POLIS

ANNUAL REPORT 2018

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Senior officers of POLIS AG, from left:

Andreas Goldau
Authorized signatory;
Commercial Director

Mathias Gross
Chief Operating
Officer

Dr. Michael Piontek
Chief Financial Officer

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

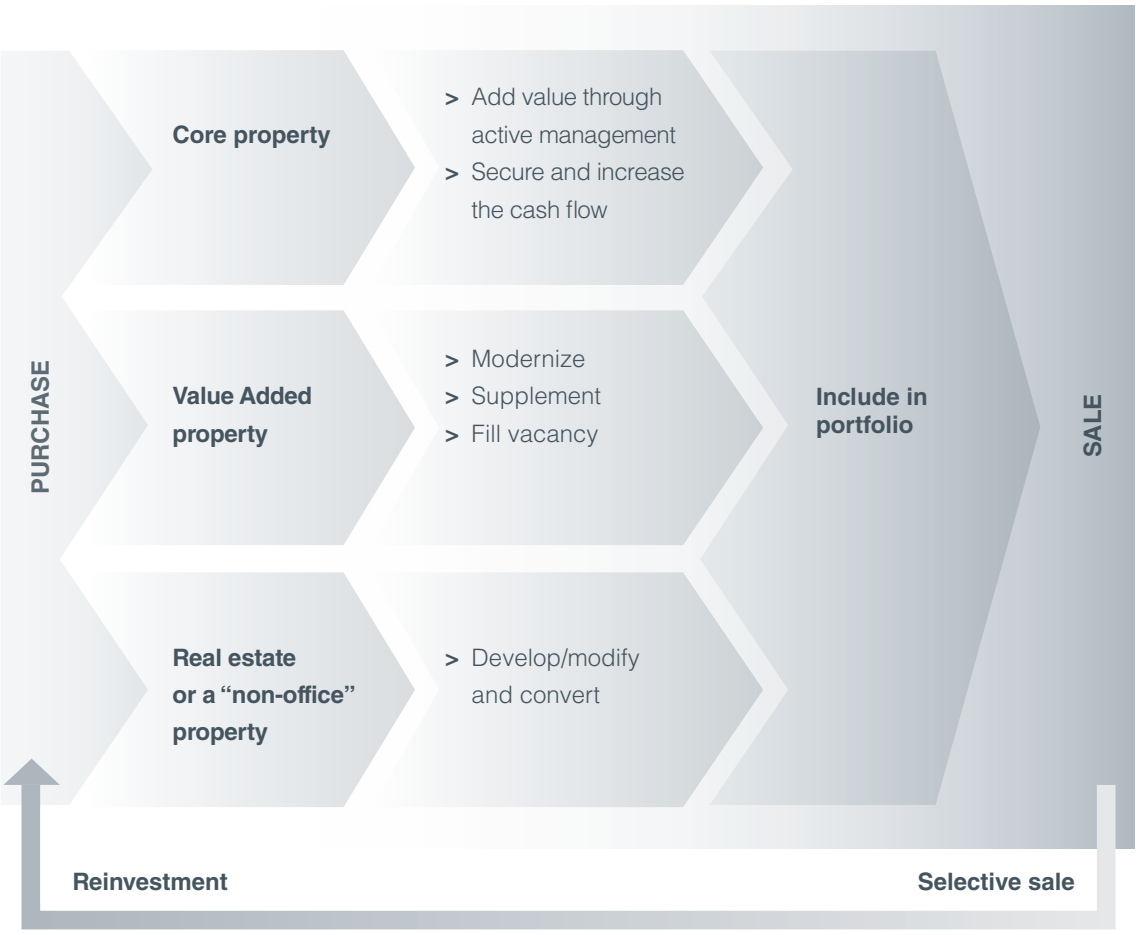
ANNUAL REPORT 2018

POLIS AG key ratios at a glance

	2018	2017
Rental income	**EUR 22,2 million**	EUR 20,4 million
Total assets	**EUR 504,3 million**	EUR 449,9 million
Equity	**EUR 286,5 million**	EUR 239,2 million
Earnings before taxes	**EUR 58,3 million**	EUR 45,5 million
Property portfolio (own commercial space sqm)	**153.800 sqm**	146.700 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 over 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 over 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 over 20 years.

Dresden | Ammonstrasse 8

DEAR SHAREHOLDERS, LADIES AND GENTLEMEN,

We again achieved a very good overall result in the past financial year. In addition to higher net rental income that resulted from increased rental revenues – in part thanks to taking possession of a further property in Dresden – and lower property management expenses, this year we again saw substantial positive market value changes in our investment properties that are mainly attributable to current market movements; these account for over 85% of the Company's result.

A very good letting result

In all, we concluded new lease agreements for a total of 24,926 sqm of rental space in 2018. In addition it is especially pleasing to note that existing lease agreements for 14,529 sqm were extended, and that the average lease period at the base rent was four years – or 6.73 years including where options were granted. 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 95.8% to 98.0%.

The occupancy rate achieved again provides a basis for stable earnings from portfolio business in 2019. Re-letting in 2018 on substantially better terms will lead to further rises in rental income despite a drop in the occupancy rate for operational reasons due to the modernization of the property at Neumarkt in Cologne.

On 1 January 2018 we took possession of the investment property acquired in 2017 in Dresden, at Ammonstrasse 8. The property is let out to a federally owned service provider on a long-term basis.

Thanks to the positive development in operating ratios, the new investment property and the higher occupancy rate, rental income climbed year on year by EUR 1,872 thousand (+9.2%). Net rental income rose by EUR 2,629 thousand to EUR 17,893 thousand thanks to lower maintenance costs. Funds from operations (FFO), which exclude valuation effects, rose in the past financial year from EUR 6,969 thousand to EUR 8,237 thousand. Cash flow from operating activities rose sharply by 64% year on year to EUR 15,409 thousand.

Positive valuation result for the investment properties, write-downs of interest rate hedging instruments

The continuing positive market development led to a clearly positive valuation result of more than 15.8%, 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 49,893 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. As a result of lower long-term interest rates, there arose earnings-relevant valuation losses not affecting liquidity from interest rate hedging instruments in the amount of EUR 1,163 thousand. The above effects lifted profit before taxes sharply by 28.2% to EUR 58,297 thousand.

New financial flexibility thanks to restructuring of loans

No loans were repaid or expiring loans extended long-term in 2018. In addition, we restructured long-term interest hedges. This established the basis for shoring up the current level of interest rates over the long term. This measure also gives us considerable extra liquidity to use for additional acquisitions. Furthermore, we have been able to add to the portfolio of unencumbered properties. This enables us to raise further

Mathias Gross
Chief Operating Officer

Dr. Michael Piontek
Chief Financial Officer

liquidity swiftly as and when financing is required, e.g. for new acquisitions. At 31 December 2018 we had liquidity of EUR 31.7 million. The key ratio of loan to value came down to 37%. Including the excess liquidity that would be available as an alternative option for the repayment of loans, net loan to value is 30.3%.

As a result of still-falling market interest rates and a restructuring of debt capital, the weighted average interest rate for debt financing was 2.17%, as against 2.2% in the previous year. Our Company remains soundly financed with an equity ratio of 59% and therefore enjoys a high degree of investment security and growth potential.

HGB result and proposal on the appropriation of profits

Based on the net profit for 2018, we achieved a net income of EUR 362 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. Because we expect a negative HGB result for 2018 in view of the planned renovation and maintenance expenses, a portion of EUR 181 thousand from net income was allocated to retained earnings. That aside, the Board of Management proposes that the remaining unappropriated profit totalling EUR 14,179 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 2019 but lower result expected

The healthy economic situation for real estate continued in 2018 and led to a positive letting result. As matters stand there are no indications of any dramatic change in market conditions in 2019, even if a less vigorous development in values is likely as a result of expected interest rate rises. We anticipate a

continuing high level of new construction activity in the office sector, but there is a high pre-letting rate for the new buildings. We therefore expect to be able to let what little rental space is standing or falling vacant.

We are planning further growth through the acquisition of properties, increasingly in Central Germany. Based on the occupancy rate achieved and the vacancy for operational reasons of a property due for modernization in the second half of the year, we expect 2019 to bring only slight rises in rental income, but the substantially higher renovation and maintenance expenses – in large part for the modernization of the property at Neumarkt in Cologne – will result in much lower net rental income. Our plans envisage only a very modest valuation result from the investment properties of around 1%, because we do not expect the very good valuation result for the investment properties to be repeated to the same extent. Overall we will prospectively achieve a solid result for 2019, but much lower than that of the previous year due to the one-off substantial increase in renovation and maintenance expenses in 2019 as well as the prospective results for future years. 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 working on the assumption that earnings before tax (EBT) will be down on the 2018 figure at around EUR 6 million.

For operational reasons, funds from operations will equally be lower than in 2018.

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 more than 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 2019
POLIS Immobilien AG
– The Board of Management –


EY

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 12 April 2018, the annual and consolidated financial statements for 2017 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. In addition the management bonus for the Board of Management was resolved. Another topic discussed at that meeting was the approval of the agenda for the Annual General Meeting on 13 June 2018.

The meeting on 12 June 2018 was mainly used to prepare for the Annual General Meeting on 13 June 2018. The granting of power of procuration to two employees was also approved.

On 13 June 2018, the Supervisory Board newly elected at the Annual General Meeting on the same day was constituted and appointed the members of the expert committees.

The meetings on 28 November 2018 focused on the economic data for the first ten months of 2018 and the forecast for financial year 2018, as well as the 2019 budget and the updated, five-year medium-term financial plans. The 2019 business plan was also passed.

Committees

The Investment Committee, consisting of Mr Müller (Chairman), Mr Mann and Mr Stein, prepares the decisions of the Supervisory Board on investments requiring its approval. The Investment Committee came together twice, 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 Mann, 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 of POLIS Immobilien AG at 31 December 2018 as well as the consolidated financial statements and group management report at 31 December 2018 and has issued an unqualified audit certificate.

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

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

The annual financial statements and the consolidated financial statements as well as the audit reports of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft were available to all members of the Supervisory Board and were discussed comprehensively in the relevant Supervisory Board meeting on 10 April 2019 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 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 10 April 2019, 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, and in particular the assessment of the further development of the Company.

Hanover | Landschaftstrasse 8

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 2019

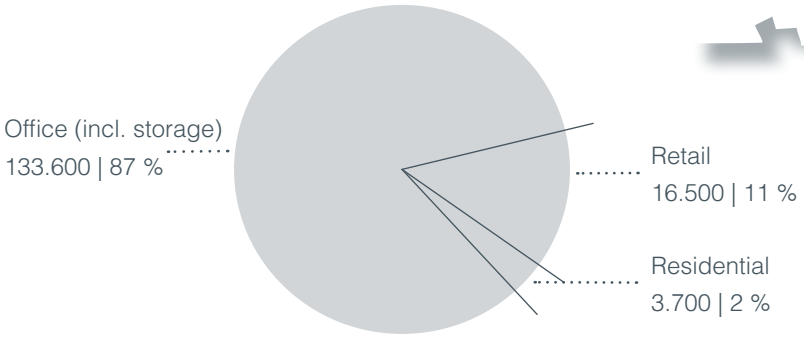
THE PORTFOLIO OF POLIS IMMOBILIEN AG IN FINANCIAL YEAR 2018

8 Cities

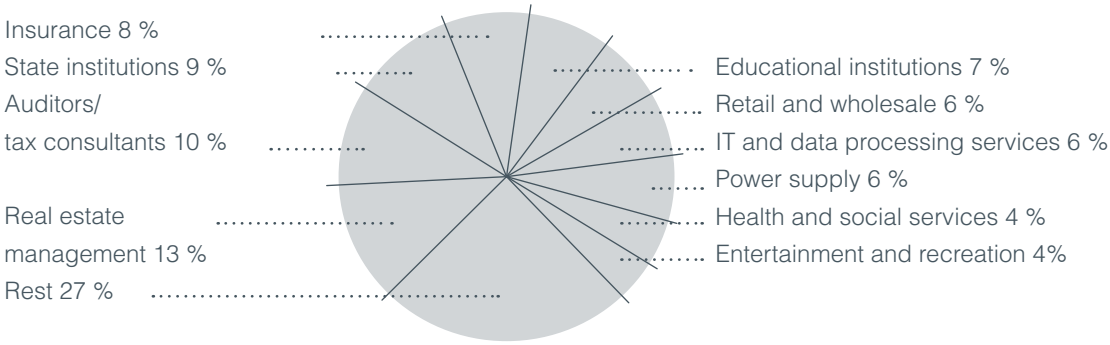
24 Objects

153.800 sqm

Portfolio by type of use | Basis: sqm | 153.800 sqm

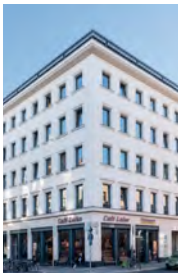


Composition of rental revenues by sector | in %



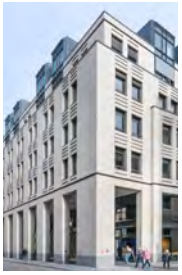
Dresden | Altmarkt 10

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	Ammonstrasse 8	Rosenstrasse 32/34	Könneritzstrasse 29/31/33	Altmarkt 10/ Kramergasse 2,4
Year of construction	1938	1996	1998	2000
Space available (rounded)	7,190	13,400	10,400	18,900
Office	5,302	13,167	9,090	11,528
Retail	0	211	1,030	5,274
Residential	0	0	0	1,313
Archive	1,256	0	278	800
Parking bays	33	0	90	206

DUSSELDORF




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

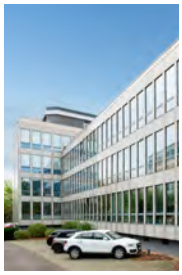
FRANKFURT AM MAIN

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

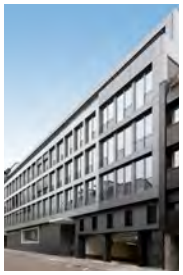
COLOGNE

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

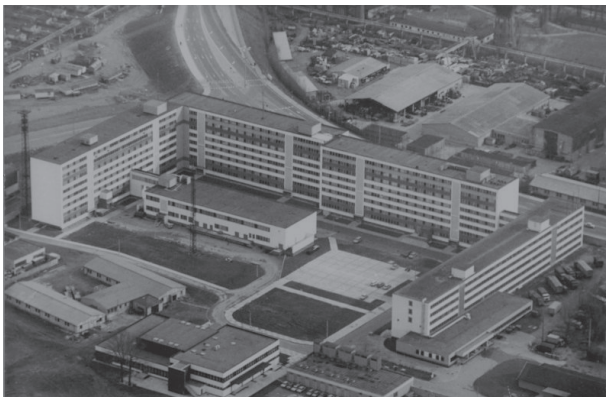


Property	Böblinger Strasse 8/ Arminstrasse 15	Quartier Büchsenstrasse	Tübinger Strasse 31/33
Year of construction	1973	1907 - 1970	1949
Space available (rounded)	2,550	16,450	4,500
Office	1,150	11,779	2,740
Retail	920	1,408	1,278
Residential	359	1,360	220
Archive	112	1,958	301
Parking bays	35	128	13

GERA ACQUISITION

Hermann-Drechsler-Strasse 1

On 19 March 2019 POLIS Immobilien AG acquired a complex of office and administration buildings in Gera. The property with an overall 30,202 sqm in rental space is almost fully let, with a current occupancy rate of 91.4%. The principal tenant is the Free State of Thuringia, which occupies approximately 18,800 sqm of the rental space. The overall complex was erected in 1985 and comprehensively renovated in 2004. The site, covering 47,369 sqm, also offers 158 parking bays. Thanks to its city centre location and proximity to the main station, the property is very convenient for rail travel to Leipzig and Erfurt, for the A4 autobahn (Hessen-Thuringia-Saxony) and for the Leipzig urban area.



In acquiring the property in Gera, POLIS Immobilien AG has added a profitable investment property with high potential for added value to its portfolio.

Photo of public administration building, 1990, Jan Peter Kasper

THE GROUP MANAGEMENT REPORT OF POLIS IMMOBILIEN AG FOR FINANCIAL YEAR 2018


Weyerstraße 79–83

GROUP STRUCTURE AND BUSINESS ACTIVITIES

The business model of POLIS Immobilien AG

POLIS Immobilien AG, with its registered office in Berlin, has been acquiring office buildings throughout Germany for its own portfolio for over 20 years. By actively managing our own properties, including by their conversion, modernization, extension, letting and additional 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, but also in up-and-coming locations with development potential, and invest in properties that offer specific potential for appreciation or for a stable cash flow.

The strong focus on the German market, selected cities and good 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 sales, 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 for the most part 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 as well as the optimized financing of acquisitions and investments.

Key external factors

The business model and growth of POLIS are 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, as well as by statutory and regulatory requirements along with the recruitment of well-qualified personnel.

Principal changes within the Group in financial year 2018

Thanks to a high level of take-up, the occupancy rate rose last year from 95.8% to 98.0%. This can be equated with full occupancy. In all, we concluded new lease agreements for 24,926 sqm (previous year 14,133 sqm) and extended existing leases on 14,529 sqm (previous year 10,252 sqm). The biggest individual let was concluded in the property at Rosenstrasse 32/34, Dresden, for 13,167 sqm of office space. The portfolio was extended in the financial year by the investment property in Dresden, at Ammonstrasse 8, the acquisition of which was announced in 2017.

In addition to making valuable investments in the real estate portfolio we achieved a very good 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 economic development of the market segment of our groups of tenants, 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 still 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 achieved 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 under an interest rate hedging strategy.

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

Development of overall economic environment
In the course of 2018, the ifo Business Climate Index for trade and industry in Germany declined from 105.2 (01/2018) to 101.0 at the end of the year, with some significant fluctuations.

According to the Federal Statistical Office, gross domestic product was 1.5% in 2018 compared with 2.2% in 2017.

The labour market at the end of the year saw Germany's working population rise yet again to a new record total of 45.2 million. The unemployment rate in December 2018 was 4.9% compared with 5.3% in the prior-year month.

Inflation reached an average for 2018 of 1.9%, up from 1.8% in 2017. It peaked at 2.5% in October, falling back again to 1.7% in December.

Short-term interest rates as a whole showed a slight rise over the course of 2018 (three-month EURIBOR from -0.329% at 2017 year-end to -0.309% at 2018 year-end). Meanwhile the ten-year swap rate fell from 0.886% at 31 December 2017 to 0.761% at 31 December 2018. This interest rate was regularly much higher over the course of the year (occasionally exceeding 1%) and only fell sharply towards the end of the year.

Industry-specific environment
Office space turnover in 2018 came to around 4 million sqm, down 6.5% on the prior-year figure. Because net absorption – meaning more office space being let than coming onto the market – is 1.2 million sqm, it becomes apparent that the decline is attributable to the limited availability of space rather than a weakening of demand. This development will prospectively continue, with the possible added factor of an economic downturn in 2019. The highest rates of turnover occurred in Munich and Berlin. Dusseldorf was the only market where year-on-year revenue growth was achieved.

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 56.8 billion in 2017 to EUR 60.3 billion. Investments in office properties accounted for 48% of the transaction volume, or EUR 29 billion. The top seven locations Berlin, Dusseldorf, Frankfurt, Hamburg, Stuttgart, Cologne and Munich accounted for 76% of office transactions, meaning there was a further marked rise in their significance. Another reason for the record transaction volume is the substantial rise in prices as a result of higher rents.

Particularly in Frankfurt, the volume increased by 49% to EUR 11.6 billion. Berlin was the second-largest market with EUR 10.8 billion. Volume in Berlin fell by 8% due to a shortage of available properties.

There was a merely moderate decline in prime yields in 2018. Across all top seven cities, the return on office properties fell to 3.11%, seemingly bottoming out in Berlin and Hamburg at 2.90% and 3.05% respectively. The sharpest decline in returns as of the end of 2018 occurred in Stuttgart, from 3.5% to 3.05%. Stuttgart also achieved the highest revenue growth in percentage terms, at +56%. The capital values of office properties

Dusseldorf | Steinstrasse 27

rose by 12% in the top seven cities in 2018. This growth rate was lower due to reduced yield compression. Nor were higher rents able to compensate for this fully.

A value growth of only 4% is expected for 2019.

Trends in the office property rental market in Germany

ONLY SLIGHT RISE IN NEW CONSTRUCTION VOLUME

New construction activity in 2018 in the top seven locations was up on the previous year at 0.93 million sqm. For 2019, a much higher completion volume of 1.6 million sqm is expected. However this figure is below the forecast volume because of further delays due to bottlenecks in construction capacity, rising construction costs and long approval timescales. 71% of the expected new construction volume in 2019 was already let in advance.

Prime rents increased by a substantial 6.4% in 2018, with the highest rises again occurring in Berlin (+13.3%) followed by Cologne. The prime rents are now EUR 40/sqm in Frankfurt, EUR 39/sqm in Munich and EUR 34 sqm in Berlin. The development easily outpaced the expected rates of increase. A further rise of 3.5% is expected for 2019.

FURTHER FALL IN VACANCIES IN THE OFFICE MARKET

Vacancies for office space in the seven leading cities declined very markedly by around one quarter to 3.6% (-1.1 percentage points). In Berlin, vacancies are actually below 2%, and even under 1% in certain submarkets. Only a slight fall in vacancies is expected for 2019.

Sources: JLL Investment Market Overview Q4 2018, JLL Office Market Overview Q4 2018, IFO Business Climate Index, Federal Employment Agency

OVERVIEW OF BUSINESS PERFORMANCE

Development of real estate business

CHANGES IN THE PORTFOLIO
On 1 January 2018 we were able to take possession of the investment property in Dresden, at Ammonstrasse 8, the acquisition of which was announced in 2017.

MODERNIZATIONS

- COLOGNE | Ebertplatz 1 > façade renovation and replacement of windows
  The natural stone window frames and sills from the 1950s were removed and replaced with metal frames suitable for insulating as part of a subsequent energy-saving renovation. The windows were also replaced at the same time.

- COLOGNE | Gustav-Heinemann-Ufer > rental space development
  Extensive rental space development with partial air conditioning in tandem with expansion of principal tenant's space.

- DRESDEN | Altmarkt > renovation of the underground car park
  Extensive renovation work was carried out and completed on the underground car park.

Occupancy rate up 2.2% year on year to 98.0%
We again achieved good results in concluding new lease agreements for 24,926 sqm in financial year 2018 (previous year 14,133 sqm). The biggest single contributors to the letting performance in 2018 were the lease agreements in the properties at Rosenstrasse 32/34, Dresden, for 13,167 sqm of office space, at Kramergasse, Dresden, for 2,383 sqm of commercial space, and at Steinstrasse 27, Dusseldorf, for 2,363 sqm of office 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 2018 rose to 98.0%, from 95.8% at the end of the previous year. Furthermore, lease agreements for approximately 14,529 sqm (previous year 10,252 sqm) were extended, often on significantly better terms. In economic terms the most significant lease agreement extension, for approximately 4,290 sqm of office space, concerned the property at Hospitalstrasse 8 in Stuttgart, followed by approximately 2,166 sqm in the property at Landschaftstrasse 8 in Hanover. In addition to these properties, existing lease agreements were extended with other sitting tenants for rental spaces ranging between 500 sqm and 2,900 sqm, mainly in the locations Berlin, Dresden, Dusseldorf, Cologne and Stuttgart.

The high take-up level in 2018 produced a contractually secured rental income of around EUR 33,859 thousand over the full term of the respective lease agreements, with an average weighted term to break-even of 5.8 years and an effective rental rate of EUR 11.99 per sqm. The average remaining term of all existing lease agreements is four years (previous year 4.2 years), with an average rent across the portfolio of approximately EUR 11.98 per sqm (previous year EUR 12.08 per sqm) for all types of use (office, retail, residential, archive).

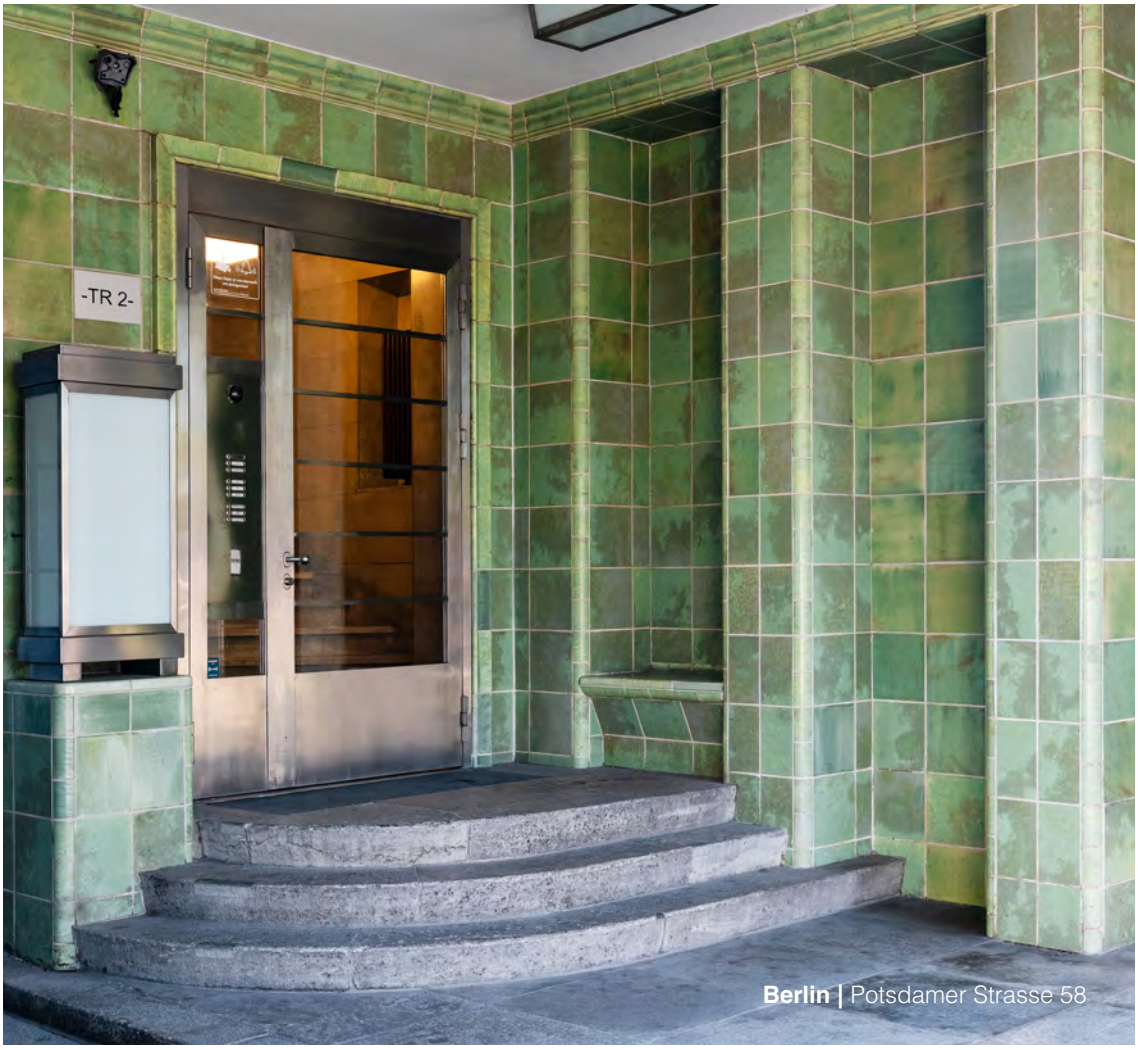
We consider our current task to involve letting the space falling vacant in connection with the forthcoming revitalization of the property at Neumarkt in Cologne and maintaining the high occupancy rate through active management of the lease agreements. We also aim to improve the quality of our properties still further, increase tenant satisfaction and realize further rental income potential.

	Rental space at 31/12/2017	**Rental space at 31/12/2018**	Occupancy rate as of 31/12/2017	**Occupancy rate as of 31/12/2018**
	sqm	**sqm**	in %	**in %**
Berlin	20,800	**20,750**	100	**100**
Dresden *	42,700	**49,950**	93	**100**
Dusseldorf	13,300	**13,300**	91	**94**
Cologne	33,050	**33,050**	97	**97**
Stuttgart	23,600	**23,600**	97	**98**
Other cities **	13,250	**13,200**	98	**98**
Summe	**146,700**	**153,850**	**95.8**	**98**

Based on portfolio at the respective reporting date

** Dresden, Ammonstrasse - from 01/2018*

*** Frankfurt am Main, Hanover, Munich*



Berlin | Potsdamer Strasse 58

Overview of rental income

Categorized by properties in the individual locations, rental revenues for the Group have developed as follows since 2013:

Figures in EUR '000	2018	2017	2016	2015	2014	2013
Berlin *	4,065	3,515	5,485	3,401	3,335	2,029
Dresden **	5,363	4,565	3,674	3,376	3,368	3,208
Dusseldorf	1,946	1,767	1,665	1,741	1,752	1,587
Cologne	5,033	4,875	4,788	4,917	4,658	4,794
Stuttgart	3,786	3,699	3,505	3,420	3,496	2,977
Other Cities ***	2,034	1,935	2,019	1,565	1,305	2,428
Properties sold 2011-2018	0	0	0	76	480	1,216
Total	**22,228**	**20,356**	**21,136**	**18,497**	**18,396**	**18,239**

* Rankestrasse 21 / Lietzenburger Strasse 44, 46 - rent compensation EUR 2,35 million in 2016

** Purchase Rosenstrasse 32/34 - from 03/2017 and Purchase Ammonstrasse 8 - from 01/2018

*** Frankfurt am Main, Hanover, Munich

FINANCIAL PERFORMANCE, FINANCIAL POSITION AND NET ASSETS

Figures in EUR '000	2017	Forecast for 2018	2018	Change, 2018 over 2017	Change 2018 over 2018 forecast
Rental revenues	20,356	rising	22,228	1,872	as expected
Result of running property management	15,264	slight fall	17,893	2,629	rise, contrary to expectations
Occupancy rate	95.8 %	rising	98 %	2.2 %	as expected
FFO (after tax)	6,906	Approx. EUR 1.8 million down on previous year	8,321	1,415	rise, contrary to expectations
Consolidated earnings before tax (EBT)	45,469	Approx. EUR 11 million	58,297	12,828	much higher than expected
Cash flow from operating activities	9,875	Approx. EUR 1.4 million down on previous year	15,409	5,534	rise, contrary to expectations
Equity ratio	53 %	rising	57 %	4 %	as expected
Loan-to-Value (LTV)	44 %	slight fall	37 %	- 7 %	as expected
Net Asset Value (NAV)	256,698	rising	313,664	56,966	as expected

The unforeseen higher valuation gains from investment properties with no effect on liquidity produced an EBT figure well ahead of the forecast. With the development in operating activities broadly stable, contrary to expectations the cash flow rose as a result of changes in trade receivables and payables.

The loan to value (LTV) ratio fell from 44% to 37% due to contractually agreed redemptions and higher property values. It should be noted in this connection that a quite considerable level of excess liquidity is held for acquisitions.

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

In detail, FFO comprises the following:

Figures in EUR '000	**2018**	**2017**
Rental income	22,228	20,356
Renovation and maintenance expenses	-3,528	-3,560
Property management expenses	-807	-1,532
Other income	193	614
Other expense	-193	-239
Administrative expenses	-4,552	-4,032
Interest income	19	20
Interest expense	-5,039	-4,721
FFO (before tax)	8,321	6,906
Current income taxes	-84	63
FFO (after tax)	8,237	6,969
FFO per share (in EUR)	0.75	0.63

FINANCIAL PERFORMANCE

Rental income rose year on year by EUR 1,872 thousand in 2018 following on from taking possession of the investment property at Ammonstrasse 8 in Dresden. Renovation and maintenance expenses remained virtually steady, whereas property management expenses fell from EUR 1,532 thousand to EUR 807 thousand. Overall, net rental income climbed sharply by 17.2% to EUR 17,893 thousand.

The valuation of the investment properties again led to a quite substantial net increase with no liquidity effect of EUR 49,893 thousand in the valuation of the overall portfolio (previous year EUR 36,948 thousand). The increase in value stems mainly from the individual valuations of the properties at Rankestrasse 21 / Lietzenburger Strasse 44, 46, Berlin, Rosenstrasse 32/34 in Dresden, Potsdamer Strasse 58, Berlin, and Quartier Büchsenstrasse in Stuttgart. The valuation result was reduced merely by the devaluation of the property at Könneritzstrasse in Dresden.

Administrative expenses for 2018 came to EUR 4,552 thousand and were therefore 12.9% up on the prior-year level of EUR 4,032 thousand, mainly because of higher consultancy costs on human resources and tax matters, as well as higher costs for the communications, marketing and committees areas. A detailed list is provided in the notes to the consolidated financial statements, under Section 4.8 “Administrative expenses”.

Interest expenses of EUR 5,039 thousand are slightly above the level of the previous year (EUR 4,721 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 1,061 thousand). Interest that would otherwise have arisen in future periods was effectively paid in advance through the cancellation of interest rate hedges. Actual interest paid came to EUR 4,240 thousand. The financial and investment result for financial year 2018 consequently shows a year-on-year deterioration to EUR -4,937 thousand (previous year EUR -4,794 thousand). The net market value changes for the effective portion of the interest rate hedge (EUR -2,328 thousand) that stem mainly from the lower market interest rates are recognized through other comprehensive income. The market value and restructuring of the existing cash flow hedges, the release of the effective portion of the replaced derivatives as well as the termination of a hedge (EUR 21 thousand) produces a change in the reserve for cash flow hedging totalling EUR -1,049 thousand, taking account of deferred taxes. The market value changes resulting from the non-effective portion of the hedge between derivatives and underlying transaction (EUR +1,020 thousand) as well as the market value changes of the derivative that was terminated for the hedge (EUR -147 thousand) are reflected in the income statement. Redemption payments of EUR 1,037 thousand for cancelled interest rate hedges were made in connection with the restructuring of the cash flow hedges.

The weighted average interest rate for debt financing was lower at 2.17% (previous year 2.2%) as a result of market interest rate movements and the reorganization of interest rate hedges mainly at the end of 2018. However the volume and maturity of the interest rate hedges were significantly increased.

The consolidated financial statements report a substantial year-on-year rise in consolidated net income to EUR 48,421 thousand (previous year EUR 38,407 thousand), up approximately 26% on the previous year. It is to be noted that more than 86% of the profit before tax is the result of valuation gains with no effect on liquidity.

FINANCIAL POSITION

Figures in EUR '000	2018	2017
Cash flow from operating activities	15,409	9,875
Cash flow from investing activities	-4,230	-29,657
Cash flow from financing activities	-8,957	33,144
Cash in banks at the end of the period	31,685	29,463

Cash flow from operating activities increased by EUR 5,534 thousand as a result of changes in receivables and liabilities. Cash flow from investing activities was influenced mainly by investments in investment properties, and cash flow from financing activities by net borrowings as a result of refinancing and redemptions as well as interest paid.

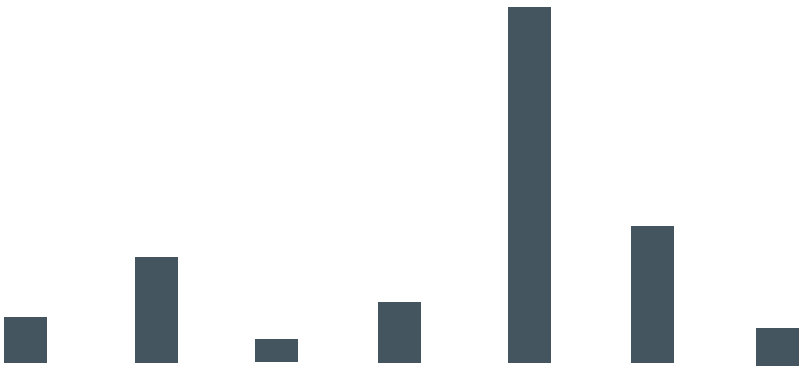
HIGH EQUITY RATIO, LOW LOAN-TO-VALUE RATIO

With its equity ratio of 57%, 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) fell by seven percentage points to around 37% 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. If available liquidity were used to repay loans, the LTV would be around 30%.

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	6%	14%	3%	8%	47%	18%	5%
VOLUME	10,000	23,367	5,789	14,550	79,708	30,152	7,840
YEAR	2020	2021	2023	2025	2027	2028	2036

LOW-RISK MATURITIES STRUCTURE OF LIABILITIES TO BANKS

The weighted average remaining term of the bank loans at 31 December 2018 was 7.7 years (previous year 7.1 years). The average interest rate was further reduced in parallel to 2.17% (previous year 2.2%) despite the markedly higher level and maturity of interest rate hedges.

At 31 December 2018, 86% (previous year 71%) of the interest-bearing liabilities to banks were hedged. The average maturity of interest rate hedges including forward interest rate contracts is 8.1 years (previous year 5.5 years).

Some loan agreements contain typical clauses requiring that certain 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 2019.

NET ASSETS

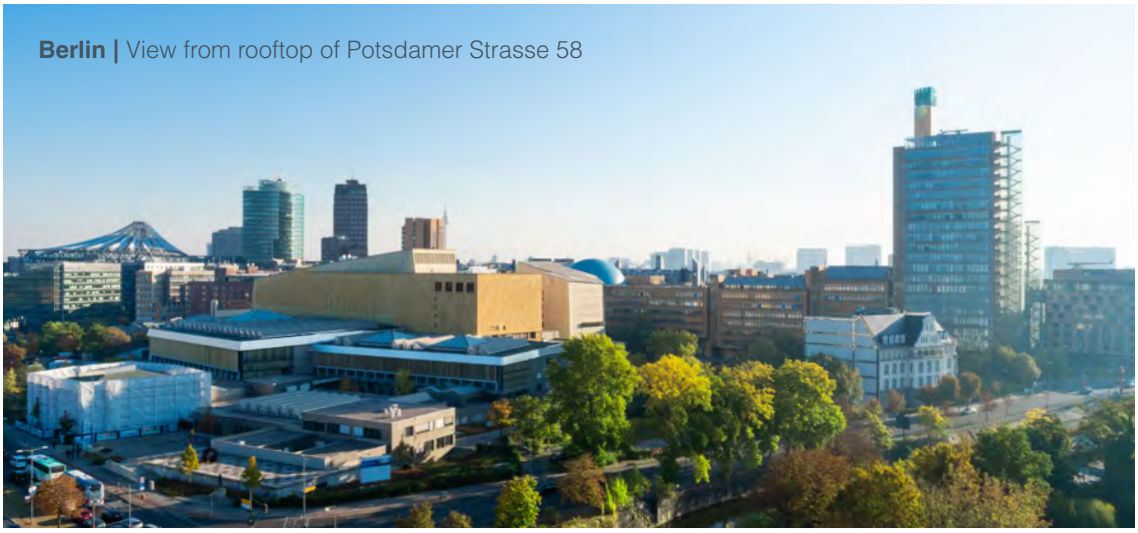
Because of the newly acquired property at Ammonstrasse 8 in Dresden, investments in the investment properties and their increases in market value, total assets rose sharply to EUR 504.3 million in financial year 2018 (previous year EUR 449.9 million). Non-current assets consist mainly of the 24 investment properties and account for 92% of total assets, in line with the business model. It should be noted that POLIS Immobilien AG reports a very high bank balance at 31 December 2018; this is to be used prospectively for new acquisitions but is also available for loan repayments.

Asset and capital structure

Figures in EUR '000	**31/12/2018**	**31/12/2017**
Non-current assets	466,254	403,418
Current assets	38,044	46,510
Equity	286,541	239,169
Total assets	504,298	449,928

INVESTMENTS IN INVESTMENT PROPERTIES

The investments of around EUR 2.1 million are reported in detail in the notes to the consolidated financial statements, under 3.1 “Investment properties”. In addition, the property at Ammonstrasse 8 in Dresden was taken over in 2018 and reported under fixed assets for the first time.


Berlin | View from rooftop of Potsdamer Strasse 58

VALUATION OF THE PROPERTIES

For details of 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 comes to EUR 463,985 thousand at the end of 2018 (previous year EUR 400,750 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 2018 amounted to EUR 28.38 (previous year EUR 23.23). The figure including the effect of deferred taxes is known as the net net asset value (NNAV), and was EUR 25.93 per share at 31 December 2018 (previous year 21.64).

Figures in EUR '000	2018	2017	2016	2015	2014
Carrying amounts of properties	463,985	400,750	340,590	324,270	313,090
Carrying amount of interests	0	0	3,829	3,653	4,594
Other assets less other equity and liabilities	21,823	33,057	5,881	8,205	-1,166
Liabilities to banks	-172,144	-177,109	-139,711	-146,408	-147,945
NET ASSET VALUE	313,664	256,698	210,589	189,720	168,573
NAV/Aktie	28.38	23.23	19.06	17.17	15.25
Deferred taxes	-27,123	-17,529	-10,313	-7,196	-3,741
NNAV	286,541	239,169	200,276	182,524	164,832
NNAV/share	25.93	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 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 therefore rose by around 17%. This led to a year-on-year rise in funds from operations (FFO) after adjustment for valuation effects. 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. Overall, however, a high price level has now been reached.

Thanks to the annual financial result for 2018, over 86% of which consists of valuation effects, we achieved a net income of EUR 362.7 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 income from investments and 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 2019 in view of the planned renovation and maintenance expenses, a portion of EUR 181 thousand from net income was allocated to retained earnings. That aside, the Board of Management proposes that the remaining unappropriated profit totalling EUR 14,179 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 every two years 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. The most recent 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.

Berlin | Potsdamer Strasse 58

PRESENTATION AND QUANTIFICATION 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

We define material risks from a risk value of EUR 100 thousand upward, after taking account of countermeasures and probabilities.

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. We do not identify any material risks in this area.

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 may increase interest rates in 2020. 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 only EUR 200 thousand (weighted).

III. Debt finance was excellent for POLIS in 2018 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, still offering attractive terms of financing compared with the previous year. 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 do not identify any material risks in this area.

IV. POLIS holds bank balances with private banks. We do not identify any material risks in this area.

V. With a Group equity ratio of approximately 57% and cash in banks of approximately EUR 31.7 million available at Group level, as well as a positive, secure cash flow from operating activities, the modernization investments and maintenance measures planned for 2019 will not put a squeeze on finances. In addition, over and above this there are unencumbered properties available, offering adequate financial flexibility.

VI. The loans are subject to the typical covenants: generally loan-to-value ratios of 60% to 80% at the level of individual properties, and 70% to 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 markets, 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 2019 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 do not identify any material risks in this area.

II. RISKS ASSOCIATED WITH LETTING

The properties held by the Company exhibited an average vacancy rate of 2.0% based on the rental space at 31 December 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 4.15 years, so that lease agreements are regularly due for extension. In 2019, around 6,074 sqm of office and commercial space will be available for letting. The tenants of POLIS come from a wide range of different industries and enjoy above-average creditworthiness. The tenant creditworthiness of the top 20 tenants is examined on a quarterly basis. We do not identify any material risks in this area.

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 – revitalization work. These may create 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 2019, we will invest approximately EUR 12.8 million in our investment properties. We estimate the construction costs risk associated with the planned construction work at up to EUR 964 thousand. In addition, we identify a weighted risk from revitalization work of EUR 300 thousand.

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 2019, despite only moderate plans for 1% value growth we estimate the overall risk from incorrect valuations at around EUR 2.25 million.


Dresden | Könneritzstrasse 29, 31, 33

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 do not identify any material risks in this area.

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

Berlin | Luisenstrasse 46

corporate objectives can only be achieved by working together. Several new appointments needed to be made in 2018. Further restaffing may be necessary in 2019. We do not identify any material risks in this area. We assess the general risks from corporate governance (organization, communications, occupational safety, environmental and data protection) at a total of EUR 123 thousand.

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 is in place in each case.

Overall 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 2019 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.

REPORT ON EXPECTED DEVELOPMENTS

DEVELOPMENT OF THE MARKETS FOR OFFICE PROPERTIES

The office markets stabilized at a high level in 2018. Despite new construction activity, the vacancy rate in the office market came down significantly. Based on the assumption of further, albeit weaker, 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 the key earnings ratios for 2019 and beyond. With our quality-focused business model and our homogeneous portfolio, the take-up level should remain good in 2019. 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 market-appropriate extensions to lease agreements. 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 major German business locations allows us to take advantage of opportunities as they arise. We consider ourselves an active portfolio manager and specialist 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 2019

Based on the risks and opportunities presented above, and with the prospect of a positive development in the office market along with the still-low interest rates expected in 2019, we anticipate that the key operating ratios will remain healthy thanks to high occupancy rates.

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

The modernization of the entire property at Neumarkt in Cologne, a re-let property in Munich as well as other changes of tenant, above all in Dusseldorf, the occupancy rate at the end of 2019 will temporarily fall to 92.5%.

FFO for 2019 will be around EUR 6.5 million lower than in 2018 due to significantly higher renovation and maintenance expenses.

Profit before tax is consequently anticipated to reach approximately EUR 6.2 million in 2019.

Cash flow from operating activities will be approximately EUR 6.8 million below the prior-year figure.

The equity ratio will remain stable in 2019 before edging edge up in subsequent years, and LTV will be slightly lower 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 0.76/sqm/month, vacancy costs of EUR 2.88/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 of recent years will be repeated to the same extent in 2019. Because the valuation results have a major impact on the IFRS net income, forecasting the net income involves 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.

In addition, 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 2019. Earnings will be substantially lower than in 2018 due to a prospectively lower valuation result from investment properties and the much higher maintenance programme planned for 2019. 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.

DEPENDENCY REPORT

To the Company's knowledge, Mann Unternehmensbeteiligungen Holding GmbH & Co. KG (Mann Group, Karlsruhe) holds a majority of the shares in 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 1 January to 31 December 2018.

Cologne | Ebertplatz 1

No legal transactions with Mann Unternehmensbeteiligungen Holding GmbH & Co. KG (or with the Mann Group) were carried out in financial year 2018. 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 2018, 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 in POLIS is Mann Unternehmensbeteiligungen Holding GmbH & Co. KG, Karlsruhe (Mann Group).

Berlin, 28 March 2019

POLIS Immobilien AG
- The Board of Management -

Mathias Gross **Dr. Michael Piontek**

THE CONSOLIDATED FINANCIAL STATEMENTS OF POLIS IMMOBILIEN AG FOR FINANCIAL YEAR 2018


OSTERTAG

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the period from 1 January to 31 December 2018, according to International Financial Reporting Standards (IFRS) for POLIS Immobilien AG, Berlin

Assets

Figures in EUR '000	Notes	31/12/2018	31/12/2017
Non-current assets			
Investment properties	3.1.	463,985	400,750
Intangible assets	3.2.	263	325
Financial assets	3.2.	452	379
Other assets	3.8.	1,554	1,964
Total non-current assets		**466,254**	**403,418**
Current assets			
Advance payments for investment properties	3.5.	0	10,110
Receivables and other financial assets	3.6.	5,797	6,557
Current tax receivables	3.6.	83	141
Cash in banks	3.7.	31,685	29,463
Other assets	3.8.	479	239
Total current assets		**38,044**	**46,510**
Total assets		**504,298**	**449,928**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Equity and liabilities

Figures in EUR '000	Notes	31/12/2018	31/12/2017
Equity			
Subscribed capital	3.9.	110,510	110,510
Capital reserves	3.9.	18,185	18,185
Cash flow hedge reserve		-6,057	-5,008
Reserve for fair value measurement of financial assets		-204	-204
Retained earnings	3.9.	115,686	77,279
Consolidated net income		48,421	38,407
Share in equity allocable to the equity holders of the parent		286,541	239,169
Total equity		**286,541**	**239,169**
Liabilities			
Non-current liabilities			
Liabilities to banks	3.10.	169,146	153,519
Deferred tax liabilities	3.4.	27,123	17,529
Other financial liabilities	3.10.	7,072	5,949
Total non-current liabilities		**203,341**	**176,997**
Current liabilities			
Loan liabilities to banks	3.10.	2,998	23,590
Advance payments received	3.10.	5,599	4,810
Trade payables	3.10.	2,798	2,666
Income tax liabilities	3.10.	0	47
Other financial liabilities	3.10.	3,021	2,649
Total current liabilities		**14,416**	**33,762**
Total assets		**504,298**	**449,928**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2018, according to International Financial Reporting Standards (IFRS) for POLIS Immobilien AG, Berlin

Figures in EUR '000	Notes	01/01/ - 31/12/18	01/01/ - 31/12/17
Rental income	4.1.	22,228	20,356
Renovation and maintenance expenses	4.2.	-3,528	-3,560
Property management expenses	4.3.	-807	-1,532
		-4,335	-5,092
Net rental income		**17,893**	**15,264**
Unrealized gains from the revaluation of investment properties		50,510	38,513
Unrealized losses from the revaluation of investment properties		-617	-1,565
Result from the revaluation of investment properties	**4.4.**	**49,893**	**36,948**
Income from the sale of financial assets		0	4,549
Other result reclassified from the revaluation reserve		0	435
Carrying amount of the financial assets sold		0	-3,276
Result from the sale of investment properties	**4.5.**	**0**	**1,708**
Other income	4.6.	193	614
Other expense	4.7.	-193	-239
Administrative expenses	4.8.	-4,552	-4,032
Result before financing activity and taxes		**63,234**	**50,263**
Investment income	4.9.	19	20
Interest income	3.10.	83	-93
Result from the valuation of derivative financial instruments	4.10.	-5,039	-4,721
Profit before taxes		**58,297**	**45,469**
Deferred taxes	4.11.	-9,792	-7,125
Current taxes	4.11.	-84	63
Total income taxes		-9,876	-7,062
Consolidated net income		**48,421**	**38,407**
of which allocable to minority interests		0	0
of which allocable to the equity holders of the parent		48,421	38,407
Consolidated net income		**48,421**	**38,407**
Other income to be reclassified to profit or loss in subsequent periods:			
Market value of participating interests reclassified to the result	3.3.	0	-435
Attributable deferred tax assets	3.3.	0	69
Marktbewertung Cashflow-Hedges	3.10.	-3,617	-750
Market value of cash flow hedges	3.4.	572	118
Market value of cash flow hedges reclassified to the result	4.10.	2,371	1,764
Attributable deferred tax assets	4.10.	-375	-279
Other income		-1,049	487
Consolidated comprehensive income		**47,372**	**38,894**

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January to 31 December 2018, according to International Financial Reporting Standards (IFRS) for POLIS Immobilien AG, Berlin

Figures in EUR '000	Notes	01/01/ - 31/12/18	01/01/ - 31/12/17
Profit before taxes		**58,297**	**45,469**
Adjusted for:			
Financial and investment result	4.8., 4.9.	4,937	4,794
Result from the revaluation of investment properties	3.1.	-49,893	-36,948
Result from the sale of financial assets	3.3., 4.5.	0	-1,708
Depreciation/amortization on intangible assets and property, plant and equipment	3.2.	260	196
Change in trade receivables and other assets not allocable to investing or financing activities		988	-847
Change in trade payables and other liabilities not allocable to investing or financing activities		487	-1,200
Income tax paid	4.11.	95	48
Income tax received	4.11.	238	71
Cash flow from operating activities		**15,409**	**9,875**
Payments for the acquisition of software, fixtures and equipment	3.2.	-182	-468
Payments for the purchase of investment properties	3.1.	-1,120	-30,108
Payments for investments in modernization	3.1.	-2,947	-2,791
Interest received	4.9.	19	20
Proceeds from equity withdrawals of financial assets	4.5.	0	553
Proceeds from the sale of property, plant and equipment and financial assets	4.5.	0	3,137
Cash flow from investing activities		**-4,230**	**-29,657**
Payments for the redemption of loans	3.10.	-19,717	-1,866
Proceeds from the raising of loans	3.10.	15,000	38,894
Interest paid	4.10.	-4,240	-3,884
Cash flow from financing activities		**-8,957**	**33,144**
Net change in cash and cash equivalents		**2,222**	**13,362**
Cash in banks at the beginning of the period	**3.7.**	**29,463**	**16,101**
Cash in banks at the end of the period	**3.7.**	**31,685**	**29,463**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2018, 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 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**
Offsetting against prior-year result	0	0	38,407	-38,407	0	0	0	0
Consolidated net income	0	0	0	48,421	0	0	48,421	48,421
Other income	0	0	0	0	-1,049	0	-1,049	-1,049
Balance at 31 Dec 2018	**110,510**	**18,185**	**115,686**	**48,421**	**-6,057**	**-204**	**286,541**	**286,541**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the IFRS Consolidated Financial Statements of POLIS Immobilien AG, Berlin, Germany, at 31 December 2018

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 2018 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 7 March 2019 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 2018. 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),

- It is exposed to a risk from or enjoys entitlements to fluctuating returns from its involvement in the affiliated 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 2018.

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 through profit or loss immediately.

No business combinations took place in financial years 2017 and 2018.

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

Company	Nominal capital	Interest	HGB equity 31/12/2018	HGB result 2018
	EUR '000	%	EUR '000	EUR '000
POLIS Grundbesitz Objekt Verwaltungs GmbH, Berlin	26	100	938	26
POLIS Beteiligungs- und Verwaltungs GmbH, Berlin	25	100	8,135	12
POLIS Objekte Altmarkt Kramergasse GmbH & Co. KG, Berlin	51	100	4,785	605
POLIS Objekt Gutleutstrasse 26 GmbH & Co. KG, Berlin	665	100	1,452	94
POLIS Objekt Luisenstrasse 46 GmbH & Co. KG, Berlin	26	100	416	188
POLIS Objekt Potsdamer Strasse 58 GmbH, Berlin	26	94	1,641	85
POLIS Objekt Landschaftstrasse GmbH & Co. KG, Berlin	100	100	5,305	138
POLIS Objekt Konrad-Adenauer-Ufer GmbH & Co. KG, Berlin	100	100	10,100	309
POLIS Quartier Büchsenstrasse GmbH & Co. KG, Berlin	100	100	10,916	706
POLIS Objekte Mannheim Stuttgart GmbH & Co. KG, Berlin	100	100	2,189	33
POLIS Objekte Kassel Köln GmbH & Co. KG, Berlin	100	100	1,922	211
POLIS Objekt Lessingstrasse GmbH & Co. KG, Berlin	100	100	3,727	-136
POLIS Zweite Objektgesellschaft Dusseldorf GmbH & Co. KG, Berlin	100	100	6,139	324
POLIS Zweite Objektgesellschaft Köln GmbH & Co. KG, Berlin	100	100	14,186	580
POLIS Objekt Könneritzstrasse GmbH & Co. KG, Berlin	100	100	1,100	1,649
POLIS Objekte Berliner Allee GmbH & Co. KG, Berlin	100	100	11,527	256
POLIS Erste Objektgesellschaft Köln GmbH & Co. KG, Berlin	100	100	11,773	132
POLIS Zweite Objektgesellschaft Stuttgart GmbH & Co. KG, Berlin	100	100	8,631	188
POLIS Objekt Rankestrasse 21 GmbH & Co. KG, Berlin	100	100	8,644	690
POLIS GmbH & Co. Dreiundvierzigste Objekt KG, Berlin	100	100	0	-13
POLIS GmbH & Co. Vierundvierzigste Objekt KG, Berlin	100	100	0	-2
POLIS Service GmbH, Berlin	100	100	135	47

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. The group of consolidated companies did not change compared with 31 December 2017.

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.

IFRS 9 Financial Instruments

The Group adopted IFRS 9 Financial Instruments published by the IASB on 24 July 2014 for the first time in the current financial year, to replace the previous standard IAS 39 Financial Instruments: Recognition and Measurement. Adoption of IFRS 9 is mandatory for financial years beginning on or after 1 January 2018. Compared with IAS 39, the rules of IFRS 9 envisage a new classification model for financial assets. In future, subsequent measurement follows three categories with different measurement bases and different ways of recognizing changes in value. Categorization is determined both from the contractual cash flows of the instrument and from the business model in which the instrument is held. The categories are fundamentally mandatory, supplemented by options. For financial liabilities, the existing provisions from IAS 39 were largely adopted in IFRS 9. In a departure from IAS 39, the new impairment model focuses on earlier risk provisioning. For this, IFRS 9 envisages three stages for the future determination of the level of the expected losses and the collection of interest. IFRS 9 also contains new rules on the use of hedge accounting in order to present the risk management activities of an entity better, in particular in respect of the controlling of non-financial risks. In addition to comprehensive transitional provisions, IFRS 9 is associated with comprehensive disclosure requirements both upon transition and during ongoing adoption.

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.

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.

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 10-15%. 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 measured at cost, including ancillary costs, at the time of their acquisition.
The subsequent valuation of the investment properties is at fair value, with gains or losses from the change in fair value being recognized through profit or loss.

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 through profit or loss.

2.4.5. Financial assets

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

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

Financial assets are measured at fair value upon initial recognition.

The subsequent valuation depends on the classification of the financial instruments in accordance with the measurement categories of IFRS 9. Subdivision is into the categories »Amortized cost«, »At fair value through profit or loss« and »fair value through other comprehensive income«.

A financial asset is classified at the time of its addition according to the characteristics of the contractual cash flows as well as the type of business model in which it is held. Accordingly, financial assets are classified at amortized cost if, first, the financial asset is held within the business model in order to collect the contractual cash flows and, second, the contractual cash flows at given points in time represent merely repayments as well as interest on the outstanding nominal amount. If one criterion is not met, financial assets are classified at fair value through profit or loss.

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

a. Financial assets in equity instruments
Subsequent valuation is fundamentally performed at fair value. The fair value change is recognized for all financial assets through other comprehensive income. POLIS holds non-controlling interests of 5.1% in »Bouwfonds GmbH & Co. Stinnesplatz KG«. Because these shares are regarded as a strategic investment, they are measured at fair value through other comprehensive income.

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. The contractual cash flows that represent exclusively payments of principal and interest on the principal outstanding are collected. Receivables and other financial assets are measured initially at fair value. In the case of trade payables, recognition is at the transaction price. On the subsequent reporting dates they are measured at amortized cost using the effective interest rate method.

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 through profit or loss 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 – derivative financial instruments

Derivative financial instruments (interest rate swaps) are used to hedge the interest rate risks of variable-rate loans. Derivative financial instruments are recognized as financial liabilities if their fair value is negative. Subsequent valuation is at fair value. The hedging relationships do not satisfy the criteria of IFRS 9 with respect to hedging relationships (hedge accounting).

First-time adoption of IFRS 9 has no effects on financial liabilities for which subsequent measurement is at amortized cost.

The derivative financial instruments are 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 through profit or loss unless the derivative financial instruments are used in a designated and sufficiently effective hedging relationship with an underlying transaction.

POLIS has designated the derivative financial instruments in part 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. The interest rate swaps concluded for this purpose are accounted for in accordance with the hedge accounting rules of IFRS 9, provided the standard's conditions are met. POLIS hedges exclusively cash flows that result from future interest payments.

Detailed documentation of the risk management strategy and hedging relationship between the hedge and the underlying transaction as well as proof of the effectiveness (and especially the economic impact) of the hedging relationship between the hedge and the underlying transaction are required. Upon concluding the transaction, POLIS documents the hedging relationship between hedge and underlying transaction, as well as its risk management goal and the underlying strategy, when concluding hedges.

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 through profit or loss in the reporting period in which the hedged underlying financial transaction also influences the result for that period. The unrealized gains and losses of the effective portion of the hedge are initially recognized through other comprehensive income. They are only transferred to the income statement once the underlying transaction of the hedge has been recognized through profit or loss. The non-effective portion is recognized immediately in the income statement. In the case of derivative financial instruments that do not meet the criteria for hedge accounting, gains or losses from fair value changes are recognized immediately through profit or loss. If a hedge expires, is disposed of or no longer meets the criteria for a cash flow hedge, the accumulated gain or loss remains within "OCI" until the underlying transaction materializes. If, however, it is no longer expected to materialize, the accumulated gains or losses are to be booked immediately to profit or loss. The fair values of the interest rate swaps are classified as current or non-current assets/liabilities according to the maturities of their underlying cash flows.

The following table reconciles the classes of financial instruments with the IFRS 9 categories upon first-time adoption:

Balance sheet item	Category under IAS 39	Category under IFRS 9	IAS 39 carrying amount 31/12/2017 EUR '000	IFRS 9 carrying amount 01/01/2018 EUR '000
Financial assets (equity shares)	Financial assets available for sale	Fair value	0	0
Trade receivables	Loans and Receivables	Amortized cost	4,966	4,966
Other financial assets	Loans and Receivables	Amortized cost	1,591	1,591
Cash in banks	Loans and Receivables	Amortized cost	29,463	29,463
Liabilities to banks	Financial liabilities at amortized cost	Amortized cost	177,109	177,109
Trade payables	Financial liabilities at amortized cost	Amortized cost	2,666	2,666
Other financial liabilities	Financial liabilities at amortized cost	Amortized cost	650	650
Other financial liabilities	Derivatives measured at fair value with an effective hedging relationship	Fair value	7,948	7,948

No changes to the carrying amounts occurred through the switch to IFRS 9, see the next section “Impairment” in this connection.

The option of designating a financial asset as at fair value through profit or loss at the time of its addition to avoid measurement inconsistency, even though it was classified at amortized cost, was not used.

2.4.9. Wertminderung

First-time adoption of IFRS 9 has meant that the determination of how to recognize impairment of financial assets accounted for at amortized cost has changed. The occurrence of a loss event is now no longer determinative for posting an impairment loss. Instead, impairment is to be reported for expected credit losses for all financial assets that are not recognized at fair value, as well as for contract assets. 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.

For the first-time adoption of IFRS 9, the Group did not recognize any additional impairment loss.

The following table reconciles the closing balance of impairment to IAS 39 with the opening balance for impairment to IFRS 9:

Balance sheet item	Category under IAS 39	Category under IFRS 9	IAS 39 impairment loss 31/12/2017 EUR '000	Revaluation	IFRS 9 expected credit losses 01/01/2018 EUR '000
Financial assets (equity shares)	Financial assets available for sale	Fair value	0	0	0
Trade receivables	Loans and Receivables	Amortized cost	0	0	0
Other financial assets	Loans and Receivables	Amortized cost	0	0	0
Cash in banks	Loans and Receivables	Amortized cost	0	0	0

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.

IFRS 15 is adopted for the first time in the fiscal year. Because the revenue period for the identified performance obligations extends only up until the reporting date and exclusively services are performed, no material changes to accounting arise from IFRS 15.

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 recognized through other comprehensive 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 recognized through other comprehensive income. Interest income and interest expense are recognized based on the effective interest method.

2.4.11. Leases

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

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

2.4.12. Borrowing costs

All borrowing costs are recognized through profit or loss 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 2018. 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 16 was published in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS specifies the principles for the recognition, measurement, presentation of leases as well as the disclosure obligations, and obliges lessees to recognize all leases under a single model similarly to the way finance leases are accounted for under IAS 17. IFRS 16 is to be adopted for the first time for financial years beginning on or after 1 January 2019, and obliges lessees and lessors to make more detailed disclosures compared to IAS 17. 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 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.

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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 2018:

Figures in EUR '000	Fair value 01/01/2018	Additions from Acquisitions	Modernization investments	Changes in change	Fair value 31/12/2018
Berlin	86,590	0	461	16,949	104,000
Dresden	81,970	11,230	799	10,620	104,620
Dusseldorf	37,200	0	382	4,488	42,070
Cologne	87,200	0	158	7,452	94,810
Stuttgart	71,190	0	83	5,392	76,665
Other Cities *	36,600	0	228	4,992	41,820
Total	**400,750**	**11,230**	**2,111**	**49,894**	**463,985**

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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. The addition relates to the acquisition of the property at Ammonstrasse 8, Dresden.

Of the modernization investments conducted in 2018, EUR 2,014 thousand (previous year EUR 2,282 thousand) is cash-effective; including payments made for modernization costs in the previous year, overall payments come to EUR 2,947 thousand (EUR 2,791 thousand).

Revaluation produced an overall increase in market value of EUR 49,893 thousand. There were positive valuation results in particular for the properties in Berlin and Stuttgart from the significantly improved terms secured for lease agreements, from the extension of several lease agreements and from improved market rents.

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

Figures in EUR '000	Fair value 01/01/2017	Additions through purchase	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
Dusseldorf	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**

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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:

	2018 Investment properties EUR '000	2017 Investment properties EUR '000
Rental revenues from investment properties	22,228	20,356
Expenses directly attributable to the generation of rental revenues		
Renovation and maintenance expenses	3,528	3,560
Property management expenses	584	1,336
TOTAL	4,112	4,896
Expenses directly attributable to but not resulting in the generation of rental revenues		
Property management expenses	223	196
TOTAL	**223**	**196**

Information concerning property valuation at 31 December 2018

The fair values of the properties at 31 December 2018 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 six properties owned by POLIS at 31 December 2018 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 2018 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.

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

- The average vacancy rate across the portfolio of 2.01% at the valuation date (previous year 4.17%) will rise substantially within one year to an anticipated 7.50% at 31 December 2019. The mid-term planning horizon assumes vacancy rates across the individual properties ranging between 0.00% and a maximum of 74.47%.

- The cash flow scenario shows an average increase in rents of approximately 2% (previous year 9.42%) in the first year. The development in short-term rental revenues is benefiting from significant increases in rents in Berlin and Dresden on the one hand, while on the other hand vacancy-related falls in revenues in Cologne, Dusseldorf and Stuttgart are having the opposite effect, keeping the weighted portfolio average moderate. From the second year up until the end of the ten-year planning horizon we project an increase in rents averaging 1.78% per year (previous year 2.05%). The somewhat muted development expectations still reflect non-recurring effects from vacancies in the first years of the forecasting period.

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

In the long term (2019-2023), POLIS performs planning based on average maintenance costs (including general modernization costs) of EUR 4.19 (previous year EUR 3.34) per square metre of rental space per month, which includes EUR 0.79 (previous year EUR 0.79) per square metre per month for current maintenance. Compared to the previous year, the period over which maintenance costs are considered was

kept at five years because the specific planning period for these is equally five years. In the short term increased maintenance costs of EUR 6.64 in 2019 and EUR 4.53 in 2020 were identified, in each case per square metre of rental space per month, including a component of EUR 0.76 for current maintenance. The increased maintenance costs in 2019 and 2020 result mainly from the comprehensive construction work on a property in Cologne, roof renovation work on a property in Berlin and façade renovation of a property in Dusseldorf. In the years 2021 to 2023 the planned maintenance costs average EUR 3.26 per square metre of rental space per month.

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

Figures in %	Vacancy rate 31/12/2018 (area)	Expected vacancy rate 31/12/2019 (area)	Planned short-term rent increase (revenue)	Planned long-term rent increase (revenue)
Berlin	0.39	0.87	4.35	2.89
Dresden	0.45	1.85	6.42	2.01
Dusseldorf	5.68	17.24	0.00	2.05
Cologne	3.47	14.30	-2.77	0.88
Stuttgart	2.45	12.09	-0.77	1.31
Other Stories *	2.34	4.33	4.98	1.35
Portfolio	**2.01**	**7.50**	**2.00**	**1.78**

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The actual vacancy rate at 31 December 2018 across the entire portfolio is much lower than the previous year's projection (3.34%), at 2.01%. Thanks to a very good letting take-up, the defined target was not merely achieved, but exceeded. The higher vacancy rate assumed at the end of 2019 is in essence based on the vacancy in Cologne (2,910 sqm) necessitated by the planned refurbishment of the building. Other major vacancies are expected for the properties in Dusseldorf for 1,592 sqm and in Stuttgart for 2,214 sqm.

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

Figures in %	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
Dusseldorf	8.69	10.28	2.22	2.77
Cologne	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 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	31/12/2018	-10 %	+10 %	-1 %	+1 %	-1 %	+1 %	+100 base points	-100 base points
Berlin	104,000	-5,160	10,097	-3,586	3,847	369	-387	-8,339	9,220
Dresden	104,620	-2,980	3,305	-452	467	466	-293	-8,288	9,152
Dusseldorf	42,070	-3,471	2,375	-2,036	2,183	112	-202	-3,601	3,987
Cologne	94,810	-6,030	4,326	-2,443	1,872	62	-432	-7,951	8,789
Stuttgart	76,665	-3,303	3,642	-984	1,006	304	-295	-6,169	6,824
Other Cities*	41,820	-2,050	1,328	-955	1,031	201	-159	-3,417	3,781
Portfolio	**463,985**	**-22,994**	**25,073**	**-10,456**	**10,406**	**1,514**	**-1,768**	**-37,765**	**41,753**

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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	31/12/2017	-10 %	+10 %	-1 %	+1 %	-1 %	+1 %	+100 base points	-100 base points
Berlin	85,590	-7,012	6,980	-3,941	4,211	-349	310	-6,862	7,493
Dresden	81,970	-7,061	7,051	-2,104	2,247	-399	399	-6,356	6,940
Dusseldorf	37,200	-3,589	3,572	-1,558	1,653	-162	144	-3,053	3,378
Cologne	87,200	-7,269	7,198	-2,770	2,998	-394	420	-7,040	7,741
Stuttgart	71,190	-5,342	5,369	-2,298	3,007	-297	335	-6,113	5,383
Other Cities*	36,600	-2,599	2,604	-1,477	1,587	-181	155	-3,029	3,424
Portfolio	**400,750**	**-32,872**	**32,774**	**-14,148**	**15,703**	**-1,782**	**1,763**	**-32,453**	**34,359**

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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 2018).

The deviations shown under long-term rental income were determined as follows: a 10% increase or decrease was applied to the property-specific market rents for "Office" as the principal type of use from the measurement date. In subsequent years, the change in property-specific market rents is 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 for the "office" type of use applied a 1% increase or decrease in each case. The increase or decrease in growth in market rents expressly does not apply to the assumed indexing of lease agreements.

The deviation analyses stated under "Loss of rental revenue" are based on existing or assumed lease agreements. The loss of rental revenue risk for these was increased or decreased for these by 1% in each case.

In the deviation analyses shown under "Discount rate", the property-specific discount rate for the rolling DCF valuation was increased or reduced by 100 base points.

Over and above the input factors shown in the above table, the fair values exhibit high sensitivity to an extension or reduction of the assumed marketing periods for planned changes of tenant as well as to the increase or decrease in the exit yield in a notional resale after ten years. A planning period of ten years is assumed for the properties' valuation.

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 (31/12/2018)	120,780	21,953	59,390	39,436
Minimum rent payments (31/12/2017)	95,269	21,502	51,803	21,964

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	01/01/18	Additions	Disposals	31/12/18	01/01/18	Additions	Disposals	31/12/18	31/12/17	31/12/18
Software	956	87	0	1,043	631	150	0	781	325	262
Fixtures and equipment	739	189	34	894	360	109	27	442	379	452
	1,695	**276**	**34**	**1,937**	**991**	**259**	**27**	**1,223**	**704**	**714**

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	01/01/17	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**

3.3. Financial assets

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.

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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	**2018** EUR '000	**2017** EUR '000
Investment properties	0	0
Tax losses carried forward	1,098	1,858
Hedging reserves	501	321
Total before offsetting	1,599	2,179
Offsetting	-1,599	-2,179
Deferred tax assets	0	0
Latente Steuerverbindlichkeiten		
Anlageimmobilien	28,291	19,247
Sonst. finanz. Verbindlichkeiten	431	461
Saldierung	-1,599	-2,179
Passive latente Steuern	27,123	17,529

Deferred tax assets are offset against deferred tax liabilities (EUR 1,599 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 2018, deferred taxes were formed in full with respect to the corporate tax losses carried forward for POLIS Immobilien AG (EUR 6,938 thousand; previous year EUR 11.742 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 368 thousand; previous year EUR -86 thousand) and the reclassification of the market value changes of the replaced swaps reported in the reserve for cash flow hedges (EUR -168 thousand; previous year EUR -74 thousand), as well as the effect from the de-designation of a hedge for which the underlying transaction has been removed (EUR -3 thousand; previous year EUR -0 thousand) were recognized through other comprehensive income.

The other changes in the deferred tax assets and tax liabilities are recognized through profit or loss.

No deferred tax assets were recognized for trade tax losses carried forward amounting to EUR 69,808 thousand (previous year EUR 64,166 thousand) because they are not used according to the business plan.

3.5. Advance payments for investment properties

In the previous year the advance payment for Ammonstrasse 8, Dresden, for which the transfer of benefits and encumbrances took place on 1 January 2018, was 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:

	31/12/2018 EUR '000	31/12/2017 EUR '000
Trade receivables	5,721	4,966
of which allocable operating expenses	5,417	4,775
of which rent receivables	304	191
Other receivables	76	1,591
TOTAL	**5,797**	**6,557**

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

At 31 December 2018, receivables from operating costs not yet settled stood at EUR 5,417 thousand (previous year EUR 4,775 thousand) and advance payments received for operating costs amounted to EUR 5,559 thousand (previous year EUR 4,810 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.

The other receivables in the previous year in the amount of EUR 1,400 thousand resulted 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:

		thereof: not impaired and due			
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
31/12/2018					
5,721	5,478	202	19	38	18
31/12/2017					
4,966	4,941	0	15	10	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 426 thousand (previous year EUR 660 thousand). POLIS is able to access this collateral in the event of payment arrears, in accordance with the terms of the lease agreements.

Impairments for other receivables and other assets were not required.

As in the previous year, the current tax receivables amounting to EUR 76 thousand (previous year EUR 141 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 2018 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	172,144 (177,109)	2,998 (23,590)	169,146 (153,519)	48,230 (52,314)	120,916 (101,205)
Advance payments received	5,599 (4,810)	5,599 (4,810)	0 (0)	0 (0)	0 (0)
Trade payables	2,798 (2,666)	2,798 (2,666)	0 (0)	0 (0)	0 (0)
Income tax liabilities	0 (47)	0 (47)	0 (0)	0 (0)	0 (0)
other liabilities	10,093 (8,598)	3,021 (2,649)	7,072 (5,949)	7,072 (5,507)	0 (442)
	190,634 (193,230)	**14,416** (33,762)	**176,218** (159,468)	**55,302** (57,821)	**120,916** (101,647)
Plus deferred tax liabilities			27,123 (17,529)		
Total non-current liabilities			**203,341** (176,997)		
Total current liabilities		**14,416** (33,762)			

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
2020	1.28		10,738
2021	3.28-3.51	1	23,367
2023	3.24	1	5,789
2025	variabel		14,550
2027	variabel		79,708
2028	variabel		30,152
2036	variabel		7,840
		Total	**172,144**

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

Time to maturity	Interest rate %	Initial amortization %	Remaining debt EUR '000
2018	variabel		21,488
2020	1.28		10,000
2021	variabel	1	12,426
2021	3.28-3.51	1	23,657
2023	3.24	1	6,015
2025	variabel		14,700
2027	variabel		80,903
2036	variabel		7,920
		Total	**177,109**

There was a cash outflow amounting to EUR 2.1 million in financial year 2018 as a result of scheduled redemption payments. In addition, loans totalling EUR 17.9 million were redeemed and new loans with a volume of EUR 15 million were raised.

Of the liabilities to banks, a total of EUR 132,250 thousand (previous year EUR 136,739 thousand) is at variable interest rates and EUR 39,894 thousand (previous year EUR 39,672 thousand) at fixed interest rates; the item also includes accrued interest of EUR 738 thousand (previous year EUR 698 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 210,564 thousand (previous year EUR 223,233 thousand) against the property portfolio (carrying amount: EUR 463,985 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 2018 was 2.17% (previous year 2.20%). The weighted average remaining term of the bank loans is 7.7 years (previous year 7.1 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 2018 amounted to EUR 40,286 thousand (previous year EUR 41,241 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 -0.04%-0.30% (previous year -0.10%-0.50%) including margin.

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

Trade payables largely pertain to construction work.

The other current liabilities item is composed as follows:

	31/12/2018 EUR '000	31/12/2017 EUR '000
Negative market value of derivative financial instruments	2,049	1,999
Miscellaneous	972	650
Total	**3,021**	**2,649**

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

	Interest rate hedging	
Hedging period	Average nominal amount for interest rate swap	Average hedged fixed interest rate
up to 1 year	101,314	1.62 %
over 1 year to 2 years	100,128	1.61 %
over 2 years to 5 years	114,824	1.65 %
over 5 years to 10 years	98,780	1.62 %
over 10 years to 15 years	20,505	1.77 %
over 15 years	6,540	1.51 %

The original term of the designated swaps is eight to 20 years (previous year five to 20 years).

In financial year, two swaps (previous year eight swaps) with a combined volume of EUR 14,963 thousand (previous year EUR 60,573 thousand) were concluded to take the place of existing swaps. The value changes reported in the reserve for cash flow hedges are released in instalments to profit or loss over the original terms of the hedging relationships. This meant that EUR 1,061 thousand (previous year EUR 488 thousand) less deferred taxes of EUR 168 thousand (previous year EUR 77 thousand) was reclassified from the reserve for cash flow hedges to interest expense because of the replacement of the swaps.

In addition, a forward starting swap with a volume of EUR 22,758 thousand to secure follow-on financing of a currently fixed-interest bank loan was concluded in the financial year.

A forward starting interest rate swap with a volume of EUR 5,600 thousand was withdrawn from the cash flow hedge in the financial year because the underlying transaction is no longer expected to occur. The amount of EUR -18 thousand after income taxes recognized at that point in the reserve for cash flow hedges was recognized through profit or loss under the financial result because the hedged cash flows will no longer occur.

Derivative financial instruments:

EUR '000	Equity and liabilities			
	31/12/2018		31/12/2017	
	Nominal volume	Fair Value	Nominal volume	Fair Value
Interest rate swaps	130,117	9,121	85,032	7,948
of which within cash flow hedges	124,517	8,974	85,032	7,948
Total	130,117	9,121	85,032	7,948

The hedges that POLIS AG has designated as cash flow hedges have the following effects on the balance sheet at 31 December 2018:

Interest rate risk (interest rate swaps with fixed outgoing payments and variable incoming payments)	31/12/2018	31/12/2017
EUR '000 Nominal amounts	124,517	85,032
Fair value of hedges	-8,974	-7,948
of which non-current	-1,973	-1,999
of which current	-7,001	-5,949
of which assets	0	0
of which liabilities	-8,974	-7,948
Fair value changes of hedges	-1,026	1,665
For measurement of ineffectiveness	Hypothetical derivatives method	Hypothetical derivatives method
Balance sheet item for hedges	Other financial liabilities	Other financial liabilities

The cash flow hedges have the following effects on the income statement or other comprehensive income (OCI):

Interest rate hedges	31/12/2018	31/12/2017
OCI cash flow hedge reserve (profit/loss recorded from hedging, after income taxes)	-6,057	-5,008
Change in cash flow hedge reserve	-1,049	853
of which addition recognized in other comprehensive income	-3,044	-632
of which reclassified from OCI to income statement following materializing of underlying transaction	1,977	1,485
of which reclassified from OCI to income statement following removal of underlying transaction	18	0
Income statement item for unclassified amounts	Interest expense	Interest expense
Hedge ineffectiveness (result) in income statement	230	-93
Income statement item for ineffectiveness (result)	Result from the valuation of derivatives	Result from the valuation of derivatives

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 recognized through other comprehensive income.

The addition recognized through other comprehensive income contains the reclassifications from OCI to profit and loss from the removal of the underlying transaction as well as in-year measurement effects for the existing hedging instruments amounting to EUR 1,289 thousand (previous year EUR 1,295 thousand), less deferred taxes of EUR 204 thousand (previous year EUR -86 thousand), which cancel each other out.

Without these effects, the net market value change of the derivatives in a hedging relationship in the financial year amounted to EUR -2,328 thousand (previous year EUR 546 thousand), plus deferred taxes of EUR 368 thousand (previous year EUR -86 thousand). In the financial year, EUR 1,061 thousand (previous year EUR 488 thousand) less deferred taxes of EUR 168 thousand (EUR 77 thousand) was reclassified from the reserve for cash flow hedges to interest expense because of the replacement of the swaps.

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 IFRS 9 measurement categories.

The following table shows the carrying amounts of the financial assets and liabilities for the IFRS 9 measurement categories as well as their carrying amounts:

Balance sheet item	Category	2018 EUR '000	2017 EUR '000
Receivables and other financial assets	Receivables	5,797	6,557
Cash in banks	Cash in banks and cash holdings	31,685	29,463
		37,482	**36,020**
Liabilities to banks	Financial liabilities at amortized cost	172,144	177,109
Trade payables	Financial liabilities at amortized cost	2,983	2,666
Other financial liabilities	Financial liabilities at amortized cost	972	650
	Derivatives measured at fair value without an effective hedging relationship	147	0
	Derivatives measured at fair value with an effective hedging relationship	8,974	7,948
		185,220	**188,690**

For all financial instruments, classification into the categories observed the IFRS 9 criteria correspondingly upon initial recognition.

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	2018 EUR '000	2017 EUR '000
Receivables and other financial assets	Financial liabilities at amortized cost	-35	-83
Other financial liabilities	Derivatives measured at fair value without an effective hedging relationship	-147	0
	Derivatives measured at fair value with an effective hedging relationship	230	-93
		48	**-176**

The net gains from the derivatives at fair value that are not components of effective cash flow hedges include measurement losses recognized through profit or loss from interest rate swaps in the amount of EUR -147 thousand (previous year EUR 0 thousand).

The net gains from the derivatives at fair value that are components of effective cash flow hedges result from the reclassification of an OCI amount to the income statement because of the removal of the underlying transaction in the amount of EUR 18 thousand (previous year EUR 0 thousand) as well as the ineffectiveness recognized through profit or loss in the amount of EUR 230 thousand (previous year EUR -93 thousand).

The effective changes in the market value of derivatives that form part of effective cash flow hedges (EUR -3,617 thousand; previous year EUR -750 thousand) were recognized through other comprehensive income after deduction of deferred taxes (EUR 572 thousand; previous year EUR 118 thousand).

		31/12/2018				31/12/2017			
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)	-	-	0	0	-	-	0	0
Liabilities to banks	Liabilities reported at fair value	-	-173,274	-	-173,274	-	-178,678	-	-178,678
Other financial liabilities	Derivatives measured at fair value without an effective hedging lationship	-	-147	-	-147	0	0	0	0
	Derivatives measured at fair value with an effective hedging lationship	-	-8,974	-	-8,974	-	-7,948	-	-7,948
		0	**-182,395**	**-**	**-182,395**	**0**	**-186,626**	**0**	**-186,626**

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.

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 -114 thousand (previous year EUR 575 thousand) that are attributable to rent-free periods. The rise in rental income stems from the acquisition of additional investment properties and major new lease agreements in 2018, as well as from 2017 but only achieving their full effect in 2018.

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:

	2018 EUR '000	2017 EUR '000
Non-allocable operating costs	**440**	715
Letting costs	**162**	629
Other property management expenses	**205**	188
Total	**807**	1,532

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

In the previous year the result from the sale of financial assets stemmed from the sale of the four companies in which POLIS held a 15% interest (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 2018 substantially comprises income from insurance payouts. In the previous year it included income from asset and property management services for the four companies in which POLIS held a 15% interest (EUR 343 thousand).

4.7. Other expense

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

4.8. Administrative expenses

The following table shows the composition of the administrative expenses:

	2018 EUR '000	2017 EUR '000
Staff costs	**2,230**	2,002
Legal, consultancy and auditing fees	**553**	499
Office and travel expenses	**1,241**	1,171
Annual Report, Annual General Meeting	**265**	218
Marketing and advertising expenses	**151**	45
Other expense	**112**	97
Total	**4,552**	4,032

In addition to the members of the Board of Management, on average 26 persons were employed in financial year 2018 (previous year 26), 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

Financial income represents financial assets that were classified to amortized cost in accordance with the new measurement categories of IFRS 9. The financial income refers to interest income from the current accounts of POLIS.

4.10. Interest expense

Financial expense represents financial liabilities that were classified to amortized cost in accordance with the new measurement categories of IFRS 9. The overall interest expense is shown below:

	2018 EUR '000	2017 **EUR '000**
Interest expense	**3,795**	3,854
Ancillary financing costs	**183**	379
Reclassified result from the reserve for cash flow hedges	**1,061**	488
Total	**5,039**	4,721

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

4.11. Income taxes

Expense (-)/income (+)	**2018 EUR '000**	2017 EUR '000
Deferred taxes on losses carried forward	**760**	-375
Deferred taxes from temporary differences	**-10,552**	-6,750
Current taxes	**-84**	63
Total	**-9,876**	-7,062

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 2018 (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:

	2018 EUR '000	2017 EUR '000
Profit before taxes	**57,051**	45,469
Group tax rate	**15.825 %**	15.825 %
Expected income tax expense	**-9,028**	-7,195
Non-deductible operating expenses	**-11**	-7
Income tax – previous years	**84**	63
Adjustment losses carried forward	**-718**	-39
Income taxes – current year	**99**	0
Other	**-105**	116
Taxes on income	**-9,679**	-7,062
Tax rate	**16.6 %**	15.5 %

4.12. Earnings per share

Earnings per share are determined as follows:

	01/01/18-31/12/18	01/01/17-31/12/17
Consolidated earnings after profit (EUR '000)	**48,421**	38,407
allocable to minority interests (in numbers of shares)	**11,051,000**	11,051,000
Earnings per share (basic and diluted) (in EUR)	**4.38**	3.48

5. DISCLOSURES CONCERNING THE CASH FLOW STATEMENT

The cash flow statement was drawn up using the indirect method, with the cash flow 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.

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6. OTHER DISCLOSURES

6.1. Supervisory Board and Board of Management

The members of the Board of Management were:

Mathias Gross
Chief Executive 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 – until 13 June 2018

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 – until 13 June 2018

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 members of the Board of Management of POLIS in the course of the financial year:

	2018 EUR '000	2017 EUR '000
Gross compensation	**643**	504
Other benefits	**23**	23
Total	**666**	527

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 134 thousand in financial year 2018 (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 cash in banks, 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 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: 86%). This interest rate hedging takes the form of fixed-rate loans, interest rate swaps. 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 2018, the variable-rate bank liabilities of POLIS stood at EUR 132,250 thousand (previous year EUR 136,739 thousand). Of this, EUR 101,759 thousand (previous year EUR 84,793 thousand) was converted into fixed-rate liabilities through interest rate swaps. Fixed-rate liabilities to banks amounted to EUR 39,894 thousand (previous year EUR 39,671 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 2018, 86% of the interest-bearing liabilities to banks were hedged. This means that 14% (EUR 25 million) of the loans are not hedged. A 100 base point rise in interest rates would increase the interest expense by approximately EUR 250 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 2018 by about EUR 3,620 thousand (previous year EUR 2,672 thousand), 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 362 thousand (EUR 267 thousand). The effect would produce a change in equity amounting to EUR 3,404 thousand (previous year EUR 267 thousand) and to a change in the income statement of EUR 200 thousand (previous year EUR 0 thousand).

The existing interest rate swaps represent hedging of clearly identifiable existing or planned underlying transactions and are therefore assigned directly through micro-hedging to the corresponding variable loans at the level of the respective special purpose entity, through cash flow hedges. As a result, the market value changes of the effectively hedged portions of the interest rate swaps are recognized directly in equity, through other comprehensive 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 2018, receivables from operating costs not yet settled stood at EUR 5,417 thousand (previous year EUR 4,775 thousand), and advance payments received for operating costs amounted to EUR 5,599 thousand (previous year EUR 4,810 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).

Determination of the default risk for trade payables

Generally speaking the default risk from trade payables, which in essence comprise rent receivables, can be rated as low because thanks to monitoring and creditworthiness assessments the rental portfolio comprises only tenants with good creditworthiness and punctuality of payments. There was no significant increase in the default risk or objective evidence of impairment of rent receivables in the financial year. No transfer from stage 2 to stage 3 of the impairment model was necessary in the financial year.

Centralized monitoring of all existing receivables and of tenants is used for the early detection of default risks. The lease agreements are regularly checked for cluster risks and credit risks. The approach for determining risk provisioning comprises two components. First, clients are monitored intensively on an individual basis. Second, a portfolio that reflects the remaining clients is created. A credit check is carried out on these clients before a contract is entered into. The creditworthiness of all clients is fundamentally similar at the time of concluding the contract.

POLIS implements the Creditreform default probability method to assess the probability of default.

Expectations of future defaults are derived from monitoring of the German economy overall. For changes in the default rates, reference is made to the rating tables of individual states, because the overall economic risk of a state is the matter of relevance.

The basis for calculating the gross carrying amount of the probability of default is the monthly rent receivable per tenant, multiplied by the probability of default in each case. For the remaining clients, an estimated probability of default is assumed based on the credit check and calculated using the monthly rent receivables.

Default risk rating class	Gross carrying amounts of trade receivables						
External rating class according to Creditreform	Internal rating class	Probability of default	12-month expected credit loss	Lifetime expected credit loss			Financial instruments already impaired upon acquisition
				LECL-unimpaired loans	LECL-impaired loans	LECL-simplified approach	
100 - 349		0.46 %				EUR 3,452 thousand	
350 - 499		0.50 %				EUR 3,564 thousand	
500							
600							

The Creditreform rating classes are to be interpreted in ascending order. The higher the rating class, the worse the debtor's creditworthiness. Both the tenants that are considered individually and the remaining tenants have been placed in the "Excellent creditworthiness" Creditreform rating class. The probability of default therefore falls within a range of 0.4% to 0.5%.

Development in impairment of trade receivables pursuant to IAS 39 and IFRS 9.

Trade receivables at amortized cost (previous year: loans and receivables)	31/12/2018
Impairment at 31/12/2017 (calculated according to IAS 39)	0
Amount recognized in retained earnings (difference in carrying amounts at 31/12/2017 and 01/01/2018)	0
Impairment in the opening balance sheet at 01/01/2018 (calculated according to IFRS 9)	0
Increase through profit or loss in impairment (IFRS 9)	34
Impairment at 31/12/2018 (calculated according to IAS 9)	34

Determination of default risk for cash in banks

Generally speaking the default risk for cash in banks is to be rated as low, because the banks in the POLIS portfolio mainly come under the public sector and are therefore protected by the state in terms of default risks. There was no significant increase in the default risk or objective evidence of impairment of receivables from banks in the financial year. No transfer from stage 1 to stage 2 or 3 of the impairment model was necessary in the financial year.

The Company monitors the default risk of banks and financial institutions by regularly consulting the ratings of the institutes S&P, Fitch and Moodys, as well as other available information (credit default swaps) on an individual basis.

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.

Risk provisioning is determined based on ratings and CDS quotations that contain the future default expectations.

The invested amounts as well as the demand deposits at the banks in question serve as the calculation basis.

Default risk rating class	Gross carrying amounts of cash in banks						
External rating class according to rating agencies	Internal rating class	Probability of default	12-month expected credit loss	Lifetime Expected Credit Loss			Financial instruments already impaired upon acquisition
				LECL-unimpaired loans	LECL-impaired loans	LECL-simplified approach	
AAA - A-		0	0			EUR 31,685 thousand	
BBB+ - B-							
CCC+ - C-							

The banks' ratings were classified as "very good" according to Moodys and Fitch Ratings. According to the rating matrix, the probability of default is therefore 0.02%.

Development in impairment of receivables from banks pursuant to IAS 39 and IFRS 9.

Receivables from banks measured at amortized cost (previous year: loans and receivables)	31/12/2018
Impairment at 31/12/2017 (calculated according to IAS 39)	0
Amount recognized in retained earnings (difference in carrying amounts at 31/12/2017 and 01/01/2018)	0
Impairment in the opening balance sheet at 01/01/2018 (calculated according to IFRS 9)	0
Increase through profit or loss in impairment (IFRS 9)	0
Impairment at 31/12/2018 (calculated according to IAS 9)	0

Development in risk provisioning in the financial year

IThe development in risk provisioning is presented in the following, based on a comparison between the opening and closing balances for the year:

Development in risk provisioning per class for assets at cost **EUR**	12-Monats-ECL	Lifetime ECL – simplified approach for trade receivables, asset-side contract items and leasing receivables	**Total**
	Cash in banks	Rent receivables	
Gross carrying amount of risk provisioning at 1 January 2018 (opening balance according to IFRS 9)	0	4,966	4,966
Impairment at 1 January 2018	-	-	-
Currency translation and other differences	-	-	-
Depreciation/amortization	-	-	-
Compounding	-	-	-
Newly launched or acquired financial assets	-	-	-
Reclassifications	-	-	-
In/(out) 12-month ECL	-	-	-
In/(out) lifetime ECL – unimpaired loans	-	-	-
In/(out) lifetime ECL – impaired loans	-	-	-
Financial assets derecognized in the period (not written down) as a result of repayments, modifications, disposals, etc.	-	-	-
Changes to models/ risk parameters	-	-	-
Impairment at 31 December 2018	-	-34	-34
Gross carrying amount of risk provisioning at 31 December 2018 (closing balance according to IFRS 9)	0	5,721	5,721

C) LIQUIDITY RISK

In addition to liquidity planning with a multi-year planning horizon, the Board of Management 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, non-discounted payments at 31 December 2018 for redemptions, interest and repayments.

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.

Analysis of maturities

Figures in EUR '000	Total gross cash outflows	2019	2020	2021	2022	from 2023
Liabilities to banks	179,249	3,975	13,810	26,106	2,679	132,679
Trade payables	2,798	2,798	0	0	0	0
Other liabilities	972	972	0	0	0	0
Non-derivative financial liabilities	183,019	7,745	13,810	26,106	2,679	132,679
Designated derivative financial instruments	9,132	1,973	1,833	1,578	1,534	2,214
Non-designated derivative financial instruments	140	76	70	53	35	-94
Derivative financial liabilities	9,272	2,049	1,903	1,631	1,569	2,120
Maturity before utilization of loan commitments	**192,291**	**9,794**	**15,713**	**27,737**	**4,248**	**134,799**
Loan commitments	0	0	0	0	0	0
Maturity after utilization of loan commitments	**192,291**	**9,794**	**15,713**	**27,737**	**4,248**	**134,799**

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.

At the reporting date there were other financial obligations totalling EUR 516 thousand (previous year EUR 650 thousand) from order commitments for construction contracts.

Cash in banks, unencumbered properties and the cash flow from operating activities are available for financing the planned investments for 2018, which amount to approximately EUR 12.8 million.

Analysis of maturities at 31 December 2017

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
Derivative financial liabilities	7,948	1,999	2,035	1,609	1,128	1,177
Designated derivative financial instruments	7,948	1,999	2,035	1,609	1,128	1,177
Maturity before utilization of loan commitments	**195,050**	**30,098**	**5,816**	**15,250**	**38,780**	**105,106**
Loan commitments	0	0	0	0	0	0
Maturity after utilization of loan commitments	**195,050**	**30,098**	**5,816**	**15,250**	**38,780**	**105,106**

The expense incurred in the financial year from operating leases for vehicles, office equipment and office rents amounts to EUR 294 thousand (previous year EUR 291 thousand). The future lease payments are made up as follows:

EUR '000	Total	up to 1 year	1 to 5 years	over 5 years
31/12/2018	**2,779**	**369**	**1,311**	**1,099**
31/12/2017	2,091	261	892	938

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 37% (previous year 44%).

6.4. Fees and services of the auditor

The fees for services provided by the auditor Ernst & Young Wirtschaftsprüfungsgesellschaft in financial year 2018 were as follows:

	2018 EUR '000	2017 EUR '000
Audit fees	90	97
TOTAL	90	97

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 Dusseldorf 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

In March 2019, POLIS acquired an investment property in Gera. Other than this, no significant events occurred between the end of financial year 2018 and the editorial deadline for these notes.

Berlin, 28 March 2019

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 2018, 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 2018 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 2018.

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 2018 as well as of its financial performance for the financial year from 1 January to 31 December 2018, 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.

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 misrepresentation.

INDEPENDENT AUDITOR'S REPORT

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;

- 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, 29 March 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schepers
Certified Public Accountant

Pfeiffer
Certified Public Accountant

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