POLIS

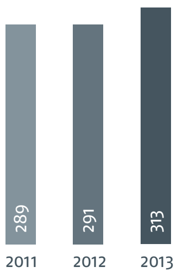
A–

focused
profitable
transparent

Annual Report 2013

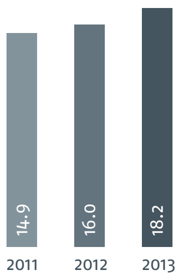
2013

- Consolidated earnings before tax rise from EUR 2.6 million to EUR 9.8 million
- Funds from operations double to EUR 5.0 million
- Portfolio expanded and further rise in occupancy rate
- Very good corporate rating of A–



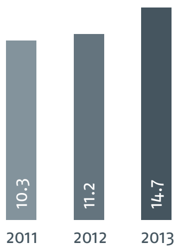
+ 9%

Investment properties, EUR million



+ 14%

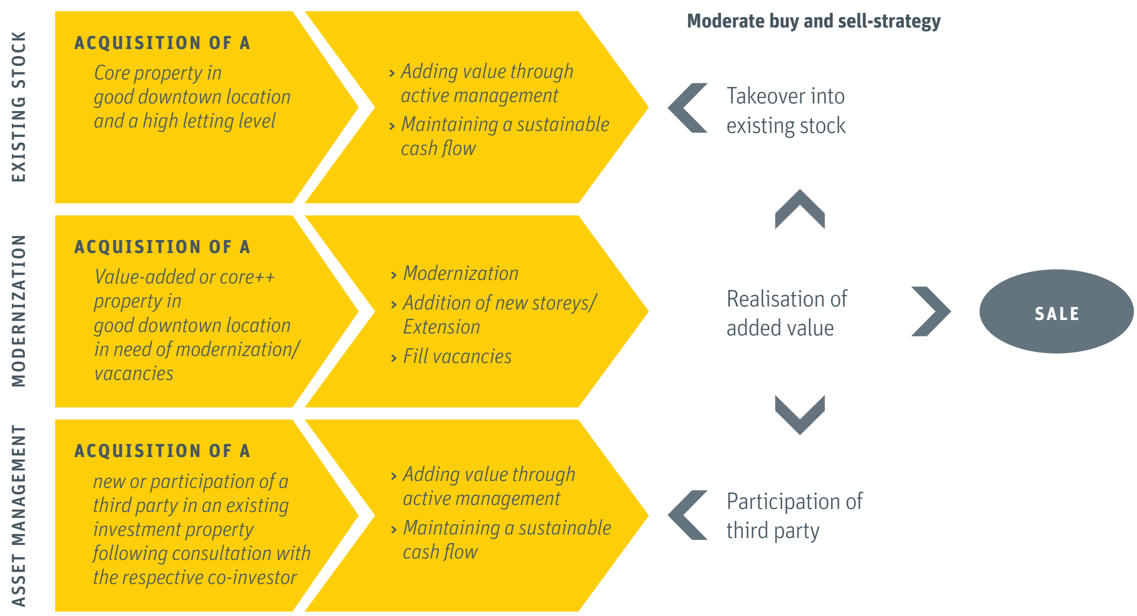
Rental revenues, EUR million



+ 31%

Net rental income, EUR million

POLIS Immobilien AG actively manages its portfolio based on a clearly defined strategy, many years of experience and a sound financial footing. Our profitability rests on a portfolio of quality properties that provide steady 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 centres, high technical standards and a strong diversification in the composition of tenants. The expertise we have acquired over many years of actively managing such properties enables 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, through our new "third-party asset management" business area we have also been offering our expertise for investment properties in which we hold an interest.



CONTENTS

“Portfolio expanded by acquisition of attractive new property in Berlin and optimized by selective sales”

“FFO doubled thanks to focused modernization of portfolio and high letting take-up level”

“Improved key ratios and good corporate rating give us greater financial leeway”

“Completion of modernization project marks next step in enhancing quality of the property”

From left: Volker Hahn (authorized signatory; Head of Acquisitions and Sales, Letting), Andreas Goldau (authorized signatory; Head of Accounts), Michael Piontek (Chief Financial Officer), Dr Alan Cadmus (Chief Executive Officer), Thomas Ostermann (authorized signatory; Portfolio and Asset Management), Lars Ebert (authorized signatory; Portfolio and Asset Management)

Interview

with the Board of Management on financial year 2013

Dr Cadmus, Mr Piontek, what is your verdict on financial year 2013?

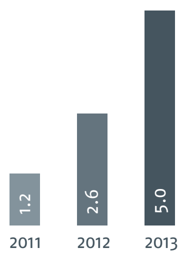
AC: We are delighted to be able to report on a successful financial year 2013 to our shareholders. We ended the past year with consolidated earnings before tax of EUR 9.8 million, compared to EUR 2.6 million in the previous year – so a marked improvement. The good result is first and foremost down to our team's successful work over the past few years, though the positive market trend has also helped us.

What were the exact reasons for the positive development?

AC: As in the previous two years, a high level of take-up improved our occupancy rate, which climbed from 87% to 93% last year. That had a beneficial effect on all key operating ratios. In all, we concluded new lease agreements for 11,454 sqm and extended existing leases on 7,430 sqm. That is a very good performance, bearing in mind the already high occupancy rate which meant only a limited amount of space was available for letting. Where we provide office space for multiple tenants in the same building – in other words our multi-tenant concept – we equate an occupancy rate of 95% with full occupancy because of the regular turnover. Another reason for the positive result was the generally higher interest levels, which yielded a positive valuation result for our interest rate derivatives.

Did the property portfolio change in 2013?

AC: Last year we continued to optimize the portfolio and sold our investment properties in Dortmund and Duisburg. Having now pulled out of those two locations, in future we will be concentrating more on our major locations. The two sold-off properties no longer offered scope for increases in value within our planning framework and were disposed of at an overall gain. We also concluded an agreement on the sale of the investment property at "Immermannstrasse 11" in Düsseldorf and handed over the property to the buyer in the first quarter of 2014. This sale was completed at the final valuation. In return, we have significantly enlarged our portfolio with the acquisition of the property at "Rankestrasse 21, Lietzenburger Strasse 44, 46" in Berlin. Overall, we now hold investment properties with a total value of EUR 313 million for our own account. Our "asset management for third parties" business area also manages three other properties where in each case we hold an interest of 15%.



+95%

FFO, EUR million

How did the investments perform in 2013?

AC: We completed a major construction project on schedule at “Tübinger Strasse 31, 33” in Stuttgart and handed over the rental space to the German federal state of Baden-Württemberg for the Duale Hochschule. In addition, we restored the entrance area of the investment property at “Ebertplatz 1” in Cologne in period style, partly redesigning it in the process. This gave the building a significant visual upgrade and rendered it suitable for letting individual storeys after having been long occupied by a single-tenant. Its long-term lettability has benefited as a result, providing greater investment security. We invested a total of nearly EUR 6.9 million in increasing and preserving the value of our investment properties, along with EUR 2.6 million in their ongoing maintenance.

What were the main economic factors in play in 2013?

MP: Thanks to the increased occupancy rate, rental revenues rose 14% to EUR 18.2 million last year. At the same time, property management expenses were brought down by 40% to around EUR 1.0 million thanks to the reduced vacancy and letting costs. So on balance, net rental income was up 31% at EUR 14.7 million. After adjusting for valuation effects, funds from operations almost doubled to EUR 5.0 million. But the biggest positive change compared with the previous year is in the result from the valuation of our financial instruments of EUR 2.3 million thanks to higher market interest rates, in a turnaround from a EUR 2.5 million loss in 2012.

But was there any drag on earnings?

AC: The sole tenant moved out of the investment property at “Gutleutstrasse 26” in Frankfurt a. M. after many years of occupancy. This building is therefore due for thorough renovation before reletting. Because of the expenditure it will now require, its year-end valuation showed a negative change in the market value of EUR 2.15 million. Nevertheless, our success at letting modernized space and extending existing lease agreements on improved terms has brought us a positive valuation result for most investment properties and a good overall result of EUR 1.9 million from the revaluation of our investment properties.

What can you tell us about the financing structure of POLIS?

MP: In the current year, we have been able to secure lower credit margins from our banks for existing and new financing arrangements. The weighted average interest rate, including the interest rate hedges, is 3.55%. Our credit relationships currently reveal an interest rate hedging ratio of 85%. At the current level of interest rates, our target is a ratio of between 70% and 90%. That will make it possible to secure financing for new investments with a lower interest rate hedging ratio. Interest costs will therefore continue to fall. We have now linked most of the interest rate hedging instruments to loans through hedging relationships. That means future interest rate fluctuations will have less of an impact on earnings than in the past.

POLIS is fundamentally on a sound financial footing with an equity ratio of 48% (LTV of 50%), and has considerable scope for organic growth. Realizing our medium-term target of a debt financing ratio of 60% could unlock a further investment volume of up to EUR 100 million.

The healthy financial standing of POLIS has also been confirmed by the corporate rating awarded by FERI EuroRating Services AG. It has now rated POLIS as “A-”. This good investment-grade rating is a reflection of both the economic strength of POLIS and its effective structures and procedures.

Potsdamer Strasse, Berlin
Landmark on Potsdamer Platz

Ebertplatz, Cologne
New entrance to the property on Ebertplatz

Will you be paying a dividend 2013?

MP: In 2013 POLIS Immobilien AG generated a net income of EUR 2.4 million – that is the result that serves as our basis for paying dividends according to German accounting standards (HGB – German Commercial Code). The HGB net income differs from the figure in the IFRS consolidated financial statements first and foremost in its different treatment of valuation results and the depreciation of buildings. The positive HGB result last year is mainly attributable to a write-up of previously written-down valuations for several investment properties. Because this means no permanently positive HGB result was achieved in the past year, we have allocated a EUR 1.2 million portion of the net income to retained earnings and propose to carry forward the remaining profit, also EUR 1.2 million, to new account.

What will be the main focus for POLIS in 2014?

AC: We want to build on the successes of recent years and continue to grow organically. Our sound financial situation will enable us to act on suitable opportunities for acquisitions. We expect the economy as a whole, and therefore the office markets in Germany, to continue heading in a positive direction. We identify good scope for development particularly in Berlin office market. Our modernization activities will focus on repositioning the “Gutleutstrasse” property, which should be ready at least in a basic form by the end of 2014 and be available for letting. Alongside that, we would also like to let the remaining vacant units in the portfolio and push the occupancy rate above 95%.

How are the NAV and share price of POLIS performing?

AC: The net asset value of POLIS, or NAV, rose from EUR 13.73 per share last year to EUR 14.67 per share, an increase of about 7%. We anticipate that a further rise in the operating figures will maintain that trend. The share price finished the past financial year slightly off by 1.3%, and the year-end trading price of EUR 11.00 showed a discount of 25% relative to the NAV. The development of the POLIS share price thus performed slightly better than our benchmark index, the DAXSubsector Real Estate, which finished 2013 down 4%.

Were there any changes in the shareholder structure?

AC: Apart from internal restructuring at shareholder level, there were no changes in our established shareholder structure. With their long-term, strategic view, the investors support the strategy we are pursuing and have a proven track record of underpinning the stability of the Company and its share price. We welcome their commitment and will adhere to our objective of generating an attractive rate of return for the shareholders through letting, active property management and long-term growth.

What is also a defining feature of POLIS?

MP: Transparency. We communicate where we are, what we are currently doing and what we want to achieve. We want to be the benchmark for this; we publish full economic data and key ratios, along with property and market data, but also analyses of risks that are not reflected on the balance sheet. We practise comprehensive internal risk management and report on these activities in the Annual Report. The corporate rating also included a review of our risk management systems, which contributed towards the “A-” rating that we have been awarded. All investment properties including their key valuation determinants are presented in the notes to the consolidated financial statements and on the POLIS website. Such information includes the level of rent, potential rent levels, vacancies, property ratings and current market values. In recent years we have received several awards for this open style of communication.

AC: POLIS celebrated its 15th anniversary in 2013. Over that time, we have already emerged from several business cycles unscathed thanks to our conservative business policy and risk structure, and we are confident that we will continue to be a successful market operator. Our well-qualified, highly committed employees are a huge asset in that respect. All our staff think and act in an entrepreneurial manner, and view the Company’s success as a reflection of their own personal achievements. We would like to take this opportunity to thank our employees as well as our shareholders, tenants, contractors and financial partners for their close collaboration in 2013, and are sure we can build successfully on this partnership in years to come.

Thank you for the interview.

Berlin, March 2014

POLIS Immobilien AG

Dr Alan Cadmus, Chief Executive Officer

Michael Piontek, Chief Financial Officer

Rankestrasse, Berlin

Newly acquired high-quality investment property

Report of the Supervisory Board

Dear Shareholders,

during the year under review, the Supervisory Board fulfilled its responsibilities in accordance with the statutory requirements, the Articles of Association and the rules of internal procedure. 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 gave the Supervisory Board regular and comprehensive reports, both orally and in writing, of the situation and development of the Company. In this connection, the Supervisory Board discussed fundamental issues with the Board of Management concerning the Company's business and corporate policies, its corporate strategy, its financial development and financial performance, 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.

The Chairman of the Supervisory Board also regularly discussed and coordinated all issues and questions of key importance with the Board of Management outside of meetings.

Supervisory Board meetings and resolutions

The Supervisory Board held five meetings in the period under review, including one in the form of a telephone conference. At the meetings, the Board of Management informed the Supervisory Board in detail of the current business performance, and in particular of the strategy, the plans, the economic situation and development, making reference to papers submitted in writing, and consulted with the Supervisory Board in this regard. All matters that required the approval of the Supervisory Board were dealt with after diligent examination and consultation in the meetings, where necessary with reference to proposed resolutions prepared in writing prior to the meeting. Where required, the Supervisory Board adopted resolutions by written procedure.

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, along with compliance. The Supervisory Board in each case received the Quarterly Reports in a timely manner and discussed them at the next Supervisory Board meeting.

At its meeting on 5 March 2013, the annual and consolidated financial statements as well as the management reports were discussed in detail in the presence of the auditor and provisionally approved. Final approval of the annual and consolidated financial statements was subsequently given by written procedure following presentation of the final audit reports prepared by the auditor. A resolution was also adopted on the declaration of conformity pursuant to Section 161 (1) of the German Stock Corporation Act (AktG). In addition, it passed a resolution on the level of variable compensation for the Board of Management for the previous financial year 2012. We discussed and reached agreement on possible investment projects and their financing, as well as on the sale of any properties. Another topic discussed at that meeting was the agenda for the Annual General Meeting on 14 June 2013, on which we subsequently passed a resolution in writing.

At the meeting on 13 June 2013 we gave detailed consideration to the options for the property at "Gutleutstrasse 26" in Frankfurt a. M., and also to acquisition targets. We furthermore discussed at length the difficulties presented to the new business area of "third-party asset management" by the new German Investment Code. We also agreed the 2013 targets for the Board of Management members. The purchase of the property at "Rankestrasse 21" in Berlin was then given our written approval.

In a telephone conference on 26 September 2013, the main topic of discussion for the Supervisory Board was the possible acquisition of a further investment property, for which a modified resolution on the acquisition was also passed. It was not possible to realize the acquisition.

The meeting on 27 November 2013 focused on discussions of the economic data for the third quarter of 2013 and the forecasts for financial year 2013. The fundamental acquisitions strategy of POLIS was then debated and possible purchases of properties were discussed at length. Approval was given for the sale of various smaller properties.

At the meeting on 28 November 2013 the budget for 2014 and the updated medium-term financial plans, including in particular the administrative costs, were debated extensively and the 2014 business plan was passed. Various investment scenarios for the property at “Gutleutstrasse 26” in Frankfurt a. M. were also investigated. The resolutions on these were passed subsequently in writing. The Supervisory Board moreover discussed alternative financing options and laid down the parameters for these. At the same meeting, the declaration of conformity pursuant to Section 161 (1) of AktG was resolved and the rules of internal procedure for the Supervisory Board and Board of Management were reappraised. Following their review, a corresponding resolution was passed in writing.

Committees

The Investment Committee, consisting of Mr Müller (Chairman), Mr Schmechel and Mr Stein, prepares the decisions of the Supervisory Board on investments requiring its approval. The Investment Committee came together four times, on three of these occasions conducting its discussions by telephone, and also periodically in the context of Supervisory Board meetings; its deliberations focused on the latest investment plans. The projects were debated with the Board of Management and the committee’s external experts.

The Personnel Committee, comprising Mr von der Recke (Chairman), Mr Eberhardt and Mr Müller, met on two occasions. It prepared the resolutions of the Supervisory Board concerning Board of Management affairs and discussed mainly the variable compensation for members of the Board of Management, in particular the target agreements.

The committee chairs reported regularly to the plenary 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 28 November 2013 the Management Board and Supervisory Board submitted the declaration of conformity pursuant to Section 161 of AktG; it has been made permanently available to the shareholders on the Company’s website, along with the declaration on corporate governance and the detailed corporate governance report. The compensation report forms part of the Notes section of the Annual Report.

In the year under review, no conflicts of interest concerning the members of the Board of Management and Supervisory Board occurred that would need to be immediately disclosed to the Supervisory Board and communicated to the Annual 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 management report of POLIS Immobilien AG at 31 December 2013 as well as the consolidated financial statements and group management report at 31 December 2013 and has issued an unqualified audit certificate.

The annual financial statements and the management report were prepared in accordance with the principles of the German Commercial Code (HGB). The consolidated financial statements and the group management report were prepared on the basis of the International Financial Reporting Standards (IFRS) as adopted by the EU pursuant to Regulation (EC) No. 1606/2002 and Section 315a of HGB.

The auditor conducted the audit in accordance with the generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW).

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 6 March 2014 in the presence of the auditor. The auditor presented the key findings of its audit and stated that the internal control and risk management systems revealed no essential weaknesses. In particular, the auditor elaborated on the Company's and the Group's net assets, financial position and financial performance, and was available to us for questions. The auditor also provided information on the scope and the main focus areas of the audit. The audit priorities were the valuation of the investment properties, the valuation methods and the valuation of the interest rate hedging instruments.

We examined the annual financial statements of the Company and the consolidated financial statements, as well as the management report and group management report. No objections arose as a result of our review. After examining the auditor's reports, we noted and approved them. By resolution dated 6 March 2014, the Supervisory Board adopted the annual financial statements prepared by the Board of Management. The Supervisory Board also approved the consolidated financial statements. We also approved the management reports of the Group parent and Group, and in particular the assessment of the further development of the Company.

Relationships with affiliated companies

The auditor also audited the report on the relationships with affiliated companies prepared by the Board of Management pursuant to Section 312 of 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 reviewed by the auditor as well as the dependency audit report pursuant to Section 314 of AktG. After concluding its review, the Supervisory Board raises no objections with regard to the dependency report and the concluding declaration by the Board of Management it contains, and agrees with the findings of the auditor's review.

Changes within the Board of Management

Mr Michael Piontek was appointed Chief Financial Officer of POLIS Immobilien AG with effect from 1 April 2013.

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

On behalf of the Supervisory Board

Berlin, March 2014

POLIS Immobilien AG

Carl-Matthias von der Recke, Chairman

The POLIS share

Stock market in 2013 – development of the market for property stocks

As in the previous year, the stock markets developed positively in 2013. The leading German share index, the DAX, rose by approximately 25% (previous year 29%) to 9,552 points in the course of the financial year. On the other hand German property stocks, as reflected by the DAXsubsector Real Estate index, fell 4% after having outperformed the DAX in the previous year with a 34% rise. German property stocks are now dominated by residential property stocks, which fared better than average because investors evidently believe they will 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 index.

POLIS shares fell by 1.3% in financial year 2013 to EUR 11.00, and as such held their ground rather better the average for German property stocks. Property stocks continue to trade on the stock market at prices that are significantly lower than the value of the real estate assets less debt. Nevertheless, discounts have continued to fall. In individual instances property stocks, and especially residential property stocks, are actually trading at more than the net asset value (NAV). The EUR 11.00 year-end price of the POLIS share meant that it showed a discount of approximately 25% relative to the net asset value of EUR 14.67. The still high discounts relative to the NAV for some German real estate companies, especially among office property stocks, may be an indication of continuing uncertainty about the financial situation of individual, highly leveraged companies, and might suggest a general scepticism in capital market regarding 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 under its moderate buy and sell-strategy.

The average daily traded volume of POLIS shares at the Frankfurt Stock Exchange (XETRA) in 2013 was 167 shares, or EUR 1,768.

Shareholder structure

The combination of free float and financially strong strategic investors supports the Company's financial flexibility, management and financial strength. At 31 December 2013, the Board of Management held approximately 0.5% of the Company's capital stock.

Shareholders	%
Mann Unternehmensbeteiligungen Holding GmbH & Co. KG*	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	4.9

*Mann Group, Karlsruhe

Investor relations

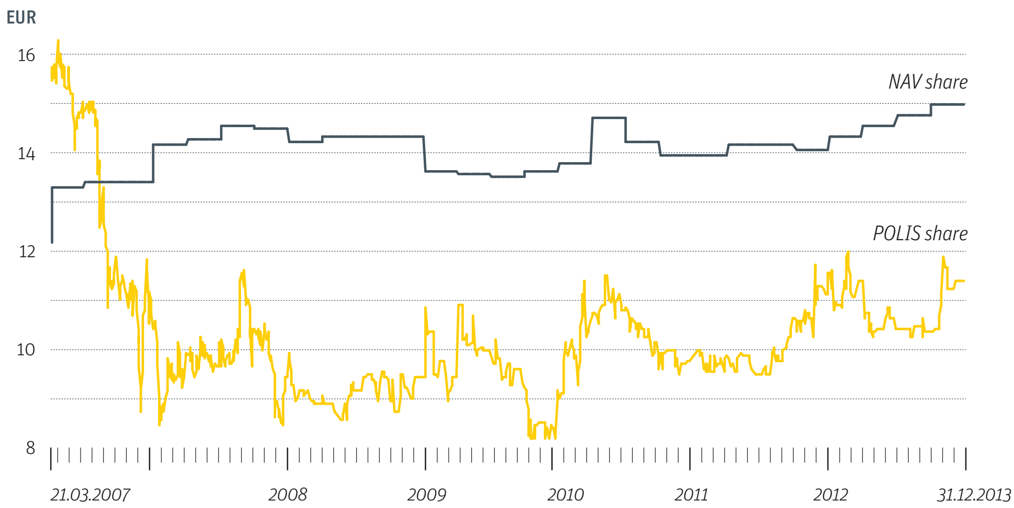
Capital market participants expect a transparent flow of information about a company. By openly and continuously exchanging information with the capital market, POLIS strives to establish a relationship of trust with the financial community and to facilitate a realistic assessment of the Company's value.

Our investor relations work is aimed mainly at financial analysts, institutional and private investors, and financial journalists. We communicate not only in the context of the Annual General Meeting, but also in regular direct discussions and 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 at conferences on a regular basis and conducts one-on-one discussions with investors and financial analysts both from Germany and internationally.

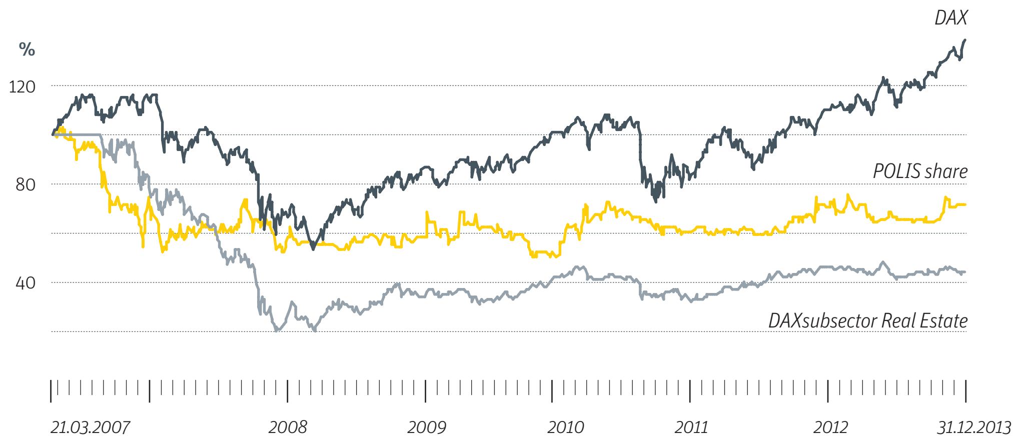
Share data for 2013

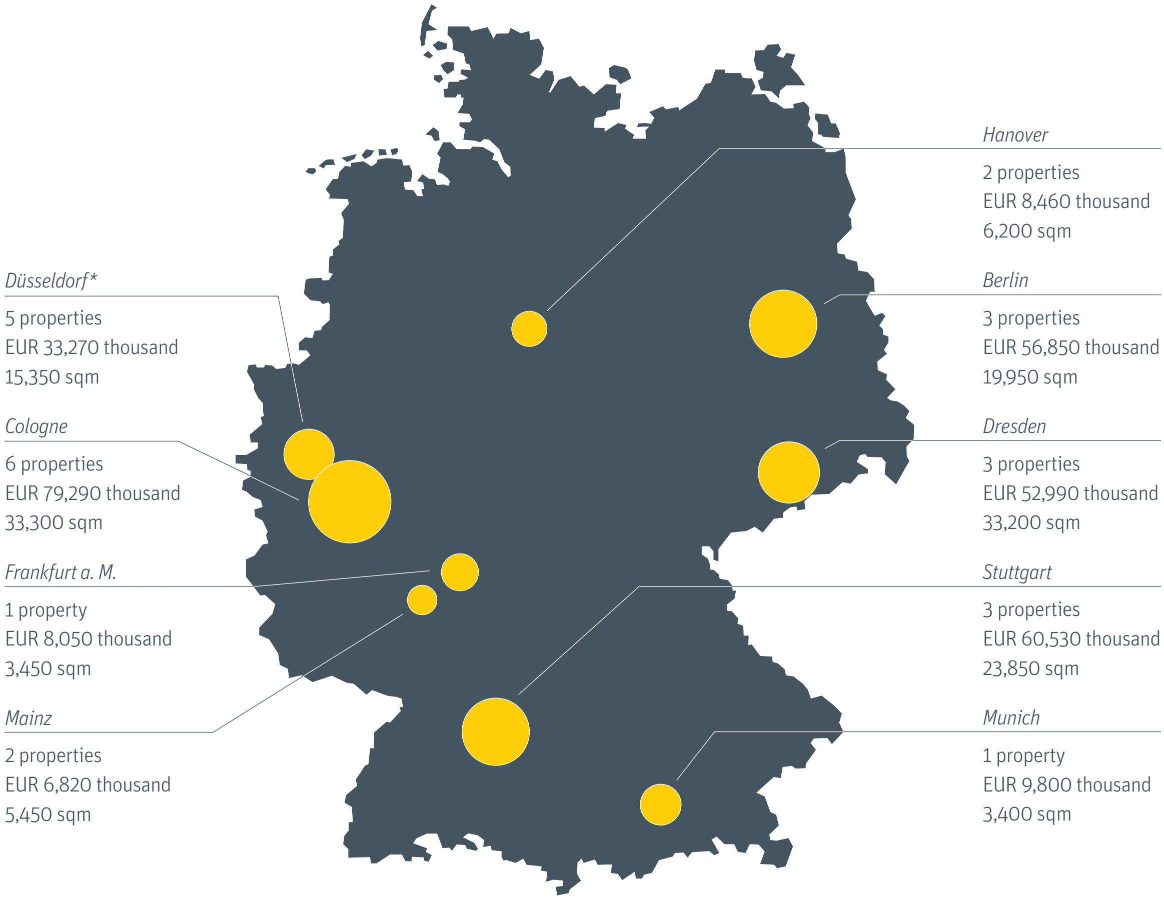
ISIN	DE0006913304
Security identification code (WKN)	691330
Reuters/Bloomberg symbol	PQLG.DE/PQL GR
Year-end price 2013 (Xetra)	EUR 11.00
Number of shares	11.05 million
Market capitalization	EUR 121.56 million
Market segment	Prime Standard
Designated Sponsor	Close Brothers Seydler Bank AG
Research coverage	Close Brothers Seydler Bank AG
52-week high	EUR 11.61
52-week low	EUR 9.80
Average daily trading volume	EUR 1,768
Average daily trading volume	167 shares
Earnings per share	EUR 0.74
NAV per share	EUR 14.67
Free float as defined by Deutsche Börse	4.9%
Annual General Meeting	20.06.2014

Development of the Polis share price since IPO



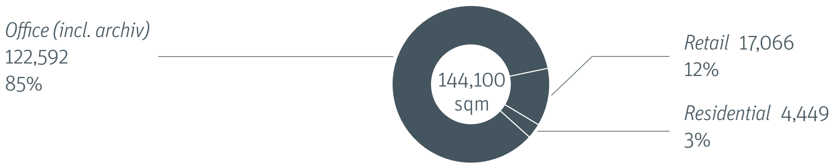
Development of the share price compared to indices



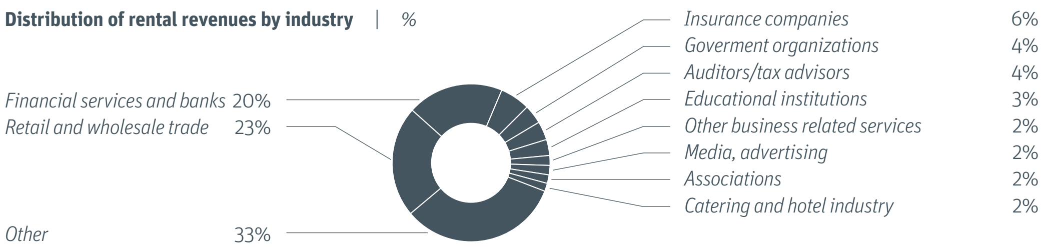


Portfolio by location | *appraisal as at 31.12.2013*

Portfolio by use | *basis: sqm*

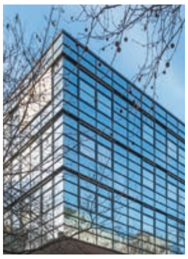


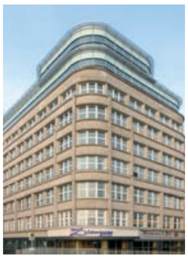
Distribution of rental revenues by industry | %



*incl. the property at "Immermannstrasse 11", Düsseldorf, which was sold in December 2013 and transferred to the buyer in the first quarter of 2014.

Portfolio summary





		Berlin	Berlin	Berlin
		Rankestrasse 21/ Lietzenburger Strasse 44, 46	Luisenstrasse 46	Potsdamer Strasse 58
Transfer of possession		30.09.2013	15.05.2002	25.02.2001
Year built		1993/1969/1957	1936	1930
Remaining useful life of building	years	59	54	56
Renovated/modernized		–	2002	2004
Market value	EUR '000	29,350	11,870	15,630
Last external appraisal		31.12.2013	30.06.2013	30.06.2013
Discount Rate[1]		6.8%	6.5%	6.7%
Total Area (rounded)[2]	sqm	11,300	3,150	5,500
Office	sqm	9,705	2,622	4,096
Retail	sqm	1,022	440	1,072
Residential	sqm	0	0	0
Archiv	sqm	583	71	323
Parking space	number	132	24	20
Ø Average remaining term of leases[3]	years	8,1	3,4	2,6
Occupancy rate (sqm) 2013[4]		96%	100%	99%
Occupancy rate (sqm) 2012[4]		–	100%	98%
Occupancy rate (Turnover)[5]		96%	99%	100%
Rent 2012[6]	EUR '000	–	671	818
Rent 2013[6]	EUR '000	437	666	926
Annualized current rent[5]	EUR '000	1,681	705	947
Rent if fully leased[7]	EUR '000	1,753	709	950
Annualized potential rent (FERI)[8]	EUR '000	1,849	717	1,003
Return of potential rent[9]		6.3%	6.0%	6.4%
FERI Rating[10]		B+	A–	A–

Explanation:

1 According to value appraisal by Feri EuroRating Services AG; Discount rate of the discounted-cash-flow-model (IRR)

2 May differ from sum of individual values due to rounding differences

3 Weighted average based on rental revenues

4 Calculated as a ratio of the leased space to the overall space

5 Included are revenue reduction due to rentless time

6 Based on audited Group financial statements as of the respective year applying IFRS

7 Sum of the contractually agreed rent and notional rent assuming that all unoccupied rental space is leased at the market rate deemed appropriate by Feri EuroRating Services AG

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

9 Relation of annualized potential rent to market value of the property 31 December 2013

10 According to value appraisal by Feri EuroRating Services AG to current valuation date

11 Ground leases Landschaftstrasse 2 and Hospitalstrasse 10/10a. Return on potential rent based on building value

12 Weighted average

13 Change of possession on 28 February 2014

14 Minority Investments in property companies




		Dresden	Dresden	Dresden	Düsseldorf
		Altmarkt 10/ Kramergasse 2/4	Könneritz-strasse 29, 31, 33	Palaisplatz 3, 3a	Berliner Allee 42
Transfer of possession		01.11./01.01.2011	01.01.2011	01.01.2011	01.11.2007
Year built		2000	1998	1840	1960
Remaining useful life of building	years	51	49	46	41
Renovated/modernized		–	–	1997	–
Market value	EUR '000	36,730	10,780	5,480	6,800
Last external appraisal		31.12.2013	31.03.2013	31.03.2013	30.06.2013
Discount Rate[1]		6.7%	6.9%	6.9%	6.8%
Total Area (rounded)[2]	sqm	18,950	10,400	3,900	3,500
Office	sqm	11,485	9,090	3,692	2,170
Retail	sqm	5,273	1,030	0	812
Residential	sqm	1,313	0	0	229
Archiv	sqm	863	278	196	269
Parking space	number	201	90	0	17
Ø Average remaining term of leases[3]	years	2,3	4,5	5,5	2,9
Occupancy rate (sqm) 2013[4]		96%	97%	73%	86%
Occupancy rate (sqm) 2012[4]		89%	94%	50%	87%
Occupancy rate (Turnover)[5]		93%	93%	73%	82%
Rent 2012[6]	EUR '000	2,199	714	232	328
Rent 2013[6]	EUR '000	2,351	857	322	327
Annualized current rent[5]	EUR '000	2,388	841	319	348
Rent if fully leased[7]	EUR '000	2,574	900	440	426
Annualized potential rent (FERI)[8]	EUR '000	2,657	943	460	515
Return of potential rent[9]		7.2%	8.7%	8.4%	7.6%
FERI Rating[10]		B+	A	B+	B

Explanations see page 17

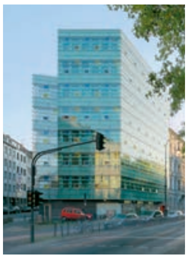
FERI rating categories

"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–*

Düsseldorf	Düsseldorf	Düsseldorf	Düsseldorf	Frankfurt a. M.	Hanover
Berliner Allee 44	Berliner Allee 48	Immermann-strasse 11[13]	Steinstrasse 27	Gutleutstrasse 26	Landschaftstrasse 2
01.08.2000	01.10.2006	01.12.2007	01.09.2000	30.06.2001	31.12.2006
1957	1956	1960	1960	1970	1983
52	47	35	46	48	47
2001	–	–	1998	1996	–
8,280	5,380	2,850	9,960	8,050	4,480
31.12.2013	30.06.2013	30.06.2013	30.06.2013	31.12.2013	31.03.2013
6.9%	6.9%	6.7%	6.5%	7,1%	6,9%
3,700	2,650	1,850	3,700	3,450	3,600
3,184	1,858	1,111	3,455	3,446	3,582
241	336	344	0	0	0
23	214	188	0	0	0
260	242	201	222	0	13
17	0	9	20	29	53
3,1	2,0	1,8	2,3	0,0	3,0
47%	94%	87%	99%	100%	100%
55%	86%	97%	99%	100%	100%
44%	95%	88%	100%	100%	99%
285	311	173	566	794	448
326	347	192	587	1,100	449
256	365	183	598	794	460
583	384	209	600	794	463
616	402	247	651	810	530
7.4%	7.5%	8.7%	6.5%	10,1%	11,8%[11]
B+	A–	A–	B+	B+	B+



		Hanover	Cologne	Cologne	Cologne
		Landschaftstrasse 8	Ebertplatz 1	Gustav-Heine-mann-Ufer 54	Hansaring 20
Transfer of possession		31.12.2006	15.06.2007	01.10.2007	01.11.2007
Year built		1885	1960	1989	1975
Remaining useful life of building	years	57	44	48	48
Renovated/modernized		2006	2002	–	2006
Market value	EUR '000	3,980	9,340	17,830	4,650
Last external appraisal		31.03.2013	31.03.2013	31.03.2013	31.12.2013
Discount Rate[1]		6.7%	6.7%	6.8%	6.9%
Total Area (rounded)[2]	sqm	2,600	4,150	7,600	2,250
Office	sqm	2,166	3,218	7,009	2,093
Retail	sqm	0	199	0	0
Residential	sqm	0	0	0	0
Archiv	sqm	437	719	568	146
Parking space	number	0	0	196	10
Ø Average remaining term of leases[3]	years	3.0	6.8	4.0	4.4
Occupancy rate (sqm) 2013[4]		100%	98%	98%	57%
Occupancy rate (sqm) 2012[4]		100%	84%	90%	43%
Occupancy rate (Turnover)[5]		100%	92%	97%	50%
Rent 2012[6]	EUR '000	243	469	1,301	245
Rent 2013[6]	EUR '000	291	512	1,426	173
Annualized current rent[5]	EUR '000	291	554	1,122	172
Rent if fully leased[7]	EUR '000	291	602	1,160	347
Annualized potential rent (FERI)[8]	EUR '000	331	546	1,188	322
Return of potential rent[9]		8.3%	5.8%	6.7%	6.9%
FERI Rating[10]		B+	B+	B+	B+

Explanations see page 17

Cologne	Cologne	Cologne	Mainz	Mainz	Munich
Konrad-Adenauer-Ufer 41–45	Neumarkt 49	Weyerstrasse 79–83	Rheinstrasse 43–45	Rheinstrasse 105–107	Lessingstrasse 14
01.04.2007	31.12.2007	01.05.2008	01.11.2007	30.09.2007	15.12.2007
1953	1957	1962	1976	1968	1967
59	46	47	42	45	48
2010	2005	2008	–	–	2010
22,420	8,760	16,290	2,630	4,190	9,800
31.03.2013	31.03.2013	31.12.2013	31.12.2013	31.12.2013	30.06.2013
6.3%	6.8%	6.8%	7.0%	6.9%	6.7%
6,000	3,900	9,400	2,200	3,250	3,400
5,582	3,187	7,237	1,683	2,414	2,613
0	544	1.302	294	0	438
0	0	0	0	564	0
429	177	878	212	277	339
53	9	94	11	47	38
3.4	4.9	1.7	2.8	1.3	2.6
96%	100%	97%	70%	84%	100%
94%	100%	97%	79%	99%	100%
99%	100%	99%	74%	78%	99%
994	537	974	148	293	564
1,119	581	983	197	256	588
1,216	581	1,000	181	243	627
1,230	582	1,015	246	310	631
1,241	640	1,205	264	390	714
5.5%	7.3%	7.4%	10.0%	9.3%	7.3%
A–	B	B	B	B+	B+



		Stuttgart	Stuttgart	Stuttgart
		Böblinger Strasse 8/ Arminstrasse 15	Quartier Büchsenstrasse	Tübinger Strasse 31, 33
Transfer of possession		01.11.2007	30.06.2007	31.12.2006
Year built		1973	1907–1970	1949
Remaining useful life of building	years	42	43–59	48
Renovated/modernized		2004	2010	2000
Market value	EUR ’000	4,120	45,610	10,800
Last external appraisal		30.09.2013	30.09.2013	30.09.2013
Discount Rate[1]		6.8%	6.6%	6.6%
Total Area (rounded)[2]	sqm	2,550	16,600	4,650
Office	sqm	1,157	11,633	2,740
Retail	sqm	920	1,520	1,278
Residential	sqm	359	1,339	220
Archiv	sqm	132	2,127	401
Parking space	number	36	127	13
Ø Average remaining term of leases[3]	years	2.2	4.1	8.1
Occupancy rate (sqm) 2013[4]		86%	90%	93%
Occupancy rate (sqm) 2012[4]		95%	81%	29%
Occupancy rate (Turnover)[5]		83%	93%	96%
Rent 2012[6]	EUR ’000	264	1,641	175
Rent 2013[6]	EUR ’000	243	2,428	306
Annualized current rent[5]	EUR ’000	247	2,538	616
Rent if fully leased[7]	EUR ’000	297	2,726	644
Annualized potential rent (FERI)[8]	EUR ’000	344	2,877	731
Return of potential rent[9]		8.3%	6.3%[11]	6.8%
FERI Rating[10]		B+	A–	B+

Explanations see page 17

Portfolio	Other Investments[14]	Total Assets
50[12]		
316,060	3,772	**319,832**
–		
6.7%		
144,100		
112,229		
17,066		
4,449		
10,363		
1,246		
3.8[12]		
93%[12]		
87%[12]		
92%		
15,387		
17,992		
19,273		
20,866		
22,193		
7.0%		
B+		

Group Management Report

of POLIS Immobilien AG for financial year 2013

CONTENT

Basic profile of the Group

Group structure and business activities

The business model of POLIS Immobilien AG

POLIS Immobilien AG (hereinafter POLIS), founded in Berlin in 1998 and with its registered office in Berlin, acquires office buildings throughout Germany for its own portfolio. By actively managing our own properties, including by their conversion, modernization, extension, letting and other measures, we continuously increase 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 specific 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 from a commercial and technical perspective and is responsible for all key aspects of business operations such as acquisitions and sales, development, letting, administration, financing and accounting.

Group structure and management

POLIS is an operational holding company and is managed by two officers. 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, organization and information technology. Our employees are employed by the holding company, while the properties are held via property companies (which usually take the German legal form of GmbH & Co. KG). POLIS and all property companies have their registered offices in Berlin. There are no branch offices.

Business processes

The principal business processes of POLIS involve letting office, retail and residential properties, buying and selling properties, and investing in order to increase the value of our real estate holdings. POLIS also provides asset management services for third parties.

Corporate rating confirms creditworthiness and corporate quality

POLIS attaches high importance to the financial stability and quality of all corporate areas. In December 2013, POLIS Immobilien AG received its first ever “A-” rating from FERI EuroRating Services AG following a comprehensive corporate rating process. This investment-grade rating reflects not only the sound financial standing and quality of the key assets (properties), but also the quality of the internal structures and procedures evaluated, including risk management.

Key external factors

The POLIS business model is substantially influenced by rent, location and competitive developments in the German property market, and in particular the office market, by interest developments in the money and capital markets, and by statutory and regulatory requirements.

Principal changes within the Group in financial year 2013

Major construction measures were completed in 2013 and the occupancy rate was significantly increased. The property portfolio was also optimized by the purchase of one property and the simultaneous sale of two smaller properties, and the investment volume was increased. There were no material changes in the strategy or corporate structure.

Corporate management, objectives and strategy

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 generate a rate of return for the Company's shareholders that reflects the Company's risk profile.

The control system represents an integrated process between asset and portfolio management on the one hand, and finances and controlling on the other hand. Management regularly compares the results actually achieved with the projected data, by way of a target/performance comparison. Discrepancies trigger the development of different courses of action that are then implemented in the letting approach or by optimizing the portfolio.

Key control system indicators

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

Corporate objective

The objective of POLIS is to achieve a sustained increase in 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). Other key ratios include rental revenues, the consolidated earnings for the period, the funds from operations (FFO), the cash flow from operating activities, the equity ratio and the LTV (loan-to-value) ratio.

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

Ever since its founding, POLIS has endeavoured to satisfy the requirements of the capital market. The long-term creation of value and a high degree of transparency have always been the guiding principles of our corporate management. POLIS has received several awards as a transparent property company, most recently in the DVFA transparency index for German real estate corporations. This highlights our commitment to providing detailed information about our property portfolio. Key information on each building and its valuation is given online (www.polis.de) and in the portfolio overview in the Annual Report. We also publish a comprehensive, quantified risk report.

We have consistently pursued our strategy right from the start:

- **Focus:** We concentrate on office buildings in central areas of the 21 most important German business locations. One of the sources we use for our work is the city ranking report prepared by the research company BulwienGesa AG.
- **Core to Value Added:** We buy properties with good occupancy rates and modern facilities and requiring little, if any, optimization in order to generate a steady cash flow (Core) as well as properties that are vacant or in need of modernization and exhibit tangible potential for added value (Value Added). The target share of Core properties as a basis for generating a continuous and steady cash flow is at least 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 no more than 60% of the market values of the investment properties.
- **Securing rental income through 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 dependency on specific industry trends. Only two properties had a single-tenant structure in 2013. One property will be converted into a multi-tenant object in 2014.
- **Fungible property sizes:** We invest in properties with market values of between EUR 5 million and EUR 50 million. Smaller properties in our portfolio are disposed of when we are best able to realize the optimum value.
- **Moderate buy and sell-concept:** The intended value added is to be realized by way of individual sales.
- **Active asset management and tenant orientation:** The rigorous pursuit of value-adding strategies and the tailoring of all processes to tenant preferences are among the fundamental principles behind our activities.
- **Capital market orientation:** Transparent communication of our business model and of information on our properties as well as the observance of EPRA standards are second nature to us and pave the way for sound investor and creditor relations.
- **Sustainability:** We are committed to providing spaces for our tenants that are environmentally compatible, resource-efficient and economical and support the health and performance of our tenants and their personnel. We endeavour to carry out all of our (construction) projects and (procurement) processes in an environmentally optimized manner.
- **Medium-term development of the property portfolio:** We plan to continue to develop our office property portfolio while maintaining our current priorities and high quality standards. This will allow us to achieve economies of scale that will increase profitability. We have been successfully implementing these strategic goals ever since POLIS was established and have seen them bring us steady growth. Our own property portfolio (excluding third-party asset management) has reached a current market value of EUR 313 million and is set to continue growing.
- **Third-party asset management:** We also intend to continue making our Company's expertise available to third parties by providing asset management for investment properties where we work alongside a third-party investor. Such an arrangement means the business partner benefits from access to professional asset management, and we improve our earnings by generating additional income from services. The further expansion of this business area is influenced by how the tough current regulations of the new German Investment Code (Kapitalanlagegesetzbuch) are being implemented. For that reason, this segment is not currently being expanded.
- **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 large proportion of our employees have variable compensation components, the level of which is determined on the basis of the Company's performance and their personal contribution to it. Two trainees are being trained as real estate management assistants and we are supporting two students who are taking a dual study programme in real estate management leading to a Bachelor of Arts degree.

Key economic factors

Development of the commercial property market in Germany

We generate our income from rental revenues and from the sale of properties. In addition, the results of the revaluation of our property portfolio also strongly influence our annual financial results. The terms of new and follow-on leases and of acquisitions and sales, as well as 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, the statutory framework and the fiscal environment.

Furthermore, the results achieved by POLIS depend on market trends at the specific locations where our properties are situated; these locations are subject to specific regional factors such as demographic trends, regional economic growth, the development of the service sector, the supply of office space and the movement of companies into and out of the area.

Development of rental revenues

The general level of rent for office properties in Germany or for property or location-specific reasons means rent levels may change when concluding follow-on leases. As a general rule, rising vacancy rates in a market usually lead to reduced rental income and vice versa. 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.

Finance costs and interest rate levels

The profitability of POLIS is influenced by the development of general interest levels, because we typically finance the acquisition of properties with the help of external financing representing up to 60% of the property value. Where reasonable, we intend to keep loans on a floating rate basis in order to benefit from low short-term interest rates. We conclude interest rate hedges that largely mirror the individual loans taken out at variable interest rates as a means of reducing the impact of market value fluctuations of interest rate hedging instruments on consolidated earnings.

Competitive position

Market environment

According to a study prepared by BulwienGesa AG, 60% of the office rental space in Germany is situated at the 21 most important office locations on which we focus. The ownership structure is highly fragmented. Only a small proportion of the overall office space in Germany is owned by listed property companies or investment funds, while companies and private investors continue to be well represented by international standards. The market for acquiring and managing office properties remains sizeable and provides opportunities for further development for specialized property companies.

Positioning

In this market environment, we consider ourselves a specialist for the modernization and active management of office properties 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 an unique position among listed German property companies.

Economic report

Economic and industry-specific environment

Development of overall economic environment

- Gross domestic product up only 0.4% in 2013, but higher growth expected for 2014
- Positive situation on the labour market
- Inflation at 1.5% in Germany in 2013
- Short-term interest rates rose to 0.287% (three-month EURIBOR), with 10-year rates of 2.15%

The ifo Business Climate Index for trade and industry in Germany reached a figure of 109.5, its highest level since summer 2011 and a substantial improvement on the 2012 year-end figure of 102.5 points. Although companies are somewhat less satisfied with their current business situation, the outlook further ahead into 2014 is clearly positive. The German economy is holding its ground amid a still-difficult overall environment in Europe, which in turn is showing isolated signs of improvement.

According to the Federal Statistical Office, gross domestic product rose 0.4% in 2013 compared with 0.9% in 2012. Most forecasts for 2014 expect it to be around 1.7%.

The labour market saw Germany's working population reach 42.28 million in 2013, its seventh successive rise. The unemployment rate in December 2013 was 6.7%.

Inflation of 1.5% in 2013 was lower than at the end of 2012 (2.0%). After declining to 1.2% by March, the inflation rate climbed to 1.9% as the year progressed, then dropped to 1.4% by December. Inflation's low overall level is attributable to various factors such as lower commodity prices (in particular mineral oil), whereas there was a marked rise in food prices.

Short-term interest rates as a whole showed slight upward movement in 2013 (three-month EURIBOR 0.19% at 2012 year-end; 0.287% on 31 December 2013), with the rate increasing by five basis points in December itself. Long-term interest rates rose markedly in 2013, though there was no consistent pattern throughout the year and rates fluctuated quite sharply; for example, at times the interest rates in September/October were higher than the year-end rates. The ten-year swap rate rose from 1.57% at 31 December 2012 to 2.15% at 31 December 2013.

	GDP growth	Inflation	3-month EURIBOR	5 years (swap rate)	10 years (swap rate)
2013	0.40%	1.50%	0.29%	1.26%	2.15%
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%

Sources: IFO Institute: ifo Business Survey results, December 2013, German Institute for Economic Research, Federal Statistical Office Wiesbaden

Industry-specific environment

The relatively weak office space turnover at the start of the year subsequently improved somewhat, but remained just down on 2012. The volume of turnover in the seven major real estate locations came to 2.93 million sqm in 2013, a decrease of roughly 3.5% on the previous year. There was marked regional variation in the development. While turnover in Stuttgart, Düsseldorf, Cologne and Hamburg rose, office space turnover in Frankfurt a. M., Berlin and Munich was lower than in 2012. The factors behind this reduced level of activity were greater price sensitivity among market participants and longer decision-making processes at the letting stage.

Trends in the investment market for office properties in Germany

Transaction volume rises again

The transaction volume in the commercial property sector again increased substantially, from approximately EUR 25 billion in 2012 to around EUR 30.4 billion in 2013, the best result since the start of the financial crisis. Investments in office properties accounted for approximately 50.5% of the transaction volume, followed by retail properties, which represented a share of approximately 28.5% of transactions. Around 55% of transactions took place in the top five locations Berlin, Düsseldorf, Frankfurt a. M., Hamburg and Munich, of which only Berlin saw a year-on-year fall in the transaction volume. The robust overall economic situation, with a steady labour market and rents in the office market centres still rising, lead us to expect a similarly high volume of transactions for 2014. The limited supply of Core properties, coupled with high demand, led to a decline in prime yields in 2013. Initial yields are expected to stabilize at this level in 2014.

Trends in the office property rental market in Germany

Rising new construction volume with high advance rental rate

New construction activity in 2013 in the top seven locations, representing a total of 890,000 sqm, was 8% up on the previous year. A further increase to 1.17 million sqm is expected in 2014. It is interesting to note that nearly two-thirds of new buildings could be let in advance.

Prime rents showed a slight improvement of 1.9% in 2013, in particular in Düsseldorf, Frankfurt a. M. and Munich. A further rise of approximately 1% is expected in 2014.

Falling vacancies in the office market

Vacancies for office space in the seven leading cities fell by a further 6% on the previous year to 7.3 million sqm. The vacancy rate is consequently now only 8.3%. Crucially, only some of these vacant properties offer the modern, high-quality standards that users require.

Vacancies | Office space turnover

Vacancies incl. subleases; rental space turnover incl. owner-occupiers

	thousand sqm			Vacancies in %		
Locations	2011	2012	2013	2011	2012	2013
Berlin	1,446 | 543	1,441 | 544	1,395 | 455	8.5	8.5	8.2
Hamburg	1,237 | 540	1,206 | 436	1,137 | 440	8.5	8.2	7.8
Düsseldorf	999 | 394	991 | 348	1,023 | 416	11.2	11.0	11.4
Frankfurt a. M.	1,662 | 424	1,416 | 512	1,327 | 441	13.9	11.9	11.1
Stuttgart	500 | 280	463 | 190	445 | 256	6.1	5.6	5.3
Munich	1,912 | 887	1,674 | 754	1,457 | 625	9.6	8.4	7.3
Cologne	604 | 332	590 | 255	530 | 301	8.1	7.9	7.0

Sources: CBRE Deutschland Investment Quarterly, Jones Lang LaSalle "on.point" Office Market Overview Q4 2013

Overview of business performance

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

- Further rise in occupancy: we again achieved a very high level of take-up, letting approximately 18,884 sqm. New contracts/supplements accounted for 11,454 sqm and extensions of existing lease agreements for 7,430 sqm. The occupancy rate increased from 87% to 93%.
- In financial year 2013, we invested around EUR 6.9 million in our investment properties. Our focus was mainly on modernizing rental space, including the properties “Tübinger Strasse 31, 33” and “Quartier Büchsenstrasse” in Stuttgart, as well as “Ebertplatz 1”, “Gustav-Heinemann-Ufer 54” and “Hansaring 20” in Cologne.
- To optimize our investment portfolio we sold the properties “Gallenkampstrasse” in Duisburg and “Kleppingstrasse” in Dortmund. The latter sale produced a capital gain of EUR 377 thousand.
- The acquisition of the investment property at “Rankestrasse 21” increased the property portfolio in the Berlin location at 30 September 2013. The year-end market value of the property was EUR 29,350 thousand and therefore exceeded the costs of acquisition. The investment volume amounted to EUR 313 million at the end of the year.
- As a result of successfully letting modernized rental space and extending existing lease agreements on improved terms, we achieved a positive valuation result for many investment properties. Due to expiring lease agreements, an identifiable need for maintenance work or changed rental forecasts at specific locations, some investment properties suffered a drop in their market values. Profit was diminished in particular by the devaluation of the property at “Gutleutstrasse” following the departure of the sole tenant, leaving the property in need of revitalization. This devaluation reduced the valuation result by EUR 2,150 thousand. Overall, there was nevertheless a positive valuation result for the investment properties of EUR 1,942 thousand.
- The good take-up level in 2012 and 2013 as well as the active management of lease agreements produced a 13.8 % rise in rental income to EUR 18,239 thousand, despite the disposal of two fully let investment properties. The newly acquired property in Berlin at 30 September 2013 did not yet make any significant contribution to this amount. Net rental income increased by 31% to EUR 14,656 thousand. After adjusting for valuation effects, funds from operations (FFO) rose sharply to EUR 5,002 thousand, as expected (+95%).
- Consolidated earnings before tax for 2013 showed an almost three-fold rise on 2012, from EUR 2,574 thousand to EUR 9,808 thousand. The increase comes first and foremost from the improved result from the valuation of interest rate hedging instruments of EUR 2,271 thousand, driven up by higher interest rates and turning around the previous year’s negative result of EUR -2,531 thousand; it was also lifted by the 31% rise in net rental income to EUR 14,656 thousand.
- Cash flow from operating activities was up 33% year on year at EUR 9,038 thousand.
- The net asset value at 31 December 2013 showed a 6.9 % increase relative to the previous year to EUR 162.2 million, and the net asset value per share increased from EUR 13.73 to EUR 14.67.

Development of real estate business

Changes in the portfolio

The Hamburg property at "Steinstrasse 12–14", which had already been sold in 2012, was handed over to the buyer in the past financial year. In addition, "Gallenkampstrasse 20" in Duisburg and "Kleppingstrasse 20" in Dortmund were sold to optimize the portfolio. These sales produced a capital gain of EUR 377 thousand.

We have acquired a further office property in Berlin, "Rankestrasse 21, Lietzenburger Strasse 44–46", for a total of approximately EUR 29 million. The property, with a floor area of some 11,300 sqm, is located at the corner of Rankestrasse and Lietzenburger Strasse . The eight-storey building has an occupancy rate of 96%, with an average weighted lease agreement term of 8.1 years. The main tenant is a firm of tax consultants and auditors. FERI EuroRating Services AG ("FERI") has given the property an overall rating of "B+" (= good). The market value of the property at the end of the year was EUR 29,350 thousand, so a positive valuation effect of around EUR 661 thousand over and above the gross purchase price has arisen. The net initial yield (annualized actual rent in relation to the costs of acquisition) was 5.4%.

Modernizations

Stuttgart, »Tübinger Strasse 31, 33«: tenant fit-out completed and rental space handed over

The comprehensive tenant fit-out for the German federal state of Baden-Württemberg was completed and the rental space handed over to the Duale Hochschule on schedule with effect from 1 August 2013.

Frankfurt a. M., »Gutleutstrasse 26«: office tenant moves out of the building

The sole tenant of the investment property at "Gutleutstrasse 26" in Frankfurt a. M. terminated the lease with effect from 31 December 2013 and moved out of the building. The plans for essential conversion and modernization work before a new tenant can be found are at an advanced stage. By the end of 2014 the building will have up to seven office spaces, which will be fitted out to modern standards and let out quickly.

Occupancy rate again increases significantly

We again achieved good results in concluding new lease agreements for 11,454 sqm in the past financial year (previous year 17,884 sqm). The biggest individual contributions to our letting performance in 2013 came from the letting of the properties "Berliner Allee 44", Düsseldorf, and "Palaisplatz 3", Dresden. In these properties alone, 3,576 sqm of office space was let out; it is currently being prepared and will for the most part be handed over to the tenants in 2014. The approx. 2,700 sqm of space in "Tübinger Strasse 31, 33", Stuttgart, let in June 2012 to the German federal state of Baden-Württemberg for the Duale Hochschule Baden Württemberg (DHBW), was handed over to the tenant in August 2013. Thanks to the successful letting performance, active management of lease agreements as well as purchases and sales to optimize the portfolio, the occupancy rate for the overall portfolio at 31 December 2013 rose to 93%, from 87% at the end of the previous year. The occupancy rate was temporarily lower at 1 January 2014 following the departure of Commerzbank from "Gutleutstrasse 26", Frankfurt a. M. The building is due to be revitalized and the office space then gradually let out in the course of 2014 and 2015. Lease agreements concluded in 2013 but only running from 2014 compensate for most of the rental space falling vacant is elsewhere in the portfolio.

Furthermore, we were able to extend lease agreements for approximately 7,430 sqm (previous year: 15,365 sqm) often on significantly better terms. The most important extension of an existing lease agreement in economic terms concerns an office space of around 3,080 sqm in the property at "Gustav-Heinemann-Ufer 54" in Cologne. The year-on-year decrease in new and extended lease agreements is attributable to the fact that far fewer vacant properties were available for new lease agreements, and fewer existing lease agreements expired.

The high take-up level in 2013 produced a contractually secured rental income of around EUR 11,185 thousand over the full term of these lease agreements, with an average weighted term of 4.4 years and an effective rent of EUR 11.02 per sqm. The average remaining term of all existing lease agreements is 3.8 years, with an average rent across the portfolio of approximately EUR 11.58 per sqm for all types of use (office, retail, residential, archive).

	Rental space as of 31.12.2012 sqm	Rental space as of 31.12.2013 sqm	Occupancy rate as of 31.12.2012 in %	Occupancy rate as of 31.12.2013 in %
Berlin*	8,650	19,950	99%	98%
Dortmund**	2,900	–	100%	–
Dresden	33,400	33,200	86%	94%
Düsseldorf	15,400	15,350	83%	81%
Duisburg**	1,700	–	100%	–
Frankfurt a. M.	3,450	3,450	100%	100%
Hamburg**	2,800	–	96%	–
Hanover	6,200	6,200	100%	100%
Cologne	33,350	33,300	90%	95%
Mainz	5,450	5,450	91%	78%
Munich	3,350	3,400	100%	100%
Stuttgart	24,150	23,850	72%	90%
	140,800* **	**144,150*** **	**87%**	**93%**

Based on portfolio at the respective reporting date, incl. *Purchased 2013, ** Sale 2013, * Total of rounded individual figures**

Because only a small amount of office space is now due for letting and storage space makes up a significant portion of vacancies, we expect the occupancy rate to develop more slowly in the financial year in progress. It is our aim to achieve an occupancy rate in excess of 95% by the end of 2014; taking account of normal fluctuation, this would represent full occupancy.

We view our current task to involve letting the remaining office space and maintaining a high occupancy rate through active management of the lease agreements. We also aim to improve the quality of our properties, increase tenant satisfaction and realize the rental income potential through active asset management.

Overview of rental income

The development of rental revenues by individual property in the prime locations since 2010 is as follows:

EUR '000	2010	2011	2012	2013
Berlin	**1,403**	**1,515**	**1,489**	**2,029**
Luisenstrasse 46	639	646	671	926
Potsdamer Strasse 58	764	870	818	926
Rankestrasse 21/Lietzenburger Strasse 44, 46	–	–	–	437*
Düsseldorf	**1,523**	**1,492**	**1,663**	**1,779**
Berliner Allee 42	304	338	328	327
Berliner Allee 44	113	149	285	326
Berliner Allee 48	319	307	311	347
Immermannstrasse 11	214	176	173	192
Steinstrasse 27	573	522	566	587
Frankfurt a. M.	**762**	**762**	**794**	**1,100**
Gutleutstrasse 26	762	762	794	1,100**
Cologne	**2,868**	**3,776**	**4,520**	**4,794**
Ebertplatz 1	458	445	469	512
Gustav-Heinemann-Ufer 54	676	875	1,301	1,426
Hansaring 20	312	320	245	173
Konrad-Adenauer-Ufer 41–45	46	705	994	1,119
Neumarkt 49	459	498	537	581
Weyerstrasse 79–83	917	933	974	983
Munich	**495**	**525**	**564**	**588**
Lessingstrasse 14	495	525	564	588
Stuttgart	**1,343**	**1,704**	**2,080**	**2,977**
Böblinger Strasse 8/Arminstrasse 15	242	264	264	243
Tübinger Strasse 31, 33	568	576	175	306
Büchsenstrasse 26	104	440	804	1,377
Büchsenstrasse 28	72	67	74	243
Heustrasse 1, Kienestrasse 33	115	212	448	463
Hospitalstrasse 8	206	98	267	274
Hospitalstrasse 10	36	47	48	71
Quartier Büchsenstrasse	533	864	1.641	2,428
Total "A cities"	**8,394**	**9,775**	**11,327**	**13,267**
Other properties	1,540	3,019	4,693	4,721
Properties sold 2010–2013	3,119	2,092	0	251
Total	**13,053**	**14,886**	**16,020**	**18,239**

*Rent for 3 months, purchased 30 Sept 2013, **Incl. EUR 306 thousand compensation payment December 2013

Financial performance, financial position and net assets

EUR '000	2012	2013	Change, 2013 over 2012
Rental revenues	16,020	18,239	+2,219
FFO (after tax)	2,567	5,002	+2,435
Consolidated earnings before tax (EBT)	2,574	9,808	+7,234
Cash flow from operating activities	6,786	9,038	+2,252
Equity ratio	49%	48%	–1%
Loan to value	48%	50%	+2%

The planning expectations especially for rental revenues were slightly exceeded. As a result the anticipated FFO of more than EUR 4 million was easily bettered, at EUR 5 million.

Financial performance

Thanks to the good letting result, rental income increased to EUR 18,239 thousand (previous year: EUR 16,020 thousand); this was 13.9% up on the prior-year level and 5.4% ahead of the target figure. With many rental spaces newly let and handed over, renovation and maintenance expenses fell by 18% to EUR 2,615 thousand. In addition, property management expenses decreased from EUR 1,621 thousand to EUR 968 thousand by virtue of declining letting expenses and the reduced vacancy costs. Net rental income thus increased by around 31% to EUR 14,656 thousand (previous year: EUR 11,205 thousand).

The valuation of the investment properties led to a moderate net increase of EUR 1,942 thousand in the valuation of the overall portfolio. Combined with the result from the sale of properties amounting to EUR 377 thousand, the prior-year result of EUR 2,410 thousand was almost emulated. The change in market value results mainly from the valuations of the properties at "Luisenstrasse 46" (EUR 701 thousand) in Berlin and "Quartier Büchsenstrasse" (EUR 665 thousand) in Stuttgart, the newly acquired property at "Rankestrasse 21, Lietzenburger Strasse 44–46" in Berlin (EUR 661 thousand) and the properties at "Altmarkt 10/ Kramergasse 2/4" (EUR 513 thousand) in Dresden and "Gustav-Heinemann-Ufer 54" (EUR 518 thousand) in Cologne. The valuation result was reduced mainly by the devaluation of the property at "Gutleutstrasse 26" in Frankfurt a. M. (EUR -2,150 thousand) due to the departure of the sole tenant and the forthcoming conversion work to turn it into a multi-tenant property. The result reflects both effects from general changes in market values and the effects of modernization work.

Administrative expenses in 2013 stood at EUR 3,506 thousand, or 7.4% below the previous year's level (EUR 3,787 thousand). A detailed list is provided in the notes to the consolidated financial statements, under Section 4.8 "Administrative expenses".

At EUR 5,695 thousand, interest expense was 5.8% up on the previous year (EUR 5,383 thousand) due to the higher volume of loans raised. The valuation result from interest rate derivatives with no liquidity effect was substantially higher at EUR +2,271 thousand as a result of the higher market interest rates, in a turnaround from the previous year's shortfall of EUR -2.531 thousand. The financial result for 2013 thus showed a EUR 4,645 thousand improvement on the previous year, at EUR -3,246 thousand (previous year: EUR -7,891 thousand). In addition to the valuation gains within earnings, positive market values of interest rate swaps (EUR 869 thousand) that form part of effective cash flow hedges less attributable deferred taxes (EUR 138 thousand) have been recorded in other income.

The weighted average interest rate for debt financing has edged up to 3.6% (previous year: 3.2%) as a result of market interest rate movements and the reorganization of interest rate hedges.

The consolidated financial statements report a EUR 7,234 thousand year-on-year rise in consolidated earnings of EUR 9,808 thousand (previous year: EUR 2,574 thousand), an increase of 281% on the previous year. Funds from operations almost doubled, from EUR 2,567 thousand in the previous year to EUR 5,002 thousand, above all thanks to higher net rental income.

Financial position

Cash flows

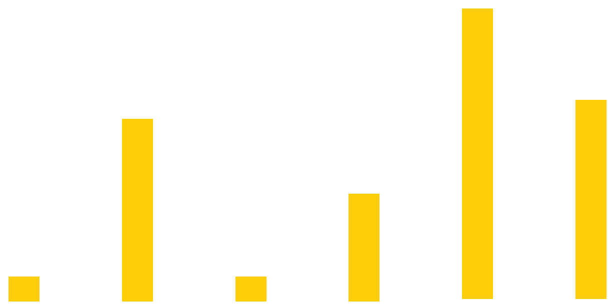
EUR '000	2013	2012
Cash flow from operating activities	9,038	6,786
Cash flow from investing activities	–23,196	–7,104
Cash flow from financing activities	12,216	7,004
Cash in banks at the end of the period	6,370	8,312

There was an increase in cash flow from operating activities mainly because of the higher net rental income. Payments for investments concerned the purchase and sale of properties and the modernization work carried out. The cash flow from financing activities mainly represents net borrowings for the purchase of properties, taking account of repayments from sales, regular redemption payments and repayments to clear properties of encumbrances in connection with the refinancing of loans.

High equity ratio, low loan-to-value ratio

With its equity ratio of 48%, POLIS remains on a sound financial footing and continues to have sufficient flexibility for raising debt capital on attractive terms. At the reporting date, the available credit lines amounted to approximately EUR 6.8 million.

The loan-to-value ratio (ratio between liabilities to banks and the market value of the properties) was around 50% at 31 December 2013, up two percentage points, as a result of increased borrowings. The strategic 60% level that we are seeking could be achieved by utilizing the available credit lines and obtaining new financing, but should still not be exceeded in the future in order to keep leverage permanently low.



Credit volume
by maturities

Credit volume in EUR '000	3%	22%	3%	13%	35%	24%
Volume	4,676	34,700	4,320	20,790	54,182	37,784
Year	2014	2015	2016	2018	2020	2021

Low-risk maturities structure of liabilities to banks
The weighted average remaining term of the bank loans at 31 December 2013 was 5.7 years. As a result of the timely extension of the terms of the bank loans, no major loans will fall due in 2014.

At 31 December 2013, 85% of the variable-rate liabilities to banks were hedged. The average term of interest rate hedges is five years.

Some loan agreements contain typical clauses requiring that certain financial ratios 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). As a result of the high occupancy rates in all loan portfolios, the financial ratios are currently within the limits required by the banks. From the current perspective this will remain the case in 2014.

The principles and goals of financial management are explained under 6.3. in the notes to the consolidated financial statements.

Net assets

Investments in the investment properties in financial year 2013 took total assets up to approximately EUR 334 million (previous year: approximately EUR 310 million). Non-current assets consist mainly of the 26 investment properties and account for around 94% of total assets, in line with the business model.

Assets and capital structure

EUR '000	31.12.2013	31.12.2012
Non-current assets	318,275	290,690
Current assets	15,609	19,302
Equity	159,523	150,653
Total assets	333,884	309,992

Investments in investment properties
The investments of around EUR 6.9 million in the individual properties as well as the additional purchase for EUR 29 million are reported in detail in the notes to the consolidated financial statements, under 3.1. “Investment properties”. One major investment planned for 2014 is the revitalization of the property at “Gutleutstrasse” in Frankfurt a. M., with estimated construction costs of approximately EUR 3 million.

Valuation of the properties
In financial year 2013, FERI EuroRating Services AG (hereinafter referred to as “FERI”) was asked to determine the market values of one-quarter of the portfolio in each calendar quarter, and to document these market values in the form of reports. This means that the market value of each property is determined by an independent, external valuer once per year. Properties not valued by FERI at the end of a given quarter are subject to an internal valuation. However, properties that have undergone fundamental changes are valued externally by FERI in the next quarter. FERI valued nine investment properties of the POLIS property portfolio at 31 December 2013. For details on the valuation method and the assumptions, please refer to the information given in Section 3.1 of the notes to the consolidated financial statements on pages 63–65.

The high quality of the portfolio was confirmed by a “B+” portfolio rating (“good”).

The fair values of the investment properties (excluding properties held for sale) at the end of 2013 totalled EUR 313,210 thousand (previous year: EUR 285,540 thousand). The recognized market values of the individual properties are set forth in the notes to the consolidated financial statements, under Section 3.1. on page 61. The FERI rating is published in the portfolio overview on the Internet (www.polis.de) and in the Annual Report.

Net asset value

With 11,051,000 shares in total, the net asset value per share at 31 December 2013 amounted to EUR 14.67 (previous year: EUR 13.73). The figure including the effect of deferred taxes is known as the net net asset value (NNAV), and was EUR 14.44 per share at 31 December 2013.

EUR '000	
Carrying amount of the properties (incl. the sold property at "Immermannstrasse 11", Cologne)	316,060
Carrying amount of interests	3,772
Other assets less other equity and liabilities	–1,215
Liabilities to banks	–156,452
NET ASSET VALUE (NAV)	**162,165**
Deferred taxes	–2,642
NET NET ASSET VALUE (NNAV)	**159,523**

Concluding remarks concerning the financial performance, financial position and net assets

Thanks to the positive net rental income and the good operating cash flow, the financial performance and financial position of POLIS remain positive. The increase in the occupancy rate and the investments in the buildings will improve future income from business operations. A positive cash flow, an equity ratio of approximately 48% (loan-to-value ratio approximately 50%) and the availability of credit lines represent a comfortable financial situation conducive to taking advantage of investment opportunities.

Overall assessment of the business performance

As a result of the successes in modernizing and letting our properties in the past, in conjunction with the addition to the portfolio, the past financial year yielded the expected improvement in the key operating ratios. The increased occupancy rate prompted a rise in rental income, while vacancy costs fell; the net rental income and operating cash flow also increased. After adjustment for valuation effects, funds from operations (FFO) rose substantially compared with the previous year, as anticipated in our forecast. The overall positive valuation result confirms that the high modernization investments in the past have led to concrete increases in value, even if individual investment properties have suffered value adjustments as a result of expiring lease agreements or for other reasons. We are optimistic that the conversion of the property at "Gutleutstrasse" in Frankfurt a. M. into a multi-tenant property will likewise contribute to the good valuation results. A high proportion of extensions to existing lease agreements is very important for a stable pattern to our income stream. The optimization of our portfolio and the process of concentrating on our main locations continued with the sale of two smaller investment properties, marking our withdrawal from the Duisburg and Dortmund locations, along with the acquisition of a larger property in Berlin.

The slightly higher interest rates across all maturity bands helped reduce the negative market values of our interest rate hedges, and thus produced positive profit contributions. Nevertheless, we increased the proportion of cash flow hedges that are designated as financial instruments. As a result, the future earnings of POLIS will only be influenced to a limited degree by the valuation results of the interest rate hedging instruments.

On the basis of the liquidity and credit lines available, there are sufficient financial resources in place to finance new acquisitions, and we intend to make use of these in financial year 2014.

By way of the result that serves as the basis for the payment of dividends according to German accounting standards (HGB – German Commercial Code), POLIS Immobilien AG generated a net income of EUR 2.4 million in the year under review. The positive HGB result in 2013 is mainly attributable to a write-up of previously written-down valuations for several investment properties. Because this means no permanently positive HGB result was achieved in the past year, the Board of Management has allocated a EUR 1.2 million portion of the net income to retained earnings and proposes to carry forward the remaining profit, also EUR 1.2 million, to new account.

Non-financial performance indicators
The main non-financial performance indicators at POLIS Immobilien AG are:

- **Tenant satisfaction:** we conduct regular tenant surveys to gauge tenant satisfaction. These give us direct feedback away from the context of our daily business dealings. The information is evaluated and the findings used to nurture good relations with tenants.
- **Employee satisfaction:** we hold performance reviews on a regular basis (at least once a year) to discuss with each employee their duties and work situations. We also discuss opportunities for personnel development and further training.
- **Sustainability:** we always maintain a focus on sustainability in our activities. Construction work is thus designed to preserve value and protect the environment. We are especially eager to implement our corporate strategy and achieve organic, low-risk growth in a sustainable way.
- **Transparency:** we attach particular importance to high transparency. POLIS has already received several awards for its transparency. We disclose all relevant data in our reports and on our website. We also publish a quantified risk report, which indicates all risks (irrespective of whether they are reflected by the balance sheet).

The principles and goals of financial management are explained under 6.3. in the notes to the consolidated financial statements.

Report on post-balance sheet date events

No significant events that need to be reported occurred between the end of financial year 2013 and the editorial deadline for this management report.

Risk report

Risk management system

POLIS fundamentally includes all group companies and activities in the risk management system, including financial participations with an interest upward of 10% where we have taken charge of general or asset management. We record all identifiable risks and do not ignore any known risk areas. Opportunities are not recorded. POLIS follows the COSO standard 1. We have documented the framework conditions for risk management in the form of a guideline. Risks are accordingly evaluated and classified according to probability and loss amount. 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 at its meetings every four weeks or at the fortnightly meetings of the management team. Losses occurring are reported directly and independently of the regular reporting channels. We have also formulated binding rules for recording, managing, communicating and controlling processes in the form of an organization manual. Each employee is required to be aware of the relevant risks and to act accordingly within the scope of their responsibilities. Compliance with all guidelines is examined internally.

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

Financial risks are analysed by simulating the impact on cash flow of e.g. interest rate risks, rollover risks and vacancy risks.

Business-related risks are identified e.g. by regularly reviewing the creditworthiness of counterparties, the condition of properties and the status of construction work.

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.
- Intensive examination of purchases by experienced personnel, architects and specialist engineers reduces the risks when acquiring new investment properties.
- Rigorous location requirements and our multi-tenant strategy reduce the risk of rent defaults and the likelihood of important leases coming up for renewal 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. Interest rate risks for loans are to be hedged against routinely and predominantly by stipulating fixed interest rates or employing derivative financial instruments. The scope of interest rate hedges shall depend on the current interest rates on the money and capital market and be agreed with the Supervisory Board.

Description of the key characteristics of the internal control and risk management system with respect to the group accounting process

In order to ensure the effectiveness and regularity of the accounting process, the internal control system of POLIS encompasses all principles, processes and measures as integrated components of the risk management system. The internal control system is uniform and centralized, and is the responsibility of the Chief Financial Officer in his capacity as head of the finances and accounting, planning, controlling and risk management areas.

Additionally, each month the Supervisory Board receives a full report on business operations and quarterly financial statements are published.

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 companies, 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 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 measurement of assets and liabilities. These risks are limited by obtaining external valuations for both the properties and the derivatives. Furthermore, the internal controlling department carries out a monthly analysis of the current business figures.

The measures implemented by the Board of Management under the internal control system with respect to the group accounting process ensure that all transactions are recorded in a comprehensive and timely manner in accordance with the statutory requirements 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 executive functions, access and authorization functions in the IT system, and manual control procedures (such as the dual control principle and independent random checks for compliance and correct recording) ensure the effectiveness of the internal control system.

Existing guidelines were updated and expanded in 2013, and new guidelines were issued. In addition, further controls were put in place to review the guideline and requirements process itself.

Presentation and quantification of individual risks

Financial risks

(i) POLIS is exposed in particular to interest rate and liquidity risks that are presented in general terms below. Regarding risk management of financial instruments, we refer to the explanations in Section 6.3. of the notes to the consolidated financial statements. Interest rate risks are to be hedged to a variable extent of 50% to 90% and with maturities ranging from three to seven years, depending on the specific market interest rate environment. The range that currently applies of 70% to 90% was temporarily exceeded for limited periods in 2013 due to property transactions but is now complied with. The interest rate risk at 31 December 2013, for a short-term rate rise of 100 bps, was up to EUR 232 thousand p.a., but we do not expect the risk to materialize in 2014 based on the money market situation and forecasts. In view of the low interest rates on the money and capital market, the possibility of a slight fall in interest rates fundamentally leaves a further risk of nominally up to EUR 1.67 million from the change in value of derivatives. Because the probability is estimated at only 10%, we believe there is a risk of EUR 167 thousand.

(ii) Debt finance was good to excellent for POLIS in 2013 thanks to the strategy of keeping leverage permanently low at no more than 60%. There were sufficient numbers of financing partners in the market, offering better terms of financing than in the previous year. Following the awarding of an investment grade rating on 3 December 2013, access to debt capital is likely to become easier and the credit margin will also come down somewhat.

(iii) With an equity ratio of around 48% and cash in banks of approximately EUR 6.4 million available, plus credit lines not yet drawn of approximately EUR 6.8 million, the modernization investments of some EUR 6.9 million planned for 2014 will not put a squeeze on finances, especially as the investments in converting the property at "Gutleutstrasse", Frankfurt a. M., can be financed with this unencumbered property serving as collateral.

(iv) 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%. For a detailed presentation of our debt positions (maturities structure and fixed interest periods) we refer to Sections 3.9. and 6.3. "Liabilities to banks" in the notes to the consolidated financial statements.

(v) The planned modernization investments are covered by the aforementioned loans and the cash flow from operating activities.

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, as well as the statutory framework and fiscal environment.

POLIS cannot influence the factors determining the market for office buildings. As a result of its focus on office properties, POLIS cannot diversify risks via other segments within the property market. Based on the anticipated conditions, the development in 2014 will be characterized by an increase in demand for office space. We believe that the homogeneous and solid portfolio of POLIS is not exposed to serious valuation risks.

(ii) Risks associated with letting

The properties held by the Company exhibited an average vacancy rate of 7% based on the rental space at 31 December 2013. As a multi-tenant provider, we equate an occupancy rate of 95% with full occupancy. On average, the lease agreements concluded by POLIS stipulate medium-length terms, so that lease agreements are regularly due for extension. In 2014, around 16,200 sqm of office space will be available for letting. The tenants of POLIS come from a wide range of different industries. Bearing this in mind, we assess the risks from letting in 2014 (follow-on leases and rent defaults) at EUR 141 thousand.

(iii) Risks associated with construction costs

POLIS invests in properties requiring varying degrees of modernization. The strategy of actively managing the portfolio includes modernizations as well as – to a lesser extent – project developments. These may be associated with risks such as cost overruns, delays and defects in the construction work.

In order to identify and control risks early in the course of planning and executing modernization work, we have commissioned external project management organizations and architects to manage the majority of such projects. Projects are managed by means of intensive project controlling along with regular project meetings and project reports. In financial year 2014, we will invest approximately EUR 7 million in our investment properties. We estimate the construction costs risk associated with the planned construction work at up to EUR 1 million.

(iv) Risks associated with revaluations

The properties of POLIS are reported in the consolidated balance sheet at their fair value pursuant to IAS 40. The valuation of properties is based on a large number of factors that also include subjective assessments, which may change at any time. The valuation of properties therefore entails a wide range of uncertainties. No objectively accurate valuation of properties is possible. Also an erroneous assessment of or changes in the factors underlying the valuation may in future result in different values. For 2014, we put the overall risk from incorrect valuations at a maximum of EUR 1.5 million.

IT risks

The reliability and security of the IT system might be insufficient to withstand disruptions or failures, resulting in interruptions in business activities and thus increased costs. To secure our IT-based business processes, we employ the services of an external IT service provider. The information technologies used are continuously reviewed, developed and adjusted. Continuous backups (stored externally at banks) guard against the loss of data. We rate the cost risk for failures and the recovery of systems and data at EUR 25 thousand, with a very low probability of 1%.

Staff risks

With our asset and property 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 performance-based compensation packages 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. Taking account of the low probability we calculate the risk from needing to fill vacant posts, which might entail extra costs due to time constraints, at EUR 4 thousand for 2014.

Insurance policies

POLIS has procured adequate insurance coverage with respect to the risks of its business. The properties are insured against material damage including loss of rent. The required third-party liability cover has been obtained.

Risk assessment

The materialization of the risks described above can have negative effects on the business activities and profits of POLIS. The Board of Management of POLIS continuously analyses these risks. The strategy of diversifying risks by investing in high-quality buildings that are suitable for use by third parties and are situated in attractive locations is implemented by portfolio management. The risk of rent defaults is reduced by controlling the tenant mix, monitoring the tenants' financial standing and 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 2014. With 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.

Even the cumulative occurrence of all the above individual risks could be covered by the net income planned for 2014 without eroding the available equity capital.

The Board of Management of POLIS therefore believes that there are no risks discernible from past or future developments that would threaten the existence of the Company. We are aware of the economic and financial risks associated with the financial crisis, as well as their possible after-effects; however, we believe that the risks we have identified are manageable. Adequate precautions have been taken to guard against any risks that are discernible.

On 3 December 2013, POLIS Immobilien AG was awarded an "A-" rating by FERI EuroRating Services AG. This very good investment-grade rating reflects not only the high financial stability and quality of the key assets (properties), but also the quality of the internal structures and procedures evaluated, including risk management.

Report on expected developments

Development of the overall economy and the office property markets

The office markets stabilized at a high level in 2013. Despite new construction activity, the vacancy rate in the office market came down. Because slight economic growth is forecasted for the current year, we expect this pattern to continue in 2014.

Major opportunities for POLIS Group

Thanks to its high level of take-up in the past three years, POLIS has established the basis for a stabilization and improvement of the key earnings ratios for 2014 and beyond. With our quality-focused business model and our homogeneous portfolio, the take-up level should remain good in 2014. 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 based on office buildings in attractive locations in the most important German business locations allows us to take advantage of opportunities as they arise. We consider ourselves active portfolio managers and specialists for the modernization of office buildings and can address all key areas of the property management value chain with our in-house expertise. Through our experienced asset management team, we can identify attractive purchase opportunities ourselves and tap the potential for added value through optimization and/or letting. This enables us to take advantage of opportunities from within our own property portfolio, especially in challenging times.

Outlook for 2014

Based on the risks and opportunities presented above, and in anticipation of a positive development in the office market along with continuing low interest rates, we expect the key operating ratios to show a further improvement thanks to increased occupancy rates and the newly acquired property. The refurbishment and conversion of the property at “Gutleutstrasse 26” in Frankfurt a. M. will diminish earnings during the construction phase through the loss of rental revenues and the construction costs incurred. By the end of 2014, we would like to stabilize the occupancy rate at a level above 95% of all rental space. We are targeting a further increase in net rental income for 2014. In a basic scenario with an assumed inflation rate of 2%, maintenance costs of EUR 1.70/sqm/month, vacancy costs of EUR 1.75/sqm/month and a loss of rent risk of 1%, we initially expect only a slight rise in rental income and funds from operations because the higher rental revenues will be partly cancelled out by the loss of rental income for “Gutleutstrasse”, Frankfurt a. M., while it undergoes conversion.

Assuming other factors remain unchanged, earnings before taxes (EBT) are expected be roughly EUR 2 million lower than in 2013 because the financial derivatives cannot be expected to deliver a further valuation gain of a similar magnitude. It should nevertheless be noted that the valuation trends for the investment properties and interest rate derivatives are subject to considerable uncertainties and therefore cannot be determined with any degree of reliability. Because the valuation results have a major impact on the IFRS net income, forecasting the net income involves considerable uncertainty.

The cash flow from operating activities could exceed EUR 10 million in 2014 if no unforeseen maintenance work is required. The equity ratio will edge up as a result of the current surpluses. On the other hand, the loan-to-value ratio will be brought down slightly by the annual repayments.

Furthermore, we aim to generate growth by acquiring new investment properties and expanding the property portfolio with further purchases. We may also consider financing them with capital market products alongside or as an alternative to traditional forms of financing. We will continue to maintain a conservative financing structure and a maximum loan-to-value ratio of 60%. These measures could additionally improve the above key ratios.

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

The good investment-grade rating of “A-” could narrow the credit margins and also prove beneficial for accessing additional financing partners and sources.

Dependency report

Because Mann Unternehmensbeteiligungen Holding GmbH & Co. KG (Mann Group, Karlsruhe) has held 69.8% of the shares of POLIS since 15 August 2013 (previously Mann Unternehmensbeteiligungen GmbH), POLIS is a dependant company of Mann Unternehmensbeteiligungen Holding GmbH & Co. KG within the meaning of Section 17 (1) and (2) of the German Stock Corporation Act (AktG). In fulfilment of the requirements of Section 312 of AktG, the Board of Management has therefore prepared a report on the relationships with affiliated companies (dependency report) for the period from 1 January 2013 to 31 December 2013.

No legal transactions with Mann Unternehmensbeteiligungen Holding GmbH & Co. KG or Mann Unternehmensbeteiligungen GmbH (or with the Mann Group) were carried out in financial year 2013. Legal transactions with affiliated companies were only carried out with the subsidiaries of POLIS Immobilien AG.

The concluding 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 to 31 December 2013, our Company received 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 or at the instigation of the controlling company or of one of its affiliated companies that placed the Company at a disadvantage.”

Report on the takeover situation pursuant to Section 315 (4) of HGB

Subscribed and authorized capital

The subscribed capital is divided into 11,051,000 ordinary shares with a nominal value of EUR 10.00 each. By resolution of the Annual General Meeting on 22 June 2012, the Board of Management is authorized subject to the approval of the Supervisory Board to increase the share capital by up to EUR 55,255,000.00 by 22 June 2017 through the issuance of up to 5,525,500 no-par value shares. The corresponding authorized capital within the meaning of Sections 202 et seq of AktG is governed by Section 4 (3) of the Articles of Association.

Shareholder structure

Since August 2013, the majority shareholder with approximately 69.8% of the shares in POLIS has been Mann Unternehmensbeteiligungen Holding GmbH & Co. KG (Mann Group). Prior to that, Mann Unternehmensbeteiligungen GmbH, which likewise belongs to the Mann Group, was the majority shareholder with the same interest. The support of such a financially strong major shareholder encourages us in the pursuit of our strategy. The 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.

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

a) Direct interests at 31 December 2013
- Mann Unternehmensbeteiligungen Holding GmbH & Co. KG , Karlsruhe: 69.8%
- Bouwfonds Asset Management Deutschland GmbH, Berlin: 20.2%

b) Indirect interests at 31 December 2013
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., Utrecht, Netherlands: 20.2%
- Rabo Vastgoedgroep Holding N.V., Hoevelaken, Netherlands: 20.2%

The following entities hold indirect interests via Mann Unternehmensbeteiligungen Holding GmbH & Co. KG, Karlsruhe:
- Mann Immobilien-Verwaltung AG, Karlsruhe, Germany: 69.8%
- Mann Unternehmensbeteiligungen GmbH, Karlsruhe, 69.8%

The free float as defined by Deutsche Börse currently represents around 5% 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 of 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 (1) No. 5 of AktG, the Annual General Meeting may pass 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 (1) second sentence of AktG in conjunction with Section 18 (3) of the Articles of Association. The Annual General Meeting decides on resolutions to amend the Articles of Association pursuant to Section 133 of AktG in conjunction with Section 179 (2) of AktG in conjunction with Section 27 (1) of the Articles of Association by a simple majority of votes and a simple majority of the share capital that is represented during voting.

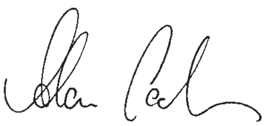
The compensation report of the Board of Management is provided in the notes to the consolidated financial statements, under Section 6.1.

We refer to the documents on our website (www.polis.de) for the corporate governance report as well as the declaration on corporate governance.

Berlin, 6 March 2014

POLIS Immobilien AG

– The Board of Management –



Dr Alan Cadmus, Chief Executive Officer

Michael Piontek, Chief Financial Officer

Consolidated Financial Statements

of POLIS Immobilien AG for financial year 2013

CONTENT

Consolidated Statement of Financial Position

at 31 December 2013
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

ASSETS

EUR '000	Note	31.12.2013	31.12.2012
Non-current assets			
Investment properties	3.1.	313,210	285,540
Intangible assets	3.2.	168	221
Property, plant and equipment	3.2.	181	178
Financial assets	3.3.	3,772	3,772
Deferred tax assets	3.4.	186	206
Other assets	3.7.	758	773
Total non-current assets		**318,275**	**290,690**
Current assets			
Receivables and other financial assets	3.5.	5,565	5,142
Current tax receivables	3.5.	31	11
Cash in banks	3.6.	6,370	8,312
Other assets	3.7.	793	337
Non-current assets held for sale	3.1.	2,850	5,500
Total current assets		**15,609**	**19,302**
Total assets		**333,884**	**309,992**

Equity and Liabilities

EUR '000	Note	31.12.2013	31.12.2012
Equity			
Subscribed capital	3.8.	110,510	110,510
Capital reserves	3.8.	18,185	18,185
Cash flow hedge reserve		-1,343	-2,074
Retained earnings	3.8.	24,032	21,861
Consolidated net income		8,139	2,171
Share in equity allocable to the equity holders of the parent		159,523	150,653
Total equity		**159,523**	**150,653**
Liabilities			
Non-current liabilities			
Liabilities to banks	3.9.	150,054	133,793
Deferred tax liabilities	3.4.	2,828	1,260
Other financial liabilities		6,534	9,282
Total non-current liabilities		**159,416**	**144,335**
Current liabilities			
Liabilities to banks	3.9.	6,398	5,459
Advance payments received	3.9.	3,661	3,616
Trade payables	3.9.	2,639	3,193
Income tax liabilities	3.9.	88	81
Other financial liabilities	3.9.	2,159	2,655
Total current liabilities		**14,945**	**15,004**
Total equity and liabilities		**333,884**	**309,992**

Consolidated Statement of Comprehensive Income

for the period from 1 January to 31 December 2013
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

EUR '000	Note	2013	2012
Rental income	4.1.	18,239	16,020
Renovation and maintenance expenses	4.2.	-2,615	-3,194
Property management expenses	4.3.	-968	-1,621
		-3,583	-4,815
Net rental income		**14,656**	**11,205**
Unrealized gains from the revaluation of investment properties		5,229	5,419
Unrealized losses from the revaluation of investment properties		-3,287	-3,009
Income from the revaluation of investment properties	4.4.	**1,942**	**2,410**
Income from the sale of investment properties		12,857	10,500
Carrying amount of the investment properties sold		-12,480	-10,500
Result from the sale of investment properties	4.5.	**377**	**0**
Other income	4.6.	375	948
Other expense	4.7.	-790	-311
Administrative expenses	4.8.	-3,506	-3,787
Result before financing activity and taxes		**13,054**	**10,465**
Investment income	4.9.	144	17
Financial income	4.10.	34	6
Result from the valuation of derivative financial instruments	4.11.	2,271	-2,531
Interest expenses	4.11.	-5,695	-5,383
Profit before taxes		**9,808**	**2,574**
Deferred taxes	4.12.	-1,453	-275
Current income taxes	4.12.	-216	-128
Total income taxes	4.12.	**-1,669**	**-403**
Consolidated net income		**8,139**	**2,171**
Of which: allocable to the equity holders of the parent		8,139	2,171
Market value of cash flow hedges	3.9.	869	-1,007
Attributable deferred tax assets	3.4.	-138	159
Other income		731	-848
Consolidated comprehensive income		**8,870**	**1,323**

EUR	2013	2012
Earnings per share		
Basic	0.74	0.20
Diluted	0.74	0.20

Consolidated Cash Flow Statement

for the period from 1 January to 31 December 2013
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

EUR '000	Note	2013	2012
Profit before taxes		9,808	2,574
Adjusted for:			
Financial and investment result		3,246	7,891
Income from revaluation of investment properties		-1,942	-2,410
Income from the sale of investment properties		-377	0
Depreciation/amortization on intangible assets and property, plant and equipment		125	125
Increase in trade receivables and other assets which are not allocable to investing or financing activities		-884	337
Increase in trade payables and other liabilities which are not allocable to investing or financing activities		-756	-1,647
Income tax paid		-210	-88
Income tax received		28	0
Cash flow from operating activities		**9,038**	**6,786**
Payments for the acquisition of software, fixtures and equipment		-75	-105
Proceeds from the sale of consolidated investments	3.1.	0	1,900
Proceeds from the sale of investment properties	3.1.	12,880	680
Payments for the acquisition of investment properties and investments in modernization		-36,001	-9,586
Proceeds from the sale of property, plant and equipment and financial assets		0	7
Cash flow from investing activities		**-23,196**	**-7,104**
Payments for the redemption of loans	3.9.	-36,414	-8,966
Proceeds from the raising of loans	3.9.	53,614	21,698
Interest received		34	6
Interest paid		-5,162	-5,751
Dividends received		144	17
Cash flow from financing activities		**12,216**	**7,004**
Net change in cash and cash equivalents		**-1,942**	**6,686**
Cash in banks at the beginning of the period		**8,312**	**1,626**
Cash in banks at the end of the period		**6,370**	**8,312**

Consolidated Statement of Changes in Equity

for the period from 1 January to 31 December 2013
according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

EUR '000	Subscribed capital	Capital reserves	Retained earnings	Consolidated net income	Cash flow hedge reserve	Share in equity allocable to the equity holders of the parent	Total equity
Balance at 31.12.2011	**110,510**	**19,196**	**18,287**	**2,563**	**-1,226**	**149,330**	**149,330**
Offsetting against prior-year result	0	0	2,563	-2,563	0	0	0
Consolidated comprehensive income	0	0	0	2,171	-848	1,323	1,323
Offsetting against capital reserves	0	-1,011	1,001	0	0	0	0
Balance at 31.12.2012	**110,510**	**18,185**	**21,861**	**2,171**	**-2,074**	**150,653**	**150,653**
Offsetting against prior-year result	0	0	2,171	-2,171	0	0	0
Consolidated comprehensive income	0	0	0	8,139	731	8,870	8,870
Balance at 31.12.2013	**110,510**	**18,185**	**24,032**	**8,139**	**-1,343**	**159,523**	**159,523**

Notes to the IFRS Consolidated Financial Statements of POLIS Immobilien AG, Berlin

at 31 December 2013

1. General information

POLIS Immobilien AG (hereinafter referred to as POLIS) is a listed company with its registered office in Berlin at Rankestrasse 5/6. Founded in Berlin in 1998, it acquires office buildings for its own portfolio, which are then renovated as required, and possibly also extended. POLIS focuses exclusively on office buildings situated in city centres in key German office locations and invests in properties that exhibit specific 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 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as adopted in the EU, and further in accordance with the applicable provisions of commercial law under Section 315a (1) of German Commercial Code (HGB).

We declare expressly and without reservation that the consolidated financial statements are in conformity with IFRS.

The statement of comprehensive income has been structured according to the cost of sales format and further in conformity with the recommendations of the EPRA (European Public Real Estate Association).

Assets and liabilities are broken down into non-current (maturities of more than one year) and current.

The consolidated financial statements are prepared in euros. For the sake of clarity, amounts are generally shown in thousand euros (EUR '000).

Comprehensive disclosures on capital management objectives, methods and processes, especially with respect to the capital structure, profit targets, value strategy and risk management, are provided in the group management report in the sections "Basic profile of the Group" , "Economic report" and "Risk report".

The Board of Management approved the consolidated financial statements on 6 March 2014 for forwarding 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 where 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 2013.

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

Business combinations 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 acquisition. Any remaining positive difference between the costs of acquisition and the market value of the equity is to be recognized as goodwill and tested for impairment annually. A negative difference is to be recognized in income immediately.

No business combinations took place in financial years 2012 and 2013.

Inter-company receivables, liabilities, gains and losses, 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 22 fully consolidated companies in Germany with their registered offices in Berlin, as listed in the following overview. Compared with the position at 31 December 2012, the group of consolidated companies for POLIS decreased by two companies as a result of the intra-group passage of title. This change does not affect the comparability of the financial statements with the previous year.

Company	Registered Capital EUR '000	Share in capital %	Equity 31.12.2013 EUR '000	Result 2013 EUR '000
POLIS Grundbesitz Objekt Verwaltungs GmbH, Berlin	26	100	285	24
POLIS Cityfonds Verwaltungs GmbH, Berlin	25	100	27	1
POLIS Objekte Altmarkt Kramergasse GmbH & Co. KG, Berlin	51	100	4,785	827
POLIS Objekt Gutleutstraße 26 GmbH & Co. KG, Berlin	665	100	665	700
POLIS Objekt Luisenstraße 46 GmbH, Berlin	26	100	5,526	158
POLIS Objekt Potsdamer Straße 58 GmbH, Berlin	26	94	22,178	254
POLIS Objekt Landschaftstraße GmbH & Co. KG, Berlin	100	100	5,305	219
POLIS Objekt Konrad-Adenauer-Ufer GmbH & Co. KG, Berlin	100	100	10,100	497
POLIS Quartier Büchsenstraße GmbH & Co. KG, Berlin	100	100	8,939	-456
POLIS Objekte Mainz GmbH & Co. KG, Berlin	100	100	2,227	69
POLIS Objekte Mannheim Stuttgart GmbH & Co. KG, Berlin	100	100	2,177	7
POLIS Objekte Kassel Köln GmbH & Co. KG, Berlin	100	100	1,761	-539
POLIS Cityfonds Objekt Lessingstraße GmbH & Co. KG, Berlin	100	100	3,863	113
POLIS Zweite Objektgesellschaft Düsseldorf GmbH & Co. KG	100	100	6,139	334
POLIS Zweite Objektgesellschaft Köln GmbH & Co. KG	100	100	14,186	926
POLIS Objekt Könneritzstraße GmbH & Co. KG, Berlin	100	100	1,100	491
POLIS Objekt Palaisplatz GmbH & Co. KG, Berlin	100	100	1,100	106
POLIS Objekte Berliner Allee GmbH & Co. KG, Berlin	100	100	11,440	-170
POLIS Erste Objektgesellschaft Köln GmbH & Co. KG, Berlin	100	100	11,385	188
POLIS Zweite Objektgesellschaft Stuttgart GmbH & Co. KG, Berlin	100	100	8,730	55
POLIS Objekte Rankestraße 21 GmbH & Co. KG, Berlin	100	100	13,800	114
POLIS GmbH & Co. Zweiundvierzigste Objekt KG, Berlin	100	100	0	-1

2.3. Discretionary decisions and estimates

Assumptions and estimates must be made in the consolidated financial statements that impact the amount and reporting of assets and liabilities, income and expenses as well as contingent liabilities.

In particular, assumptions regarding future events are of material importance 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, it is in the nature of the industry that there is significant latitude in 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 recognized at fair value, the consolidated financial statements have been drawn up in accordance with the historical cost principle.

IFRS was adopted for the first time in financial year 2013; this had no material impact on fair value measurement at POLIS. Required disclosures are provided under the notes to the individual assets and liabilities for which fair values were determined. Other IFRS adopted for the first time in financial year 2013 had no material impact on POLIS. That aside, the accounting and valuation policies set out below are unchanged from the previous year and were applied uniformly by all Group companies.

2.4.1. Fair value measurement

POLIS measures financial instruments, such as derivatives, and non-financial assets, such as investment property, at their fair value at each reporting date.

Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability at the measurement date in a proper transaction between market participants. When measuring fair value, it is assumed that the transaction in the context of which the asset is sold or the liability is transferred takes place on either

- the main market for the asset or liability, or
- the most advantageous market for the asset or liability, if no main market exists.

POLIS must have access to the main market or the most advantageous market.

The fair value of an asset or liability is measured using the assumptions that market participants would apply as their basis when establishing the price of the asset or liability. For this purpose it is assumed that the market participants act in their best economic interest.

Fair value measurement of a non-financial asset takes account of the ability of the market participant to generate economic benefit through the highest and best use of the asset or through its sale to another market participant, who finds the highest and best use of the asset.

POLIS applies valuation techniques that are appropriate in each specific set of circumstances and for which sufficient data is available to measure the fair value. The use of significant, observable input factors is to be maximized, and the use of non-observable input factors kept to a minimum.

All assets and liabilities for which the fair value is determined or is reported in the financial statements are placed in the fair value hierarchy as described below, based on the lowest-level input parameter that is materially significant for fair value measurement overall:

- **Level 1 –** quoted (not adjusted) prices in active markets for identical assets or liabilities
- **Level 2 –** valuation methods where the lowest-level input parameter that is materially significant for fair value measurement is directly or indirectly observable on the market
- **Level 3 –** valuation methods where the lowest-level input parameter that is materially significant to the fair value measurement is not observable on the market

For assets and liabilities that are measured at fair value on a recurring basis in the financial statements (in this instance, the investment properties and the derivatives for interest rate hedging), POLIS determines whether regrouping has taken place between the levels in the hierarchy by examining the classification (based on the lowest-level input parameter that is materially significant for fair value measurement overall) at the end of each reporting period.

POLIS defines the guidelines and methods for recurring and non-recurring fair value measurements.

External valuers are consulted for the valuation of significant assets, such as properties and non-current assets held for sale, as well as significant liabilities, such as derivatives.

At each reporting date POLIS analyses the trends in value of assets and liabilities that need to be remeasured or reassessed according to the POLIS accounting policies. In this analysis, the Board of Management compares the information in the valuation calculations with contracts and other relevant documents by way of checking the principal input factors that were applied in the previous valuation.

Together with the external valuers, POLIS in addition compares the changes in fair value for each asset and liability with corresponding external sources, to establish whether those changes are plausible.

In order to meet the disclosure requirements for fair values, POLIS has defined groups of assets and liabilities based on their type, features and risks as well as the levels in the fair value hierarchy explained above.

2.4.2. Investment properties

Properties are classified as investment properties if they are held for generating rental revenues and/or for the purpose of capital appreciation, and if own use as a proportion of the rental space 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 are pursued.

Investment properties are measured at cost, including ancillary costs, at the time of their acquisition.

The subsequent valuation of the investment properties is at fair value, with gains or losses from the change in fair value being recognized in income.

The fair value of a property is the price that would be received for the sale of the property on the valuation date, in an ordinary transaction between market participants. See Section 3.1. for a more detailed explanation of the principles used in determining fair value.

Investment properties are derecognized if they are sold.

2.4.3. Intangible assets

Intangible assets with a limited useful lifetime are recognized at acquisition or production cost and are amortized by the straight-line method over a period of between three and five years depending on their expected useful life.

2.4.4. Property, plant and equipment

Property, plant and equipment are measured at acquisition or production cost less straight-line depreciation and impairment. Fixtures and equipment are depreciated over a period of between three and 13 years. If property, plant and equipment are sold or decommissioned, the acquisition or production cost and the corresponding accumulated depreciation of the fixed assets are derecognized; any resulting gains or losses are reflected in income.

2.4.5. Financial assets

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

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

Financial assets are measured at fair value upon initial recognition.

The subsequent measurement depends on the classification of the financial instruments in accordance with the measurement categories of IAS 39. The classification categories “Measured at fair value through profit and loss”, “Loans and receivables” and “Financial assets held for sale” are used.

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

a) Financial assets
Interests for which no quoted price is available on an active market and the fair value cannot be reliably estimated are stated at cost and measured at amortized cost in subsequent years.

b) Receivables and other financial assets
Receivables arise as a result of the direct furnishing of cash, goods or services to a debtor and where there is no intention to dispose of them immediately or in the short term. Receivables are non-derivative financial assets, with payments that are fixed or can be determined and that are not quoted on an active market. Receivables and other financial assets are initially measured at fair value and on subsequent reporting dates at amortized 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.

2.4.6 Non-current assets held for sale

A non-current asset (or a disposal group) is classified as “held for sale” if the associated carrying amount is largely realized by a sale transaction rather than by continued use. In the consolidated financial statements, 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 are disclosed separately as properties held for sale in accordance with IFRS 5.

Where such assets represent investment properties, they are recorded at their fair value.

2.4.7. 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 liability 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 at 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 offsetting exists in relation to the same tax authority.

2.4.8. Financial liabilities

A financial liability is recognized if the Company is a contracting party subject to the terms of the financial liability.

Financial liabilities are derecognized when the corresponding obligation has been discharged, i.e. when it has been paid or cancelled or has expired.

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

a) Liabilities to banks
When recognized for the first time, loans are measured at the fair value of the consideration received for the exchange of the obligations, less the transaction costs directly attributable to raising the loans. Subsequent measurement is at amortized cost using the effective interest method. Gains and losses are recognized in income if the liability is derecognized, as well as in the context of repayment using the effective interest method.

b) Trade payables, other financial liabilities and financial liabilities, Trade payables, 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. Subsequent measurement is at amortized cost using the effective interest method. After their first-time recognition, derivative financial instruments with a negative market value are measured on each reporting date at their fair value. Fair value changes are recognized in income unless the derivative financial instruments are used in a designated and sufficiently effective hedging relationship with an underlying transaction.

Derivative financial instruments (interest rate swaps) are used to hedge the interest rate risks of variable-rate loans. Some of the hedging relationships do not satisfy the criteria of IAS 39 with respect to hedging relationships (hedge accounting).

The derivative financial instruments are initially and subsequently recognized and measured at fair value. The fair values are determined using directly observable market parameters. Accordingly, the fair values determined for the derivative financial instruments are to be classified as Level 2 in the hierarchy according to IFRS 13.94 (determination of the fair values based on observable inputs that do not represent observable prices on active markets). Fair value changes are recognized in income unless the derivative financial instruments are used in a designated and sufficiently effective hedging relationship with an underlying transaction.

Some of the derivative financial instruments are designated as hedging instruments to reflect on the balance sheet the hedge against the risk of variation in the future cash flows that is associated with an asset or liability recognized on the balance sheet, or associated with a transaction that will materialize with a high degree of probability. In this context, the unrealized gains and losses of the hedge are initially recognized in other income. They are only transferred to the income statement once the underlying transaction of the hedge has been recognized in income.

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

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

2.4.9. Impairment

There is impairment of financial assets recognized at amortized cost if, since initial recognition of the financial asset, a loss has occurred that has an effect that can be reliably estimated on the expected future cash flows for the financial asset. Indications of impairment may include when there is evidence that the debtor is experiencing considerable financial difficulties, when interest payments or capital repayments are missed or late, when an insolvency is likely, or in similar circumstances. The calculated level of an impairment loss, which is recognized as an expense, is the difference between the carrying amount of the asset and the present value of the anticipated future cash flows. The present value of the anticipated future cash flows is discounted at the original effective interest rate.

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

Impairments of trade receivables and other receivables are recorded in separate allowance accounts. In order to determine impairments, individual receivables are extensively estimated and evaluated on the basis of credit ratings and analyses of historical defaults on receivables. A direct reduction in the carrying amount or derecognition of any previously recorded impairment only occurs 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. This situation has not arisen in the past two financial years.

2.4.10. Expense and income realization

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

Sales revenues or other operating income are recognized as soon as the service has been rendered. Rental income is realized when the leased property has been handed over. Rental income is distributed on a straight-line basis corresponding to the term of the lease agreements and thus reflects the income that is attributable to the rent-free periods.

When properties are sold, profit is realized as a matter of principle at the time at which title passes to the buyer under civil law. Income is realized earlier if the significant risks and rewards associated with the properties in question are already transferred prior to fulfilment of the legal requirements, the seller no longer has any authority to dispose of the property, and the costs incurred in connection with the sale can be accurately determined.

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

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

Financial income includes interest income from cash in banks as well as income from changes in the fair value of financial instruments to the extent that these are not recorded in other income.

The financial expenses include interest expenses for loans as well as expenses from fair value changes for financial instruments to the extent that these are not recorded in other income. Interest income and interest expenses are recognized based on the effective interest method.

2.4.11. Leases

All lease agreements that POLIS has concluded with its tenants are classified as operating leases since all rewards and risks incident to ownership remain with the Group. Accordingly, POLIS is the lessor in all leases (operating leases) of varying form for its investment properties.

Lease agreements with tenants stipulate individual terms and conditions.

The Group has leased an office floor as well as vehicles and office equipment. Based on their economic content, these leases constitute operating leases for which the expense is distributed over the rental period by the straight-line method.

2.4.12. Borrowing costs

All borrowing costs are recognized in income in the period in which they are incurred.

Standards approved and endorsed by the EU but not yet adopted

The following IFRS already approved and endorsed by the EU, but not yet mandatory at 31 December 2013, were not applied. While the changes will lead to new disclosures in the notes to the consolidated financial statements, it is expected that they will not have an impact on the presentation of accounts in future consolidated financial statements of POLIS. The first-time adoption of the following standards is in each case planned from the date on which it takes effect.

IFRS 10 Consolidated Financial Statements
IFRS 10 is to be adopted for the first time in the financial year commencing on or after 1 January 2014. IFRS 10 establishes a uniform concept of control that applies to all companies, including special purpose entities.

IFRS 11 Joint Arrangements
IFRS 11 is to be adopted for the first time in the financial year commencing on or after 1 January 2014. 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 is to be adopted 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.

Amendment to IFRS 10, IFRS 12 and IAS 27 – Investment Entities
This amendment is to be adopted for the first time in the financial year commencing on or after 1 January 2014. Earlier adoption is permissible. The new rule specifies that investment entities are removed from the scope of the consolidation rules of IFRS 10 and that fundamentally all dominated participating interests must be measured at fair value through profit and loss. Interests in subsidiaries that render services for the investment entity are to be excepted; consolidation of these is to remain covered by IFRS 10. On the other hand the parent of an investment entity that is not itself classified as an investment entity must include all entities dominated by the investment entity in its consolidated financial statements. An investment entity is defined as a company that raises financing from investors and performs investment management services on their behalf, achieving capital gains in the form of capital appreciation and/or investment returns.

Standards approved and not yet endorsed or adopted by the EU
The IASB has published the following standards and interpretations, adoption of which was not yet mandatory in financial year 2013. These standards and interpretations have not yet been recognized by the EU and are not adopted by the Group.

IFRS 9 Financial Instruments: Classification and Measurement
Completion of this project is expected in 2014. Adoption of the first part of Phase 1 will have an effect on the classification and measurement of the Group's financial assets. The second part of this project phase is not expected to have any material effect on the Group's net assets, financial position and financial performance. The third phase of the project, completed in November 2013, concerns hedge accounting. To present a comprehensive picture of potential consequences, POLIS will only quantify the effect in conjunction with the other phases as soon as these are published.

The new rules listed below are not applicable in the case of POLIS and will therefore have no effect on the Group's net assets, financial position and financial performance.

- Amendment to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting
- Amendment to IAS 19 – Employee Contributions

2.5. Segment reporting
In accordance with IFRS 8, POLIS has identified twenty six operating segments for which internal reporting to the chief operating decision maker (CODM) takes place. In general terms, one operating segment corresponds to one property. All operating segments have comparable economic characteristics (office buildings situated in the city centres of key German office locations) and similar long-term revenue prospects and, in accordance with IFRS 8.12, are therefore aggregated into a single operating segment with reporting obligations.

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

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

The overview on page 61 highlights the development of the investment properties in 2013.

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

Revaluation produced an overall increase in market value of EUR 1,942 thousand. There were good valuation results for "Luisenstrasse 46" in Berlin thanks to the extension of several lease agreements. The full letting of "Quartier Büchsenstrasse" in Stuttgart following its conversion had a positive effect on its valuation. An improvement in the market value of "Gustav-Heinemann-Ufer 54" in Cologne was achieved following the extension of the lease agreement with the main tenant. The investment property at "Rankestrasse 21" in Berlin taken over on 1 October 2013 was valued externally for the first time at the reporting date. The valuation showed a rise in the market value of EUR 661 thousand. The main negative valuation result concerned the investment property at "Gutleutstrasse 26" in Frankfurt a. M. because of the forthcoming conversion and restructuring costs following the departure of the tenant with effect from 31 December 2013.

The disposals concern sales aimed at optimizing the portfolio. The sale of "Kleppingstrasse 20" in Dortmund produced a gain of EUR 377 thousand, which is reported in the income statement. "Gallenkampstrasse 20" in Duisburg was sold at the prior-year market value.

Of the modernization investments, EUR 6,246 thousand (previous year: EUR 9,586 thousand) is cash-effective.

The following overview highlights the development of the investment properties in 2013:

EUR '000		01.01.2013						31.12.2013
Property	Location	Fair value	Acquisitions	Modern-ization investments	Disposals	Reclassifi-cations	Changes in market value	Fair value
Luisenstrasse 46	Berlin	11,150	0	19	0	0	701	11,870
Potsdamer Strasse 58	Berlin	15,360	0	12	0	0	258	15,630
Rankestrasse 21/ Lietzenburger Strasse 44–46	Berlin	0	28,689	0	0	0	661	29,350
Kleppingstrasse 20	Dortmund	5,300	0	0	–5,300	0	0	0
Altmarkt 10/Kramergasse 2/4	Dresden	35,790	0	427	0	0	513	36,730
Könneritzstrasse 29, 31, 33	Dresden	10,330	0	97	0	0	353	10,780
Palaisplatz 3, 3a	Dresden	5,070	0	293	0	0	117	5,480
Gallenkampstrasse 20	Duisburg	1,680	0	0	–1,680	0	0	0
Berliner Allee 42	Düsseldorf	6,760	0	142	0	0	–102	6,800
Berliner Allee 44	Düsseldorf	8,050	0	178	0	0	52	8,280
Berliner Allee 48	Düsseldorf	5,415	0	73	0	0	–108	5,380
Immermannstrasse 11	Düsseldorf	3,180	0	16	0	–2,850	–346	0
Steinstrasse 27	Düsseldorf	9,710	0	7	0	0	243	9,960
Gutleutstrasse 26	Frankfurt a. M.	10,200	0	0	0	0	–2,150	8,050
Landschaftstrasse 2	Hanover	4,500	0	1	0	0	–21	4,480
Landschaftstrasse 8	Hanover	3,960	0	12	0	0	8	3,980
Ebertplatz 1	Cologne	9,000	0	675	0	0	–335	9,340
Gustav-Heinemann-Ufer 54	Cologne	16,570	0	742	0	0	518	17,830
Hansaring 20	Cologne	4,200	0	394	0	0	56	4,650
Konrad-Adenauer-Ufer 41–45	Cologne	22,280	0	20	0	0	120	22,420
Neumarkt 49	Cologne	8,570	0	63	0	0	127	8,760
Weyerstrasse 79–83	Cologne	15,930	0	19	0	0	341	16,290
Rheinstrasse 43–45	Mainz	2,560	0	65	0	0	5	2,630
Rheinstrasse 105–107	Mainz	4,090	0	38	0	0	62	4,190
Lessingstrasse 14	Munich	9,510	0	0	0	0	290	9,800
Böblinger Strasse 8/ Arminstrasse 15	Stuttgart	4,230	0	115	0	0	–225	4,120
Quartier Büchsenstrasse	Stuttgart	43,575	0	1,370	0	0	665	45,610
Tübinger Strasse 31, 33	Stuttgart	8,570	0	2,092	0	0	138	10,800
Total		**285,540**	**28,689**	**6,869**	**–6,980**	**–2,850**	**1,942**	**313,210**

Non-current assets held for sale

The properties held for sale at 31 December 2012 have now been transferred to the buyers according to schedule. The investment property "Immermannstrasse 11" in Düsseldorf was sold in the fourth quarter of 2013 for EUR 2,850 thousand by way of an asset deal. The passage of benefits and encumbrances is expected to take place in the first quarter of 2014. It was valued at the purchase price at 31 December 2013. There are no costs of disposal.

The following overview highlights the development of the investment properties in 2012:

EUR '000		01.01.2012						31.12.2012
Property	Location	Fair value	Acquisitions	Modernization investments	Disposals	Reclassifications	Changes in market value	Fair value
Luisenstrasse 46	Berlin	10,760	0	0	0	0	390	11,150
Potsdamer Strasse 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 2/4	Dresden	34,760	19	840	0	0	171	35,790
Könneritzstrasse 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
Gallenkampstrasse 20	Duisburg	1,620	0	91	0	0	-31	1,680
Berliner Allee 42	Düsseldorf	6,380	0	198	0	0	182	6,760
Berliner Allee 44	Düsseldorf	8,240	0	126	0	0	-316	8,050
Berliner Allee 48	Düsseldorf	5,310	0	101	0	0	4	5,415
Immermannstrasse 11	Düsseldorf	3,110	0	116	0	0	-46	3,180
Steinstrasse 27	Düsseldorf	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
Böblinger Strasse 8/ Arminstrasse 15	Stuttgart	4,180	0	66	0	0	-16	4,230
Quartier Büchsenstrasse	Stuttgart	40,170	0	3,823	0	0	-418	43,575
Tübinger 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**

Expenses and income directly attributable to investment properties

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

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

			2013			2012
EUR '000	Total	Properties held for sale	Investment properties	Total	Properties held for sale	Investment properties
Rental revenues from investment properties	18,239	192	18,047	16,020	217	15,803
Expenses directly attributable to the generation of rental revenues						
Renovation and maintenance expenses	2,615	26	2,589	3,194	23	3,171
Property management	689	16	673	1,071	0	1,071
Total	**3,304**	42	**3,262**	**4,265**	23	**4,242**
Expenses directly attributable to but not resulting in the generation of rental revenues						
Property management expenses	279	2	277	550	85	465
Total	**279**	2	**277**	**550**	85	**465**

Information concerning property valuation at 31 December 2013

The fair values of the properties at 31 December 2013 and at the reporting date for the previous year were determined on the basis of valuations carried out by an independent expert as well as by internal valuers. POLIS commissioned FERI EuroRating Services AG, Bad Homburg, (hereinafter "FERI") to determine the market values of nine buildings owned by POLIS at 31 December 2013 and to document these in the form of rating reports and market value appraisals. For valuing the entire portfolio, FERI receives all-inclusive compensation that is independent of the market values it has determined.

In addition, properties were valued internally. Valuation takes place quarterly, with one-quarter of the portfolio valued externally and three-quarters valued internally at each valuation date. The internal valuations are examined by a FERI supervisor. The internal property valuation process follows the same principles as valuation by FERI EuroRating Services AG. FERI's market research is used to supplement the internal detailed planning work. 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 revenue. Also, the effects of overall interest rate trends and of location-specific and property–specific developments on the discount rate 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 arm's-length transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently, and without compulsion."

For the POLIS portfolio, the above definition of market value as laid down by the International Valuation Standards tallies with the definition of fair value according to IFRS 13. The terms "market value" and "fair value" are therefore used as synonyms in the following.

The provisional market values are analyzed following their calculation and significant changes compared with the previous valuation are plausibility-checked. Once the final market value is established, the report is submitted to the Board of Management. It then communicates the market valuation to the Supervisory Board on a quarterly basis.

The basis for determining the market value is the capitalized earnings 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 space and from re-letting properties after the existing lease agreements have expired is forecast on the basis of the market rents that are expected for each property and then added to the above figure. The property-specific market rent is estimated on the basis of FERI's research.

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 valuation assesses 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 environment, the micro environment and the quality of the property. As part of determining the risk profile of a property, the tenant-specific risk is likewise determined by evaluating tenant creditworthiness, tenant concentration and contractual conditions. All criteria are evaluated using the FERI rating algorithm, which values the property on a scale from 1 to 100 points. 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 valuation system uses the interest rate of the current yield for ten-year government bonds. At the valuation date, the long-term average value for this rate was 2.17% (previous year: 2.71%).
- 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 mark-up for the portfolio is 4.61% (previous year: 4.18%).
- 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 6.71% (previous year: 6.72%). An increase or a decrease in the average break-even yield of 0.5% points would increase or decrease the market values by approximately 3.5%. Other input factors can have a significant influence on market values: vacancy rate, annual rent growth, letting scenario, as well as construction and maintenance costs.

As a general principle, a total useful life of 65 years from the year of construction was assumed for all valuation properties. Possible renovation measures and the overall structural state of preservation at the reporting date were analyzed, and may extend the remaining useful life of the property in question.

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

- Based on the vacancy rates at the valuation date of 7.3% (previous year: 13%), vacancies will be largely reduced within one year. The mid-term planning horizon assumes vacancy rates of between approximately 1.7% and approximately 5.0%.
- The valuation scenario shows an average increase in rents of approximately 2.85% in the first year. The greater part of this increase in the rent is in line with the aforementioned reduction in vacancies and the rent increase from index-linked lease agreements. The resulting assumed increase in rents averages 1.69% per year until the end of the ten-year planning horizon. These figures do not include Immermanstrasse 11, which was sold with effect from 28 February 2014.
- In the long-term (2014–2023), our plans are based on average maintenance costs of EUR 1.07 per square metre of rental space per month, which includes EUR 0.68 per square metre per month for current maintenance. For 2014 we have identified maintenance costs of EUR 1.70 per square metre of rental space per month, including a component of EUR 0.58 for current maintenance. These figures do not include "Immermanstrasse 11", which was sold with effect from 28 February 2014.

▸ Detailed figures on vacancy rates and rental revenues are given in the management report (pages 33+34).

The assumptions used in the cash flow projections are presented in detail in the following table:

%	Vacancy rate 31.12.2013 (area)	Expected vacancy rate 31.12.2014 (area)	Planned short-term rent increase (revenue)	Planned short-term rent increase (revenue)
Rankestrasse 21/Lietzenburger Strasse 44, 46	3.80	0.53	2.94	2.13
Luisenstrasse 46	0.00	0.00	2.37	1.40
Potsdamer Strasse 58	0.93	0.00	2.40	1.90
Altmarkt 10/Kramergasse 2/4	3.84	2.49	-0.33	1.19
Könneritzstrasse 29, 31, 33	3.22	1.46	0.86	0.71
Palaisplatz 3, 3a	26.64	2.57	0.54	1.68
Berliner Allee 42	13.60	1.05	1.62	2.25
Berliner Allee 44	52.92	1.51	1.07	-0.78
Berliner Allee 48	5.94	15.65	3.92	1.35
Steinstrasse 27	0.69	0.20	5.12	2.10
Gutleutstrasse 26	0.00	34.77	0.82	1.32
Landschaftstrasse 2	0.00	0.00	1.99	1.69
Landschaftstrasse 8	0.00	0.00	9.98	1.53
Ebertplatz 1	2.41	2.93	1.82	2.54
Gustav-Heinemann-Ufer 54	2.06	3.90	1.93	1.71
Hansaring 20	43.20	5.72	0.00	1.40
Konrad-Adenauer-Ufer 41-45	4.30	3.16	0.79	1.83
Neumarkt 49	0.00	0.00	3.86	0.94
Weyerstrasse 79-83	2.63	1.29	4.57	1.37
Rheinstrasse 43-45	29.65	1.42	1.39	1.84
Rheinstrasse 105-107	16.09	0.83	0.26	1.38
Lessingstrasse 14	0.24	16.01	4.17	3.34
Böblinger Strasse 8/Arminstrasse 15	14.49	8.61	5.57	1.53
Quartier Büchsenstrasse	9.61	3.89	5.16	1.76
Tübinger Strasse 31, 33	6.60	3.09	-0.26	2.58
Portfolio	**7.30**	**3.49**	**2.85**	**1.69**

The following overview shows key information on the sensitivity of market valuations:

Change in valuations, EUR '000	Fair Value per 31.12.2013	Long-term gross profit −10%	Long-term gross profit +10%	Annual rent growth −1%	Annual rent growth +1%	Rental income +/−1%	Discount rate +25 base points	Discount rate −25 base points
Berlin								
Rankestrasse 21/ Lietzenburger Strasse 44, 46	29,350	−1,645	1,643	−1,183	1,273	130	−566	573
Luisenstrasse 46	11,870	−329	336	−192	214	53	−221	227
Potsdamer Strasse 58	15,630	−936	938	−654	545	71	−299	303
Dresden								
Altmarkt 10/Kramergasse 2/4	36,730	−1,023	1,032	−736	795	190	−687	706
Könneritzstrasse 29, 31, 33	10,780	−336	346	−219	248	65	−190	196
Palaisplatz 3, 3a	5,480	−367	379	−267	295	30	−103	105
Düsseldorf								
Berliner Allee 42	6,800	−337	343	−193	217	33	−135	138
Berliner Allee 44	8,280	−445	440	−258	272	45	−158	162
Berliner Allee 48	5,380	−256	267	−171	177	27	−122	113
Steinstrasse 27	9,960	−714	717	−474	509	45	−188	194
Frankfurt a. M.								
Gutleutstrasse 26	8,050	−1,053	1,024	−393	399	37	−207	213
Hanover								
Landschaftstrasse 2	4,480	−459	470	−332	363	32	−88	91
Landschaftstrasse 8	3,980	−354	397	−108	123	22	−76	79
Cologne								
Ebertplatz 1	9,340	−301	300	−214	232	45	−182	186
Gustav-Heinemann-Ufer 54	17,830	−450	477	−278	301	87	−344	350
Hansaring 20	4,650	−173	176	−106	106	22	−93	96
Konrad-Adenauer-Ufer 41–45	22,420	−302	320	−228	258	96	−416	430
Neumarkt 49	8,760	−439	471	−109	393	44	−159	158
Weyerstrasse 79–83	16,290	−664	1,478	−208	531	79	−310	313
Mainz								
Rheinstrasse 43–45	2,630	−209	222	−138	137	18	−55	56
Rheinstrasse 105–107	4,190	−210	213	−133	142	23	−89	92
Munich								
Lessingstrasse 14	9,800	−436	418	−285	308	44	−184	193
Stuttgart								
Böblinger Strasse 8/ Arminstrasse 15	4,120	−93	164	−95	103	22	−88	90
Quartier Büchsenstrasse	45,610	−725	729	−532	559	216	−861	879
Tübinger Strasse 31, 33	10,800	−539	538	−459	495	48	−205	205
Portfolio	**313,210**	**−12,795**	**13,838**	**−7,965**	**8,995**	**1,524**	**−6,016**	**6,148**

All investment properties are classified as Level 3 in the fair value hierarchy according to IFRS 13 on the basis of non-observable input factors in fair value measurement.

Because the POLIS portfolio is comprised exclusively of properties used mainly as offices, the sensitivity analysis was based solely on the property-specific market rents of office space and disregarded the secondary types of use. The assumption that the same terms will apply to lease agreements being extended, in keeping with the business plan, produces a narrower range of fluctuation in the valuations because new leases can only be concluded later at the new, prevailing market level. It is deemed appropriate to extend existing leases if the present value, which represents the difference between market rent and contractual rent, will exceed the marketing costs during the vacant period. In each of the sensitivity analyses shown in the summary, only one variable was changed compared with the basic scenario (fair value at 31 December 2013).

The variations from the prevailing fair value at 31 December 2013 presented under long-term gross profit were calculated as follows. The property-specific office market rent was increased or reduced by 10% at the valuation date. The increase in the property-specific market rents in subsequent years remained unchanged.

The deviation analyses from the respective fair values at 31 December 2013 shown under rent growth are based on a scenario where the year-on-year development in the property-specific office market rents applied a 1% increase or decrease over a period of ten years. The increase or decrease in rent growth applies only to the property-specific office market rents, and not to the assumed indexing of lease agreements.

The gross profit for the individual properties determined from existing or assumed lease agreements was increased or reduced by 1%.

The average discount rate was increased or reduced by 25 base points.

Over and above the input factors shown in the table page 66, the increase or decrease in the exit yield in a notional resale after ten years has a highly sensitive effect on the fair values.

A planning period of ten years is assumed for the properties' valuation. Increasing or shortening the assumed marketing periods by one month when a change of tenants is planned has a very sensitive effect on the fair values.

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

EUR '000	Total	up to 1 year	2 to 5 years	over 5 years
Minimum lease payments (31.12.2013)	72,882	17,650	40,487	14,745
Minimum lease payments (31.12.2012)	69,619	16,344	40,510	12,765

For further information on the investment properties, please visit www.polis.de.

3.2. Intangible assets and property, plant and equipment

This item comprises software, the office space used for own purposes as well as fixtures and equipment.

The development of this item is shown in the following table:

	Acquisition and production cost				Depreciation/ amortization				Carrying amounts	
EUR '000	01.01. 2013	Additions	Disposals	31.12. 2013	01.01. 2013	Additions	Disposals	31.12. 2013	31.12. 2012	31.12. 2013
Software	461	25	0	486	240	78	0	318	221	168
Fixtures and equipment	398	49	0	447	220	46	0	266	178	181
	859	**74**	**0**	**933**	**460**	**124**	**0**	**584**	**399**	**349**

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

	Acquisition and production cost				Depreciation/ amortization				Carrying amounts	
EUR '000	01.01. 2012	Additions	Disposals	31.12. 2012	01.01. 2012	Additions	Disposals	31.12. 2012	31.12. 2011	31.12. 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**

3.3. Financial assets

The financial assets in each case include 15% of the shares in POLIS Objekt Rankestraße GmbH & Co. KG, Berlin, in POLIS Objekt Bugenhagenstraße GmbH & Co. KG, Berlin, and in POLIS Objekt Ludwig-Erhard-Straße GmbH & Co. KG, Berlin. 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 amortized cost because no adequate financial information for determining the fair values is available. There was no change in the valuations 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.

Company	Registered office	Interest %	Acquisition and production cost: 01.01.2013	Additions/disposals	31.12.2013	Depreciation/amortization or revaluation: 01.01.2013	Additions/disposals	31.12.2013	Carrying amounts: 31.12.2012	31.12.2013
POLIS Objekt Rankestraße GmbH & Co. KG	Berlin	15.0	1,770	0	1,770	0	0	0	1,770	1.770
POLIS Objekt Ludwig-Erhard-Straße GmbH & Co. KG	Berlin	15.0	1,200	0	1,200	0	0	0	1,200	1,200
POLIS Objekt Bugenhagenstraße GmbH & Co. KG	Berlin	15.0	559	0	559	0	0	0	559	559
Bouwfonds GmbH & Co. Objekt Stinnesplatz KG	Berlin	5.1	243	0	243	0	0	0	243	243
			3,772	**0**	**3,772**	**0**	**0**	**0**	**3,772**	**3,772**

EUR '000

3.4. Deferred tax assets and liabilities

The net deferred tax liabilities totalling EUR 2,642 thousand (previous year: EUR 1,054 thousand) due to temporary differences between the IFRS statement of financial position and the tax balance sheet and also tax losses carried forward are as follows:

Deferred tax assets

EUR '000	2013	2012
Investment properties	350	565
Tax losses carried forward	666	474
Hedging reserves	252	389
Other financial liabilities	1,040	1,386
Offsetting	-2,122	-2,608
Deferred tax assets	**186**	**206**

Deferred tax liabilities

EUR '000	2013	2012
Investment properties	4,950	3,868
Offsetting	-2,122	-2,608
Deferred tax liabilities	**2,828**	**1,260**

Deferred tax assets are offset against deferred tax liabilities (EUR 2,642 thousand) only to the extent that they pertain to income taxes that are levied by the same tax authority for the same taxable entity.

At 31 December 2013, deferred taxes were formed in full with respect to the corporate tax losses carried forward for POLIS Immobilien AG (EUR 4,211 thousand, previous year: EUR 3,330 thousand), since it is assumed that the corporate tax losses carried forward will be used by future corporate tax profits from the realization of existing fiscally relevant hidden reserves in the investment properties. The changes in the deferred tax assets pertaining to derivatives (interest rate swaps) that form part of an effective cash flow hedge (EUR -138 thousand, previous year: EUR 159 thousand) were recorded in other income. The other changes in the deferred tax assets and tax liabilities are recognized in income.

No deferred tax assets were recognized for trade tax losses carried forward amounting to EUR 41,300 thousand (previous year: EUR 37,100 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:

EUR '000	31.12.2013	31.12.2012
Trade receivables	4,711	4,388
of which allocable operating expenses	4,249	3,930
of which rent receivables	462	458
Sales tax credit and input tax deductible in the following year	227	529
Other receivables	627	225
Total	**5,565**	**5,142**

The carrying amounts correspond to the fair values in view of their short remaining terms.

At 31 December 2013, receivables from operating costs not yet settled stood at EUR 4,249 thousand (previous year: EUR 3,930 thousand) and advance payments received for operating costs amounted to EUR 3,661 thousand (previous year: EUR 3,616 thousand).

The trade receivables are composed as follows:

EUR '000	31.12.2013	31.12.2012
Non-impaired trade receivables	**4,711**	**4,385**
Gross receivable	0	41
Value adjustment	0	-38
Impaired rent receivables	**0**	**3**
Total	**4,711**	**4,388**

All rent receivables shown relate to commercial tenants located in Germany. The rent receivables have largely been assigned as collateral for bank loans. They can only be called in after cancellation of the corresponding credit agreements has become legally effective.

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

EUR '000	Fair value	of which: neither impaired nor due	of which: not impaired but due for: 0–30 days	31–60 days	61–90 days	over 90 days
Carrying amount 31.12.2013	4,711	4,499	104	40	0	68
Carrying amount 31.12.2012	4,385	4,209	148	7	0	21

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

The value adjustments on trade receivables are in respect of rent receivables, and developed as follows:

EUR '000	2013	2012
Balance at 01.01.	38	152
Recognized	–38	–142
Additions	0	28
Balance at 31.12.	**0**	**38**

For the rent receivables that are already due, POLIS has received collateral in the form of rent deposits (cash deposits and guarantees) amounting to EUR 1,182 thousand (previous year: EUR 485 thousand). POLIS is able to access this collateral in the event of payment arrears, in accordance with the terms of the lease agreements.

Impairments for other receivables and other assets were equally not required.

The current tax receivables in 2013 and also in the previous year concern creditable interest withholding taxes, the solidarity surcharge and corporate 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 2013 and previous years.

3.8. Equity

The change in equity is shown in the consolidated statement of changes in equity.

Subscribed capital
The fully paid-up capital stock is composed of 11,051,000 no-par value ordinary bearer shares (no-par shares) each representing a notional share in the capital stock of EUR 10.00.

Capital reserves
The capital reserves (2013: EUR 18,185 thousand, 2012: EUR 18,185 thousand) include the premium from the issue of POLIS shares less the expenses associated with the initial public offer, taking into account deferred taxes.

Retained earnings
Offsetting POLIS Immobilien AG's net profit under commercial law against the capital reserves in previous years has affected the retained earnings at Group level. In addition, the adjustments made directly within equity for the first-time adoption of IFRS (principally the fair value measurement of investment properties) come under retained earnings.

3.9. Liabilities

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

Liabilities schedule	Total	Remaining terms		
EUR '000		up to 1 year	1 to 5 years	over 5 years
Liabilities to banks	156,452	6,398	65,614	84,440
	(139,252)	(5,459)	(98,138)	(35,655)
Advance payments received	3,661	3,661	0	0
	(3,616)	(3,616)		
Trade payables	2,639	2,639	0	0
	(3,193)	(3,193)		
Income tax liabilities	88	88	0	0
	(81)	(81)		
Other liabilities	8,693	2,159	5,097	1,437
	(11,937)	(2,655)	(7,560)	(1,722)
	171,533	**14,945**	**70,711**	**85,877**
	(158,079)	**(15,004)**	**(105,698)**	**(37,377)**

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

Time to maturity Year	Interest rate %	Initial amortization %	Remaining debt EUR '000
2014	variable	2	4,676
2015	variable	2	22,400
2015	3.55	1	12,300
2016	variable	1	4,320
2018	variable	1	20,790
2020	variable	2	54,182
2021	variable	1	13,067
2021	3.28–3.51	1	24,717
Total			**156,452**

The key terms of the loan agreements with financial institutions in the previous year are presented in the following table:

Time to maturity Year	Interest rate %	Initial amortization %	Remaining debt EUR '000
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**

In financial year 2013, loans totalling EUR 17.9 million were raised for the financing of "Rankestrasse 21" in Berlin. Existing loans were also refinanced and funds were borrowed against collateral already furnished.

Of the liabilities to banks, a total of EUR 118,681 thousand (previous year: EUR 101,737 thousand) is at variable interest rates and EUR 37,017 thousand (previous year: EUR 37,279 thousand) at fixed interest rates; the item also includes accrued interest of EUR 533 thousand (previous year: EUR 236 thousand).

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

The loans are secured by real estate liens of EUR 192,218 thousand (previous year: EUR 194,136 thousand) against the property portfolio (carrying amount: EUR 316,060 thousand) as well as by assignments of claims for rent. They can only be called in after cancellation of the corresponding credit agreements has become legally effective.

The weighted average interest rate of all bank loans including derivative financial instruments at 31 December 2013 was 3.6% (previous year: 3.2%). The weighted average remaining term of the bank loans is 5.7 years (previous year: 5.5 years).

The fair values of the variable-rate liabilities correspond to their carrying amount.

The fair values of the fixed rate liabilities at 31 December 2013 amount to EUR 38,902 thousand (previous year: EUR 39,416 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 rates serving as the basis were 1.2%–2.7% (previous year: 1.4%–3.0%) including margin.

Advance payments received include the advance payments for operating costs paid by tenants.

The income tax liabilities concern corporate income tax and solidarity surcharge totalling EUR 88 thousand (previous year: EUR 81 thousand). The carrying amounts correspond to the fair values.

Trade payables largely pertain to construction work.

The other current liabilities item is composed as follows:

EUR '000	31.12.2013	31.12.2012
Negative market value of derivative financial instruments	1,501	1,890
Obligations to employees	0	243
Miscellaneous	658	522
Total	**2,159**	**2,655**

The key features of the derivative financial instruments employed are presented below:

Hedging instruments	Volume EUR '000	Original maturity	Rate	Market value 31.12.2012 EUR '000	Changes recognized in income	Redeemed by payments	Changes in market value CF Hedges (recorded in other income)	Market value 31.12.2013 EUR '000
Financial instruments not designated in the context of cash flow hedges:								
Swap	8,100	31.12.2015	3.14%	-693	243	0	0	-450
Swap	3,150	31.12.2015	2.40%	-198	70	0	0	-128
Swap	5,000	30.09.2016	3.47%	-575	170	0	0	-405
Swap	10,000	30.12.2016	3.58%	-1,258	259	-999	0	0
Swap	10,000	29.06.2018	3.64%	-1,614	389	-1,225	0	0
Swap	10,000	29.06.2019	3.69%	-1,818	341	-1,478	0	0
Cap	5,000	28.06.2013	6.00%	0	0	0	0	0
Floor	-5,000	29.06.2013	3.37%	-79	79	0	0	0
				-6,236	1,551	-3,702	0	-984
Financial instruments designated in the context of cash flow hedges:								
Swap	6,063	01.07.2021	3.06%	-839	0	0	219	-620
Swap	6,036	01.07.2021	3.06%	-849	-8	0	298	-559
Swap	8,200	31.12.2020	2.33%	-720	161	0	120	-439
Swap	2,700	31.12.2020	2.33%	-237	52	0	41	-144
Swap	4,100	31.12.2020	2.33%	-359	82	0	58	-219
Swap	9,310	31.12.2018	3.51%	0	-1	1,109	-7	-1,117
Swap	1,800	31.12.2020	2.33%	-158	36	0	26	-96
Swap	9,600	31.12.2020	2.33%	-843	190	0	139	-514
Swap	8,300	31.12.2020	2.33%	-729	164	0	123	-442
Swap	5,600	31.12.2018	3.51%	0	-1	667	-4	-672
Swap	10,000	31.12.2020	3.56%	0	0	1,225	-173	-1,398
Swap	5,880	31.12.2018	3.51%	0	-1	700	-4	-705
Swap	2,300	31.12.2020	2.33%	-202	46	0	33	-123
				-4,936	720	3,702	869	-7,049
				-11,172	**2,271**	**0**	**869**	**-8,032**

In financial year 2013, three swaps with a negative market value of EUR 3,702 thousand were redeemed by way of payment. At the same time four swaps were concluded and designated as cash flow hedges upon receipt of a compensatory payment of EUR 3,702 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.

The key features of the derivative financial instruments used in the previous year are presented in the following table:

Hedging instruments	Volume EUR '000	Original maturity	Rate	Market value 31.12.2011 EUR '000	Changes recognized in income	Redeemed by payments	Changes in market value CF Hedges (recorded in other income)	Market value 31.12.2012 EUR '000
Financial instruments not designated in the context of cash flow hedges:								
Swap	5,000	31.12.2012	3.93%	-144	144	0	0	0
Swap	10,000	31.03.2015	2.41%	-402	-156	-558	0	0
Swap	10,000	30.06.2015	4.80%	-1,248	-25	-1,273	0	0
Swap	10,000	30.12.2015	2.81%	-420	-341	-761	0	0
Swap	5,000	30.12.2015	2.23%	-184	-137	-321	0	0
Swap	8,100	31.12.2015	3.14%	-581	-112	0	0	-693
Swap	10,000	31.12.2015	3.48%	-865	-189	-1,054	0	0
Swap	3,150	31.12.2015	2.40%	-134	-64	0	0	-198
Swap	5,000	30.09.2016	3.47%	-471	-104	0	0	-575
Swap	10,000	30.12.2016	3.58%	-1,019	-239	0	0	-1,258
Swap	10,000	29.06.2018	3.64%	-1,166	-448	0	0	-1,614
Swap	10,000	29.06.2019	3.69%	-1,264	-554	0	0	-1,818
Cap	5,000	28.06.2013	6.00%	0	0	0	0	0
Floor	-5,000	29.06.2013	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	01.07.2021	3.06%	-789	45	-303	-398	-839
Swap	6,036	01.07.2021	3.06%	-786	-39	-302	-326	-849
Forward Swap	8,200	31.12.2020	2.33%	0	-91	602	-27	-720
Forward Swap	2,700	31.12.2020	2.33%	0	-30	198	-9	-237
Forward Swap	4,100	31.12.2020	2.33%	0	-45	301	-13	-359
Forward Swap	1,800	31.12.2020	2.33%	0	-20	132	-6	-158
Forward Swap	9,600	31.12.2020	2.33%	0	-106	705	-32	-843
Forward Swap	8,300	31.12.2020	2.33%	0	-92	609	-28	-729
Forward Swap	2,300	31.12.2020	2.33%	0	-25	168	-9	-202
				-1,575	-403	2,110	-848	-4,936
				-9,649	**-2,531**	**-1,856**	**-848**	**-11,172**

3.10. Additional information concerning financial instruments

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

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

EUR '000

Balance sheet item	Category	2013	2012
Financial assets	Financial assets available for sale	3,772	3,772
Receivables and other financial assets	Receivables	5,565	5,142
Cash in banks	Cash in banks and cash holdings	6,370	8,312
		15,707	17,226
Liabilities to banks	Financial liabilities at amortized cost	156,452	139,252
Trade payables	Financial liabilities at amortized cost	2,639	3,193
Other financial liabilities	Financial liabilities at amortized cost	658	765
	Derivatives measured at fair value without effective hedging relationships	984	6,236
	Derivatives measured at fair value with an effective hedging relationship	7,049	4,936
		167,782	**154,383**

The net gains and losses from financial instruments (excluding interest income and interest expenses) in the income statement are as follows:

EUR '000

Balance sheet item	Category	2013	2012
Receivables and other financial assets	Receivables	0	0
Receivables and other financial assets and Other financial liabilities	Derivatives measured at fair value without effective hedging relationships	1,551	−2,128
	Derivatives measured at fair value with an effective hedging relationship	720	−403
		2,271	**−2,531**

The net gains from the derivatives measured at fair value include measurement gains from derivative financial instruments (interest rate swap) for which hedge accounting is not used (EUR 1,551 thousand, previous year: EUR -2,128 thousand) and measurement losses for financial instruments at the time they were designated for hedge accounting (EUR 720 thousand, previous year: EUR -403 thousand).

The positive changes in the market value of derivatives that form part of effective cash flow hedges (EUR 869 thousand, previous year: EUR -1,007 thousand) were reported in other income after deduction of deferred taxes (EUR -138 thousand, previous year: EUR 159 thousand).

The portfolio of financial instruments that are measured at fair value as well as liabilities to banks for which a fair value is stated is composed as follows:

					31.12.2013				31.12.2012
EUR '000		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities to banks	Liabilities reported at fair value	–	157,583	–	**157,583**	–	141,389	–	**141,389**
Other financial liabilities	Derivatives measured at fair value without effective hedging relationships	–	-984	–	**-984**	–	-6,236	–	**-6,236**
	Derivatives measured at fair value with an effective hedging relationship	–	-7,049	–	**-7,049**	–	-4,936	–	**-4,936**
		0	**149,550**	**0**	**149,550**	**0**	**130,217**	**0**	**130,217**

The market values of the derivatives allocated to Level 2 are determined externally by the banks (using a DCF method) on a quarterly basis and their effectiveness is examined by a firm of independent auditors.

The management has established that the carrying amounts for cash and cash equivalents and short-term deposits, trade receivables, trade liabilities, advance payments received, current accounts and other current liabilities virtually correspond to the fair values of these instruments in view of their short maturities.

There was no regrouping between Levels 1 and 2 of the fair value hierarchy in the period under review.

4. Notes to the statement of comprehensive income

4.1. Rental income

This position comprises rental income as well as income from the cancellation of lease agreements from the investment properties and the properties disclosed as non-current assets held for sale. The rental income includes effects totalling EUR 115 thousand (previous year: EUR 140 thousand) that are attributable to rent-free periods.

4.2. Renovation and maintenance expenses

General expenses incurred in the context of repairs and maintenance work on the rental and common-use space as well as cosmetic repairs are stated.

4.3. Property management expenses

This item comprises:

EUR '000	2013	2012
Operating costs that cannot be charged to tenants	440	590
Letting-related costs	278	792
Other property management expenses	250	239
Total	**968**	**1,621**

4.4. Income from the revaluation of investment properties

The table of the development of the properties in Section 3.1., page 61, provides further details of the composition of this item.

4.5. Result from the sale of investment properties

The sale of the investment property at "Kleppingstrasse 20" in Dortmund produced a gain of EUR 377 thousand. "Gallenkampstrasse 20" in Duisburg was sold at the prior-year market value. In 2012, the result was from the sale of the investment property "Domstrasse 10" in Hamburg.

4.6. Other income

Other income for financial year 2013 substantially comprises income from asset and property management services for the three companies in which POLIS has a 15% interest (EUR 207 thousand, previous year: EUR 219 thousand), and insurance payouts.

4.7. Other expense

Other expense includes due diligence expenses, for example.

4.8. Administrative expenses

The following table shows the composition of the administrative expenses:

EUR '000	2013	2012
Staff costs	1,712	1,973
Legal, consultancy and auditing fees	532	498
Office and travel expenses	826	895
Stock exchange fees, financial reports, Annual General Meeting	230	251
Marketing and advertising expenses	61	83
Other expenses	145	87
Total	**3,506**	**3,787**

In addition to the members of the Board of Management, on average 25 persons were employed in financial year 2013 (previous year: 23), of which 7 work in general administration, and 18 in asset and property management, including 3 trainees.

4.9. Investment income

As in the previous year, this item primarily relates to distributions from the investments in Bouwfonds GmbH & Co. Objekt Stinnesplatz KG, Berlin, POLIS Objekt Rankestraße GmbH & Co. KG, Berlin, and POLIS Objekt Ludwig-Erhard-Straße GmbH & Co. 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 items:

EUR '000	2013	2012
Interest expense	5,365	5,246
Ancillary financing costs	330	137
Total	**5,695**	**5,383**

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

4.12. Income taxes

The income tax expense for financial years 2013 and 2012 is composed as follows:

EUR '000	2013	2012
Expense (–)/Income (+)		
Deferred taxes on losses carried forward	139	-194
Deferred taxes from temporary differences	-1,592	-81
Current taxes	-216	-128
Total	**-1,669**	**-403**

The income from deferred taxes for losses carried forward is the result of utilizing tax losses carried forward.

The corporate income tax rate in Germany was 15% in 2013 (previous year: 15%), and the solidarity surcharge was 5.5% thereof. The resulting combined tax rate is 15.825% (previous year: 15.825%).

The following calculation shows how the reported income tax expense is derived from the expected tax expense.

EUR '000	2013	2012
Profit before taxes	9,808	2,574
Group tax rate	15.8%	15.8%
Expected income tax expense	**-1.552**	**-407**
Non-deductible operating expenses	-7	-7
Income tax – previous years	-110	11
Taxes on income	**-1,669**	**-403**
Tax rate	17.0%	15.7%

4.13. Earnings per share

Earnings per share are determined as follows:

	2013	2012
Group net profit/loss for the year after income allocable to minority interests (in EUR '000)	8,139	2,171
Average number of ordinary shares in circulation	11,051,000	11,051,000
Earnings per share (diluted and undiluted) (in EUR)	0.74	0.20

5. Disclosures concerning the cash flow statement

The cash flow statement was drawn up using the indirect method, with cash from operating activities determined through a correction of the net profit by non-cash business transactions, adjustment of specific balance sheet items, and income and expenses in connection with investing and financing activities.

The financial resources used in the cash flow statement consist exclusively of the cash in banks and cash holdings disclosed in the statement of financial position. There are no restrictions on disposal.

6. Other disclosures

6.1. Supervisory Board and Board of Management

The compensation report summarizes the principles governing the compensation of the Board of Management of POLIS and details the level and structure of the compensation of the individual members of the Board of Management and Supervisory Board.

Compensation report

Compensation system of the Board of Management
The compensation of the Board of Management consists of a fixed component and a performance-related management bonus.

Fixed compensation: in addition to a fixed compensation paid in monthly instalments, the members of the Board of Management receive fringe and non-cash benefits in the form of company cars and subsidized health insurance contributions.

Variable compensation: each member of the Board of Management receives an annual management bonus 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 start of the financial year in question. If the requirements for such an entitlement are not met, at its due discretion the Supervisory Board may nevertheless, in consideration of the net profit as well as the personal contribution of the Board of Management members to net profit, other achievements and the Company's economic situation, grant the members of the Board of Management a performance-related management bonus of up to EUR 30 thousand each.

Compensation upon leaving the Board of Management: in the event that a member of the Board of Management ceases employment prematurely, any severance payment is limited to twice the annual compensation, but no more than compensation for the remaining term of the contract of employment. The employment contracts with the members of the Board of Management of POLIS do not contain any special provisions in the event of a takeover of the Company. Retirement or survivor's pensions are not provided.

Compensation of the Supervisory Board
The compensation of the Supervisory Board is set forth in Section 21 of the Articles of Association.

The members of the Board of Management were:

- Dr Alan Cadmus, Chief Executive Officer, Berlin
- Michael Piontek, Chief Financial Officer, Berlin (since 1 April 2013)

In financial year 2013, the members of the Board of Management received the following compensation:

				2013					2012
EUR '000	Fixed compen-sation	Value of benefits in kind	Variable compen-sation	Total	Fixed compen-sation	Value of benefits in kind	Variable compen-sation	Severance payments	Total
Dr Alan Cadmus	232	11	75	318	200	11	40	0	251
Michael Piontek since 01.04.2013	113	9	50	172					
Peter E. Muth until 12.07.2012					93	5	0	249	347
Total	**345**	**20**	**125**	**490**	**293**	**16**	**40**	**249**	**598**

Directors' dealings

Directors' dealings and share ownership of members of corporate bodies

Under Section 15a of the German Securities Trading Act (WpHG), the members of the Supervisory Board and Board of Management are legally obliged to disclose the purchase or sale of shares in POLIS or of 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 EUR 5,000. In financial year 2013, no transactions requiring disclosure were reported.

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

31.12.2013	Number of shares*
Dr Alan Cadmus	32,500
Birgit Cadmus	16,500

*Disclosures according to the Company

The following persons were members of the Supervisory Board:

- Carl-Matthias von der Recke, retired bank director, residing in Frankfurt a. M. (Chairman of the Supervisory Board)
- Klaus R. Müller, member of the management of Mann Immobilien-Verwaltung AG, Karlsruhe, residing in Germersheim (Deputy Chairman)
- Martin Eberhardt, Managing Director of Bouwfonds Investment Management GmbH, Berlin, residing in Hamburg
- Wolfgang Herr, member of the Board of Management of Mann Immobilien-Verwaltung AG, Karlsruhe, residing in Baden-Baden
- Ralf Schmechel, member of the management of Mann Management GmbH, Karlsruhe, residing in Malsch
- Benn Stein, lawyer, specialist lawyer for tax law and chartered accountant, CT legal at Stein und Partner, Hamburg, residing in Hamburg

The compensation of the members of the Supervisory Board in financial year 2013 was as follows:

				2013
EUR '000	Fixed compensation	Compensation for service on committees	Reimburse-ment of expenses	Total
Carl-Matthias von der Recke	20	2	1	23
Klaus R. Müller	15	3	2	20
Martin Eberhardt	10	1	1	12
Wolfgang Herr	10	0	2	12
Ralf Schmechel	10	1	2	13
Benn Stein	10	1	1	12
Total	**75**	**8**	**9**	**92**

6.2. Related party disclosures

Related individuals are the Supervisory Board, the Board of Management and their close relatives. Related companies also include the majority shareholder Mann Unternehmensbeteiligungen GmbH, Karlsruhe, together with its affiliated companies, its Board of Management, its Supervisory Board, its majority shareholder and close relatives, as well as the major shareholder Bouwfonds Asset Management Deutschland GmbH, Berlin.

No transactions were concluded with close family members of the Supervisory Board and Board of Management.

In 2013, no member of the Supervisory Board received compensation or advantages for services rendered personally, in particular for consulting and brokerage services.

Services amounting to EUR 165 thousand (previous year: EUR 157 thousand) that were billed at market rates were performed for the Bouwfonds Asset Management Group in financial year 2013 as part of a lease agreement. There were no receivables at the reporting date (previous year: EUR 10 thousand).

6.3. Objectives and methods of financial risk and capital management

Through its business activities, the Group is exposed to various financial risks.

The principal financial liabilities used by POLIS – except for derivative financial instruments – consist of interest-bearing loans from banks, other financial liabilities, trade payables, and advance payments received. The main purpose of these financial liabilities is to finance the business activities of POLIS, and in particular to finance the investment properties which serve as the main source of income for POLIS. The major financial assets of POLIS are cash in banks, receivables and other financial assets, as well as investments. At the reporting date POLIS in addition has one property held for sale, along with derivative interest rate hedging instruments.

POLIS is exposed to market, credit and liquidity risks. The management of these risks is the responsibility of the Board of Management of POLIS. The Board of Management is supported in this task by the Risk Manager and the Controlling function, which analyzes the appropriate data and visualizes the consequences of risks. In a variety of ways, which include internal manuals and checks, the Board of Management ensures that the activities of POLIS that entail financial risks are carried out in accordance with the relevant guidelines and procedures, and that financial risks are identified, evaluated and managed in keeping with these guidelines and in line with the attitude to risk of POLIS. All derivative financial transactions entered into for risk management purposes are managed by staff members (and the Chief Financial Officer) who possess the necessary specialist knowledge and experience. Derivatives are only concluded for the purpose of interest rate hedging. In accordance with the guidelines, derivatives are not traded for speculative purposes. The guideline for the management of the risks presented in the following was approved by the Board of Management, which regularly reviews it.

Financial risks primarily include the interest rate risk, the default and credit risk, and the liquidity risk. The Board of Management of POLIS is responsible for risk management. It uses an extensive, software-based planning model for the early identification of complex risk situations. As a fundamental principle every member of staff is obliged to report all risks to the Risk Manager and the Board of Management as soon as they become known. The reported risks are collated in a risk management list and discussed at the fortnightly management team meeting or Board of Management meeting, where counter-measures are discussed and approved. All risks are incorporated into the statement of financial position to the extent required, and are always monitored in the risk management system. The consequences of the risks and counter-measures are reflected in the accounting and therefore filter into the reports to the Supervisory Board, as well as into the Quarterly and Annual Reports. Furthermore, once a year a risk inventory is compiled by the Risk Manager and a risk report is issued for inclusion in the management report and for the information of the Supervisory Board.

The Supervisory Board advises and monitors the Board of Management.

a) Market risk

The market risk is the risk of fluctuation in the fair value or future cash flows from a financial instrument due to changes in market prices. In the case of POLIS, the market risk includes the interest rate risk, as well as the valuation risk for derivatives. Financial instruments exposed to a market risk include e.g. interest-bearing loans, cash investments and derivatives.

POLIS manages its interest rate risk by following developments on the money and capital market on a daily basis, and fundamentally seeks to keep its leverage at a low level of no more than 60% of the market value of the investment properties while also adopting a flexible interest rate hedging strategy. The policy in the prevailing environment of low interest rates is to hedge the interest rate for between 70% and 90% of variable-rate loans (proportion hedged at the time of reporting: 85%). This interest rate hedging takes the form of fixed-rate loans, interest rate swaps or interest rate caps.

Interest rate risks occur as a result of market-led fluctuations in interest rates. On the one hand these affect total interest expense, and on the other hand influence the market value of the derivative financial instruments. At 31 December 2013, the variable-rate bank liabilities of POLIS stood at EUR 118,680 thousand (previous year: EUR 103,737 thousand). A total amount of EUR 95,400 thousand (previous year: EUR 58,349 thousand) is converted into fixed-rate liabilities through interest rate swaps. Fixed-rate liabilities to banks amounted to EUR 37,017 thousand (previous year: EUR 37,279 thousand).

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 in the interest rate curve by 100 base points is calculated for a forecast period of four years. At 31 December 2013, 85% of the variable-rate liabilities to banks were hedged. This means that 15% (EUR 23.3 million) of the variable-rate loans are not hedged. A 100 base point rise in interest rates would increase the interest expense by approximately EUR 233 thousand per year.

The market price of derivative financial instruments, too, is exposed to an interest rate risk. A rise in interest rates by 30 base points would have increased the derivatives at 31 December 2013 by about EUR 1.67 million (previous year: about EUR 5 million), and the same movement in the opposite direction would have reduced the figure correspondingly. With an estimated probability of this scenario assumed to be 10%, the risk amounts to EUR 167 thousand.

In 2013 POLIS carried out micro-hedging to match most of its existing interest rate swaps directly to the corresponding variable-rate loans to form valuation units at property company level. As a result, market value changes will in future only be reflected to a limited extent in the POLIS income statement and will instead be booked mainly to other income directly within equity. To meet the requirements for this direct matching (effectiveness), the size, maturities and interest payment dates of the interest rate swaps were synchronized with the loans. Effectiveness is examined quarterly by a firm of independent auditors.

b) Default risk/credit risk

The default risk is the risk of a business partner not meeting their obligations in connection with a financial instrument, with a financial loss being the consequence. Through its operating activities POLIS is exposed to default risks (including the risks of rent defaults) and also, through its relationship with banks and financial institutions, exposed to risks associated with its financing activities, including from cash investments, lending activities and interest rate hedges.

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

Specific default risks exist with respect to the rent receivables. Centralized monitoring of all existing receivables is used for the early detection of default risks. The lease agreements are regularly checked for cluster risks and credit risks.

At 31 December 2013, receivables from operating costs not yet settled stood at EUR 4,249 thousand (previous year: EUR 3,930 thousand), and advance payments received for operating costs amounted to EUR 3,661 thousand (previous year: EUR 3,616 thousand); receivables relating to operating costs that can be charged to tenants were neither impaired nor due. Also, POLIS has received extensive collateral in the form of rent deposits (cash deposits and guarantees).

Bank default risk

We monitor the counterparty credit risk of banks and financial institutions by regularly checking the ratings of these institutes (Fitch Ratings) along with other accessible data. For cash investments, we also take membership of deposit-guarantee schemes into account in our assessments. POLIS furthermore endeavours to avoid cluster risks in all areas; one way in which it strives to do this is by spreading its loans across a reasonable number of banks and financial institutions. To guard against default by the counterparties, we ensure that substitute interest rate hedging instruments with virtually the same market value are available on the market.

These risks are managed by the Chief Financial Officer along with the staff members responsible, in accordance with the relevant guidelines that have been issued.

c) Liquidity risk

In addition to liquidity planning with a multi-year planning horizon, the Board of Management also uses comprehensive continuously updated monthly liquidity planning with a twelve-month planning horizon for the early detection of any liquidity issues. Group-wide cash management is used to monitor the current liquidity position. The liquidity position is managed daily by the Chief Financial Officer and discussed at management team and Board of Management meetings.

The following table presents all contractually agreed payments at 31 December 2013 for redemptions, interest and repayments in respect of financial liabilities:

Analysis of maturities at 31 December 2013 EUR '000	Total gross cash outflows	2014	2015	2016	2017	from 2018
Liabilities to banks	172,938	9,525	38,956	7,991	3,601	112,865
Trade payables	2,639	2,639	0	0	0	0
Other liabilities	658	658	0	0	0	0
Non-derivative financial liabilities	**176,235**	**12,822**	**38,956**	**7,991**	**3,601**	**112,865**
Designated derivative financial instruments	8,116	1,416	1,370	1,324	1,277	2,729
Non-designated derivative financial instruments	780	330	330	120	0	0
Derivative financial liabilities	**8,896**	**1,746**	**1,700**	**1,444**	**1,277**	**2,729**
Maturity before utilization of loan commitments	**185,131**	**14,568**	**40,656**	**9,435**	**4,878**	**115,594**
Loan commitments	**-6,800**	**-6,800**	**0**	**0**	**0**	**0**
Maturity after utilization of loan commitments	**178,331**	**7,768**	**40,656**	**9,435**	**4,878**	**115,594**

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

The loan commitments relate exclusively to loans that have not yet been drawn but can be drawn in 2014.

At the reporting date there were other financial obligations totalling EUR 330 thousand (previous year: EUR 1,611 thousand) from order commitments for construction contracts. Cash in banks, credit lines and the cash flow from operating activities are available for financing the planned investments for 2014, which amount to approximately EUR 6 million.

Analysis of maturities at 31 December 2012 EUR '000	Total gross cash outflow	2013	2014	2015	2016	from 2017
Liabilities to banks	158,834	5,858	32,496	36,946	2,654	80,880
Trade payables	3,193	3,193	139	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**
Maturity before utilization of loan commitments	**176,016**	**11,706**	**34,429**	**38,924**	**4,418**	**86,539**
Loan commitments	**-10,000**	**-10,000**	**0**	**0**	**0**	**0**
Maturity after utilization of loan commitments	**166,016**	**1,706**	**34,429**	**38,924**	**4,418**	**86,539**

The expense incurred in the financial year from operating leases for vehicles, office equipment and office rents amounts to EUR 258 thousand (previous year: EUR 248 thousand). The future lease payments are made up as follows:

EUR '000	Total	Minimum lease payments up to 1 year	1 to 5 years	more than 5 years
31.12.2013	546	256	290	0
31.12.2012	847	248	599	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 portfolio level. All covenants were met in financial year 2013.

The terms of the individual derivative financial instruments are presented 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 an 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 to the value of the investment properties); it aims not to exceed an LTV of 60%. At the reporting date, this ratio is 50% (previous year: 48%).

6.4. Fees and services of the auditor

The fees for services provided by the auditor Ernst & Young Wirtschaftsprüfungsgesellschaft in financial year 2013 were as follows:

EUR '000	2013	2012
Audit fees	103	115
Total	**103**	**115**

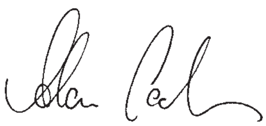
6.5. Corporate governance

On 18 November 2013, the Board of Management and Supervisory Board of POLIS issued declarations concerning the recommendations of the German-Corporate Governance Code. The recommendations have been met since 28 November 2013 and will, with few exceptions that are explained and justified, be met in the future. The current declaration of conformity of the Board of Management and the Supervisory Board has been published on the POLIS website at www.polis.de.

Berlin, 5 March 2014

POLIS Immobilien AG

– The Board of Management –



Dr Alan Cadmus, Chief Executive Officer

Michael Piontek, Chief Financial Officer

Responsibility statement

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

Berlin, 6 March 2014

POLIS Immobilien AG

– The Board of Management –

Dr Alan Cadmus, Chief Executive Office

Michael Piontek, Chief Financial Officer

Auditor's Report

We have audited the consolidated financial statements prepared by POLIS Immobilien AG, Berlin – comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the consolidated financial statements – and the group management report for the financial year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and group management report in accordance with the International Financial Reporting Standards as adopted in the EU, and further in accordance with the applicable provisions of commercial law under Section 315a (1) of German Commercial Code, is the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report on the basis of the audit that we have conducted.

We have conducted our audit of the consolidated financial statements in accordance with Section 317 of German Commercial Code and the generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit in such a way that inaccuracies or misstatements materially affecting the picture of the net assets, financial position and financial performance presented by the consolidated financial statements in accordance with the applicable reporting framework and by the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the 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 group management report are examined primarily on a test basis within the scope of the audit. The audit encompasses an evaluation of the annual financial statements of the companies included in the consolidated financial statements, the definition of the scope of consolidation, the accounting and consolidation principles applied and the significant estimates made by the legal representatives as well as an assessment of the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any reservations.

Based on the findings of our audit, we conclude that the consolidated financial statements comply with the International Financial Reporting Standards as adopted in the EU, and further with the applicable provisions of commercial law under Section 315a (1) of German Commercial Code and provide a true and fair view of the net assets, financial position and financial performance of the group in accordance with these requirements. The group management report is in agreement with the consolidated financial statements, as a whole provides an accurate impression of the position of the group and accurately presents the opportunities and risks of future development.

Berlin, 5 March 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schepers	Pfeiffer
Wirtschaftsprüfer	Wirtschaftsprüferin

Financial Calendar

Report on first three months of 2014	8 May 2014
Annual General Meeting of 2014	20 June 2014
Report on first six months of 2014	7 August 2014
"Initiative Immobilienaktie", Frankfurt a. M.	October 2014
Report on first nine months of 2014	6 November 2014

Imprint

Publisher
POLIS Immobilien AG
Rankestrasse 5–6
10789 Berlin
Germany

www.polis.de

Concept and design
impacct communication GmbH
www.impacct.de

Printer
Lange Bartels & Jürgens
Druckereigesellschaft mbH, Hamburg

Photography
Andi Albert Photography, Würzburg (property photos)
Markus Bachmann (property photos)
Markus Düdder, Dortmund (property photos)
Linus Lintner, Berlin (property photos, people photos)
Alexander Sucrow, Düsseldorf (property photos)

For further information please contact
Investor Relations
Telephone +49 30 225 00 250
Fax +49 30 225 00 299

DER BLAUE ENGEL
JURY UMWELTZEICHEN

This annual report was printed on recycled paper. Paper: RecyStar Polar made from 100% recycled fibres.

Key financial data of POLIS Immobilien AG

Results in EUR '000	2013	2012	2011	2010	2009	2008
Rental revenues	18,239	16,020	14,886	13,053	13,904	14,993
EBIT	13,054	10,465	12,385	7,410	–1,042	10,421
EBT	9,808	2,574	3,239	1,956	–6,826	1,157
Group net profit	8,139	2,171	2,563	1,547	–6,655	1,144
Cash flow from current business operations	9,038	6,786	5,857	7,688	9,519	8,862
Funds from operations (FFO)[1]	5,002	2,567	1,221	1,988	3,726	2,996

Balance sheet in EUR '000	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Non-current liabilities	318,275	290,690	294,452	307,073	285,529	278,589
Current liabilities	15,609	19,302	7,614	10,245	8,078	32,808
Equity	159,523	150,653	149,330	147,989	146,436	153,085
Total assets	333,884	309,992	302,066	317,318	293,607	311,397
Equity ratio	48%	49%	49%	47%	50%	49%
Loan to value[2]	50%	48%	47%	51%	48%	52%

Net asset value der POLIS EUR '000[3]	162,165	151,706	150,109	148,651	146,685	153,459
Shares (no.)	11,051,000	11,051,000	11,051,000	11,051,000	11,051,000	11,051,000
Net asset value per share (EUR)[3]	14.67	13.73	13.58	13.45	13.27	13.89

Share	
WKN/ISIN	691330/DE0006913304
2013 high (Xetra)	EUR 11.61
2013 low (Xetra)	EUR 9.80
Closing price on 28.12.2013 (Xetra)	EUR 11.00

[1] Funds from operations = EBIT +/– Income from the revaluation of properties +/– Income from the sale of properties +/– Financial results + Income from minority interests – Paid taxes
[2] Ratio of loan liabilities to the value of the properties
[3] Net asset value (NAV): Equity plus deferred tax liabilities less deferred tax assets

Ebertplatz 1, Cologne

POLIS Immobilien AG
Rankestrasse 5–6
10789 Berlin
Germany

Telephone +49 30 225 00 250
Fax +49 30 225 00 299

www.polis.de
info@polis.de