



# Semi-Annual Report

## 2011



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# Key financial data of POLIS Immobilien AG

Results in € thousand	1 <sup>st</sup> half		2 <sup>nd</sup> quarter	
	2011	2010	2011	2010
Rental revenues	7,437	6,475	3,894	3,264
Current income from property management	5,478	4,751	2,901	2,257
EBIT	11,060	3,232	2,116	1,360
EBT	9,603	-1,608	-325	-957
Group net income	8,068	-1,327	-274	-806
Cash flow from operating activities	4,305	4,261		
Funds from Operations (FFO) <sup>1</sup>	1,411	1,446		

Balance sheet in € thousand	30 Jun 2011	31 Dec 2010
Non-current assets	318,645	307,073
Current assets	8,914	10,245
Equity	156,060	147,989
Total assets	327,559	317,318
Equity ratio in %	48%	47%
Loan to value in % <sup>2</sup>	50%	51%

Net asset value of POLIS (€ thousand) <sup>3</sup>	158,228	148,651
Shares (no.)	11,051,000	11,051,000
Net asset value per share (€) <sup>3</sup>	14.32	13.45

## Share

Security identification code/ISIN	691330/DE0006913304
1 <sup>st</sup> half high (Xetra)	11.00 EUR
1 <sup>st</sup> half low (Xetra)	8.33 EUR
Closing price on 30 June 2011 (Xetra)	10.43 EUR

<sup>1</sup> Funds from operations = EBIT +/- Income from the revaluation of properties +/- Income from the sale of properties  
+/- Financial results + Income from minority interests - Paid taxes

<sup>2</sup> Loan to value: ratio of loan liabilities to the value of the properties

<sup>3</sup> Net asset value (NAV): Equity plus deferred tax liabilities less deferred tax assets

# Letter from the Board of Management

## **Dear Shareholders, Ladies and Gentlemen,**

The continued economic recovery and the substantial investments in the modernization of our investment properties in the previous year have enabled us to successfully continue our letting activities. As of the end of June 2011, we let or extended existing lease agreements for approximately 16,600 m<sup>2</sup> of rental space, including around 9,500 m<sup>2</sup> relating to new lease agreements and expansions of rental space. As a result, the occupancy rate as of 30 June 2011 further increased to 77%, and we expect to achieve further successes in letting our properties by the end of the year which will result in an occupancy rate of over 90%.

Furthermore, we achieved two important strategic objectives by concluding two transactions shortly after the reporting period: As previously announced, the recent commencement of third party asset management services by POLIS Immobilien AG represents a promising third business activity in addition to our portfolio management and modernization business areas; we expect to generate a positive net income for the year pursuant to German Accounting Standards (HGB). This means that unless unforeseen events occur the prerequisites for payment of a dividend in financial year 2011 are met.

We completed the modernization work on the property at »Kasernenstrasse 1« in Dusseldorf in the 2<sup>nd</sup> quarter and sold it to a foreign institutional investor in early July 2011. Also, a foreign foundation acquired 85% stakes in each of three investment properties and has commissioned us with providing property and asset management services for 10 years. POLIS Immobilien AG remains a shareholder with a 15% stake in each of the properties. The current market value of the properties concerned was around € 53 million. Both transactions were carried out at prices significantly above the respective acquisition and production costs, resulting in a significant contribution to earnings pursuant to German Accounting Standards (HGB). However, because these stakes were sold approximately at their current market value, the transactions hardly affected earnings pursuant to IFRS. The parties agreed to keep the details of the transaction confidential.

The new location in Dresden where we acquired three investment properties at the beginning of the year is continuing to develop positively. The investment decision has been confirmed by good rental income and good valuation results. We intend to increase the number of properties in the Dresden portfolio to four in the course of the year.

Furthermore, the completion of the modernization properties and the continuing success in letting properties are now having a positive effect on the key earnings ratios. Compared to the previous year's period, rental revenues increased 15% to € 7,437 thousand, while net rental income also grew 15% to € 5,478 thousand. Interest expense grew to € 2,650 thousand due to the increased volume of external financing, up from € 2,207 thousand in the previous year. Despite higher interest expenses, funds from operations (FFO) remained nearly constant at € 1,411 thousand after adjusting for all extraordinary items. Due to remaining modernization-related vacancies and the costs of letting, we do not expect the FFO to increase significantly before next year.

In the 1<sup>st</sup> quarter of 2011 we reported very good valuation results for our investment properties, an outcome to which the rapid successes in letting the Dresden properties have contributed significantly. In the course of the 1<sup>st</sup> half of the year, valuation results continued to increase slightly to € 7,005 thousand. In addition, we can report valuation gains for the hedging instruments of € 1,159 thousand as a result of increased market interest rates. Due to these – predominantly one-off – effects, comprehensive income increased strongly to € 8,068 thousand, while the same period in the previous year still recorded losses of € -1,327 thousand.

In the period under review, the POLIS share price increased from € 8.51 to € 10.43 and currently shows a discount of approximately 27% relative to the net asset value (NAV).

We are confident that we will be able to further improve the key ratios over the coming months in line with our expanding letting activities. Moreover, the recovering market for property transactions will provide opportunities for the acquisition of new investment properties. As a result of the sales in July 2011, we will soon have liquid funds of over € 23 million at our disposal that can be increased by debt capital if required. With an equity ratio of 48% at the end of the reporting period (loan-to-value ratio: 50%), we have sufficient financial scope to replace the sold investment properties in the near term. Finally, we want to strengthen our new business area of providing third party asset management services where possible by acquiring new projects, thereby increasing assets under management to over € 350 million.

*Berlin, August 2011*

POLIS Immobilien AG  
Board of Management



Dr. Alan Cadmus



Rüdiger Freiherr von Maltzahn

# Interim Management Report

for POLIS Immobilien AG for the period from 1 January to 30 June 2011

## Business and economic environment

### Development of the overall economic environment and the property markets

The economic recovery in Germany is continuing despite a slowing global economy and the funding crisis in Southern Europe. The sentiment among German companies remains positive and is now also encompassing the construction industry. The IFO Business Climate Index reached its highest level since reunification. Leading economists expect GDP to grow 3.3% over the full year. However, there are indications that the growth dynamics are cooling down. Consumer prices are increasing moderately. The inflation rate for 2011 is expected to lie between 2.0% and 2.5%. After surging in the 1<sup>st</sup> quarter, long-term interest rates dropped significantly to 3.15% (10 year swap), while on the other hand short-term interest rates increased to approximately 1.6% (three-month EURIBOR). The current considerable global economic imbalances make reliable forecasts impossible.

### Industry-specific developments in the first half of 2011

- Turnover of rental space significantly exceeds 1<sup>st</sup> half of last year (increase by 18% to 1.42 million m<sup>2</sup>)
- Successful conclusion of leases in excess of the construction of new buildings decreases vacancy rates
- Completion of new space continues to fall significantly (-20% compared to 2010)
- Shortage of modern office building space in very good city locations
- Peak rents expected to increase by more than 4% in 2011
- No changes in the transaction volume relative to the previous quarter

The sound economic situation continues to have a positive effect on office markets. The demand for office space has increased noticeably. The high degree of lease agreements concluded in advance for the newly built spaces as well as strong demand for office space has reduced supply, pushing the vacancy rate to 10.4%. Compared to the previous year, peak rents in the real estate centers increased significantly, with growth rates ranging from only +2.2% in Hamburg up to +5.3% in Munich. At € 5.5 billion, the transaction volume on the investment market in the 2<sup>nd</sup> quarter remains at the high level seen in the 1<sup>st</sup> quarter.

*Sources: Kiel Institute for the World Economy, Deutsche Konjunktur im Frühjahr 2011; Jones Lang Lasalle, Büromarktüberblick Q2 2011; CBRE, Investmentmarkt Deutschland Q2/2011; German Bundesbank, monthly report for July*

### Business operations

- Three investment properties in Dresden acquired
- Continuing success in concluding new lease agreements
- Sale of an investment property and participation of an investor in three properties after the end of the reporting period

We acquired three investment properties at the new location in Dresden effective 1 January 2011. The office buildings are ideally located right in the city center in »Kramergasse«, at »Palaisplatz« and in »Koenneritzstrasse«. New tenants were already secured directly after taking over these investment properties, and a lease agreement for retail space spanning approximately 2,700 m<sup>2</sup> was extended at improved terms and conditions. In view of the strong demand, we expect to conclude further lease agreements in the near term. Feri EuroRating

Services AG appraised the properties, which were recorded for the first time as of 31 March 2011, at a current market value of € 22,810 thousand; this means that our investment decision was confirmed not only by good occupancy rates but also by positive valuation results totaling € 6,037 thousand (as of 30 June 2011). By acquiring the property at »Altmarkt 10« we intend to increase the number of properties in the Dresden portfolio to four in the course of the year.

#### ***Occupancy rate stable in 2011***

The occupancy rate across the portfolio is 77% as of 30 June 2011, 4 percentage points above the occupancy rate as of 31 December 2010 and 8 percentage points compared to 30 June 2010. When spaces that are yet to be revitalized are excluded, the »adjusted« occupancy rate is 81%. The spaces that are to be revitalized are located in the modernization property at »Domstrasse 10« in Hamburg (a total of approximately 6,600 m<sup>2</sup>).

In the 1<sup>st</sup> half of 2011, lease agreements and amendments totaling approximately 16,600 m<sup>2</sup> were concluded of which 9,500 m<sup>2</sup> pertain to lease agreements with new tenants and enlargements and 7,100 m<sup>2</sup> to the extension of existing lease agreements. In July 2011, additional new lease agreements were concluded for approximately 1,650 m<sup>2</sup>, and existing lease agreements for 460 m<sup>2</sup> were extended. This means that we have been able to continue generating rental income at the good level that we achieved in 2010. The rental income from the lease agreements concluded by 30 June 2011 amounts to approximately € 12,490 thousand and has been contractually secured over an average weighted term of 5.2 years. The effective rent as a result of concluding these agreements including all incentives (such as provisions stipulating rent-free periods) is € 12.04 per m<sup>2</sup>. The average remaining term of all lease agreements is 3.5 years. Taking into account all rented spaces and all types of use, the current average rent is approximately € 10.70 per m<sup>2</sup>.

#### **Modernization**

##### ***Cologne, Konrad-Adenauer-Ufer: Further increases in the occupancy rate***

Leasing an additional rental unit on the fourth floor to the main tenant and the first floor resulted in an occupancy rate of 69%.

##### ***Dusseldorf, Kasernenstrasse 1: Modernization completed***

Except for some remaining work, the revitalization project has been completed. The occupancy rate is 100%.

##### ***Stuttgart, Quartier Buechsenstrasse: Progress in letting office space***

The last of the three retail spaces in the property at »Buechsenstrasse 26« has now been let. Including lease agreements that have already been concluded for Quartier »Buechsenstrasse«, the occupancy rate of the property has reached 63%. Additional tenant fit-out is currently underway and will be concluded in October.

#### **Sales after the end of the reporting period and commencement of asset management activities for third parties**

The modernization property at »Kasernenstrasse 1« was sold to a foreign institutional investor in July 2011. The implementation of the purchase and sale agreement is expected to occur in the 3<sup>rd</sup> quarter of 2011. The parties agreed to keep the details of the purchase and sale agreement confidential.

Furthermore, a foreign foundation acquired 85% stakes in each of the three investment properties at »Ludwig-Erhard-Strasse« and »Bugenhagenstrasse« in Hamburg as well as »Rankestrasse« in Berlin. The implementation of the purchase and sale agreement is expected to occur in the 4<sup>th</sup> quarter. POLIS Immobilien AG was commissioned with providing property and asset management services for an initial term of 10 years. Also in the case of this sale, the parties agreed to keep the details of the transaction confidential.

As the sales price in both cases roughly corresponded to their current market values, the transactions hardly affected earnings pursuant to IFRS. However, they did generate significant proceeds from disposal in excess of the acquisition and production costs, resulting in a profit pursuant to the German Accounting Standards (HGB). This means that unless unforeseen events occur the prerequisites for payment of a dividend in financial year 2011 are met.

## Results of operations, financial position and net assets

### Results of operations

The results of operations of POLIS Immobilien AG have improved significantly. The completion of the modernization projects and the good rental income in the 1<sup>st</sup> half of 2011 had a positive impact on all relevant key figures when compared to the same period in the previous year. In relation to the previous year's period, rental revenues increased 15%, from € 6,475 thousand to € 7,437 thousand. After deducting modernization, maintenance and property management expenses, net rental income rose 15%, from € 4,751 thousand to € 5,478 thousand. As a result of the good income from the revaluation of investment properties, EBIT increased from € 3,232 thousand to € 11,060 thousand. Interest expense grew to € 2,650 thousand due to the increased volume of external financing, up from € 2,207 thousand in the previous year. After adjusting for all extraordinary items, funds from operations (FFO) remained nearly constant at € 1,411 thousand as a result of higher interest expenses.

**Comprehensive income** amounted to € 8,068 thousand, significantly higher than during the previous year (€ -1,327 thousand). The increase is largely based on valuation gains not affecting liquidity from the revaluation of investment properties and hedging instruments totaling € 8,164 thousand (previous year: € -3,027 thousand).

Compared to the previous year's period, **cash flow from operations** increased slightly to € 4,305 thousand (previous year's period: € 4,261 thousand).

Based on the existing lease agreements as of 30 June 2011, the annualized actual rent of POLIS is approximately € 14,700 thousand. Despite current vacancies, our rental yield based on the current volume of our portfolio is 4.6%. Given the current weighted average cost of debt of 3.27%, current business operations generate a positive spread to funding costs. In view of this margin and the prospects of increased rental revenues, reduced vacancy rates as well as the potential for realizing further gains in the value of our property portfolio, our potential earnings are high.

### Financial position

With an equity ratio of 48% (loan-to-value ratio: 50%) as of 30 June 2011, POLIS has a sound financial footing. We currently have access to available credit lines of around € 1.9 million. Cash in banks (€ 3,459 thousand as of 30 June 2011) was less than at the end of 2010 (€ 5,626 thousand).

### Net assets

As of 30 June 2011, the balance sheet total of POLIS increased to € 327,559 thousand (compared to € 317,318 thousand as of 31 December 2010). The increase is largely due to changes in market values and building investments in existing investment properties of around € 315 million, or around 96% of the balance sheet total.

The development of the properties is explained in detail in the notes to the consolidated financial statements in the overview entitled »Development of investment properties«.

Our valuations are transparent and verifiable. Detailed information on the appraisal methodology used by Feri EuroRating Services AG is presented on page 63 of the notes to the consolidated financial statements of the 2010 annual report of POLIS. Current information on the portfolio is available on our website ([www.polis.de](http://www.polis.de)).

## Risk report

As a result of its business operations, POLIS is exposed to various operational and market risks. Primarily, these include the risks associated with letting and rent default, interest rate risks and liquidity risks. The principles embodied in the Company's risk and opportunity management system have not changed since the beginning of the year. In this context, we refer to the detailed discussion in the 2010 annual report of POLIS (see pages 40-45 and pages 76-78 of the group management report).

### **Business-related risks**

In the 1<sup>st</sup> half of 2011, the assessment of risks concerning occupancy rates and the valuation of the Company's portfolio have not changed. In this regard, we refer to the detailed presentation contained in the 2010 annual report.

### **Financial risks**

Of the liabilities to banks, € 32 million are due at the end of 2011. Parallel negotiations on extending these liabilities or obtaining new loans from other banks are currently underway. It is reasonable to assume that the loans can be extended by approximately 5 years without any problems due to the comfortable loan-to-value ratio (LTV) and based on the offers we have received. Of the loans that are coming due, € 10.7 million will be repaid within the scope of selling the property at »Kasernenstrasse«. In addition, the purchase price will also provide us with liquid funds of approximately € 8 million.

The acquisition of stakes in the three investment properties by the foreign foundation will lead to an inflow of liquid funds of approximately € 15.5 million.

Also, we are discussing the use of new loans to finance the remaining modernization work and possible acquisitions. A loan agreement for € 3.3 million has already been concluded. A term sheet for refinancing a volume of € 25 million has been signed. We will invest around € 9 million in the modernization of the properties.

Overall, we will have sufficient funds at our disposal in order to finance not only the planned modernization investments but also additional projects with a significant volume.

The weighted average remaining term of the bank loans as of 30 June 2011 is 3.4 years, and the maximum term is 4.5 years. In the ongoing negotiations concerning new loans, we aim to significantly extend the terms of the loans to an average of 5 years and maximum terms of 10 years.

The loans are subject to the typical covenants: Debt Service Coverage Ratios of 110% and 120% and loan-to-value ratios of 65% and 70% at the level of individual properties, and 70% and 80% at the portfolio level. Buildings in one portfolio are temporarily affected by modernization-related vacancies; the financing bank agreed to suspend determination of the Debt Service Coverage Ratio (DSCR) until 30 June 2011. No loans will come due in 2011 as a result.

For details on the structure of maturities of the liabilities to banks and interest rate hedges, we refer to the notes to the consolidated financial statements. In order to hedge the interest rate risk of the debt financing for the investment properties in which the foreign foundation has acquired interests as well as our own properties, we concluded an interest rate swap with a term of 10 years and a volume of € 21.6 million whose term will commence after the reporting period; moreover, we extended the terms of existing swaps to 7 and 8 years. The total volume of the interest rate hedges amounted to 70% of the loan volume as of the end of the quarter.

## Report on anticipated developments

### **Development of the overall economy and the market for office buildings**

We believe that the economic prospects will remain favorable in the coming months despite the worsening funding crisis of the countries on Europe's southern periphery. During this period, interest rates are expected to remain moderate. The favorable development on the labor market and the excellent business outlook for companies will continue to have positive effects on the property market.

### **Major opportunities for POLIS Group**

POLIS with its high-quality portfolio and its strong capital base and liquidity position is well equipped to cope with such a market environment and to take advantage of opportunities for acquisitions for expanding the portfolio as they arise. The current objective of establishing a portfolio with a volume of approximately € 300 million has been achieved. As a result of these sales the volume will drop temporarily, which means that one task is to find replacement investments in the near term. By collaborating with the foreign foundation also in the context of potential follow-on projects, assets under management may increase to over € 350 million. Furthermore, we will generate additional income from providing third party asset management services as an additional business unit in addition to our portfolio management and modernization business areas. Our experienced asset management team and our financial flexibility allow us to develop our portfolio independently and respond appropriately to challenges arising in the office rental market.

### **Assessment of future business prospects**

In financial year 2011, our activities will focus on further increasing occupancy rates in all portfolio properties and on integrating the new location of Dresden including the property at »Altmarkt 10« that is yet to be handed over as well as establishing third party asset management services as a new business area. By the end of 2011, we intend to achieve a letting performance that will lead to an occupancy rate of 90% for all rented areas once all tenants have moved in. In 2011, we plan to increase the net rental income and to establish the foundations for further growth in 2012 by increasing the occupancy rate. If no unforeseen events occur, we expect to record a profit pursuant to the German Accounting Standards (HGB) for financial year 2011 that would enable us to pay a dividend. As a result of increased financing costs, funds from operations will amount to around € 2 million in 2011, about the level of 2010, and will double to approximately € 4 million in 2012. Next year, we intend to increase the assets under management to over € 350 million by carrying out additional projects with third parties.

### **Report on transactions with related persons**

Affiliated persons are the members of the Supervisory Board, the members of the Board of Management and close family members of such persons. In addition, Bouwfonds Asset Management Deutschland GmbH (Berlin) and its related companies are also included in the group of affiliated companies. Under a lease agreement with Bouwfonds Asset Management Group, services were provided in the first six months that were settled at prevailing market conditions.

Regarding the members of the Board of Management and of the Supervisory Board, we refer to page 73 et seqq of the notes to the consolidated financial statements of the 2010 annual report of POLIS. During the first six months, no transactions were concluded with members of the Supervisory Board, members of the Board of Management or their close relatives.

# Consolidated Statement of financial position

as of 30 June 2011

according to International Financial Reporting Standards (IFRS)

POLIS Immobilien AG, Berlin

## ASSETS

€ thousand	30 Jun 2011	31 Dec 2010
<b>Non-current assets</b>		
Investment properties	314,980	287,510
Advance payments made for investment properties	0	16,086
Intangible assets	227	217
Property, plant and equipment	2,283	2,272
Financial assets	243	243
Deferred tax assets	489	533
Other assets	423	212
<b>Total non-current assets</b>	<b>318,645</b>	<b>307,073</b>
<b>Current assets</b>		
Receivables and other financial assets	5,200	4,442
Current tax receivables	27	26
Cash in banks	3,459	5,626
Other assets	228	151
<b>Total current assets</b>	<b>8,914</b>	<b>10,245</b>
<b>Total assets</b>	<b>327,559</b>	<b>317,318</b>

## EQUITY AND LIABILITIES

€ thousand	30 Jun 2011	31 Dec 2010
<b>Equity</b>		
Subscribed capital	110,510	110,510
Capital reserves	19,195	21,388
Retained earnings	18,287	14,544
Consolidated net loss	8,068	1,547
Share in equity allocable to the equity holder of the parent	156,060	147,989
Minority interests	0	0
<b>Total equity</b>	<b>156,060</b>	<b>147,989</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Liabilities to banks	124,257	120,799
Deferred tax liabilities	2,657	1,195
<b>Total non-current liabilities</b>	<b>126,914</b>	<b>121,994</b>
<b>Current liabilities</b>		
Liabilities to banks	33,110	34,590
Payments received on account	4,812	2,997
Trade accounts payable	2,943	4,656
Income tax liabilities	15	3
Other financial liabilities	3,705	5,089
<b>Total current liabilities</b>	<b>44,585</b>	<b>47,335</b>
<b>Total equity and liabilities</b>	<b>327,559</b>	<b>317,318</b>

# Consolidated Income Statement

for the period from 1 January to 30 June 2011  
according to International Financial Reporting Standards (IFRS)  
POLIS Immobilien AG, Berlin

€ thousand	1 <sup>st</sup> half 01 Jan - 30 Jun		2 <sup>nd</sup> quarter 01 Apr - 30 Jun	
	2011	2010	2011	2010
Rental revenues	7,437	6,475	3,894	3,264
Renovation and maintenance expense	-1,214	-848	-617	-497
Property management expense	-745	-876	-376	-510
	-1,959	-1,724	-993	-1,007
<b>Net rental income</b>	<b>5,478</b>	<b>4,751</b>	<b>2,901</b>	<b>2,257</b>
Unrealised gains from the revaluation of investment properties	8,605	0	1,206	0
Unrealised losses from the revaluation of investment properties	-1,600	-299	-1,062	-192
Unrealised losses from the revaluation of non-current assets held for sale	0	-80	0	-80
Result from the revaluation of investment properties	7,005	-379	144	-272
Other income	303	206	73	103
Other expense	-321	-35	-281	-20
Administrative expense	-1,405	-1,311	-721	-708
<b>Income before financing activity and taxes</b>	<b>11,060</b>	<b>3,232</b>	<b>2,116</b>	<b>1,360</b>
Investment income	20	0	20	0
Financial income	14	15	8	11
Result from the valuation of derivative financial instruments	1,159	-2,648	-1,179	-1,200
Interest expenses	-2,650	-2,207	-1,290	-1,128
<b>Result before taxes</b>	<b>9,603</b>	<b>-1,608</b>	<b>-325</b>	<b>-957</b>
Deferred taxes	-1,507	254	63	151
Income taxes	-28	27	-12	0
<b>Consolidated net income for the period (equates to comprehensive income)</b>	<b>8,068</b>	<b>-1,327</b>	<b>-274</b>	<b>-806</b>
of which:				
allocable to minority interests	0	0	0	0
allocable to equity holder of the parent	8,068	-1,327	-274	-806

€				
<b>Earnings per share</b>				
undiluted	0.73	-0.12		
diluted	0.73	-0.12		

A more detailed consolidated comprehensive income statement was not prepared since no expense or income was directly recognized in equity.

# Consolidated Cash Flow Statement

for the period from 1 January to 30 June 2011  
according to International Financial Reporting Standards (IFRS)  
POLIS Immobilien AG, Berlin

€ thousand	1 <sup>st</sup> half 01 Jan – 30 Jun	
	2011	2010
Result before taxes	9,603	-1,608
Adjusted for:		
financial result	1,457	4,840
income from revaluation of investment properties	-7,005	299
depreciation on intangible assets and property, plant and equipment	49	42
payments for equity options	3	4
Increase in trade receivables and other assets which cannot be allocated to the investment and financing activity	-1,048	-88
Changes in the trade payables and other liabilities which cannot be allocated to the investment and financing activity	1,262	772
Income tax paid	-16	0
<b>Net cash (used by) from operating activities</b>	<b>4,305</b>	<b>4,261</b>
Payments for the acquisition of software, fixtures and equipment	-70	-66
Payments for the acquisition of investment properties and investments in modernization	-5,764	-8,041
<b>Net cash (used by) from investment activities</b>	<b>-5,834</b>	<b>-8,107</b>
Payments of repayments of loans	-4,645	-1,530
Proceeds from debt fundings	6,623	5,660
Interest received	14	9
Interest paid	-2,650	-2,184
Dividends paid	20	0
<b>Net cash (used by) from financing activities</b>	<b>-638</b>	<b>1,955</b>
<b>Net change in cash and cash equivalents</b>	<b>-2,167</b>	<b>-1,891</b>
<b>Cash in banks at the beginning of the period</b>	<b>5,626</b>	<b>1,944</b>
<b>Cash in banks at the end of the period</b>	<b>3,459</b>	<b>53</b>

# Consolidated Statement of Changes in Equity

for the period from 1 January to 30 June 2011  
according to International Financial Reporting Standards (IFRS)  
POLIS Immobilien AG, Berlin

€ thousand	Subscribed capital	Capital reserves	Retained earnings	Consolidated net income	Share in equity allocable to the equity holders of the parent	Minority interest	Total equity
<b>Balance as of 31 Dec 2009</b>	<b>110,510</b>	<b>26,476</b>	<b>16,105</b>	<b>-6,655</b>	<b>146,436</b>	<b>0</b>	<b>146,436</b>
Consolidated net income	0	0	0	-1,327	-1,327	0	-1,327
Reclassification	0	0	-6,655	6,655	0	0	0
Expense stock option plan	0	4	0	0	4	0	4
Settlement with capital reserves	0	-5,094	5,094	0	0	0	0
<b>Balance as of 30 Jun 2010</b>	<b>110,510</b>	<b>21,386</b>	<b>14,544</b>	<b>-1,327</b>	<b>145,113</b>	<b>0</b>	<b>145,113</b>
<b>Balance as of 31 Dec 2010</b>	<b>110,510</b>	<b>21,388</b>	<b>14,544</b>	<b>1,547</b>	<b>147,989</b>	<b>0</b>	<b>147,989</b>
Consolidated net income	0	0	0	8,068	8,068	0	8,068
Reclassification	0	0	1,547	-1,547	0	0	0
Expense stock option plan	0	3	0	0	3	0	3
Settlement with capital reserves	0	-2,196	2,196	0	0	0	0
<b>Balance as of 30 Jun 2011</b>	<b>110,510</b>	<b>19,195</b>	<b>18,287</b>	<b>8,068</b>	<b>156,060</b>	<b>0</b>	<b>156,060</b>

# Notes

## Reporting principles

The Interim Report for POLIS Immobilien AG as of 30 June 2011 has been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU as well as in accordance with their interpretation by the International Financial Reporting Interpretation Committee (IFRIC).

In preparing the consolidated interim financial statements as of 30 June 2011 (hereinafter referred to as »Interim Financial Statements«) based on International Accounting Standard (IAS) 34 – »Interim Financial Reporting«, the same accounting and valuation methods were applied as during the preparation of the consolidated financial statements for the complete previous year 2010. A detailed description of the applied methods was published in the 2010 annual report (available at [www.polis.de](http://www.polis.de)).

Under Section 48 of the Exchange Rules (Börsenordnung) of the Frankfurt Stock Exchange (Prime Standard), the company is obliged to prepare interim reports.

We expressly declare that the Interim Report fully complies with IFRS without any qualifications and thus conveys a true and fair representation of the group's net assets, financial position and results of operations. The group auditor has neither audited nor reviewed the Interim Financial Statements in an audit-like manner.

## Disclosures concerning the income statement

### Rental revenues

Due to the revitalization work, which has been completed in the mean time, as well as the good rental income in 2010, rental revenues increased by 15% in the 1<sup>st</sup> half of the year in relation to the same period in the past year, from € 6,475 thousand to € 7,437 thousand.

### Other income

Other income (€ 303 thousand; previous year: € 206 thousand) includes compensation payments made by a tenant.

### Other expenses

Other expenses (€ 321 thousand; previous year: € 35 thousand) mainly pertain to due diligence costs.

### Financial results

In the 1<sup>st</sup> half of the year, the financial results amounted to € -1,457 thousand, compared to € -4,840 thousand for the same period in the previous year. The financial results include valuation gains not affecting liquidity from derivative financial instruments (€ 1,159 thousand; previous year: € -2,648 thousand) as a result of interest rates, which have increased since the beginning of the year.

### Earnings per share

The earnings per share are as follows:

	01 Jan - 30 Jun 2011	01 Jan - 30 Jun 2010
Group net profit/loss for the year after income allocable to minority interests (in € thousand)	8,068	-1,327
Average number of ordinary shares in circulation	11,051,000	11,051,000
Earnings per share (diluted and undiluted) (in €)	0.73	-0.12

## Notes to the statement of financial position

### Development of investment properties

The following table illustrates the development of the investment properties during the 1<sup>st</sup> half of 2011:

€ thousand		01 Jan 2011				30 Jun 2011
Property	Location	Fair value	Additions from acquisition	Additions modernization	Change in market value	Fair value
Luisenstrasse 46	Berlin	10,360	0	0	20	10,380
Potsdamer Strasse 58	Berlin	14,160	0	99	-19	14,240
Rankestrasse 5-6	Berlin	15,470	0	195	765	16,430
Kleppingstrasse 20	Dortmund	5,410	0	22	-222	5,210
Koerneritzstrasse 29-33	Dresden	0	6,049	0	2,451	8,500
Kramergasse 2-4	Dresden	0	5,585	0	3,805	9,390
Palaisplatz 3, 3a	Dresden	0	5,139	0	-219	4,920
Gallenkampstrasse 20	Duisburg	1,610	0	69	31	1,710
Berliner Allee 42	Dusseldorf	5,990	0	0	60	6,050
Berliner Allee 44	Dusseldorf	7,490	0	131	-11	7,610
Berliner Allee 48	Dusseldorf	5,100	0	67	-27	5,140
Immermannstrasse 11	Dusseldorf	2,970	0	5	25	3,000
Kasernenstrasse 1	Dusseldorf	18,290	0	277	423	18,990
Steinstrasse 27	Dusseldorf	8,580	0	224	-34	8,770
Gutleutstrasse 26	Frankfurt a. M.	11,100	0	0	-10	11,090
Bugenhagenstrasse 5	Hamburg	5,370	0	13	357	5,740
Ludwig-Erhard-Strasse 14	Hamburg	12,590	0	0	-120	12,470
Domstrasse 10	Hamburg	10,970	0	2	88	11,060
Steinstrasse 12-14	Hamburg	5,520	0	87	-107	5,500
Landschaftstrasse 2	Hanover	4,390	0	0	-120	4,270
Landschaftstrasse 8	Hanover	3,880	0	0	40	3,920
Ebertplatz 1	Cologne	7,380	0	0	0	7,380
Gustav-Heinemann-Ufer 54	Cologne	14,360	0	674	-124	14,910
Hansaring 20	Cologne	4,050	0	16	234	4,300
Konrad-Adenauer-Ufer 41-45	Cologne	19,900	0	85	115	20,100
Neumarkt 49	Cologne	7,970	0	57	153	8,180
Weyerstrasse 79-83	Cologne	15,970	0	22	38	16,030
Rheinstrasse 43-45	Mainz	2,770	0	3	-73	2,700
Rheinstrasse 105-107	Mainz	4,100	0	6	-46	4,060
Lessingstrasse 14	Munich	9,550	0	92	-292	9,350
Boeblingstrasse 8/ Arminstrasse 15	Stuttgart	4,060	0	74	-4	4,130
Quartier Buechsenstrasse	Stuttgart	38,910	0	1,472	-62	40,320
Tuebinger Strasse 31 & 33	Stuttgart	9,240	0	0	-110	9,130
		<b>287,510</b>	<b>16,773</b>	<b>3,692</b>	<b>7,005</b>	<b>314,980</b>

8 properties were appraised by Feri EuroRating Services AG as of 30 June 2011. The remaining properties were appraised internally. The investment properties at the new location in Dresden were appraised externally as of 31 March 2011 for the first time after their acquisition. The revaluation of these properties resulted in a positive change of the market value of € 6,037 thousand. This is largely the result of extending a lease agreement for retail space totaling approximately 2,700 m<sup>2</sup> in the investment property at »Kramergasse 2« in Dresden at improved terms and conditions.

For information on the principles applied in the external and internal appraisal of the properties, we refer to pages 63-65 of the 2010 annual report.

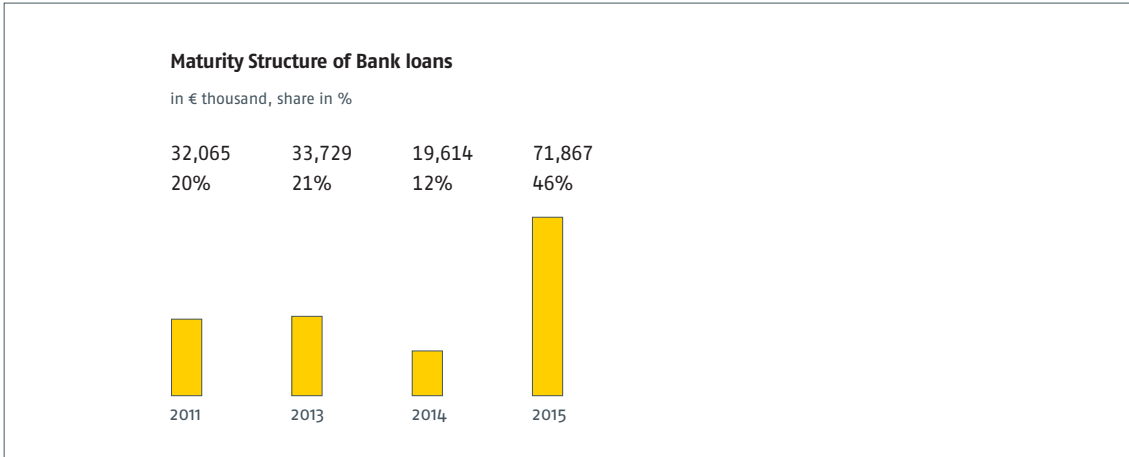
#### Liabilities to banks

Liabilities to banks increased relative to 31 December 2010 as a result of payments from existing credit lines. For the purpose of eliminating the interest rate risk of variable-rate loans, two swap transactions with a term of 7 to 8 years totaling € 20,000 thousand were carried out and three swaps with a term of up to 18 months totaling € 20,000 thousand were terminated in the 1<sup>st</sup> half of 2011. Inter alia, other liabilities include derivative financial instruments with a negative market value. This refers to the interest rate caps, interest rate floors and interest rate swaps set forth below that were implemented in order to limit the interest rate risk associated with variable-rate loans.

Derivative financial instrument	Volume € thsd.	Starting at	Maturity	Rate in %	Market value 31 Dec 2010 € thsd.	Market value 30 Jun 2011 € thsd.	Change € thsd.
Swap	5,000		30.12.11	4.00%	-145	0	145
Swap	2,675		31.12.11	3.12%	-54	-20	34
Swap	10,000		31.12.12	4.33%	-591	0	591
Swap	5,000		31.12.12	3.93%	-255	-153	101
Swap	5,000		31.12.12	4.15%	-277	0	277
Swap	10,000		31.03.15	2.41%	-137	-17	120
Swap	10,000		30.06.15	4.80%	-1,158	-923	235
Forward Swap	10,000	02.01.13	30.12.15	2.81%	34	14	-19
Forward Swap	5,000		30.12.15	2.23%	13	62	50
Swap	8,100		31.12.15	3.04%	-296	-183	113
Swap	10,000		31.12.15	3.48%	-579	-418	161
Swap	3,150		31.12.15	2.40%	-18	16	34
Forward Swap	5,000	03.11.11	30.09.16	3.47%	-188	-176	11
Swap	10,000		30.12.16	3.58%	-612	-457	155
Swap	10,000		29.06.18	3.64%	0	-464	-464
Swap	10,000		29.06.19	3.69%	0	-478	-478
Cap	5,000		28.06.13	6.00%	4	0	-4
Floor	-5,000		29.06.13	3.37%	-240	-144	96
					<b>-4,499</b>	<b>-3,340</b>	<b>1,159</b>

The interest rate swaps do not comply with the requirements of IAS 39 with respect to hedge accounting; fair value changes are therefore recognized in income. The weighted average interest rate of the bank loans including derivative financial instruments was 3.27% as of 30 June 2011. The share of variable-rate, unsecured liabilities to banks was 36% as of 30 June 2011. The

available credit lines totaled € 1,941 thousand. The valuation of the derivative financial instruments as of 30 June 2011 resulted in financial income of € 1,159 thousand for the 1<sup>st</sup> half of 2011.



## Responsibility statement by management

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting for groups, the consolidated interim financial statements give a true and fair view of the group's net assets, financial position and results of operations, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Board of Management

Dr. Alan Cadmus

Rüdiger Freiherr von Maltzahn

# Financial calendar

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Real Estate Share Initiative, Frankfurt/Main	19 October 2011
Report on first nine months of 2011	3 November 2011
DVFA real estate conference	February 2012

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