Prime Office

Prime Office REIT-AG

2012 Annual Report

Key Figures

Earnings figures and staff (in € million, IFRS)	1 Jan to 31 Dec 2012	1 Jan to 31 Dec 2011	Delta in %	Delta absolut
Rental income	72.3	75.3	–3.9%	–3.0
Net income from rent and sale	61.8	64.9	–4.7%	–3.1
Operating result (EBIT)	35.1	58.7	–40.2%	–23.6
Financial result	–40.3	–41.2	2.2%	0.9
Net profit or loss for the period	–5.2	17.6	–129.4%	–22.7
Earnings per share (in €)	–0.10	0.50	–119.7%	–0.60
EPRA earnings per share	0.31	0.44	–29.9%	–0.13
Funds from operations (FFO)	22.8	21.8	5.0%	1.1
FFO per share	0.44	0.62	–29.4%	–0.18
Staff (number of persons)	9	9	0%	0

Balance sheet figures (in € million, IFRS)	31 Dec 12	31 Dec 11	Delta in %	Delta absolut
Investment property	907.9	970.8	–6.5%	–62.9
Cash and short-term-deposit	64.4	114.5	–43.7%	–50.1
Balance sheet total	1,031.6	1,130.5	–8.8%	–98.9
Equity	389.1	418.0	–6.9%	–28.9
Equity per share/Net-NAV (in €)	7.49	8.05	–6.9%	–0.6
REIT equity ratio (in percent)	42.9	43.1	–0.5%	–0.2
Total debt	642.5	712.6	–9.8%	–70.1
Net debt (IFRS)	532.0	561.5	–5.3%	–29.5
Leverage (in percent)	58.6	57.8	1.3%	0.8
Loan-to-value (in percent)	60.2	65.2	–7.7%	–5.0
Net Asset Value (NAV)	468.4	471.6	–0.7%	–3.2
NAV per share (in €)	9.02	9.08	–0.7%	–0.06

Real estate figures*	31 Dec 12	31 Dec 11	Delta in %	Delta absolut
Number of properties	13	14	–7.1%	–1
Market value according to expert opinion CBRE (in € million)	908.5	971.6	–6.5%	–63.1
Leasable area (in sqm)	367,811	383,440	–4.1%	–15,629
Leased area (in sqm)	317,891	368,456	–13.7%	–50,565
Occupancy rate (in percent)	86.0	96.1	–10.5%	–10.1
Vacancy rate (in percent)	14.0	3.9	n.a.	10.1
EPRA vacancy rate (in percent)	20.1	3.0	n.a.	17.1
Annual net rental income (in € million)	52.5	65.4	–19.7%	–12.9
Gross Initial Yield (in percent)	5.7	6.7	n.a.	–1
Net Initial Yield (in percent)	5.1	6.0	n.a.	–0.9
EPRA – “Topped Up” Net Initial Yield (in percent)	5.1	6.0	n.a.	–0.9
Weighted Average Lease Term (WALT) (in years)	7.0	6.8	2.9%	0.2
Average value per sqm (in €)	2,470.02	2,533.90	–2.5%	–63.88
Average rent per sqm (in €)	11.89	14.21	–16.3%	–2.32

** On 31 December 2012 risks and rewards for the purchased item in Hamburg were transfered to the purchaser, so the previous year's figures are not fully comparable.*

Objectives to guarantee the future.
Sustainability Strategy.
Property Quality.

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Foreword of the Executive Board

Dear Shareholders of Prime Office REIT-AG,
dear Sir or Madam,

Prime Office REIT-AG's business performance in the financial year 2012 resulted in a rise of the Funds from Operations (FFO) to EUR 22.8 million after EUR 21.8m in the previous year, despite temporary vacancies in individual properties. In view of an average occupancy rate of 95%, on average, the company achieved an operating result before valuation effects of EUR 55.5 million 2012 and was thus able to maintain it at the previous year's level (EUR 55.8m), despite higher expenses for real estate management, also caused by marketing activities and planning costs for properties requiring subsequent renting. Income from the compensation of removal obligations and refurbishment agreements that led to an increase in other income from letting and leasing activities, circumstances that amounted to EUR 4.0 million in the reporting period, contributed essentially to that result.

Average occupancy rate of 95% in 2012

Non-cash effective effects arising from the market valuation of our long-term interest rate and currency hedging transactions (Swap market values) burdened Prime Office's course of business in 2012 as did the residual terms of lease agreements or vacancies in the properties in Frankfurt, Düsseldorf and Stuttgart that are becoming shorter. Adjusted by valuation effects of the real estate and financing side, Prime Office REIT-AG generated earnings for the period before valuation effects ("EPRA Earnings") of EUR 16.0 million after EUR 15.3m in the year before, despite the occupancy rate being lower than in the previous year. Against this backdrop, "EPRA Earnings" per share totaled EUR 0.31 after EUR 0.30 (unweighted) or EUR 0.44 (weighted) in 2011.

Adjusted by valuation effects coming from the real estate and financing side, Prime Office REIT-AG generated earnings for the period before valuation effects ("EPRA-Earnings") of EUR 16.0 million after EU 15.3 million last year.

Prime Office REIT-AG's earnings for the period totaled EUR –5.2 (previous year 17.6) million in view of revenue in the amount of EUR 72.3 million based on valuation effects and based on the effects coming from the occupancy rate. Earnings per share amounted to EUR -0.10 (prev. year 0.50) in the financial year 2012.

While REIT's equity ratio of 42.9% as of 31 December 2012 improved compared to the value in the middle of 2012, the required REIT's equity ratio of 45% could not be achieved as of 31 December 2012 on the basis of the existing interest rate hedges (swap transactions) that were affected by the interest trends. As of the balance sheet date, the difference to achieve the minimum equity ratio totaled c.p. approx. EUR 19.3 million. In difference required an order to achieve the middle of 2011, i.e. at the IPO of our company, the balance of the market values of derivative financing instruments under assets and liabilities had still been at EUR –22.4m. Such market value fell to EUR 79.3m as of 31 December 2012, i.e. after 19 months, as a result of the Euro crisis which put an extra burden on the company's equity disclosed in the balance sheet. Please note that the market values of interest rate hedges are generally market value-neutral at the end of their term. This has the result that a significant potential for value appreciation exists over the remaining term that will strengthen Prime Office REIT-AG's equity basis and relieve the tension on the financial result. Now that the

Financial result improved. Interest expenses reduced in the course of a further optimization of the financing structure, despite early loan repayments, restructuring measures and special repayments.

minimum equity ratio under the REIT law of 45% was not achieved for the first time on 31 December 2011, the REIT law grants a period until 31 December 2013 to once again comply with the legal standard. It is a high priority to maintain the REIT status of our company and we will thus take suitable measures to strengthen our REIT equity ratio, such as by the sale of more real estate.

"It is a high priority to maintain the REIT status of our company."

CLAUS HERMUTH, CHAIRMAN OF THE BOARD

Financial expenses were reduced in the financial year 2012 by about 7% to EUR –48.3 million (previous year –52.0m), despite early loan repayments, refinancing measures and special repayments in the course of a further optimization of the financing structure. In view of financial income of EUR 8.1 (previous year 10.9m), the financial result improved compared to the previous year before to EUR –40.3 (previous year –41.2m).

The company's total liabilities were significantly reduced by EUR 70.1 million or by 10% to EUR 642.5m. Our company's leverage amounted to 58.6% based on a net indebtedness (IFRS) of EUR 532.0m so that measures for a further optimization of the financing structure taken in the financial year will relieve the future financial result. After an early and long-term extension of the lease agreement for Imtech's headquarters in Hamburg, this property was sold in November 2012. The profit according to the HGB (German Commercial Code) of EUR 4.5 million realized from such sale will generally be available for potential future distributions. In addition, the sale of the Hamburg-based property ceteris paribus strengthened REIT's equity ratio. After the sale of this property located in Hamburg, our company has a real estate portfolio consisting of 13 properties in eight locations in West-German cities or conurbation areas with a market value of EUR 908.5 million, as of the balance sheet date of 31 December 2012. In view of a total rented area of 367,811 sqm, the portfolio's vacancy ratio was 14% at that date due to temporary vacancies in the properties in Stuttgart/ Möhringen, Frankfurt or Heilbronn, where such ratio ranged between 0 and 5% in the past. Compared to that, the average occupancy ratio over the entire year 2012 was 95%, as the tenant in Frankfurt moved out as planned at the end of the year.

The property portfolio comprises a total of thirteen properties in eight locations in West-German cities.

GreenBuildings and sustainably erected buildings form an integral part of our company's strategy. As early as at the end of 2011, about 20 percent of our rented space had been awarded recognized sustainability certificates according to the LEED (Leadership in Energy and Environmental Design) or DGNB (Deutsche Gesellschaft für Nachhaltiges Bauen) standards. Two more properties received sustainability certificates in 2012. T-Online's headquarters in Darmstadt and the "Xcite" in Düsseldorf were among the first properties in Germany to receive the newly introduced "BREEAM DE Bestand" certificate. "BREEAM DE

Bestand" is one of the leading and worldwide recognized certification systems for sustainable portfolio properties. So, as of October 2012, four properties whose area accounts for about half the total rented area of the portfolio had been awarded internationally recognized sustainability certificates. At the beginning of the year, three more Prime Office properties received the "BREEAM DE Bestand" sustainability certificates. The quality of Prime Office REIT-AG's buildings was found to be remarkable and was classified as good, very good or excellent during the certification process. A total of seven properties with a share of about 70 percent of the total rented area currently hold internationally recognized awards.

The Asset Management concluded subsequent lease agreements or new lease agreements for 6% of the total rented area in 2012.

The office property portfolio experienced a sustainable inflow of cash from lease agreements with reliable and also solvent tenants, despite temporary vacancies. In the financial year 2012, the Asset Management was able to conclude subsequent lease agreements or new lease agreements for a total of 21,500 sqm that corresponds to approx. 5.8% of the entire portfolio. Still, lease earnings did not live up to expectations. It should be underlined here that due diligence and decision-making processes of persons interested in leasing are generally very time-consuming. In some cases, interested parties have put decisions on ice or went for alternative properties or new construction projects.

In the financial year 2012, we were able to prematurely extend the lease agreements over a long term with SemconGroup and BMW AG as anchor tenants in the BMW Design-Center in Munich so that the weighted average lease term (WALT) for the property rose from 5.1 to 8.8 years. In addition, several agreements were prolonged in the properties in Heilbronn and even in the Sigmund-Schuckert-Haus in Nuremberg until the end of 2014. The new lease agreements as well as the early extensions of lease agreements slightly upped the average lease term of the portfolio from 6.8 years in the year before to 7.0 years now. The shortest residual lease terms are now found in Vodafone's headquarters in Düsseldorf (0.2 years) and the Sigmund-Schuckert-Haus in Nuremberg (2.2 years).

The weighted average lease term (WALT) of the entire portfolio rose from 6.8 years in the previous year to 7.0 years based on subsequent lease agreements or the conclusion of new lease agreements.

Negotiations on extensions of the lease agreements are currently in an advanced stage with potential tenants for the rented area in the "emporia" in Stuttgart / Möhringen. Despite the generally high interest, due diligence processes are very time consuming, so that decision-making processes and negotiations are rather lengthy. Individual parties interested in leasing the property in Stuttgart / Möhringen demonstrated a wait-and-see attitude, have generally decided against leasing larger spaces or decided to go for other areas. A similar tendency was recognizable in Frankfurt, in particular based on the insecurities caused by the Euro and financial crises and their effects on the financial location that is Frankfurt. Currently, potential tenants are showing initial interest in the property once again, however negotiations are at a very early stage so that the conclusion of any tenancy agreements for the property cannot be expected in the short run. Sample spaces were completed at the end of 2012 in the historic old building (Westend-Palais) as well as in the Senckenberg Carré which support the comprehensive marketing activities for the property. The lease discussions with Vodafone partner companies as potential tenants of the "Xcite" in Düsseldorf are in an advanced stage. The marketing process for 20–30% of the rental spaces is currently characterized by a positive dynamic.

Sample spaces were completed at the end of the year 2012 in Westend-Palais and in Senckenberg Carré that support the marketing activities for the property.

Now that the existing lease agreement with Vodafone will expire in March 2013, it should be expected that the existing Vodafone partner companies, a large part of whom are already in the building, will conclude their own lease agreements with the company or with an office operation company from April 2013, and so that no interruptions of the agreements will occur here. After Vodafone has moved out, any vacant spaces in the building might undergo the planned revitalization and restructuring measures so that the property might be ready for new tenants to move in from 2014.

Even though the economic conditions still show signs pointing towards an overall slow-down of the economic growth in Germany, we generally expect growth. Against this backdrop, market experts assume that interest in German commercial property will rise, in particular from foreign investors which should result in a stable or positive performance trend for the German real estate market. German properties are, insofar, particularly popular in turbulent and economically challenging times.

"We generally expect further growth."

CLAUS HERMUTH, CHAIRMAN OF THE BOARD

At the end of 01 July 2012, the lock-up period for old shareholders of the different closed-end fund companies involved in Prime Office finally expired. When about 5.7 million shares were placed among institutional investors in the middle of June as part of an accelerated book-building process from the inventory of old shareholders, the share significantly recovered from its low of EU 2.73. In the financial year 2012, Prime Office's share was traded in a corridor of between EUR 2.73 and 4.65, closed the financial year 2012 at 3.24 and recovered until the beginning of March 2012 to a level of EUR 3.70. In the middle of July 2012, shares of the old shareholders were transferred to the personal security deposits of old shareholders who now hold their Prime Office shares in their direct possession.

The "Share Overhang" feared by the capital market that was supposed to result in a massive buying pressure by old shareholders after the lock-up period, did not come. Thanks to its IPO, Prime Office REIT-AG has now a good basis to shape the German office property market over a long period of time, as an active market player and as a REIT who specializes in high-value office property in Germany. Still, the financial years 2013 and 2014 will still be characterized by the expected temporary vacancies in the properties in Frankfurt, Stuttgart and Düsseldorf and by the marketing activities associated therewith as well as by the planned revitalization measures. The management focuses mainly on maintaining the REIT status, the achievement of the lease objectives, the planned reconstruction of the real estate properties and the dividend capacity as planned.

We still have an eye on the growth opportunities that exist for our company, first based on the intrinsic growth potential which should be developed by an active, value-adding Asset Management. Against that backdrop, dear Shareholders, we will still focus on achieving the operating objectives and thus will aim to reduce the extremely high deduction of Prime Office's shares to the net asset value.

CLAUS HERMUTH
Chairman of the Board

ALEXANDER VON CRAMM
CFO

The management focuses mainly on maintaining the REIT status, the achievement of the lease objectives, the planned reconstruction of the real estate and the dividend capacity as planned.

The aspect of sustainability is
an important investment criterion
of Prime Office REIT-AG.

Report of the Supervisory Board of Prime Office REIT-AG

Prof. Dr. h.c. Roland Berger, Chairman of the Supervisory Board

The Supervisory Board focuses on basic questions of company planning, the future direction and strategy.

Dear Shareholders,
Dear Sir or Madam,

In this statement, the supervisory board of Prime Office REIT-AG reports on its activities in the past financial year 2012. Its deliberations focused on the future development of Prime Office in the context of the economic environment and the property market in Germany, general aspects of corporate planning, strategic positioning and corporate strategy as well as the financing of Prime Office REIT-AG.

The supervisory board of Prime Office REIT-AG complied with its obligations under the law and the articles of association in financial year 2012, monitoring and advising at the executive board throughout. The supervisory board was always comprehensively informed of fundamental aspects of the corporate development and the general business performance. Whenever decisions and measures of the executive board required supervisory board approval, the members of this body carefully reviewed the relevant proposals and made their decisions based on the written and oral information at hand.

Four regular supervisory board meetings, one strategy workshop and a telephone conference were held in 2012. The executive board reported comprehensively on the situation of Prime Office REIT-AG and the current developments in all meetings. In addition, the chairman of the supervisory board and the CEO, Mr Claus Hermuth, communicated intensively and regularly the current development of the business and important business transactions.

As specified in its applicable by-laws, the supervisory board of Prime Office REIT-AG formed the following committees: executive committee, investment committee, audit committee and IPO committee. The committees serve to increase the efficiency of supervisory board work and examine complex issues. The executive committee, which currently consists of three members, Prof. Dr. h.c. Roland Berger, Prof. Dr. Kurt Faltlhauser and Dr. Lutz Mellinger, coordinates work in the supervisory board and prepares its meetings as well as the staffing decisions of the supervisory board, particularly concerning the structure of the executive board. The investment committee currently consists of two members, Prof. Dr. Kurt Falthauser and Dr. Lutz Mellinger, and advises the supervisory board by preparing the approval of business transactions for which the executive board requires supervisory board approval. The audit committee currently consists of two members, Prof. Dr. Franz-Joseph Busse and Prof. Dr. Harald Wiedmann, and prepares the supervisory board's decisions on the approval of the annual financial statement and the agreements with the certified auditors, analyses the company's risk management and advises the supervisory board on risk management developments. The IPO committee consists of two members, Prof. Dr. Franz-Joseph Busse and Stefan Giesler, and advised the supervisory board in connection with the IPO in 2011.

The supervisory board's strategy workshop on 08 February 2012 started with a report on the current situation of the business delivered by the executive board. This was followed by in-depth analyses and discussions of the company's strategic approach as well as alternative strategic approaches in the light of the property and capital market situation. The supervisory board meeting on 13 March 2012 focused on the annual financial statement of Prime Office REIT-AG for the 2011 financial year and the current situation of the business. The meeting on 10 May, ahead of the general shareholders' meeting, was dedicated to the state of the company and the business development in the first quarter of 2012.

During the supervisory board meeting on 18 September 2012, the executive board informed the supervisory board extensively about the situation of the business according to section 90 of the German Stock Corporation Act (AktG), the sales process of the property in Hamburg and corporate governance, and discussed the elections to the supervisory board during the annual shareholders' meeting in financial year 2013. In its meeting on 17 November 2012, the supervisory board thoroughly examined the executive board's budget and liquidity planning for Prime Office REIT-AG. On 13 December 2012, the supervisory board held a joint telephone conference with the executive board in order to obtain information on the business development through to year end.

Intensive communications about essential business transactions between the chairman of the management board and the chairman of the supervisory board.

The audit committee met once each quarter to focus predominantly on the annual and quarterly financial statements, the risk management system and the system of internal controls. The chairman of the audit committee reported regularly on the activities of the audit committee to the supervisory board.

No member of the supervisory board participated in less than half of the supervisory board meetings. On the contrary, all supervisory board members participated in all meetings; where members were unable to attend on site, they were conferenced in. Acting in line with section 5.6 of the German Corporate Governance Code, the supervisory board also again reviewed the efficiency of its activities in financial year 2012.

With the exception of Dr. Mellinger, there are no actual or potential conflicts of interest between the obligations, the private interests or other obligations of the company's executive board members and supervisory board members. Dr. Mellinger is the chairman of the supervisory board of Quantum Immobilien AG and Quantum Kapitalanlage GmbH. The interests of Prime Office REIT-AG in the event of potential conflicts of interests are sufficiently protected under sections 5.5.2 and 5.5.3 of the German Corporate Governance Code.

On 1 March 2013, the executive board prepared the annual financial statement as of 31 December 2012 according to the requirements of the German Commercial Code (HGB) and the AktG, the management report for 2012 and the separate financial statement under the International Financial Reporting Standards (IFRS) pursuant to section 325 para. 2a HGB as of 31 December 2012. All of the above documents were audited by Ernst & Young GmbH Wirtschaftspruefungsgesellschaft, Munich, that issued an unqualified opinion.

The annual financial statement, the management report, the separate financial statement pursuant to section 325 para. 2a HGB, the audit reports and the separate opinion by the auditor pursuant to section 1 para. 4 sentence 5 of the REIT law as well as the executive board's proposal for the use of the distributable profit have been available to all supervisory board members. In its meeting on 7 March 2013, the audit committee examined the annual financial statement including the management report, the separate financial statement pursuant to section 325 para. 2a HGB and the separate opinion of the auditor pursuant to section 1 para. 4 sentence 5 of the REIT law ahead of the supervisory board's balance sheet meeting. The auditor participated in the deliberations of the audit committee and reported on the key results of its audit that also encompassed the internal control and risk management system in as far as it relates to the accounting process. The auditor did not report meaningful weaknesses. The supervisory board also reviewed the above documents and discussed them extensively in its meeting on 7 March 2013. The auditor also participated in the balance sheet meeting of the supervisory board plenum and reported on the main result of its audit.

The supervisory board concurs with the results of the audit. The reviews by the audit committee and the supervisory board, which have now been completed, do not give rise to objections. The supervisory board approves the annual financial statement of Prime Office REIT-AG as of 31 December 2012 and the separate financial statement pursuant to section 325 para. 2a HGB. The annual financial statement has therefore been approved according to section 172 of the AktG.

The supervisory board thanks the executive board and the employees of Prime Office REIT-AG for their strong personal commitment and their work during the past financial year.

MUNICH, 7 MARCH 2013

PROF. DR. H.C. ROLAND BERGER
Chairman of the Supervisory Board

The sustainable and diversified real estate portfolio forms a solid basis.

The focus of the company founded in 2007 is still on investments in high-value office properties in German cities and conurbation areas. It was that focus that made Prime Office REIT-AG one of the leading specialized real estate companies for sophisticated office properties in Germany.

An independent expert defines the market value of properties.

The company's basis is its clearly structured and diversified portfolio of office properties that reflects the stable growth potential of the market in Germany and is dedicated to the appreciation of Green Buildings.

Prime Office REIT-AG's range of buildings currently comprises 13 high value and architecturally attractive office properties whose market value was determined to be amount to EUR 900 million by an independent expert. The properties are located in the important German office locations of Düsseldorf, Essen, Frankfurt am Main, Munich and Stuttgart. Additional real estate properties are located in Darmstadt, Heilbronn and Nuremberg.

Prime Office REIT-AG is listed on the SDAX, the stock exchange segment for small caps in Germany. In addition, Prime Office's shares are listed on the REIT segment of Deutsche Börse as well as on the FTSE EPRA/NAREIT Global Real Estate Index Series that is also of international importance.

Good creditworthiness of tenants and well weighted lease terms of existing agreements

Tenants of Prime Office REIT-AG have a good creditworthiness. In addition, existing lease agreements that are characterized by a weighted lease term of seven years, offer stability despite the vacancies that temporarily rose to about 14 percent. In general, the quality of the properties and tenants, the location and architecture of the office properties are the pillars of the company's success.

Existing lease terms and tenant creditworthiness offer a solid basis.

The references and contacts of the management have also been decisive for Prime Office REIT-AG's development to date. Board members Claus Hermuth and Alexander von Cramm have long years of industry-specific experience. In the course of their careers, they were able to establish a far-reaching network in the real estate and financial industry. They are supported by a Supervisory Board consisting of top-class members. These members are Prof. Dr. h.c. Roland Berger, Prof. Dr. Kurt Faltlhauser, Prof. Dr. Franz-Joseph Busse, Dr. Lutz Mellinger, Stefan Giesler and Prof. Dr. Harald Wiedmann who are all above-regionally and interdisciplinary renowned and recognized experts. Prime Office REIT-AG benefits regularly from their wealth of knowledge and their competencies in legal, tax, fiscal economics and, last but not least, real estate issues.

Consequent implementation of the sustainability strategy

An important part of the company's philosophy is its focus on long-term objectives that have good future stability prospects. This aspect became one of the important investment criterions of Prime Office REIT-AG. The company's management associates sustainability with adjectives such as energy-efficient, stabile, constant and permanent.

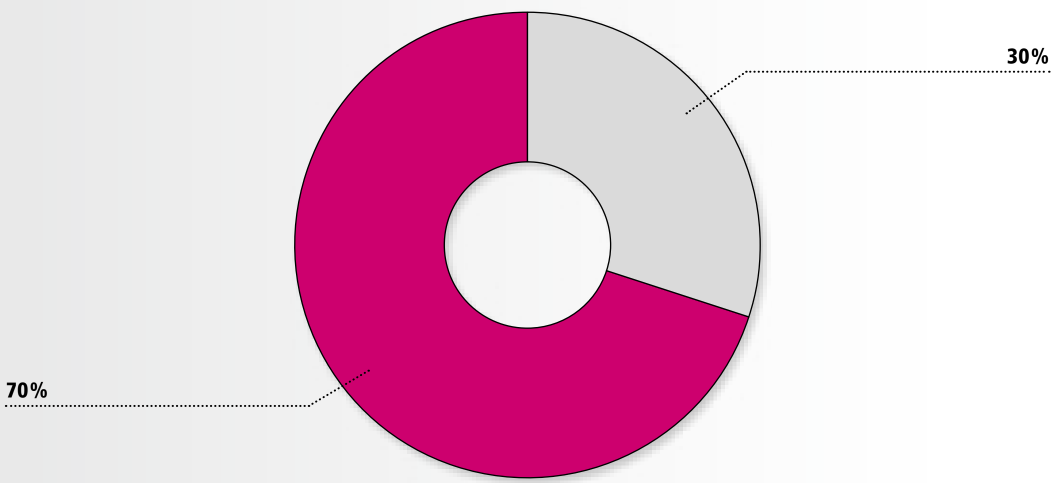
Location and quality of a property are very closely connected to the ecological dimension of sustainability. It is the result of modernity, amenity value and usability for third party purposes. All these aspects ensure permanent use and sustainable rentability of the real estate. Prime Office REIT-AG has already been awarded several prizes for its orientation: the LEED certificate in gold, the Deutsches Gütesiegel für nachhaltiges Bauen and the "BREEAM DE Bestand" certificate.

In the year 2012, T-Online's headquarters in Darmstadt and the Xcite in Düsseldorf where the two first real estate properties in Germany ever to be awarded the "BREEAM DE Bestand" certificate. This award is one of the leading and worldwide recognized certification systems for sustainable real estate properties. So, as early as at the beginning of October 2012, a total of four real estate properties accounting for half of the total rented area held a recognized sustainability certificate. Another three properties were awarded the "BREEAM DE Bestand" until early 2013. Noteworthy here is that the quality of Prime Office REIT-AG's buildings was rated as good, very good or excellent. Today, seven properties accounting for a share of approx. 70 percent of the rented area have been awarded internationally recognized sustainability certificates.

Prime Office REIT-AG focuses on long-term objectives fit for the future that are defined by the quality of their properties.

Overview of the share of certified properties

Approx. 70% of rented area received internationally recognized sustainability certificates.



The solid basis for a successful future of Prime Office REIT-AG: high-value office properties in Germany

A diversified portfolio of high-quality properties in German cities such as the one of Prime Office REIT-AG, offers an excellent basis for business. It is exactly the focus on sustainability that differentiates Prime Office REIT-AG from its competitors.

Prime Office REIT-AG has integrated its focus on GreenBuildings in its company strategy and is implementing it consequently. Already in the financial year 2011, about 20 percent of the entire rented area in the portfolio had been awarded recognized sustainability certificates according to the LEED standard (Leadership in Energy and Environmental Design) or DGNB standard (Deutsche Gesellschaft für Nachhaltiges Bauen). In 2012, two more real estate properties of Prime Office REIT-AG received sustainability certificates.

T-Online's headquarters in Darmstadt and the "Xcite" in Düsseldorf belonged to the first German real estate properties to receive the newly introduced "BREEAM DE Bestand"-certificate. "BREEAM DE Bestand" is one of the leading and world-wide recognized certification systems for sustainable real properties. Therefore, a total of four properties whose areas accounted for about half of the total leased areas of the portfolio had received internationally recognized sustainability certificates by October 2012. Another three properties had been awarded the "BREEAM DE Bestand" sustainability certificate by the end of January 2013.

The quality of Prime Office REIT-AG's buildings proved to be particularly noteworthy during the certification process, as they received qualifications of good, very good or excellent. In total, seven properties accounting for a share of about 70 percent of the entire rented area currently hold such internationally recognized awards.

"We have received several awards for the sustainability of our real estate properties."

CLAUS HERMUTH, CHAIRMAN OF THE BOARD

Prime Office REIT-AG's definition of sustainability goes beyond the socio-ecological components and is firmly rooted in its business model which comprises permanent quality of property and location, an attractive tenant structure, high creditworthiness of tenants, well-balanced lease terms, risk diversification as well as growth potentials.

Focus on German cities

Prime Office REIT-AG's portfolio currently consists of a total of 13 real estate properties in major cities in Germany. These are exclusively office or administration buildings with only a limited number of areas for retail stores, catering and hotels. The properties are located in Düsseldorf, Essen, Frankfurt am Main, Munich, Stuttgart, Darmstadt, Heilbronn as well as in Nuremberg. The portfolio comprises, among others, the building of Süddeutscher Verlag in Munich, Hochtief's headquarters in Essen, "Xcite" in Düsseldorf, Medtronic's headquarters in Düsseldorf/Meerbusch, "Neckarturm" in Heilbronn, "Westend-Ensemble" in Frankfurt am Main and the "Emporia" in Stuttgart-Möhringen.

Prime Office REIT-AG is consciously focussing on the real estate location of Germany. The management has many years of experience and an industry-specific network in this location. That focus has proven to be the right path to embark upon and should remain unchanged in the future based on the stable economic development in Germany.

That clear orientation on the real estate location of Germany makes Prime Office REIT-AG clearly stand out from its competitors. The "Trendbarometer Immobilien-Investmentmarkt Deutschland 2013 (Trend Barometer for the Real Estate Investment Market of Germany in 2013)" published by Ernst & Young states that German real estate properties are more attractive than ever. All surveyed players assessed the German market as being positive both in a European and an absolute comparison: so there is some evidence that Germany will maintain its reputation as a "safe haven".

The focus is on the German office real estate market that makes Prime Office REIT-AG clearly stand out from its competitors.

An essential part of the Prime Office REIT-AG's strategy is to invest in office properties. Investments in other types of use, such as, for example, residential housing, logistics or trade have been excluded to date or are of minor importance only.

In November 2012, Imtech's headquarters in Hamburg were sold, in line with expectations, after an early lease extension, which improved REIT's equity ratio by approx. two percent and resulted in the realization of carrying amount gains under the German Commercial Code which will be carried forward as a future dividend potential. The market value expertise prepared by the real estate appraiser CB Richard Ellis states that the market value of the currently 13 real estate properties belonging to Prime Office REIT-AG totals EUR 909 million as of 31 December 2012. Based on this expertise, the properties have a total useful space of 368,000 square meters. At the turn of the year, the vacancy ratio that, historically, ranged between zero and five percent, rose to about 13.6 percent based on temporary vacancies in the properties in Frankfurt am Main, Stuttgart/Möhringen and Heilbronn.

Continuous portfolio development

Prime Office REIT-AG intends to continuously develop its portfolio and to undergo a sustainable growth in the upcoming years. For a further diversification of the portfolio, its focus should be developed to multi tenant properties, while potential acquisitions should be made in orders ranging from EUR 20 to 100 million. The center of attention will, also in the future, be the acquisition of high-value office properties in German cities and in conurbation areas. The focus is on the nine German office locations of Berlin, Düsseldorf, Essen, Frankfurt am

Main, Hamburg, Cologne, Leipzig, Munich and Stuttgart. A good structural quality and high attractiveness of the property are of general importance for Prime Office REIT-AG. Another acquisition criterion is the real estate's sustainability. Floor spaces ranging from 6,000 to 40,000 square meters normally meet the requirements of Prime Office REIT-AG. The size of the property must match its rentable area and the size of the local market. The company also strives for an adequate leased ratio and a good creditworthiness of its tenants.

The focus is on real estate investments in German cities.

Sustainable ecologic and economic real estate projects

The aspect of sustainability has increasingly gained in importance for Prime Office REIT-AG in the past and will be part of its investment decisions in the future, wherever that is economically sensible and possible. That is how the company does justice to the increasing public appreciation for sustainable management that plays a role in the real estate industry as well. Prime Office REIT-AG's management associates sustainability with characteristics such as energy-efficient, stable, constant and permanent.

Sustainable management forms the basis.

However, location and quality of the property are also closely connected with the ecological dimension of sustainability. It is the result of modernity, amenity value and usability for third party purposes. All these aspects combined to ensure a permanent use and a sustainable rentability of the real estate. Future investments should still focus on sustainable real estate properties, i.e. Green Buildings, provided that makes economic sense and is possible. Investors will benefit from sustainable real estate projects based on the careful handling of resources in addition to an optimization of the life cycle costs and a possible increase of the property's value.

Real estate defining the cityscape

Prime Office REIT-AG's portfolio is today characterized by properties that are well positioned in the cityscape. For example the "Westend-Ensemble" in Ludwig-Erhard-Anlage 2 – 8 that is located in the city center of Frankfurt am Main, is well integrated in the cityscape. The property consisting of the "Westend Palais" with its neoclassical architecture and the "Senckenberg Carré" with its postmodern style enrich the urban core of Frankfurt. Originally, that property was the Post Directorate of Frankfurt am Main. The property is located in the direct vicinity of the trade fair center and the European Quarter. Its combination of a historical prestigious building and a modern office building make for a very interesting architecture. The building complex has a total of 35,100 square meters and is located close to the German headquarters of internationally active financial service providers, law firms, investment banks and management consultancies.

The portfolio is characterized by high quality properties with good locations in the city.

The "SZ tower", the headquarters of Süddeutscher Verlag in Munich, is another example of a highly modern real estate defining the cityscape. Not only does it set standards in terms of aesthetics, but also with regard to ecology and economy. The building is certified according to the strict environmental and sustainability criteria of the U.S. Green Building Councils (USGBC) and its energy consumption is up to 80 percent lower than that of any traditional office building, thus ensuring significantly reduced operating charges. Such operating cost effects are achieved mainly by a double façade with almost natural ventilation and decentrally controlled air conditioning, the use of geothermic in connection with concrete core activation ensuring a use of heating and cooling energy which is optimized in line with the season as well as hybrid ventilation.

The building of Hochtief's headquarters in Essen is also located in the center of a West German city and thus characterizes its cityscape. A major part of the total rented area of 24,500 square meters is used as an office and administrative building. It was originally constructed between 1934 and 1966 and has undergone continuous modernization.

Another example for buildings shaping the image of a city is the "Xcite" at Düsseldorfer Seestern that housed "Vodafone Deutschland. "until March 2013. The skyscraper is located at Seestern 1, to the left of the river Rhine and thus widely visible, it immediately catches the eye with its architecture and urban structure.

Awards for Green Buildings

Prime Office REIT-AG has already received several awards for its sustainability efforts: With four real estate properties that have had these certificates up until the end of 2012, already half of the entire renting space of the company's portfolio complied with the internationally recognized Green Buildings standards. Both the "T-Online headquarters" in Darmstadt and the "Xcite" in Düsseldorf received new sustainability certificates in 2012.

These two real estate properties were among the first real estate properties in Germany that received the "BREEAM DE Bestand" certificate. "BREEAM DE Bestand" is one of the leading and globally recognized certification systems for sustainable portfolio properties.

The real estate properties of Prime Office REIT-AG meet the high demands of the Green Building standards.

Both the "T-Online headquarters" and the "Xcite" were able to achieve an excellent result in the assessment. In the course of this assessment, their operations with regard to sustainability criteria were assessed in addition to the buildings. The "T-Online headquarters" building was assessed with five of six stars and thus as "Excellent".

The operation of the high-value property convinced the experts as well: It received three of six stars which correspond to the assessment "Good". The "Xcite", which is currently further developed to a modern and future-oriented office property, achieved four of six stars in the building category and was thus assessed as "Very good". The operation was assessed as "Good" with three of six stars.

From a total of 15 properties that have been certified according to the "BREEAM DE Bestand" in Germany until October 2012, only two properties, including the "T-Online headquarters" of Prime Office REIT-AG, received the award "Excellent" in the building quality category.

By early 2013, Prime Office had three further properties of their real estate portfolio certified according to the "BREEAM DE Bestand" standard for sustainable portfolio properties. The assessed office properties consisted of the "T-Systems building" in Darmstadt, the headquarters of the Hochtief subsidiaries in the Gruga park in Essen and the "emporia" in Stuttgart-Möhringen. The results of the certification process repeatedly underlined the high property qualities within the real estate portfolio. The building qualities of the "T-Systems building", the headquarters of the Hochtief subsidiaries in the Alfredstraße in

Rating: Excellent!

Essen and the "emporia" in Stuttgart/Möhringen were assessed with "Very good". The operation of all properties were respectively assessed with the rating "Good".

"With our sustainably built properties, we have our finger on the pulse of the times."

CLAUS HERMUTH, CHIEF EXECUTIVE OFFICER

With regard to the internationally recognized LEED sustainability certificate, Prime Office REIT-AG was labeled a pioneer as well. The real estate company commissioned the first certification of a new office building in Munich according to the provisions of the LEED standard. In January 2010, the "SZ-Turm" was awarded the rating LEED-Gold as the first office building in Germany. The Munich skyscraper of the Süddeutsche Verlag situated between city center and Neue Messe convinces with its consistently elaborated climate and energy concept. The headquarters of the Süddeutsche Verlag achieved a total of 42 points in the six main categories in line with the LEED certification. Thus, the property clearly exceeded the 39 points benchmark required to achieve the gold status. The assessment in the categories innovation as well as energy and water efficiency was particularly exemplary, where the SZ building not only received the maximum number of points, but also points for "Exemplary Performance" in addition.

The German headquarters of "Medtronic" in Düsseldorf/Meerbusch are a sustainably built property as well. The property, that has been awarded silver status by the German Sustainable Building Council, was already certified in 2009. Prime Office REIT-AG is one of the leading companies in the field of certified real estate properties today. The awards for sustainability obtained so far are a motivation for Prime Office REIT-AG to continue to incorporate this aspect into their business strategy in the future. The sustainability of real estate properties is made measureable and transparent by certifications such as BREEAM, LEED or DGNB.

Stability by good tenant creditworthiness and continuity in the tenant-landlord relationship

Another important aspect for Prime Office REIT-AG is the tenant creditworthiness. The benefits of this strategic orientation showed themselves in particular in the recent crisis years. Even in the years of the biggest economic and financial crisis since the end of World War II, there were no notable losses of rents or insolvencies of tenants. With these excellent, creditworthy tenants, Prime Office REIT-AG strive for long-term leases. This also includes premature contract extensions. They underline the trust-based relationship between the tenants and Prime Office REIT-AG. For example, the company managed to extend the leases for the "BMW Designcenter" in Hufelandstraße in Munich prematurely in May 2012 and in November 2012 with terms until September 2022 and/or September 2023.

The rental performance of the asset management in the overall year of 2012 amounted to a total of around 22,000 square meters, which overall corresponds to approx. six percent of the total renting space of Prime Office REIT-AG.

Future thanks to further development

With its focus on German office properties, the strategy of Prime Office REIT-AG is clearly defined and still offers room for innovations. With the transformation of the "Vodafone Headquarters" in Düsseldorf to the new "Xcite", Prime Office REIT-AG proves its capacity for innovation. The property, which is situated in the Düsseldorf Seestern, one of the most important office locations in Germany, is supposed to embody a new balance between work and life in the future. The quarter with a total of 460,000 square meters on the left banks of the Rhine and home of the "Xcite" will undergo a visible transformation in the future. Jointly with the new Vodafone-Campus, the apartments of the Heinrich-Heine-Gärten and the spaces of the former freight depot, a district with its own character is developed.

"Our strategy is clearly defined: The focus is on office properties in Germany."

CLAUS HERMUTH, CHIEF EXECUTIVE OFFICER

In the centre of the building are a sophisticated ten-storey entrance hall and a transparent first floor that works as a hub in all directions. In the "Xcite", there will furthermore be numerous offers for communications and cooperation between the companies, but also between firms and individuals. For this purpose, the existing infrastructure will be modernized. The result will be extended service offers, high-tech communication options, a conference zone and multi-purpose rooms (MPRs) for various uses. Green areas and catering offers support a good work-life balance.

This project thus also represents the social sustainability in the strategy of Prime Office REIT-AG. The "Xcite" is supposed to deliberately offer high quality of life and appealing recreation offers to the tenants, in addition to efficient working in the offices. Due to an attractive work atmosphere, the tenants have a good argument to be an interesting employer for qualified personnel. This applies to smaller firms and agencies in the same way as to larger companies. Moreover, there is the argument of good infrastructure and transport connection of the property at the Düsseldorf Seestern.

There is a clearly defined strategic goal for the development of the property. Due to the location and the modern equipment, particularly after the modernization, it shall become one of the preferred addresses for the IT community in Düsseldorf.

Transparency and open communications

In the professionally sophisticated and complex real estate sector, Prime Office REIT-AG attaches great importance to transparency as well as active, timely and open communications. Intensive media and investor relations work serves this purpose in order to inform journalists, investors and analysts in detail about current company developments. The management board informs the named stakeholders comprehensively through the quarterly reports. Moreover, the management board members regularly explain the perspectives and strategies of Prime Office REIT-AG during road shows and investor conferences. Their many years of work for the company and the related personal continuity create trust. Trade fair attendances are a public relations instrument of Prime Office REIT-AG as well. The company focuses on the central trade fairs of the real estate sector. They include, for example, the international real estate show MIPIM in the French city of Cannes and the Expo Real in Munich. The Prime Office REIT-AG management sees these trade shows as a platform to extent the existing network and to establish contacts for future transactions.

Trade show attendances as well as intensive press work are important means of public relations.

Flexible and streamlined internal organization

In order to be successful in the market, Prime Office REIT-AG relies on effective management structures. The entire asset management, i.e. the selection, purchase as well as sale of real estate including development of portfolios and management of the estate is carried out by the management board and the experienced asset management team.

> "Our asset management is characterized by proactive and foresighted actions."
>
> **CLAUS HERMUTH, CHIEF EXECUTIVE OFFICER**

A flexible and streamlined internal organization is the cornerstone for the successful asset management of Prime Office REIT-AG. The company takes responsibility for all steps of value creation by the asset management. External cooperation partners have been involved via service agreements only to support the management.

By means of proactive and yield oriented asset management, the value of the Prime Office REIT-AG property portfolio shall be increased and thus lead to increasing rental income that is stable in the long term. Furthermore, Prime Office REIT-AG intends to utilize cost saving potentials and accomplish sustainable maintenance oriented towards economic criteria, an economically reasonable modernization as well as an optimization of the financing structure for the portfolio. The asset management of Prime Office REIT-AG is focused on value. For this reason, the company relies on active asset management to not have to react on occurring events when it is too late, but to manage the assets proactively.

Setting the course for the future

The Prime Office REIT-AG management works at high pressure on the company's positioning. That way, the real estate investors who deal with German office properties should inevitably become aware of Prime Office REIT-AG. The company intends to generate stable as well as growing rental income also in the long term by yield oriented management of the existing portfolio on the basis of a broad property, location and tenant distribution. It is the company's goal to become one of the leading real estate companies in Germany with profitable and qualitative growth. The growth-oriented company strategy is intended to achieve cash flows that are stable in the long term, to sustainably increase them by consistent extension of the property portfolio and to increase the portfolio's yield overall by professional asset management.

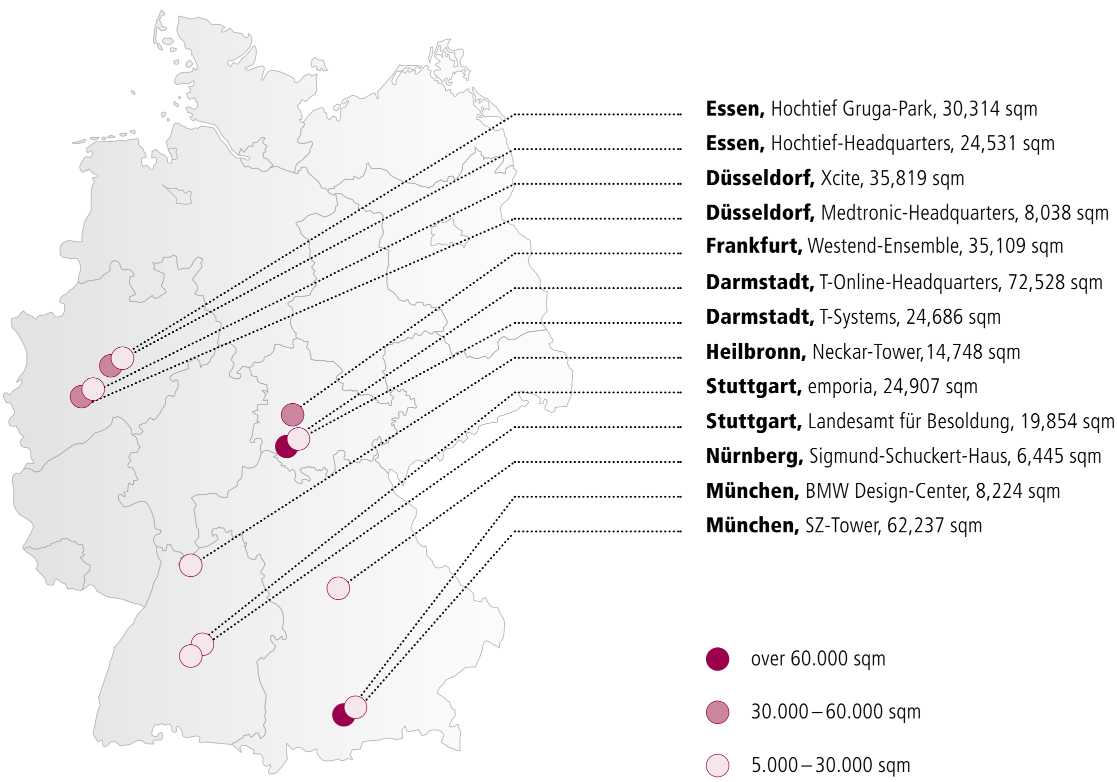
The high-quality portfolio of
Prime Office REIT-AG offers
an excellent basis for business
today and in the future.

The Prime Office portfolio at a glance

The portfolio of Prime Office REIT-AG includes 13 high-quality and architecturally attractive office properties. The properties in the portfolio are situated at central locations of German cities and urban agglomerations and provide a floor space of approx. 368,000 square meters in total. The properties are selected office buildings that also provide retail and other spaces to a minor extent.

Due to temporary vacancies in the properties in Frankfurt, Stuttgart and Heilbronn, the current occupancy rate is below the long-term average with 86%. Due to various lease extensions, the weighted residual lease term increased to 7.0 years at the end of 2012. Properties with a total area of approximativ 259,000 square meters and/or 70% of the rentable area have been certified according to Green Building standards. In 2012, both the T-Online headquarters in Darmstadt and the Xcite in Düsseldorf received the "BREEAM DE Bestand" certificate as two of the very first properties in Germany. "BREEAM DE Bestand" is one of the leading and globally recognized certification systems for sustainable portfolio properties.

With regard to the internationally recognized LEED sustainability certificate, Prime Office REIT-AG was labeled a pioneer as well: The real estate company commissioned the first certification of a new office building in Munich according to the provisions of the LEED standard. In January 2010, the SZ-Tower was awarded LEED Gold as the first office building in Germany. The Medtronic German headquarters in Düsseldorf/Meerbusch is a sustainably built property as well. The property that has been awarded silver status by the German Sustainable Building Council was certified in 2009.



DÜSSELDORF, XCITE

DÜSSELDORF/MEERBUSCH, MEDTRONIC HEADQUARTERS

FRANKFURT, WESTEND-PALAIS

ESSEN, HOCHTIEF GROUP HEADQUARTERS

ESSEN, HOCHTIEF GRUGAPARK

MUNICH, BMW-DESIGNCENTER

STUTTGART, EMPORIA

STUTTGART, LANDESAMT FÜR BESOLDUNG

NUREMBERG, SIGMUND-SCHUCKERT-HAUS

DARMSTADT, T-ONLINE

DARMSTADT, T-SYSTEMS

HEILBRONN, NECKARTURM TOWER

MUNICH, SZ-TURM TOWER

Certifications confirm
the Prime Office REIT-AG
sustainability strategy.

MD&A of Prime Office REIT-AG

According to the annual economic report 2013 by the federal government, Germany remains to be the “forerunner for economy and labor in Europe”.

Economic report

Overall economic development

The European debt crisis continues to have a negative impact on the global economic climate. However, the sentiment on the financial markets has improved on the whole, mainly on account of the euro zone not breaking up and the national debt crisis in the US not escalating further as of year-end 2012. All in all, the global economy is recovering albeit at a slow pace. In its World Economic Output Update (January 2013), the International Monetary Fund (IMF) anticipates overall global economic production to grow by 3.2%, once again down on the previous year’s growth figure (2011: 3.9%) as a result of turbulence in the euro zone. While economic growth in developed countries stood at 1.3%, the euro zone showed recessionary trends with overall production in Europe falling by 0.4% in 2012. By contrast, overall production in Germany grew by 0.9% in 2012 according to the IMF.

In its Annual Economic Report for 2013, the German federal government reported that Germany would “continue to lead the way for the economy and labor market in Europe.” Although growth slowed on account of the weak development in the global economy and the crisis in confidence in the euro zone in 2012, the German federal government only expects this slowdown to be temporary and that growth will pick up noticeably again in 2013 – supported primarily by domestic demand. On the whole, the German labor market remains solid meaning the German federal government is not expecting any collapse of the labor market in 2013. Nevertheless, unemployment is expected to show a moderate increase of 60,000 to 2.95 million on average over the year. Reaching a record high in 2012, employment is expected once again to report a slight increase of approximately 15,000 persons on average in 2013 despite the difficult environment in Europe. Overall, this means the federal government expects an unemployment rate of 7.0% in 2013.

An initial estimate from the German Statistical Office puts GDP growth, adjusted for inflation, at 0.7% for 2012. Although the German Statistical Office calculates government spending at this level as still being higher than government receipts, the municipalities generated sustainable surplus funds resulting in a positive general budget of EUR 2b. As a result, according to the annual economic report for 2013, the objective of applying the national debt brake was achieved in 2012, four years earlier than originally planned.

Leading economists expect Germany to report growth for 2013, even if it is forecast to be somewhat less than the level reached in 2012. The German Council of Economic Experts expects GDP growth of 0.8% in 2013, the Ifo institute anticipates 0.7%, the IMF 0.6%, while Deutsche Bundesbank and the German federal government both expect growth of 0.4% in 2013.

Development of the office real estate market in Germany

The German market for retail property is divided into regional and local markets. These individual markets are in turn split according to the property's type of usage, with the markets for office and retail properties seen as the key markets.

The investment market for retail property recorded investment revenue of around EUR 25.6b in fiscal year 2012. As a result, the transaction volume for the commercial real estate investment market increased on the prior year (EUR 23.5b) by some 9%, achieving the third-highest transaction volume ever generated. According to the publication by BNP Paribas Real Estate, a leading consulting firm dealing in real estate, the 39.5% share held by foreign investors highlights the fact that German real estate is particularly sought after during these current turbulent and challenging times. Nevertheless, the very large portfolio transactions performed in Q4/2012 resulted in an exceptionally good transaction volume. With a total volume of some EUR 19.7b, the individual transaction volume stood at the prior-year level, while portfolio transactions increased considerably to reach a level of some EUR 5.9b overall. According to BNP Paribas, office property constituted the largest share of the transaction volume in 2012 at approximately 42%.

Particularly in turbulent and economically challenging times, German properties are especially popular.

Ernst & Young Real Estate GmbH published its trend barometer for the real estate investment market in Germany 2013 in January 2013. According to this, the real estate transaction volume increased by some 24% on the prior year to reach a total of EUR 36b in 2012 (prior year: approx. EUR 29b). Of this total, around EUR 25b (approx. 69%) related to the commercial sector. Overall, the German real estate market held its strong position. The study finds price development stable on the whole, meaning that Germany can continue in its role as a safe haven for real estate investments.

PricewaterhouseCoopers and the Urban Land Institute published a report on "Emerging Trends in Real Estate Europe 2013" in January 2013, according to which the sentiment of those real estate experts surveyed is one of renewed optimism. For the first time, two German cities, Munich and Berlin, have topped the location rankings out of 27 major European cities. The report also mentioned the attractive business opportunities that are arising through green initiatives, with an extra premium being generated for environmentally sound properties with particularly low energy consumption levels, for example. Overall, the German real estate market is experiencing exceptional development according to the study.

Almost all the participants in an Ernst & Young survey considered Germany as an attractive or very attractive real estate investment location in 2013.

According to the results of the Ernst & Young trend barometer 2013, the German real estate market remains interesting. Almost all those that participated in the survey again regarded Germany as an attractive or very attractive location for investing in real estate in 2013. More than half of the real estate experts surveyed predict that office property in good locations will come back into focus after long-term leased core properties in the best locations were exclusively desired last year. Sellers were likely to be open funds, other international funds, opportunity and private equity funds in particular according to Ernst & Young. By contrast, insurance companies and pension funds, the public sector and real estate stock corporations are only expected to show low levels of activity. According to the overview of the office market for Q4/2012 from the international real estate advisory firm Jones Lang LaSalle, the vacancy rate in the seven most important office locations ("Big 7") in Germany continued to fall in 2012 and came to 8.8% as of year-end 2012 after reaching 9.5% in the prior year. Vacancy amounted to just under 7.8 million sqm in the fourth quarter of 2012 after reaching 8.4 million sqm in Q4/2011. The volume of new constructions in the seven most important office locations stood at 820,000 sqm in 2012, the lowest in five years.

With the exception of Frankfurt, where prime rents remained unchanged in 2012, prime rents increased in all other important office locations over the course of the year. Aggregated across the Big 7, prime rents increased by 3% in 2012 while average rents rose by 0.5%.

Organization, corporate controlling and the competitive environment

Prime Office REIT-AG is focused on quality growth and plans to extend its portfolio by suitable office properties in the long term.

Prime Office REIT-AG (formerly: Prime Office AG) is a publicly listed real estate firm which invests in high-quality office properties in Germany. The properties are leased to tenants with a good credit standing, and in most cases on a long-term basis. Prime Office REIT-AG focuses on qualitative growth and plans to expand its portfolio in the long term through the acquisition of suitable office properties. Prime Office REIT-AG was entered in the commercial register on 7 July 2011 as a REIT stock corporation ("REIT-Aktiengesellschaft") following the Company's IPO on 1 July 2011, and has since then operated as Prime Office REIT-AG. REIT stock corporations ("REIT-AG") are exempt from corporate income tax and trade tax. Tax exemption applies to Prime Office REIT-AG with retroactive effect from 1 January 2011.

Prime Office REIT-AG is managed by a two-person management board. The board members' competencies are as follows:

CLAUS HERMUTH	**Chairman of the management board, CEO** Corporate Strategy, Corporate Planning, Acquisitions, Asset Management, Staff Development and Internal Auditing, IT and Organization, Law and Taxes
ALEXANDER VON CRAMM	**CFO, Deputy CEO Financing** Controlling and Accounting, Investor Relations, Financial Marketing, Risk Management, Compliance, Financial and Liquidity Planning

The management board comprised three members until 30 June 2012. The management board contract concluded with Heinz-Theo Tetsch, who until 30 June 2012 served on the management board as chief operating officer (COO), expired in mid-2012 of his own volition. He was not replaced. The areas of responsibility of the COO were divided between the CEO and the CFO.

Prime Office REIT-AG's business planning, management and controlling is based on standard financial and operational indicators. The key performance indicators used are EBIT, EBITDA and in particular funds from operations pursuant to IFRSs (FFO). In the view of Prime Office, FFO is a key liquidity indicator for REIT stock corporations and reflects the income generated from the ongoing leasing business. It is calculated on the basis of EBIT adjusted for non-cash effects:

Operating result (EBIT)
– Unrealized/realized gains from the fair value measurement of investment property
+ Unrealized/realized losses from the fair value measurement of investment property
+ Amortization, depreciation and impairment
– Net interest (interest paid net of interest received)
+ Adjustments for interest at the end of the period
Funds from operations (FFO)

Besides Prime Office REIT-AG, there were four other listed real estate stock corporations with REIT status in Germany in the 2012 fiscal year. These companies can be regarded competitors and are comparable in the broadest sense. They are: alstria office REIT AG, Hamburg, Fair Value REIT AG, Munich, Hamborner REIT AG, Duisburg, and IVG Immobilien Management REIT-AG, Bonn.

The differences between the other German REIT companies and Prime Office REIT-AG include the size of their property portfolios and their corporate strategy. Prime Office's corporate strategy focuses on investments in premium office properties in excellent locations in Germany. Real estate investments are generally in the form of off-market transactions, and the focus is on the acquisition of individual properties.

Other competitors include DIC Asset AG, Frankfurt, a publicly listed real estate stock corporation which specializes in investments in commercial property. Although it has no official plans to pursue REIT status, it should be considered a peer group company.

Prime Office REIT-AG has oriented its company strategy towards investments in sophisticated office properties in Germany with good locations.

Disclosures pursuant to sec. 289 (4) HGB ["Handelsgesetzbuch": German commercial code]

Issued capital

The capital stock of Prime Office REIT-AG was EUR 51,941,345 as of 31 December 2012. The capital stock is divided into 51,941,345 no-par value bearer shares of EUR 1.00 each. The capital stock is fully paid up.

Authorized capital and conditional capital

Subject to the approval of the supervisory board, the management board is authorized to implement one or more increases in capital stock up to a total of EUR 23,720,672 (authorized capital 2011) by 19 May 2016, by issuing up to 23,720,672 new no-par value bearer shares in return for cash and/or contributions in kind. Shareholders generally have a subscription right; however, under certain conditions and subject to the approval of the supervisory board, the management board is authorized to fully or partially exclude the subscription right of shareholders on one occasion or more.

At the general meeting of 29 June 2011, the Company's capital stock was increased conditionally (conditional capital 2011); the increase is implemented through the issue of up to 8,720,672 new no-par value bearer shares with profit participation rights effective from the start of the fiscal year of their issue. The conditional capital 2011 is for the granting of shares to the holders or creditors of convertible and warrant bonds. Pursuant to the approval by the general meeting of 29 June 2011, such bonds can be issued by the Company at any time up to the close of day on 19 May 2016. The increase will be implemented only if and to the extent that the conversion and option obligations under such convertible and warrant bonds are exercised or conversion or option rights from such bonds are fulfilled, and treasury shares or new shares from the authorized capital are not used for servicing these obligations. Subject to the approval of the supervisory board, the management board is authorized to define further details of the conditional capital increase and the issue of new shares.

Regulations governing the appointment and removal of members of the management board and amendments to the articles of incorporation and bylaws

The Prime Office REIT-AG supervisory board rules of procedure do not include any regulations that go beyond the statutory provisions of Sec. 84 AktG ["Aktiengesetz": German Stock Corporations Act]. Pursuant to Sec. 179 AktG, amendments to the articles of incorporation and bylaws require a resolution by the general meeting. The resolution of the general meeting must be passed by a majority of at least three quarters of the capital stock represented at the vote. Pursuant to Article 10 (4) of the articles of incorporation and bylaws, the supervisory board is authorized to make amendments which affect only the wording of the articles of incorporation and bylaws.

Management board stock repurchasing powers
At the general meeting on 20 May 2011, the Company was authorized in accordance with Sec. 71 (1) No. 8 AktG to acquire capital stock by 19 May 2016 up to a total of 10% of the capital stock at the time of the resolution or at the time when this authorization is exercised, whichever figure is lower. The sum of the shares repurchased on the basis of this authorization and shares which the Company has already repurchased or still holds or which are deemed to be shares of the Company pursuant to Secs. 71d, 71e AktG may at no point exceed 10% of the current capital stock at that time. The management board can choose to repurchase the shares either on the stock exchange or on the basis of a public offer addressed to all shareholders.

Details of compensation agreements in the event of a takeover bid
In accordance with the provisions of the German Corporate Governance Code, the management board contracts of Mr. Hermuth and Mr. von Cramm provide that severance payments made to a management board member on early termination of his contract without serious cause cannot exceed the value of two years' compensation (severance payment cap). The severance payment cap will be calculated on the basis of total remuneration for the past year and the estimated total remuneration for the current fiscal year. In addition, no more than the remaining term of the contract is compensated. Termination benefits in the event of the early termination of management board work following a change of control may not exceed either 150% of the severance payment cap or the total remuneration due for the remaining term of the contract.

Major shareholders
The major shareholders were as follows as of the reporting date 31 December 2012. Listed below are the most recent voting rights notifications received in fiscal year 2012 pursuant to Sec. 21 (1) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] in the calendar year.

Oaktree European Principal Fund III LP., Los Angeles (USA)	7.9%
Morgan Stanley Investment Ltd., New York (USA)	5.5%
Karoo Investment S.C.A. SICAV-SIF, Luxembourg (Lux)	5.3%
Ironsides Partners LLC, Boston (USA)	6.4%
Ruffer Ltd., London (UK)	3.4%
BNP Paribas Investment Partners S.A., Paris (F)	3.0%

Additional disclosures pursuant to sec. 289 (2) no. 5 HGB

The appointment of the management board members Hermuth and von Cramm was extended by further five and/or three years in the 2011 financial year.

Remuneration for the members of the management board of Prime Office REIT-AG currently comprises both fixed and variable components. The non-performance-related components consist of fixed pay and fringe benefits. Part of performance-related remuneration is based on a percentage of the funds from operations. There is also an incentive scheme. Each year, the incentive scheme issues eligible members with phantom shares (performance share units, PSU) in contractually defined tranches. These shares are then paid out in cash upon expiry of a three-year term. Details of management board remuneration including an individual breakdown are provided in the remuneration report, which is part of the corporate governance report.

The contracts of management board members Hermuth and von Cramm were extended by five years and three years respectively in the 2011 fiscal year. At his own request, the contract of management board member Tetsch was not extended and therefore expired as of 30 June 2012.

Development of the Company

Significant increase in funds from operations despite temporary vacancy in individual properties

The business development of Prime Office REIT-AG in fiscal year 2012 resulted in an increase in funds from operations (FFO) on the prior year despite the temporary vacancy in individual properties. As part of reporting on business development over the first nine months of fiscal year 2012, the management board increased its FFO targets by EUR 3m to between EUR 20m and EUR 22m on account of the strong development in FFO. In fiscal year 2012, Prime Office REIT-AG increased its funds from operations from EUR 21.8m in the prior year to EUR 22.8m.

Despite temporary vacancy and increased expenses for faculty management, partly as a result of marketing activities and planning costs for properties with releasing requirements, the operating result before net valuation effect was maintained at the prior-year level in 2012. This was largely helped by income from the settlement of restoration obligations and refurbishment agreements, which resulted in an increase in other rental income, amounting to a total of some EUR 4.0m in the reporting period.

In turn, non-cash effects on the market valuation of long-term interest rate and currency hedges (swap market values) and the shortening terms of lease contracts for the office properties in Frankfurt and Düsseldorf influenced the business development of Prime Office in fiscal year 2012. Adjusted for measurement effects relating to real estate and financing, Prime Office REIT-AG generated a profit for the period (EPRA earnings) of EUR 16.0m, down on the EUR 15.3m generated in the prior year, as a result of the fall in tenancy levels year on year. In light of this, EPRA earnings per share came to EUR 0.31 after reaching EUR 0.30 (unweighted)/EUR 0.44 (weighted) in the prior year.

Overall, with revenue of EUR 72.3m, Prime Office REIT-AG generated a loss for the period of EUR –5.2m (prior year: profit of EUR 17.6m). Earnings per share stood at EUR –0.10 in fiscal year 2012 (prior year: EUR 0.50).

After the early and long-term lease extension for the property "Imtech-Zentrale" in Hamburg, this property was sold.

After the early and long-term extension of the rental agreement for the property "Imtech-Zentrale" in Hamburg, this property was sold. Following the sale, which was notarized on 2 November 2012, Prime Office REIT-AG had a real estate portfolio comprising a total of 13 properties in eight locations in major cities in western Germany with a market value of EUR 908.5m as of the reporting date 31 December 2012. With total usable floor space of 367,811 sqm, the vacancy rate of the portfolio was around 14% as of the reporting date on account of the real estate in Stuttgart/Möhringen, Frankfurt and Heilbronn, which has had a vacancy rate of between 0% and 5% in the past. As a result of the rental agreement in Frankfurt expiring as expected as of 31 December 2012, the average tenancy level amounted to around 95% for the year as a whole.

Prime Office REIT-AG's real estate properties primarily include office and administrative buildings and, to a minor extent, retail, catering and hotel space. With its office real estate portfolio, the Company was able to generate sustainable cash flows from renting to well-known and stable tenants in 2012 despite having temporary vacancies during the year. As announced, the management board continued to optimize the Company's financing structure in fiscal year 2012. As a result of making high and, in some cases, early repayments, the Company considerably reduced its loan-to-value (LTV) ratio as the total of financial liabilities in relation to the value of investment property by 500 base points, thereby achieving a ratio of 60.2% as of the reporting date. Furthermore, all loans concluded in foreign currencies (Swiss francs, CHF) in the past were either repaid or converted into euro loans. The Company's financial liabilities fell by EUR 86.5m (13.7%) from EUR 632.7m in the prior year to EUR 546.2m as of 31 December 2012. Overall, the Company had cash and cash equivalents (bank balances and cash on hand) of EUR 64.4m as of the reporting date.

Results of operations

In the past fiscal year 2012, Price Office REIT-AG generated revenue of EUR 72.3m in total (EUR 68.9m adjusted for Hamburg) after recording EUR 75.3m (EUR 71.7m adjusted for Hamburg) in the prior year. As a result of selling the property "Imtech-Zentrale" in Hamburg as of 31 December 2012, the total rental space of the real estate portfolio, at 367,811 sqm, was below the prior-year figure of 383,440 sqm.

Rental space and rental overview of Prime Office REIT-AG				
	Rental space (sqm)	Total rented space (sqm)	Rent without incidentals (in EUR m p.a.)	Rent without incidentals (in EUR/sqm per month)
Munich, Hufelandstrasse	8,224	8,224	1.7	17.23
Frankfurt, Ludwig Erhard Anlage	833	35,101	0.3	30.01
Darmstadt, T-Online Allee	72,528	72,528	11.9	13.67
Essen, Alfredstrasse	30,314	30,314	5.7	15.67
Darmstadt, Deutsche Telekom Allee	24,686	24,686	3.4	11.48
Stuttgart, Breitwiesenstrasse	9,830	25,284	1.3	11.02
Nuremberg, Richard Wagner Platz	6,445	6,445	1.1	14.22
Heilbronn, Bahnhofstrasse	14,552	14,750	2.1	12.03
Düsseldorf, Am Seestern	35,819	35,819	7.1	16.52
Stuttgart, Philipp Reis Strasse	19,854	19,854	3.5	14.69
Munich, Hultschiner Strasse	62,237	62,237	10.5	14.06
Düsseldorf/Meerbusch, Earl Bakken Platz	8,038	8,038	1.3	13.48
Essen, Opernplatz	24,531	24,531	2.6	8.83
	317,891	367,811	52.5	13.76

Source: CBRE report as of 31 December 2012

Although the net annual rent (without incidentals) for the two properties in Darmstadt increased on the prior year as a result of contractually agreed index-linking, the temporary vacancies in Stuttgart, Frankfurt and to a lesser extent Heilbronn meant that the net annual rent (without incidentals) of the portfolio as of the reporting date 31 December 2012 fell to EUR 52.5m (prior year adjusted for Hamburg on a like-for-like basis: EUR 62.5m). As of the reporting date 31 December 2012, a vacancy in Frankfurt not coming into being until 1 January 2013 was taken into account. The average rent without incidentals per sqm stood at EUR 13.76/sqm after reaching EUR 14.78/sqm (like-for-like) in the prior year.

As a result of the expected temporary vacancy, the tenancy level of Prime Office REIT-AG's real estate portfolio, including the expiring rental agreement in Frankfurt (34,268 sqm), stood at 86% as of the reporting date, far below the figures that the portfolio reported in the past. Nevertheless, as a result of the rental agreement in Frankfurt expiring as of 31 December 2012, the tenancy level amounted to around 95% for the year as a whole. In addition to the vacancies at the properties in Frankfurt, Stuttgart and Heilbronn, there are also releasing requirements for the property in Düsseldorf. Overall, portfolio vacancies amounted to 49,920 sqm as of 31 December 2012 following 14,984 sqm in the previous year.

The proceeds from renting and leasing increased due to refurbishment agreements and/or the settlement of reconversion obligations in Düsseldorf and Frankfurt.

Increase in other rental income

Other rental income increased as a result of refurbishment agreements and the settlement of restoration obligations in Düsseldorf and Frankfurt to around EUR 4.0m in the reporting period (prior year: EUR 1.0m).

Prime Office REIT-AG's rental expenses primarily comprise expenses for repairs, maintenance, asset management remuneration, energy and water as well as property taxes. Rental expenses increased to EUR 14.6m in fiscal year 2012 (prior year: EUR 11.4m) as a result of the rise in energy and water costs, asset management remuneration in line with the regulation contained within the agreement concluded in 2007, expenses in connection with the sale of a property as well as marketing activities for the properties in Frankfurt, Düsseldorf and Stuttgart and the related planning costs. Overall, expenses for faculty management amounted to 20.1% of the Company's revenue (prior year: 15.1%). For Prime Office REIT-AG, this resulted in net income from rent of EUR 61.8m in fiscal year 2012 (prior year: EUR 64.9m).

At around EUR 0.2m, other operating income for fiscal year 2012 was on a par with the prior year. At EUR 4.6m, other operating expenses, i.e., property valuation costs, trade fair and advertising costs as well as legal and consulting fees, in the reporting period were down significantly on the comparative figure for the prior year (EUR 7.5m), which was mainly influenced by non-recurring effects in connection with the preparation of the IPO and the IPO itself. Overall, other operating expenses in fiscal year 2012 were down considerably on the level recorded in past years.

Personnel expenses at EUR 1.8m

At EUR 1.8m, personnel expenses, i.e., wages and salaries including social security contributions, were up on the prior-year level in 2012 (prior year: EUR 1.7m). The increase is attributable to profit-based remuneration as well as one additional employee. Personnel expenses amount to a total of 2.5% of revenue.

Largely as a result of depreciation on office fixtures and showroom furniture and fixtures at the properties in Frankfurt and Düsseldorf, amortization, depreciation and impairment increased to some EUR 119k in the reporting period after coming to approximately EUR 94k in the comparative prior-year period.

Despite temporary vacancies and increased expenses for the renting and leasing of the properties, the operating result was on the previous year's level.

Operating result before net valuation effects at prior-year level despite temporary vacancies

Despite temporary vacancies and increased rental expenses for the properties, the operating result before net valuation effect (EUR 55.5m) remained at the prior-year level in fiscal year 2012 (prior year: EUR 55.8m).

In the reporting period, unrealized losses from the fair value measurement of investment property were disclosed as expected at an amount of EUR 20.4m (prior year: unrealized gains of EUR 2.9m) primarily as a result of temporary vacancies as well as the rental agreement in Düsseldorf/Seestern which is set to expire soon.

Operating result (EBIT) at EUR 35.1m

In fiscal year 2012, Prime Office REIT-AG generated an operating result (EBIT) of EUR 35.1m (prior year: EUR 58.7m) in light of the fair value adjustments of the real estate portfolio, the increase in rental expenses as well as temporary vacancies.

Despite early loan repayments, refinancing measures and special repayments made as part of further optimizing the financing structure, Prime Office REIT-AG's finance costs fell by EUR 3.7m (7.1%) from EUR 52.0m in the prior year to EUR –48.3m in fiscal year 2012. With finance income of EUR 8.1m (prior year: EUR 10.9m), the Company also recorded an improved financial result of EUR –40.3m in comparison to the prior year (prior year: EUR –41.2m).

Overall, the Company's total liabilities fell by EUR 70.1m (approximately 10%) to EUR 642.5m in fiscal year 2012. With net debt of EUR 532.0m, the Company's leverage ratio stood at 58.6%, meaning that the measures taken in the fiscal year to further optimize the financing structure will have a positive impact on the future financial result.

Overall, earnings before taxes (EBT) amounted to EUR –5.2m in fiscal year 2012 (prior year: EUR 17.5m).

Mainly on account of expected fair value adjustments of the real estate portfolio, temporary vacancies as well as increased rental expenses, Prime Office REIT-AG generated a loss for the period of EUR 5.2m in fiscal year 2012 (prior year: profit of EUR 17.6m). In this regard, earnings per share – with a total of 51.9m issued shares – came to EUR –0.10 in the reporting period (prior year: EUR 0.50). By contrast, Prime Office generated earnings before special/non-recurring effects from the fair value measurement of the real estate portfolio and derivative financial instruments (EPRA earnings) of EUR 16.0m in 2012 (prior year: EUR 15.3m), or EUR 0.31 per share. Unweighted EPRA earnings per share amounted to EUR 0.30 in the prior year.

	2012	2011
	EUR m	EUR m
Earnings according to the IFRS income statement	−5.2	17.6
+ Changes in value of investment property	20.4	−2.9
+ Profits or losses on disposal of investment properties	2.5	0.2
+ Changes in fair value of financial instruments and associated close out cost	−1.7	0.5
EPRA earnings	**16.0**	**15.3**
EPRA earnings per share (weighted)	EUR 0.31	EUR 0.44
EPRA earnings per share (unweighted)	EUR 0.31	EUR 0.30

general meeting distribute a total of EUR 9.3m (EUR 0.18 per share) from net retained profit as a dividend. In addition to the statutory distribution required by the REIT Act of 90% of the net profit for the year under German commercial law, the management board of Prime Office REIT-AG recommends that the general meeting distribute an additional EUR 1.8m to the shareholders. The net retained profit remaining (HGB) of EUR 5.3m is to be carried forward to new account.

Increase in funds from operations by some 5% to EUR 22.8m above target at EUR 22.8m or EUR 0.44 per share, funds from operations (FFO) were around 5% up on the prior-year level (EUR 21.8m) despite the various operating expenses incurred.

	12 months of 2012	12 months of 2011
	EUR m	EUR m
Operating result (EBIT)	**35.1**	**58.7**
Adjusted for special effects from disposals	2.5	
Unrealized gains from the fair value measurement of investment property	1.1	2.9
Unrealized losses from the fair value measurement of investment property	21.5	0.0
Amortization, depreciation and impairment	0.1	0.1
Interest paid	35.2	36.0
Interest received	0.3	0.4
Net interest (interest paid net of interest received)	34.9	35.6
Adjustments for interest at the end of the period	−0.3	1.4
Funds from operations (FFO)	**22.8**	**21.8**
Funds from operations per share (weighted)	EUR 0.44	EUR 0.62
Funds from operations per share (unweighted)	EUR 0.44	EUR 0.42

Cash flow of Prime Office REIT-AG

The cash flow from operating activities increased by EUR 3.3m to EUR 25.9m in fiscal year 2012 after EUR 22.6m in the prior year. This improvement is primarily attributable to the considerable fall in interest paid on the prior year as well as the repayment of loans issued to various DCM funds.

As a result of the Company investing in portfolio properties, also including investments in showrooms, etc., the cash flow from investing activities came to EUR –0.3m after EUR –1.0m in 2011. The cash flow from financing activities mainly results from repaying existing bank loans of EUR 77.5m as well as the dividend payment of EUR 11.9m in May 2012. The cash flow from financing activities amounted to EUR –90m in the reporting period.

Real estate portfolio of Prime Office REIT-AG

	Market value as of 31 Dec 2012 (in EUR m)	Change on prior year (in %)	Rented space (in sqm)	Rent without incidentals (in EUR m p.a.)	Rent without incidentals (in EUR m p.a.)	Change on prior year (in %)	Weighted average lease term (in years)
Munich, Hufelandstrasse 13–15	24.4	1.2%	8,224	8,224	1.7	0%	8.8
Frankfurt, Ludwig Erhard Anlage 2–8	155.1	–4.1%	833	35,101	0.3	–97.2%	8.9
Darmstadt, T-Online Allee 1	172.5	0.0%	72,528	72,528	11.9	0.8%	6.9
Essen, Alfredstrasse 236	73.0	–0.1%	30,314	30,314	5.7	0%	7.0
Darmstadt, Deutsche Telekom Allee 7	53.3	0.2%	24,686	24,686	3.4	0%	7.4
Stuttgart, Breitwiesenstrasse 5–7	39.2	–6.0%	9,830	25,284	1.3	+18.2%	7.9
Nuremberg, Richard Wagner Platz 1	13.0	0.0%	6,445	6,445	1.1	0%	2.2
Heilbronn, Bahnhofstrasse 1–5	29.9	0.7%	14,552	14,750	2.1	+16.7%	4.1
Düsseldorf, Am Seestern 1	67.6	–10.7%	35,819	35,819	7.1	0%	0.2
Stuttgart, Philipp Reis Strasse 2	39.1	–1.5%	19,854	19,854	3.5	0%	9.6
Munich, Hultschiner Strasse 8	186.5	–0.1%	62,237	62,237	10.5	0%	10.8
Düsseldorf/Meerb., Earl Bakken Platz 1	16.4	0.0%	8,038	8,038	1.3	0%	6.7
Essen, Opernplatz 2	38.5	–0.3%	24,531	24,531	2.6	0%	10.0
	908.5	**–1.9%**	**317,891**	**367,811**	**52.5**	**–16.0%**	**7.0**

Source: CBRE report as of 31 December 2012

Investment property of Prime Office at around EUR 908.5m as of the reporting date

Following the sale of Imtech-Zentrale in Hamburg (Hammerstrasse), Prime Office REIT-AG's portfolio now comprises 13 office properties in eight cities or conurbations in Germany. In fiscal 2012, the Company was able to raise its tenancy level in the Neckarturm in Heilbronn to 99%, leaving only about 200 sqm vacant. The Company also managed to obtain extensions to the rental agreements (some early) for the properties in Munich (BMW Design Center), Nuremberg and also in Heilbronn. Nevertheless, there are temporary vacancies at the properties in Frankfurt and Stuttgart/Möhringen which the Company intends to reduce.

On account of an increased weighted average lease term of seven years compared to the prior year as a result of the rental agreements and extensions concluded, the real estate portfolio achieved a market value of EUR 908.5m in total as of 31 December 2012 (prior year: EUR 926.1m like-for-like). This was a fall in the market value of the real estate portfolio of EUR 17.6m or 1.9% (like for like) on the prior year primarily due to the rental agreement in Düsseldorf expiring soon as well as additional releasing requirements. As part of extending the rental agreements of BMW AG and the Semcon group, the market value of the BMW Design Center in Munich increased by 1.2% and the T-Systems property in Darmstadt experienced market-related appreciation of 0.2%.

With net annual rental income of EUR 52.4m in 2012, the rental yield (gross initial yield), 5.7% as of the reporting date 31 December 2012, was down a total of 100 base points on the prior-year figure of 6.7% on account of the fall in rental income. Accordingly, the multiplier increased from 14.9 times the net annual rent without incidentals to 17.4 times the rent as of 31 December 2012. The EPRA net initial yield and the "topped-up" net initial yield were both at 5.1% in 2012 after 6.0% in the prior year.

As a result of economic conditions which, although pointing towards a slowdown in economic growth in Germany, indicate continued growth and also on account of the interest shown by investors, including those abroad, in German retail property, market experts as in the trend barometer for the real estate investment market in Germany 2013 (Ernst & Young) expect a positive, stable development in value for the German real estate market. On the whole, market experts also see positive future development in the German office property market due in part to international investors wanting to invest in the German real estate market once again in the future.

Market experts expect a stable, positive performance for the German real estate market.

At 86%, tenancy rate below long-term average as a result of temporary vacancies

Despite the rise in vacancies, Prime Office REIT-AG's office real estate portfolio recorded sustainable cash flows from renting to reliable, solvent tenants. In fiscal year 2012, asset management concluded follow-up agreements and new rental agreements for a total of some 21,500 sqm, corresponding to some 5.8% of the total portfolio of Prime Office. Nevertheless, net income from rent fell short of management's expectations. Overall, it must be said that the inspection and decision-making processes undertaken by potential tenants are generally time-consuming. In certain cases, potential tenants held off making their decisions or decided on alternative properties or new construction projects.

The new rental agreements concluded as well as the early extensions to existing rental agreements caused the weighted remaining lease term in the portfolio to increase slightly from 6.8 years in the prior year to 7.0 years in fiscal year 2012. The Vodafone headquarters in Düsseldorf (0.2 years) and the Sigmund-Schuckert-Haus in Nuremberg (2.2 years) had the shortest weighted remaining lease periods.

As a result of the rental agreement in Frankfurt expiring as of 31 December 2012, the average tenancy level amounted to around 95% for 2012 as a whole. Nevertheless, the vacancy rate increased to around 14% in total as of 31 December 2012 (prior year: 3.9%) as a result of the vacancies in Frankfurt (34,268 sqm), Stuttgart/Möhringen (15,454 sqm) and Heilbronn (198 sqm) which is currently being marketed. The vacancy rate was thus significantly higher than the past average.

In fiscal year 2012, the rental agreements in place with the Semcon group and BMW AG as anchor tenants regarding the BMW Design Center in Munich were extended early and on a long-term basis, thereby causing the weighted average lease term (WALT) for the property to increase from 5.1 to 8.8 years. Furthermore, various agreements relating to the properties in Heilbronn were extended, as was the agreement for the Sigmund-Schuckert-Haus in Nuremberg until the end of 2014.

For the spaces in the "emporia" to be re-leased, lease negotiations are currently conducted in an advanced stage.

The "emporia" lease in Stuttgart/Möhringen up for renewal is currently under negotiation with potential tenants, with lease negotiations at an advanced stage. Despite interest being high, the inspection processes are very time-consuming thereby drawing out the decision-making processes and negotiations. Certain potential tenants interested in the property in Stuttgart/Möhringen displayed a reserved attitude, as they were generally not looking for larger spaces or deciding on other spaces. There was a similar trend observed in Frankfurt, in particular due to uncertainties stemming from the euro and financial crises and their impact on Frankfurt as a financial center. Potential tenants are currently showing initial interest in the property, although any negotiations are at a very early stage meaning no rental agreements are expected to be concluded in the short term. As of year-end 2012, showrooms were completed in the historic building (Westend Palais) as well as in the Senckenberg Carré, thereby supporting the extensive marketing activities of the property.

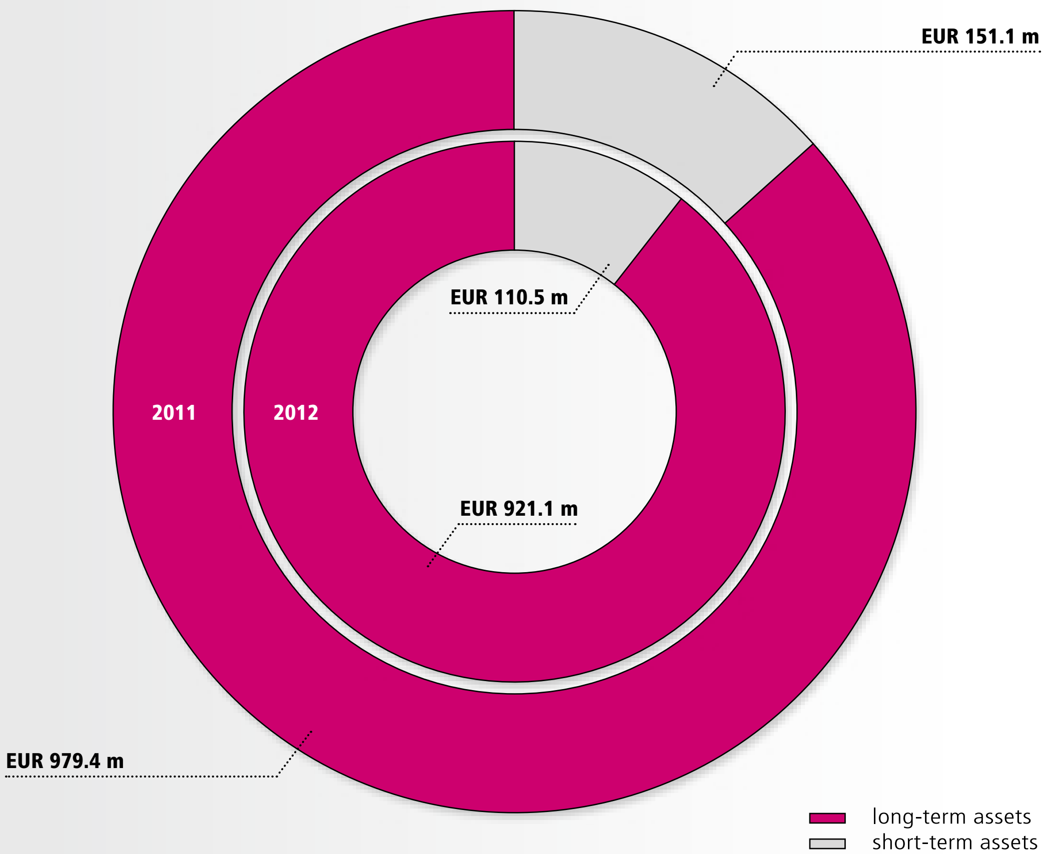
In particular, rental negotiations with Vodafone partners as potential tenants in the "Xcite" building in Düsseldorf are at an advanced stage. Overall, a positive dynamic in the marketing process can be determined here for between 20% and 30% of the rental space. With the existing agreement in place with Vodafone running until March 2013, it is likely that the existing Vodafone partners, the majority of which are already located in the property, will enter into rental agreements of their own with the Company or an office letting agent as of April 2013 without any interruption. However, after Vodafone has moved out, free space in the building may be subject to planned revitalization and conversion work meaning the property will be in operating condition for further tenants as of 2014.

For the Sigmund-Schuckert-Haus in Nuremberg, the smallest property in Prime Office REIT-AG's portfolio with a rental area of 6,445 sqm, the rental agreement in place with Deutsche Rentenversicherung runs until 31 December 2014. Marketing activities will commence in mid-2013. On the first floor of the building, there is a retail unit of 590 sqm in total.

The releasing requirements for the properties in Düsseldorf, Frankfurt and Stuttgart relate to a total area of 85,541 sqm. There is a risk of vacancy for around one quarter of the total area of Prime Office REIT-AG's portfolio.

On 2 November 2012, the sale of the Imtech building in Hamburg was notarized. Risks and rewards were transferred to the purchaser on 31 December 2012. The excess liquidity of around EUR 8.7m generated from the sale and after repayment of the liabilities related to the property was used, among other things, for early pro rata repayment of existing loans subject to interest of more than 7%. By realizing a profit under HGB of around EUR 4.5m from the sale of the property, Prime Office REIT-AG generated future distribution potential for use as future dividend payments. The sale of the Hamburg property also improved the REIT equity ratio ceteris paribus.

Distribution of assets at a glance



Net assets and financial position

Structure of the statement of financial position of Prime Office REIT-AG

Prime Office REIT-AG's total assets fell by EUR 98.9m, or 8.7%, on the prior year to EUR 1,032m (prior year: EUR 1,131m) primarily as a result of the sale of one property as well as the decrease in current assets also due to the early repayment of loans for its properties. Current assets amounted to EUR 110.5m as of 31 December 2012 (prior year: EUR 151.1m) while non-current assets came to EUR 921.1m (prior year: EUR 979.4m).

Largely on account of the purchase prices payable for the "Imtech-Zentrale" building in Hamburg as of 31 January 2013 under the terms of the agreement, trade receivables were up considerably on the prior year at EUR 42.6m as of 31 December 2012 (prior year: EUR 2.0m). Cash and cash equivalents (bank balances and cash on hand) totaled EUR 64.4m as of 31 December 2012.

Non-current assets amounted to EUR 921.1m as of the reporting date 31 December 2012 (prior year: EUR 979.4m), primarily comprising investment property of EUR 907.9m (prior year: EUR 970.8m). The comparative figure for the prior year, however, contained the "Imtech-Zentrale" building in Hamburg which was sold by purchase agreement dated 2 November 2012. At EUR 10.8m, the market value of derivative financial instruments was considerably higher as of 31 December 2012 in comparison to the prior year (EUR 6.2m). There were also non-current financial assets of around EUR 2.1m (prior year: EUR 2.1m), chiefly attributable to a non-contributory life insurance policy.

The lasting financial and Euro crisis as well as the continuing low level of interest rates burdened the equity capital in the 2012 financial year.

REIT equity ratio reaches 42.9% after 41.4% as of the end of the first half year and 43.1% in the prior year. Fair value measurement of swaps burdens REIT equity ratio, which continues to rest below 45%.

The ongoing financial and euro crisis as well as the continued low interest level had a negative impact on equity in fiscal year 2012 as a result of measuring non-current derivative interest hedges (interest rate swaps) of real estate loans at fair value. Against this background, other reserves amounted to EUR –70.3m as of the reporting date (prior year: EUR –58.6m) and equity to EUR 389.1m as of 31 December 2012 after EUR 418.0m in the prior year.

For one investment property of EUR 907.9m, the REIT equity ratio amounted to 42.9% in total as of the reporting date 31 December 2012. Although this is up on the figure at the end of the first half year (41.4%), the REIT equity ratio was only at the prior-year level (43.1%) as a result of special and non-recurring effects from measuring the real estate portfolio and derivative financial instruments at fair value. This meant that the equity ratio as of 31 December 2012 still fell short of the 45% prescribed by the REIT Act. Having fallen short of the minimum REIT equity ratio of 45% as of 31 December 2011, the REIT Act allows a period of a further two years, i.e., until 31 December 2013, without sanctions to comply with the legal requirement again to ensure the Company does not lose its REIT status and thereby its tax exemption status (corporate income tax and trade tax). Should this not be reached, the Company would lose its corporate and trade tax exemption status as of fiscal year 2014.

As of 31 December 2012, issued capital remained unchanged on the prior year at EUR 51.9m. At EUR 625.3m, the capital reserve also remained unchanged as of 31 December 2012. Taking into account changes in reserves for unrealized gains from cash flow hedges (interest rate swaps) of EUR 11.4m, reserves for unrealized gains from cash flow hedges (currency swaps) of EUR 0.4m and the net result for the period netted against the net accumulated loss, Prime Office REIT-AG's equity came to EUR 389.1m as of the reporting date 31 December 2012 (prior year: EUR 418.0m).

Sustainable repayment: significant reduction in total liabilities by EUR 70.1m, or around 10%, to EUR 642.5m; LTV falls by 500 base points to 60.2%

The total liabilities as the sum of the short and long-term debts of Prime Office REIT-AG were reduced.

As a result of making sustainable repayments, Prime Office REIT-AG's total liabilities, i.e., the sum of current and non-current liabilities, fell by a total of EUR 70.1m, or 9.8%, to EUR 642.5m as of 31 December 2012 (prior year: EUR 712.6m), of which negative swap market values of around EUR 91m. At EUR 546.2m, liabilities to banks make up the majority of total liabilities, relating to loans to finance Prime Office REIT-AG's real property. In the previous year, liabilities to banks still stood at EUR 632.7m.

As of the reporting date 31 December 2012, current liabilities amounted to EUR 221.6m after EUR 160.4m as of 31 December 2011. Current liabilities largely comprised current financial liabilities (liabilities to banks), which came to EUR 212.5m as of 31 December 2012 (prior year: EUR 156.3m). Furthermore, trade payables amounted to EUR 3.4m (EUR 2.7m as of 31 December 2011). Other current assets of EUR 0.5m fell slightly in comparison to year-end 2011 (EUR 0.6m) and now relate only to deferred rent. Liabilities due to Fonds-KGs of the DCM Group previously contained in other current assets were repaid. In total, liabilities from derivative financial instruments amounted to EUR 1.9m as of the reporting date (prior year: EUR 0m) in connection with the early repayment of loans for the property sold in Hamburg in January 2013. The repayment of property loans as well as the corresponding swap reversal in connection with the sale of the "Imtech-Zentrale" property in Hamburg was performed in connection with the purchase price payment on 30 January 2013. The liabilities to the tax office relate to VAT payments. At around EUR 1.0m, these liabilities were slightly below the figure as of year-end (31 December 2011: EUR 0.9m).

Significant fall in non-current liabilities

Overall, the long-term debts of Prime Office REIT-AG decreased considerably.

Overall, Prime Office REIT-AG's non-current liabilities fell considerably from EUR 552.2m to EUR 420.9m as of the reporting date. This caused non-current financial assets to decrease from EUR 476.4m in the prior year to EUR 333.7m as of 31 December 2012. At the same time, negative market values of derivative interest rate hedges increased from EUR 75.8m to EUR 87.2m as a result of the general development of interest rates.

As of the reporting date, existing loans matured between 31 January 2013 (full repayment of EUR 23.6m from the income generated from the property sold in Hamburg in January 2013) and 31 December 2028 (EUR 54.8m for the SZ-Turm property in Munich, Hultschiner Strasse). The terms of the loans were between 2.75% and 4.45% for fixed-rate loans. Floating-rate loans are secured by interest rate hedges with fixed-rate interest including nominal mark-ups and/or hedge mark-ups of between 4.04% and 7.66%.

Due to the level of cash and cash equivalents and current assets as well as the repayment of liabilities to banks, Prime Office REIT-AG was able to reduce its net debt considerably from EUR 561.5m in the prior year to EUR 532.0m as of 31 December 2012.

	FORMEL		2012	2011
Total liabilities	Current + non-current liabilities	in EUR m	642.5	712.6
Net debt	Total liabilities – current assets	in EUR m	532.0	561.5
Debt to equity ratio	Net debt : Property market value	%	58.6	57.8
Loan-to-value	Liabilities to banks : Real estate market value	%	60.2	65.2
Equity ratio	Equity : Market value of real estate	%	42.9	43.1

Financing

Debt financing ratio reduced by 500 basis points to 60.2%.

Prime Office REIT-AG has financed around 60.2% of its office real estate portfolio by raising loans (prior year: 65.2%) (calculated from the ratio of liabilities to banks to the market value of real estate as of the reporting date). In comparison to the prior year, the Company reduced its loan-to-value by 500 base points to 60.2%.

As part of the strategy to reduce foreign currency effects step by step, Prime Office repaid a CHF loan for the "Westend Ensemble" in Frankfurt am Main early at the end of December 2012 using funds reserved for this purpose of CHF 72.4m (EUR 59.9m). The loan originally had a term until 30 September 2013 and was repaid in full as of year-end 2012.

With regard to four financing agreements for a total of two properties in Darmstadt, the fixed-rate interest terms ended on 30 June and 30 November 2012. For the T-Systems building in Darmstadt, the interest rate was adjusted to 6.8% as of 30 June 2012 on the basis of a past forward swap. The loan agreement is scheduled to end on 30 June 2014. Furthermore, an interest adjustment was terminated for the loans regarding the T-Online headquarters in Darmstadt. In this connection, the loan in Swiss francs (CHF) was converted into an euro loan and thereby the associated CHF interest rate swap into a EUR interest rate swap. The interest rate stands at 6.1%. In this connection, a special repayment of EUR 4.6m with an effect on income was made.

Prime Office REIT-AG has no further foreign currency loans.

Finally, there are no more foreign currency loans.

At a total volume of around EUR 97.0m as of 31 December 2012, the loans for the properties in Düsseldorf, Nuremberg and Stuttgart will have to be extended on 31 December 2013. Funds from the IPO earmarked for this purpose of EUR 45.0m are being held to repay the loans on these properties. Refinancing of around EUR 52.0m is therefore required for the three properties in Düsseldorf, Nuremberg and Stuttgart as of year-end 2013. Future loan agreements are expected to be concluded with terms compatible with the Company's risk profile and sound equity ratio.

For the property in Frankfurt, fixed interest arrangements for existing loans with a volume of EUR 45.8m expire as of 30 September 2013. For a loan relating to the SZ-Turm property (as of 31 December 2012: EUR 28.2m), the interest arrangements expire on 28 June 2013, with a special repayment of EUR 7.5m having been made in January 2013. Furthermore, EUR 3.1m was repaid on a financing loan for the Darmstadt property in February 2013.

Change of control regulations have been agreed in the Company's loan agreements, relating to contractual agreements of termination or amendment rights at the financing banks should there by a change in the majority shareholder at Prime Office. Only two property loan agreements do not provide for any such regulations.

Certain covenants were agreed when concluding certain loan agreements. This involved defining certain lower limits for equity in accordance with German commercial law, requirements relating to tenancy rate and net annual rent as well as minimum requirements for a property-related loan-to-value ratio and debt service cover ratio, which must be complied with during the term of the loan. Furthermore, Prime Office REIT-AG must meet various information duties towards the financing banks. In fiscal year 2012, covenants regulating certain rental objectives for the properties in Stuttgart, Nuremberg and Düsseldorf were breached. A corresponding waiver was agreed on with the financing banks. The management board does not expect any covenants to be breached in the future.

The financing agreement for the Medtronic headquarters in Düsseldorf/ Meerbusch provides for a covenant regulating compliance with a debt service cover ratio of 157%. Furthermore, the loan-to-value ratio relating to the property valuation performed by the bank is not to exceed 55%. In addition, it was agreed for one of the loans relating to the SZ-Turm property in Munich that the loan-to-value ratio is not to exceed 55% and that the debt service cover ratio must come to at least 110%. For the property in Essen, Opernplatz, a maximum loan-to-value ratio of 75% and a debt service cover ratio of at least 116% was agreed. Finally, for the property at Hufelandstrasse, Munich (BMW Design Center), it was agreed that a debt service cover ratio of 110% would be maintained. The Company complied with the abovementioned property-related covenants.

The management board of Prime Office REIT-AG is of the opinion that the Company is in a position to meet its current payment obligations. The Company also expects to be able to agree on new interest terms in tune with the market for refinancing loans as well as at the end of the fixed-rate interest terms. These interest terms will reflect the Company's solid equity basis.

The active control of the interest management provides long-term interest rate security and thus planning security.

Derivative financial instruments

As part of actively managing its interest rate exposure, securing interest rates in the long term and thereby providing planning certainty, Prime Office REIT-AG uses derivative financial instruments in the form of interest rate caps and swaps. There are no longer any currency and exchange rate risks after having repaid all foreign currency loans and cancelled any related currency swap transactions. Overall, as part of its risk management, Prime Office pursues the goal of minimizing risks arising from fluctuations in market interest rates.

Net asset value at 468.4 million Euros.

Equity capital per share (Net NAV) at 7.49 Euros.

Net asset value

Prime Office REIT-AG's net asset value (NAV) stood at EUR 468.4m as the reporting date 31 December 2012 after EUR 471.6m as of year-end 2011. This put the net asset value per share at EUR 9.02 per share as of the reporting date 31 December 2012, thereby approximately matching the value as of year-end 2011 (EUR 9.08).

Without adjusting for the effects of derivative financial instruments, the Company's net NAV, corresponding to the equity value, amounted to EUR 389.1m as of 31 December 2012 (prior year: EUR 418.0m). This produces a net NAV/equity value per share of 7.49 (prior year: 8.05).

The net asset value/net NAV is calculated as follows:

	31 Dec 12	31 Dec 11
	EUR m	EUR m
Equity	**389.1**	**418.0**
– Derivative financial instruments (assets), thereof:	**12.2**	**22.2**
Current	1.4	16.0
Non-current	10.8	6.2
– Deferred tax assets	**0.0**	**0.0**
+ Derivative financial instruments (liabilities), thereof:	**91.5**	**75.8**
Current	4.3	0.0
Non-current	87.2	75.8
+ Deferred tax liabilities	**0.0**	**0.0**
Net asset value (NAV)	**468.4**	**471.6**
Net asset value per share (unweighted)	**9.02**	**9.08**
Net NAV (equity per share) (unweighted)	**7.49**	**8.05**

Investments

Prime Office REIT-AG primarily invests in real estate; however, only to the extent the Company can finance such investments with the required equity. The Company's investments in real estate include modernization and renovation investments that result in capitalizable assets. Not defined as investments are maintenance expenses paid by the Company that cannot be capitalized.

Personnel

The Company is represented by two management board members. Prime Office REIT-AG has a lean personnel structure. In total, the Company has seven employees as of 31 December 2012 (prior year: six) including the management board. Effective 1 April 2012, asset management was enlarged by one employee in the area of technical asset management.

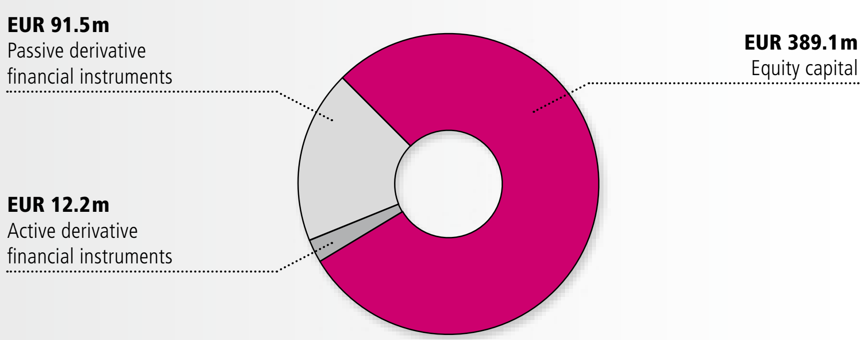
Prime Office REIT-AG has a streamlined personnel structure.

	Personnel 2012
AS OF 31 DEC	TOTAL
Management board	2
Asset management	3
Other	4
Total	**9**

The contract with management board member Heinz-Theo Tetsch expired, at Mr. Tetsch's request, as of 30 June 2012. The supervisory board and other management board members would like to thank Mr. Tetsch for his constructive and trusting work during the Company's foundation and start-up phase.

Net Asset Value (NAV)

The NAV of Prime Office REIT-AG increased as at the reporting date December 31, 2012 to a total of EUR 468.4 million.



Risk management

The management board of Prime Office REIT-AG has developed and implemented risk management and controlling in accordance with the regulations in accordance with stock corporation law and in cooperation with a well-known auditing firm. The central task of risk management and controlling is to detect risks continually and at an early stage in order to manage and reduce them by means of suitable measures. Regular risk reporting is in place.

For early identification, evaluation and appropriate handling of significant risks and risks which endanger the Company's ability to continue as a going concern, a risk management system has been introduced which is an integral part of the overall management and reporting process.

The system regulates:

– Risk identification and risk evaluation
– Risk response, including the measures to be taken and
– Risk development monitoring.

The Chief Financial Officer of Prime Office REIT-AG is responsible for the risk management, which is consistently further developed with external consultants.

Risk management is the responsibility of the CFO of Prime Office REIT-AG and is continuously refined in cooperation with external consultants. In particular, this contributes new approaches and ideas to Prime Office REIT-AG's risk management.

Alongside immediate reporting in the event of sudden changes in the risk situation, quarterly reviews of the existing risks and identification of potential additional risks are carried out. Results are summarized in quarterly reports and are submitted to both the management board and supervisory board.

The internal accounting-related control and risk management system serves the purpose of ensuring consistent accounting in accordance with the statutory requirements and the International Financial Reporting Standards (IFRSs). This guarantees that the annual financial statements of Prime Office REIT-AG present a true and fair view.

The internal control system is divided into control and monitoring. Organizational responsibility is directly assigned to the CFO. In particular, the monitoring measures include the dual control principle which is used within Prime Office REIT-AG. Alongside the management board, the audit committee of the supervisory board also deals with the internal control and risk management system of Prime Office REIT-AG on a regular basis. The Company's accounting has been outsourced to an external service provider. This service provider processes the data of relevance to the financial statements from property management. These data are made available by the property management service provider together with the other business transactions relevant to the financial statements. In monthly financial statements, the actual figures are compared with the target figures from the budget and the regularly updated forecasts. In the event of significant discrepancies, these are carefully scrutinized by the CFO of Prime Office REIT-AG. Furthermore, the asset management of Prime Office REIT-AG continuously monitors faculty management and the associated costs. Moreover, the asset management department is closely involved in the evaluation of the accounting treatment of investments in the properties of Prime Office.

Like any other company, Prime Office REIT-AG faces potential risks which could have a significant impact on its business as well as its net assets, financial position and results of operations. The most important insurance policies are detailed below:

Changes to legislation affecting REIT status

The upper house of the German parliament ("Bundesrat") passed the REIT Act on 30 March 2007 and it came into force with retroactive effect as of 1 January 2007 following its promulgation on 1 June 2007. It has so far not been possible to establish a practice in dealing with REITs. In particular, this applies to the legal evaluation of the prerequisites as well as the characteristics and legal consequences of REIT-AGs on the part of the competent administrative and supervisory authorities, the German Federal Financial Supervisory Authority (BaFin) and the financial authorities, regarding relevant fiscal facts. Instances of doubts in this regard have so far not been the subject of court rulings. Therefore, it cannot be excluded that authorities and courts would have a different opinion than the Company and its respective consultants regarding controversial issues. This could lead to administrative and court rulings that are unfavorable for the Company, with resulting payment obligations for Prime Office REIT-AG.

Risks in connection with the REIT status of the company

According to the provisions of the REIT Act, REIT stock corporations are subject to strict transparency and debt criteria.

REIT stock corporations ("REIT-AG") are exempt from corporate income tax and trade tax. Tax exemption applies to Prime Office REIT-AG with retroactive effect from 1 January 2011. According to the requirements of the REIT Act, REIT stock corporations are subject in return to strict transparency and debt criteria which are prescribed by the REIT Act. If a REIT-AG fails on three consecutive reporting dates to meet the requirements of the REIT Act pertaining to the minimum free-float (Art. 11), the focus of the real estate investment (Art. 12), minimum distribution (Art. 13), the exclusion of real estate trading (Art. 14) and the minimum equity ratio of 45% (Art. 15), the Company may lose its REIT status and thus no longer be exempt from tax.

In fiscal year 2012, the market values of the existing interest rate hedges (swap transactions) for real estate financing were negatively impacted by the general development of interest rates. As a result, the REIT equity ratio, which is determined on the basis of the IFRS financial statements, could not be achieved as of the reporting date 31 December 2012. Owing primarily to the negative swap fair values accounted for in the IFRS financial statements and thereby negatively affecting G-REIT equity, the REIT equity ratio stood at 42.9%, thus falling short of the required 45% threshold. The REIT Act allows for a grace period until 31 December 2013 to reach the REIT minimum equity ratio of 45% without sanctions. All other things being equal, this would require IFRS equity to recover by some EUR 19.4m as of the reporting date 31 December 2012 in order to return to the minimum equity ratio of 45% prescribed by the REIT Act. Should this not be achieved, the Company will lose its REIT status and thereby its exemption from corporate income and trade tax as of fiscal year 2014. All other REIT criteria are met.

General changes to legislation in the real estate sector

The business activities of Prime Office REIT-AG are limited to the German real estate market.

The Company's business activity is limited to the German real estate market. Prime Office REIT-AG is therefore subject to the regulatory general conditions applicable in Germany, particularly with regard to tenancy law and environmental law. Any changes to these general conditions at national or European level, or changes in the interpretation and application of existing regulations, particularly due to new rulings made by courts and administrative authorities, could adversely affect the Company's business activities. Similarly, changes in the provisions of tenancy law could, for example, result in the Company no longer being able to allocate expenses for renovation and modernization of buildings and ancillary costs to tenants in the same way as in the past, or make it more difficult or costly for the Company to increase rents and terminate leases.

The occurrence of one or more of the risks set out above or further changes of the legal or fiscal framework conditions affecting the Company's business activity might have a significantly adverse effect on the Company's net assets, financial position and results of operations.

Macroeconomic development in the real estate sector

One important factor for the company's success is the general economic development in Germany.

In the past, the German market for commercial properties was subject to significant fluctuations which were linked to factors including the development of the macroeconomic situation in Germany. Negative trends during this period partly resulted in a high vacancy rate and impairment of value regarding office properties. Due to Prime Office REIT-AG's focus on the German commercial real estate market and the office property market in particular, negative trends in this market cannot be offset by positive trends in other markets, countries and real estate sectors. The factors influencing the Company's success include the quality and financial resources of current and future tenants of the Company's properties, the theoretical possibility of acquiring additional attractive real estate at appropriate prices, the authoritative regulatory and tax environment for acquisitions of this kind, the development of the German economy in general, and local conditions. The unfavorable development of one or more of these factors could have significant adverse effects on the Company's net assets, financial position and results of operations.

Investment risk/divestment risk

The Company's strategy provides for continued expansion of its portfolio in the future through the addition of suitable office properties which meet the

Company's quality requirements in terms of location, standards, tenants and cash flow. In addition, the Company intends to carry out extensive revitalization and conversion work on various properties in connection with existing reletting requirements. Delays to conversion work or difficulties relating to financing the measures may result in longer vacancy periods, which thus affect the Company's net assets, financial position and results of operations. Furthermore, the Company considers acquiring good-quality office property in good locations in order to utilize its potential for development into high-quality office property. The same applies to high-quality office properties under construction or for which comprehensive planning measures have largely been completed during project development. In such cases, the overall share of project development should not exceed 10% of the Company's gross assets (total assets). In order to meet this target cost efficiently, the Company depends on the real estate transactions and project developments it has targeted and prepared being carried out under the planned conditions and within the specified timeframe. Unforeseen obstacles to the process, the complete discontinuation of the building or other construction measures – e.g., due to the construction company or the general contractor becoming insolvent or due to non-feasibility of the project for economic, technical or planning law reasons, legal problems or modernization and conversion measures extending over a longer period of time than initially planned – e.g., due to long approval procedures or the issuing of building requirements – may cause unexpected delays and associated cost increases. In these cases, it may not be feasible to implement planned real estate acquisitions and project development plans at economically reasonable terms. Furthermore, exceeding the development or marketing period could result in an initially favorable situation regarding demand and competition deteriorating. Moreover, third-party claims for damages (e.g., from tenants) may arise if contractually agreed completion deadlines are not met. Such developments could have a significant negative impact on the Company's net assets, financial position and results of operations.

Financing and liquidity risks

As of the reporting date 31 December 2012, there were liabilities from bank loans totaling EUR 547.7m. The residual term is less than one year for loans amounting to EUR 197.7m in total. The Company still has funds of around EUR 45m from the IPO, some of which are earmarked for the repayment loans for the properties in Stuttgart, Nuremberg and Düsseldorf.

As of 31 December 2013, financing agreements terminate for properties in Stuttgart, Nuremberg and Düsseldorf with a total loan balance of EUR 97.0m as of 31 December 2012. These agreements must be extended. The corresponding loans would fall due if an extension agreement were not reached with the financing banks or if financing terms were not agreed on.

The management board assumes that extension negotiations can be held according to plan and financing can be extended at market conditions or refinanced.

In order to raise the REIT equity ratio and return to the minimum equity ratio of 45% required by the REIT Act in fiscal year 2013, the Company is contemplating selling further properties.

In light of the vacancies in the portfolio and the planned revitalization measures, additional borrowing may be necessary. In light of the market value of the entire portfolio of EUR 908.5m and net debt of EUR 532.0m as of the reporting date, it will be possible to obtain sufficient funds. The management board assumes that the Company is able to meet its financial obligations at all times.

In the 2013 fiscal year, the Company plans to maintain a minimum cash reserve of around EUR 2.5m on a monthly basis, made up of cash and money market funds less the cash pledged as collateral.

Interest rate change risks for real estate financing are excluded as far as possible by conclusion of loan agreements with long-term fixed interest rate.

For Prime Office REIT-AG, there are risks for future financing of real estate transactions in the form of interest rate risks. Derivative financial instruments are used in order to minimize the risks due to fluctuations in market interest rates.

New and existing real estate financing are generally exposed to interest rate risks which are excluded, where possible, by concluding loan agreements with a long-term fixed interest rate. However, it cannot be ruled out that follow-up financing may be concluded only at higher-than-calculated interest rates, which are influenced significantly by the capital market situation and the economic situation. If Prime Office REIT-AG's credit rating were to decrease, this could adversely affect follow-up financing or the extension or renewal of credit lines. In this connection, there are corresponding risks for financing with a total volume of EUR 45.8m for which the interest arrangements expire on 30 September 2013 and are three loans totaling around EUR 97.0m which will have to be extended as of 31 December 2013. For a loan relating to the SZ-Turm (as of 31 December 2012: EUR 28.2m), the interest arrangements expire on 28 June 2013. Of this amount, a special repayment of EUR 7.5m was made in January 2013. Furthermore, EUR 3.1m was repaid on a financing loan for the Darmstadt property in February 2013. Less the special repayment in January 2013, the repayment in February 2013 and the cash and cash equivalents held for this purpose of around EUR 45m, the interest arrangements for a financing volume of some EUR 118.5m expire in fiscal year 2013 or must be extended. All other things being equal, a theoretical rise in the cost of the financial conditions of the above-mentioned financing by one percentage point would increase the financing costs for that financing by around EUR 1.2m.

Legal risks

Overall, changes in the legal framework conditions, e.g., in tenancy law or environmental law, could have adverse effects on the business activity of Prime Office REIT-AG. Furthermore, claims could be asserted against Prime Office REIT-AG on the basis of failure to meet requirements subject to building regulations or Prime Office REIT-AG could have to pay for currently unknown contaminated sites, environmental pollution and harmful building substances or other unscheduled costs.

In connection with the acquisition of new real estate, Prime Office REIT-AG could face legal risks, particularly risks relating to building regulations, and could suffer losses which are not or not sufficiently covered by insurance.

Tenants' risks

Prime Office REIT-AG could be subject to warranty claims in connection with the lease or sale of real estate and with further development of real estate, without having adequate rights of recourse. In the event of incorrect contractual clauses or changes in the regulatory environment, the use of standardized contracts could result in claims being asserted against Prime Office REIT-AG from a number of contracts, bad debt losses or increased expenses for the Company. Individual tenants of the Company could attempt to terminate their leases early with reference to the strict formalities of German tenancy law for long-term leases.

Risks of vacancy

Prime Office REIT-AG's earnings depend almost exclusively on the rental income from office properties in the Company's portfolio. If one or more tenants were to fail to meet their payment obligations in full or in part over a longer period of time or terminate long-term leases early for exceptional reasons, and the vacancy rate of the Company's real estate were to increase as a result, this could lead to a significant decrease in the Company's rental income.

Overall, the portfolio of Prime Office REIT-AG has a weighted average lease term (WALT) of 7.0 years. The Xcite building in Düsseldorf (0.2 years) and the Sigmund-Schuckert-Haus in Nuremberg (2.2 years) have the shortest (weighted) average lease terms.

With regard to the property in Stuttgart/Möhringen, there are leases for around 39% of the total rental space with a weighted average lease term of 7.9 years. For the remaining 61% of the rental space, talks are being held with potential tenants or, in some cases, lease contracts are being negotiated, and the temporary vacancy rate will be reduced over the course of the 2013 fiscal year.

The lease with Vodafone in Düsseldorf expires in March 2013 under the terms of the contract. Marketing activities for the subsequent let of a total of 35,819 sqm are currently underway. Once the current tenant has vacated the property in the 2013 fiscal year, the property will undergo extensive conversion and modernization work. For an area of between 20% and 30% of the total area, there is the possibility that various Vodafone partners, some of which already work as service providers in the property, enter into rental agreements of their own directly with the Company or indirectly via an office letting agent that has a rental agreement with Price Office without any interruption. There are also other potential tenants lined up, although no agreements have been concluded as yet.

The lease with Deutsche Post, the previous main tenant of the former Regional Post Directorate in Frankfurt, Ludwig Erhard facility, expired on 31 December 2012 at the end of the ten-year lease. Although marketing activities have already been performed to search for potential subsequent tenants of the rental space, no such tenant has been found yet for the property. Since January 2013, i.e., after extensive fire protection measures had been taken by Deutsche Post (tenant) before moving out, there is a total of 34,268 sqm available for let. However, the property will undergo extensive restructuring and modernization measures over the course of 2013/2014.

With regard to the Nuremberg property with a rental space of 6,445 sqm, there is a risk of vacancy, as Deutsche Rentenversicherung's lease expires on 31 December 2014.

Risks of loss of real estate/damage to real estate

There is a general risk of total or partial destruction of the real estate properties of Prime Office REIT-AG. The insurance benefits might not be sufficient to cover all damage. It is also conceivable that insurance coverage is insufficient for all possible damage or that the insurance companies might refuse to pay their benefits.

Personnel risk

Prime Office REIT-AG limits personnel risks such as staff turnover or loss of expertise, demotivation, inadequate training, and competition for specialists and executive staff by means of an active HR strategy and open communication with employees. In order to retain employees, attractive remuneration systems and individual training programs are in place.

Corporate communications

Marketing communication

Prime Office REIT-AG takes a proactive approach in terms of its press relations which, in addition to placing press releases on important company events, also include management in important events, conferences and trade fairs in the field of (retail) property.

In the European real estate market, there are two trade fairs that are particularly important. In the past fiscal year, Prime Office REIT-AG was represented at the MIPIM trade fair in Cannes, France, held in March 2012 as well as at the EXPO REAL trade fair held in Munich in October. By participating in these two internationally significant trade fairs as well as with management participating in the most important conferences in the real estate sector, Prime Office REIT-AG performs its role as one of Germany's leading listed real estate companies.

Furthermore, management networks with the German real estate sector and uses relevant events to expand its list of contacts.

The management maintains existing networks with the German real estate sector and utilizes relevant events to establish new contacts.

In fiscal year 2012, management continued expanding and intensifying its activities in the area of investor relations, thus building on its contacts with investors and analysts. Management held numerous roadshows in Germany, other countries in Europe as well as in North America in order to groom existing contacts with investors and to win new ones. Against this background, the management board also presented the Company at many investor conferences.

The Prime Office Share

Development of the share price of Prime Office

Fiscal year 2012 was largely characterized by a solid capital market environment. The easing of the European sovereign debt crisis in the course of the year, the central banks' monetary policies, excess liquidity on the market and the resulting investment pressure on investors resulted in the share market stabilizing on the whole in comparison to prior-year periods. At the same time, however, political events as well as crisis warnings from various EU states continued to worry investors.

In the first quarter of the reporting year, the fact that financial ministers in the euro zone were able to come to an agreement on the "second aid package" for Greece was the primary reason for the positive mood on the capital market. By contrast, the second quarter was dominated by the failed attempt of Greece to form a government, which worried market participants considerably. Discussions that followed on the country exited the European currency as well as speculation on potential crises in other European countries dampened the mood on the capital market over these weeks. However, Greek attempts to form a government ultimately succeeded which, coupled with Spain applying for financial aid to save the banking sector towards the middle of the year, provided significant momentum. The third quarter of 2012 was primarily characterized by the various monetary policies put in place by the central banks. This caused the European Central Bank (ECB) to reduce its base rate and shortly thereafter announced the unlimited purchase of government bonds. Both measures were welcomed by investors. In the fourth quarter of the reporting year, the stalemate that continued between political camps in the US following the election of the house of representatives and one third of the senate, the downgrading of the U.S. credit rating as well as the loss of the top rating for the ESM and EFSF bailouts also caused the mood on the capital

Shifting successfully completed: lock-up period expired without suspected stock overhang.

market to deteriorate. By contrast, the rating agency Standard & Poor's raised Greece's rating to "B minus" which, coupled with the successful purchase of Spanish government bonds, had a positive effect on the capital market environment.

Based on the XETRA opening price of EUR 4.35 on 2 January 2012, the Prime Office REIT-AG share increased in the first quarter and, after a brief period of weakness, performed overwhelmingly favorably reaching a year-high price of EUR 4.65 on 19 March 2012. In the second period of 2012, however, the share was caught in a temporary downward trend. It can be assumed that the share was put under pressure in this period due to the expiration of the lock-up period as of 30 June 2012 as well as shareholders' fears of a share overhang. This, coupled with external conditions such as the Greece's initial failure in forming a government in the second quarter, had a negative effect on the share price. However, the successful placement of around 5.7 million shares from stock held by former shareholders in June gave the market the security it needed, meaning the Company's share price witnessed largely positive development in the second half of the year. Accompanied only by slight setbacks, the share price – after reaching its lowest price of EUR 2.73 on 4 June 2012 – increased by some 19%. On 28 December 2012, the last day of trading for 2012, the share price was listed at EUR 3.24.

Irrespective of the positive trend in the second half of the year, Prime Office REIT-AG's management board is not satisfied with how the share price developed in the past fiscal year. In our opinion, the share price continues to provide an inaccurate reflection of the Company's true value. This is also shown by the continued high discount on the Company's net asset value. As a result, the Company will continue its intense efforts in fiscal year 2013 to ensure Prime Office REIT-AG achieves a fair valuation on the capital market and that its NAV discount is reduced.

The Prime Office share at a glance

XETRA opening price on 2 January 2012	EUR 4.35
XETRA closing price on 28 December 2012	EUR 3.24
High/low in the reporting period	EUR 2.73/EUR4.65
Market capitalization 31 December 2012	EUR 168.3m
Registered markets	Prime Standard, Frankfurt and XETRA
Index	FTSE EPRA/NAREIT Global Real Estate Index Series
	RX REIT Index
	SDAX Index
Number of shares	51,941,345 shares
Stock exchange abbreviation	PMO
German securities number (WKN)	PRME01
ISIN	DE000PRME012

Shareholder structure

The stockholder basis is further characterized by a high portion of institutional investors that are oriented towards a long-term investment horizon.

Approximately 68.5% of the shares of Prime Office REIT-AG were in free float as of 31 December 2012. The shareholder base continues to comprise a high number of institutional investors with a long-term investment horizon and whose main investment focus is on real estate companies. In our opinion, the high degree of specialization of these investors is evidence of the high quality of our shareholder base and the trust our investors have in Prime Office REIT-AG. The shareholder structure changed significantly especially in the second quarter of the year as a result of the placement of around 5.7 million shares from stock held by former shareholders, investors in ten closed DCM funds, in June 2012. In this regard, a total of around 11% of total shareholdings were placed with institutional investors over the counter as part of an accelerated bookbuilding procedure. As part of this transaction, Price Office REIT-AG won additional qualified investors whose investment focus is first and foremost on real estate companies.

Over the course of the year, including the fourth quarter of 2012, there were only minor changes in the shareholders subject to mandatory reporting. As a result, various institutional investors either increased or reduced their holdings in Prime Office REIT-AG. However, these transactions did not have any significant influence on the weightings of shares.

68.5% of shares were in free float as of 31 December 2012, while the remaining shares were held by institutional investors. The table below shows this in more detail.

An essential factor for successful Investor Relations work is a transparent and continuous communication with relevant capital market players.

Oaktree European Principal Fund III LP., Los Angeles (USA)	7.9%
Morgan Stanley Investment Ltd., New York (USA)	5.5%
Karoo Investment S.C.A. SICAV-SIF, Luxembourg (Lux)	5.3%
Ironsides Partners LLC, Boston (USA)	6.4%
Ruffer Ltd., London (UK)	3.4%
BNP Paribas Investment Partners S.A., Paris (F)	3.0%

Investor relations

For Prime Office REIT-AG, transparent and constant communication with relevant capital market participants has always been a key factor for successful investor relations work. Accordingly, the past fiscal year 2012 again saw the real estate company in constant and open dialog with its shareholders, potential investors and analysts, holding roadshows in Amsterdam, Brussels, The Hague, Geneva, London, Paris, Stockholm and Zurich as well as outside of Europe in Boston, Chicago and New York. In addition, the management of Prime Office REIT-AG attended investor and numerous industry conferences, for example representing the Company at the conference of the Real Estate Share Initiative and the EPRA Conference. The management board also presented itself at the MIPIM trade fair in Cannes, France, and the Expo Real trade fair in Munich, two of the largest and most important trade fairs in the real estate sector.

A positive result from the constant and open exchange with capital market players can most definitely been seen in the significant increase in reporting in the past fiscal year. As a result, a total of six banks and analysts in the form of West LB, Baader Bank, Kepler Capital Markets, Close Brothers Seydler Research, Deutsche Bank and SRC Research commenced coverage of Prime Office REIT-AG. However, West LB ceased reporting on listed companies in the second quarter in the course of asset stripping. This meant that the real estate company was observed by a total of seven banks and analysts as of 31 December 2012 receiving a largely positively assessment. As of year-end, a bank recommended overweighing the position of the share in the portfolio, four banks recommended buying the share and two banks advised holding the shares. The relevant price targets stood at between EUR 3.50 and EUR 5.50 and therefore above the XETRA closing rate on 28 December 2012 of EUR 3.24.

Dividend suggestion of 0.18 Euros at the general meeting: Attractive dividend yield.

Dividends

For the fiscal year 2012, the management board intends to recommend that the general meeting distribute a total of EUR 9.3m (EUR 0.18 per share) from net retained profit as a dividend. In addition to the statutory distribution required by the REIT Act of 90% of the net profit for the year under German commercial law, the management board of Prime Office REIT-AG recommends that the general meeting distribute an additional EUR 1.8m to the shareholders.

Forecast report

Overall economic development

The debt crisis in Europe is having a dampening effect on the global economic climate and is dragging down the global economy as a whole. According to forecasts from the IMF, global trade will grow by 3.8% in 2013 and by 5.5% in 2014. This implies that the IMF adjusted its forecast for world trade downwards in January 2013 compared to its projection in October 2012 by 0.7% for 2013 and 0.3% for 2014 respectively. The IMF is projecting growth of 3.5% in global production in 2013 and 4.1% in 2014. The IMF had reduced its forecasts for 2013 and 2014 by 100 base points in January 2013 on account of the ongoing sovereign debt crisis.

Leading economists and (economic) research institutes expect Germany to report growth for 2013, even if it is forecast to be somewhat less than the level reached in 2012. The German Council of Economic Experts expects GDP growth of 0.8% in 2013, the Ifo institute anticipates 0.7%, the IMF 0.6%, while Deutsche Bundesbank and the federal government both expect growth of 0.4% in 2013.

Development of the german real estate sector

The German real estate investment market is overall considered as attractive and/or very attractive.

Generally, the German real estate market is viewed positively to very positively, even if buyers, particularly international buyers, are confronted by limited supply on the market. At the same time, Germany is still seen as a safe haven in the trend barometer for the real estate investment market in Germany 2013 issued by Ernst & Young Real Estate. Overall, an attractive transaction market is expected in 2013 with volume remaining high (between EUR 32b and EUR 36b). According to the study, transaction volume will remain at the same high volume in 2013 as seen in 2012. It is generally expected that there will be a growing number of foreign investors in 2013, particularly in light of the fact that Germany remains an attractive market.

After falling to the lowest level in the last five years in 2012, Jones Lang LaSalle is forecasting the volume of new building activity in Germany in the seven most important office locations (the “Big 7”) to rise by approximately 14% to approximately 937,000 sqm in 2013 based on the existing pipeline. Of this amount, two thirds have already been pre-let or will be occupied for use by the owner. Thus, according to Jones Lang LaSalle, only one third of the new building volume will actually be freely available on the market. Vacancies in the “Big 7” dropped in 2012 in comparison to the prior year, coming to a ten-year low of 8.8% measured as an annual average. If demand remains stable in 2013, Jones Lang LaSalle expects the existing low level of vacancies to remain unchanged in 2013. In future, interested tenants will continue to seek high-quality space in central locations. Rents are expected to rise by approximately 1%, particularly for top-quality space where the highest rents are seen.

Investments

The business strategy of Prime Office REIT-AG is oriented towards generating higher stable rental income over the long-term by pursuing proactive profit-oriented management of existing office space. By focusing on quality growth in the German commercial office sector and maintaining a broad base of attractive properties spread over a number of locations and tenants, Prime Office REIT-AG is planning to expand its portfolio by the addition of suitable office properties, provided it can source additional equity capital.

Comprehensive revitalization measures are planned for some of the properties for which new tenants need to be found in Stuttgart-Möhringen, Frankfurt and Düsseldorf-Seestern. The investment volume for the three properties lies at approximately EUR 42m and will be financed by new borrowings. The conversion work should be completed in Stuttgart-Möhringen in 2013, with the work in Düsseldorf and Frankfurt completed in 2014.

The investment strategy targets office properties in the most important office locations in Germany.

The investment strategy targets office property in the most important office locations in Germany, primarily the larger cities with an established or growing infrastructure. Likewise, the project developments with appropriate levels of preletting fit the acquisition profile of Prime Office REIT-AG. Moreover, asset management that is aimed at raising value and possible acquisitions will lead to a steady rise in cash flow in future. In isolated cases, investments will also be made in properties with vacancy rates that are above the portfolio average in order to profit from renting out the new space.

Corporate governance report

The German Corporate Governance Code is intended to make the applicable German regulations for corporate governance and monitoring transparent for national and international investors in order to boost confidence in the corporate governance of German companies.

Corporate governance stands for responsible and reliable corporate management and control with the goal of ensuring long-term, value-based corporate governance. Prime Office REIT-AG's corporate governance is based on the German Corporate Governance Code. The management board and supervisory board consider responsible and reliable corporate management to be means of ensuring Prime Office REIT-AG's long-term ability to continue as a going concern while sustainably increasing business value.

In our Corporate Governance Report, the management board and supervisory board of Prime Office REIT-AG jointly report on corporate governance at Prime Office REIT-AG pursuant to No. 3.10 of the German Corporate Governance Code. In addition to the remuneration report, the comments include the corporate governance statement pursuant to Sec. 289a HGB ["Handelsgesetzbuch": German Commercial Code].

Management board and supervisory board of Prime Office REIT-AG closely and trustfully cooperate in the best interests of the company.

Corporate governance statement

The management board and supervisory board of Prime Office REIT-AG cooperate closely on the basis of mutual trust in the interest of the Company and are aware of their responsibility toward shareholders, tenants and employees. Good corporate governance is a requirement across all divisions which increases the confidence of investors, the capital market, tenants and business partners, the employees and the public in the governance and control of the Company. Against this backdrop, active, sustainable and transparent reporting and communication are among the factors of key importance to Prime Office REIT-AG.

German Corporate Governance Code and Declaration of Compliance according to sec. 161 of the German Stock Corporations Act

Responsible and value-based corporate governance includes implementing the German Corporate Governance Code (GCGC), which has been implemented to a large extent at Prime Office REIT-AG. In this context, the Company publishes its Declarations of Compliance with the recommendations of the German Corporate Governance Code on its website at www.prime-office.de.

The management board and supervisory board issued their first Declaration of Compliance on 20 May 2011 against the backdrop of the upcoming IPO and declared that the recommendations of the German Corporate Governance Code in the version from 26 May 2010 had essentially been complied with and that the management board and supervisory board intend to continue to comply with them in the future. Three recommendations were not fulfilled at that time. The differences were explained.

Declaration of conformity of 13 December 2012

With the declaration at the end of the 2012 fiscal year, the management board and supervisory board again confirm that the recommendations of the German Corporate Governance Code in the version of 15 May 2012 have essentially been complied with. The management board and supervisory board of Prime Office REIT-AG also intend to comply with the recommendations of the German Corporate Governance Code in the future.

Only the following recommendations have currently not been complied with:

1. The recommendation in No. 5.4.1 (2) of the GCGC (determination of an age limit for supervisory board members) is not complied with because the Company wishes to use the market experience and expertise of the supervisory board members and does not consider their exceeding the age limit to restrict their work for the Company in any way.

2. In contrast to the recommendation in No. 5.4.2 of the GCGC, Dr. Lutz Mellinger is the supervisory board Chair of Quantum Immobilien AG, Hamburg, and of Quantum Immobilien Kapitalanlagegesellschaft mbH. In the Company's opinion, the interests of the Company are sufficiently safeguarded by Nos. 5.5.2 and 5.5.3 of the GCGC in the event of any conflict of interest.

3. The members of the Company's management board and supervisory board will continue to comply with the statutory provisions, and consider the professional and personal qualifications of the respective candidates irrespective of their sex when making personnel decisions. Women currently do not receive appropriate consideration when filling positions on the supervisory board and management board and when filling executive positions in the Company (Nos. 4.1.5, 5.1.2, and 5.4.1 (2) of the GCGC). However, this is intended for future replacements where suitable female candidates are available.

Operation of executive board and supervisory board

The management board and supervisory board cooperate closely on the basis of mutual trust for the benefit of the Company. In light of this, the management board and supervisory board are in regular contact with each other and maintain an intensive dialogue.

The goal is to secure the long-term ability of Prime Office REIT-AG to continue as a going concern and ensure sustainable value added. According to the statutory provisions for German stock corporations, Prime Office REIT-AG has a dual management system. This ensures the separation of personnel between the management and supervisory body.

The dual management system ensures the separation of personnel of management and supervisory organ.

Operation of the management board

Prime Office REIT-AG is managed by a two-person management board. The board members' competencies are as follows:

CLAUS HERMUTH	**Chairman of the management board, CEO** Corporate strategy, corporate planning, acquisitions, asset management, staff development and internal auditing, IT and organization, laws and taxes
ALEXANDER VON CRAMM	**CFO, Deputy CEO** Financing, controlling and accounting, investor relations,financial marketing, risk management, compliance, financial and liquidity planning

Responsibility for the Company rests with the management board of Prime Office REIT-AG CEO, which exercises this responsibility jointly. Their tasks include determining corporate goals, the Company's strategic approach, its management, its monitoring and corporate planning and financing.

The details of the work carried out by the management board are governed by the rules of procedure for the management board.

The Prime Office REIT-AG management board regularly consults the supervisory board about the Company's strategy and ensures that it is implemented. In this connection, the management board regularly discusses how the strategy is being implemented and how goals are being achieved. The Prime Office REIT-AG management board informs the supervisory board about all relevant matters of business development, financial position and results of operations, planning, achievement of goals, risk situation, and risk management regularly, thoroughly and in due time. Difference between the course of business and previously formulated plans and goals are described and explained.

Certain decisions of the management board require the supervisory board's approval due to their importance. The business transactions of the management board subject to approval are stipulated in the rules of procedure for the management board or in the articles of incorporation and bylaws determined by the general meeting.

The supervisory board appoints, supervises and advises the management board.

Operation of the supervisory board

The supervisory board appoints, monitors and advises the management board. When decisions of fundamental importance for the Company are made, the supervisory board is directly involved by the management board. Respective decisions require the supervisory board's approval.

The executive board consists of three members; currently: Prof. Dr. h.c. Roland Berger, Prof. Dr. Kurt Faltlhauser as well as Dr. Lutz Mellinger

The term of office of the supervisory board members ends upon expiry of the general meeting in 2013, which decides on the acceptance of the director's report for the 2012 fiscal year.

In order to perform its tasks, the supervisory board must establish its own rules of procedure and form committees staffed by its members. According to its current rules of procedure, the supervisory board of Prime Office REIT-AG has formed the following committees. They are intended to increase the efficiency of the supervisory board and the handling of complex matters.

The executive committee, which consists of three members, currently Prof. Dr. h.c. Roland Berger, Prof. Dr. Kurt Faltlhauser and Dr. Lutz Mellinger, coordinates the work in the supervisory board and prepares, in addition to its meetings, the personnel decisions of the supervisory board, especially with regard to the composition of the management board.

The investment committee, which consists of two members, currently Prof. Dr. Kurt Faltlhauser and Dr. Lutz Mellinger, advises the supervisory board in preparation for the approval of business transactions which the management board may only undertake subject to the approval of the supervisory board.

The audit committee, which consists of two members, currently Prof. Dr. Franz-Joseph Busse and Prof. Dr. Harald Wiedmann, prepares the decisions of the supervisory board on the ratification of the annual financial statements and on agreements with auditors, analyzes the Company's risk management and advises the supervisory board on its further development.

The IPO committee, which consists of two members, currently Prof. Dr. Franz-Joseph Busse and Stefan Giesler, advised the supervisory board on decisions to be made in connection with the IPO.

The supervisory board regularly verifies the efficiency of its work and the independence of its members. The supervisory board members disclose any conflicts of interest to the supervisory board immediately. In its report, the supervisory board informs the general meeting about any conflicts of interest and how they were handled.

Key Corporate Governance practices

The purpose of compliance is adherence to the law and regulations. According to the provisions of the German Corporate Governance Code, the management board must ensure compliance with the statutory provisions. The management board therefore works toward ensuring that all employees of Prime Office REIT-AG comply with the statutory provisions and directly interacts with its employees with this in mind because the reputation and confidence of the shareholders, tenants and business partners depend on the employees of Prime Office REIT-AG. Against this backdrop, Prime Office REIT-AG develops a code of conduct that sets out certain principles of conduct.

The management board ensures the compliance of statutory provisions by all employees.

In the management board, compliance is allocated to the Chief Financial Officer. Prime Office REIT-AG's CFO is responsible for the monitoring of and adherence to compliance rules. Violations are not tolerated, but investigated and punished. In addition to disciplinary measures, non-compliance with the law can lead to termination of employment, assertion of claims for damages or criminal charges.

Moreover, the management board discusses compliance matters with the audit committee of the supervisory board on a regular basis.

Director's dealings and/or transactions in securities subject to disclosure requirements

According to Sec. 15a of the WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act], persons who carry out managerial functions at an issuer of stock must declare their own transactions with stock of the issuer or related financial instruments, especially derivatives, with the issuer and the German BaFin. This duty of disclosure therefore applies to management board and supervisory board members as well as other executives of Prime Office REIT-AG who have regular access to insider information and are authorized to make major business decisions. Moreover, the duty of disclosure applies to persons who work closely with these executives as well as to legal persons for which the executives or persons close to the executives carry out managerial functions or which are controlled by them.

There were no transactions in the 2012 fiscal year that have to be reported pursuant to section 15a WpHG.

Corporate communications

Prime Office REIT-AG regularly informs its shareholders, members of the press and the interested public about the situation of the Company and about significant events pertaining to Prime Office REIT-AG. This is done specifically by issuing corporate statements and press releases, ad hoc announcements, quarterly and financial reports as well as annual financial statements. Moreover, the Company holds general meetings in addition to analysts' and press conferences.

In its communications with the public, Prime Office REIT-AG complies with the principles of promptness, transparency and frankness, sustainability and comprehensibility as well as equal treatment of shareholders. All notifications and information are also published in English.

There is extensive information about the company and the stock on the company's homepage.

Extensive information about the Company and the share is available on the company's website, specifically corporate statements and press releases, financial reports, and financial calendars which include all significant corporate events and the performance of the share. Prime Office also publishes the Directors' Dealings on the website, i.e., information about the acquisition and sale of stock of the Company or related financial instruments according to section 15a of the German Securities Trading Act.

Accounting and audit

In addition to the financial statements prepared in accordance with Secs. 264 et seq. of the HGB, Prime Office REIT-AG prepares separate financial statements on the basis of the International Financial Reporting Standards (IFRSs). Moreover, Prime Office REIT-AG publishes quarterly financial reports during the fiscal year as well as interim financial statements according to IFRSs.

The annual financial statements according to the German Commercial Code and the separate financial statements according to IFRSs are audited by the auditor elected by the general meeting. The supervisory board also discusses the annual and separate financial statements, interim financial statements and quarterly reports.

Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Munich, was elected as the auditor of Prime Office REIT-AG at the general meeting on 10 May 2012. Following verification of the auditor's independence, it was engaged by the supervisory board. The auditor took part in the audit committee's meetings concerning the separate and annual financial statements and the six-monthly financial report and has presented the significant findings of the audit.

Remuneration report

Remuneration of the management board

Remuneration for the members of the management board of Prime Office REIT-AG is based solely on the employment contracts entered into with the members of the management board. Remuneration of the management board comprises fixed and variable components.

In 2012 the members of the management board received the following compensation:

Remuneration (gross) EUR	Fixed remuneration	Variable remuneration	Total remuneration
Claus Hermuth	456,720	181,188	637,908
Alexander von Cramm	281,498	113,242	394,740
Heinz-Theo Tetsch*	81,888	0	81,888
Total	**820,106**	**294,430**	**1,114,536**

** The contract with management board member Heinz-Theo Tetsch expired, at Mr. Tetsch's request, as of 30 June 2012.*

The employment contracts with the management board govern remuneration as follows: the members of the management board, which comprised three members until the exit of Mr. Tetsch on 30 June 2012 and thereafter just two, receive fixed remuneration as listed in the above table. In addition to fringe benefits (company car/mobile telephone) for Mr. Hermuth and Mr. von Cramm, this also includes annual payments to cover the contributions to private pension insurance instead of the company pension fund. In addition, the members of the management board receive variable remuneration that is indexed to the funds from operations (FFO). The chairman of the management board receives profit-based remuneration of 0.8 % of the FFO p.a. and the CFO receives 0.5 % of FFO p.a.

In fiscal year 2012, Claus Hermuth and Alexander von Cramm participated in the incentive program of the company that has been set up for members of the management board. The incentive program is structured in such a way that each of the participants receive performance share units (PSU) in contractually defined tranches (chairman 25,000, chief financial officer 15,000). These shares are then paid out in cash upon expiry of a three-year term. The pay-out depends on two independent performance levers which also consider negative trends. The right to participate in one tranche does not constitute any right to participate in future tranches. Mr. Hermuth and Mr. von Cramm each bear the tax burden from the allocation of the PSU individually.

The variable remuneration of the members of the management board in fiscal 2012 can be summarized as follows:

	variable	incentive program
Claus Hermuth	0.8 % of the FFO	25,000 PSU
Alexander von Cramm	0.5 % of the FFO	15,000 PSU
Heinz-Theo Tetsch*	did not participate	did not participate

** The contract with management board member Heinz-Theo Tetsch expired, at Mr. Tetsch's request, as of 30 June 2012.*

In addition to the above components, the members of the management board receive fringe benefits. The Company provides Claus Hermuth with a company car from the luxury segment and Alexander von Cramm is provided with a suitable company car for business and private purposes. Moreover, the Company bears all maintenance and running costs associated with the cars. In addition, the members of the management board are provided with a mobile telephone and/or a smartphone for business use.

Shares held by the management board

The members of the management board do not hold any shares or subscription rights to shares of the Company.

Remuneration of the supervisory board members

According to the articles of association of the Company, each member of the supervisory board will receive fixed remuneration in the amount of EUR 30,000 for each full fiscal year of their membership of the supervisory board as well as performance-related variable remuneration in the amount of 0.055% of the funds from operations (FFO), both of which are to be calculated on the basis of certain key figures of the Company to be found in the Company's IFRS separate financial statements for the respective fiscal year. The chairman of the supervisory board receives three times and the deputy chairman of the supervisory board receives one-and-a-half times the fixed and variable remuneration of a supervisory board member. If the respective office of the supervisory board member only exists during a part of the fiscal year, the remuneration will be granted only pro rata temporis. Moreover, according to the articles of association, each supervisory board member receives reimbursement of all reasonable expenses as well as reimbursement of the VAT to be paid on their remuneration and expenses on production of proof that they are entitled to invoice the turnover tax separately and that they exercise this right.

Remuneration of the supervisory board members broke down as follows for fiscal year 2012:

	Fixed remuneration	Variable remuneration	Net amount
Prof. Dr. h.c. Roland Berger	90,000	37,370	127,370
Prof. Dr. Kurt Faltlhauser	45,000	18,685	63,685
Prof. Dr. Franz-Josef Busse	30,000	12,457	42,457
Dr. Lutz Mellinger	30,000	12,457	42,457
Stefan Giesler	30,000	12,457	42,457
Prof. Dr. Harald Wiedmann	30,000	12,457	42,457
	255,000	**105,881**	**360,881**

Shares held by the supervisory board

Since 4 July 2011, Prof. Dr. Harald Wiedmann has held 32,000 shares in Prime Office REIT-AG.

Upon expiry of the lock-up period arranged with the existing shareholders, the DCM mutual funds, in connection with the IPO on 30 June 2012, shares in Prime Office which were allocable to the holders of the funds on a pro rata basis were posted to the personal portfolios of the shareholders. In this regard, Mr. Giesler holds a total of 511 shares in Prime Office REIT-AG.

Subsequent events

Significant events after the reporting date
There are no significant events after the reporting date that need reporting.

Opportunities and outlook

Opportunities

Project development plans have been drawn up for some of the properties held in the portfolio of Prime Office REIT-AG, which are currently being checked in terms of their feasibility and potential for official approval. These plans bear inherent value potential for Prime Office REIT-AG, which owns the properties that could be realized by sale or realization of the development project and therefore impact earnings for the long term.

Outlook

The Prime Office REIT-AG management board expects an overall stable development of the economic climate in Germany.

The management board of Prime Office REIT-AG anticipates stable economic development in Germany and stable trends in the German office market. The operating business of Prime Office REIT-AG in 2013 will be dominated by temporary vacancies in Stuttgart and in particular planned revitalization measures and vacancies of properties in Frankfurt and Düsseldorf due to necessary conversion work. This will lead to a corresponding fall in rental income and funds from operations.

Overall, fiscal years 2013 and 2014 will be dominated by temporary vacancies at properties in Frankfurt, Stuttgart and Düsseldorf as well as the related marketing activities and planned revitalization measures. Based on the above assumptions, the management board of Prime Office REIT-AG expects revenue (including rent incidentals) paid in advance of between EUR 51m and EUR 53m in fiscal year 2013 with funds from operations of between EUR 0m and EUR 2m.

Due to the costs related to conversion and renovation work to its properties, the Company is planning to pay out a dividend for fiscal year 2013 depending on rental success and any property sales.

With sales revenues of 51–53 million Euros, the management board expects funds from operations of 0–2 million Euros and plans to distribute a dividend for 2013 from net profits for the year carried forward.

Declaration of the legal representatives

"We confirm that, to the best of our knowledge, the management report gives a true and fair view of the business performance of the Company and accurately describes the results of its operations and the situation of the Company as well as the main opportunities and risks relating to the future development of the Company."

MUNICH, 1 MARCH 2013

CLAUS HERMUT
Chairman of the management board

ALEXANDER VON CRAMM
Deputy CEO Financing


ür Angestellte

Separate Financial Statements

Income statement for the period from 1 January to 31 December 2012

	Note	1 Jan to 31 Dec 2012	1 Jan to 31 Dec 2011
		EUR k	EUR k
Rental income	3.1	72,342	75,293
Other rental income	3.2	4,005	969
Rental expenses and selling expenses	3.3	–14,565	–11,401
Net income from rent and sale		**61,782**	**64,861**
Other operating income	3.4	242	249
Other operating expenses	3.6	–4,579	–7,483
Employee benefits expense	8.1	–1,842	–1,715
Amortization, depreciation and impairment		–119	–94
Operating result before net valuation effect		**55,484**	**55,818**
Gains/losses from the fair value measurement of investment property	3.7	–20,388	2,868
Operating result (EBIT)		**35,096**	**58,687**
Finance costs	3.8	–48,342	–52,047
Finance income	3.8	8,090	10,883
Earnings before tax (EBT)		**–5,156**	**17,523**
Income tax		0	–193
Other taxes		–2	239
Profit/loss for the period		**–5,158**	**17,570**

Earnings per share

Basic/diluted earnings per share	3.9	EUR –0.10	EUR 0.50

Statement of comprehensive income for the period from 1 January to 31 December 2012

	Note	1 Jan to 31 Dec 2012	1 Jan to 31 Dec 2011
		EUR k	EUR k
Profit/loss for the period		**–5,158**	**17,570**
Other comprehensive income			
Change in reserve for unrealized gains/losses from fair value measurement of available-for-sale financial assets before tax	5.1	56	91
Release of income taxes recognized in equity on unrealized gains and losses from fair value measurement of available-for-sale financial assets on account of obtaining REIT tax status		0	–1
Change in reserve for unrealized gains and losses from fair value measurement of available-for-sale financial assets, net of tax		56	90
Change in reserve for unrealized gains and losses from cash flow hedges (interest rate swaps) before tax	5.1	–11,400	–25,482
Release of income taxes recognized in equity on unrealized gains and losses from cash flow hedges (interest rate swaps) on account of obtaining REIT tax status		0	–162
Change in reserve for unrealized gains and losses from cash flow hedges (interest rate swaps), net of tax		–11,400	–25,644
Change in reserve for unrealized gains and losses from cash flow hedges (currency swaps) before tax	5.1	–407	–295
Release of income taxes recognized in equity on unrealized gains and losses from cash flow hedges (currency swaps) on account of obtaining REIT tax status		0	2
Change in reserve for unrealized gains and losses from cash flow hedges (currency swaps), net of tax		–407	–293
Other comprehensive income for the year, net of tax		**–11,751**	**–25,847**
Total comprehensive income, net of tax		**–16,909**	**–8,277**

Statement of financial position as of 31 December 2012

	Note	31 Dec 2012	31 Dec 2011
		EUR k	EUR k
ASSETS			
Assets			
Current assets			
Trade receivables	4.1	42,570	2,009
Other receivables and financial assets	4.1	2,171	18,602
Derivative financial instruments	4.1	1,380	16,011
Cash and short-term deposits	4.1	64,399	114,463
		110,520	**151,085**
Non-current assets			
Property, plant and equipment	4.2	290	341
Investment property	4.3	907,876	970,802
Intangible assets		33	17
Derivative financial instruments	4.1	10,812	6,177
Non-current financial assets	4.1	2,071	2,108
		921,082	**979,445**
TOTAL ASSETS		**1,031,602**	**1,130,530**
EQUITY AND LIABILITIES			
Liabilities			
Current liabilities			
Current financial liabilities	5.2	212,507	156,261
Trade payables	5.2, 5.3	3,389	2,707
Current derivative financial instruments	5.2	4,285	0
Other current liabilities	5.2, 5.4	470	555
Liabilities due to the tax office	5.5	971	850
		221,622	160,373
Non-current liabilities			
Non-current financial liabilities	5.2	333,693	476,408
Non-current derivative financial instruments	5.2	87,177	75,783
		420,870	**552,191**
Total liabilities		**642,492**	**712,564**
Equity			
Issued capital	5.1	51,941	51,941
Capital reserves	5.1	625,324	625,324
Other reserves	4.1, 5.1	−70,347	−58,595
Accumulated loss		−217,808	−200,704
		389,110	**417,966**
TOTAL EQUITY AND LIABILITIES		**1,031,602**	**1,130,530**

Statement of changes in equity for the period from 1 January to 31 December 2012

			Other reserves	
	Issued capital	Capital reserve	Reserve for unrealized gains and losses from fair value measurement of available-for-sale financial assets	Reserve for deferred taxes
	EUR k	EUR k	EUR k	EUR k
1 January 2012	51,941	625,324	166	0
Profit/loss for the period	0	0	0	0
Other comprehensive income	0	0	56	0
Total comprehensive income	51,941	625,324	222	0
Dividends paid	0	0	0	0
31 December 2012	**51,941**	**625,324**	**222**	**0**

			Other reserves	
	Issued capital	Capital reserve	Reserve for unrealized gains and losses from fair value measurement of available-for-sale financial assets	Reserve for deferred taxes
	EUR k	EUR k	EUR k	EUR k
1 January 2011	17,441	454,552	75	161
Profit/loss for the period	0	0	0	0
Other comprehensive income	0	0	91	–161
Total comprehensive income	17,441	454,552	166	0
Capital increase	34,500	179,400	0	0
IPO transaction costs	0	–8,628	0	0
31 December 2011	**51,941**	**625,324**	**166**	**0**

	Reserve for unrealized gains and losses from cash flow hedges (interest rate swaps)	Reserve for unrealized gains and losses from cash flow hedges (currency swaps)	Accumulated loss	Reserve for unrealized gains and losses from cash flow hedges
	EUR k	EUR k	EUR k	EUR k
	−59,169	407	−200,704	417,966
	0	0	−5,158	−5,158
	−11,400	−407	0	−11,751
	−70,569	0	−205,861	401,057
	0	0	−11,947	−11,947
	−70,569	**0**	**−217,808**	**389,110**

	Reserve for unrealized gains and losses from cash flow hedges (interest rate swaps)	Reserve for unrealized gains and losses from cash flow hedges (currency swaps)	Accumulated loss	Total equity
	EUR k	EUR k	EUR k	EUR k
	−33,687	702	−218,274	220,970
	0	0	17,570	17,570
	−25,482	−295	0	−25,847
	−59,169	407	−200,704	212,694
	0	0	0	213,900
	0	0	0	−8,628
	−59,169	**407**	**−200,704**	**417,966**

Statement of cash flows for the period from 1 January to 31 December 2012

	Note	1 Jan to 31 Dec 2012	1 Jan to 31 Dec 2011
		EUR k	EUR k
Profit/loss for the period		–5,158	17,570
Amortization, depreciation and impairment of non-current assets		119	94
Gains/losses from the fair value measurement of investment property	3.7	20,405	–2,868
Interest income and expenses	3.8	40,252	41,163
Changes in deferred tax liabilities		0	–4,951
Changes in deferred tax assets		0	5,144
Changes in receivables and other assets	4.1	2,634	–209
Changes in liabilities	5.2	223	558
Other non-cash changes		2,338	918
Tax paid		–2	239
Interest paid	3.8	–35,177	–35,531
Interest received	3.8	259	427
Cash flows from operating activities		**25,893**	**22,554**
Proceeds from disposals of investment property		1,030	0
Capital expenditure on investment property	4.3	–1,260	–643
Investments in intangible assets		–33	–33
Capital expenditure on other property, plant and equipment	4.2	–50	–295
Cash flow from investing activities		**–313**	**–971**
Proceeds from the capital increase		0	205,271
Dividends paid		–11,947	0
Repayment of bank loans	5.2	–77,462	–99,475
Cash outflow for reassigned loans/handling fees	5.2	–636	–700
Cash flow from financing activities		**–90,045**	**105,096**
Net increase/decrease in cash and cash equivalents		–64,466	126,679
Changes in cash and cash equivalents due to exchange rates and changes in valuation		465	–356
Cash and cash equivalents at the beginning of the period		129,512	3,190
Cash and cash equivalents at the end of the period	**6**	**65,511**	**129,512**

Notes to the separate financial statements of Prime Office REIT-AG

1. General information

Prime Office REIT-AG (the "Company" or "POAG") is a German stock corporation (Aktiengesellschaft) with registered offices in Munich. The Company has been entered in the Munich commercial register under HRB 13335 since 9 October 2000. The Company's registered office is located in Hopfenstrasse 4, 80335 Munich.

The basis of the business activities is a high-quality property portfolio.

The Company is a real estate firm. The business purpose of the Company is to use a premium quality real estate portfolio with a broad spectrum of properties and tenants to generate stable rental income in the long term, to raise this income by continually expanding the real estate portfolio and to raise the return on the portfolio of real estate overall through professional asset management. The Company obtained REIT ("real estate investment trust") stock corporation ("REIT-AG") status on 7 July 2011.

The Company's fiscal year ends on 31 December of each calendar year.

The IFRS separate financial statements were authorized for issue by the management board on 1 March 2013.

The Company does not have any subsidiaries, associates, or joint ventures. Therefore, the financial statements only include the business activities of Prime Office REIT-AG.

2. Significant accounting policies

2.1 Basis of presentation

The financial statements as of 31 December 2012 were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. All the IFRSs and interpretations issued by the International Accounting Standards Board (IASB) and in force at the time when these financial statements were prepared were applied to the extent that they have been adopted by the EU.

The presentation of the financial statements is based on the "Best Practices Policy Recommendations" from the European Public Real Estate Association (EPRA). The income statement has been prepared in accordance with these recommendations.

The separate financial statements have been prepared using the cost method, except for investment properties, financial instruments held for trading, available-for-sale financial assets and derivative financial instruments, all of which have been measured at fair value.

The separate financial statements have been prepared in euro. All figures, including the prior-year comparative figures, are disclosed in euro unless otherwise stated. Disclosures in thousands of euros (EUR k) are rounded to the nearest thousand.

Assets and liabilities are classified as current when they satisfy any of the following criteria:

- The asset or liability is expected to be realized or settled in, or is held for sale or consumption in, the normal course of the entity's operating cycle (12 months);
- The asset or liability is held primarily for the purpose of being traded;
- It is expected to be realized or settled within 12 months of the reporting date;
- As at the reporting date, the liability is not attached to an unconditional right to defer its settlement for at least 12 months after that date;

or

- It is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least 12 months from the reporting date.

All other assets and liabilities are classified as non-current.

2.2 New accounting standards

The section below describes the standards that are relevant for the business activity of Prime Office REIT-AG and have been issued but are not yet effective up to the date of issue of the financial statements.

Amendment to IAS 1 – Presentation of Items of Other Comprehensive Income

The amendment to IAS 1 was issued in June 2011 and is effective for fiscal years beginning on or after 1 July 2012. The amendment to IAS 1 concerns the presentation of the items of other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss in a subsequent period must be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's net assets, financial position or results of operations.

IAS 19 Employee Benefits (revised 2011)

The revised standard IAS 19 was issued in June 2011 and will become effective for the first time in fiscal years beginning on or after 1 January 2013. The amendments range from fundamental changes such as the calculation of expected returns on plan assets and removing the corridor mechanism, which was used to evenly spread the volatility resulting from pension obligations over time, to simple clarifications and re-wording. Since the Company has not entered into any pension obligations, the revisions are not expected to have any impact on the Company.

IFRS 9 Financial Instruments: Classification and Measurement

The first part of phase I for the preparation of IFRS 9 "Financial Instruments" was published in November 2009. This standard contains new regulations on the classification and measurement of financial assets. It requires debt instruments, depending on their characteristics and taking account of the business model, to be recognized either at amortized cost or at fair value through profit or loss. Equity instruments must always be shown at fair value. However, changes in the value of equity instruments may be presented in other comprehensive income if the instrument-specific option to do so is exercised at initial recognition of the financial instrument. In this case, only certain dividend income would be recognized through profit or loss for equity instruments. Financial assets held for trading purposes are an exception. These must be stated at fair value through profit or loss. The IASB completed the second part of phase I of the project in October 2010. The standard therefore now includes sections relating to financial liabilities and permits previous classification and measurement policies for financial liabilities to be retained with the following exceptions: The effects of changes in own credit risk for financial liabilities classified as at fair value through profit or loss must be recognized in other comprehensive income and derivative liabilities relating to non-listed equity instruments may no longer be recognized at cost. IFRS 9 becomes effective for the first time for annual periods beginning on or after 1 January 2015. The standard has not yet been endorsed into European law. The completion of this project is expected in 2013. The adoption of the first part of phase I will have an effect on the classification and measurement of Prime Office REIT-AG's financial assets. The second part of this phase is not expected to have any effect on the Company's net assets, financial position or results of operations. Prime Office REIT-AG will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture of potential effects.

IFRS 10 Consolidated Financial Statements

IFRS 10 was issued in May 2011 and will become effective for the first time in fiscal years beginning on or after 1 January 2013. In the EU, the standard is mandatory for fiscal years beginning on or after 1 January 2014. The new standard replaces the requirements previously in IAS 27 Consolidated and Separate Financial Statements that addressed the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. In addition, in June 2012 revised transitional guidelines on IFRS 10–12 were published, which are expected to simplify first-time adoption of the new standards. Due to the fact that Prime Office REIT-AG does not have any subsidiaries or investments at present, these changes are not expected to have an impact on the financial statements of the Company.

IFRS 11 Joint Arrangements

IFRS 11 was issued in May 2011 and will become effective for the first time in fiscal years beginning on or after 1 January 2013. In the EU, the standard is mandatory for fiscal years beginning on or after 1 January 2014. The standard replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers". IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method in consolidated financial statements. Due to the fact that Prime Office REIT-AG does not have any subsidiaries or investments at present, these changes are not expected to have an impact on the financial statements of the Company.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 was issued in May 2011 and will become effective for the first time in fiscal years beginning on or after 1 January 2013. In the EU, the standard is mandatory for fiscal years beginning on or after 1 January 2014. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Due to the fact that Prime Office REIT-AG does not have any subsidiaries or investments at present, these changes are not expected to have an impact on the financial statements of the Company.

Amendment to IFRS 10, IFRS 12 and IAS 27 – Investment Entities

This amendment to IFRS 10, IFRS 12 and IAS 27 was published in October 2012 and is effective for the first time in the fiscal year beginning on or after 1 January 2014. Early adoption is permitted. The standard has not yet been endorsed into European law. The amendment stipulates that investment entities be removed from the scope of the consolidation provisions of IFRS 10 and all investments they control be measured at fair value through profit or loss. An exception to this rule are investments in subsidiaries that render services for the investment entity; these are to be consolidated as before in accordance with the provisions of IFRS 10. By contrast, parent companies of an investment entity not classified as an investment entity themselves must consolidate all entities controlled by the investment entity in their consolidated financial statements. An entity is defined as an investment entity if it raises funds from investors and renders investment management services for these entities, generating capital gains in the form of capital appreciation and/or investment income. Due to the fact that Prime Office REIT-AG does not have any subsidiaries or investments at present, these changes are not expected to have an impact on the financial statements of the Company.

IFRS 13 Fair Value Measurement

IFRS 13 was issued in May 2011 and will become effective for the first time in fiscal years beginning on or after 1 January 2013. This standard establishes guidance for determining fair value and defines comprehensive quantitative and qualitative disclosures on fair value measurements. IFRS 13 does not change when an entity is required to, or has the option to, use fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Prime Office REIT-AG is currently assessing the future impact that this standard will have on the Company's net assets, financial position and results of operations.

Amendment to IAS 12 – Deferred Tax: Recovery of Underlying Assets

The amendment to IAS 12 was published in December 2010 and is effective for the first time in the fiscal year beginning on or after 1 January 2012. In the EU, the standard is mandatory for fiscal years beginning on or after 1 January 2013. The amendment to IAS 12 marks the introduction of a simplification rule. It introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable property, plant and equipment that are measured using the revaluation model always be measured on a sale basis of the asset. In Germany, the Company does not expect this amendment to give rise to any effects on its net assets, financial position or results of operations. Moreover, in the case of Prime Office REIT-AG, this amendment is not expected to have any impact on the Company on account of its tax exemption as REIT-AG.

IAS 27 Separate Financial Statements (revised 2011)
The revised standard IAS 27 was issued in May 2011 and will become effective for the first time in fiscal years beginning on or after 1 January 2013. In the EU, the standard is mandatory for fiscal years beginning on or after 1 January 2014. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Due to the fact that Prime Office REIT-AG does not have any subsidiaries or investments at present, and no such holdings are planned for the future, these changes are not expected to have an impact on the financial statements of the Company.

IAS 28 Investments in Associates and Joint Ventures (revised 2011)
The revised standard IAS 28 was issued in May 2011 and will become effective for the first time in fiscal years beginning on or after 1 January 2013. In the EU, the standard is mandatory for fiscal years beginning on or after 1 January 2014. With the issue of IFRS 11 and IFRS 12 the scope of IAS 28 was extended such that the equity method is applicable not only to associates but also to joint ventures.

Due to the fact that Prime Office REIT-AG does not have any subsidiaries or investments at present, and no such holdings are planned for the future, these changes are not expected to have an impact on the financial statements of the Company.

Amendment to IAS 32 and IFRS 7 – Offsetting of Financial Assets and Financial Liabilities
The amendment to IAS 32 and IFRS 7 was published in December 2011 and will become effective for the first time in fiscal years beginning on or after 1 January 2013. The amendment is to eliminate existing inconsistencies by supplementing the application guidelines. However, the existing fundamental provisions on offsetting financial instruments will be retained. The amendment also defines additional disclosures. The amendment will not have any effects on the accounting policies used by the Company, although it will require additional disclosures.

Improvements to IFRSs (2009–2011)
Improvements to IFRSs 2009–2011 relate to an omnibus of amendments published in May 2012 and containing amendments to various IFRSs which are applicable for fiscal years beginning on or after 1 January 2013. Prime Office REIT-AG has not yet applied the following amendments:

» IAS 1: This clarifies the distinction between the additional comparative information that may be presented and the minimum comparative information that is required, generally covering the prior reporting period.

» IAS 16: This clarifies which spare parts and servicing equipment qualify as property, plant and equipment and are not treated as inventories.
» IAS 32: This clarifies that income taxes on distributions to bearers of equity instruments fall under the scope of IAS 12 Income Taxes.
» IAS 34: This governs reconciling the disclosures on segment assets with the disclosures on segment liabilities in interim financial statements and the reconciliation of disclosures in the interim reporting with the disclosures in the annual financial statements.

2.3 Currency translation

The euro is the functional currency as well as the presentation currency of the Company.

Transactions in foreign currency are translated at the exchange rate ruling on the date on which the transaction is recorded, and monetary items of the statement of financial position denominated in foreign currency are translated at the mean rate as of the reporting date. Any exchange gains and losses are recognized in profit or loss. In the case of currency hedges that satisfy the criteria for hedge accounting in connection with an underlying liability, any resulting gain or loss is recognized directly in equity. Exchange gains resulting from the operating assets and liabilities are recognized in the operating result, while exchange gains and losses relating to financial assets and liabilities are recognized in the financial result.

2.4 Recognition of revenue, expenses and income

In addition to net rent, revenue includes refundable incidental rental expenses for which the Company is a direct contracting partner. In the case of temporary rental agreements, net rent is recognized on a straight-line basis over the term of the rental agreement, including rent-free periods. Cross-charged incidental rental expenses are recognized as revenue if the corresponding operating expenses were incurred.

Other income is recognized if the respective service was provided or if the related risks and rewards are transferred with ownership and the amount of compensation can be determined reliably.

Irrespective of the payment date, operating expenses are recognized when a service is used or when the costs are incurred.

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

2.5 Financial assets

For measurement purposes, financial assets are broken down into four categories:

– Financial assets at fair value through profit or loss
– Held-to-maturity investments
– Loans and receivables
– Available-for-sale financial assets

2.5.a Financial assets at fair value through profit or loss
This item includes financial assets held for trading and those which are designated as financial assets at fair value through profit or loss upon initial recognition.

Money market funds and other listed securities are classified as held for trading, recognized at fair value on the date on which the contract is entered into and subsequently measured at fair value. Transaction and other acquisition-related costs as well as profits or losses upon subsequent measurement are recorded under other operating income or other operating expenses respectively. For funds, the fair value corresponds to the market price which is set by the fund initiator on each day of trading. For other securities, it corresponds to the asking price. Securities are recognized under current financial assets.

2.5.b Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the positive intent and ability to hold to maturity. These are recognized at amortized cost. Prime Office REIT-AG's portfolio does not currently have any financial assets in this category.

2.5.c Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially measured on the date on which the contract is entered into at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. In subsequent periods, they are measured at amortized cost using the effective interest method. This includes trade receivables and other receivables in particular.

2.5.d Available-for-sale financial assets
Available-for-sale financial assets are either non-derivative financial assets that are designated as available for sale or those which are not classified as one of the categories above. They are initially measured at their fair value plus transactions costs which are directly attributable to the acquisition of the financial asset. They are subsequently measured at fair value, with unrealized gains and losses being disclosed in a special reserve within equity.

In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the investment below its cost would constitute objective evidence of impairment. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized through profit or loss – is reclassified from other comprehensive income and recognized through profit or loss.

Reversals of impairment losses on equity investments are not recognized through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

2.5.e Fair value of financial assets

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market prices (selling prices) at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques.

The Company used the following methods and assumptions to estimate the fair values:

- The fair value of cash, trade receivables, trade payables and other current financial liabilities approximates their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of securities held for trading is calculated based on the prices quoted in active markets.
- The fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.
- The Company has concluded derivative financial instruments with various banks with a good credit standing. These are valued using valuation techniques with market observable inputs and are mainly interest rate swaps and interest caps. The market value of interest rate swaps and interest caps is determined by discounting the future cash flows over the residual term of the contract on the basis of current market interest rates or the term structure of interest rates.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable on active markets, either directly or indirectly
- Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

2.5.f Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when any of the following three criteria is satisfied:

– The rights to receive cash flows from the asset have expired.
– The Company retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay those cash flows immediately to a third party under a "pass-through" arrangement that satisfies the criteria of IAS 39.19.
– The Company has transferred the contractual rights to receive cash flows from a financial asset and has either (a) transferred substantially all the risks and rewards of ownership of the financial asset or has (b) neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control over the asset.

When the Company has transferred its rights to receive the cash flows from an asset, and has neither transferred nor retained substantially all the risks and rewards incidental to ownership of the asset, but retained control of the transferred asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the amount of consideration that the Company could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement corresponds to the amount of the transferred asset that the Company may repurchase. In case of a written put option (including an option that is fulfilled by settlement in cash or in a similar manner) on an asset that is measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. Impairment losses are recognized on financial assets to reflect the probability of default if there are objective indications of default. Financial assets are only written off if it is clear that the entire financial asset cannot be recovered.

2.6 Derivative financial instruments

Prime Office REIT-AG uses derivative financial instruments to actively manage its interest rate exposure.

Derivative financial instruments are recognized on the date on which the contract is entered into and measured subsequently at fair value. Any resulting transaction costs are expensed as incurred.

A number of these swaps satisfy the hedge accounting requirements set forth in IAS 39.88. These derivatives are thus accounted for pursuant to IAS 39.95 (cash flow hedges).

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and a description of how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are considered to be highly effective in offsetting the risks from changes in the cash flow and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The portion of changes in the value of the hedging instrument determined to be effective is recorded in a separate item of equity (reserve for unrealized gains and losses from cash flow hedges). Any ineffective portion is immediately released to profit or loss through the financial result.
Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged finance income or finance cost is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

Hedge accounting of cash flow hedges ceases when the hedging instrument expires or is sold, terminated or exercised, or if the requirements for hedge accounting are no longer satisfied or the committed or forecasted transaction is no longer expected to occur. All gains and losses from the subsequent measurement of derivative financial instruments that are not designated as hedging instruments are recognized at fair value though profit or loss in the financial result.

The market value of interest rate swaps and interest caps is determined by discounting the expected future cash flows over the residual term of the contract on the basis of current market interest rates or the term structure of interest rates. The market value of currency swaps is determined by reference to the foreign exchange rates for forward contracts as of the reporting date.

Derivative financial instruments with positive market values are reported under current assets (due in less than one year) and under non-current assets (due in more than one year). Derivative financial instruments with negative market values are reported under current liabilities (due in less than one year) and under non-current liabilities (due in more than one year).

2.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The depreciation period is based on the expected useful life of the asset. In the year of acquisition, items of property, plant and equipment are depreciated pro rata temporis. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Other equipment, fixtures and fittings 1 to 13 years

The residual values, useful lives and the depreciation method of the assets are reviewed at least at each fiscal year end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8. If an item of property, plant and equipment is composed of several components and these have different useful lives, the individual material components are depreciated over their individual useful lives. Property, plant and equipment are derecognized upon disposal or when no further economic benefits are expected from their continued use or sale. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

2.8 Investment property

Investment property is property used to earn rentals or for capital appreciation and not owner-occupied property. It also includes undeveloped land which is held for the purpose of capital appreciation.

Investment property is initially measured at cost, including transaction costs. In subsequent periods investment property is measured at fair value. Fair value reflects the market conditions as of the reporting date and takes into account factors such as rental income from current leases and reasonable and supportable assumptions about future leases and rental income in light of current conditions.

The Company does not account for any properties held under operating leases as investment property.

Provided that all definition criteria of IAS 40 are fulfilled, real estate under construction is classified as investment property and accounted for pursuant to IAS 40. Real estate under construction that is classified as investment property is initially measured at fair value, provided that this can be determined reliably. Until then, real estate under construction is measured at cost. There was no real estate under construction in the reporting year.

Fair values were determined by CB Richard Ellis Deutschland GmbH, an internationally recognized, independent appraiser, on the basis of discounted cash flows. Cash flows are calculated over a detailed planning period of ten years. Cash flows include the obtainable rent based on the contractual and market rent less sales deductions and non-allocable costs as well as administrative and maintenance costs. In the subsequent period, a residual value is taken into account which is the result of capitalization of sustainable net rental income. This is determined based on the market rent less the average, property-specific loss in rental income due to turnover or long-term vacant space and the lessor's non-allocable costs. The prevailing rental situation at the time of capitalization is taken into account by deducting the loss in rental income due to vacant space caused by the state of the economy, whereby the latter is a function of the property-specific re-letting period, the structural vacancy rates and the estimated probability of prolonging the lease term.

Expected inflation is taken into account when determining cash flows. Cash flows are discounted using property-specific discount and capitalization rates, which account for the respective lease situation, the location and quality of the property being valued, the demand and price level prevailing in the regional property market in question as well as the development prospects of the location and the property concerned. The discount rate is used to discount cash flows within the detailed planning period and the capitalization rate is used to discount cash flows after the detailed planning period. The discount rate corresponds to the internal interest rate and reflects the specific constellation of risks and rewards that result over the detailed planning period for the property, the location and in particular the rental situation. The capitalization rate tends to be based on the same factors as the discount rate, but also considers any rental increases and the effects of the passage of time on the property. The difference between the discount rate and the capitalization rate mainly stems from the fact that inflation is explicitly incorporated in the cash flows for the detailed planning period while the residual value is determined based on implicit inclusion of inflation in the capitalization rate (inflation discount). An additional effect stems from the various estimates as to the expected development of the property, its useful life and the market environment during the detailed planning period and on the date of calculating the residual value.

The fair value of the property is derived from the sum of the discounted cash flows over a ten-year detailed planning period as of the valuation date plus the discounted residual value on the valuation date.

The fair value of investment property therefore corresponds to its net capital value. This is the sum of the gross value of discounted future cash flows arising from the asset less the potential acquisition-related costs incurred by a hypothetical buyer.

Gains and losses resulting from changes in fair value are recognized in the period in which they arise.

Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment property are recognized through profit or loss in the year of retirement or disposal.

2.9 Cash and cash equivalents

Recognized cash and short-term deposits encompass current account deposits at banks. These are measured at nominal value.

2.10 Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Prime Office REIT-AG determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

Prime Office REIT-AG's financial liabilities include trade and other payables, overdraft facilities, loans and borrowings and derivative financial instruments.

The subsequent measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and other financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near future. This category includes derivative financial instruments entered into by Prime Office REIT-AG that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial liabilities held for trading are recognized in profit or loss.

Prime Office REIT-AG has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest method (EIR) amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the income statement.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability; the difference in the respective carrying amounts is recognized in profit or loss.

2.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the assets. All other borrowing costs are expensed in the period in which they occur using the effective interest method. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Prime Office REIT-AG capitalizes borrowing costs for all eligible assets where construction was commenced on or after 1 January 2010. The Company did not capitalize any such items in the reporting year.

2.12 Income tax

According to Sec. 16 (1) REITG ["Gesetz über deutsche Immobilienaktiengesellschaften mit börsennotierten Anteilen": German REIT Act], a REIT stock corporation that satisfies the requirements of Secs. 8 to 15 REITG, has unlimited corporate income tax liability and is not deemed to be registered in another treaty state under a double taxation treaty is exempt from both corporate income tax and trade tax.

As a result of obtaining REIT status on 7 July 2011 the last tax assessment of Prime Office REIT-AG is for the 2010 tax year on account of the Company obtaining retrospective tax exemption starting on 1 January 2011. Prime Office REIT-AG has been exempt from corporate income tax and trade tax since 1 January 2011.

2.13 Leases

Leases with the Company as the lessee or lessor are classified based on their substance as operating or finance leases. Temporary rental agreements for property are classified as leases in this regard.

Leases in which the lessee assumes the significant risks and rewards are classified as finance leases. In such case, the lessee recognizes the leased asset.

If the Company leases assets under a finance lease, the net investment is recognized as a lease receivable and the leased asset is recorded as a disposal. The net investment corresponds to the minimum lease payments receivable by the lessor under the finance lease and an unguaranteed residual value accruing to the lessor (gross investment value), discounted at the interest rate implicit in the lease. The difference between the gross investment value and the net investment value is recognized in the financial result over the term of the lease using the annuity method, which results in a constant stream of annual payments.

Leases in which the lessor bears the significant risks and rewards are classified as operating leases.

Property which is leased out by the Company under operating leases is recognized as investment property pursuant to IAS 40. The lease payments received over the entire term of the lease are recognized as rental income in the income statement on a straight-line basis over the term of the lease.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

2.14 Statement of cash flows

Prime Office REIT-AG's statement of cash flows was prepared in accordance with the provisions of IAS 7. The Company's cash flows are thus allocated to the three categories: operating activities, investing activities and financing activities.

The cash flows from operating activities are presented using the indirect method, under which the net cash flow from operating activities is derived from the net profit or loss for the period by adding or deducting all non-cash operating expenses and income. The cash flow from investing and financing activities is calculated directly on the basis of cash received and cash paid.

Cash and cash equivalents comprise cash on hand as well as short-term deposits and overdrafts at banks which are payable on demand and that are not subject to any major fluctuations in value.

2.15 Significant accounting judgments

When applying IFRSs, the management board has to make certain judgments in the process of applying accounting policies with respect to specific issues. In this regard, the management board has complied with the requirements and implementation guidelines issued by the IASB in its standards and interpretations where they explicitly relate to said issues.

The judgments made by Prime Office REIT-AG's management board which have a significant impact on the presentation of the net assets, financial position and results of operations concern the definition of criteria for the classification of leases (transfer of legal ownership, purchase options in place, relationship between contract term and economic useful life, present value of minimum lease payments, leased assets of a specialized nature). The Company has entered into commercial property leases for its investment property portfolio. In this context, it was found that – with the exception of one property (Hufelandstrasse, Munich) – all of the significant risks and rewards incidental to ownership of this leased property remained in the Company, such that these lease agreements had to be classified as operating leases. With regard to the property Hufelandstrasse, Munich, leased plant facilities were classified as a finance lease.

2.16 Significant accounting estimates and assumptions

IFRS financial statements require a certain degree of estimation and assumptions which influences recognized assets and liabilities, reported contingent assets and liabilities, and the disclosure of income and expenses during the reporting period. As estimates and assumptions are made based on uncertain future developments, estimates often deviate from actual future developments. Estimation uncertainty that has a significant risk of causing a material adjustment to the carrying amounts assets and liabilities within the next fiscal year is discussed below.

2.16.a Fair value of investment property

Due to the specific features of each property, there are not usually observable market prices for investment property, which means that the fair value can only be determined using valuation models. The models used are based on observable market data, if available. However, in view of the future rental situation and the probability that the option for extending the lease will be exercised, it is necessary to make estimates which, in future adjustments, could significantly impact the fair value determined.

The probability of extending existing lease agreements was estimated to be 50% with three exceptions (prior year: 50% with four exceptions). For the property in Heilbronn, Bahnhofstrasse 1–5, the estimate stands at 56%. For the properties in Düsseldorf, Am Seestern 1 and Frankfurt, Ludwig-Erhard-Anlage 2–8, the likelihood of the lease being extended lies at 0% (prior year: Düsseldorf, Am Seestern 1 0% and Frankfurt, Ludwig-Erhard-Anlage 2–8 19%).

With the exception of the property in Frankfurt, Ludwig-Erhard-Anlage 2–8, the administrative expenses were taken into account at between 0.77% and 3.49% (31 December 2011: between 0.77% and 4.18%) of the annual gross profit from each respective property. Maintenance costs were estimated at between EUR 4.86 and EUR 8.25 per square meter per year (31 December 2011: between EUR 5.17 and EUR 8.25 per square meter). With respect to the property in Frankfurt, Ludwig-Erhard-Anlage 2–8, the administrative expenses were taken into account at 75.42% (31 December 2011: 2.25%) of the property's annual gross profit.

The discount rate used for the valuation was between 6.00% and 7.20% (31 December 2011: between 6.00% and 7.20%), while a capitalization rate of between 5.00% and 6.20% was used to determine the residual value (31 December 2011: between 5.00% and 6.20%).

An expected inflation rate of 1.90% was assumed in the calculation of cash flows for 2013 and 2.0% for 2014. An inflation rate of 2.0% was applied thereafter. The carrying amount of the investment properties amounted to EUR 907,876k in the financial statements as of 31 December 2012 (31 December 2011: EUR 970,802k). A 0.5% decrease in the discount/capitalization rate would increase the market value of the real estate to a total of EUR 944m.

A 0.5 % increase in the discount/capitalization rate, on the other hand, would reduce the market value of the real estate to a total of EUR 876m. A 0.5 % increase in the discount/capitalization rate would thus lead to additional write-downs of EUR 31m.

The table below presents the individual valuation parameters for the real estate:

	Rental area in sqm		Administration costs based on annual gross profit (rounded)	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Hufelandstrasse 13–15, Munich	8,224	8,224	1 %	1 %
Ludwig-Erhard-Anlage 2–8, Frankfurt	35,101	35,101	75 %	2 %
T-Online Allee 1, Darmstadt	72,528	72,528	1 %	1 %
Earl-Bakken-Platz 1, Düsseldorf/Meerbusch	8,038	8,038	1 %	1 %
Opernplatz 2, Essen	24,531	24,531	1 %	1 %
Hultschiner Strasse 8, Munich	62,237	62,237	1 %	1 %
Philipp-Reis-Strasse 2, Stuttgart	19,854	19,854	1 %	1 %
Alfredstrasse 236, Essen	30,314	30,314	1 %	1 %
Deutsche-Telekom-Allee 7, Darmstadt	24,686	24,686	2 %	2 %
Breitwiesenstrasse 5–7, Stuttgart	25,284	24,907	3 %	4 %
Richard-Wagner-Platz 1, Nuremberg	6,445	6,445	2 %	2 %
Bahnhofstrasse 1–5, Heilbronn	14,750	14,748	3 %	3 %
Am Seestern 1, Düsseldorf	35,819	35,819	1 %	1 %

	Maintenance costs based on sqm		Discount rate (rounded)		Capitalization rate (rounded)	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
	EUR 5.49/sqm	EUR 5.49/sqm	6%	6%	5%	5%
	EUR 6.25/sqm	EUR 7.37/sqm	7%	6%	5%	5%
	EUR 6.39/sqm	EUR 6.14/sqm	7%	7%	6%	6%
	EUR 5.86/sqm	EUR 5.86/sqm	7%	7%	6%	6%
	EUR 5.27/sqm	EUR 5.27/sqm	7%	7%	6%	6%
	EUR 4.86/sqm	EUR 5.17/sqm	6%	6%	6%	6%
	EUR 8.25/sqm	EUR 8.25/sqm	6%	6%	6%	6%
	EUR 6.35/sqm	EUR 6.35/sqm	7%	7%	6%	6%
	EUR 6.51/sqm	EUR 6.51/sqm	7%	7%	6%	6%
	EUR 6.37/sqm	EUR 6.13/sqm	7%	7%	6%	6%
	EUR 7.01/sqm	EUR 7.01/sqm	6%	6%	6y%	6%
	EUR 6.52/sqm	EUR 6.47/sqm	7%	7%	6%	6%
	EUR 5.99/sqm	EUR 5.53/sqm	7%	7%	6%	6%

3. Notes to the income statement

3.1 Rental income

Rental income from investment property breaks down as follows:

	1 Jan to 31 Dec 2012	1 Jan to 31 Dec 2011
	EUR k	EUR k
Rental income	64,446	67,395
Income from the allocation of incidental expenses	7,896	7,898
Total	**72,342**	**75,293**

3.2 Other rental income

Other rental income from investment property breaks down as follows:

	1 Jan to 31 Dec 2012	1 Jan to 31 Dec 2011
	EUR k	EUR k
Income from the reimbursement of restoration work	2,607	172
Income from restructuring agreements	1,106	207
Income relating to other periods	116	235
Income from repairs	84	52
Income from insurance indemnification	55	142
Income from input tax adjustments	27	155
Sundry rental income	10	6
Total	**4,005**	**969**

3.3 Rental expenses and selling expenses

The rental expenses and selling expenses mainly comprise expenses for the allocable and non-allocable operating costs related to investment property. They break down as follows:

	1 Jan to 31 Dec 2012	1 Jan to 31 Dec 2011
	EUR k	EUR k
Repairs, maintenance and servicing	−5,259	−5,177
Facility management	−2,316	−1,756
Disposal of property, plant and equipment	−2,507	−224
Power, water, sewage	−1,977	−1,763
Property tax	−1,360	−1,292
Insurance	−777	−756
Non-deductible input tax	−264	−191
Deferred operating costs	−82	−90
Other expenses	−23	−152
Total	**−14,565**	**−11,401**

3.4 Other operating income

Other operating income breaks down as follows:

	1 Jan to 31 Dec 2012	1 Jan to 31 Dec 2011
	EUR k	EUR k
Gains on reversals of liabilities	170	31
Income from securities	38	176
Gains on value of benefits in kind	34	33
Gains on disposal of property, plant and equipment	0	9
Total	**242**	**249**

3.5 Share-based payments

The Company grants the members of the management board and its key personnel phantom stocks as a form of share based payments. These benefits vest in three years. After expiry of the vesting period, the recipient receives a cash payment equal to the current share price of the stocks. The amount of the payout depends on two independent performance indicators, "increase in FFO per share" and "outperformance of the Company's share compared to the DIMAX (German real estate stock market index)" which adjust the base points upwards or downwards at the end of the vesting period. The phantom stocks remain in place, even if the management board is dismissed by the supervisory board and/or the key employees are terminated. However, if the reasons for dismissal or termination lie in the behavior of the personnel concerned, the phantom stocks lapse. The supervisory board is entitled to make decisions on future participation in the stock option program.

In fiscal year 2011 the Company initially granted 40,500 phantom stocks of which 33,000 were to members of the management board. In fiscal year 2012, a further 44,000 phantom stocks were granted of which 40,000 were to members of the management board.

The phantom stock options from fiscal year 2011 have a residual term of 18 months until they mature.

They are measured at the average daily closing price of Prime Office REIT-AG shares listed on Xetra exchange of Deutsche Börse AG in the three months prior to the reporting date of 31 December 2012.

As of the reporting date, the obligation recognized for phantom stock options amounted to EUR 0k (31 December 2011: EUR 17k). Income from the phantom stocks amounted to EUR 17k in the fiscal year (prior year: expenses of EUR 17k).

No stock options were settled in the fiscal year 2012 and none lapsed.

3.6 Other operating expenses

Other operating expenses break down as follows:

	1 Jan to 31 Dec 2012	1 Jan to 31 Dec 2011
	EUR k	EUR k
Consulting fees	–1,343	–994
Publication costs	–426	0
Closing expenses and audit fees	–402	–570
Remuneration of the supervisory board	–395	–358
Expenses relating to other periods	–329	–201
Advertising costs	–322	–235
Rent and rent incidentals	–206	–140
Travel expenses	–151	–139
Non-deductible input tax	–142	–116
Insurance	–122	–122
Notary and court costs	–111	–21
Cost of valuing real estate portfolio	–98	–75
Bookkeeping costs	–97	–93
Vehicle expenses	–83	–87
Postage / telephone / office supplies	–75	–82
IPO costs	–65	–3,888
Contributions and membership fees	–56	–7
Trade fair costs	–48	–77
Cross-charged personnel expenses	–2	–19
Other expenses	–106	–259
Total	**–4,579**	**–7,483**

3.7 Gains/losses from the fair value measurement of investment property

Based on the existing real estate valuation report as of 31 December 2012, gains and losses from fair value measurement in accordance with IAS 40.35 were recognized through profit or loss; these are mainly attributable to changes in the lease agreement situation between the valuation dates (31 December 2011 and 31 December 2012). Minor changes in the discount and capitalization rates are also attributable to the respective property situation and primarily due to the fact that in specific cases the risk assessment for the properties was adjusted to reflect the changes in the rental situation.

In the first three quarters, losses from measurement at fair value include losses from the measurement of the property in Hamburg, Hammerstrasse 30/34 disposed of as 31 December 2012 of EUR 1,500k.

In the discounted cash flow method used to measure the real estate, the discount rate was increased slightly by 0.98 % on average and the capitalization rate was reduced by 0.21 % on average to reflect the latest developments on the property market. Due to these measurement criteria and the vacant space at the properties in Frankfurt, Ludwig-Erhard-Anlage 2–8, Stuttgart, Breitwiesenstrasse 5–7 and Düsseldorf, Am Seestern 1 as part of restructuring measures, a loss was posted for the period from 1 January to 31 December 2012 from measurement at fair value of EUR –20,388k after recording a gain of EUR 2,868k in 2011.

3.8 Net finance costs

Net finance costs break down as follows:

	1 Jan to 31 Dec 2012	1 Jan to 31 Dec 2011
	EUR k	EUR k
Interest expenses	–40,563	–39,440
Losses on fair value measurement of derivative financial instruments	–7,065	–10,909
Exchange rate losses	–714	–1,697
Total finance costs	**–48,342**	**–52,047**
Gains on fair value measurement of derivative financial instruments	7,367	10,440
Exchange rate gains	464	0
Other interest	223	401
Finance income from finance leases	36	43
Total finance income	**8,090**	**10,884**
Total	**–40,252**	**–41,163**

The total amounts of interest income and expenses on financial assets and liabilities that pursuant to IFRS 7.20 (b) are not measured at fair value through profit or loss break down as follows:

	1 Jan to 31 Dec 2012	1 Jan to 31 Dec 2011
	EUR k	EUR k
Interest income	223	401
Interest expenses	–40,563	–39,440
Total	**–40,340**	**–39,039**

3.9 Earnings per share

Basic earnings per share are determined by dividing the profit/loss attributable to equity holders of the Company by the average number of shares outstanding during the fiscal year (excluding treasury shares). Since in 2012, as in the prior year, no equity instruments with a dilutive effect were issued, diluted earnings per share correspond to basic earnings per share. The profit/loss attributable to equity holders of the Company correspond to the profit or loss for the respective period. The number of shares amounts to 51,941,345 (31 December 2011: 51,941,345) no-par value shares.

	Note	1 Jan to 31 Dec 2012	1 Jan to 31 Dec 2011
		EUR k	EUR k
Profit/loss attributable to equity holders		–5,158	17,570
Weighted average number of shares outstanding (in thousands)	5.1	51,941	34,833
Basic/diluted earnings per share		**–0.10**	**0.50**

4. Notes to the statement of financial position – assets

4.1 Financial and other assets

The carrying amounts of financial and other assets in the various categories correspond to their fair values and break down as follows:

		Cash and cash equivalents	Held for trading
		EUR k	EUR k
Current assets:			
Trade receivables	31 Dec 2012	0	0
	31 Dec 2011	0	0
Other receivables and financial assets	31 Dec 2012	0	1,111
	31 Dec 2011	0	15,050
Derivative financial instruments	31 Dec 2012	0	1,380
	31 Dec 2011	0	0
Cash and short-term deposits	31 Dec 2012	64,399	0
	31 Dec 2011	114,463	0
	31 Dec 2012	**64,399**	**2,491**
	31 Dec 2011	**114,463**	**15,050**
Non-current assets			
Financial assets	31 Dec 2012	0	0
	31 Dec 2011	0	0
Derivative financial instruments	31 Dec 2012	0	10,812
	31 Dec 2011	0	6,176
	31 Dec 2012	**0**	**10,812**
	31 Dec 2011	**0**	**6,176**
Total	**31 Dec 2012**	**64,399**	**13,303**
	31 Dec 2011	**114,463**	**21,225**

	Receivables	Available-for-sale financial assets	Derivatives designated as hedging instruments	Total
	EUR k	EUR k	EUR k	EUR k
	42,570	0	0	42,570
	2,009	0	0	2,009
	1,060	0	0	2,171
	3,553	0	0	18,602
	0	0	0	1,380
	0	0	16,011	16,011
	0	0	0	64,399
	0	0	0	114,463
	43,630	**0**	**0**	**110,520**
	5,562	**0**	**16,011**	**151,085**
	331	1,740	0	2,071
	425	1,683	0	2,108
	0	0	0	10,812
	0	0	0	6,176
	331	**1,740**	**0**	**12,883**
	425	**1,683**	**0**	**8,284**
	43,961	**1,740**	**0**	**123,403**
	5,987	**1,683**	**16,011**	**159,369**

Financial assets held for trading, which are all current, break down as follows as of 31 December 2012:

	31 Dec 2012	31 Dec 2011
	EUR k	EUR k
Securities	1,111	15,050
Total	**1,111**	**15,050**

Securities were recognized at their fair value.

Changes in financial assets between 1 January and 31 December 2012 are presented below:

		Through profit or loss	Ineffective portion through profit or loss	Directly in equity	Directly in equity by offsetting against correspon-ding loan	Total
		EUR k	EUR k	EUR k	EUR k	EUR k
Derivatives held for trading	31 Dec 2012	6,016	0	0	0	6,016
	31 Dec 2011	5,238	0	0	0	5,238
Derivatives designated as hedging inst-ruments	31 Dec 2012	0	0	–407	–15,604	–16,011
	31 Dec 2011	1,384	0	–294	0	1,090
Securities held for trading	31 Dec 2012	38	0	0	0	38
	31 Dec 2011	176	0	0	0	176
Total	**31 Dec 2012**	**6,054**	**0**	**–407**	**–15,604**	**–9,957**
	31 Dec 2011	**6,798**	**0**	**–294**	**0**	**6,504**

The CHF currency swap fell due on 30 November 2012. The positive market value of EUR 15.6m was offset directly in equity against the corresponding loan as part of the prolongation (see note 5.2).

Generally, fixed-interest payer swaps have been entered into to hedge against rising interest rates for all loans with floating interest rates. The nominal amounts of the swaps largely equal the amounts borrowed when the loans were issued in the case of existing floating-interest loans or the borrowed amounts expected to be still outstanding when the fixed-interest term ends. All derivative financial instruments are recognized at fair value.

The hedged cash flows fall due in fiscal years 2013 to 2019.

31 December 2012					
EUR		**Nominal amount**	**Valuation date**	**Maturity**	
T-Online Allee 1, Darmstadt	HSH	EUR 37,929,453.46	30 Nov 2012	31 Dec 2018	
	HSH	EUR 52,340,710.82	30 Nov 2012	31 Dec 2018	
Deutsche-Telekom-Allee 7, Darmstadt	HSH	EUR 27,178,433.22	29 Jun 2012	30 Dec 2019	
Alfredstrasse 236, Essen	Unicredit	EUR 47,288,019.55	30 Jun 2010	30 Dec 2019	
	Unicredit	EUR 47,288,019.55	30 Jun 2010	30 Dec 2019	
	Unicredit	EUR 33,101,613.68	30 Jun 2010	30 Jun 2017	
	Unicredit	EUR 14,186,405.87	30 Jun 2010	30 Jun 2017	
Hammerstrasse 30/34, Hamburg	Unicredit	EUR 24,381,511.13	31 May 2010	30 Dec 2019	
	Unicredit	EUR 478,068.86	31 May 2010	30 Dec 2019	
	Unicredit	EUR 24,381,511.13	31 May 2010	30 Dec 2019	
	Unicredit	EUR 478,068.86	31 May 2010	30 Dec 2019	
	Unicredit	EUR 17,401,705.99	1 Jun 2010	31 Jan 2013	
	Unicredit	EUR 7,457,874.00	31 May 2010	31 Jan 2013	
Bahnhofstrasse 1–5, Heilbronn	Unicredit	EUR 18,892,118.79	31 May 2010	30 Dec 2019	
	Unicredit	EUR 18,892,118.79	31 May 2010	30 Dec 2019	
	Unicredit	EUR 13,224,483.15	1 Jun 2010	30 Jun 2017	
	Unicredit	EUR 5,667,635.64	1 Jun 2010	30 Jun 2017	
Richard-Wagner-Platz 1, Nuremberg	Helaba	EUR 8,512,703.46	30 Apr 2010	30 Dec 2019	
Breitwiesenstrasse 5–7, Stuttgart	Helaba	EUR 30,267,390.07	30 Apr 2010	30 Dec 2019	
Düsseldorf, Am Seestern 1	Helaba	EUR 64,473,838.88	30 Apr 2010	30 Dec 2019	
Earl-Bakken-Platz 1, Düsseldorf/Meerbusch	LBB	EUR 10,500,000.00	31 Dec 2008	31 Dec 2015	
Hultschiner Strasse 8, Munich	Unicredit	EUR 54,800,000.00	31 Jan 2008	31 Jan 2018	
	Unicredit	EUR 101,000,000.00	30 Jan 2009	31 Dec 2013	
	Unicredit	EUR 91,000,000.00	27 Jul 2011	31 Dec 2013	
	Unicredit	EUR 30,000,000.00	27 Jul 2011	30 Jun 2015	
Opernplatz 2, Essen	LBB	EUR 22,000,000.00	31 Mar 2009	31 Dec 2017	
		EUR 803,121,684.90			
CHF		**Nominal amount**	**Valuation date**	**Maturity**	
T-Online Allee 1, Darmstadt	HSH	CHF 87,342,200.00	30 Nov 2012	31 Dec 2018	
T-Online Allee 1, Darmstadt	HSH	Currency swap	8 Nov 2007	30 Nov 2012	
Derivatives with a positive market value					
Derivatives with a negative market value					
Total market values of derivatives					

Fixed interest	Floating interest	Market value as of 31 Dec 2012	Market value as of 31 Dec 2011
		EUR k	EUR k
4.33%	EURIBOR-3M	−6,874	−4,648
4.18%	EURIBOR-3M	−9,375	0
4.81%	EURIBOR-1M	−6,658	−5,196
4.55%	EURIBOR-1M	−10,720	−8,630
1.80%	EURIBOR-1M	5,578	2,313
2.86%	EURIBOR-3M	−3,091	−1,956
2.86%	EURIBOR-3M	42	191
4.69%	EURIBOR-1M	−5,736	−4,680
4.69%	EURIBOR-1M	−112	−92
1.74%	EURIBOR-1M	2,886	1,185
1.74%	EURIBOR-1M	57	23
2.86%	EURIBOR-3M	−1,622	−1,026
2.86%	EURIBOR-3M	22	100
4.69%	EURIBOR-1M	−4,439	−3,623
1.74%	EURIBOR-1M	2,233	917
2.86%	EURIBOR-3M	−1,232	−780
2.86%	EURIBOR-3M	17	76
4.69%	EURIBOR-1M	−2,029	−1,667
4.69%	EURIBOR-1M	−7,214	−5,928
4.55%	EURIBOR-1M	−14,367	−11,654
4.20%	EURIBOR-3M	−1,133	−1,107
4.51%	EURIBOR-3M	−10,986	−9,003
3.08%	EURIBOR-3M	−2,341	−3,393
1.84%	EURIBOR-3M	1,358	1,370
2.24%	EURIBOR-3M	−1,201	−922
3.12%	EURIBOR-3M	−2,332	−1,556
		−79,269	**−59,686**

Fixed interest	Floating interest	Market value as of 31 Dec 2012	Market value as of 31 Dec 2011
3.18%	CHF-LIBOR	0	−9,921
		0	16,011
		0	6,090
		0	−53,596

		12,192	22,187
		−91,461	−75,784
		−79,269	**−53,597**

The following swaps fell due in the fiscal year or were refinanced as new swaps following a prolongation.

EUR	Bank	Nominal amount	Valuation date	Maturity	Fixed interest	Floating interest	due/ refinanced
T-Online Allee 1, Darmstadt	HSH	CHF 87,342,200.00	30 Nov 2012	31 Dec 2018	3.18%	CHF-LIBOR	refinanced
	HSH	EUR 37,929,453.46	30 Nov 2012	31 Dec 2018	4.33%	EURIBOR-3M	refinanced
	HSH	Currency swap	08 Nov 2007	30 Nov 2012			due

Receivables break down as follows:

		Current (up to one year)	Non-current (more than one year)	Total
		EUR k	EUR k	EUR k
Other receivables and financial assets	31 Dec 2012	2,171	2,071	4,242
	31 Dec 2011	18,602	2,108	20,711
Trade receivables	31 Dec 2012	42,570	0	42,570
	31 Dec 2011	2,009	0	2,009
Total	**31 Dec 2012**	**44,741**	**2,071**	**46,812**
	31 Dec 2011	20,611	2,108	22,720

There were no significant differences between the carrying amounts and the fair values of trade receivables as of 31 December 2012. No impairments were required as of 31 December 2012. There were no receivables past due as of 31 December 2012.

The fair value hierarchy of financial assets measured at fair value breaks down as follows:

		Level 1	Level 2	Level 3	Total
		EUR k	EUR k	EUR k	EUR k
Held-for-trading assets	31 Dec 2012	0	12,192	0	12,192
	31 Dec 2011	0	6,176	0	6,176
Available-for-sale financial assets	31 Dec 2012	0	1,740	0	1,740
	31 Dec 2011	0	1,683	0	1,683
Derivatives designated as hedging instruments	31 Dec 2012	0	0	0	0
	31 Dec 2011	0	16,011	0	16,011
		0	**13,932**	**0**	**13,932**
		0	**23,871**	**0**	**23,871**

During the fiscal year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

4.2 Property, plant and equipment

Property, plant and equipment breaks down as follows:

	31 Dec 2012	31 Dec 2011
	EUR k	EUR k
Office fixtures and fittings	152	139
Showrooms	92	155
Other equipment, furniture and fixtures	46	46
Total	**290**	**340**

Property, plant and equipment developed as follows:

	EUR k
Cost	
1 January 2011	225
Additions	285
Disposals	55
31 December 2011	455
Additions	50
Disposals	0
31 December 2012	505
Depreciation and impairment	
1 January 2011	74
Depreciation and impairments for the fiscal year	60
Disposals	19
31 December 2011	115
Depreciation and impairments for the fiscal year	101
Disposals	0
31 December 2012	216
Net carrying amount	
31 December 2011	**340**
31 December 2012	**290**

There were no contractual commitments for the acquisition of property, plant and equipment as of the reporting date.

4.3 Investment property

Investment property developed as follows:

	31 Dec 2012	31 Dec 2011
	EUR k	EUR k
Carrying amount as of 1 January	970,802	968,418
Capital expenditures	1,260	642
Disposal of portfolio properties	−44,000	−1,200
Gains on fair value measurement	1,150	9,688
Losses on fair value measurement	−21,319	−6,819
Adjustment for recognizing rental income on a straight-line basis following adoption of IAS 40.33	−17	73
Total	**907,876**	**970,802**

Investment property was measured by an external appraiser from CBRE GmbH. With regard to the valuation method used, see note 2.8.

Agreements have been made between some of the banks financing properties and the Company with regard to restrictions on the sale of property and/or the proceeds arising from a sale. The parties agree that the proceeds from a free sale of financed property will initially be used to repay the loans in the contract without any further contractual arrangements being required.

In addition, all the present, conditional and future rights and claims of the borrower from a complete or partial future sale of the mortgaged property or other disposal of the mortgaged property have been assigned. See note 5.2 "Overview of other collateral granted in connection with the loan liabilities."

The carrying amount breaks down as follows by property:

Carrying amounts of property	31 Dec 2012	31 Dec 2011
	EUR k	EUR k
Hufelandstrasse 13–15, Munich	23,977	23,584
Ludwig-Erhard-Anlage 2–8, Frankfurt	155,100	161,800
T-Online Allee 1, Darmstadt	172,500	172,500
Earl-Bakken-Platz 1, Düsseldorf/Meerbusch	16,400	16,400
Opernplatz 2, Essen	38,500	38,600
Hultschiner Strasse 8, Munich	186,500	186,600
Philipp-Reis-Strasse 2, Stuttgart	38,899	39,419
Hammerstrasse 30/34, Hamburg	0	45,500
Alfredstrasse 236, Essen	73,000	73,100
Deutsche-Telekom-Allee 7, Darmstadt	53,300	53,200
Breitwiesenstrasse 5–7, Stuttgart	39,200	41,700
Richard-Wagner-Platz 1, Nuremberg	13,000	13,000
Bahnhofstrasse 1–5, Heilbronn	29,900	29,700
Am Seestern 1, Düsseldorf	67,600	75,700
Total	**907,876**	**970,802**

As regards the properties pledged as collateral for financial liabilities, we refer to note 5.2.

There are no material contractual obligations to purchase, construct or develop investment property or carry out repairs, maintenance or improvements.

By purchase agreement dated 2 November 2012, the property in Hamburg, Hammerstrasse 30/34 was sold as of 31 December 2012 for a purchase price of EUR 41,742k. Since the carrying amount as of the end of the third quarter amounted to EUR 44,000, this gave rise to a loss of EUR 2,258k in the fourth quarter. Disposal-related expenses in the form of advisory costs of EUR 249k were also incurred.

4.4 Leases

From its existing leases, Prime Office REIT-AG expects to receive the following minimum lease payments:

		Less than one year	Between one and five years	Between five and ten years	Total
		EUR k	EUR k	EUR k	EUR k
Minimum lease payments	31 Dec 2012	46,539	171,460	142,084	360,083
	31 Dec 2011	64,013	182,742	178,760	425,515

The Company has pledged its rights and claims associated with existing and future leases as collateral to the financing banks.

5. Notes to the statement of financial position – equity and liabilities

5.1 Equity

Development of ordinary shares	Number of shares
Number of shares as of 1 January 2011	17,441,345
Changes in issued capital	34,500,000
Number of shares as of 31 December 2011	**51,941,345**
Number of shares as of 1 January 2012	51,941,345
Changes in issued capital	0
Number of shares as of 31 December 2012	**51,941,345**

The shares are no-par value bearer shares with an imputed share in capital stock of EUR 1.00. All shares are issued and fully paid up.

By resolution passed at the general meeting on 29 June 2011, the management board was authorized, with the approval of the supervisory board, to increase the issued capital of the Company once or in several installments by a total amount of up to EUR 23,721k (authorized capital 2011) up until 19 May 2016, in return for contributions in cash and/or in kind.

At the general meeting of 29 June 2011, the Company's capital stock was increased conditionally (conditional capital 2011); the increase was implemented through the issue of up to 8,720,672 new no-par value bearer shares with profit participation rights effective from the start of the fiscal year of their issue. Conditional capital serves for granting shares to the holders that can be issued by the Company at any time up to the close of day on 19 May 2016.

The annual general meeting of Prime Office REIT-AG on 10 May 2012 approved the distribution of a dividend of EUR 0.23. The dividend totaling EUR 11,947k was paid out to the shareholders on 11 May 2012.

As a result of the effective change in the market value of interest rate and currency swaps designated as hedging instruments the reserve for unrealized gains and losses from cash flow hedges (interest rate swaps) changed by EUR –11,400k as of 31 December 2012 (prior year: EUR –25,482k) and the reserve for unrealized gains and losses from cash flow hedges (currency swaps) changed by EUR –407k (prior year: EUR –295k).

The reserve for unrealized gains and losses from cash flow hedges (currency swaps) amounts to EUR 0k (prior year: EUR 407k). To neutralize the effects of the currency translation of the loans, exchange rate gains of EUR 407k from the reserve for unrealized gains and losses from cash flow hedges (currency swaps) were posted against the corresponding exchange rate gains in the income statement. The Company did not hold any currency swaps as of 31 December 2012.

The reserve for unrealized gains/losses from fair value measurement of available-for-sale financial assets contains EUR 223k (prior year: EUR 166k) pertaining to the accumulated change in the value of a pension insurance policy that was classified in the category available-for-sale financial assets and recognized under non-current receivables.

5.2 Financial liabilities

The table below summarizes the maturity profile of the financial liabilities as of 31 December 2012 and 2011 based on contractual undiscounted payments.

		Less than one year	Between one and five years	More than five years	Total
		EUR	EUR	EUR	EUR
Non-derivative financial liabilities					
Bank loans	31 Dec 2012	221,879	346,061	0	567,940
	31 Dec 2011	175,980	409,934	98,974	684,888
Trade payables	31 Dec 2012	2,805	0	0	2,805
	31 Dec 2011	2,707	0	0	2,707
Other financial liabilities	31 Dec 2012	470	0	0	470
	31 Dec 2011	555	0	0	555
Derivative financial liabilities					
Obligations from swaps	31 Dec 2012	19,619	57,851	11,036	88,506
	31 Dec 2011	15,780	58,001	22,827	96,608
	31 Dec 2012	**244,773**	**403,912**	**11,036**	**659,721**
	31 Dec 2011	**195,022**	**467,935**	**121,801**	**784,758**

The carrying amounts of financial liabilities break down as follows as of 31 December 2012 and 2011:

		Less than one year	Between one and five years	Between five and ten years	Total
		EUR k	EUR k	EUR k	EUR k
Liabilities to banks	31 Dec 2012	212,507	333,693	0	546,200
	31 Dec 2011	156,261	379,413	96,995	632,669
Trade payables	31 Dec 2012	3,389	0	0	3,389
	31 Dec 2011	2,707	0	0	2,707
Derivative financial instruments	31 Dec 2012	4,285	8,667	78,509	91,461
	31 Dec 2011	0	5,423	70,361	75,784
Other liabilities	31 Dec 2012	470	0	0	470
	31 Dec 2011	555	0	0	555
	31 Dec 2012	**220,651**	**342,360**	**78,509**	**641,520**
	31 Dec 2011	**159,523**	**384,836**	**167,356**	**711,715**

Liabilities to banks contain deferred repayments of EUR 612k, deferred interest of EUR 1,840k as well as a liability from refinancing a swap of EUR 1,600k.

All of the loans concern financing for the acquisition of investment property.

For details of the redemption and prolongation/refinancing of current loans, we refer to the notes on liquidity risk in note 8.3.

Changes in the fair value of derivatives that are not hedging instruments are not attributable to changes in the credit risk of these financial liabilities.

The carrying amount of financial liabilities to banks is denominated in the following currencies (corresponding value in EUR):

	31 Dec 012	31 Dec 2011
	EUR k	EUR k
EUR	546,200	503,169
CHF	0	129,500
Total	**546,200**	**632,669**

Changes in the value of derivative financial instruments between 1 January and 31 December 2012 are presented below:

		Through profit or loss	Ineffective portion through profit or loss	Directly in equity	Total
		EUR k	EUR k	EUR k	EUR k
Derivatives held for trading	31 Dec 2012	−2,930	0	0	−2,930
	31 Dec 2011	−5,673	0	0	−5,673
Derivatives designated as hedging instruments	31 Dec 2012	0	−5,948	−11,400	−17,348
	31 Dec 2011	0	−34	−25.481	−25.515
Total	**31 Dec 2012**	**−2,930**	**−5,948**	**−11,400**	**−20,278**
	31 Dec 2011	**−5,673**	**−34**	**−25,481**	**−31,188**

The fair value hierarchy of financial liabilities measured at fair value breaks down as follows:

		Level 1	Level 2	Level 3	Total
		EUR k	EUR k	EUR k	EUR k
Derivatives designated as hedging instruments	31 Dec 2012	0	68,113	0	68,113
	31 Dec 2011	0	55,365	0	55,365

During the fiscal year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following floating and fixed-interest financial liabilities are due to banks:

Property	Bank	Nominal value of loan
Fixed interest		
Hufelandstrasse 13–15, Munich	DG Hyp	EUR 15,630k
Ludwig-Erhard-Anlage 2–8, Frankfurt	Helaba	EUR 64,000k
Hultschiner Strasse 8, Munich	Hypovereinsbank/KfW ERP	EUR 40,200k
	Hypovereinsbank/KfW	EUR 10,000k
Philipp-Reis-Strasse 2, Stuttgart	Münchener Hypo	EUR 38,640k
Floating rate		
T-Online Allee 1, Darmstadt	COREALCREDIT BANK AG	EUR 41,929k
	COREALCREDIT BANK AG	EUR 55,441k
Earl-Bakken-Platz 1, Düsseldorf/Meerbusch	Berlin Hyp	EUR 10,500k
Opernplatz 2, Essen	Landesbank Berlin	EUR 22,000k
Hultschiner Strasse 8, Munich	Hypovereinsbank (Senior Loan)	EUR 54,800k
	Hypovereinsbank (Senior Loan II)	EUR 30,000k
Hammerstrasse 30/34, Hamburg	Hypovereinbank/Unicredit	EUR 24,860k
Alfredstrasse 236, Essen	Hypovereinbank/Unicredit	EUR 47,288k
Deutsche-Telekom-Allee 7, Darmstadt	COREALCREDIT BANK AG	EUR 27,178k
Breitwiesenstrasse 5-7, Stuttgart	Helaba	EUR 32,000k
Richard-Wagner-Platz 1, Nuremberg	Helaba	EUR 9,000k
Bahnhofstrasse 1–5, Heilbronn	Hypovereinbank/Unicredit	EUR 18,892k
Am Seestern 1, Düsseldorf	Helaba	EUR 68,000k

	Interest rate	Carrying amount of loan	thereof < 1 year	thereof > 1 year
	4.250 %	EUR 14,720k	EUR 362k	EUR 14,358k
	4.350 %	EUR 45,366k	EUR 45,366k	EUR 0k
	3.500 %	EUR 26,284k	EUR 3,092k	EUR 23,192k
	3.450 %	EUR 6,538k	EUR 769k	EUR 5,769k
	4.450 %	EUR 29,342k	EUR 1,475k	EUR 27,867k
		EUR 122,250k	**EUR 51,064k**	**EUR 71,186k**
	EURIBOR-3M + 1.95 %	EUR 41,790k	EUR 1,647k	EUR 40,143k
	EURIBOR-3M + 1.95 %	EUR 55,256k	EUR 4,717k	EUR 50,539k
	EURIBOR-3M + 0,90 %	EUR 10,010k	EUR 128k	EUR 9,882k
	EURIBOR-3M + 0.75 % + 0.90 %	EUR 20,271k	EUR 655k	EUR 19,616k
	EURIBOR-3M + 0.75 %	EUR 54,639k	EUR 0k	EUR 54,639k
	EURIBOR-3M + 180 BP	EUR 28,120k	EUR 28,120k	EUR 0k
	EURIBOR-3M + 1.44 %	EUR 23,666k	EUR 23,666k	EUR 0k
	EURIBOR-3M + 1.44 %	EUR 45,095k	EUR 1,167k	EUR 43,928k
	EURIBOR-1M + 1.95 %	EUR 26,803k	EUR 561k	EUR 26,242k
	EURIBOR-1M + 1.30 % + 0.4 %	EUR 28,956k	EUR 28,956k	EUR 0k
	EURIBOR-1M + 1.30 % + 0.4 %	EUR 8,144k	EUR 8,144k	EUR 0k
	EURIBOR-3M + 1.44 %	EUR 17,984k	EUR 466k	EUR 17,518k
	EURIBOR-1M + 1.30 % + 0.4 %	EUR 59,776k	EUR 59,776k	EUR 0k
		EUR 420,510k	**EUR 158,003k**	**EUR 262,507k**
	Total	**EUR 542,760k**	**EUR 209,067k**	**EUR 333,693k**

In addition to ongoing repayments, the loans from Corealcredit Bank AG were converted to floating-interest loans as part of refinancing efforts in fiscal year 2012. The carrying amount of the fixed-interest liabilities therefore fell from EUR 200,445k to EUR 122,250k. The liabilities with a remaining term of less than one year amounted to EUR 51,064k as of 31 December 2012. Loans with a residual term of more than one year amounted to EUR 71,186k on 31 December 2012.

By refinancing the CHF loan into an EUR loan, the carrying amount of the floating-interest liabilities increased significantly from EUR 301,028k (31 December 2011) to EUR 420,510k.

Property	Bank	Nominal amount	Maturity	
Fixed rate				
Hufelandstrasse 13–15, Munich	DG Hyp	EUR 15,630k	30 Dec 2014	
Ludwig-Erhard-Anlage 2–8, Frankfurt	Helaba	EUR 64,000k	31 Dec 2017	
Hultschiner Strasse 8, Munich	Hypovereinsbank/KfW ERP	EUR 40,200k	31 Mar 2021	
	Hypovereinsbank/KfW	EUR 10,000k	31 Mar 2021	
Philipp-Reis-Strasse 2, Stuttgart	Münchener Hypo	EUR 38,640k	30 Jun 2015	
Floating rate				
T-Online Allee 1, Darmstadt	COREALCREDIT BANK AG	EUR 41,929k	30 Nov 2019	
	COREALCREDIT BANK AG	EUR 55,441k	30 Nov 2019	
Earl-Bakken-Platz 1, Düsseldorf/Meerbusch	Berlin Hyp	EUR 10,500k	30 Dec 2015	
Opernplatz 2, Essen	Landesbank Berlin	EUR 22,000k	30 Dec 2017	
Hultschiner Strasse 8, Munich	Hypovereinsbank (Senior Loan)	EUR 54,800k	31 Dec 2028	
	Hypovereinsbank (Senior Loan II)	EUR 30,000k	30 Jun 2015	
Hammerstrasse 30/34, Hamburg	Hypovereinbank/Unicredit	EUR 24,860k	31 Jan 2013	
Alfredstrasse 236, Essen	Hypovereinbank/Unicredit	EUR 47,288k	30 Jun 2017	
Deutsche-Telekom-Allee 7, Darmstadt	COREALCREDIT BANK AG	EUR 27,178k	30 Jun 2014	
Breitwiesenstrasse 5–7, Stuttgart	Helaba	EUR 32,000k	31 Dec 2013	
Richard-Wagner-Platz 1, Nuremberg	Helaba	EUR 9,000k	31 Dec 2013	
Bahnhofstrasse 1–5, Heilbronn	Hypovereinbank/Unicredit	EUR 18,892k	30 Jun 2017	
Am Seestern 1, Düsseldorf	Helaba	EUR 68,000k	31 Dec 2013	

The liabilities with a remaining term of less than one year amounted to EUR 158,003k as of 31 December 2012. Loans with a residual term of more than one year amounted to EUR 262,507k on 31 December 2012.

The carrying amount of these CHF loans came to EUR 129,500k as of 31 December 2011 and was fully refinanced into EUR loans as of the end of this fiscal year.

The maturities and conditions of loans are as detailed in the table below. The loan liabilities remaining after annual repayments presented in the table below fall due at the end of the agreed loan term.

Repayment p.a.	Interest rate	Interest rate hedge (swap)
2%	4.250%	–
2.5%	4.350%	–
Six-monthly installments of EUR 1,546k; due as of 31 Mar and 30 Sep ➔ First installment on 30 Sep 2008	3.500%	–
Six-monthly installments of EUR 384k; due as of 31 Mar and 30 Sep ➔ First installment on 30 Sep 2008	3.450%	–
2.8%	4.450%	–
EUR 1,740k	EURIBOR-3M + 1.95%	4.33% on notional amount starting at EUR 37,929k
EUR 1,740k plus full repayment of tranche B of EUR 3,100k as of 28 February 2013	EURIBOR-3M + 1.95%	4.18% on notional amount starting at EUR 52,341k
1% (installments increase each year)	EURIBOR-3M + 0.90%	5.100%
Staggered quarterly installments with an annual increase – on average 2% annual repayment rate starting from	EURIBOR-3M + 0.75% + 0.90%	4.770%
–	EURIBOR-3M + 0.75%	5.255%
Repaid at 4% p.a., i.e. EUR 1,200,000 p.a. (paid at year-end)	EURIBOR-3M + 180 BP	7.662%
Full repayment of the loan end of January 2013	EURIBOR-3M + 1.44%	4.690%
EUR 946k	EURIBOR-3M + 1.44%	4.550%
Repayment of 3% plus saved interest	EURIBOR-1M + 1.95%	4.810%
EUR 480k	EURIBOR-1M+ 1.30% + 0.4%	4.685%
EUR 135k	EURIBOR-1M+ 1.30% + 0.4%	4.685%
EUR 378k	EURIBOR-3M + 1.44%	4.690%
EUR 988k	EURIBOR-1M+ 1.30% + 0.4%	4.550%

The following loans matured in the fiscal year or were replaced by new ones:

Property	Bank	Nominal amount	Maturity	Repayment p.a.	Interest rate	Interest hedge (swap)	Replaced by on:
Fixed rate							
Deutsche-Telekom-Allee 7, Darmstadt	COREAL-CREDIT BANK AG	EUR 16,000k	30 Jun 2014	3% plus saved interest	3,280%	–	Early extension of agreement as of 1 July 2012 incl. special repayments of EUR 1,000k
Deutsche-Telekom-Allee 7, Darmstadt	COREAL-CREDIT BANK AG	EUR 16,000k	30 Jun 2014	No installments until 30 Jun 2012; from 30 Jul 2012, repayment of 3% plus saved interest	2.8%	–	Early extension of agreement as of 1 July 2012 incl. special repayments of EUR 1,000k
T-Online Allee 1, Darmstadt	COREAL-CREDIT BANK AG	EUR 58,000k	30 Nov 2019	3%	3.55%	4.330%	Extension of agreement as of 30 Nov 2012
T-Online Allee 1, Darmstadt	COREAL-CREDIT BANK AG	CHF 87,342k	30 Nov 2019	–	2.63%	3.180%	Extension of agreement in EUR as of 30 Nov 2012
Ludwig-Erhard-Anlage 2–8, Frankfurt	Helaba	CHF 72,427k	31 Dec 2017	–	3.26%	–	Fully repaid on 27 Dec 2012

The following encumbrances have been entered in the land register of the respective properties as collateral for the loans:

Loan collateral as of 31 December 2012

Property	EUR k	Beneficiary
Hufelandstrasse 13–15, Munich	15,630	DG Hyp
	8,500	Helaba**
Ludwig-Erhard-Anlage 2–8, Frankfurt	130,000	Helaba
	5,000	Helaba
T-Online Allee 1, Darmstadt	16,000	Corealcredit Bank AG
	127,800	Corealcredit Bank AG
	9,000	HSH Nordbank
	32,400	Hypovereinsbank
Earl-Bakken-Platz 1, Düsseldorf/Meerbusch	20,500	Berlin Hyp
Opernplatz 2, Essen	27,000	Landesbank Berlin
	3,000	Corealcredit Bank AG
Hultschiner Strasse 8, Munich	134,000	Hypovereinsbank
	77,000	Hypovereinsbank
Philipp-Reis-Strasse 2, Stuttgart	38,641	Münchener Hypo
Hammerstrasse 30/34, Hamburg	33,600	Hypovereinsbank/HSH Nordbank
	5,700	Hypovereinsbank/HSH Nordbank
	2,600	Hypovereinsbank
Alfredstrasse 236, Essen	50,000	Hypovereinsbank/HSH Nordbank
	10,900	Hypovereinsbank
Deutsche-Telekom-Allee 7, Darmstadt	16,000	Corealcredit Bank AG
	16,000	Corealcredit Bank AG
	4,500	Berlin Hyp
Breitwiesenstrasse 5–7, Stuttgart	35,200	Helaba
	8,800	Helaba
Richard-Wagner-Platz 1, Nuremberg	11,120	Helaba
	5,000	LB Berlin
	2,780	Helaba
Bahnhofstrasse 1–5, Heilbronn	30,500	Hypovereinsbank/HSH Nordbank
	6,200	Hypovereinsbank
Am Seestern 1, Düsseldorf	13,600	Helaba
	57,460	Helaba
	954,431	

* *Property sold as of 31 December 2012*

** *The deed of release was issued in August 2012. The release was removed from the land register in January 2013.*

With regard to the fixed-interest payer swaps obtained in connection with the loans, we refer to note 4.1.

Overview of other collateral granted in connection with the loan liabilities

Property	Nominal amount Loans	Other collateral
Hufelandstrasse 13–15, Munich	EUR 15,630k	– Registered land charge of EUR 15,630k with submission of the encumbered property under immediate execution of debt and assumption of personal liability by the borrower and submission of all the borrower's assets to immediate execution of debt – Assignment of rent receivables – Assignment of rights from a pension plan – Assignment of any credit balances stemming from the property
Ludwig-Erhard-Anlage 2–8, Frankfurt	EUR 64,000k	– Personal guarantee in accordance with the deed of mortgage – Assignment of rights and claims from rent agreements – Assignment of rights and claims from the purchase agreement of the notary Dr. Rainer Kosewähr, Berlin, including all addendums – Senior pledge of the rental collection account (exclusively to be maintained) and the reserve account with an agreement for control of the credit disclosed
T-Online Allee 1, Darmstadt	EUR 41,929k	– Assignment of rights and claims from existing and future rent agreements (which the bank can disclose at any time) – Pledge of the maintenance reserve, which is built up successively, and half of the liquidity reserve, which is built up successively – The bank is entitled to demand more collateral in response to the occurrence of circumstances or if it subsequently becomes aware of circumstances – Assignment of purchase price claims of EUR 3,100,000 from the sale of the property Hammerstrasse 30, 32, 34, 22041 Hamburg by purchase agreement dated 2 November 2012 – Obligation to make an additional special repayment of EUR 3,000,000 by 30 June 2014 at the latest (alternatively for the loan of originally CHF 87,342k).
	EUR 55,441k	– Assignment of rights and claims from existing and future rent agreements (which the bank can disclose at any time) – Pledge of the maintenance reserve, which is built up successively, and half of the liquidity reserve, which is built up successively – The bank is entitled to demand more collateral in response to the occurrence of circumstances or if it subsequently becomes aware of circumstances – Assignment of purchase price claims of EUR 3,100,000 from the sale of the property Hammerstrasse 30, 32, 34, 22041 Hamburg by purchase agreement dated 2 November 2012 – Obligation to make an additional special repayment of EUR 3,000,000 by 30 June 2014 at the latest (alternatively for the loan of originally EUR 52,822k).
Philipp-Reis-Strasse 2, Stuttgart	EUR 38,640k	– Open assignment of rights and claims from the rent agreement with the state of Baden-Württemberg – Open assignment of rights from the rent guarantee

Overview of other collateral granted in connection with the loan liabilities

Property	Nominal amount Loans	Other collateral
Hammerstrasse 30/34, Hamburg	EUR 24,860k	– Senior certified land charge for EUR 33,600k, junior registered land charge for EUR 5,700k on the mortgaged property in Hamburg – Senior certified land charge for EUR 50,000k on the mortgaged property in Essen – Senior certified land charge for EUR 30,500k on the mortgaged property in Heilbronn – Assignment of rights and claims from all current and future rent agreements for the properties in Hamburg, Essen and Heilbronn – Assignment of claims from an all-risk insurance policy – Pledge of rights and claims from interest rate hedges entered into
Alfredstrasse 236, Essen	EUR 47,288k	– Senior certified land charge for EUR 33,600k, junior registered land charge for EUR 5,700k on the mortgaged property in Hamburg – Senior certified land charge for EUR 50,000k on the mortgaged property in Essen – Senior certified land charge for EUR 30,500k on the mortgaged property in Heilbronn – Assignment of rights and claims from all current and future rent agreements for the properties in Hamburg, Essen and Heilbronn – Assignment of claims from an all-risk insurance policy – Pledge of rights and claims from interest rate hedges entered into
Deutsche-Telekom-Allee 7, Darmstadt	EUR 27,178k	– Initially undisclosed assignment of rights and claims from existing and future rent agreements – Pledge of the maintenance reserve, which is built up successively, and half of the liquidity reserve, which is built up successively – Enforceable payment guarantee of EUR 4,400 k – The bank is entitled to demand more collateral in response to the occurrence of circumstances or if it subsequently becomes aware of circumstances – Pledge of an amount of EUR 1,002,156.72 (EUR 300,000 due to fall in fair value and EUR 702,156.72 pro rata partial repayment) in a separate account to be set up. The amount is to be paid by monthly payments of EUR 12,500 and EUR 29,256.53 until the fixed interest period has ended.
Breitwiesenstrasse 5–7, Stuttgart	EUR 32,000k	– Open assignment of rights and claims from rent agreements – Personal guarantee by borrower of EUR 8,800 k – Cash sweep on all property surpluses by transferring the rent surplus to a pledged reserve account – Pledge of a time deposit held at the bank plus accumulated future interest. This may only be used for special repayments.
Richard-Wagner-Platz 1, Nuremberg	EUR 9,000k	– Open assignment of rights and claims from rent agreements – Personal guarantee by borrower of EUR 2,780 k – Cash sweep on all property surpluses by transferring the rent surplus to a pledged reserve account – Pledge of a time deposit held at the bank plus accumulated future interest. This may only be used for special repayments.
Bahnhofstrasse 1–5, Heilbronn	EUR 18,892k	– Senior certified land charge for EUR 33,600k, junior registered land charge for EUR 5,700k on the mortgaged property in Hamburg – Senior certified land charge for EUR 50,000k on the mortgaged property in Essen – Senior certified land charge for EUR 30,500k on the mortgaged property in Heilbronn – Assignment of rights and claims from all current and future rent agreements for the properties in Hamburg, Essen and Heilbronn – Assignment of claims from an all-risk insurance policy – Pledge of rights and claims from interest hedges entered into

Overview of other collateral granted in connection with the loan liabilities		
Property	**Nominal amount Loans**	**Other collateral**
Am Seestern 1, Düsseldorf	EUR 68,000k	– The mortgages to be registered are also liable for the interest rate hedges of the borrower with the bank, the terms of which do not exceed 15 January 2015 – Assignment of rights and claims from the purchase agreement offer – Personal guarantee of borrower in accordance with the deed of mortgage – Open assignment of rights and claims from rent agreements – Cash sweep on all property surpluses by transferring the rent surplus to a pledged reserve account – Pledge of a time deposit held at the bank plus accumulated future interest. This may only be used for special repayments.
Hultschiner Strasse 8, Munich	EUR 30,000k	– Assignment of present, conditional and future rights and claims from all present and future rent agreements pertaining to the mortgaged property by the borrower – Assignment of present, conditional and future rights and claims from a complete or partial future sale of the mortgaged property or other disposal of the mortgaged property by the borrower – Pledge of all current and future accounts – Pledge of rent collection account – Pledge of all current, conditional and future rights and claims from an all-risk insurance policy – Pledge of all future payment claims from the master agreement to be concluded for financial futures contracts – Assignment of present, conditional and future rights and claims from all present and future property manager agreements pertaining to the mortgaged property by the borrower – Assignment of the repayment and surplus income claims of the borrower vis-à-vis the senior creditors as assignee with regard to the rent claims concerning the other mortgaged properties
Opernplatz 2, Essen	EUR 22,000k	– Assignment of rights and claims from existing and future rent receivables from mortgaged properties under the assignment agreement – Subordinated assignment (after senior creditors) of rights and claims from existing and future rent receivables from the properties 1800 (Ludwig-Erhardt-Anlage 2–8, Frankfurt a.M.), 2503 (Richard-Wagner-Platz 1, Nuremberg), and 2501 (Breitwiesenstrasse 5–7, Stuttgart) under the assignment agreement – Assignment of return claims and waiver of rights to revalue by HSH Nordbank and HeLaBa as senior creditors for the properties in Frankfurt, Nuremberg and Stuttgart – Pledge of rights and claims from the swap agreement with Landesbank Berlin AG under the security agreement – Assignment of rights and claims from existing and future rent receivables from the property 2500 (Deutsche-Telekom-Allee 7, Darmstadt) under the assignment agreement – Pledge of rights and claims from the swap agreement with Landesbank Berlin AG under the pledge agreement (which is still separate)
Earl-Bakken-Platz 1, Düsseldorf/Meerbusch	EUR 10,500k	– Assignment of rights and claims from existing and future rent receivables from mortgaged properties under the assignment agreement – Assignment of rights and claims from existing and future rent receivables from the property 2500 (Deutsche-Telekom-Allee 7, Darmstadt) under the assignment agreement

5.3 Trade payables

As of 31 December 2012 and in the prior year, the trade payables measured at amortized cost mainly stem from purchased services in connection with the rental activities. Trade payables generally have short remaining terms (due in between 14 and 30 days). The carrying amounts of these liabilities approximate their fair value.

5.4 Other current liabilities

As of 31 December 2012 and as in the prior year, other current liabilities mainly concern liabilities due to the tenants of the properties for rent credits and rent prepayments.

The other current liabilities fall due within one year. The carrying amounts of these liabilities approximate their fair value.

5.5 Liabilities due to the tax office

Liabilities due to the tax office as of 31 December 2012 exclusively comprise VAT of EUR 971k (prior year: EUR 850k).

6. Notes to the statement of cash flows

The cash and cash equivalents presented in the statement of cash flows contain cash, bank balances, current securities and overdraft liabilities with a term of less than three months.

Non-cash income and expenses were eliminated from the cash flow from operating activities.

Cash and cash equivalents break down as follows:

Cash and bank balances (< 3 months)	31 Dec 2012	31 Dec 2011
	EUR k	EUR k
Cash	64,399	114,463
Securities	1,112	15,049
Cash and cash equivalents	**65,511**	**129,512**
Of which restricted pursuant to IAS 7.48	58,402	112,957

The restricted cash relates to pledged accounts of EUR 45,226k (prior year: EUR 104,751k) to finance properties in Düsseldorf, Stuttgart-Möhringen, Frankfurt and Nuremberg. The pledged amounts may only be used for future special repayments of loans and property-related investments for the properties mentioned.

In addition, restricted cash includes cash sweep accounts of EUR 6,444k (prior year: EUR 4,338k) which have been assigned to Landesbank Hessen-Thüringen as collateral for loans for the properties in Stuttgart-Möhringen,

Nuremberg and Düsseldorf. All rental surpluses remaining after deducting debt service and facility management costs have been assigned to the bank.
Since fiscal year 2012 there has also been a pledge to COREALCREDIT BANK AG for the total amount of EUR 1,002k (prior year: EUR 0k) for the property Darmstadt, T-Systems, which is being used to make an additional special repayment at the end of the loan term. This amount is being saved up in monthly installments and amounted to EUR 251k as of 31 December 2012.

Furthermore, a rent deposit of EUR 15k (prior year: EUR 0k) was invested as a time deposit as an interest-bearing security deposit.
For the loan for the property in Frankfurt, a full cash-sweep account (used to collect rental income) was agreed on as collateral. The balance amounted to EUR 6,466k as of the reporting date (prior year: EUR 3,868k). The Company may use this amount, subject to approval from the bank in writing, to settle maintenance, planning and the costs of arranging rentals.

7. Segment reporting

Under IFRS 8, the Company is required to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates.

All of the services offered by Prime Office REIT-AG are within its capacity as lessor. Prime Office REIT-AG's only geographical market is Germany, and it only has one segment, i.e., "Investment property". This segment comprises rented office space which is owned by the Company but not used for its own purposes. The office properties within the segment form the basis for the earnings of Prime Office REIT-AG. It is not possible to differentiate by customer group as Prime Office REIT-AG only has commercial real estate in its portfolio. In selecting the tenants, Prime Office REIT-AG demands an excellent credit standing from its customers.

The office buildings are monitored individually to ensure that the earnings power of each property in the segment can be determined and to allow decisions about the development of the segment to be reached in good time. We also refer to notes 3.1 and 4.3.

In total, there are three leases in the segment, which together account for 50% (prior year: 50%) or EUR 32.1m (prior year: EUR 33.1m) of the total rental income. Two of the three leases with rental income of approx. EUR 22.4m (prior year: EUR 22.7m) are non-current with terms until 2019 and 2023, respectively.

8. Other explanations and notes

8.1 Average number of employees

In fiscal 2012 the Company had an annual average of seven (prior year: six) employees. As of 31 December 2012, the Company had seven employees (prior year: six) employees. As of the reporting date, the management board comprised two (prior year: three) members. One member of the management board resigned on 30 June 2012. Personnel expenses of EUR 1,842k were incurred in the fiscal year (prior year: EUR 1,715k), including management board remuneration in the fiscal year of EUR 1,115k (prior year: EUR 944k).

8.2 Capital management

In order to support its business and maximize shareholder value, the primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios that comply with the requirements of REITG.

The REITG sets the following criteria (among others):

- At least 15% of the shares in a REIT stock corporation must be in free float (Sec. 11 (1) REITG).
- No single investor may directly hold 10% or more of the shares or so many shares that it has control over 10% or more of the voting rights (Sec. 11 (4) REITG).
- Measured on the total assets reported in the separate financial statements pursuant to Sec. 12 (1) REITG less the mandatory distribution pursuant to Sec. 13 (1) REITG and the reserves pursuant to Sec. 13 (3) REITG, at least 75% of the assets must consist of immoveable assets at the end of each fiscal year (Sec. 12 (2) REITG).
- Related to total revenue plus other income from immoveable assets in the fiscal year, as reported in the separate financial statements pursuant to Sec. 12 (1) REITG, at least 75% of the revenue plus other income from immoveable assets in the fiscal year must originate from renting out the property, leases, and property-related activities or sale of the immoveable assets (Sec. 12 (3) REITG).
- The Company must distribute at least 90% of its net profit for the year as defined by Sec. 275 HGB less any additions to reserves pursuant to Sec. 13 (3) Sentence 1 REITG and any losses brought forward from the prior year, plus any releases of reserves pursuant to Sec. 13 (3) Sentence 2 REITG to its shareholders as a divided by the end of the following fiscal year (Sec. 13 (1) REITG).
- The Company may not conduct trade with its immoveable assets; trade is defined as the sale of immovable assets leading to proceeds of more than 50% of the average portfolio value of immoveable assets within the last five fiscal years (Sec. 14 REITG).
- The equity reported by the Company in the separate financial statements pursuant to Sec. 12 (1) REITG at the end of a fiscal year may not fall below 45% of the carrying amount of immoveable assets carried in the separate financial statements pursuant to Sec. 12 (1) REITG (Sec. 15 REITG).
- All relevant criteria were complied with on the reporting date with the exception of the requirements of Sec. 15 REITG. The equity reported in the financial statements of EUR 389.1m only corresponds to 42.9% of the carrying amount of immoveable assets. The management board of Prime Office REIT-AG assumes that in the course of 2013 the equity ratio will return at least to the minimum equity ratio of 45% required for REITs.

For this purpose, the Company is contemplating selling further properties. The REITG allows a period until 31 December 2013 to fall short of the REIT minimum equity ratio of 45% without sanctions before the Company loses its REIT status and associated tax exemption.

The Company manages its capital structure and makes adjustments in response to changes in economic conditions. However, the capital structure reflects to a large extent the obligation under the REITG to distribute at least 90% of the net profit for the year in accordance with German commercial law to the shareholders.

Overall, Prime Office REIT-AG's capital management aims to comply with the structural KPIs prescribed in the REITG. As regards the scope of the existing capital, we refer to the explanations under note 5.1.

8.3 Financial risk management

8.3.a Risk factors

The Company is exposed to various financial risks in its activities, in particular interest rate risk, exchange rate fluctuations, credit risk and liquidity risk. The management board is responsible for risk management. Due to the limited scope of the business activities, the management board is informed on an ongoing basis about potential financial risks and can implement any necessary measures. These measures include the targeted use of derivative financial instruments which are used solely as hedges.

8.3.b Interest rate risk

Interest rate risks arise from market-driven fluctuations in interest rates and lead to changes in interest expenses from floating-rate liabilities and changes in the fair value of fixed-rate financial liabilities.

To hedge against increasing interest rates, fixed-interest payer swaps were concluded for all floating-interest loans (carrying amount as of 31 December 2012: EUR 420,510k; prior year EUR 301,028k; for further details, we refer to note 4.1). As of 31 December 2012, a number of these interest rate swaps satisfied the hedge accounting requirements in IAS 39.88 (see also note 2.6). An upward shift of 25 base points in the yield curve as of 31 December 2012 would result in a EUR 9.7m (prior year: EUR 7.7m) increase in the market value of derivatives and corresponding finance income of EUR 1.6m (prior year: EUR 1.5m) together with a EUR 8.1m (prior year: EUR 6.2m) increase in the reserve for unrealized gains/losses from cash flow hedges. A downward shift of 25 base points in the yield curve would result in a EUR 1.2m (prior year: EUR –5.2m) increase in the market value of derivatives. This increase would be accompanied by finance income of EUR 1.4m (prior year: EUR –1.2m) and a EUR 0.4m (prior year: EUR 6.4m) reduction of the reserve for unrealized gains and losses from cash flow hedges.

8.3.c Foreign currency risk

Foreign currency risks arise when future transactions or recognized assets and liabilities are denominated in a currency other than the functional currency (euro). Since the business activities are limited to Germany, the assets of Prime Office REIT-AG are not exposed to significant currency risks as of 31 December 2012.

The Company's main currency risks were excluded in fiscal year 2012 as a result of fully repaying the CHF loan for the Frankfurt property and refinancing the CHF loans into an EUR loan for the T-Online property as part of the prolongation.

8.3.d Credit risk

Credit risks arise when third parties do not meet their obligations from existing financial instruments. These are generally not more than the carrying amount of the financial assets recognized in the statement of financial position (see also note 4.1).

There are credit risks in connection with the leases equivalent to the minimum lease payments during the non-cancellable lease terms. This credit risk is hedged by screening for tenants with good credit ratings. As of 31 December 2012, the tenants had paid deposits totaling EUR 15k (prior year: EUR 929k) and had provided guarantees for EUR 4,045k (prior year: EUR 3,925k). There was no need for impairment in the fiscal year. As in the prior year, there were no bad debts. Interest rate hedges are only entered into with banks with high credit ratings in order to keep the risk of default in this area as low as possible.

For details of risk concentration in the meaning of IFRS 7.34 (c), we refer to note 7 where we describe the three lease agreements which together account for 50% of rental income. The assessment of risk concentration by management is carried out within the framework of ongoing asset management activities for the properties. This involves updating the tenancy rates on an ongoing basis and communicating any material changes to management.

8.3.e Liquidity risk

The liquidity risk is the risk that an entity will not be in a position in the future to meet its contractual financial obligations. Liquidity planning is used to monitor whether the Company has sufficient financial funds at all times. The liquidity planning is based on the existing business plans for the individual properties in which the expected cash inflows from rent and operating cost prepayments are compared to the planned cash outflows for maintenance, etc. In addition, the monthly interest and principal payments are taken into account in the planning as regards the large volume of borrowing. The Company's liquidity planning also takes into account payment obligations from the management of real estate and related consulting costs. Moreover, extraordinary cash flows are taken into account as early as possible as part of liquidity management. If necessary in this context, lines of credit are agreed or securities in the portfolio are sold to compensate for any temporary liquidity bottlenecks. In fiscal year 2013 the Company plans to maintain a minimum cash reserve of EUR 2.5m on a monthly basis made up of cash and money market funds less the cash pledged as collateral.

As of the reporting date 31 December 2012, there are liabilities from bank loans with a term of less than one year of about EUR 209m (prior year: EUR

155m). Liabilities with a residual term of less than one year also contain the repayable property financing of around EUR 24m as part of the sale of the property Hamburg, Hammerstrasse 30/34. Furthermore, the loans for the properties in Düsseldorf, Am Seestern 1, Nuremberg, Richard-Wagner-Platz 1, Stuttgart, Breitwiesenstrasse 5–7 and Darmstadt, T-Online-Allee 1 totaling EUR 100m expire on 31 December 2013 and the periods of fixed interest for the properties Frankfurt, Ludwig-Erhard-Anlage 2–8 and Munich, Hultschiner Strasse totalling EUR 74m expire on 30 September 2013 and 28 June 2013 respectively. Furthermore, repayments of EUR 12m are planned to be made in fiscal year 2013. The management board assumes that the real estate financing can be refinanced or extended according to plan and at market rates. The Company's ability to continue as a going concern depends on whether a sufficient volume of refinancing or extensions can be arranged.

In light of the vacancies in the portfolio and the intended revitalization measures, additional funds may have to be obtained. The management board assumes that the Company is able to meet its financial obligations at all times. We also refer to the ageing analysis in note 5.2.

8.4 Subsequent events

There were no significant events after the reporting date.

8.5 Related parties

Prime Office REIT-AG has business relationships with related parties. These include members of the management board and supervisory board of Prime Office REIT-AG.

Other related parties included until 4 July 2012 DCM Deutsche Capital Management AG, and its subsidiaries DCM Real Estate Management GmbH, DCM Service GmbH, which renders various services for some of the shareholders, DCM Verwaltungs GmbH, Verwaltung GIH Grundbesitzinvestitionsgesellschaft Hamm mbH and DFM GmbH, which is the general partner in individual real estate partnerships.

Until 21 June 2012, Mr. Johann Deinböck was also a related party in his capacity as majority shareholder of DCM Deutsche Capital Management AG and chairman of its supervisory board at the time. In addition, Mr. Deinböck is majority shareholder, one of the managing limited partners of all real estate partnerships and is personally the managing limited partner of one of the real estate partnerships. Mr. Deinböck also held an atypical silent participation in DCM Real Estate Management GmbH.

Mr. Deinböck is general manager of Bayrische Fondsverwaltung GmbH, which is the general partner of MOM Mall of Munich Beteiligungs GmbH & Co. Objekt Hopfenpost KG (MOM).

Prime Office REIT-AG has rented office space from MOM for which a total of EUR 206k was paid (prior year: EUR 127k was paid to MOM and EUR 13k to DCM Deutsche Capital Management AG) until 31 December 2012.

As of 28 September 2007 (last supplemented on 18 January 2011), the Company entered into an agreement governing real estate management services with DCM Deutsche Capital Management AG and DCM Real Estate Management GmbH. Until 31 December 2012, the remuneration from this agreement came to a net amount of EUR 2,316k (of which EUR 447k is allocable; prior year: EUR 1,756k, of which EUR 451k was allocable). Since 1 July 2011 the remuneration for management services has been based on the fair value of the properties concerned.

Mr. Stefan Giesler is also a related party as a member of the supervisory board of Prime Office REIT-AG as well as partner of optegra:hhkl GmbH & Co. KG StBG and WPG.

optegra:hhkl renders accounting and controlling services for the Company, in particular accounting, preparation of the HGB financial statements as well as the preparation of the IFRS separate financial statements, the six-monthly financial reports and the quarterly reports pursuant to IFRSs.

Expenses incurred by the Company for these services in 2012 amounted to EUR 570k.

All transactions were entered into at arm's length conditions.

8.6 Management board

The following members made up the management board of the Company during the full fiscal year:

» Mr. Claus Hermuth, chairman, lawyer
» Mr. Alexander von Cramm, deputy chairman, businessman
» Mr. Heinz-Theo Tetsch, businessman (until 30 June 2012)

The total remuneration paid to the management board members for the fiscal year came to EUR 1,115k (prior year: EUR 944k).

The following members made up the supervisory board in the fiscal year:

» Prof. Dr. h.c. Roland Berger (chairman), business consultant
» Prof. Dr. Kurt Faltlhauser (deputy chairman), retired State Minister of Finance, Bavaria
» Prof. Dr. Franz-Joseph Busse, university lecturer
» Mr. Stefan Giesler, tax consultant
» Prof. Dr. Harald Wiedmann, accountant
» Dr. Lutz Mellinger, businessman

The members of the supervisory board received total remuneration of EUR 395k (prior year: EUR 358k) for their activities in the fiscal year.

MUNICH, 1 MARCH 2013

Claus Hermuth
(Management board)

Alexander von Cramm
(Management board)

Sustainability also
includes transparency and
open communications.

Audit opinion

We have issued the following opinion on the IFRS separate financial statements:

"To Prime Office REIT-AG

We have audited the IFRS separate financial statements, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements, together with the bookkeeping system, of Prime Office REIT-AG, Munich, for the fiscal year from 1 January to 31 December 2012. The maintenance of the books and records and the preparation of the financial statements in accordance with IFRSs as adopted by the EU are the responsibility of the Company's management. Our responsibility is to express an opinion on the IFRS separate financial statements, together with the bookkeeping system, based on our audit.

We conducted our audit of the IFRS separate financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the separate financial statements in accordance with IFRSs are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records and the IFRS separate financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the IFRS separate financial statements. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the separate financial statements comply with the IFRSs as adopted by the EU."

MUNICH, 1 MARCH 2013

ERNST & YOUNG GMBH
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

VON PETRIKOWSKY	**NEUGEBAUER**
Wirtschaftsprüfer	*Wirtschaftsprüfer*
[German Public Auditor]	*[German Public Auditor]*

REIT Disclosure

STATEMENT OF THE EXECUTIVE BOARD

Under the requirements of sections 11 to 15 of the REIT law, we declare as follows in connection with our annual financial statement according to the German Commercial Code (HGB) and the separate financial statement pursuant to the International Financial Reporting Standards (IFRS) as at the reporting date 31 December 2012:

1. As far as we are aware, the percentage of the company's shares in free float as calculated according to section 11 para. 1 sentences 3 and 4 of the German REIT law (REITG) amounted to 68.5% of the company's registered capital on 31 December 2012. The German authority for financial services supervision (BaFin) was notified accordingly.

2. The company is in compliance with section 11 para. 4 of the REIT law since, as far as we are aware, no investor directly held 10% or more of our company's shares giving such a shareholder 10% or more of the voting rights on 31 December 2012.

3. As relates to the total assets shown in the separate financial statement minus the mandatory distribution and the reserves created under section 12 para. 2 of the REITG:

a) at least 75% of the assets were part of the fixed assets as at the reporting date 31 December 2012. Fixed assets amounted to an overall EUR 907.9 million and therefore represented 87.92% of the assets.

b) there were no REIT service companies.

4. As relates to total revenues plus other income from fixed assets as defined by section 12 para. 3 and 4 of the REITG:

a) the company generated revenues plus other income from fixed assets in the amount of EUR 76.3 million in financial year 2012. This corresponds to 100% of total revenues plus other income from fixed assets.

b) REIT service companies did not exist.

5. Prime Office REIT-AG distributed EUR 11.9 million as dividends from financial year 2011 to its shareholders in 2012.

6. The dividend of Prime Office REIT-AG is not taken from earnings subject to taxation according to section 19a of the REITG (vorbelastete Gewinne).

7. For financial year 2012, the executive board of Prime Office REIT-AG intends to propose to the general shareholders' meeting to distribute the statutory amount of 90% of the distributable profit under the REITG plus another EUR 1.8 million, i.e. an overall EUR 9.3 million, from the existing distributable profits as dividends to the shareholders.

8. In 2012, Prime Office REIT-AG sold 4.6% of the fixed assets for EUR 41.7 million. Since 2011, the company has therefore disposed of about 4.5% of its average holdings in fixed assets over the past five financial years for EUR 42.8 million. This does not constitute real estate trading under section 14 of the REITG.

9. The equity reported in the separate financial statement of Prime Office REIT-AG as at the reporting date 31 December 2012 in line with section 12 para. 1 of the REITG amounts to EUR 389.1 million. As such, it corresponds to only 42.9% of the amount reported for the company's fixed assets. The requirement of section 15 of the REITG was not complied with at the balance sheet date. The executive board of Prime Office REIT-AG expects to return the REIT equity ratio to at least 45% over the course of 2013 and therefore again comply with the statutory minimum equity ratio under the REIT law by 31 December 2013.

MUNICH, 1 MARCH 2013

THE EXECUTIVE BOARD OF PRIME OFFICE REIT-AG

Glossary

Here you can find some selected technical terms of the capital market and the real estate sector.

Annual net rent	Contractually agreed monthly rent excluding value-added tax and (advance payments for) service charges as of the reporting date multiplied by twelve.
Asset Management	Identification, assessment, evaluation, acquisition, use (including re-leasing) and disposal of property portfolios including the management of the modernization and reconstruction of the properties. Exercise of all strategic responsibilities with the goal of a value-oriented management of the entire process and supervision of properties and portfolios in all commercial and technical aspects.
Consumer Price Index	Consumer Price Index for Germany determined and published by the Federal Statistical Office.
D&O insurance	Insurance protection in favor of organs of legal persons if claims are asserted due to losses they have caused by breach of duty and for which they have to assume personal liability.
EBIT	Earnings before Interest and Tax.
EBITDA	Earnings before Interest, Tax, Depreciation and Amortization.
EBT	Earnings before Tax.
EURIBOR	Euro Interbank Offered Rate. Interest rate for time deposits in Euros in the interbank business.
Exit Tax	Tax benefits according to Section 3 No. 70 EStG [German Income Tax Act].
Facility Management	Administration and management of buildings, equipment and facilities. This especially includes the technical and infrastructural building management.
FFO	Funds from Operations. From the company's perspective, a liquidity-oriented indicator relevant for REIT-AG derived from the profit and loss statement, the cash flow statement and the accounting system of the company and that represents the income achieved from continuing renting activities. Starting from the operating result (EBIT), adjustments by securities not affecting the cash position are made.

GAV	Gross Asset Value. The book value of the real estate of the company held as financial investment in the IFRS interim financial statements and in the IFRS individual financial statements plus short-term assets as well as real estate under construction (advance payments made and construction in progress).
Graduated rental agreement	Agreement according to which the net rent to be paid increases at an agreed date without a special request by the landlord being necessary.
Gross initial yield	Ratio of the annual net rent to the purchase price of the real estate excluding ancillary acquisition costs (in percent).
IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards. In this glossary, IFRS stands for the accounting rules published by the International Accounting Standards Board (IASB) as they have to be applied in the EU.
Investments	The company understands investments as acquisition costs for the purchase of real estate. Ancillary acquisition costs or refurbishment costs are not included.
Landmark property	Properties with of particular importance due to their geographical position and their concept.
Lock-up-Period	Period after the IPO, in which shareholders commit themselves not to sell their shares.
LTV Ratio	Loan-to-Value Ratio. Describes the ratio of the sum of the short or long-term financial obligations to the value of the real estate properties held as financial investments.
Pre-REIT-AG	Stock corporation that meets individual requirements of a REIT-AG according to the REIT Act and is registered correspondingly at the Federal Central Tax Office.
Property portfolio	Composition of a capital investment of various properties situated in different locations.
Real estate fund	Investment in real properties that are covered or planned to be covered with residential or commercial buildings. With closed real estate funds, usually a clearly defined property is financed, e.g. an office building or a shopping center. After financing, the fund is closed, i.e. no further shares are issued. In contrast to the closed funds shares can be purchased or returned at any time with open real estate funds.

Real estate management	Management of residential or commercial properties. This particularly includes the classic rental management, the operating cost management, the renting of properties, the management of the renting for the owner and the maintenance management.
Reorganization measures	Reorganization measures often include roof renewal work, the replacement of outdated heating systems, the renewal of water pipes and the electrical installation, the refurbishment of common areas as well as facade refurbishment.
Single-tenant property	Description of a real estate with just one tenant. The counterpart is a multi-tenant property.
Stable value clause	Clause that binds the amount of the net rent to a certain standard of comparison (e.g. the Consumer Price Index). Changes to the standard of comparison thus usually lead to an automatic adjustment of the net rent.
Tenancy rate	Describes the ratio of the rented space to the total rentable space respectively as of the reporting date.
Total cost accounting	A form of preparation of the profit and loss statement recognized according to the German Commercial Code (HGB) and the IFRS where the sales revenues are compared to the total costs of the management of the period (different to the cost of sales method).
Track record	History of success and experience.
Vacancy rate	Describes the ratio of the non-rented space to the entire rentable space respectively as of the reporting date.
Value added property	Office properties with good substance and in good locations which potential for value growth should be utilized (e.g. by vacancy reduction, modernization or repositioning of single-tenant properties to multi-tenant properties).

Company Calendar 2013

Mar 12 – 15, 2013	MIPIM, Cannes
Mar 21, 2013	Publication of Annual Report 2012
Mar 11 – 12, 2013	Germany Conference Bankhaus Lampe, Baden Baden
Apr 15 – 16, 2013	German GRI (Global Real Estate Institute), Frankfurt
May 8, 2013	Q1 Report
May 29 – 30, 2013	Kempen Property Seminar, Amsterdam
Jul 23, 2013	General Meeting
Aug 8, 2013	Half-Year Financial Report
Sep 4, 2013	SRC Forum Financials & Real Estate, Frankfurt
Sep 23 – 25, 2013	German Corporate Conference Berenberg/Goldman
Sep 24 – 26, 2013	Baader Investment Conference, Munich
Sep 24 – 26, 2013	German Investment Conference UniCredit, Kepler
Oct 7 – 9, 2013	expo real, Munich
Nov 7, 2013	Nine Months Report
Nov 11 – 13, 2013	German Equity Forum, Frankfurt (Eigenkapitalforum)
Nov 21 – 23, 2013	Leadership Meeting Economy, Berlin
Dec 2013	Small & MidCap Conference CB Seydler, Geneva

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Masthead

Publisher: The Executive Board of Prime Office REIT-AG, Munich
Concept and design: heller & partner communication GmbH, Munich
Date: March 2013