POLIS

ANNUAL REPORT 2017

Dresden | Ammonstrasse 8

CONTENTS

Senior officers of POLIS AG, from left:

Volker Hahn
Authorized signatory; Head of Acquisitions and Sales, Letting

Andreas Goldau
Authorized signatory; Commercial Director

Dr. Michael Piontek
Chief Financial Officer

Mathias Gross
Chief Operating Officer

ANNUAL REPORT 2017

POLIS AG key ratios at a glance

	2017	2016
Rental income	**EUR 20.4 million**	EUR 21.1 million
Total assets	**EUR 449.9 million**	EUR 367.6 million
Equity	**EUR 239.2 million**	EUR 200.3 million
Earnings before taxes	**EUR 45.5 million**	EUR 21.4 million
Property portfolio (own commercial space sqm)	**146,700 sqm**	133,600 sqm

OUR BUSINESS MODEL

POLIS actively manages its portfolio on the basis of a clearly defined corporate strategy, many years of experience and a sound financial footing. The Board of Management regularly reviews the corporate strategy and coordinates changes with the Supervisory Board. Our profitability rests on a portfolio of quality properties that provide steady cash flows. The high degree of investment security offered by these "Core" properties is based on their good central locations in the major German business centres, high technical standards and a strong diversification in the composition of tenants. The expertise we have acquired over many years of actively managing such properties enables us to carry out modernization projects successfully. We substantially increase the value of our "Core" and "Value Added" properties.

ACQUISITIONS

Far-sighted investments

Through our investments, we unlock potential and create enduring value. As a specialist in office and commercial buildings, POLIS Immobilien AG has been acquiring attractive properties in Germany's top seven office locations and in selected growing B-list cities for 20 years.

For our acquisitions we focus on buildings in attractive, established office locations in city centres and other excellent secondary locations. The properties in question may range from new or nearing completion to existing properties that have efficient ground plans, offer flexible usage and enjoy very good transport links.

For leased new builds and older properties in A and B-list cities, we prefer multi-tenant properties with a diverse mix of tenants in terms of space and lease term, lease agreements with tenants with impeccable credit ratings as well as medium to long-term development potential.

Properties with potential

We also selectively consider modernization projects in A and B-list cities if they show firm potential for development. These may include properties with short remaining lease terms or potential for rent increases, or ones that are in need of architectural and technical modernization work. We are also interested in office and commercial properties in which vacancies can be remedied by a manage-to-core strategy and measures such as a change in letting concept, change of use or complete revitalization, or which display scope for expansion.

Thanks to our many years of experience, we can swiftly implement modernization projects and successfully reposition the properties in question on the market. Through such an approach we not only preserve value over the long term, but also make a vital contribution to upgrading the individual micro-locations.

Dependable and financially strong

Dependability, financial soundness, the careful and deliberate handling of risks and the retention of key skills in-house are core success factors for POLIS. This is reflected in various ways in our structures and business activity.

For example we prefer multi-tenant to single-tenant properties, to reduce risks from loss of rental income and vacancies and to realize ideally steady cash flows. This policy also facilitates re-letting because we are able to approach a larger pool of potential tenants. We attach great importance to transparent and reliable processes, compliance with agreed schedules and a workable, conservative financing structure. The latter includes a strategically defined equity ratio of 40%, a high cash flow as well as sufficient liquidity that enables us to respond swiftly to investment opportunities and thus secure further growth for POLIS.

By conducting real-estate asset and property management ourselves, we are in a position to manage our properties efficiently and handle even complex transactions swiftly. Our team brings together real estate, legal, commercial, tax and financing expertise under one roof, coupled with the practical experience of now 20 years in the market. The high occupancy rate, the steady development in value and the good structural condition of our properties testify to the success of our strategy.

Dresden | Ammonstrasse 8

LETTING

Always at the right address
We have a wide-ranging portfolio of office properties and commercial buildings in many major German cities. They are situated in attractive, established office locations in city centres or in excellent secondary locations. They typically enjoy very good transport links.

Our diverse range of modern, technically well-equipped commercial units offers solutions for many different sectors and user groups. We will be pleased to make you a custom proposal.

One area of focus in our portfolio is office or retail spaces that are situated “one block away” from 1A locations. We find they generally offer comparable quality and infrastructure – but at more attractive rents. Our tenants appreciate these special locations.

Living the future
We attach huge importance to meeting the requirements of our tenants and the modern working world over the long term, too. For that reason, as well as wanting properties in good locations we seek to maintain state-of-the-art technical facilities, whether that means keeping pace with the digital age or optimizing energy consumption and operating costs for our tenants.

Do you have any particular requirements for your commercial space? If so, get in touch so that we can discuss the best possible solution for you.

Custom-designed and customer-centred
Many businesses use established, proven standards as their point of reference when choosing their space, but often custom utilization concepts are what they really need. Do you have any special requirements and requests for the design of your commercial space? Then draw on the expertise of POLIS Immobilien AG.

Developing modern, personalized letting concepts is a core skill of our experienced letting experts – and has now been so for 20 years.

Business premises of POLIS Immobilien AG

DEAR SHAREHOLDERS, LADIES AND GENTLEMEN,

We again achieved a very good overall result in the past financial year. In addition to stable income from property management, we again achieved a good letting result this year, confirming our past modernization investments. Above all, however, the substantial positive market value changes for our investment properties, for the most part reflecting current market movements, contributed around 80% of the Company's result.

Another good letting result

In all, we concluded new lease agreements for 14,133 sqm of rental space in 2017. In addition it is especially pleasing to note that existing lease agreements for 10,252 sqm were extended, and that the average lease period rose to 4.0 years. High continuity in extensions to existing lease agreements is very important for a stable pattern to our income stream. The occupancy rate was increased from 90.9% to 95.8%. This increase is mainly attributable to the re-letting of 4,196 sqm of office space in the property at Rankestr. 21 / Lietzenburger Str. 44/46, Berlin.

The occupancy rate achieved again provides a basis for stable earnings from portfolio business in 2018.

On 1 March 2017 we were able to take possession of the investment property in Dresden, at Rosenstrasse 32/34, acquired in 2016. The short-term lease agreement with the sole tenant has now been extended for a further ten years on improved terms, with a significant improvement to cash flow and the property value. In addition, the acquisition of a further investment property at Ammonstrasse 8 in Dresden was notarized on 27 October 2017. The transfer of benefits and encumbrances took place with effect from 1 January 2018, with the result that the property is only reflected in the annual financial statements at 31 December 2017 by the already-paid purchase price, under "Advance payments".

Despite the positive development in operating ratios and the higher occupancy rate, rental income showed a slight year-on-year decline of EUR 753 thousand (-3.57%). In the previous year a one-off effect from the collection of a lease agreement cancellation fee in the amount of EUR 2.35 million had led to comparatively high rental income. Net rental income consequently declined by EUR 573 thousand to EUR 15,264 thousand, despite slightly lower maintenance costs. Funds from operations (FFO), which exclude valuation effects, declined in the past financial year from EUR 7,661 thousand to EUR 6,969 thousand due to lower one-off earnings within current business. Cash flow from operating activities was down 21% year on year at EUR 9,875 thousand.

Positive valuation result for the investment properties, gains from interest rate hedging instruments

The continuing positive market development led to a clearly positive valuation result of more than 10%, but with no liquidity effect, for the majority of investment properties. Due to expiring lease agreements, an identifiable need for maintenance work or changed rental forecasts at specific locations, a small number of investment properties suffered a drop in their market values. Overall there was a high valuation result of EUR 36,948 thousand. While we do not yet regard the value level reached as constituting a valuation risk, market movements in the opposite direction cannot be ruled out if there are sharper interest rate rises. Thanks to higher long-term interest rates, there arose earnings-relevant valuation gains not affecting liquidity from interest rate hedging instruments in the amount of EUR 93 thousand. The above effect lifted profit before taxes sharply by 112% to EUR 45,469 thousand.

Mathias Gross
Chief Operating Officer

Dr. Michael Piontek
Chief Financial Officer

New financial flexibility thanks to restructuring of loans

In 2017 we continued our efforts to concentrate debt capital on individual properties up to a property-specific loan-to-value ratio of 60%. In this connection financing for a major portfolio was replaced early and a higher level of financing taken out on significantly improved terms. This measure gives us considerable extra liquidity to use for additional acquisitions. Furthermore, we have been able to unencumber additional properties altogether. This enables us to raise further liquidity swiftly as and when financing is required, e.g. for new acquisitions. At 31 December 2017 we had liquidity of EUR 29.5 million. Refinancing and borrowed against collateral already furnished have increased the loan to value key ratio to 44%.

As a result of falling market interest rates and a restructuring of debt capital, the weighted average interest rate for debt financing was 2.18%, as against 3.2% in the previous year. Our Company remains soundly financed with an equity ratio of 53% and therefore enjoys a high degree of investment security and growth potential.

HGB result and proposal on the appropriation of profits

Thanks to the healthy net profit for 2017, we achieved a net income of EUR 5,526 thousand – the result that serves as the basis for the proposal on the appropriation of profits according to German accounting standards (HGB – German Commercial Code). The significantly lower level compared with the IFRS result is because construction work is recorded as maintenance expenses, and under HGB the appreciation in the investment properties not affecting liquidity is positive only in isolated cases, taking the form of write-ups on investment values. Such write-ups on investment values with no effect on liquidity also make up the bulk of the positive HGB result in 2017. Because we expect a negative HGB result for 2018 in view of the planned renovation and maintenance expenses, a portion of EUR 2,763 thousand

from net income was allocated to retained earnings. That aside, the Board of Management proposes that the remaining unappropriated profit totalling EUR 13,998 thousand be carried forward to new account because we plan to use the available liquidity and reservoirs of value to finance further expansion.

Bright prospects for 2018 but lower result expected

The healthy economic situation for real estate continued in 2017 and led to a positive letting result. As matters stand there are no indications of any dramatic change in market conditions in 2018. We expect to see a marked rise in new construction activity in the office sector, but there is a very high pre-letting rate for the new buildings. We therefore expect to be able to let the little rental space that is standing vacant. The newly acquired investment property in Dresden will provide an extra, positive profit contribution in 2018.

We are planning further growth through the acquisition of properties, increasingly in Central Germany. The new investment properties and the occupancy rate achieved lead us to expect higher rental income for 2018, but also lower net rental income after the increased renovation and maintenance expenses are taken into account. Overall, we again anticipate a good result in 2018. Because no sales or extraordinary income are planned, and bearing in mind that it is not possible to forecast changes in market values to the investment properties and financial instruments reliably, we are nevertheless working on the assumption that earnings before tax (EBT) will be down on the 2017 figure at around EUR 11 million. We do not anticipate that the very high valuation result for the investment properties will be repeated to the same extent.

In the absence of extraordinary income, funds from operations will equally be lower than in 2017.

Steady shareholder structure provides stability

Our solid capital situation and the established shareholder structure with strategic investors who adopt a long-term view remain the basis for the steady development of the Company. We welcome the commitment of the major shareholders to our Company and are pursuing the goal of creating solid assets for our shareholders through our letting, active property management and long-term growth.

Throughout now 20 years in business for POLIS, our tried-and-tested business model has already helped us through several economic cycles and we are confident that we will continue to be a successful market operator.

The development of our Company is to a great extent underpinned by the efforts and commitment of our employees. We are delighted to have a team that thinks, decides and acts entrepreneurially in the interests of POLIS Immobilien AG. We take this opportunity to thank all employees and to express our deep appreciation of their work. We would equally like to thank our shareholders, tenants, contractors and financial partners for their trust-based partnership in the past financial year and look forward to continuing in that vein.

Berlin, April 2018
POLIS Immobilien AG
– The Board of Management –

DEAR SHAREHOLDERS, LADIES AND GENTLEMEN,

During the year under review, the Supervisory Board fulfilled its responsibilities in accordance with the statutory requirements, the Articles of Association and the rules of internal procedure. We regularly advised and monitored the Board of Management in matters relating to the management of the Company. The Supervisory Board was involved in all major decisions affecting the Company.

The Board of Management gave the Supervisory Board regular and comprehensive reports, both orally and in writing, of the situation and development of the Company. In this connection, the Supervisory Board discussed fundamental issues with the Board of Management concerning the Company's business and corporate policies, its corporate strategy, its financial development and financial performance, as well as matters pertaining to transactions that are important for the Company. Wherever transactions were subject to the approval of the Supervisory Board, it reached its decision after thoroughly reviewing and considering the issue.

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

Supervisory Board meetings and resolutions

There were three Supervisory Board meetings in the period under review. At the meetings, the Board of Management informed the Supervisory Board in detail of the current business performance, and in particular of the strategy, the plans, the economic situation and development, making reference to papers submitted in writing, and consulted with the Supervisory Board in this regard. All matters that required the approval of the Supervisory Board were dealt with after diligent examination and consultation in the meetings, for the most part with reference to proposed resolutions prepared in writing prior to the meeting. Where required or expedient, the Supervisory Board adopted resolutions by written or circulation procedure.

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

At its meeting on 6 April 2017, the annual and consolidated financial statements for 2016 as well as the management reports were discussed in detail in the presence of the auditor and approved. The separate financial statements of POLIS Immobilien AG were adopted. Another topic discussed at that meeting was the approval of the agenda for the Annual General Meeting on 23 June 2017 as well as a resolution on the granting of power of procuration.

The meeting on 22 June 2017 was used to prepare for the Annual General Meeting on 23 June 2017.

The meetings on 29 and 30 November 2017 focused on the economic data for the first ten months of 2017 and the forecast for financial year 2017, as well as the 2018 budget and the updated, five-year medium-term financial plans. The 2018 business plan was also passed.

Committees

The Investment Committee, consisting of Mr Müller (Chairman), Mr Schmechel and Mr Stein, prepares the decisions of the Supervisory Board on investments requiring its approval. The Investment Committee came

together three times, conducting its discussions by telephone, and considered current investment projects. The projects were debated with the Board of Management and the committee's external experts.

The Personnel Committee, comprising Mr Müller (Chairman), Mr Herr and Mr Eberhardt, met on two occasions. It prepared the resolutions of the Supervisory Board concerning Board of Management affairs and above all addressed the target agreements and compensation for the Board of Management. The committee chairs reported regularly to the Supervisory Board.

Annual and consolidated financial statements

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Berlin, has audited the annual financial statements and management report of POLIS Immobilien AG at 31 December 2017 as well as the consolidated financial statements and group management report at 31 December 2017 and has issued an unqualified audit certificate.

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

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

The annual financial statements and the consolidated financial statements as well as the audit reports of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft were available to all members of the Supervisory Board and were discussed comprehensively in the relevant Supervisory Board meeting on 12 April 2018 in the presence of the auditor. The auditor presented the key findings of its audit and stated that the internal control and risk management systems revealed no essential weaknesses. In particular, the auditor elaborated on the Company's and the Group's net assets, financial position and financial performance, and was available to us for questions. The auditor also provided information on the scope and the main focus areas of the audit. The audit priorities were the valuation of the investment properties, the valuation methods and the valuation of the interest rate hedging instruments. We examined the annual financial statements of the Company and the consolidated financial statements, as well as the management report and group management report. No objections arose as a result of our review. After examining the auditor's reports, we noted and approved them. By resolution dated 12 April 2018, the Supervisory Board adopted the annual financial statements prepared by the Board of Management. The Supervisory Board also approved the consolidated financial statements. We equally approved the management reports of the Group parent and Group, and in particular the assessment of the further development of the Company.

Cologne | Hansaring 20

Relationships with affiliated companies

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

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

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

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

Thanks

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

On behalf of the Supervisory Board

Klaus R Müller
Supervisory Board Chairman
Berlin, April 2018

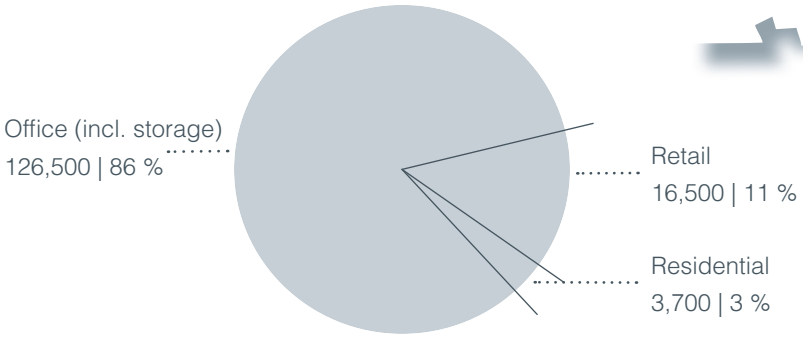
THE PORTFOLIO OF POLIS IMMOBILIEN AG IN FINANCIAL YEAR 2017

8 Cities

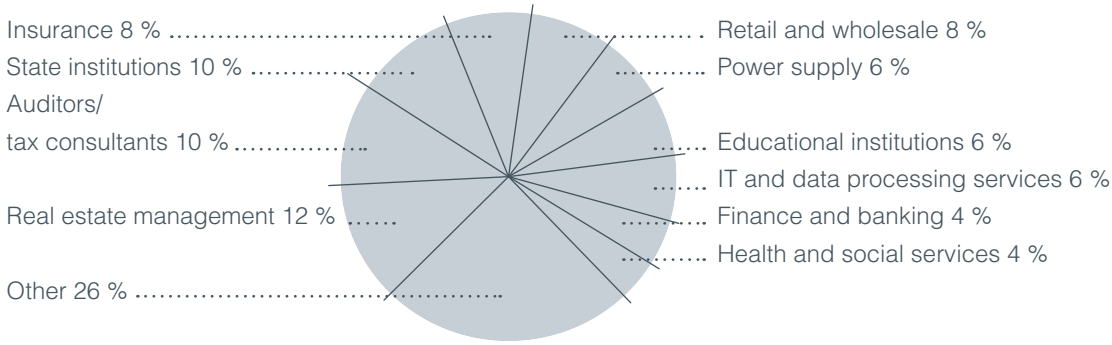
23 Objects

146,700 sqm

Portfolio by type of use | Basis: sqm | 146.700 sqm

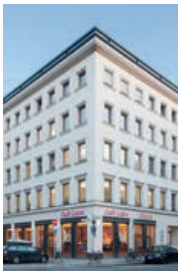


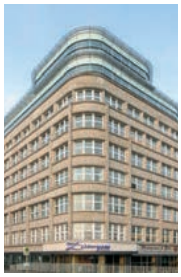
Composition of rental revenues by sector | in %



Berlin | Potsdamer Strasse 58

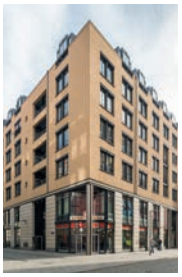
BERLIN





Property	Rankestr. 21 / Lietzenburger Str. 44, 46	Luisenstrasse 46	Potsdamer Strasse 58
Year of construction	1993/1969/1957	1936	1930
Space available (rounded)	12,150	3,150	5,500
Office	10,629	2,622	4,110
Retail	1,018	440	1,084
Residential	0	0	0
Archive	486	71	311
Parking bays	132	22	20

DRESDEN



Property	Rosenstrasse 32/34	Könneritzstrasse 29/31/33	Altmarkt 10/ Kramergasse 2,4
Year of construction	1996	1998	2000
Space available (rounded)	13,400	10,400	18,900
Office	13,167	9,090	11,528
Retail	211	1,030	5,274
Residential	0	0	1,313
Archive	0	278	800
Parking bays	0	90	206

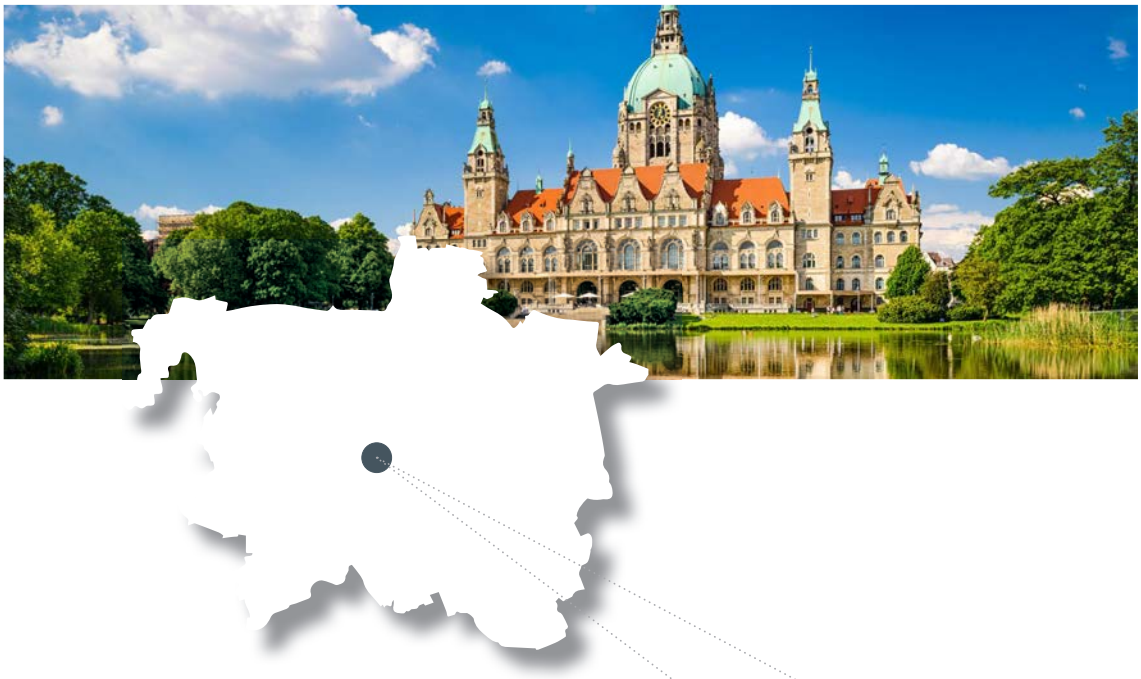
DÜSSELDORF



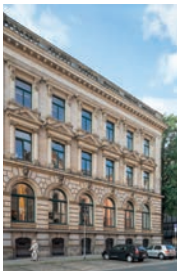

Property	Steinstrasse 27	Berliner Allee 42	Berliner Allee 44/ Alexanderstrasse 19	Berliner Allee 48/ Bahnstrasse 38
Year of construction	1960	1960	1957	1956
Space available (rounded)	3,700	3,500	3,500	2,600
Office	3,455	2,166	2,979	1,858
Retail	0	812	203	336
Residential	0	229	23	215
Archive	222	269	298	237
Parking bays	20	15	16	0

FRANKFURT AM MAIN

Property	Gutleutstrasse 26
Year of construction	1970
Space available (rounded)	3,650
Office	3,501
Retail	0
Residential	0
Archive	162
Parking bays	24

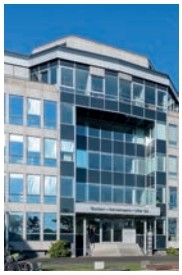


HANOVER



Property	Landschaftstrasse 2	Landschaftstrasse 8
Year of construction	1983	1885
Space available (rounded)	3,600	2,600
Office	3,582	2,166
Retail	0	0
Residential	0	0
Archive	13	409
Parking bays	53	2

COLOGNE



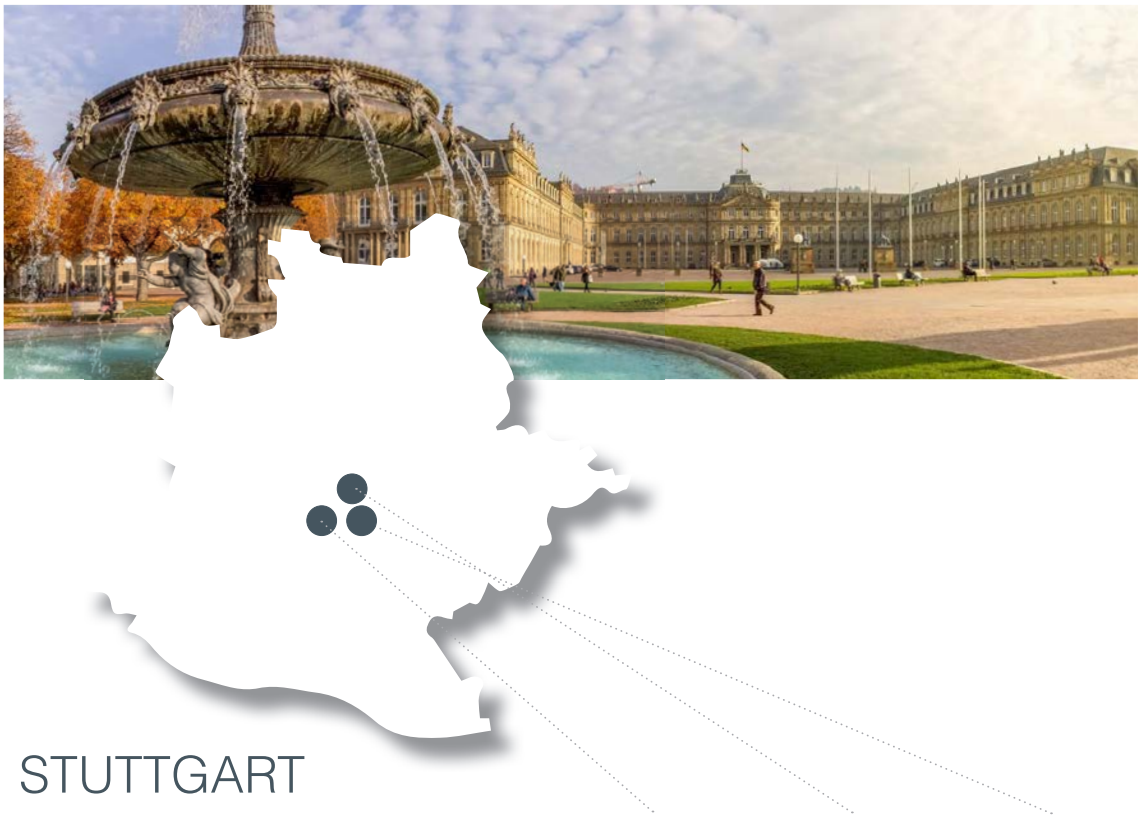
Property	Ebertplatz 1	Gustav-Heinemann-Ufer 54	Hansaring 20
Year of construction	1960	1989	1975
Space available (rounded)	4,050	7,600	2,200
Office	3,257	7,037	2,093
Retail	199	0	0
Residential	0	0	0
Archive	623	532	116
Parking bays	0	197	10

COLOGNE

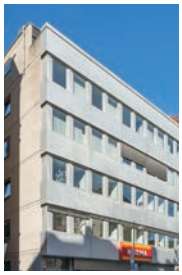
Property	Konrad-Adenauer-Ufer 41-45	Neumarkt 49	Weyerstrasse 79-83/ Pantaleonswall 65-75
Year of construction	1953	1957	1962
Space available (rounded)	6,000	3,900	9,300
Office	5,582	3,187	7,237
Retail	0	544	1,302
Residential	0	0	0
Archive	388	177	768
Parking bays	53	9	94

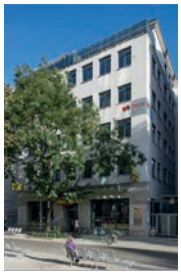
MUNICH

Property	Lessingstrasse 14
Year of construction	1967
Space available (rounded)	3,400
Office	2,613
Retail	438
Residential	0
Archive	339
Parking bays	37



STUTTGART





Property	Böblinger Strasse 8/ Arminstrasse 15	Quartier Büchsenstrasse	Tübinger Strasse 31/33
Year of construction	1973	1907 - 1970	1949
Space available (rounded)	2,550	16,450	4,500
Office	1,150	11,779	2,740
Retail	920	1,408	1,278
Residential	359	1,360	220
Archive	112	1,958	301
Parking bays	35	128	13

PURCHASE DRESDEN

Rosenstrasse 32/34

The property is one of the eight real estate units in the World Trade Center (WTC) Dresden. The WTC was built in 1997 and houses around 90,000 sqm of floor area. The complex is situated on Dresden's inner ring road and is about 1.2 km to the east of the main station. The real estate unit Rosenstrasse 32 / 34 has around 13,380 sqm of floor area, with an H-shape ground plan. The building has three wings, with between six and nine full storeys. The property also has direct access to the underground car park, where 130 parking bays are available for the use of tenants. The principal tenant of the property is a major service provider with a long-term lease agreement.

PURCHASE DRESDEN

Ammonstrasse 8

The property completed in 1938 according to a design by Otto Kohtz is in the immediate vicinity of the main station. It enjoys listed status as a building of special cultural significance for Dresden as the capital of Saxony. Originally built for the Farmers' Association of Saxony, among its subsequent uses it then housed the railway head offices for Saxony. The property has approx. 7,190 sqm of rental space in total, plus 33 courtyard parking spaces, and is spread over six full storeys and three courtyards. The property is let out to a major service provider on a long-term basis.

Photograph of the building in 1938, Walter Hahn

THE GROUP MANAGEMENT REPORT OF POLIS IMMOBILIEN AG FOR FINANCIAL YEAR 2017

GROUP STRUCTURE AND BUSINESS ACTIVITIES

The business model of POLIS Immobilien AG

POLIS Immobilien AG, founded in Berlin in 1998 and with its registered office in Berlin, acquires office buildings throughout Germany for its own portfolio. By actively managing our own properties, including by their conversion, modernization, extension, letting and other measures, as well as through market developments we continuously increase the value of our real estate holdings that we realize by selectively selling properties. We focus on office buildings in attractive central locations in key German business centres, and invest in properties with specific potential for appreciation or a stable cash flow.

The strong focus on the German market, selected cities and central locations leads to a high degree of specialization, which increases the efficiency of our work and allows us to achieve excellent results in planning and carrying out projects. Our own asset and property management team manages the property portfolio from a commercial and technical perspective and is responsible for all key aspects of business operations such as acquisitions and sales, development, letting and administration.

Group structure and management

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

Business processes

The principal business processes of POLIS are focused on letting office, retail and residential properties, the buying and selling of properties, investing in order to increase the value of our real estate holdings, real estate management services as well as the financing of acquisitions and investments. In addition, POLIS provided asset management services for third parties up until 31 December 2017.

Key external factors

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

Principal changes within the Group in financial year 2017

Thanks to a high level of take-up, the occupancy rate rose last year from 90.9% to 95.8%. This can be equated with full occupancy. In all, we concluded new lease agreements for 14,133 sqm (previous year 9,349 sqm) and extended existing leases on 10,252 sqm (previous year 14,704 sqm).

On 1 March 2017 we were able to take possession of the investment property in Dresden, at Rosenstrasse 32/34, the acquisition of which was announced in 2016. In addition, the acquisition of a further investment

property at Ammonstrasse 8 in Dresden was notarized on 27 October 2017. The transfer of benefits and encumbrances for Ammonstrasse 8 took place with effect from 1 January 2018. In addition to making valuable investments in the real estate portfolio we achieved a markedly improved result from the revaluation of investment properties.

There were no material changes in the strategy or corporate structure.

Corporate objective

The objective of POLIS is to achieve a sustained increase in the value of the Company as well as to create and maintain a high-quality property portfolio. Our aim is to generate a stable and attractive overall rate of return by actively managing and continuously developing a high-quality office property portfolio with properties in central locations, as reflected in a sustainable cash flow yield and an increase in the net asset value (NAV).

We strive to maintain a balanced risk/return profile by establishing an appropriate portfolio structure and ensuring that debt capital remains at moderate levels.

Key economic factors

DEVELOPMENT OF THE COMMERCIAL PROPERTY MARKET IN GERMANY

We generate our income from rental revenues and from the sale of properties. In addition, the results of the revaluation of our property portfolio as well as interest rates strongly influence our annual financial results. The terms of new and follow-on leases and of acquisitions and sales, as well as the development of the market values of our own properties, are primarily determined by the development of the German economy in general, the German office property market and regional developments at the locations where our properties are situated.

DEVELOPMENT OF RENTAL REVENUES

Realizable rents depend on the development in the general rent level for office properties in Germany as a whole, and also on the specifics of the property and location. Since many lease agreements contain a clause for adjusting the rent in line with inflation, the inflation rate also influences the level of rental income.

FINANCE COSTS AND INTEREST RATE LEVELS

The profitability of POLIS is influenced by the development of general interest levels, because the acquisition of properties is typically financed with the help of external financing representing up to 60% of the property value. Interest rate hedges are concluded for the variable-rate financial liabilities.

Competitive position

MARKET ENVIRONMENT

We draw on the research conducted by bulwiengesa AG, which covers around 130 locations in Germany. The market for acquiring and managing office properties remains sizeable and provides opportunities for further development for specialized property companies.
Source: bulwiengesa AG bulletin

POSITIONING

In this market environment, we consider ourselves a specialist for the modernization and active management of office properties in a segment that is focused on the location, size and quality of spaces. Our properties are situated in good to excellent office locations and offer high-quality spaces at good value for money.

ECONOMIC AND INDUSTRY-SPECIFIC ENVIRONMENT

Positive development of overall economic environment
In the course of 2017, the ifo Business Climate Index for trade and industry in Germany climbed from 111.0 (12/2016) to 117.7 at the end of the year, with some significant fluctuations.

According to the Federal Statistical Office, gross domestic product was 2.2% in 2017 compared with 1.9% in 2016. A similar figure is expected in 2018.

The labour market saw Germany's working population rise yet again to a new record total of 44.7 million averaged over 2017. The unemployment rate in December 2017 was 5.3% compared with 5.8% in the prior-year month.

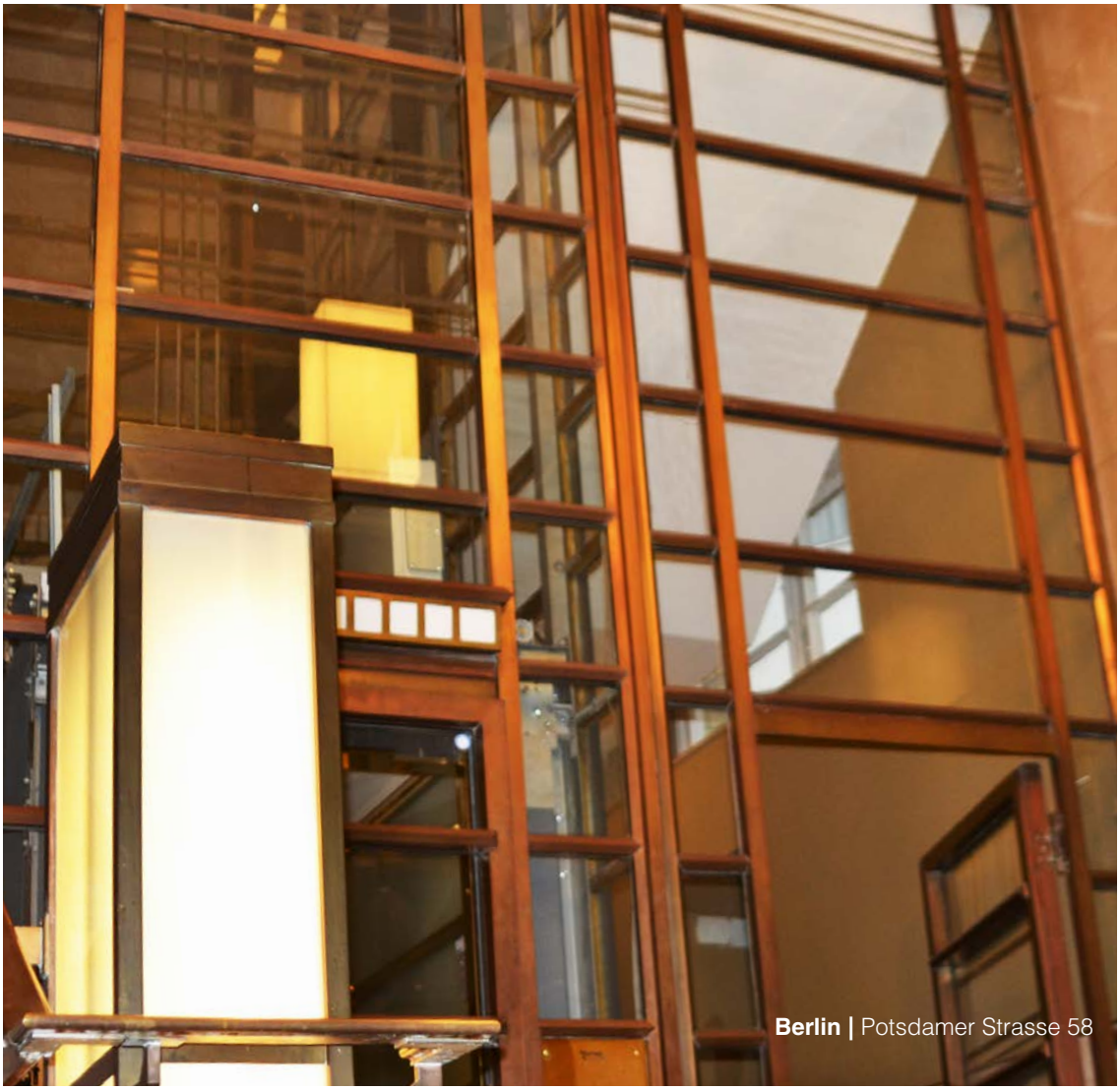
Inflation averaged 1.8% over the year, and was therefore clearly up on the 2016 figure of 0.49%. Particularly in February 2017, there had been a jump in inflation (+2.2%) that contributed towards this annual figure.

Short-term interest rates as a whole continued to edge down over the course of 2017 (three-month EURIBOR down from -0.319% at 2016 year-end to -0.329% at 2017 year-end). Short-term interest rates declined steadily. Meanwhile the ten-year swap rate climbed from 0.67% at 31 December 2016 to 0.886% at 31 December 2017. However it should be borne in mind that long-term interest rates were temporarily also lower in the course of the year and rebounded towards the end of 2016.

Industry-specific environment
The rental sales volume in the seven major real estate locations came to 4.2 million sqm in 2017, a new record high. Munich leads the way with 995,000 sqm, followed by Berlin with 955,000 sqm. These welcome figures remain underpinned by positive business and labour market data in Germany. On the back of this record year, the market expects the figures for 2018 to be down on the level of 2017 because of the lack of available space, despite the market's dynamism.

Trends in the investment market for office properties in Germany
TRANSACTION VOLUME REACHES NEW RECORD LEVEL
The transaction volume in the commercial property sector climbed from EUR 52.9 billion in 2016 to EUR 56.8 billion. Investments in office properties accounted for 44% of the transaction volume, followed by retail properties, which represented a share of 20% of transactions. Logistics properties increased their share further to 15%. The product shortage resulted in a higher proportion of transactions outside the top seven cities. Another reason for the record transaction volume is the substantial rise in prices as a result of higher rents and lower returns.

Well over half of transactions took place in the top seven locations Berlin, Düsseldorf, Frankfurt, Hamburg, Stuttgart, Cologne and Munich, 5% more than in the previous year. In Berlin in particular, the volume rose by 56% to more than EUR 7.7 billion. Frankfurt was the second-strongest market on EUR 7.1 billion. In Hamburg, Munich and Stuttgart, the transaction volume was lower than in the previous year. The limited supply of Core properties, coupled with high demand, led to a further decline in prime yields in 2017. Across all top seven cities, the return on office properties declined to 3.27%, and to as low as 2.90% in Berlin. The capital values of office properties rose by 14% in the top seven cities.


Berlin | Potsdamer Strasse 58

Trends in the office property rental market in Germany

LOWER NEW CONSTRUCTION VOLUME WITH VERY HIGH ADVANCE LETTING RATE

New construction activity in the seven top locations in 2017 was well below the previous year's figures at 0.86 million sqm, and fell short of the previous year's expectations for 2017. 86% of the new construction volume was already let in advance. For 2018, a much higher completion volume of 1.3 million sqm is expected.

Prime rents increased by a substantial 4.1% in 2017, with the highest rises occurring in Berlin (+11%) followed by Stuttgart, Munich and Hamburg. Only in Düsseldorf did prime rents remain below the previous year's level. A further rise of 2.0% is expected for 2018.

FURTHER FALL IN VACANCIES IN THE OFFICE MARKET

Vacancies for office space in the seven leading cities again fell significantly to 4.3 million sqm. The vacancy rate is consequently now 4.7%. A further fall of 0.3% in the vacancy rate is expected for 2018.

Sources: JLL Investment Market Overview Q4 2017, JLL Office Market Overview Q4 2017, IFO Business Climate Index, Federal Employment Agency

OVERVIEW OF BUSINESS PERFORMANCE

Development of real estate business

CHANGES IN THE PORTFOLIO
On 1 March 2017 we were able to take possession of the investment property in Dresden, at Rosenstrasse 32/34, the acquisition of which was announced in 2016. In addition, the acquisition of a further investment property at Ammonstrasse 8 in Dresden was notarized on 27 October 2017. The transfer of benefits and encumbrances took place with effect from 01 January 2018.

MODERNIZATIONS

- BERLIN | Rankestrasse 21/Lietzenburger Strasse 44, 46 > High-quality fit-out as well as renovation work
  The rental space on the sixth floor was fitted out to a high standard. In addition the foyer was modernized, complete with a lighting concept. A sprinkler system was installed in one section of the building and the gabled façade was renovated.

- BERLIN | Potsdamer Strasse 58 > Completion of extensive façade renovation
  The final renovation tasks on the façade of the listed-building property at Potsdamer Strasse 58 in Berlin were completed, having commenced in 2014.

- DRESDEN | Kramergasse > Renovation of dormers
  Extensive renovation work was carried out and completed on the dormers.

Occupancy rate up 4.9% year on year to 95.8%
We again achieved good results in concluding new lease agreements for 14,133 sqm in financial year 2017 (previous year 9,349 sqm). The biggest single contributors to the letting performance in 2017 were the lease agreements in the properties at Rankestrasse 21, Berlin, for 4,196 sqm of office space, and at Altmarkt 10 a-d, Dresden, for 1,166 sqm of commercial space. Thanks to the successful letting performance, active management of lease agreements as well as purchases to optimize the portfolio, the occupancy rate for the overall portfolio at 31 December 2017 rose to 95.8%, from 90.9% at the end of the previous year. Furthermore, lease agreements for approximately 10,252 sqm (previous year 14,704 sqm) were extended, often on significantly better terms. In economic terms the most significant lease agreement extension, for approximately 1,378 sqm of office space, concerned the property at Berliner Allee 44 in Düsseldorf, followed by approximately 1,284 sqm in the property at Gustav-Heinemann-Ufer 54 in Cologne. In addition to these properties, existing lease agreements were extended with other sitting tenants for rental spaces in the 600 – 1,100 sqm range, mainly in the locations Dresden, Hanover and Stuttgart.

30% of the good result for new lease agreements concluded is attributable to the letting performance in the property at Rankestrasse 21, Berlin (4,196 sqm of office space). The high number of lease agreements extended is attributable to our active management of lease agreements, the high quality standard of the properties and professional tenant care. The high take-up level in 2017 produced a contractually secured rental income of around EUR 24,007 thousand over the full term of the respective lease agreements, with an average weighted term of 7.1 years and an effective rental rate of EUR 12.80 per sqm. The average remaining term of all existing lease agreements is four years (previous year 3.9 years), with an average rent across the portfolio of approximately EUR 12.08 per sqm (previous year EUR 12.03 per sqm) for all types of use (office, retail, residential, archive).

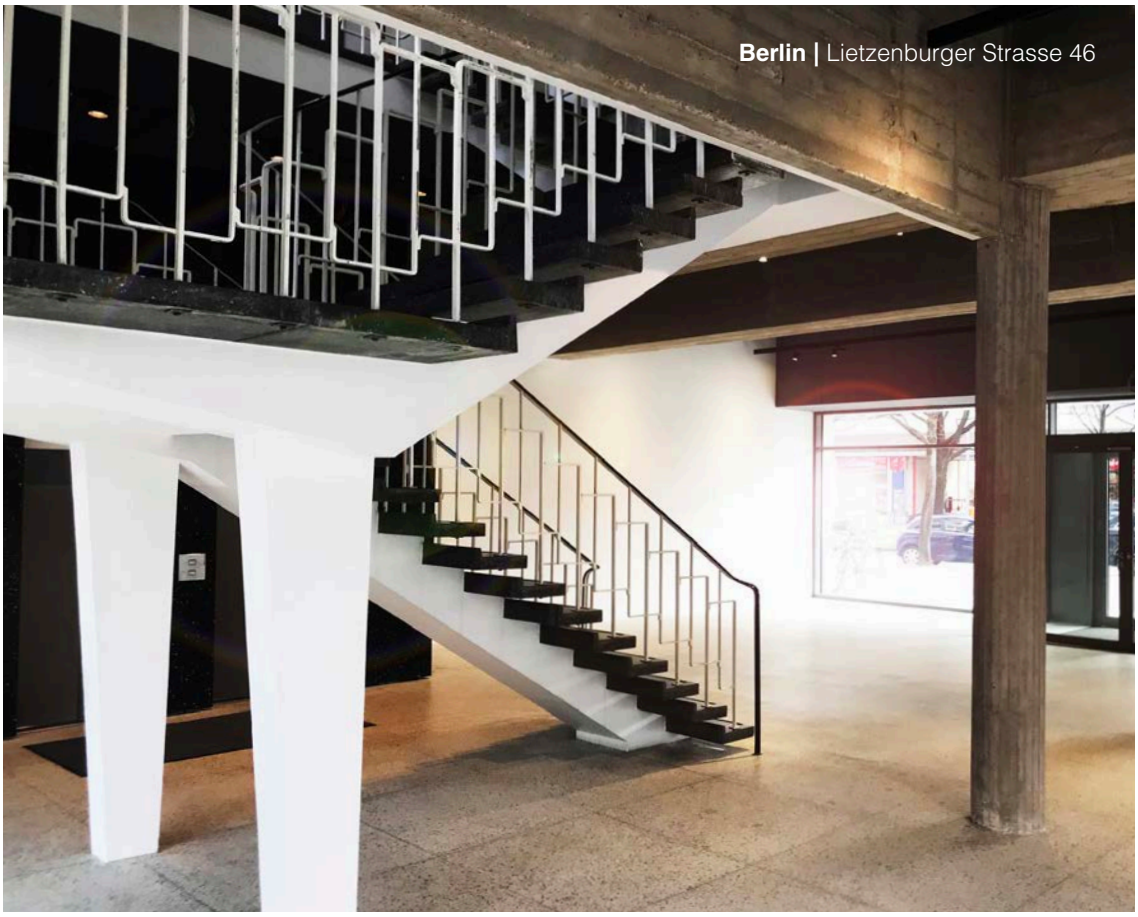
We consider our current task to involve letting the remaining space and maintaining the high occupancy rate through active management of the lease agreements. We also aim to improve the quality of our properties further, increase tenant satisfaction and realize the rental income potential.

	Rental space at 31.12.2016	**Rental space at 31.12.2017**	Occupancy rate as of 31.12.2016	**Occupancy rate as of 31.12.2017**
	sqm	**sqm**	%	**%**
Berlin	20,900	**20,800**	63	**100**
Dresden *	29,250	**42,700**	96	**93**
Düsseldorf	13,550	**13,300**	90	**91**
Cologne	33,050	**33,050**	99	**97**
Stuttgart	23,600	**23,600**	96	**97**
Other cities **	13,250	**13,250**	96	**98**
Total	**133,600**	**146,700**	**91**	**96**

Based on portfolio at the respective reporting date

** Dresden, Rosenstrasse 32/34 - from 03/2017*

*** Frankfurt am Main, Hanover, Munich*


Berlin | Lietzenburger Strasse 46

Overview of rental income

Categorized by properties in the individual locations, rental revenues for the Group have developed as follows since 2012:

Figures in EUR '000	2012	2013	2014	2015	2016	2017
Berlin *	1,489	2,029	3,335	3,401	5,485	3,515
Dresden	2,913	3,208	3,368	3,376	3,647	4,565
Düsseldorf	1,491	1,587	1,752	1,741	1,665	1,767
Cologne	4,520	4,794	4,658	4,917	4,788	4,875
Stuttgart	2,080	2,977	3,496	3,420	3,505	3,699
Other cities **	2,048	2,428	1,305	1,565	2,019	1,935
Properties sold 2012-2017	1,479	1,216	482	77	0	0
Total	**16,020**	**18,239**	**18,396**	**18,497**	**21,109**	**20,356**

* Rankestrasse 21 / Lietzenburger Strasse 44, 46 – rent compensation EUR 2.35 million in 2016

** Frankfurt am Main, Hanover, Munich

The property at Rankestrasse 21 / Lietzenburger Strasse 44, 46, Berlin, stood largely vacant from autumn 2016. Rental revenues for 2016 are therefore only shown pro rata. In addition there was a one-off payment of EUR 2.35 million in 2016 by way of compensation for the early termination of the lease agreement with the principal tenant. The property at Rankestrasse 21 / Lietzenburger Strasse 44, 46, Berlin, has once again been fully re-let since the start of April 2017.

FINANCIAL PERFORMANCE, FINANCIAL POSITION AND NET ASSETS

Figures in EUR '000	2016	Forecast for 2017	2017	Change, 2017 over 2016	Change, 2017 over 2017 forecast
Rental revenues	21,109	Constant	20,356	-753	Slightly lower than expected
FFO (after tax)	7,661	Decrease of approx. EUR 2.8 million	6,969	-692	Fallen less
Consolidated earnings before tax (EBT)	21,438	Approx. EUR 8.7 million	45,469	24,031	Much higher than expected
Cash flow from operating activities	12,475	Approx. EUR 2 million down on previous year	9,875	-2,600	Sharper fall than expected
Equity ratio	54%	Slight rise	53%	-1% points	Fall, contrary to expectations
Loan to value (LTV)	41%	Slight fall	44%	3% points	Rise, contrary to expectations
Net asset value (NAV)	210,588	Approx. EUR 215.6 million	256,698	46,110	Much sharper rise than expected

Ongoing rental revenues were up in 2017 thanks to the inclusion of a new investment property and the higher occupancy rate. However the previous year's figure was influenced by one-off earnings of EUR 2.35 million, with the result that the full-year figure for 2017 was comparatively lower.

The key ratio of funds from operations (FFO), from which valuation effects have been stripped out, showed a year-on-year fall mainly because of the absence of the extraordinary income received in the previous year. Nevertheless, the figure achieved exceeds the planned figure thanks to a combination of higher rental income and lower-than-planned renovation and maintenance expenses. FFO is an indicator of the sustainable operating performance of POLIS.

In detail, FFO comprises the following:

Figures in EUR '000	**2017**	**2016**
Rental income	20,356	21,109
Renovation and maintenance expenses	-3,560	-3,958
Property management expenses	-1,532	-1,314
Other income	614	328
Other expense	-239	-141
Administrative expenses	-4,032	-3,740
Investment income	0	35
Interest income	20	18
Interest expense	-4,721	-4,639
FFO (before tax)	6,906	7,698
Current income taxes	63	-37
FFO (after tax)	6,969	7,661
FFO per share (in EUR)	0.63	0.69

The unforeseen higher valuation gains from investment properties with no effect on liquidity produced an EBT figure well ahead of the forecast. In line with the forecast, the cash flow from operating activities fell.

The loan-to-value (LTV) ratio rose despite contractually agreed redemptions, because

- borrowing was raised against collateral already furnished by way of debt restructuring, leading to much higher cash in banks that is not reflected in the LTV calculation. This bank balance can be used to acquire further investment properties or alternatively for loan repayments, which would in turn bring the LTV down considerably (below the forecast figure);

- we only took possession of the newly acquired property at Ammonstrasse 8, Dresden, at 1 January 2018 and it is therefore not included in the investment properties at 31 December 2017.

The net asset value (NAV) rose much more steeply than predicted.

FINANCIAL PERFORMANCE

Rental income for 2017 was down a slight EUR 753 thousand on the previous year because the prior-year figure included a one-off payment of EUR 2.35 million. Ongoing rental revenues increased by EUR 1,597 thousand following the inclusion of the new property at Rosenstrasse 32/34 in Dresden and thanks to a good letting performance. Renovation and maintenance expenses fell by 10% to EUR 3,560 thousand and property management expenses climbed from EUR 1,314 thousand to EUR 1,532 thousand. Overall, net rental income edged up 3.62% to EUR 15,264 thousand (previous year EUR 15,837 thousand).

The valuation of the investment properties led to a quite substantial net increase with no liquidity effect of EUR 36,948 thousand in the valuation of the overall portfolio. The increase in value stems mainly from the individual valuations of the properties at Rankestrasse 21 / Lietzenburger Strasse 44, 46, Berlin, Quartier Büchsenstrasse in Stuttgart, Rosenstrasse 32/34 in Dresden and Gutleutstrasse 26 in Frankfurt as well as Potsdamer Strasse 58 in Berlin. The valuation result was reduced above all by the devaluation of the property at Landschaftstrasse 8 in Hanover.

Further income of EUR 1,708 thousand was generated by the disposal of minority interests in property companies in the “third-party asset management” business area, which was wound up at the end of 2017.

Administrative expenses for 2017 came to EUR 4,032 thousand and were therefore 7.8% up on the prior-year level of EUR 3,740 thousand, mainly because of higher office expenses associated with the relocation of POLIS Immobilien AG, increased travel expenses and changes to the software used. A detailed list is provided in the notes to the consolidated financial statements, under Section 4.8 “Administrative expenses”.

Interest expenses of EUR 4,721 thousand were slightly above the level of the previous year (EUR 4,639 thousand) as a result of the restructuring of debt capital. The effective portion of the replaced derivatives previously reported in the cash flow hedge reserve is released through profit or loss over the original term through the interest expenses (EUR 488 thousand). The financial and investment result for the financial year 2017 consequently shows a year-on-year deterioration to EUR -4,701 thousand (previous year EUR -4,586 thousand). The market value and restructuring of the cash flow hedges led to a change in fair values of EUR 1,665 thousand. The market value changes for the effective portion of the interest rate hedge (EUR 525 thousand) that stem mainly from the higher market interest rates are reported under “Other income”. The market value changes resulting from the non-effective portion of the hedge between derivatives and underlying transaction (EUR -93 thousand) are reflected in the income statement. Redemption payments of EUR 1,233 thousand were made in connection with the restructuring of the cash flow hedges.

The weighted average interest rate for debt financing was much lower at 2.2% (previous year 3.2%) as a result of market interest rate movements and the reorganization of interest rate hedges mainly at the end of 2017.

The consolidated financial statements report a substantial year-on-year rise in consolidated net income to EUR 38,407 thousand (previous year EUR 18,199 thousand), up approximately 110% on the previous year. It is to be noted that more than three-quarters of the profit before tax is the result of valuation gains with no effect on liquidity. The key operating ratio of funds from operations deteriorated from EUR 7,661 in the previous year to EUR 6,969 thousand.

FINANCIAL POSITION

Figures in EUR '000	2017	2016
Cash flow from operating activities	9,875	12,475
Cash flow from investing activities	-29,657	-3,342
Cash flow from financing activities	33,144	-11,336
Cash in banks at the end of the period	29,463	16,101

Cash flow from operating activities fell by EUR 2,600 thousand as a result of changes in receivables and liabilities. Cash flow from investing activities was influenced substantially by two purchases of investment properties. Cash flow from financing activities was influenced principally by net borrowings as a result of refinancing and redemptions.

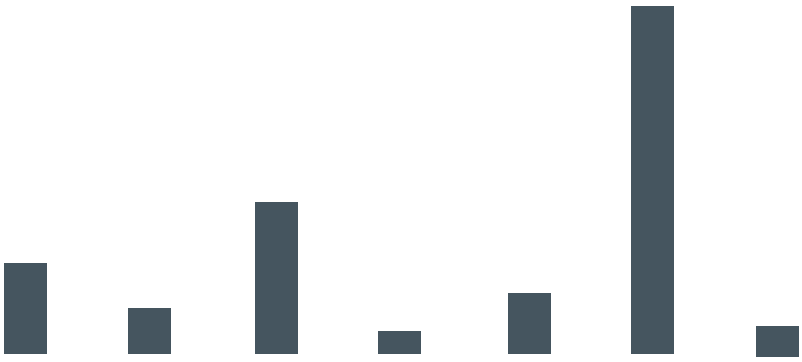
HIGH EQUITY RATIO, LOW LOAN-TO-VALUE RATIO

With its equity ratio of 53%, POLIS remains on a sound financial footing and continues to have sufficient flexibility for raising debt capital on attractive terms.

The loan-to-value ratio (that is, the ratio between liabilities to banks and the market value of the properties) was up three percentage points at around 44% despite the ongoing redemption payments from refinancing by the borrowing of funds against collateral already furnished. It should be noted in this connection that a relatively high bank balance is maintained for possible acquisitions and that the purchase price for the property at Ammonstrasse 8, Dresden, was already paid in 2017 even though the transfer of benefits and encumbrances did not occur until 1 January 2018, with the result that it is not included among the investment properties for the year 2017. If available liquidity were used to repay loans, the LTV would be 37%.

The strategic 60% level that we are seeking could be achieved by obtaining new financing, but should still not be exceeded in the future in order to keep leverage permanently low. The following overview shows the maturities of bank loans:

Credit volume by maturities



Credit volume in EUR '000	12%	6%	20%	3%	8%	46%	4%
VOLUME	21,488	10,000	36,083	6,015	14,700	80,903	7,920
YEAR	2018	2020	2021	2023	2025	2027	2036

LOW-RISK MATURITIES STRUCTURE OF LIABILITIES TO BANKS

The weighted average remaining term of the bank loans at 31 December 2017 was extended significantly to 7.1 years (previous year 3.6 years) thanks to refinancing. In parallel, the average interest rate was reduced significantly to 2.2% (previous year 3.2%).

At 31 December 2017, 71% of the interest-bearing liabilities to banks were hedged. The average term of interest rate hedges is 5.5 years. Taking account of forward interest rate contracts in place, the interest hedging volume is 81% and the average term of interest rate hedges 6.8 years.

Some loan agreements contain typical clauses requiring that certain financial ratios be maintained with respect to individual properties or the loan portfolio. As a result of the high occupancy rates in all loan portfolios and the good market values of the properties, all financial covenants required by the banks are currently met. From the current perspective this will remain the case in 2018.

NET ASSETS

Because of the newly acquired property at Rosenstrasse 32/34, Dresden, investments in the investment properties and their increases in market value, total assets rose sharply to EUR 450.2 million in financial year 2017 (previous year EUR 367.6 million). Non-current assets consist mainly of the 23 investment properties and account for 89.1% of total assets, in line with the business model. It should be noted that the markedly higher current assets include advance payments for the new investment property at Ammonstrasse 8, Dresden, in the amount of EUR 10.1 million, and that the transfer of benefits and encumbrances took place on 1 January 2018. In addition, POLIS Immobilien AG reports a substantially higher bank balance at 31 December 2017; this is to be used prospectively for new acquisitions but is also available for loan repayments.

Asset and capital structure

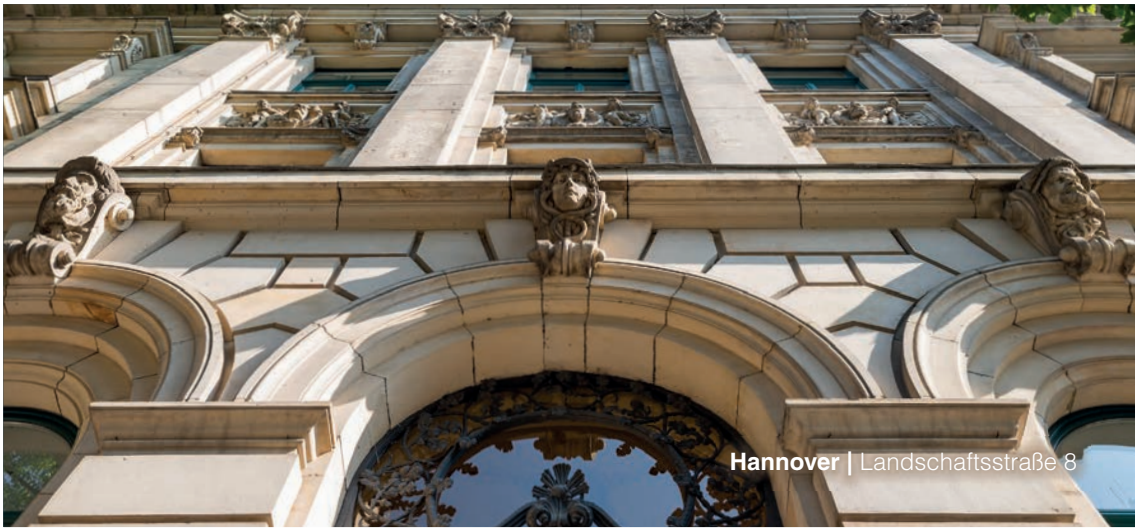
Figures in EUR '000	**31/12/2017**	**31/12/2016**
Non-current assets	403,418	346,144
Current assets	46,510	21,468
Equity	239,169	200,275
Total assets	449,928	367,612

INVESTMENTS IN INVESTMENT PROPERTIES

The investments of around EUR 3.2 million are reported in detail in the notes to the consolidated financial statements, under 3.1 “Investment properties”. In 2017, the construction costs for the completion of the conversion work to the property at Rankestrasse 21 / Lietzenburger Strasse 44, 46 in Berlin, tenant fit-out costs as well as investments in Dresden were the biggest sources of investment costs.

VALUATION OF THE PROPERTIES

In financial year 2017, W&P Immobilienberatung GmbH, Frankfurt am Main, (hereinafter referred to as “Wüest Partner”) was asked to determine the market values of around one-quarter of the portfolio in each calendar



quarter, and to document these market values in the form of reports. This means that the market value of each property is determined by an independent, external valuer once per year. Properties not valued by Wüest Partner at the end of a given quarter are subject to an internal valuation. However, properties that have undergone fundamental changes are valued externally by Wüest Partner in the next quarter. Wüest Partner valued four investment properties of the POLIS property portfolio at 31 December 2017. For details on the valuation method and the assumptions, please refer to the information given in Section 3.1 of the notes to the consolidated financial statements.

The fair values of the investment properties came to EUR 400,750 thousand at the end of 2017 (previous year EUR 340,590 thousand). The recognized market values for the individual locations are set forth in the notes to the consolidated financial statements, in Section 3.1.

NET ASSET VALUE

With 11,051,000 shares in total, the net asset value per share at 31 December 2017 amounted to EUR 23.23 (previous year EUR 19.06). The figure including the effect of deferred taxes is known as the net net asset value (NNAV), and was EUR 21.64 per share at 31 December 2017 (previous year EUR 18.12).

Figures in EUR '000	2017	2016	2015	2014
Carrying amounts of properties	400,750	340,590	324,270	313,090
Carrying amount of interests	0	3,829	3,653	4,594
Other assets less other equity and liabilities	33,057	5,881	8,205	-1,166
Liabilities to banks	-177,109	-139,711	-146,408	-147,945
NET ASSET VALUE	256,698	210,589	189,720	168,573
NAV/share	23.23	19.06	17.17	15.25
Deferred taxes	-17,529	-10,313	-7,196	-3,741
NNAV	239,169	200,276	182,524	164,832
NNAV/share	21.64	18.12	16.52	14.93

OVERALL ASSESSMENT OF THE BUSINESS PERFORMANCE

Particularly as a result of the very good development in value of the investment properties, supported by the successes in modernizing and letting our properties in the past, as well as the lower maintenance costs, the past financial year brought rises in the key ratios that went well beyond our expectations.

The takeover of a further investment property and other successes in the letting of our properties had the effect of increasing rental revenues. Net rental income nevertheless fell slightly because of the high one-off income that affected the result for the previous year. For the same reason, after adjustment for valuation effects funds from operations (FFO) were lower compared with the previous year. The strongly positive overall valuation result has confirmed that high past modernization investments have induced definite appreciation in value, and that the development in the market at the locations we have selected is very favourable for our properties.

Thanks to the healthy net profit for 2017, we achieved a net income of EUR 5,526 thousand – the result that serves as the basis for the payment of dividends according to German accounting standards (HGB – German Commercial Code). The result is made up predominantly of write-ups on investment values from the appreciation in investment properties that has no effect on liquidity.

Because we expect a negative HGB result for 2018 in view of the planned renovation and maintenance expenses, a portion of EUR 2,763 thousand from net income was allocated to retained earnings. That aside, the Board of Management proposes that the remaining unappropriated profit totalling EUR 13,998 thousand be carried forward to new account because we plan to use the available liquidity and reservoirs of value to finance further expansion.

Non-financial performance indicators

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

TENANT SATISFACTION:

We conduct regular tenant surveys to determine tenant satisfaction. These give us direct feedback away from the context of our daily business dealings. The information is evaluated and the findings are used to nurture good relations with tenants. Feedback from the 2017 tenant survey was comprehensively positive. Individual comments are addressed as part of day-to-day business.

EMPLOYEE SATISFACTION:

We hold performance reviews on a regular basis (at least once a year) to discuss with each employee their duties and work situations. We also discuss opportunities for personnel development and advancement.

SUSTAINABILITY:

We constantly maintain a focus on sustainability in our activities. Construction work is thus designed to preserve value and protect the environment. We are especially eager to implement our corporate strategy and achieve organic, low-risk growth in a sustainable way.


Strauss

PRESENTATION AND QUALIFICATION OF INDIVIDUAL RISKS

All risk quantifications indicated here reflect the net position; in other words, the value put on the risk is stated after taking account of all implemented and planned risk measures.

Financial risks

I. POLIS is exposed in particular to interest rate and liquidity risks that are presented in general terms below. Regarding risk management of financial instruments, we refer to the explanations in Section 6.3 of the notes to the consolidated financial statements. Interest rate risks are to be hedged to a variable extent of 50.0% to 90.0% and with maturities ranging from three to seven years, depending on the specific market interest rate environment. The interest rate risk at 31 December 2017 from a short-term rate rise of 100 bps was up to EUR 520 p.a. Because the probability of a rise has tended upward, we identify a risk of EUR 130 thousand (weighted).

II. POLIS protects itself against interest rate risks by concluding derivative interest rate hedging instruments. Against the backdrop of low interest rates on the money and capital market, there is a very low risk from further falls in interest rates, which would lead to negative valuation effects on the existing interest rate hedging instruments. Shortened maturities further reduce these valuation effects. The ECB might raise interest rates in 2019, and this could already be priced in in 2018. We only see a risk of interest rate cuts if geopolitical risks materialize. In that event, interest savings would cushion the loss slightly. We therefore identify a risk of EUR 137 thousand (weighted).

III. Debt finance was excellent for POLIS in 2017 thanks to the strategy of keeping leverage permanently moderate at no more than 60.0%. There were sufficient numbers of financing partners in the market, offering better terms of financing than in the previous year. Compression of credit margins will continue to a lesser extent in 2018. The risk of not having access to borrowed capital via the banking market is low. In that case POLIS AG could turn to the capital market instead. We assess the additional cost of having to do so as a risk of EUR 5 thousand (weighted).

IV. With a Group equity ratio of approximately 53% and cash in banks of approximately EUR 29.5 million available at Group level, as well as a positive, secure cash flow from operating activities, the modernization investments and maintenance measures planned for 2018 will not put a squeeze on finances. In addition, further unencumbered properties are available, thus offering adequate financial flexibility.

V. The loans are subject to the typical covenants: debt service coverage ratios of between 110% and 120%, interest service coverage ratios of between 140% and 149%, and loan-to-value ratios of between 65% and 70% at the level of the individual properties or between 70% and 80% at portfolio level. For a detailed presentation of our debt positions (maturities structure and fixed interest periods) we refer to Sections 3.10 and 6.3 “Liabilities to banks” in the notes to the consolidated financial statements.

Given the current situation on the money and capital market, we believe that the shareholder structure of POLIS, with its financially strong institutional investors, represents an additional stability factor. The principles and goals of financial management are explained in Section 6.3 in the notes to the consolidated financial statements.

Business-related risks

I. RISKS ASSOCIATED WITH THE MARKET FOR OFFICE BUILDINGS

The German market for office properties is particularly influenced by the overall economic environment and the investment decisions of the market participants. The market for office buildings depends on numerous factors, some of which are interdependent, and can therefore experience unpredictable fluctuations. Factors that influence the market include

- Growth, the level of interest rates, the political environment and the expectations of companies regarding future economic trends;
- The supply and demand for office properties in individual locations as well as factors specific to local markets;
- The attractiveness of Germany as a location relative to other countries and global market, as well as the statutory framework and fiscal environment.

POLIS cannot influence the factors determining the market for office buildings. As a result of its focus on office properties, POLIS does not diversify risks through other segments within the property market. Based on the anticipated conditions, the development in 2018 will be characterized by a further rise in demand for office space, especially in the locations in which POLIS invests. We believe that the homogeneous and solid portfolio of POLIS is not exposed to serious risks. We must nevertheless state a weighted risk of EUR 141 thousand for possible negative market developments and general economic risks.

II. RISKS ASSOCIATED WITH LETTING

The properties held by the Company exhibited an average vacancy rate of 4.2% based on the rental space at 31 December 2017; 2% of this vacant space alone was in the property at Kramergasse 2, 4, Dresden, which has already been re-let and was occupied in the first quarter of 2018. As a multi-tenant provider, we equate an occupancy rate of 95.0% with full occupancy. On average, POLIS lease agreements have average terms of 4 years, so that lease agreements are regularly due for extension. In 2018, around 10,479 sqm of office and commercial space will be available for letting. The tenants of POLIS come from a wide range of different industries. Bearing this in mind, we assess the letting risks from any follow-on leases and rent defaults at approximately EUR 273 thousand in 2018.

III. RISKS ASSOCIATED WITH CONSTRUCTION COSTS

POLIS invests in properties requiring varying degrees of modernization. The strategy of actively managing the portfolio includes modernizations as well as – to a lesser extent – project developments. These may be associated with risks such as cost overruns, delays and defects in the construction work. To be able to identify and control risks early on in the course of planning and executing modernization work, we have commissioned external project management organizations and architects to manage the majority of such projects. Projects are managed by means of intensive project controlling along with regular project meetings and project reports. In financial year 2018, we will invest approximately EUR 10.5 million in our investment properties. We estimate the construction costs risk associated with the planned construction work at up to EUR 1.4 million.

IV. RISKS ASSOCIATED WITH REVALUATIONS

The properties of POLIS are reported in the consolidated statement of financial position at their fair value pursuant to IAS 40. The valuation of properties is based on a large number of factors that also include subjective assessments, which may change at any time. The valuation of properties therefore entails a wide range of uncertainties. No objectively accurate valuation of properties is possible. Also an erroneous assessment of or changes in the factors underlying a valuation may result in different values in future. For 2018, we estimate the overall risk from incorrect valuations at around EUR 2.0 million.

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IT risks

The reliability and security of the IT system might be insufficient to withstand disruptions or failures, resulting in interruptions in business activities and thus increased costs. To secure our IT-based business processes, we employ the services of an external IT service provider. The information technologies used are continuously reviewed, developed and adjusted. Permanent backups protect against data loss. To safeguard our IT systems, we have a contractual agreement with our IT service provider that they will be restored to working order within 48 hours of total failure. We rate the cost risk for failures and the recovery of systems and data at a weighted EUR 53 thousand.

Staff risks

With our asset and property management team, we are in a position to perform all property-related tasks. We manage acquisitions and sales internally using experienced staff. We equally have highly qualified employees available for all commercial tasks. We use highly trained specialists in all areas in order to achieve our corporate objectives. Therefore, our commercial success depends crucially on the management team and our employees. In order to promote the integration of the employees into the Company we offer attractive, well-equipped workplaces and performance-based compensation packages, additional welfare offerings, supplementary arrangements to promote health as well as the prospect of further training and development. The interaction between employees and

managers is characterized by trust and the awareness that the corporate objectives can only be achieved by working together. Several new appointments needed to be made in 2017. Further re-staffing may be necessary in 2018. Taking account of the moderate probability we calculate the risk from needing to fill vacant posts, which might entail extra costs due to time constraints, at EUR 63 thousand for 2018.

Insurance policies

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

Risk assessment

The materialization of the risks described above can have negative effects on the business activities and profits of POLIS. The Board of Management of POLIS continuously analyses these risks. With its regular and up-to-date reporting system, the Board of Management can react at short notice and rapidly take measures in the case of deviations from the plan.

Even the cumulative occurrence of all the above individual risks could be covered by the planned consolidated earnings for 2018 without eroding the available equity capital.

The Board of Management of POLIS therefore believes there are no risks discernible from past or future developments that would threaten the existence of the Company. Adequate precautions have been taken to guard against any risks that are discernible.

Financial risks	EUR '000
Interest rate risk	130
Valuation of derivatives	137
Financing risk	5

Business-related risks	EUR '000
Gen. and office market risks	141
Risks associated with letting	273
Risks associated with construction costs	1,399
Risks associated with revaluations	2,004
IT risks	53
Staff risks	63

REPORT ON EXPECTED DEVELOPMENTS

DEVELOPMENT OF THE MARKETS FOR OFFICE PROPERTIES

The office markets stabilized at a high level in 2017. Despite new construction activity, the vacancy rate in the office market came down. Based on the assumption of further economic growth for the current year, we expect this pattern to continue this year, too.

MAJOR OPPORTUNITIES FOR POLIS GROUP

Thanks to its high level of letting take-up in recent years and as a result of selected purchases, POLIS has established the basis for stabilizing and improving in the key earnings ratios for 2018 and beyond. With our quality-focused business model and our homogeneous portfolio, the take-up level should remain good in 2018. By virtue of the high occupancy rates now achieved, both new lease agreements and further increases in rents should be achievable, in the latter case from lease agreements extended at market rates. Along with striving to increase its income, POLIS constantly seeks to reduce costs without diminishing the quality of its work, in order to improve its returns.

Our properties and rental spaces offer good value for money and meet the requirements for modern office space. Moreover, our excellent capital resources enable us to take advantage of acquisition opportunities. Overall, our concept focusing on office buildings in attractive locations in the most important German business locations allows us to take advantage of opportunities as they arise. We consider ourselves active portfolio managers and specialists in the modernization of office buildings, and can address all key areas of the property management value chain with our in-house expertise. Through our experienced asset management team, we can identify attractive purchase opportunities ourselves and tap the potential for added value through optimization and/or letting. This enables us to take advantage of opportunities from within our own property portfolio, especially in challenging times.

OUTLOOK FOR 2018

Based on the risks and opportunities presented above, and with the prospect of a positive development in the office market along with the continuing low interest rates expected in 2018, we anticipate that the key operating ratios will remain healthy thanks to high occupancy rates. The extra rental revenues from the newly acquired property at Ammonstrasse 8 in Dresden will improve earnings. There will be a sustainable boost to rental revenues from the long-term letting of the largest vacant space, the retail space in the property at Kramergasse, Dresden.

Because of the prospectively slightly higher maintenance costs, net rental income will be down slightly on the prior-year figure.

By the end of 2018, we would like to increase the occupancy rate to 98.0% of all rental space.

FFO for 2018 will be around EUR 1.8 million lower than in 2017 due to increased renovation and maintenance expenses.

Profit before tax is consequently anticipated to reach approximately EUR 11.0 million in 2018.

Cash flow from operating activities will be approximately EUR 1.4 million below the prior-year figure.

The equity ratio will edge up further and LTV will continue to fall slightly as a result of redemption payments coupled with the appreciating values of the properties.

The net asset value (NAV) will rise in line with the profit before tax.

We base these forecasts on an inflation rate of 1.5%, maintenance costs of EUR 0.79/sqm/month, vacancy costs of EUR 2.39/sqm/month and a loss of rent risk of 1.0%.

When considering these forecast figures it should nevertheless be noted that the valuation trends for the investment properties and derivatives are subject to considerable uncertainties and therefore cannot be determined with any degree of reliability. We do not anticipate that the very good valuation result for the investment properties in 2017 will be repeated to the same extent. Because the valuation results have a major impact on the IFRS net income, forecasting the net income involves considerable uncertainty.

Furthermore, we aim to generate growth by acquiring new investment properties and expanding the property portfolio through further purchases. We are also prepared to make full use of the available liquidity and our reservoirs of value to that end. We will maintain a conservative financing structure and a maximum loan-to-value ratio of 60.0% for the overall portfolio. These measures could additionally improve the above key ratios.

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

Overall, POLIS will again achieve sound key earnings ratios in 2018. Earnings will be lower than in 2017 due to a prospectively lower valuation result from investment properties and the higher maintenance programme planned for 2018. However all investments will sustainably protect and improve the property values and overall result in the long term.

NON-FINANCIAL PERFORMANCE INDICATORS

To assure tenant satisfaction, we also continue to conduct tenant surveys on a regular basis. The findings that these yield are used as the basis for specific measures to retain tenants. We therefore assume that tenant satisfaction will be maintained over the coming years.

The measures we take to assure employee satisfaction include attractive workplaces and appropriately allocated tasks, continuous on-the-job training and personnel development reviews. The employees are also actively involved in the further development of POLIS. Furthermore, POLIS implements additional programmes to promote the health of its employees.

The sustainability of our activities has also been confirmed by the certification of one of our construction projects by the DGNB. We will make further headway in that direction and apply the same principles in future projects, too.


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DEPENDENCY REPORT

To the Company's knowledge, Mann Unternehmensbeteiligungen Holding GmbH & Co. KG (Mann Group, Karlsruhe) holds 71.5% of the shares of POLIS. POLIS is therefore a dependent company of Mann Unternehmensbeteiligungen Holding GmbH & Co. KG within the meaning of Section 17 (1) and (2) of the German Stock Corporation Act (AktG). In fulfilment of the requirements of Section 312 of AktG, the Board of Management has therefore prepared a report on the relationships with affiliated companies (dependency report) for the period from 01 January 2017 to 31 December 2017.

No legal transactions with Mann Unternehmensbeteiligungen Holding GmbH & Co. KG (or with the Mann Group) were carried out in financial year 2017. Legal transactions with affiliated companies were only carried out with the subsidiaries of POLIS Immobilien AG.

The concluding declaration of the Board of Management is as follows:
"For each legal transaction mentioned in the report of the Board of Management on relationships with affiliated companies of POLIS Immobilien AG in the period from 1 January to 31 December 2017, our Company received appropriate consideration. This assessment is based on the circumstances known to us at the time at which the legal transactions were carried out. No measure was undertaken or omitted in the interests or at the instigation of the controlling company or of one of its affiliated companies that placed the Company at a disadvantage."

DISCLOSURES PURSUANT TO SECTION 152 (1) OF AKTG, SECTION 160 (1) OF AKTG

SUBSCRIBED AND AUTHORIZED CAPITAL
The subscribed capital is divided into 11,051,000 no-par value shares with a nominal value of EUR 10.00 each.

SHAREHOLDER STRUCTURE
The majority shareholder with approximately 71.5% of the shares in POLIS is Mann Unternehmensbeteiligungen Holding GmbH & Co. KG, Karlsruhe (Mann Group).

Berlin, 23 March 2018

POLIS Immobilien AG
– The Board of Management –

Mathias Gross **Dr Michael Piontek**

THE CONSOLIDATED FINANCIAL STATEMENTS OF POLIS IMMOBILIEN AG FOR FINANCIAL YEAR 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the period from 1 January to 31 December 2017, according to International Financial Reporting Standards (IFRS) for POLIS Immobilien AG, Berlin

Assets

Figures in EUR '000	Notes	31/12/2017	31/12/2016
Non-current assets			
Investment properties	3.1.	400,750	340,590
Intangible assets	3.2.	325	295
Property, plant and equipment	3.2.	379	143
Financial assets	3.3.	0	3,829
Other assets	3.8.	1,964	1,287
Total non-current assets		**403,418**	**346,144**
Current assets			
Advance payments for investment properties	3.5.	10,110	0
Receivables and other financial assets	3.6.	6,557	4,791
Current tax receivables	3.6.	141	101
Cash in banks	3.7.	29,463	16,101
Other assets	3.8.	239	475
Total current assets		**46,510**	**21,468**
Total assets		**449,928**	**367,612**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Equity and liabilities

Figures in EUR '000	Notes	31/12/2017	31/12/2016
Equity			
Subscribed capital	3.9.	110,510	110,510
Capital reserves	3.9.	18,185	18,185
Cash flow hedge reserve		-5,008	-5,861
Reserve for fair value measurement of financial assets		-204	162
Retained earnings	3.9.	77,279	59,080
Consolidated net income		38,407	18,199
Share in equity allocable to the equity holders of the parent		239,169	200,275
Total equity		**239,169**	**200,275**
Liabilities			
Non-current liabilities			
Liabilities to banks	3.10.	153,519	137,499
Deferred tax liabilities	3.4.	17,529	10,313
Other financial liabilities		5,949	7,127
Total non-current liabilities		**176,997**	**154,939**
Current liabilities			
Loan liabilities to banks	3.10.	23,590	2,212
Advance payments received	3.10.	4,810	4,367
Trade payables	3.10.	2,666	2,562
Income tax liabilities	3.10.	47	47
Other financial liabilities	3.10.	2,649	3,210
Total current liabilities		**33,762**	**12,398**
Total assets		**449,928**	**367,612**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2017, according to International Financial Reporting Standards (IFRS) for POLIS Immobilien AG, Berlin

Figures in EUR '000	Notes	01/01 - 31/12/17	01/01 - 31/12/16
Rental income	4.1.	20,356	21,109
Renovation and maintenance expenses	4.2.	-3,560	-3,958
Property management expenses	4.3.	-1,532	-1,314
		-5,092	-5,272
Net rental income		**15,264**	**15,837**
Unrealized gains from the revaluation of investment properties		38,513	13,539
Unrealized losses from the revaluation of investment properties		-1,565	-758
Result from the revaluation of investment properties	**4.4.**	**36,948**	**12,781**
Income from the sale of financial assets		4,549	0
Other result reclassified from the revaluation reserve		435	0
Carrying amount of the financial assets sold		-3,276	0
Result from the sale of investment properties	**4.5.**	**1,708**	**0**
Other income	4.6.	614	328
Other expense	4.7.	-239	-141
Administrative expenses	4.8.	-4,032	-3,740
Result before financing activity and taxes		**50,263**	**25,065**
Investment income		0	35
Interest income	4.9.	20	18
Result from the valuation of derivative financial instruments	3.10.	-93	959
Interest expense	4.10.	-4,721	-4,639
Profit before taxes		**45,469**	**21,438**
Deferred taxes	4.11.	-7,125	-3,202
Current taxes	4.11.	63	-37
Total income taxes		-7,062	-3,239
Consolidated net income		**38,407**	**18,199**
of which allocable to minority interests		0	0
of which allocable to the equity holders of the parent		38,407	18,199
Consolidated net income		**38,407**	**18,199**
Other income to be reclassified to profit or loss in subsequent periods:			
Market value of participating interests reclassified to the result	3.3.	-435	248
Attributable deferred tax assets	3.3.	69	-39
Market value of cash flow hedges	3.10.	525	-780
Attributable deferred tax assets	3.4.	-83	123
Market value of cash flow hedges reclassified to the result	4.10.	488	0
Attributable deferred tax assets	4.10.	-77	0
Other income		487	-448
Consolidated comprehensive income		**38,894**	**17,751**

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January to 31 December 2017, according to International Financial Reporting Standards (IFRS) for POLIS Immobilien AG, Berlin

Figures in EUR '000	Anhang	01/01 - 31/12/17	01/01 - 31/12/16
Profit before taxes		**45,469**	**21,438**
Adjusted for:			
Financial and investment result	4.8., 4.9.	4,794	3,627
Result from the revaluation of investment properties	3.1.	-36,948	-12,781
Result from the sale of property, plant and equipment	3.2.	0	-1
Result from the sale of financial assets	3.3., 4.5.	-1,708	0
Depreciation/amortization on intangible assets and property, plant and equipment	3.2.	196	159
Change in trade receivables and other assets not allocable to investing or financing activities		-847	-6
Change in trade payables and other liabilities not allocable to investing or financing activities		-1,200	25
Income tax paid	4.11.	48	0
Income tax received	4.11.	71	14
Cash flow from operating activities		**9,875**	**12,475**
Payments for the acquisition of software, fixtures and equipment	3.2.	-468	-233
Investment income received		0	35
Payments for the purchase of investment properties	3.1.	-30,108	0
Payments for investments in modernization	3.1.	-2,791	-3,245
Interest received	4.9.	20	18
Proceeds from equity withdrawals of financial assets	4.5.	553	185
Payments for equity additions of financial assets		0	-113
Proceeds from the sale of property, plant and equipment and financial assets	4.5.	3,137	11
Cash flow from investing activities		**-29,657**	**-3,342**
Payments for the redemption of loans	3.10.	-1,866	-6,916
Proceeds from the raising of loans	3.10.	38,894	0
Interest paid	4.10.	-3,884	-4,420
Cash flow from financing activities		**33,144**	**-11,336**
Net change in cash and cash equivalents		**13,362**	**-2,203**
Cash in banks at the beginning of the period	**3.7.**	**16,101**	**18,304**
Cash in banks at the end of the period	**3.7.**	**29,463**	**16,101**

KONZERN-EIGENKAPITALVERÄNDERUNGSRECHNUNG

for the period from 1 January to 31 December 2017, according to International Financial Reporting Standards (IFRS) for POLIS Immobilien AG, Berlin

Figures in EUR '000	Subscribed capital	Capital reserves	Retained earnings	Consolidated earnings	Cash flow hedge reserve	Reserve for fair value measurement of financial assets	Share in equity allocable to the equity holders of the parent	**Total equity**
Balance at 31 Dec 2015	**110,510**	**18,185**	**40,706**	**18,374**	**-5,204**	**-47**	**182,524**	**182,524**
Offsetting against prior-year result	0	0	18,374	-18,374	0	0	0	0
Consolidated net income	0	0	0	18,199	0	0	18,199	18,199
Other income	0	0	0	0	-657	209	-448	-448
Balance at 31 Dec 2016	**110,510**	**18,185**	**59,080**	**18,199**	**-5,861**	**162**	**200,275**	**200,275**
Offsetting against prior-year result	0	0	18,199	-18,199	0	0	0	0
Consolidated net income	0	0	0	38,407	0	0	38,407	38,407
Other income	0	0	0	0	853	-366	487	487
Balance at 31 Dec 2017	**110,510**	**18,185**	**77,279**	**38,407**	**-5,008**	**-204**	**239,169**	**239,169**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the IFRS Consolidated Financial Statements of POLIS Immobilien AG, Berlin, Germany, at 31 December 2017

1. GENERAL INFORMATION

POLIS Immobilien AG (hereinafter referred to as "POLIS") is a company with its registered office in Berlin at Lietzenburger Str. 46. Founded in Berlin in 1998, it acquires office buildings for its own portfolio, which – as required – are then renovated and possibly also extended. POLIS focuses exclusively on office buildings situated in city centres in key German office locations and invests in properties that exhibit specific potential for value growth or a stable cash flow. POLIS has its own asset management team and manages its entire portfolio of properties itself.

The consolidated financial statements of POLIS for financial year 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as adopted in the EU, and further in accordance with the applicable provisions of commercial law under Section 315a (1) of German Commercial Code (HGB).

We declare expressly and without reservation that the consolidated financial statements are in conformity with IFRS. The statement of comprehensive income has been structured according to the cost of sales format and further in conformity with the recommendations of the EPRA (European Public Real Estate Association),

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

The consolidated financial statements are prepared in euros. For the sake of clarity, amounts are generally shown in thousand euros (EUR '000). Unless otherwise indicated, all figures are stated to the nearest thousand (EUR '000) in accordance with commercial rounding up or down.

The Board of Management approved the consolidated financial statements on 26 March 2018 for forwarding to the Supervisory Board. It is the Supervisory Board's responsibility to review the consolidated financial statements and to declare whether it approves them.

2. DISCLOSURES RELATING TO ACCOUNTING, MEASUREMENT AND CONSOLIDATION METHODS

2.1. Consolidation principles

The consolidated financial statements comprise the financial statements of POLIS Immobilien AG and its subsidiaries at 31 December 2017. An affiliated company is consolidated if it is controlled by the Group. Control exists if the Group is exposed to a risk or enjoys entitlements to fluctuating returns from its involvement in the affiliated company, and can also exercise its power of disposal over the affiliated company to influence those returns. In particular, the Group controls an affiliated company if, and only if, it meets all the following criteria:

- It holds power of disposal over the affiliated company (i.e. on the basis of rights currently existing the Group has the possibility of controlling those activities of the affiliated company that have a material influence on its returns),

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- It is exposed to a risk from or enjoys entitlements to fluctuating returns from its involvement in the affili ated company, and
- It is able to handle its power of disposal over the affiliated company in such a way as to influence the returns of the affiliated company.

The direct or indirect share of voting rights of POLIS in all subsidiaries included in the consolidated financial statements is between 94% and 100%.
There are no major restrictions to access to the assets of the Group.

The annual financial statements of all individual subsidiaries are incorporated in the consolidated financial statements using uniform accounting and measurement principles. The reporting date for all subsidiaries is 31 December 2017.

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

Business combinations are accounted for in accordance with IFRS 3. Accordingly, capital consolidation is carried out using the purchase method by offsetting the costs of the participating interest against the newly measured net assets at the time of acquisition. Any remaining positive difference between the costs of acquisition and the market value of the equity is to be recognized as goodwill and tested for impairment annually. A negative difference is to be recognized in income immediately.

No business combinations took place in financial years 2017 and 2016.

Inter-company receivables, liabilities, gains and losses, expenses and income are eliminated in consolidation.

Company	Nominal capital	Interest	HGB equity 31/12/2017	HGB result 2017
	EUR '000	%	EUR '000	EUR '000
POLIS Grundbesitz Objekt Verwaltungs GmbH, Berlin	26	100	912	34
POLIS Beteiligungs- und Verwaltungs GmbH, Berlin	25	100	8,135	-2
POLIS Objekte Altmarkt Kramergasse GmbH & Co, KG, Berlin	51	100	4,785	306
POLIS Objekt Gutleutstraße 26 GmbH & Co, KG, Berlin	665	100	1,358	256
POLIS Objekt Luisenstraße 46 GmbH & Co, KG, Berlin	26	100	416	183
POLIS Objekt Potsdamer Straße 58 GmbH, Berlin	26	94	1,557	96
POLIS Objekt Landschaftstraße GmbH & Co, KG, Berlin	100	100	5,305	133
POLIS Objekt Konrad-Adenauer-Ufer GmbH & Co, KG, Berlin	100	100	10,100	507
POLIS Quartier Büchsenstraße GmbH & Co, KG, Berlin	100	100	10,916	479
POLIS Objekte Mannheim Stuttgart GmbH & Co, KG, Berlin	100	100	2,156	116
POLIS Objekte Kassel Köln GmbH & Co, KG, Berlin	100	100	1,711	211
POLIS Objekt Lessingstraße GmbH & Co, KG, Berlin	100	100	3,893	124
POLIS Zweite Objektgesellschaft Düsseldorf GmbH & Co, KG, Berlin	100	100	6,139	254
POLIS Zweite Objektgesellschaft Köln GmbH & Co, KG, Berlin	100	100	14,186	700
POLIS Objekt Könneritzstraße GmbH & Co, KG, Berlin	100	100	1,100	1,136
POLIS Objekte Berliner Allee GmbH & Co, KG, Berlin	100	100	11,393	469
POLIS Erste Objektgesellschaft Köln GmbH & Co, KG, Berlin	100	100	11,871	28
POLIS Zweite Objektgesellschaft Stuttgart GmbH & Co, KG, Berlin	100	100	8,730	1,62
POLIS Objekt Rankestraße 21 GmbH & Co, KG, Berlin	100	100	7,969	-428
POLIS GmbH & Co, Dreiundvierzigste Objekt KG, Berlin	100	100	0	-3
POLIS GmbH & Co, Vierundvierzigste Objekt KG, Berlin	100	100	0	-2
POLIS Service GmbH, Berlin	100	100	88	-12

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.2. Consolidated companies

The consolidated financial statements include POLIS Immobilien AG and all companies controlled by POLIS. In addition to POLIS Immobilien AG, the group of consolidated companies includes the 22 fully consolidated companies in Germany with their registered offices in Berlin, as listed in the above overview. Compared with the position at 31 December 2016, the group of consolidated companies increased by one company (POLIS Service GmbH).

2.3. Discretionary decisions and estimates

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

In particular, assumptions regarding future events are of material importance in determining the fair values of the investment properties. Please see Section 3.1 for information on individual factors in the context of property valuation. However, it is in the nature of the industry that there is significant latitude in the valuation of the property portfolio that cannot be quantified accurately.

2.4. Accounting and valuation policies

With the exception of investment properties and derivatives as well as certain financial assets, which are recognized at fair value, the consolidated financial statements have been drawn up in accordance with the historical cost principle.

The Group adopted the new and revised IFRS standards and interpretations listed below in the financial year. The adoption of these revised standards and interpretations had no or no material impact on the net assets, financial position and financial performance. The amendments are as follows:

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
The emphasis of the amendments is on clarifying how deferred tax assets are to be accounted for in connection with debt instruments measured at fair value, especially if changes to the market interest rate reduce the fair value of a debt instrument below its cost.

The IASB has published further new or amended standards and interpretations, the first-time adoption of which was mandatory in the past financial year but which had no effect on the Company.

2.4.1. Fair value measurement

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

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

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

POLIS has access to the main market or the most advantageous market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

- LEVEL 1
  Quoted (not adjusted) prices in active markets for identical assets or liabilities

- LEVEL 2
  Valuation methods where the lowest-level input parameter that is materially significant for fair value measurement is directly or indirectly observable on the market

- LEVEL 3
  Valuation methods where the lowest-level input parameter that is materially significant to the fair value measurement is not observable on the market

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

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

External valuers are consulted for the valuation of significant assets, such as properties, as well as of significant liabilities, such as derivatives.

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

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

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


Business premises of
POLIS Immobilien AG

2.4.2. Investment properties

Properties are classified as investment properties if they are held for generating rental revenues and/or for the purpose of capital appreciation, and if own use as a proportion of the rental space does not exceed 5-10%. POLIS acquires properties for its own portfolio and does not have specific intentions of selling them; however, opportunities that arise are pursued.

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

The subsequent valuation of the investment properties is at fair value, with gains or losses from the change in fair value being recognized in income.
The fair value of a property is the price that would be received for the sale of the property on the valuation date, in an ordinary transaction between market participants. See Section 3.1 for a more detailed explanation of the principles used in determining fair value.

Investment properties are derecognized if they are sold.

2.4.3. Intangible assets

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

2.4.4. Property, plant and equipment

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

2.4.5. Financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Financial assets are measured at fair value upon initial recognition.

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

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

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

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

c) Cash in banks
Cash in banks is recorded at nominal value at the reporting date.

2.4.6. Non-current assets held for sale

A non-current asset (or a disposal group) is classified as “held for sale” if the associated carrying amount is largely realized by a sale transaction rather than by continued use. In the consolidated financial statements, those non-current assets that are to be sold by way of an asset deal if a sale is highly probable within the next twelve months are disclosed separately as properties held for sale in accordance with IFRS 5.

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

2.4.7. Income taxes

The amount of current income taxes still unpaid is shown as a liability. Overpayments of income taxes are reported as a receivable.
Deferred taxes are formed using the balance-sheet-oriented liability method for all temporary differences between the carrying amounts of the consolidated statement of financial position and the tax basis. In addition, deferred taxes are reported for expected future tax reductions from losses carried forward. Deferred tax assets for temporary differences and for tax losses carried forward are formed at the amount of the anticipated tax relief of subsequent financial years if their use is probable.

Deferred taxes are calculated based on the applicable tax rates in accordance with current laws. They are based on the legal regulations that apply or have been enacted at the reporting date.

Deferred tax assets and liabilities are reported as non-current assets or liabilities. They are netted if a legally enforceable claim for offsetting exists in relation to the same tax authority.

2.4.8. Financial liabilities

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

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

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

a) Liabilities to banks

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

b) Trade payables and other financial liabilities at amortized cost

Trade payables, other financial liabilities and financial liabilities, to the extent that they do not represent derivative financial instruments, are measured at the fair value of the consideration received for the exchange of the obligations. Subsequent measurement is at amortized cost using the effective interest method.

c) Other financial liabilities – derivatives measured at fair value

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

The derivative financial instruments are initially and subsequently recognized and measured at fair value. The fair values are determined using directly observable market parameters. Accordingly, the fair values determined for the derivative financial instruments are to be classified as Level 2 in the hierarchy according to IFRS 13.94 (determination of the fair values based on observable inputs that do not represent observable prices on active markets). Fair value changes are recognized in income unless the derivative financial instruments are used in a designated and sufficiently effective hedging relationship with an underlying transaction. The derivative financial instruments are designated as hedging instruments so that the statement of financial position reflects the hedge against the risk of variation in the future cash flows that is associated with an asset or liability recognized in the statement of financial position, or associated with a transaction that will materialize with a high degree of probability. In this context, the unrealized gains and losses of the effective portion of the hedge are initially recognized under “Other income”. They are only transferred to the income statement once the underlying transaction of the hedge has been recognized in income. The non-effective portion is recognized immediately in the income statement. In addition to documenting the hedging relationship between the hedge and the underlying transaction, hedge accounting requires proof of the effectiveness of the hedging relationship between the hedge and the underlying transaction. If planned transactions are hedged, and if such transactions lead to the recognition of a financial asset or a financial liability for the hedge in subsequent periods, the sums recorded within equity up to such time are reversed in income in the reporting period in which the hedged underlying financial transaction also influences the result for that period. If the transaction leads to the recognition of non-financial assets or liabilities, the amounts recorded under “Other income” are offset against the initially recognized value of the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.4.9. Impairment

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

The present value of the anticipated future cash flows is discounted at the original effective interest rate.

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

Impairments of trade receivables and other receivables are recorded in separate allowance accounts. In order to determine impairments, individual receivables are extensively estimated and evaluated on the basis of credit ratings and analyses of historical defaults on receivables. A direct reduction in the carrying amount or derecognition of any previously recorded impairment only occurs when a receivable has become irrecoverable.

If not measured at fair value, non-financial, non-current assets are tested for impairment whenever an impairment indicator is identified. This situation has not arisen in the past two financial years.

2.4.10. Expense and income realization

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

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

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

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

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

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

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


Dresden | Ammonstrasse 8

2.4.11. Leases

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

Lease agreements with tenants stipulate individual terms and conditions.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.4.12. Borrowing costs

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

2.4.13. Standards published but the adoption of which is not yet mandatory

The IASB has published the following standards and interpretations, adoption of which was not yet mandatory in financial year 2017. These standards and interpretations have not yet been endorsed by the EU and are not adopted by the Group. The first-time adoption of the following standards is in each case planned from the date on which it takes effect.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was published on 28 May 2014 and is to be adopted for the first time in the financial year commencing on or after 01 January 2018. As the performance period of the revenue falls only up until the reporting date and exclusively letting services are performed, IFRS 15 is not expected to result in any material changes to accounting for revenue.

IFRS 9 Financial Instruments

In July 2014 the IASB published the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement as well as all previous versions of IFRS 9. IFRS 9 brings together the three project phases for accounting for financial instruments “Classification and Measurement”, “Impairment” and “Hedge Accounting”.. The new standard is to be adopted for financial years beginning on or after 1 January 2018; early adoption is permissible. With the exception of hedge accounting, the standard is to be adopted retroactively, but disclosure of comparative information is not required. The rules on hedge accounting are generally to be adopted prospectively, with a small number of exceptions. The Group intends to adopt the new standard from the specified effective date and will dispense with adjusting the comparative information. The Group carried out a detailed evaluation of the effects of all three aspects of IFRS 9 in financial year 2017. This evaluation is based on information currently available and may change in light of further suitable and robust information of which the Group becomes aware upon initial adoption of IFRS 9. Overall, the Group does not expect a significant effect on its balance sheet and equity.

The IASB has in addition published further amendments to (existing) IFRSs, the future adoption of which will be mandatory, but which will have no effect on the consolidated financial statements.

2.5. Segment reporting

In accordance with IFRS 8, POLIS has identified six operating segments for which internal reporting to the chief operating decision maker (CODM) takes place. Reporting in accordance with IFRS 13 is performed analogously for these operating segments. As a general rule an operating segment corresponds to a city in which at least three properties are held, except that the cities Frankfurt, Munich and Hanover are grouped together as a single segment. All operating segments have comparable economic characteristics (office buildings situated in the city centres of key German office locations) and similar long-term revenue prospects and, in accordance with IFRS 8.12, are therefore aggregated into a single operating segment with reporting obligations.

3. DISCLOSURES RELATING TO THE STATEMENT OF FINANCIAL POSITION

3.1. Investment properties

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

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

The following overview highlights the development of the investment properties in 2017:

Figures in EUR '000	Fair value 01/01/2017	Additions from Acquisitions	Modernization investments	Changes in change	Fair value 31/12/2017
Berlin	68,880	0	1,863	15,847	86,590
Dresden	56,100	19,998	459	5,413	81,970
Düsseldorf	33,160	0	165	3,875	37,200
Cologne	83,530	0	517	3,153	87,200
Stuttgart	65,600	0	18	5,572	71,190
Other cities*	33,320	0	192	3,088	36,600
Total	**340,590**	**19,998**	**3,214**	**36,948**	**400,750**

** Frankfurt am Main, Hanover, Munich*

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

Of the modernization investments conducted in 2017, EUR 2,282 thousand (previous year EUR 3,029 thousand) is cash-effective; including payments made for modernization costs in the previous year, overall payments come to EUR 2,791 thousand (EUR 3,245 thousand).

Revaluation produced an overall increase in market value of EUR 36,948 thousand. There were positive valuation results in particular for the properties in Berlin and Stuttgart from lower discount rates, the significantly improved terms secured for lease agreements, the extension of several lease agreements and improved market rents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following overview highlights the development of the investment properties in the previous year:

Figures in EUR '000	Fair value 01/01/2016	Modernization investments	Changes in change	Fair value 31/12/2016
Berlin	62,480	1,493	4,907	68,880
Dresden	51,090	423	4,587	56,100
Düsseldorf	31,540	657	963	33,160
Cologne	82,920	146	464	83,530
Stuttgart	64,350	348	902	65,600
Other cities *	31,890	472	958	33,320
Total	**324.270**	**3.539**	**12.781**	**340.590**

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Expenses and income directly attributable to investment properties

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

	2017 Investment properties EUR '000	2016 Investment properties EUR '000
Rental revenues from investment properties	20,356	21,109
Expenses directly attributable to the generation of rental revenues		
Renovation and maintenance expenses	3,560	3,958
Property management expenses	1,336	1,088
TOTAL	4,896	5,046
Expenses directly attributable to but not resulting in the generation of rental revenues		
Property management expenses	196	226
TOTAL	196	226

Information concerning property valuation at 31 December 2017

The fair values of the properties at 31 December 2017 and at the reporting date for the previous year were determined on the basis of valuations carried out by an independent expert as well as by internal valuations. POLIS commissioned W&P Immobilienberatung GmbH, Frankfurt am Main, hereinafter "Wüest Partner", to determine the market values of five properties owned by POLIS at 31 December 2017 and to document these in the form of rating reports and market value appraisals. For valuing the entire portfolio, Wüest Partner receives all-inclusive compensation that is independent of the market values it has determined.

Wüest Partner determines a market value that is defined by the International Valuation Standards (IVSC) as follows: "Market Value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently, and without compulsion."

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

The basis for determining the market value is the capitalized earnings method according to the International Valuation Standards. The real estate valuation comprehensively takes into account all factors that influence the value of the property. To the extent possible, subjective value judgments are confirmed objectively by applying quantitative analytical methods. As a general principle, a remaining useful life of 100 years was assumed for all valuation properties. To achieve this, life-cycle planning is drawn up for this period, comprehensively taking into account all key components as well as the key technical installations of a property.

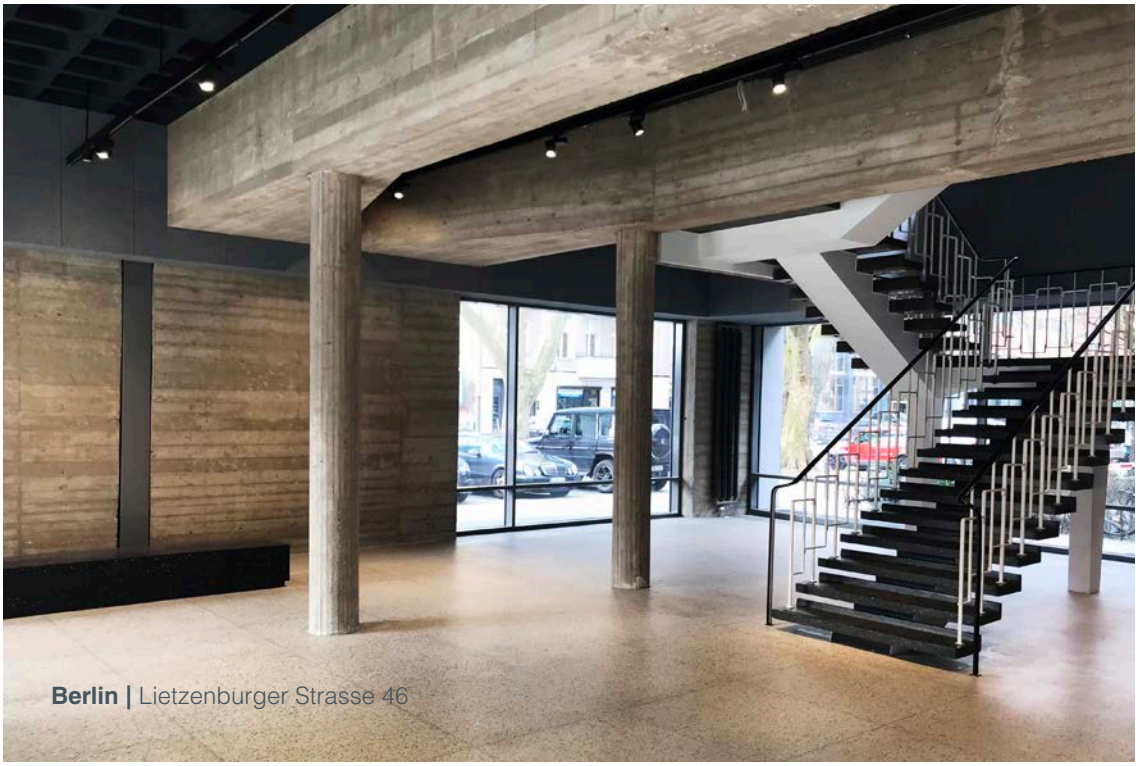
In addition, properties were valued internally. The valuations take place quarterly, with one-quarter of the portfolio valued externally by Wüest Partner and three-quarters valued internally at each valuation date. The internal valuations are examined by a Wüest Partner supervisor. The internal property valuation process follows the same principles as valuation by Wüest Partner. Wüest Partner's market research is used to supplement the internal detailed planning work. At the end of each quarter, updated property-specific market rent forecasts determined by Wüest Partner are entered into a software-based valuation tool and form the basis for planning revenue. Also, the effects of overall interest rate trends and of location and property-specific developments on the discount rate are researched and adjusted as necessary based on Wüest Partner's interest rate forecast.

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

Within the context of internal valuation, the market value of the property is determined using the discounted cash flow method. The difference between the rental income and the renovation and maintenance costs as well as the costs of managing the property represents the net cash flow (before taxes, interest payments, depreciation and amortization), which is then discounted to the reporting date of 31 December 2017 using the discount rate. Rental income initially contains the contractually agreed rents. The rental income from letting vacant space and from re-letting properties after the existing lease agreements have expired is forecast on the basis of the market rents that are expected for each property and then added to the above figure. The property-specific market rent is determined by Wüest Partner in the course of the market value appraisals.

The discount rate represents the rate of return that an individual property must generate to achieve a yield that is appropriate for the risk. It reflects all risks that are associated with the investment in an individual property. In each case the discount rate is determined individually at the level of the individual properties. Other input factors can have a significant influence on market values: vacancy rate, rent growth, letting scenario, as well as construction and maintenance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



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

- The average vacancy rate across the portfolio of 4.17% at the valuation date (previous year 9.1%) will be further reduced within one year to 3.34%. The mid-term planning horizon assumes vacancy rates of between 0.00% at best and 40.14%, depending on the individual properties.

- The cash flow scenario shows an average increase in rents of approximately 9.42% (previous year 1.64%) in the first year. The greater part of the rise in short-term rental revenues is attributable to the expiry of rent-free periods in one property in Berlin. An assumed increase in rents averaging 2.05% per year (previous year 1.78%) is then projected until the end of the ten-year planning horizon. The improvement comes mainly from the stronger development in rents expected further down the line.

- Detailed figures on occupancy rates and rental revenues are given in the management report.

In the long-term (2018-2022), POLIS performs planning based on average maintenance costs (including general modernization costs) of EUR 3.34 (previous year EUR 4.46) per square metre of rental space per month, which includes EUR 0.79 (previous year EUR 0.75) per square metre per month for current maintenance. Compared to the previous year, the period over which maintenance costs are considered was reduced to five years because the specific planning period for these has equally been reduced to five years. For 2018 increased maintenance costs of EUR 3.70 per square metre of rental space per month were identified, including a component of EUR 0.79 for current maintenance. The increased maintenance costs in 2018 result mainly from renovation work to the flat roof, fire prevention measures and exterior cleaning in the property at Lietzenburger Str. 44, 46 in Berlin as well as from comprehensive repairs to the property at Neumarkt in Cologne.

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

Figures in EUR '000	Vacancy rate 31/12/2017 (area)	Expected vacancy rate 31/12/2018 (area)	Planned short-term rent increase (revenue)	Planned long-term rent increase (revenue)
Berlin	0.21	2.05	39.43	3.35
Dresden	7.21	0.49	13.62	2.97
Düsseldorf	8.69	10.28	2.22	2.77
Colgne	2.67	4.79	3.58	1.83
Stuttgart	2.71	1.25	4.18	1.21
Other cities *	2.33	9.19	17.09	1.92
Portfolio	**4.17**	**3.34**	**9.42**	**2.05**

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The actual vacancy rate (4.17%) across the entire portfolio has risen minimally compared with the previous year's projection (4.09%) and is expected to reach 3.34% at 31 December 2018. Thanks to a good letting take-up the defined target was achieved almost in full, with the result that the difference of 0.08% is extremely small. The lower vacancy rate assumed at the end of 2018 is based essentially on the letting of a two-storey retail space of around 2,380 sqm in a property in Dresden.

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

Figures in EUR '000	Vacancy rate 31/12/2016 (area)	Expected vacancy rate 31/12/2017 (area)	Planned short-term rent increase (revenue)	Planned long-term rent increase (revenue)
Berlin	36.96	1.99	4.51	0.65
Dresden	4.12	9.57	1.31	2.12
Düsseldorf	10.14	6.11	8.59	2.64
Colgne	0.83	2.11	-0.37	2.20
Stuttgart	4.38	3.01	-0.95	1.49
Other cities *	4.08	0.06	0.14	1.77
Portfolio	**9.09**	**4.09**	**1.64**	**1.78**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Sensitivity analysis	Fair Value at	Long-term gross profit		Annual rent growth		Rental income		Discount rate	
Change in valuations Figures in EUR '000	31/12/2017	-10 %	+10 %	-1 %	+1 %	-1 %	+1 %	+25 base points	-25 base points
Berlin	86,590	-7,012	6,980	-3,941	4,211	-349	310	-1,770	1,814
Dresden	81,970	-7,061	7,051	-2,104	2,247	-399	399	-1,640	1,678
Düsseldorf	37,200	-3,589	3,572	-1,558	1,653	-162	144	-792	814
Cologne	87,200	-7,269	7,198	-2,770	2,998	-394	420	-1,822	1,869
Stuttgart	71,190	-5,342	5,369	-2,298	3,007	-297	335	-1,432	1,469
Other cities*	36,600	-2,599	2,604	-1,477	1,587	-181	155	-796	814
Portfolio	**400,750**	**-32,872**	**32,774**	**-14,148**	**15,703**	**-1,782**	**1,763**	**-8,252**	**8,458**

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

Sensitivity analysis	Fair Value at	Long-term gross profit		Annual rent growth		Rental income		Discount rate	
Change in valuations Figures in EUR '000	31/12/2016	-10 %	+10 %	-1 %	+1 %	-1 %	+1 %	+25 base points	-25 base points
Berlin	68,880	-2,893	4,503	-2,487	2,884	-313	313	-1,497	1,533
Dresden	56,100	-3,447	3,034	-2,099	2,389	-276	262	-1,215	1,244
Düsseldorf	33,160	-2,476	2,496	-1,738	1,794	-153	162	-704	723
Cologne	83,530	-4,663	4,880	-4,614	5,191	-402	396	-1,740	1,789
Stuttgart	65,600	-3,897	3,977	-2,893	3,102	-266	322	-1,334	1,364
Other cities*	33,320	-2,094	2,093	-1,411	1,574	-201	163	-711	729
Portfolio	**340,590**	**-19,470**	**20,983**	**-15,242**	**16,934**	**-1,611**	**1,618**	**-7,201**	**7,382**

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

Because the POLIS portfolio is comprised exclusively of properties used mainly as offices, the sensitivity analysis was based solely on the property-specific market rents of office space and disregarded the secondary types of use. The assumption that the same terms will apply to lease agreements being extended, in keeping with the business plan, produces less fluctuation in the valuations because new leases can only be concluded later at the new, prevailing market level. It is deemed appropriate to extend existing leases if the present value, which represents the difference between market rent and contractual rent, will exceed the marketing and conversion costs during the vacant period. In each of the sensitivity analyses shown in the summary, only one variable was changed compared with the basic scenario (fair value at 31 December 2017).

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

The deviation analyses shown under “Rent growth” are based on a scenario where the year-on-year development in the property-specific market rents applied a 1% increase or decrease. The increase or decrease in rent growth does not apply to the assumed indexing of lease agreements.

The deviation analyses stated under “Rental income” are based on existing or assumed lease agreements and their calculated gross profit. This gross profit was increased or decreased by 1% for each property.

In the deviation analyses shown under “Discount rate”, the property-specific discount rate was increased or reduced by 25 base points.

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

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

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

EUR ’000	Total	up to 1 year	2 to 5 years	over 5 years
Minimum rent payments (31/12/2017)	95,269	21,502	51,803	21,964
Minimum rent payments (31/12/2016)	82,524	18,958	46,868	16,699

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.2. Intangible assets and property, plant and equipment

This item comprises software as well as fixtures and equipment. The development of this item is shown in the following table:

	Acquisition and production cost				Depreciation/amortization				Carrying amounts	
Figures in EUR '000	01/01/17	Additions	Disposals	31/12/17	01/01/17	Additions	Disposals	31/12/17	31/12/16	31/12/17
Software	810	146	0	956	515	116	0	631	295	325
Fixtures and equipment	436	323	20	739	293	80	13	360	143	379
	1,246	**469**	**20**	**1,695**	**808**	**196**	**13**	**991**	**438**	**704**

Depreciation and impairment for the year are included under the item "Administrative expenses" in the statement of comprehensive income.

	Acquisition and production cost				Depreciation/amortization				Carrying amounts	
Figures in EUR '000	01/01/16	Additions	Disposals	31/12/16	01/01/16	Additions	Disposals	31/12/16	31/12/15	31/12/16
Software	632	178	0	810	417	98	0	515	215	295
Fixtures and equipment	403	57	24	436	245	61	13	293	158	143
	1,035	**235**	**24**	**1,246**	**662**	**159**	**13**	**808**	**373**	**438**

3.3. Financial assets

The shares in "POLIS Objekt Rankestraße GmbH & Co. KG", Berlin, in "POLIS Objekt Bugenhagenstraße GmbH & Co. KG", Berlin, in "POLIS Objekt Ludwig-Erhard-Straße GmbH & Co. KG", Berlin, and in "POLIS Objekt Niedenau GmbH & Co. KG", Berlin, contained in the financial assets in the previous year were disposed of in the course of 2017. The disposal produced a gain of EUR 1,708 thousand that is reported in the result from the sale of financial assets, Up until 31 December 2017, Polis provided asset and property management services for these companies.

The financial assets include 5.1% of the shares in "Bouwfonds GmbH & Co. Stinnesplatz KG". The participating interest was written down to zero in previous years. No active market value exists and POLIS does not possess the information required for determining the fair value.

As a result of the disposal of the above shares in the companies, the amount of EUR 435 thousand, less deferred taxes of EUR 69 thousand, was reclassified to profit or loss from the reserve for fair value measurement of financial assets.

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Acquisition and production cost

Company	Registered office	Interest %	01/01/2017 EUR '000	Additions EUR '000	Disposals EUR '000	31/12/2017 EUR '000
POLIS Objekt Rankestraße GmbH & Co. KG	Berlin	15.00	238	0	238	0
POLIS Objekt Ludwig-Erhard-Straße GmbH & Co. KG	Berlin	15.00	1,159	0	1,159	0
POLIS Objekt Bugenhagenstraße GmbH & Co. KG	Berlin	15.00	541	0	541	0
POLIS Objekt Niedenau GmbH & Co. KG	Berlin	15.00	1,456	0	1,456	0
Bouwfonds GmbH & Co. Objekt Stinnesplatz KG	Berlin	5.10	243	0	0	243
			3,637	0	3,394	243

Depreciation/amortization or revaluations

Company	01/01/2017 EUR '000	Additions EUR '000	Disposals EUR '000	Revaluation EUR '000	31/12/2017 EUR '000
POLIS Objekt Rankestraße GmbH & Co. KG	-175	0	175	0	0
POLIS Objekt Ludwig-Erhard-Straße GmbH & Co. KG	331	0	-331	0	0
POLIS Objekt Bugenhagenstraße GmbH & Co. KG	176	0	-176	0	0
POLIS Objekt Niedenau GmbH & Co. KG	103	0	-103	0	0
Bouwfonds GmbH & Co. Objekt Stinnesplatz KG	-243	0	0	0	-243
	192	0	-435	0	-243

Carrying amounts

Company	31/12/2016 EUR '000	31/12/2017 EUR '000
POLIS Objekt Rankestraße GmbH & Co. KG	63	0
POLIS Objekt Ludwig-Erhard-Straße GmbH & Co. KG	1,490	0
POLIS Objekt Bugenhagenstraße GmbH & Co. KG	717	0
POLIS Objekt Niedenau GmbH & Co. KG	1,559	0
Bouwfonds GmbH & Co. Objekt Stinnesplatz KG	0	0
	3,829	0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.4. Deferred tax assets and liabilities

The deferred tax assets and liabilities due to temporary differences between the IFRS statement of financial position and the tax balance sheet and also tax losses carried forward are as follows:

Deferred tax assets	**2017** EUR '000	**2016** EUR '000
Investment properties	0	13
Tax losses carried forward	1,858	1,483
Hedging reserves	321	1,093
Total before offsetting	2,179	2,589
Offsetting	- 2,179	-2,589
Deferred tax assets	0	0
Deferred tax liabilities		
Investment properties	19,247	12,402
Other financial liabilities	461	500
Offsetting	-2,179	-2,589
Deferred tax liabilities	17,529	10,313

Deferred tax assets are offset against deferred tax liabilities (EUR 2,179 thousand) only to the extent that they pertain to income taxes that are levied by the same tax authority for the same taxable entity.

At 31 December 2017, deferred taxes were formed in full with respect to the corporate tax losses carried forward for POLIS Immobilien AG (EUR 11,742 thousand, previous year EUR 9,372 thousand), since it is assumed that the corporate tax losses carried forward will be used by future corporate tax profits from the realization of existing fiscally relevant hidden reserves in the investment properties. The changes in the deferred tax assets that pertain to derivatives (interest rate swaps) and form part of an effective cash flow hedge (EUR -83 thousand; previous year EUR 123 thousand) and the reclassification of the market value changes of the replaced swaps reported in the reserve for cash flow hedges (EUR -77 thousand, previous year EUR 0 thousand) were reported under “Other income”.

The other changes in the deferred tax assets and tax liabilities are recognized in income.

No deferred tax assets were recognized for trade tax losses carried forward amounting to EUR 69,105 thousand (previous year EUR 62,461 thousand) because they are not used according to the business plan.

3.5. Advance payments for investment properties

The advance payment for Ammonstrasse 8, Dresden, for which the transfer of benefits and encumbrances took place on 1 January 2018, is reported under advance payments for investment properties.

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

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

	31.12.2017 EUR '000	31.12.2016 EUR '000
Trade receivables	4,966	4,620
of which allocable operating expenses	4,775	4,557
of which rent receivables	191	63
Other receivables	1,591	171
TOTAL	**6,557**	**4,791**

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

At 31 December 2017, receivables from operating costs not yet settled stood at EUR 4,775 thousand (previous year EUR 4,557 thousand) and advance payments received for operating costs amounted to EUR 4,810 thousand (previous year EUR 4,367 thousand).

All rent receivables shown relate to commercial tenants located in Germany. The rent receivables have largely been assigned as collateral for bank loans. They can only be called in after cancellation of the corresponding credit agreements has become legally effective. No impairments for trade receivables were required.

The other receivables in the amount of EUR 1,400 thousand result from the sale of the shares in "POLIS Objekt Rankestraße GmbH & Co. KG", Berlin, in "POLIS Objekt Bugenhagenstraße GmbH & Co. KG", Berlin, in "POLIS Objekt Ludwig-Erhard-Straße GmbH & Co. KG", Berlin, and in "POLIS Objekt Niedenau GmbH & Co. KG", Berlin.

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

		davon: nicht wertgemindert und fällig			
Carrying amount EUR '000	of which: neither impaired nor due EUR '000	over 90 days EUR '000	61-90 days EUR '000	31-60 days EUR '000	0-30 days EUR '000
31/12/2017					
4,966	4,941	0	15	10	0
31/12/2016					
4,620	4,581	29	1	9	0

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

For the rent receivables that are already due, there exists collateral in the form of rent deposits (cash deposits and guarantees) amounting to EUR 660 thousand (previous year EUR 305 thousand). POLIS is able to access this collateral in the event of payment arrears, in accordance with the terms of the lease agreements.

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Impairments for other receivables and other assets were not required.

As in the previous year, the current tax receivables amounting to EUR 141 thousand (previous year EUR 101 thousand) within the other receivables concern interest withholding taxes, the solidarity surcharge and corporate income tax credits.

3.7. Cash in banks

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

3.8. Other assets

Other assets largely pertain to accruals relating to rent–free periods. The accruals relating to rent-free periods were calculated based on the terms of the lease agreements, taking into account the rents attributable to the rent-free periods in 2017 and previous years.

3.9. Equity

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

SUBSCRIBED CAPITAL

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

CAPITAL RESERVES

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

RETAINED EARNINGS

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

3.10. Liabilities

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

		Remaining terms			
Liabilities schedule	Total	up to 1 year	Total over 1 year	1 to 5 years	over 5 years
Figures in EUR '000					
Liabilities to banks	177,109 (139,711)	23,590 (2,212)	153,519 (137,499)	52,314 (118,334)	101,205 (19,165)
Advance payments received	4,810 (4,367)	4,810 (4,367)	0 (0)	0 (0)	0 (0)
Trade payables	2,666 (2,562)	2,666 (2,562)	0 (0)	0 (0)	0 (0)
Income tax liabilities	47 (47)	47 (47)	0 (0)	0 (0)	0 (0)
other liabilities	8,598 (10,337)	2,649 (3,210)	5,949 (7,127)	5,507 (6,664)	442 (463)
	193,230 (157,024)	**33,762** (12,398)	**159,468** (144,626)	**57,821** (124,998)	**101,647** (19,628)
Plus deferred tax liabilities			17,529 (10,313)		
Total non-current liabilities			**176,997** (154,939)		
Total current liabilities		**33,762** (12,398)			

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

Time to maturity	Interest rate %	Initial amortization %	Remaining debt EUR '000
2018	variable		21,488
2020	1.28		10,000
2021	variable	1	12,426
2021	3.28-3.51	1	23,657
2023	2.9	1	6,015
2025	variable		14,700
2027	variable		80,903
2036	variable		7,920
		Total	**177,109**

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

Time to maturity	Interest rate %	Initial amortization %	Remaining debt EUR '000
2018	variable		21,106
2020	variable	2	50,999
2020	1.28		10,000
2021	variable	1	12,586
2021	3.28-3.51	1	23,936
2023	2.9	1	6,234
2025	variable		14,850
		Total	**139,711**

There was a cash outflow amounting to EUR 1.9 million in financial year 2017 as a result of scheduled redemption payments.

Of the liabilities to banks, a total of EUR 136,739 thousand (previous year EUR 99,226 thousand) is at variable interest rates and EUR 39,672 thousand (previous year EUR 40,170 thousand) at fixed interest rates; the item also includes accrued interest of EUR 698 thousand (previous year EUR 315 thousand).

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

The loans are secured by real estate liens of EUR 223,233 thousand (previous year EUR 191,073 thousand) against the property portfolio (carrying amount: EUR 400,750 thousand) as well as by assignments of claims such as rent.

They can only be called in after cancellation of the corresponding credit agreements has become legally effective.

The weighted average interest rate of all bank loans including derivative financial instruments at 31 December 2017 was 2.2% (previous year 3.2%). The weighted average remaining term of the bank loans is 7.1 years (previous year 3.6 years).

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

The fair values of the fixed rate liabilities at 31 December 2017 amount to EUR 41,241 thousand (previous year EUR 42,131 thousand). The fair values of the liabilities to banks are based on discounted cash flows that were determined on the basis of current market interest rates. The discount rates serving as the basis were -0.1%-0.5% (previous year 0.9%-1.2%) including margin.

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

Trade payables largely pertain to construction work.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The other current liabilities item is composed as follows:

	31/12/2017 EUR '000	31/12/2016 EUR '000
Negative market value of derivative financial instruments	1,999	2,486
Miscellaneous	650	724
Total	**2,649**	**3,210**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Interest rate hedging instrument	Number of swaps	Volume EUR '000	Interest rate %	Market value 31/12/2016	Income-effective change (income statement)	Settlement (cash-effective)	Market value change (Other income)	Market value 31/12/2017
Designated swaps	13 (PY 20)	85,032	0.83%-3.06%	-9,613	-93	1,233	525	-7,948
			TOTAL:	-9,613	-93	1,233	525	-7,948
of which current				**-7,127**				**-5,949**
of which non-current				-2,486				-1,999
plus other current financial liabilities				-724				-650
Total current liabilities				**-3,210**				**-2,649**

The original term of the designated swaps is five to 20 years.

In financial year 2017, eight swaps with a combined volume of EUR 60,573 thousand were concluded to take the place of existing swaps. The effective market value changes reported for the replaced swaps in the reserve for cash flow hedges are released in instalments to profit or loss over the original terms of the hedging relationships. In the financial year, EUR 488 thousand less deferred taxes of EUR 77 thousand was therefore reclassified from the reserve for cash flow hedges to interest expense because of the replacement of the swaps.

The income statement records changes in the market values to the extent that the hedging relationship between the derivative financial instrument and the underlying transaction is not effective. Market value changes to effective portions of the hedging relationships are recorded under “Other income”.

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

Interest rate hedging instrument	Number of swaps	Volume EUR '000	Original term Years	Interest rate %	Market value 31/12/2015	Income-effective change (income statement)	Market value change (Other income)	Market value 31/12/2016
Designated swaps	20 (PY 17)	124,871	5-10 years	1.015%-3.56%	-9,792	959	-780	-9,613
				TOTAL:	-9,792	959	-780	-9,613
of which current					**-7,354**			**-7,127**
of which non-current					-2,438			-2,486
plus other current financial liabilities					-1,046			-724
Total current liabilities					**-3,484**			**-3,210**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3.11. Additional information concerning financial instruments

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

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

Balance sheet item	Category	2017 EUR '000	2016 EUR '000
Financial assets	Financial assets available for sale (measured at fair value)	0	3,829
Receivables and other financial assets	Receivables	6,557	4,791
Cash in banks	Cash in banks and cash holdings	29,463	16,101
		36,020	**24,721**
Liabilities to banks	Financial liabilities at amortized cost	177,109	139,711
Trade payables	Financial liabilities at amortized cost	2,666	2,562
Other financial liabilities	Financial liabilities at amortized cost	650	724
	Derivatives measured at fair value with an effective hedging relationship	7,948	9,613
		188,373	**152,609**

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

Balance sheet item	Category	2017 EUR '000	2016 EUR '000
Receivables and other financial assets	Receivables	-83	-110
Other financial liabilities	Derivatives measured at fair value with an effective hedging relationship	-93	959
		-176	**849**

The net gains from the derivatives measured at fair value include measurement losses from derivative financial instruments (interest rate swap) designated for cash flow hedging (EUR -93 thousand; previous year EUR 959 thousand).

The changes in the market value of derivatives that form part of effective cash flow hedges (EUR 525 thousand; previous year EUR -780 thousand) were reported under "Other income" after deduction of deferred taxes (EUR -83 thousand; previous year EUR 123 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

		31/12/2017				31/12/2016			
Figures in EUR '000		Level 1	Level 2	Level 3	TOTAL	Level 1	Level 2	Level 3	TOTAL
Financial assets	Financial assets available for sale (measured at fair value)	–	–	–	–	–	–	3,829	3,829
Liabilities to banks	Liabilities reported at fair value	–	-178,678	-	-178,678	-	-141,672	-	-141,672
Other financial liabilities	Derivatives measured at fair value with an effective hedging lationship	-	-7,948	-	-7,948	-	-9,613	-	-9,613
		0	**-186,626**	**-**	**-186,626**	**0**	**-151,286**	**3,829**	**-147,456**

For financial assets, the market values are determined using the discounted cash flow (DCF) approach. Market values determined by external experts in accordance with IAS 40 for the properties included under participating interests serve as the basis for the market values of financial assets. Please also refer to Section 3.3 for further notes. For liabilities to banks, the market values are determined using discounted cash flows, which use current market interest rates. The market values of the derivatives allocated to Level 2 are determined externally by the banks (using a DCF method) on a yearly basis and their effectiveness is examined by a financial services company.

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

There was no regrouping between Levels 1, 2 and 3 of the fair value hierarchy in the period under review. The financial assets of EUR 3,829 thousand reported at 31 December 2016 were disposed of in financial year 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. DISCLOSURES RELATING TO THE STATEMENT OF COMPREHENSIVE INCOME

4.1. Rental income

This item includes rental income from the investment properties. The rental income includes effects totalling EUR 575 thousand (previous year EUR 391 thousand) that are attributable to rent-free periods. The fall in rental income is attributable to a compensation payment for the termination of a lease agreement in the previous year (EUR 2,350 thousand). There is an opposite effect from successes in the letting of properties and the addition of the new property at Rosenstrasse 32/34, Dresden.

4.2. Renovation and maintenance expenses

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

4.3. Property management expenses

This item comprises:

	2017 EUR '000	2016 EUR '000
Non-allocable operating costs	**715**	964
Letting costs	**629**	147
Other property management expenses	**188**	203
Total	**1,532**	1,314

4.4. Result from the revaluation of investment properties

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

4.5. Result from the sale of financial assets

The result from the sale of financial assets stems from the sale of the four companies in which POLIS held a 15% share (see Section 3.3.). Through the sale, a total of EUR 553 thousand was withdrawn from the capital reserves of the companies sold.

4.6. Other income

Other income for financial year 2017 substantially comprises income from asset and property management services for the four companies in which POLIS held a 15% interest (EUR 343 thousand; previous year EUR 246 thousand), along with income from insurance payouts.

4.7. Other expense

The item “Other expense” results mainly from the derecognition of irrecoverable rent receivables and from input tax adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.8. Administrative expenses

The following table shows the composition of the administrative expenses:

	2017 EUR '000	2016 EUR '000
Staff costs	**2,002**	2,111
Legal, consultancy and auditing fees	**499**	436
Office and travel expenses	**1,171**	875
Financial reports, Annual General Meeting	**218**	222
Marketing and advertising expenses	**45**	34
Other expense	**97**	63
Total	**4,032**	3,740

In addition to the members of the Board of Management, on average 26 persons were employed in financial year 2017 (previous year 24), eight of who work in the "General Administration" area, and 18 in the "Asset and Property Management" area, including three trainees.

4.9. Financial income

The financial income refers to interest income from the current accounts of POLIS.

4.10. Interest expense

Financial expenses relate to the following items:

	2017 EUR '000	2016 EUR '000
Interest expense	**3,854**	4,400
Ancillary financing costs	**379**	239
Reclassified result from the reserve for cash flow hedges	**488**	0
Total	**4,721**	4,639

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.11. Income taxes

Expense (-)/income (+)	**2017 EUR '000**	2016 EUR '000
Deferred taxes on losses carried forward	**-375**	145
Deferred taxes from temporary differences	**-6,750**	-3,347
Current taxes	**63**	-37
Total	**-7,062**	-3,239

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

The corporate income tax rate in Germany was 15% in 2017 (previous year 15%), and the solidarity surcharge was 5.5% on this. The resulting combined tax rate is 15.825% (previous year 15.825%).

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

	2017 EUR '000	2016 EUR '000
Profit before taxes	**45,469**	21,438
Group tax rate	**15.825 %**	15.825 %
Expected income tax expense	**-7,195**	-3,393
Non-deductible operating expenses	**-7**	-7
Income tax – previous years	**63**	14
Adjustment losses carried forward	**-39**	87
Other	**116**	60
Taxes on income	**-7,062**	-3,239
Tax rate	**15.5 %**	15.1 %

4.12. Earnings per share

Earnings per share are determined as follows:

	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Consolidated earnings after profit (EUR '000)	**38,560**	18,199
allocable to minority interests (in numbers of shares)	**11,051,000**	11,051,000
Earnings per share (basic and diluted) (in EUR)	**3.49**	1.65

5. DISCLOSURES CONCERNING THE CASH FLOW STATEMENT

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

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

Business premises of POLIS Immobilien AG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. OTHER DISCLOSURES

6.1. Supervisory Board and Board of Management

The members of the Board of Management were:

Mathias Gross
Chief Operating Officer, Berlin

Dr Michael Piontek
Chief Financial Officer, Berlin

The following persons were members of the Supervisory Board:

Klaus R Müller, Managing Director of Mann Beteiligungsverwaltung GmbH, Karlsruhe, residing in Germersheim (Supervisory Board Chairman)

Wolfgang Herr, member of the Board of Management of Mann Immobilien-Verwaltung AG, Karlsruhe, residing in Baden-Baden (Deputy Chairman)

Martin Eberhardt, Managing Director of Bouwfonds Investment Management GmbH, Berlin, residing in Hamburg

Leopold Mann, member of the management of Mann Management GmbH, Karlsruhe, residing in Ettlingen

Ralf Schmechel, member of the management of Mann Management GmbH, Karlsruhe, residing in Malsch

Benn Stein, lawyer, specialist lawyer for tax law and chartered accountant, CT legal at Stein und Partner, Hamburg, residing in Hamburg

Board of Management compensation
The following compensation was paid to the two (previous year three) members of the Board of Management of POLIS in the course of the financial year:

	2017 EUR '000	2016 EUR '000
Gross compensation	**504**	704
Other benefits	**23**	27
Total	**527**	731

Compensation of the Supervisory Board

The compensation of the Supervisory Board is set forth in Section 21 of the Articles of Association. The Supervisory Board received compensation amounting to EUR 89 thousand in financial year 2017 (previous year EUR 89 thousand).

6.2. Related party disclosures

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

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

In both the year under review and the previous year, no member of the Supervisory Board received compensation or advantages for services rendered personally, in particular for consulting and brokerage services.

6.3. Objectives and methods of financial risk and capital management

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

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

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

Financial risks primarily include the interest rate risk, the default and credit risk, and the liquidity risk. The Board of Management of POLIS is responsible for risk management. It uses an extensive, software-based planning model for the early identification of complex risk situations. As a fundamental principle every member of staff is obliged to notify the Risk Manager and the Board of Management of all risks as soon as they become known. The reported risks are collated in a risk management list and discussed at the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

fortnightly management team meeting or Board of Management meeting, and counter-measures are discussed and approved as necessary. All risks are incorporated into the statement of financial position to the extent required, and are always monitored in the risk management system. The consequences of the risks and counter-measures are reflected in the accounting and therefore filter into the reports to the Supervisory Board, as well as into the Quarterly and Annual Reports. Furthermore, once a year a risk inventory is compiled by the Risk Manager and a risk report is issued both for inclusion in the presentation of risks in the management report and for the information of the Supervisory Board.

The Supervisory Board advises and monitors the Board of Management.

A) MARKET RISK

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

POLIS manages its interest rate risk by following developments on the money and capital market on a daily basis, and fundamentally seeks to keep its leverage at a low level of no more than 60% of the market value of the investment properties while also adopting a flexible interest rate hedging strategy. The policy in the prevailing environment of low interest rates is to hedge the interest rate for between 70% and 90% of variable-rate loans (proportion hedged at the time of reporting: 84%). This interest rate hedging takes the form of fixed-rate loans, interest rate swaps or interest rate caps. Interest rate risks occur as a result of market-led fluctuations in interest rates. On the one hand these affect total interest expense, and on the other hand influence the market value of the derivative financial instruments. At 31 December 2017, the variable-rate bank liabilities of POLIS stood at EUR 136,739 thousand (previous year EUR 99,226 thousand). A total amount of EUR 84,793 thousand (previous year EUR 76,930 thousand) was converted into fixed-rate liabilities through interest rate swaps. Fixed-rate liabilities to banks amounted to EUR 39,671 thousand (previous year EUR 40,170 thousand).

POLIS uses a cash-flow-at-risk analysis to determine the effects of changes in interest rates on its profit or loss and its equity. In carrying out this analysis, the cash flow that would result from a parallel shift in the interest rate curve by 100 base points is calculated for a forecast period of four years. At 31 December 2017, 71% of the interest-bearing liabilities to banks were hedged. This means that 29% (EUR 52 million) of the loans are not hedged. A 100 base point rise in interest rates would increase the interest expense by approximately EUR 520 thousand per year and reduce the consolidated comprehensive income.

The market price of derivative financial instruments, too, is exposed to an interest rate risk. A rise in interest rates by 30 base points would have increased the derivatives at 31 December 2017 by about EUR 2.7 million (previous year EUR 1.8 million), and the same movement in the opposite direction would have reduced them correspondingly. With an estimated probability of this scenario assumed to be 10%, the risk amounts to EUR 180 thousand. The effect would lead to a change in equity.

As a form of micro-hedging, the existing interest rate swaps are matched directly to the corresponding variable-rate loans to form valuation units at property company level. As a result, the market value changes of the effectively hedged portions of the interest rate swaps are recognized directly in equity, under “Other income”. To meet the requirements for this direct matching (effectiveness), the level, maturities and interest payment dates of the interest rate swaps correspond to the terms of the loans. Effectiveness is examined quarterly by a financial services company.

B) DEFAULT RISK/CREDIT RISK

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

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

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

At 31 December 2017, receivables from operating costs not yet settled stood at EUR 4,775 thousand (previous year EUR 4,557 thousand), and advance payments received for operating costs amounted to EUR 4,810 thousand (previous year EUR 4,367 thousand); receivables relating to operating costs that can be charged to tenants were neither impaired nor due. Also, POLIS has received extensive collateral in the form of rent deposits (cash deposits and guarantees).

Bank default risk

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

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

C) LIQUIDITY RISK

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

The following table presents all contractually agreed payments at 31 December 2017 for redemptions, interest and repayments in respect of financial liabilities, preventing a reconciliation with the disclosures in the statement of financial position:

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

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Analysis of maturities

Figures in EUR '000	Total gross cash outflows	2018	2019	2020	2021	from 2022
Liabilities to banks	183,786	24,783	3,781	13,641	37,652	103,929
Trade payables	2,666	2,666	0	0	0	0
Other liabilities	650	650	0	0	0	0
Non-derivative financial liabilities	187,102	28,099	3,781	13,641	37,652	103,929
Designated derivative financial instruments	**7,948**	**1,999**	**2,035**	**1,609**	**1,128**	**1,177**
Derivative financial liabilities	**7,948**	1,999	2,035	1,609	1,128	1,177
Maturity	**195,050**	**30,098**	**5,816**	**15,250**	**38,780**	**105,106**

Loans amounting to EUR 20.8 million fall due at 31 December 2018.

At the reporting date there were other financial obligations totalling EUR 650 thousand (previous year EUR 1,399 thousand) from order commitments for construction contracts. Bank balances, unencumbered properties and the cash flow from operating activities are available for financing the planned investments for 2018, which amount to approximately EUR 10.4 million.

Analysis of maturities at 31 December 2016

Figures in EUR '000	Total gross cash outflows	2017	2018	2019	2020	from 2021
Liabilities to banks	148,079	4,123	24,695	3,701	60,094	55,466
Trade payables	2,562	2,562	0	0	0	0
Other liabilities	727	727	0	0	0	0
Non-derivative financial liabilities	151,368	7,412	24,695	3,701	60,094	55,466
Designated derivative financial instruments	9,614	2,482	2,435	1,790	1,696	1,211
Derivative financial liabilities	9,614	2,482	2,435	1,790	1,696	1,211
Maturity before utilization of loan commitments	**160,982**	**9,894**	**27,130**	**5,491**	**61,790**	**56,677**
Loan commitments	**-8,000**	-8,000	0	0	0	0
Maturity after utilization of loan commitments	**152,982**	**1,894**	**27,130**	**5,491**	**61,790**	**56,677**

The expense incurred in the financial year from operating leases for vehicles, office equipment and office rents amounts to EUR 291 thousand (previous year EUR 295 thousand). The future lease payments are made up as follows:

EUR '000	Total	up to 1 year	1 to 5 years	over 5 years
31/12/2017	**2,091**	**261**	**892**	**938**
31/12/2016	2,229	278	836	1,115

The loans are subject to the typical covenants. All covenants were met both in the current financial year and in the previous year.

The terms of the derivative financial instruments are presented in the table under Item 3.10.

Capital management

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

POLIS monitors capital by means of the loan-to-value ratio (ratio of loans to the value of the investment properties); it aims not to exceed an LTV of 60%. At the reporting date, this ratio is 44% (previous year 41%).

6.4. Fees and services of the auditor

The fees for services provided by the auditor Ernst & Young Wirtschaftsprüfungsgesellschaft in financial year 2017 were as follows:

	2017 EUR '000	2016 EUR '000
Audit fees	97	120
Total	97	120

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.5. Mandatory disclosures according to Section 264b of HGB

As a result of inclusion in the consolidated financial statements of POLIS Immobilien AG, the following fully consolidated companies made use of the simplification options in accordance with Section 264b of HGB:

POLIS Objekt Luisenstraße 46 GmbH & Co. KG, Berlin
POLIS Objekte Altmarkt Kramergasse GmbH & Co. KG, Berlin
POLIS Objekt Gutleutstraße 26 GmbH & Co. KG, Berlin
POLIS Objekt Landschaftstraße GmbH & Co. KG, Berlin
POLIS Objekt Konrad-Adenauer-Ufer GmbH & Co. KG, Berlin
POLIS Quartier Büchsenstraße GmbH & Co. KG, Berlin
POLIS Objekte Mannheim Stuttgart GmbH & Co. KG, Berlin
POLIS Objekte Kassel Köln GmbH & Co. KG, Berlin
POLIS Objekt Lessingstraße GmbH & Co. KG, Berlin
POLIS Zweite Objektgesellschaft Düsseldorf GmbH & Co. KG, Berlin
POLIS Zweite Objektgesellschaft Köln GmbH & Co. KG, Berlin
POLIS Objekt Könneritzstraße GmbH & Co. KG, Berlin
POLIS Objekte Berliner Allee GmbH & Co. KG, Berlin
POLIS Erste Objektgesellschaft Köln GmbH & Co. KG, Berlin
POLIS Zweite Objektgesellschaft Stuttgart GmbH & Co. KG, Berlin
POLIS Objekt Rankestraße 21 GmbH & Co. KG, Berlin
POLIS GmbH & Co. Dreiundvierzigste Objekt KG, Berlin
POLIS GmbH & Co. Vierundvierzigste Objekt KG, Berlin

6.6 Report on post-balance sheet date events

No significant events occurred between the end of financial year 2017 and the editorial deadline for these notes.

Berlin, 23 March 2018

POLIS Immobilien AG
– The Board of Management –

Mathias Gross **Dr Michael Piontek**

INDEPENDENT AUDITOR'S REPORT

To POLIS Immobilien AG

Audit opinions

We have audited the consolidated financial statements of POLIS Immobilien AG and its subsidiaries (the Group) – comprising the consolidated statement of financial position at 31 December 2017, the consolidated statement of comprehensive income, the consolidated statement of movements in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2017 as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition we have audited the group management report of POLIS Immobilien AG for the financial year from 1 January to 31 December 2017.

In our opinion, based on the findings of our audit,

- the enclosed consolidated financial statements comply in all material respects with the IFRS as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) of the German Commercial Code (HGB), and in accordance with these requirements give a true and fair view of the net assets and financial position of the Group at 31 December 2017 as well as of its financial performance for the financial year from 1 January to 31 December 2017, and

- the enclosed group management report as a whole provides a suitable view of the Group's position. In all material respects this group management report is consistent with the consolidated financial statements, complies with the requirements of German law and suitably presents the opportunities and risks of future development.

Pursuant to Section 322 (3) first sentence of HGB, we declare that our audit has not led to any objections regarding the correctness of the consolidated financial statements and group management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and group management report in accordance with Section 317 of HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). Under those regulations and principles our responsibility is described further in the section "Responsibility of the auditor for the auditing of the consolidated financial statements and group management report" of our Auditor's Report, We are independent of the Group companies, as is consistent with German commercial law and professional law, and have fulfilled our other German professional duties in accordance with these requirements. We are of the opinion that the audit evidence we obtained is adequate and suitable to serve as a basis for our audit opinions on the consolidated financial statements and group management report.

Other Information

Management is responsible for the other information. The other information comprises the following components envisaged for the Annual Report, of which we obtained a version up until the issuing of this Auditor's Report: "Letter from the Board of Management", "Report of the Supervisory Board" and "Portfolio overview". Our audit opinions of the consolidated financial statements and group management report do not extend to the other information, and we accordingly express neither an audit opinion nor any other form of audit conclusion in that regard.

INDEPENDENT AUDITOR'S REPORT

In connection with our audit, it is our responsibility to read the other information and to assess whether the other information

- exhibits material discrepancies with the annual financial statements, management report or our knowledge obtained in the course of the audit, or
- appears in any other respects to be misrepresented.

Responsibility of management and the Supervisory Board for the consolidated financial statements and group management report

The management is responsible for the preparation of the consolidated financial statements, which comply in all material respects with the IFRS as adopted in the EU, and the additional requirements of German law pursuant to Section 315e (1) of HGB, and for ensuring that in accordance with these requirements the consolidated financial statements give a true and fair view of the net assets, financial position and financial performance of the Group. The management is also responsible for the internal controls that it has determined to be necessary to enable the preparation of consolidated financial statements that are free from material – intentional or unintentional – misrepresentations.

In preparing the consolidated financial statements, the management is responsible for assessing the Group's ability to remain a going concern. In addition it has the responsibility to state matters, where relevant, in connection with remaining a going concern. Furthermore, it is responsible for preparing the accounts based on the going concern accounting principle, unless there is the intention to liquidate the Group or cease business operations or no realistic alternative to such a course exists.

The management is also responsible for the preparation of the group management report, which as a whole provides a suitable view of the Group's position and is consistent in all material respects with the consolidated financial statements, complies with the requirements of German law and suitably presents the opportunities and risks of future development. The management is in addition responsible for the precautions and measures (system) that it has deemed necessary to enable the preparation of a group management report that is consistent with the applicable requirements of German law, and to enable it to furnish sufficient suitable evidence for the statements made in the group management report.

The Supervisory Board is responsible for overseeing the Group's accounting process for the preparation of the consolidated financial statements and group management report.

Responsibility of the auditor for the auditing of the consolidated financial statements and group management report

Our objective is to obtain reasonable assurance whether the consolidated financial statements or group management report are as a whole free from material – intentional or unintentional – misrepresentations, and whether the group management report as a whole provides a suitable view of the Group's position and is consistent in all material respects with the consolidated financial statements as well as with the findings of our audit, complies with the requirements of German law and suitably presents the opportunities and risks of future development, as well as to provide an audit report that contains our audit opinions on the consolidated financial statements and group management report.

Reasonable assurance means a high degree of assurance, but no guarantee that an audit conducted in accordance with Section 317 of HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer will always reveal a material misrepresen-

tation. Misrepresentations may result from infringements or misstatements and are regarded as material if it could reasonably be expected that they might individually or as a whole influence the economic decisions of the reader made on the basis of these consolidated financial statements and this group management report.

During the audit we exercise sound judgement and maintain a critical basic stance. Furthermore

- we identify and assess the risks of material – intentional and unintentional – misrepresentations in the consolidated financial statements and group management report, plan and conduct audit procedures in response to those risks, and obtain audit evidence that is sufficient and suitable to serve as the basis for our audit opinions. The risk that material misrepresentations are not identified is greater for infringements than for misstatements, because infringements may involve fraudulent collaboration, forgeries, intentional incompleteness, misleading representations and bypassing of internal controls;

- we acquire an understanding of the relevant internal control system for the audit of the consolidated financial statements and the relevant precautions and measures for the audit of the group management report in order to plan audit procedures that may be appropriate in the circumstances, but not with the aim of submitting an audit opinion on the effectiveness of those systems;

- we assess the appropriateness of the accounting methods used by the management as well as the justifiability of the value estimates presented by the management and of related disclosures;

- we draw conclusions on the appropriateness of the going concern accounting principle used by the management and, based on the audit evidence obtained, on whether a material uncertainty exists in connection with events or circumstances that may raise significant doubts about the ability of the Group to remain a going concern. If we reach the conclusion that a material uncertainty exists, we are obliged to point out the affected disclosures contained in the consolidated financial statements and group management report in the Auditor's Report or, if those disclosures are inappropriate, to modify our audit opinion on the matter in question. We draw our conclusions on the basis of the audit evidence obtained up until the date of our audit report. However future events or circumstances may result in the Group no longer being able to operate as a going concern.

- we assess the overall presentation, structure and content of the consolidated financial statements including the disclosures, as well as whether the consolidated financial statements present the underlying transactions and events such that, taking account of the IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) of HGB, the consolidated financial statements give a true and fair view of the net assets, financial position and financial performance of the Group:

- we obtain sufficient and appropriate audit evidence for the accounting information of the enterprises or business activities within the Group to be able to provide audit opinions on the consolidated financial statements and group management report. We are responsible for instructing, overseeing and executing the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions;

- we assess whether the group management report is consistent with the consolidated financial statements, and also its compliance with the legal requirements and the impression it gives of the situation of the Group;

INDEPENDENT AUDITOR'S REPORT

- we conduct audit procedures on the future-related statements by management in the group management report. Based on sufficient, suitable audit evidence we in particular seek to comprehend the material assumptions which underlie the future-related statements by management and assess whether the future-related statements have been derived properly from those assumptions. We do not give a separate audit opinion on the future-related statements as well as on their underlying assumptions. There is a considerable unavoidable risk that future events will deviate materially from the future-related statements;

We discuss for example the planned scope and timetable of the audit with the officers responsible for monitoring, as well as significant audit findings, including any shortcomings that we identify in the Internal Control System in the course of our audit.

Berlin, 26 March 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schepers
Certified Public Accountant

Pfeiffer
Certified Public Accountant

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