31 Dec 2012 € thsd.
Financial instruments not designated in the context of cash flow hedges:								
Swap	5,000	31 Dec 12	3.93%	-144	144	0	0	0
Swap	10,000	31 Mar 15	2.41%	-402	-156	-558	0	0
Swap	10,000	30 June 15	4.80%	-1,248	-25	-1,273	0	0
Swap	10,000	30 Dec 15	2.81%	-420	-341	-761	0	0
Swap	5,000	30 Dec 15	2.23%	-184	-137	-321	0	0
Swap	8,100	31 Dec 15	3.14%	-581	-112	0	0	-693
Swap	10,000	31 Dec 15	3.48%	-865	-189	-1,054	0	0
Swap	3,150	31 Dec 15	2.40%	-134	-64	0	0	-198
Swap	5,000	30 Sep 16	3.47%	-471	-104	0	0	-575
Swap	10,000	30 Dec 16	3.58%	-1,019	-239	0	0	-1,258
Swap	10,000	29 June 18	3.64%	-1,166	-448	0	0	-1,614
Swap	10,000	29 June 19	3.69%	-1,264	-554	0	0	-1,818
Cap	5,000	28 June 13	6.00%	0	0	0	0	0
Floor	-5,000	29 June 13	3.37%	-176	97	0	0	-79
				-8,074	-2,128	-3,966	0	-6,236
Financial instruments designated in the context of cash flow hedges:								
Swap	6,063	01 July 21	3.06%	-789	45	-303	-398	-839
Swap	6,036	01 July 21	3.06%	-786	-39	-302	-326	-849
Forward Swap[1]	8,200	31 Dec 20	2.33%	0	-91	602	-27	-720
Forward Swap[1]	2,700	31 Dec 20	2.33%	0	-30	198	-9	-237
Forward Swap[1]	4,100	31 Dec 20	2.33%	0	-45	301	-13	-359
Forward Swap[1]	1,800	31 Dec 20	2.33%	0	-20	132	-6	-158
Forward Swap[1]	9,600	31 Dec 20	2.33%	0	-106	705	-32	-843
Forward Swap[1]	8,300	31 Dec 20	2.33%	0	-92	609	-28	-729
Forward Swap[1]	2,300	31 Dec 20	2.33%	0	-25	168	-9	-202
				-1,575	-403	2,110	-848	-4,936
				-9,649	**-2,531**	**-1,856**	**-848**	**-11,172**

1 Starting 1 Feb. 2013

In the financial year 2012, five swaps with a negative market value of € 3,966 thousand were redeemed by way of payment. At the same time, seven forward swaps were concluded and designated as a cash flow hedge in exchange for a compensation payment of € 2,715 thousand. 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	2012	2011
Financial assets	Financial assets available for sale	3,772	3,772
Receivables and other financial assets	Loans and receivables	5,142	5,585
Cash in banks	Cash and cash equivalents	8,312	1,626
		17,226	10,983
Liabilities to banks	Financial liabilities at amortized cost	139,252	135,120
Trade payables	Financial liabilities at amortized cost	3,194	2,662
Other financial liabilites	Financial liabilities at amortized cost	765	485
	Financial liabilities (derivatives) measured at fair value and recognized in the income statement	6,236	8,074
	Financial liabilities (derivatives) measured at fair value and recognized in other income	4,936	1,575
		154,383	**147,916**

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 2012 amount to € 141,296 thousand (previous year: € 135,680 thousand).

The net gains and losses from financial instruments in the income statement are as follows:

€ thousand

Balance sheet item	Category	2012	2011
Receivables and other financial assets	Receivables	0	0
Other financial liabilities	Financial liabilities (derivatives) measured at fair value and recognized in the income statement	−2,128	−117
	Financial liabilities (derivatives) measured at fair value and recognized in other income	−403	−3,575
		−2,531	**−3,692**

The net losses from the derivatives measured at fair value include valuation losses from derivative financial instruments (interest rate caps, swaps and floors), with respect to which hedge accounting is not applied (€ -2,128 thousand), and valuation losses for financial instruments at the time they were designated for hedge accounting (€ -403 thousand).

The negative changes in the market value of derivatives that form part of effective cash flow hedges (€ 1,007 thousand, previous year: € 1,457 thousand) were reported in other income after deducting deferred taxes (€ 159 thousand, previous year: € 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		31 Dec 2012 level 1	level 2	level 3	**Total**	31 Dec 2011 level 1	level 2	level 3	**Total**
Financial assets (interests)	Assets held for sale; value changes recognized in other income	–	–	3,529	**3,529**	–	–	3,529	**3,529**
Other financial liabilities	Financial liabilities (derivatives) held for trading; value changes recognized in the income statement	–	–6,236	–	**–6,236**	–	–8,074	–	**–8,074**
	Financial liabilities (derivatives) held for trading; value changes recognized in other income	–	–4,936	–	**–4,936**	–	–1,575	–	**–1,575**
		0	**–11,172**	**3,529**	**–7,643**	**0**	**–9,649**	**3,529**	**–6,120**

There were no resulting changes for interests classified as level 3.

Additional information concerning these interests is contained in section 3.3.

4. Notes to the comprehensive income statement

4.1. Gross rental income

This position only includes rental income from the investment properties and the properties disclosed as non-current assets held for sale. The rental income includes effects totalling € 140 thousand (previous year: € 520 thousand) that are attributable to rent-free periods.

4.2. Maintenance expenses

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 operating expenses

This item records the following:

€ thousand	2012	2011
Operating costs that cannot be charged to tenants	590	723
Letting-related costs	793	576
Other property management expenses	239	377
	1,621	**1,676**

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

The sale of the investment property at »Domstrasse 10« in Hamburg occurred at the fair value of the previous year (€ 10,500 thousand); therefore, income from the sale of properties was not affected. In 2011, the income of € 885 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 as well as »Bugenhagenstrasse 5« in Hamburg.

4.6. Other income

Other income for financial year 2012 mainly includes income from refurbishment grants (€ 250 thousand, previous year: € 0 thousand), asset and property management services for the three companies in which POLIS holds 15% interests (€ 219 thousand, previous year: € 368 thousand) and compensation payments from 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	2012	2011
Staff costs	1,973	1,836
Legal, consulting and auditing fees	582	605
Office and travel expenses	895	726
Stock exchange-related expenses, financial reports, general shareholders' meeting	167	121
Marketing and advertising expenses	83	97
Other expenses	87	90
Total	**3,787**	**3,475**

In addition to the members of the Board of Management, 25 persons were employed in financial year 2012 (previous year: 25), of which 6 work in general administration, and 19 in asset and property management, including 3 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	2012	2011
Interest expenses	5,248	5,358
Ancillary financing costs	135	190
Expenses from revaluation of derivative financial instruments	2,531	3,692
Total	**7,914**	**9,240**

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 2012 and 2011 are composed as follows:

€ thousand	2012	2011
Expenses (–)/income (+)		
Deferred taxes on losses carried forward	–194	–185
Deferred taxes from temporary differences	–81	–163
Current taxes	–128	–328
Total	**–403**	**–676**

The income from deferred taxes for losses carried forward are the result of using tax losses carried forward.

The corporate income tax rate in Germany was 15% in 2012 (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 is not subject to trade tax due to the extended trade tax reduction (erweiterte Gewerbesteuerkürzung), the trade tax arising in the previous year (in this case: originating at the level of POLIS Immobilien AG) is taken into account as a reconciliation item (€ -156 thousand).

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

€ thousand	2012	2011
Pre-tax result	2,574	3,239
Group tax rate	15.8%	15.8%
Expected expenses from income taxes	**–407**	**–513**
Non-deductible operating expenses	–7	–7
Trade tax	0	0
Corporate income tax – previous years	11	–156
Taxes on income	**–403**	**–676**
Tax rate	15.7%	20.9%

4.13. Earnings per share

Earnings per share are determined as follows:

	2012	2011
Group net profit/loss for the year after income allocable to minority interests (in € thousand)	2,171	2,563
Average number of ordinary shares in circulation	11,051,000	11,051,000
Earnings per share (diluted and undiluted) (in €)	0.20	0.23

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 balance sheet items, and income and expenses in connection with 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. There are no restrictions on disposal.

POLIS received € 1,900 thousand for the sale of 100% of the shares in a consolidated subsidiary. At the time of the sale, the subsidiary's assets and liabilities mainly consisted of an investment property with a current market value totalling € 10,500 thousand and overall liabilities to banks of € 8,600 thousand. At the time of sale there were no liquid funds.

6. Other disclosures

6.1. Supervisory Board and Board of Management

The compensation report contained in the group management report summarises 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, Chief Executive Officer, Berlin
- Peter E. Muth, Chief Financial Officer, Berlin (until 12 July 2012)

In financial year 2012, the members of the Board of Management received the following compensation:

	2012					2011			
€ thousand	fixed	value of non-cash benefits	variable	Severance pay	Total	fixed	value of non-cash benefits	variable	Total
Dr. Alan Cadmus	200	11	40	0	251	200	13	70	283
Peter E. Muth[1]	93	5	0	249	347	40	2	0	42
Rüdiger Freiherr von Maltzahn[2]	–	–	0	–	–	149	0	0	149
Dr. Matthias von Bodecker[3]	–	–	0	–	–	13	2	0	15
Total	**293**	**16**	**40**	**249**	**598**	**402**	**17**	**70**	**489**

1) Until 12 Jul 12, 2) From 01 Feb 2011–30 Sep 2011, 3) until 31 Jan 2011

The following persons were members of the Supervisory Board:

- Carl-Matthias von der Recke, bank director (retired), residing in Frankfurt/Main (chairman of the Supervisory Board)
- Klaus R. Müller, member of the management team of Mann Immobilien-Verwaltung AG, Karlsruhe, residing in Germersheim (deputy chairman)
- Arnoldus Brouns, managing director of Bouwfonds Real Estate Investment Management GmbH, Hoevelaken/Netherlands, residing in Maastricht/Netherlands, until 22 June 2012
- Martin Eberhardt, chairman of the management board of Bouwfonds Real Estate Investment Management GmbH, residing in Hamburg, from 22 June 2012
- Wolfgang Herr, member of the board of management of Mann Immobilien-Verwaltung AG, residing in Baden Baden
- Ralf Schmechel, member of the management team of Mann Management GmbH, Karlsruhe, residing in Malsch
- Benn Stein, lawyer, tax law specialist and certified accountant, CT legal Stein und Partner, Hamburg, residing in Hamburg

The members of the Supervisory Board were compensated in financial year 2012 as follows:

					2012
€ thousand	Fixed compensation	Compensation for members of committees	Variable compensation	Reimbursement of expenses	Total
Carl-Matthias von der Recke	20	2	0	1	23
Klaus R. Müller	15	1	0	1	17
Arnoldus Brouns	5	0	0	0	5
Martin Eberhardt	5	1	0	1	7
Wolfgang Herr	10	0	0	1	11
Ralf Schmechel	10	0	0	1	11
Benn Stein	10	0	0	0	10
Total	**75**	**4**	**0**	**5**	**84**

6.2. Disclosures concerning relationships with related companies and parties

Related individuals are the Supervisory Board, the Board of Management and their close relatives. The group of related companies also includes the majority shareholder Mann Unternehmensbeteiligungen GmbH (Karlsruhe) (formerly Doris Verwaltungsgesellschaft mbH (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 € 157 thousand (previous year: € 142 thousand) were provided in financial year 2012 that were settled at typical market conditions. As of the reporting date, claims pertaining to the settlement of operating costs amounted to € 10 thousand (previous year: € 1 thousand).

6.3. Share-based compensation

No share-based compensation was paid in financial year 2012. In 2008, 26,000 subscription rights with a market value of € 18 thousand were granted.

The exercise of the subscription rights of the first tranche depended upon reaching absolute success criteria which were not met. The option to issue further subscription rights expired on 31 December 2012 and was not exercised. This means that the stock option plan ended on 31 December 2012.

6.4. Objectives and methods of financial risk and capital management

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 2012, the variable-rate bank liabilities of POLIS stood at € 101,737 thousand (previous year: € 103,378 thousand). Overall, a sum of € 58,349 thousand (previous year: € 108,350 thousand) was converted into fixed-rate liabilities using interest rate swaps. Fixed-rate liabilities to banks amounted to € 37,279 thousand (previous year: € 31,650 thousand). This means that 69% of the interest-bearing liabilities to banks have been hedged; in the previous year, all variable-rate liabilities to banks were hedged.

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. As of 31 December 2012, 69% of the variable-rate liabilities to banks have been temporarily hedged. The conclusion of forward swaps commencing on 1 February 2013 will increase the share of hedged loans to 95% at that time. This means that 5% (€ 6.4 million) of the variable-rate loans are not hedged. A rise in interest rates by 100 basis points would lead to an increase in the interest expense by approximately € 64 thousand p.a.

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 in existence as of 31 December 2012 by around € 5 million (previous year: around € 6 million); a corresponding decrease would have caused this value to drop 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. Centralised monitoring of all existing receivables is used for the early detection of default risks.

As of 31 December 2012, receivables from operating costs not yet settled stood at € 3,930 thousand (previous year: € 3,676 thousand), and down payments for operating expenses amounted to € 3,616 thousand (previous year: € 3,567 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:

	Total	Minimum leasing payments		
€ thousand		up to 1 year	1 to 5 years	more than 5 years
31 Dec 2012	69,619	16,344	40,510	12,765
31 Dec 2011	56,061	13,901	33,538	8,622

The following table presents all payments contractually agreed as of 31 December 2012 for amortisation, interest and repayment pertaining to financial liabilities:

Analysis of remaining terms as of 31 Dec 2012

€ thousand	Total gross cash outflows	2013	2014	2015	2016	2017 or later
Liabilities to banks	158,834	5,858	32,496	36,946	2,654	80,880
Trade payables	3,193	3,193	0	0	0	0
Other liabilities	765	765	0	0	0	0
Non-derivative financial liabilities	**162,792**	**9,816**	**32,496**	**36,946**	**2,654**	**80,880**
Designated derivative financial instruments	5,888	1,129	1,129	1,129	1,129	1,372
Non-designated derivative financial instruments	7,336	761	804	849	635	4,287
Derivative financial liabilities	**13,224**	**1,890**	**1,933**	**1,978**	**1,764**	**5,659**
Amount due excluding loan commitments	**176,016**	**11,706**	**34,429**	**38,924**	**4,418**	**86,539**
Loan commitments from banks	**-10,000**	**-10,000**	**0**	**0**	**0**	**0**
Total	**166,016**	**1,706**	**34,429**	**38,924**	**4,418**	**86,539**

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 2013.

The liabilities to banks due in 2013 include loans of € 2.9 million that will be repaid in the context of the sale of the property at »Steinstrasse 12-14« in Hamburg.

As of the reporting date, other financial obligations resulting from order commitments in the context of construction contracts amounted to € 1,611 thousand (previous year: € 2,036 thousand). Bank balances, credit lines and the cash flow from operating activities will be used for financing the investments planned for 2013, which total around € 7.9 million.

Analysis of remaining terms as of 31 Dec 2012

€ 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**

The expense incurred in the financial year from operating leases for vehicles, office equipment and office rents amounts to € 248 thousand (previous year: € 86 thousand). The future lease payments are as follows:

Analysis of remaining terms:

€ thousand	Total	Minimum leasing payments		
		up to 1 year	1 to 5 years	more than 5 years
31 Dec 2012	847	248	599	0
31 Dec 2011	1,133	247	886	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.

The terms of the individual derivative financial instruments are set forth in the table under item 3.9.

Capital management

Equity includes equity attributable to the shareholders. The primary objective of capital management is to ensure a minimum equity ratio of at least 40% to support business operations.

POLIS monitors its capital by means of the loan-to-value ratio (ratio of loans and the value of the investment properties); the maximum LTV is 60%. As of the reporting date, this ratio is 48% (previous year: 47%).

6.5. Fees and services of the auditor

The fees for services provided by the auditor Ernst & Young Wirtschaftsprüfungsgesellschaft GmbH in financial year 2012 (previous year: KPMG Wirtschaftsprüfungsgesellschaft) were:

€ thousand	2012	2011
Audit fees	115	140
Total	**115**	**140**

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 explained, these recommendations have been observed since 12 March 2012 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, 5 March 2013

POLIS Immobilien AG

– The Board of Management –

Dr. Alan Cadmus

Responsibility statement

To the best of my 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, 5 March 2013

POLIS Immobilien AG

– The Board of Management –

Dr. Alan Cadmus

Auditor's Report

We audited the consolidated financial statements prepared by POLIS Immobilien AG, Berlin, comprising balance sheet, comprehensive income statement, statement of changes in equity, cash flow statement 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 2012. 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, 5 March 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Scherpers	Pfeiffer
Wirtschaftsprüfer	Wirtschaftsprüferin

Financial Calendar

Report on first three months of 2013	8 May 2013
Annual General Meeting of 2013	14 June 2013
Report on first six months of 2013	8 August 2013
Real Estate Share Initiative, Frankfurt a. M.	September/October 2013
Report on first nine months of 2013	7 November 2013
German Equity Forum, Frankfurt a. M.	11–13 November 2013

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Key financial data of POLIS Immobilien AG

Results in € thousand	2012	2011	2010	2009	2008
Rental revenues	16,020	14,886	13,053	13,904	14,993
EBIT	10,465	12,385	7,410	-1,042	10,421
EBT	2,574	3,239	1,956	-6,826	1,157
Group net profit	2,171	2,563	1,547	-6,655	1,144
Cash flow from current business operations	6,786	5,857	7,688	9,519	8,862
Funds from operations (FFO)[1]	2,567	1,221	1,988	3,726	2,996

Balance sheet in € thousand	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008
Non-current liabilities	290,690	294,452	307,073	285,529	278,589
Current liabilities	19,302	7,614	10,245	8,078	32,808
Equity	150,653	149,330	147,989	146,436	153,085
Total assets	309,992	302,066	317,318	293,607	311,397
Equity ratio in %	49%	49%	47%	50%	49%
Loan to value[2]	48%	47%	51%	48%	52%

Net asset value of POLIS (€ thousand)[3]	151,706	150,109	148,651	146,685	153,459
Shares (no.)	11,051.00	11,051.00	11,051.00	11,051.00	11,051.00
Net asset value per share (€)[3]	13.73	13.58	13.45	13.27	13.89

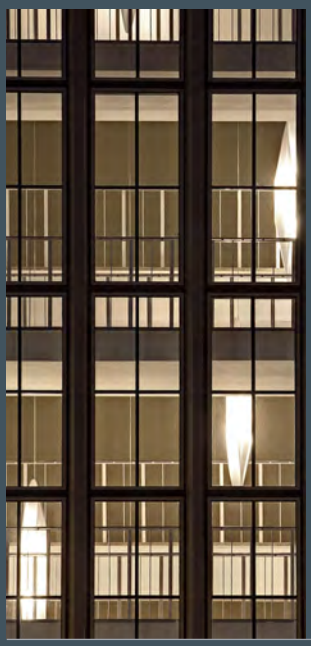
Share

Security identification code/ISIN	691330/DE0006913304
2012 high (Xetra)	EUR 11.33
2012 low (Xetra)	EUR 9.01
Closing price on 30 Dec 2012 (Xetra)	EUR 11.15

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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