POLIS

ANNUAL REPORT 2020

CONTENTS

Senior officers of POLIS AG, from left:

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

Dr, Michael Piontek
Chief Financial Officer

Mathias Gross
Chief Operating Officer

Andreas Goldau
Authorized signatory; Commercial Director

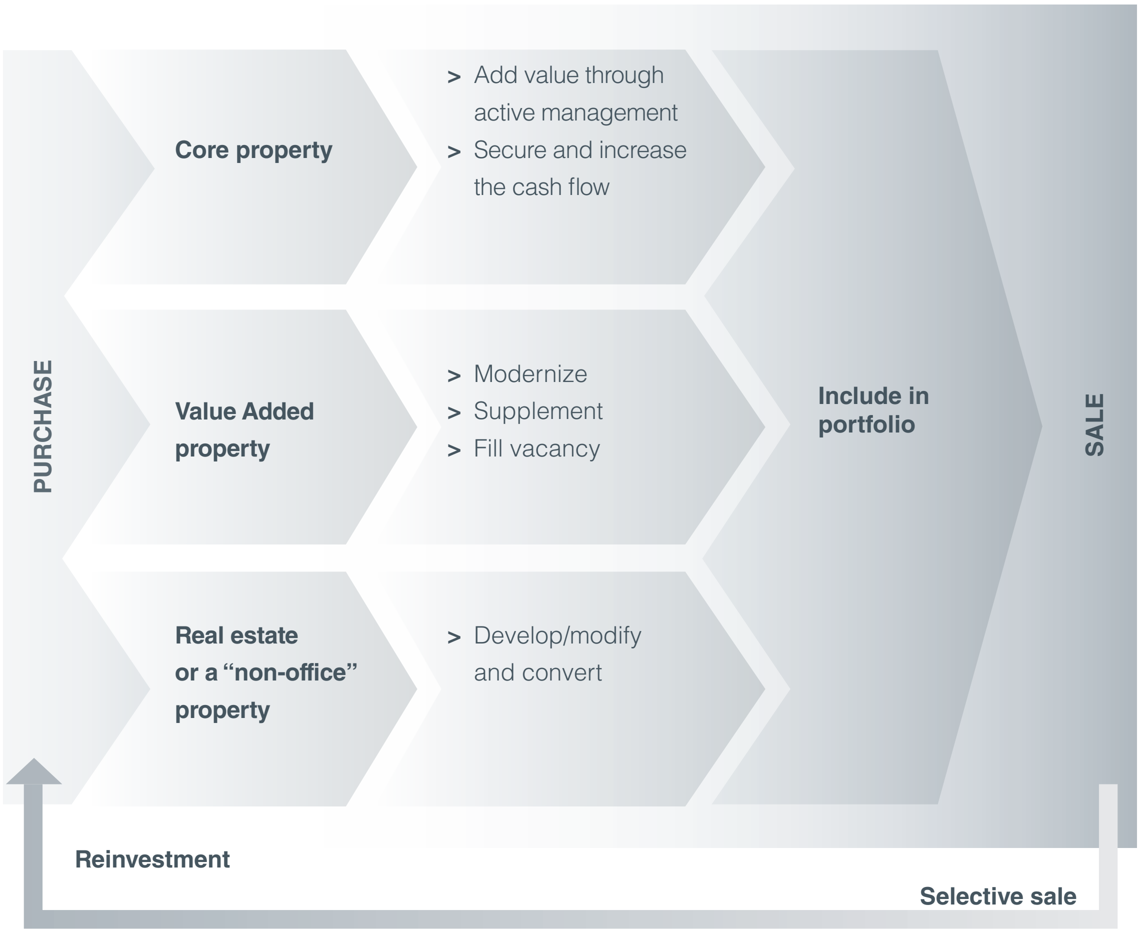
ANNUAL REPORT 2020

POLIS AG key ratios at a glance

	2020	2019
Rental income	**EUR 26.6 million**	EUR 24.0 million
Total assets	**EUR 631.8 million**	EUR 586.2 million
Equity	**EUR 371.3 million**	EUR 334.3 million
Earnings before taxes	**EUR 46.3 million**	EUR 63.3 million
Property portfolio (own commercial space sqm)	**198,550 sqm**	EUR 192,300 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, latterly in up-and-coming cities in eastern Germany.

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.

Halle | Hansering 15

Dependable and financially strong

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

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

By conducting real-estate asset and property management ourselves, we are in a position to manage our properties efficiently and handle even complex transactions swiftly. Our team brings together real estate, legal, commercial, tax and financing expertise under one roof, coupled with the practical experience of now 20 years in the market. We also invest in the advancement of our employees and in training new specialists; the opportunities we offer include dual study courses in Technical Facility Management and traineeships in Business Administration, specializing in Real Estate Management, as well as IHK training courses to qualify as real estate professionals. The high occupancy rate, the steady development in value and the good structural condition of our properties testify to the success of our strategy.

For more information on the subject of acquisition and sale, follow this QR code to visit our website.

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. When modernizing our properties we also pay considerable attention to architectural authenticity. We want to preserve a property’s character. The building at Neumarkt 49 in Cologne is a good example. The extensive renovation project that respects the building’s listed status is creating high-quality, efficient office space that is now coming onto the rental market in units of various sizes. For further information, please also refer to our website. Please contact us if you are interested.

Custom-designed and customer-centred

Many businesses use established, proven standards as their point of reference when choosing their space, but often what they really need is custom utilization concepts. 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 the case for over 20 years.

For more information on the subject of letting and for details of our current rental offers, follow the QR code alongside to visit our website.


vom 13.01.- 02.02.202
SALE
C&A

EVEN OUR CLIENTS MENTION THE INTERIOR DESIGN.

Interview with Dipl.-Kfm. Michael Kleber, Managing Director of the KWP Group

Interview with Dipl.-Kfm. Michael Kleber, Managing Director of the KWP Group
Berlin. The auditors and tax consultants firm KWP can look back on 30 years of operations in the capital city. The firm also likes to adopt a long-term view for its offices. In 2017 it took out a long-term lease agreement on Lietzenburger Strasse in Berlin-Charlottenburg.

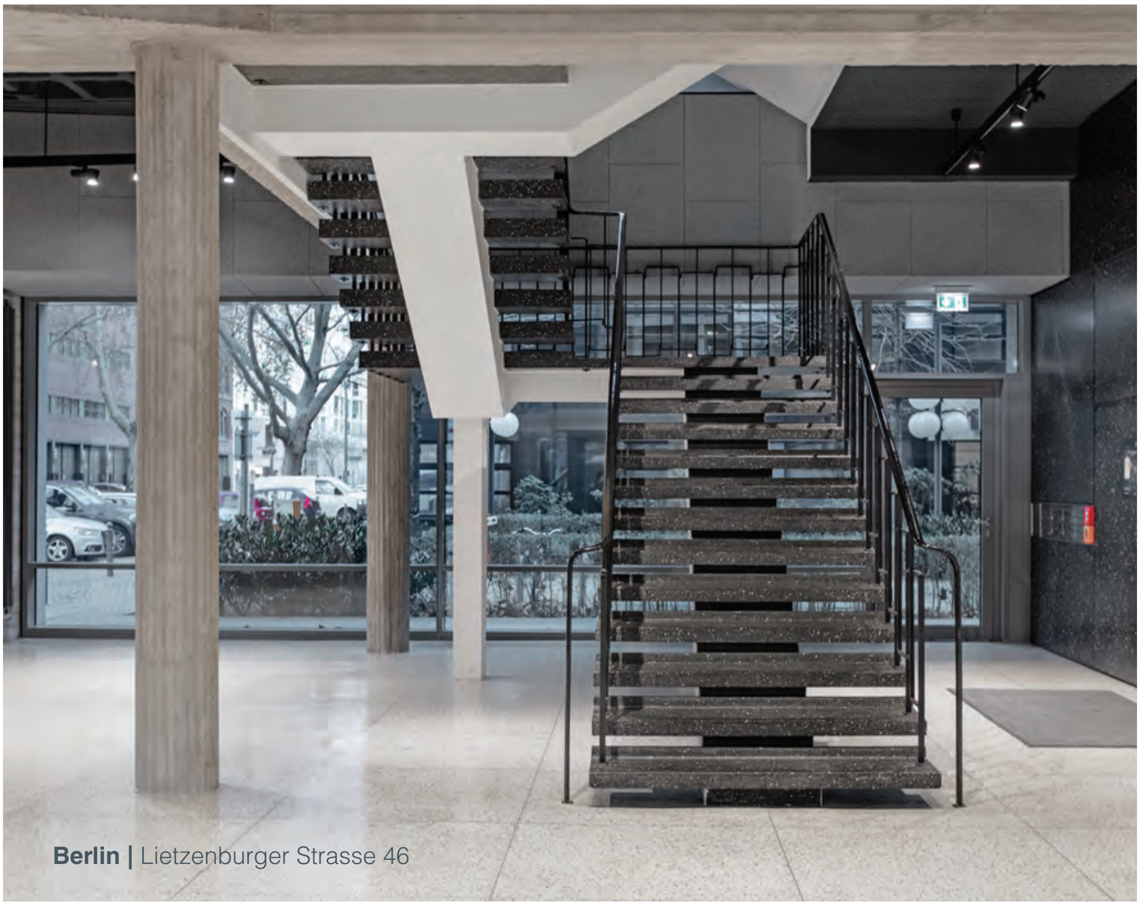
Mr Kleber, what lay behind your decision to relocate to Lietzenburger Strasse?
We have about 2,000 clients in the Berlin-Brandenburg region. Direct contact with the client is in our DNA. So when we were looking for new office premises five years ago, a priority for us was to remain fairly close to our former site in Charlottenburg. That made the block at Lietzenburger Strasse 46 our ideal new location.

What is special about the premises?
They are simply perfect! The property has a good ground plan with a high proportion of useful space. The 1,600 square metres over two floors give us an ideal mix of office and communal space that is very convenient for the work we do. And it's clear POLIS has invested in the property over the past few years and carried out a number of innovative conversions. That includes flexible walls which allow you to adapt the layout of the conference rooms to your requirements whenever you want. One particular benefit for us is the internal stairway that links the two floors. Even our clients mention the interior design and its clear lines.

POLIS has its headquarters in the same building. Are there advantages for you to be in the same building as your landlord?
Yes, definitely. We have a really straightforward, excellent relationship and coexist very well in the same building. That's partly down to the personal trust that has developed over many years. Also, POLIS always has a sympathetic ear to our needs as the tenant and really takes care of the building. As the tenant I don't need to keep pestering them to get certain things done – POLIS takes the initiative itself and is usually one step ahead. That is as true of the everyday tasks that the caretaker deals with as it is of forward-looking innovations such as the digital locking system that POLIS recently installed. I can now open the access doors with a convenient app on my smartphone. It works brilliantly.

The coronavirus has brought on a quantum shift regarding the office of the future. Are you considering changing the way your use of space?
Since the pandemic about half of the staff have been working from home, and at Lietzenburger Strasse we have brought in a one person per office rule. But I'm convinced the office sphere will return to where it was before the pandemic as soon as the vaccination campaign takes hold and hopefully brings infection rates right down. I'm sure almost all employees will want to return to the office.

Thank you for the interview.



Berlin | Lietzenburger Strasse 46

A SMOOTH, PROFESSIONAL RELATIONSHIP

Interview with Niko Tsiris, Managing Partner of Naturgut GmbH

Stuttgart | Tübinger Strasse 31-33

Stuttgart. The organic market chain store Naturgut signed a lease agreement with POLIS early in 2020. The results are impressive: in Tübinger Strasse, in the popular Gerber Quarter, Naturgut offers its customers a new shopping experience covering 1,300 square metres, with a large range of organic foods and a bistro.

Mr Tsiris, what were the key factors in your lease decision?
Our decisions are based on a number of factors. First of all, obviously the location has to impress. Our new location in Tübinger Strasse is very central and has a high footfall – after all, we are in the city centre. Then there is the size of the rental space, of course, and also the question of whether the space is logistically right. Tübinger Strasse met all three criteria outstandingly. The rental space has barrier-free access for our clientele and comes with a versatile floor plan. Upstairs from us, the building is home to an academy. Then on the opposite side of the street there is the entrance to the large “Gerber” shopping centre.

How is the move into the new premises progressing?
Apart from the storage areas, we've opened the entire unit and extended the sales area. So we are putting the available space to optimum use for our new shop concept with café and bistro. And we've thoroughly refurbished the space, for example by laying new flooring. The Tübinger Strasse branch is our biggest and most attractive.

How do you find working with POLIS?
We have a very good relationship with dedicated contacts in Stuttgart and Berlin, who we can always easily get hold of. With the caretaker on site, dealing with all practical matters is totally straightforward. We've also developed a smooth, professional relationship with our contact in Berlin.

Retail is especially affected by the restrictions imposed due to the coronavirus pandemic. How far have you been affected?
We operate eleven branches in and around Stuttgart. Unlike our local supplier branches in non-central locations, our business on Tübinger Strasse thrives on its central position and footfall from workers or for example the students who share the same site. In the course of the pandemic, obviously we noticed fewer people coming into the city centre. We hope the availability of vaccines will improve the situation as the year progresses.

Thank you for the interview.

Stuttgart | Tübinger Strasse 31-33

ACTIVELY PROMOTING SUSTAINABLE TRANSPORT: ELECTRIC-VEHICLE CHARGING INFRASTRUCTURE AT POLIS

One key factor in achieving climate policy goals is the shift to sustainable transport with active support for e-mobility. According to the German Federal Motor Transport Authority, growth rates for plug-in hybrids (+342.1%) and all-electric cars (+206.8%) reached high three-digit figures in 2020. That presents portfolio holders and developers of residential and commercial real estate with the challenge to equip their properties with the necessary charging infrastructure. Legislators are increasingly requiring, but also supporting, the expansion of the charging infrastructure in the public and non-public realms, against the backdrop of looming climate policy goals.

Based on a resolution by the German Federal Parliament, from 2025 real estate portfolio holders will in essence be subject to binding requirements that will dictate the number of charging points to be installed and the cabling infrastructure to be provided, depending on various factors such as the number of parking spaces.

For its part, POLIS regards this as not merely an obligation, but also an opportunity that delivers a commercial benefit and helps the company's sustainability strategy as an ESG component.

POLIS Immobilien AG was an early mover in addressing the issue of the charging infrastructure for electric vehicles and launched a pilot project at a location in Berlin. This involved drawing up an innovative overall concept that looks at the relevant framework and connects with individual, company-specific factors, while at the same time incorporating all the ways in which legal, technical, fiscal and business aspects are interdependent.

Following several months of planning and construction, the first eight charging points were commissioned at the pilot location in February 2021, giving the tenants the option of renting an exclusive charging point at their own parking bay. To enable this arrangement, POLIS struck up a partnership with a charging point manufacturer and outsourced electricity procurement, usage billing and the organization of the payment processes to an external service provider.

Now that the pilot project has been concluded successfully, there are plans to roll it out in suitable portfolio properties nationwide as a proactive contribution to protecting the climate.


COMPLEO
E-rich lädt Ihr Auto auf.
Vielen Dank, dass Sie sich
für die Umwelt engagieren.
Für eine saubere Umwelt
POLIS
www.polis.de

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 was the result of increased rental revenues – in part thanks to taking possession of a further property in Halle – and higher property management expenses, this year we again saw substantial, unexpectedly positive market value changes in our investment properties that are mainly attributable to current market movements; these account for 79% of the Company's pre-tax earnings.

A very good letting result

In all, we concluded new lease agreements for a total of 17,309 sqm of rental space in 2020. In addition it is especially pleasing to note that existing lease agreements for 22,733 sqm were extended, with an average lease period of 4.0 years. High continuity in extensions to existing lease agreements is very important for a stable pattern to our income stream. The occupancy rate is 95.4%. The occupancy rate is down slightly on the prior-year level because the property at Neumarkt, in Cologne, was specifically allowed to fall vacant in 2020/2021 in preparation for its modernization.

The occupancy rate achieved again provides a basis for stable earnings from portfolio business in 2021. Re-letting in 2020 on substantially better terms will lead to further rises in rental income despite a lower occupancy rate for operational reasons due to the modernization of the property at Neumarkt in Cologne. The subsequent letting of the property at Neumarkt will significantly lift rental income in subsequent years.

Thanks to the positive development in operating ratios, the new investment property and rent adjustments in the portfolio, rental income climbed year on year by EUR 2,527 thousand (+10.5%). Net rental income rose by EUR 650 thousand to EUR 20,004 thousand. Funds from operations (FFO) after tax, which excludes valuation effects, fell slightly in the past financial year from EUR 9,539 thousand to EUR 9,223 thousand. Cash flow from operating activities remained almost stable year on year at EUR 13,748 thousand.

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

The continuing positive market development produced a clearly positive overall valuation result of more than 6.6 %, but with no liquidity effect, for all investment properties. Overall there was a high valuation result of EUR 36,353 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 from sharper interest rate rises or coronavirus impacts. Despite the fall in long-term interest rates, there were minor earnings-relevant valuation gains not affecting liquidity from interest rate hedging instruments in the amount of EUR 364 thousand. Overall, profit before tax declined to EUR 46,340 thousand above all due to the EUR 17 million fall in the valuation result.

New financial flexibility created

One long-term loan was repaid in 2020. In addition to the available liquidity, we have access to two loans that are ready for disbursement and are available for further acquisitions, for example. We also have a portfolio of unencumbered properties. This enables us to raise further liquidity swiftly as and when financing is required, for example for new acquisitions.

At 31 December 2020 we had liquidity of EUR 9.1 million. The key ratio of loan to value came down to 30 %. Including the excess liquidity that would be available as an alternative option for the repayment of loans, net loan to value is 28.9 %.

Dr, Michael Piontek
Chief Financial Officer

Mathias Gross
Chief Operating Officer

As a result of still-low market interest rates and recapitalizations, the weighted average interest rate for debt financing was 1.97 %, as against 2.01 % in the previous year. Our Company remains soundly financed with an equity ratio of 60% 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 2020, we achieved a net income of EUR 1,972 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 not positive. Because we expect a negative HGB result for the years 2021 and 2022 in view of the planned renovation and maintenance expenses, a portion of EUR 986 thousand from net income was allocated to retained earnings. That aside, the Board of Management proposes that the remaining unappropriated profit totalling EUR 16,113 thousand be carried forward to new account because we plan to use the available liquidity and reservoirs of value to finance further expansion.

Stable prospects for 2021 but lower result expected

In 2020 the economic situation for real estate remained largely stable despite the coronavirus crisis, as reflected in a positive letting result in a clearly more difficult environment as well as the unexpectedly positive valuation result. The coronavirus crisis will continue in 2021, with a quite considerable impact on Germany's economic development and consequently also on the field of business of POLIS. The longer the crisis continues, the bigger its impact will be. Progress with vaccinating the population will have a positive impact. Despite the difficult letting situation we 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. We expect further rises in rental income in 2021, but clearly increased renovation and maintenance expenses will lead to much lower net rental income. A substantial portion of the renovation and maintenance expenses will be for the modernization of the property at Neumarkt in Cologne, the economic expense of which has been pushed back from 2020 to 2021 in balance-sheet terms, but the costs of which were largely already paid in 2020. Our plans envisage a very slightly negative valuation result from the investment properties of around 0.4 %, because we do not expect the positive valuation result for the investment properties to be repeated to the same extent due to rising expected returns during the coronavirus crisis. Overall we will prospectively achieve a solid result for 2021, but one that will be much lower than that of the previous year due to the one-off substantial increase in renovation and maintenance expenses in 2021 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 well down on the 2020 figure at around EUR -1.4 million.

For operational reasons, funds from operations will equally be lower than in 2020.

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 remain 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 2021
POLIS Immobilien AG
– The Board of Management –

DEAR SHAREHOLDERS, LADIES AND GENTLEMEN,

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

The Board of Management gave the Supervisory Board regular and comprehensive reports, both orally and in writing, of the situation and development of the Company. In this connection, the Supervisory Board discussed fundamental issues with the Board of Management concerning the Company's business and corporate policies, its corporate strategy, its financial development and financial performance, as well as matters pertaining to transactions that are of significance 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, and 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 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 1 April 2020, the annual and consolidated financial statements for 2019 as well as the group management report 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. Other topics discussed at that meeting were the approval of the agenda for the Annual General Meeting on 19 August 2020, an adjustment to the financing strategy and the effects of the coronavirus pandemic.

The main topics of discussion at the meeting on 24 June 2020 were the current business development, including the impact of the coronavirus pandemic, and preparations for the first virtual Annual General Meeting on 19 August 2020.

The meeting on 25 November 2020 focused on the economic data for the first ten months of 2020, the forecast for financial year 2020, the 2021 budget including the updated, five-year medium-term financial plan, as well as the drafting of a sustainability strategy for POLIS Immobilien AG. The 2021 business plan was passed. All Supervisory Board meetings for the year 2020 adopted a virtual format in view of the coronavirus pandemic.

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 on three occasions, 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 once. It prepared the resolutions of the Supervisory Board concerning Board of Management affairs. 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 2020 as well as the consolidated financial statements and group management report at 31 December 2020 and has issued an unqualified audit certificate.

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

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

The annual and consolidated financial statements, group management report and audit reports of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft were available to all members of the Supervisory Board and were discussed comprehensively in Supervisory Board meeting to discuss the financial statements on 13 April 2021 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 13 April 2021, 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 report of the Group, and in particular the assessment of the further development of the Company.

Erfurt | Juri-Gagarin-Ring 90

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

- he 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 2021

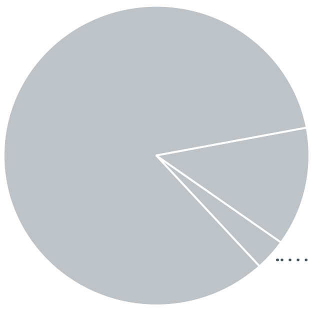
THE PORTFOLIO OF POLIS IMMOBILIEN AG IN FINANCIAL YEAR 2020

11 Cities

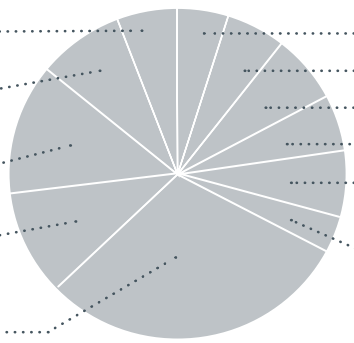
33 Objects

198,550 sqm

Portfolio by type of use | Basis: sqm | 198,550

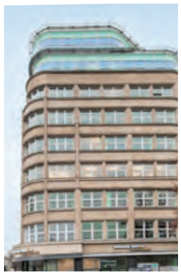


Composition of rental revenues by sector | in %



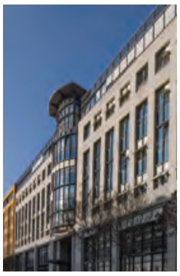
For more information about our portfolio, follow the QR code alongside to visit our website,

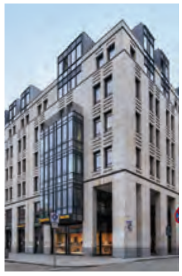
BERLIN

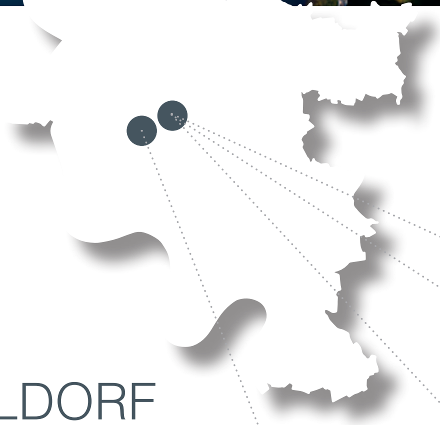
Property	Rankestrasse 21 / Lietzenburger Str. 44, 46	Luisenstrasse 46	Potsdamer Strasse 58
Year of construction	1993/1969/1957	1936	1930
Space available (rounded)	12,150	3,150	5,500
Office	10,629	2,622	4,110
Retail	1,018	440	1,084
Residential	0	0	0
Archive	467	71	305
Parking bays	132	22	20

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)	7,200	13,400	10,400	19,150
Office	5,934	13,167	9,091	11,595
Retail	0	210	1,030	5,366
Residential	0	0	0	1,313
Archive	1,256	0	278	800
Parking bays	33	0	90	203



DÜSSELDORF

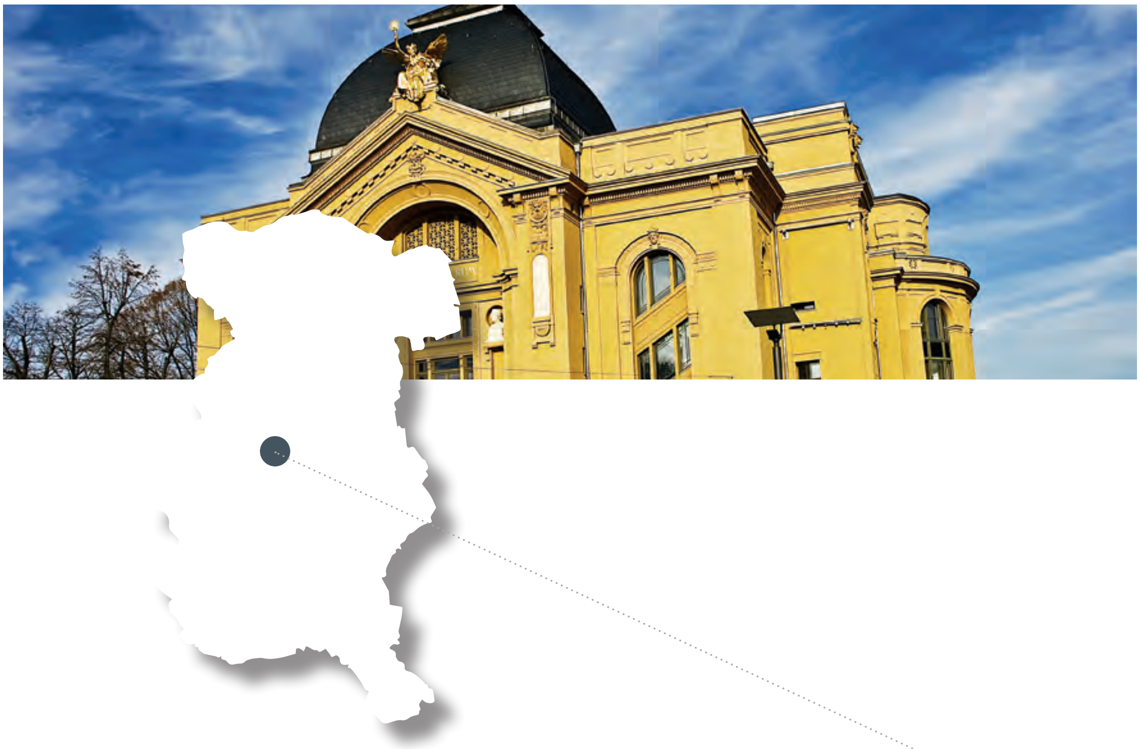
Property	Steinstrasse 27	Berliner Allee 42	Berliner Allee 44/ Alexanderstrasse 19	Berliner Allee 48/ Bahnstrasse 38
Year of construction	1960	1960	1957	1956
Space available (rounded)	3,700	3,500	3,500	2,650
Office	3,456	2,166	2,979	1,676
Retail	0	812	203	336
Residential	0	229	23	400
Archive	222	269	293	237
Parking bays	20	15	16	0

ERFURT

Property	Juri-Gagarin-Ring 90
Year of construction	1997
Space available (rounded)	6,150
Office	4,059
Retail	1,077
Residential	793
Archive	208
Parking bays	209

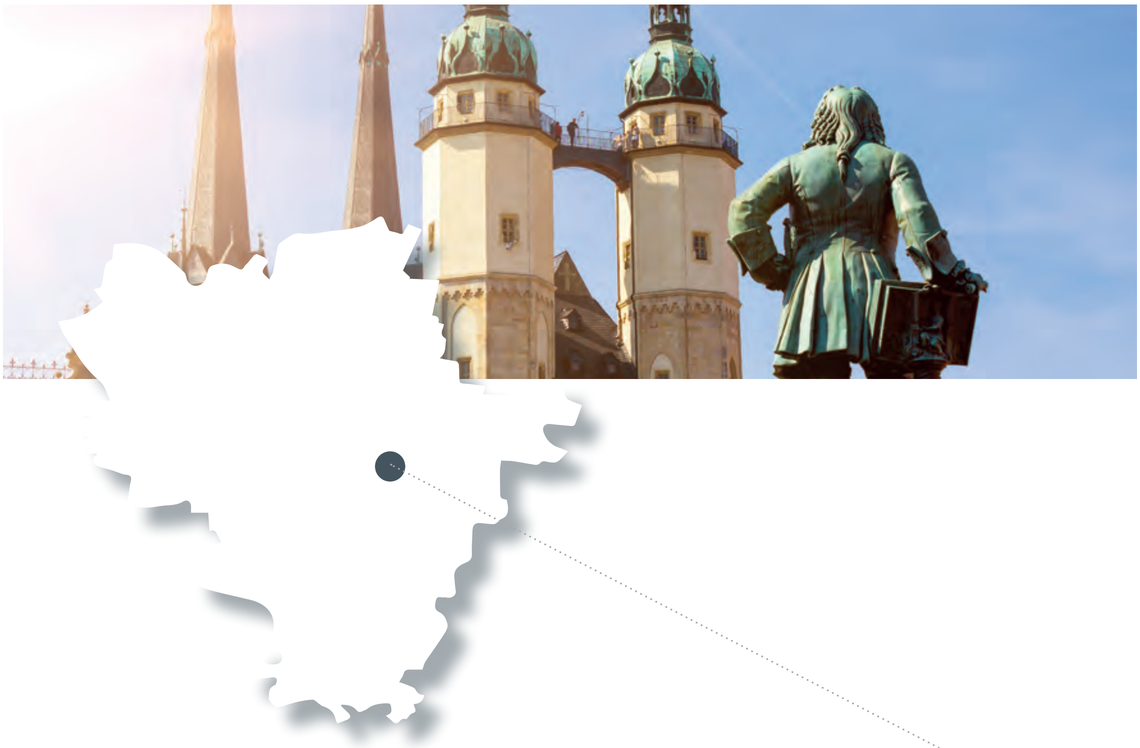
FRANKFURT AM MAIN

Property	Gutleutstrasse 26
Year of construction	1970
Space available (rounded)	3,700
Office	3,501
Retail	0
Residential	0
Archive	162
Parking bays	24



GERA

Property	Hermann-Drechsler-Str. 1
Year of construction	1988
Space available (rounded)	29,200
Office	23,929
Retail	2,469
Residential	0
Archive	2,755
Parking bays	415



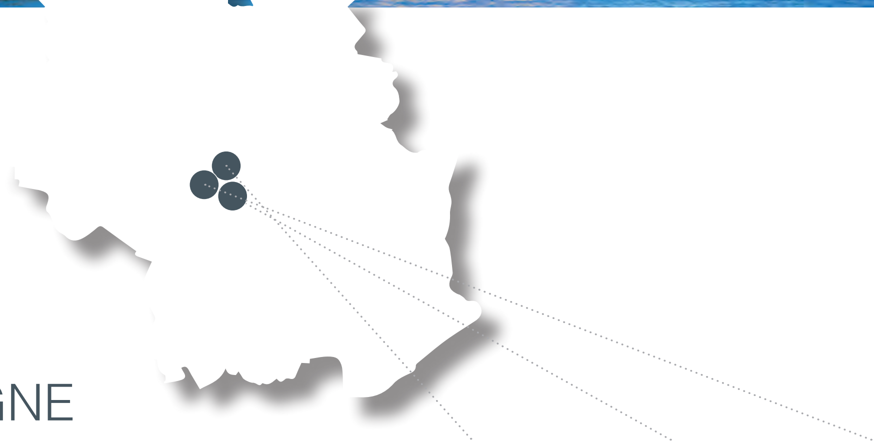
HALLE

Property	Hansering 15, 16
Year of construction	1968
Space available (rounded)	9,300
Office	7,830
Retail	873
Residential	0
Archive	550
Parking bays	40

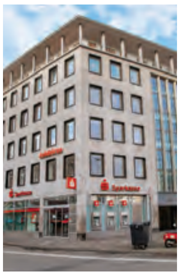
HANOVER

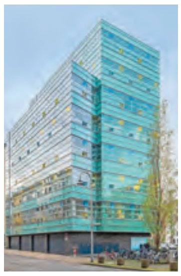
 

Property	Landschaftstrasse 2	Landschaftstrasse 8
Year of construction	1983	1885
Space available (rounded)	3,579	2,600
Office	3,582	2,166
Retail	0	0
Residential	0	0
Archive	13	409
Parking bays	53	2



COLOGNE

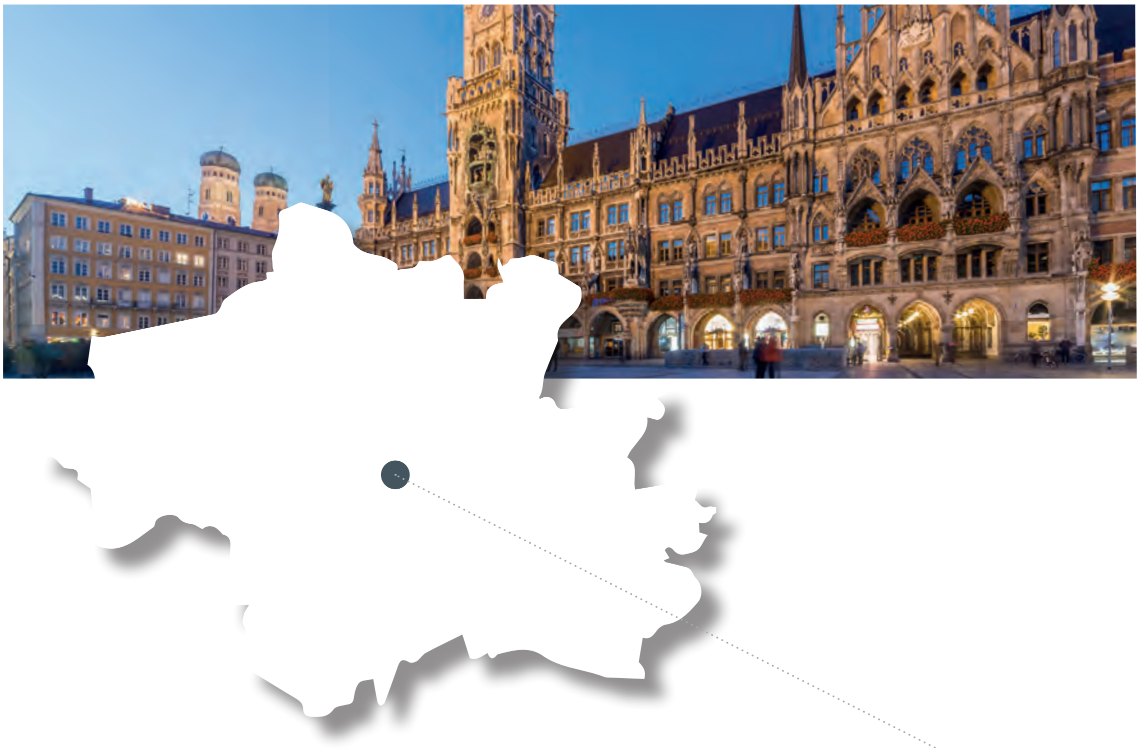




Property	Ebertplatz 1	Gustav-Heinemann-Ufer 54	Hansaring 20
Year of construction	1960	1989	1975
Space available (rounded)	4,150	7,600	2,250
Office	3,259	7,069	2,093
Retail	199	0	0
Residential	0	0	0
Archive	669	532	116
Parking bays	0	197	10

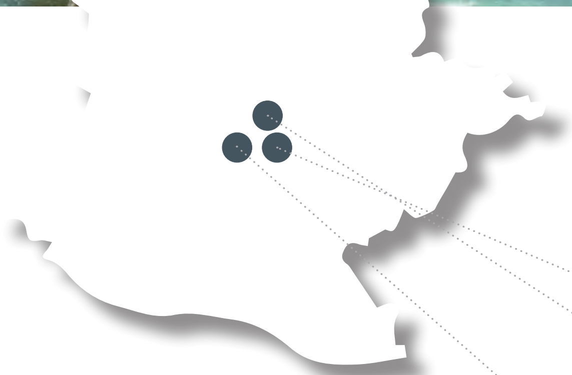
COLOGNE

Property	Konrad-Adenauer-Ufer 41-45	Neumarkt 49	Weyerstrasse 79-83/ Pantaleonswall 65-75
Year of construction	1953	1957	1962
Space available (rounded)	5,950	3,900	9,350
Office	5,582	3,173	7,237
Retail	0	544	1,302
Residential	0	0	0
Archive	364	157	768
Parking bays	53	9	94



MUNICH

Property	Lessingstrasse 14
Year of construction	1967
Space available (rounded)	3,400
Office	2,613
Retail	409
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)	2,500	16,600	4,550
Office	1,138	11,781	2,740
Retail	920	1,520	1,282
Residential	359	1,360	183
Archive	112	1,955	301
Parking bays	35	129	13

Cologne | Gustav-Heinemann-Ufer 54

THE GROUP MANAGEMENT REPORT OF POLIS IMMOBILIEN AG FOR FINANCIAL YEAR 2020

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 its own properties, including through their conversion, modernization, extension, letting and additional measures, as well as through market developments, it continuously increases the value of its real estate holdings, which it realizes selectively through the sale of properties. POLIS focuses on office buildings in attractive central locations in key German business centres, but also in up-and-coming locations with development potential, and on investing in properties that offer specific potential for appreciation or for a stable cash flow.

Our own sales, asset and property management teams manage the property portfolio from a commercial and technical perspective and are 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 property acquisitions and investments.

Key external factors

The business model and growth of POLIS are substantially influenced by rents, 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.

The coronavirus (SARS-Cov-2) emerged in Germany in 2020 and had a considerable economic impact worldwide, including in Germany. In the 2020 financial year, and also in the current year of 2021, this included the (office) property market that is relevant to us. POLIS was able to limit its effects on the economic result by actively managing rent arrears caused by the coronavirus. It had no material impact on new and follow-on leases or on construction work in 2020. Independently of the effects of the coronavirus crisis, POLIS succeeded in achieving a substantial valuation result from investment properties, albeit lower than the prior-year figure. In light of the continuing clear restrictions on economic life, the economic results for 2021 may nevertheless depart significantly from the target figures stated in this report. We moreover have only limited scope to build the effects of the coronavirus into the overall expectations voiced at several points with regard to the general and industry-specific development. However, given the high equity ratio and our high occupancy rate, we do not perceive any substantial risks for POLIS.

Principal changes within the Group in financial year 2020

The financial year saw the investment property in Halle added to the portfolio. In addition, the “third-party asset management” business area was revived from 1 December 2020.

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

Key economic factors

DEVELOPMENT OF THE COMMERCIAL PROPERTY MARKET IN GERMANY

Income is generated from rental revenues and from the sale of properties. In addition, the results of the revaluation of the property portfolio as well as interest rates strongly influence the 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 and of the German office property market, as well as the regional conditions 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 financed with the help of external financing representing up to 60% of the property value. Interest rate hedges are concluded for the variable-rate financial liabilities under an interest rate hedging strategy.

MARKET ENVIRONMENT

We draw on the research conducted by bulwiengesa AG, Berlin, and a wide range of other sources covering 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

ECONOMIC AND INDUSTRY-SPECIFIC ENVIRONMENT

Development of overall economic environment

Over the course of 2020 the ifo Business Climate Index for trade and industry in Germany fell from 96.3 (12/2019) to 92.1 (12/2020) at the end of the year, having been as low as 75.4 in April.

According to the Federal Statistical Office, the development in gross domestic product was -5.0% in 2020 due to the coronavirus crisis, compared with +0.6% in 2019.

The labour market at the end of the year showed a slight decrease in Germany's working population to 44.7 million, compared with 45.3 million at the end of 2019. The unemployment rate in December 2020 was 5.9% and therefore up one percentage point on the prior-year figure due to the coronavirus crisis.
Inflation reached an average for 2020 of 0.5%, well down from 1.4% in 2019. It peaked at 1.7% in April, falling as low as -0.3% by December.

Short-term interest rates as a whole showed a marked fall over the course of 2020 (three-month EURIBOR moved from -0.383% at 2019 year-end to -0.545% at 2020 year-end). Meanwhile the ten-year swap rate (against the three-month EURIBOR) equally showed a clear fall from 0.131% at 31 December 2019 to -0.284% at 31 December 2020.

Industry-specific environment

Office space turnover in 2020 came to 2.67 million sqm; this was a substantial 33% down on the prior-year figure. The rates of turnover were lower in all top seven markets, in some cases significantly so. The sharpest falls in turnover occurred in Stuttgart, Düsseldorf and Frankfurt. With 745,300 sqm, Berlin remains the market with the highest office space turnover, followed by Munich (569,800 sqm) and, somewhat further behind, Hamburg (363,700 sqm).

The development in 2021 will be determined principally by the consequences of the measures taken to combat the coronavirus pandemic. An economic recovery from mid-2021 could push up office space turnover to as high as 2.9 million sqm in 2021; this would represent 11% growth.

Source: Jones Lang LaSalle

Trends in the investment market for office properties in Germany

YEAR-ON-YEAR LOWER TRANSACTION VOLUME

The transaction volume in the commercial property sector (hotels, logistics, retail and mixed use) fell from EUR 69.5 billion in 2019 to EUR 56.4 billion. The largest asset class was the market for office buildings, which attracted EUR 24.5 billion in investment, accounting for some 43.4% of the transaction volume.

There was a further decline in prime yields in 2020. Across all top seven cities, the yield on office properties declined by 0.12% to 2.81%. The biggest fall was one of 0.25% to 2.70% in Hamburg, followed by Cologne, down 0.20% to 3.00% and Düsseldorf down 0.15% to 2.95%. Berlin registered the lowest prime yield of 2.65%, followed by Hamburg and Munich, each with 2.70%. Yields are expected to decline further in 2021 by up to 0.10% in the market for office buildings.

The market values of office properties consequently rose by around 6% in the top seven cities in 2020.

Trends in the office property rental market in Germany

SHARP RISE IN NEW CONSTRUCTION VOLUME

New construction activity in 2020 in the top seven locations was above the level of previous years at 1.5 million sqm (+29%). In Berlin, the volume of new construction actually doubled to 490,000 sqm. However this development was still driven mainly by initiatives and projects dating back to before the coronavirus and there were certain pandemic-related delays; despite the growth, the volume completed in 2020 was therefore about 400,000 sqm down on the level forecast as recently as mid-2020.

Plans for 2021 and 2022 envisage a new construction volume of around 4.5 million sqm. Half of the expected new construction volume in 2021 has already been let in advance. However the high and still-rising level of new construction activity is unlikely to push up vacancy rates until 2021 onward.

Prime rents rose by 2.0% in 2020 despite the coronavirus pandemic, with the steepest increases in Stuttgart (+4.1%) and Hamburg (+6.9%). In Berlin, prime rents climbed by 2.7% despite the higher new construction volume and vacancy rate. This effect was attributable to the past shortage of vacant space, which is still cushioning the current development. The highest prime rents continue to be reported from Frankfurt (EUR 41.50/sqm), Munich (EUR 41.00/sqm) and Berlin (EUR 38.00/sqm).

A further 1.5% rise in prime rents is expected for 2021, among other reasons because remote working will dictate the need for higher standards of amenities and technical equipment in the case of new lease agreements. The higher costs will impact the rents.

RISING VACANCIES IN THE OFFICE MARKET

Vacancies for office space in the seven leading cities rose to 3.7% (+0.7% points), but the level still lags behind the long-term average. Vacant space rose by 23% overall, but fell in Stuttgart. The vacancy rate was a significantly higher 2.8% in Berlin and 3.5% in Munich. Vacancies in the seven leading cities are expected to show a further rise to 4.5% in 2021.

Sources: JLL Investment Market Overview Q4 2020, JLL Office Market Overview Q4 2020, ifo Business Climate Index, statista

OVERVIEW OF BUSINESS PERFORMANCE

FINANCIAL PERFORMANCE, FINANCIAL POSITION AND NET ASSETS

Figures in EUR ’000	**2019**	**Forecast for 2020**	**2020**	**Change, 2020 over 2019**	**Change, 2020 over 2020 forecast**
Rental revenues	24,028	Rising	26,555	2,527	As expected
Net rental income	19,354	Significantly lower	20,004	650	Rose, contrary to expectations
Occupancy rate	96%	Falling to 93%	95%	-1% points	Smaller fall
FFO (after tax)	9,539	Approx. EUR 6.8 million down on previous year	9,223	-316	Remained stable, contrary to expectations
Consolidated earnings before tax (EBT)	63,266	Approx. EUR 13.2 million	46,340	-16,926	Much higher, contrary to expectations
Cash flow from operating activities	13,291	Approx. EUR 4.2 million down on previous year	13,748	457	Remained stable, contrary to expectations
Equity ratio	57%	Slightly higher	59%	2% points	As expected
Loan to value (LTV)	34%	Slightly lower	30%	-4% points	As expected
Net asset value (NAV)	370,843	Rising	414,362	43,519	As expected

The unexpectedly high valuation gains from investment properties with no effect on liquidity produced an EBT figure well ahead of the forecast. The postponement of the billing of substantial investment costs until 2021 for the renovation of one property, due to delayed acceptance of work contracts, results in unexpectedly high net rental income, FFO and cash flow.

FINANCIAL PERFORMANCE

Figures in EUR ’000	2020	2019
Rental income	26,555	24,028
Renovation and maintenance expenses	-5,436	-4,107
Property management expenses	-1,115	-567
Other income	91	446
Other expense	-305	-495
Administrative expenses	-5,084	-4,655
Interest income	12	31
Interest expense	-5,096	-4,960
FFO (before tax)	**9,622**	**9,721**
Current income taxes	-399	-182
FFO (after tax)	**9,223**	**9,539**
FFO per share (in EUR)	0.83	0.86

We again achieved good results in concluding new lease agreements for 17,309 sqm in financial year 2020 (previous year 7,040 sqm). The biggest individual contributors to the letting performance in 2020 were the lease agreements in the properties at Hermann-Drechsler-Strasse 1 in Gera with 3,328 sqm of office space, at Könneritzstrasse 29, 31, 33 in Dresden with 3,120 sqm of office space, and at Juri-Gagarin-Ring 90 in Erfurt with 1,394 sqm of office space. Notwithstanding the successes in the letting area, the active management of lease agreements and the expansion of the portfolio through acquisitions, the revitalization of the property at Neumarkt 49 in Cologne as well as a temporary vacancy in the property at Potsdamer Strasse 58 in Berlin meant the occupancy rate for the portfolio at 31 December 2020 declined from the previous year’s 96.3% to 95.4%.

In addition, lease agreements for approximately 22,733 sqm (previous year 21,944 sqm) were extended, to some extent on significantly better terms. In economic terms the most significant lease agreement extension, for approximately 7,797 sqm of office space, concerned the new property at Hansering 15,16 in Halle, followed by approximately 4,020 sqm in the property at Könneritzstrasse 29,31,33 in Dresden, 3,982 sqm in the proerty at Konrad-Adenauer-Ufer 41-45 in Cologne and 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 250 sqm and 1,400 sqm, mainly in the locations Dresden, Cologne and Stuttgart.

Newly concluded lease agreements in 2020 produced a contractually secured rental income of around EUR 26,162 thousand over the full term of the respective lease agreements. The average weighted term to break option is 4.1 years with an effective rental rate of EUR 13.13 per sqm. The average remaining term of all existing lease agreements is 4.0 years (previous year 4.3 years), with an average rent across the portfolio of approximately EUR 11.52 per sqm (previous year EUR 11.06 per sqm) across all types of use (office, retail, residential, archive).

	Rental space at 31 Dec 2019	**Rental space at 31 Dec 2020**	Occupancy rate as of 31 Dec 2019	**Occupancy rate as of 31 Dec 2019**
	sqm	**sqm**	%	**%**
Berlin	20,700	**20,750**	97	**97**
Dresden	50,000	**50,050**	99	**97**
Düsseldorf	13,350	**13,300**	94	**92**
Cologne	33,100	**33,100**	88	**87**
Stuttgart	23,500	**23,650**	98	**98**
Other cities*	51,650	**57,700**	98	**98**
Total	**192,300**	**198,550**	**96.3**	**95.4**

Based on portfolio at the respective reporting date
**Frankfurt am Main, Hanover, Munich, Erfurt, Gera*
From 03/2020 the property in Halle

Overview of rental income

Categorized by properties in the individual locations, rental revenues for the Group developed as follows compared with 2019:

Figures in EUR '000	**2020**	**2019**
Berlin	4,576	4,330
Dresden	5,941	5,660
Düsseldorf	1,973	1,912
Cologne	4,487	4,921
Stuttgart	4,139	3,822
Other cities*	5,440	3,383
Total	**26,555**	**24,028**

**Frankfurt am Main, Hanover, Munich, Gera, Erfurt*
From 03/2020 with property in Halle

Rental income rose by EUR 2,527 thousand in 2020 to EUR 26,555 thousand (previous year EUR 24,028 thousand) after taking possession of the investment properties at Hermann-Drechsler-Strasse 1, Gera, Juri-Gagarin-Ring 90, Erfurt, and Hansering 15, 16, Halle, as well as from new lease agreements and rent adjustments. Renovation and maintenance expenses rose by 32.37%, partly from costs for the construction work at Neumarkt, Cologne, that do not qualify for capitalization, as well as due to the portfolio's expansion. Property management expenses increased from EUR 567 thousand to EUR 1,115 thousand. Overall, net rental income went up 3.36% to EUR 20,004 thousand (previous year EUR 19,354 thousand).

Administrative expenses for 2020 came to EUR 5,084 thousand and were therefore 9.21% up on the prior-year level of EUR 4,655 thousand. A detailed list is provided in the notes to the consolidated financial statements, under Section 4.7 "Administrative expenses".

Interest expenses of EUR 5,096 thousand are 2.76% up on the prior-year figure (EUR 4,960 thousand). Within this, actual interest paid is EUR 3,944 thousand (previous year EUR 3,923 thousand); the remainder of the expense constitutes non-cash changes in the market values of interest rate hedging instruments.

The weighted average interest rate for debt financing fell to 1.97% (previous year 2.01%) as a result of market interest rate movements and the reorganization of interest rate hedges mainly at the end of 2020.

The consolidated financial statements show a year-on-year decline in consolidated net income to EUR 39,034 thousand (previous year EUR 52,712 thousand), down approximately 25.9% on the previous year. It is to be noted that more than 78.5% of the profit before tax is the result of valuation gains with no effect on liquidity.

FINANCIAL POSITION

Figures in EUR '000	**2020**	**2019**
Cash flow from operating activities	13,748	13,291
Cash flow from investing activities	-21,541	-33,696
Cash flow from financing activities	-8,316	13,907
Cash in banks at the end of the period	9,078	25,187

Cash flow from operating activities remained almost constant. Cash flow from investing activities was influenced mainly by investments in investment properties, and cash flow from financing activities by redemptions, the raising of debt capital as well as interest paid.

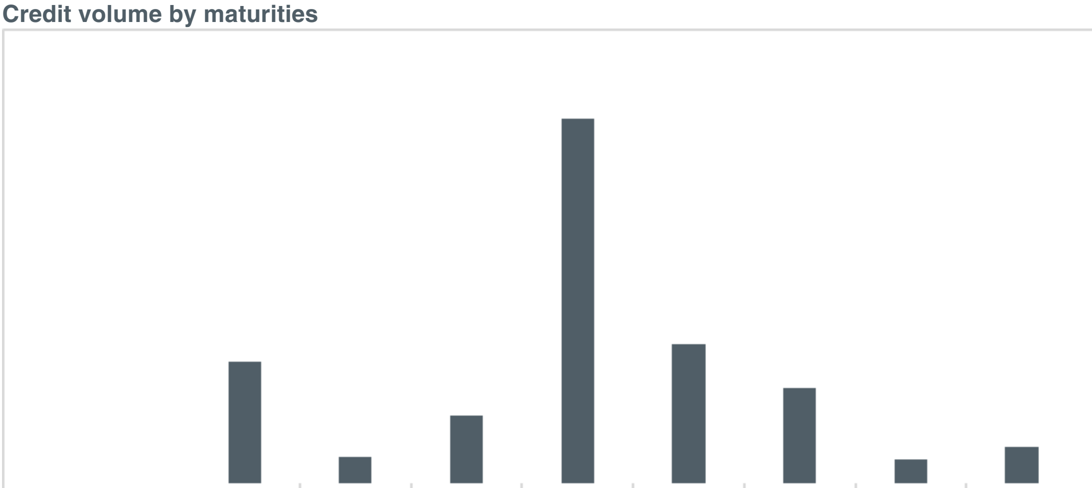
EQUITY RATIO – LOAN-TO-VALUE RATIO

POLIS remains on a sound financial footing, with an equity ratio of 59%.

The loan-to-value ratio (that is, the ratio between liabilities to banks and the market value of the properties) fell by four percentage points to around 30% as a result of ongoing redemption payments, and despite recapitalizations, with a property LTV of 34%.

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.

Credit volume by maturities



Credit volume	14%	3%	8%	42%	16%	11%	3%	4%
VOLUME	25,603,089	5,489,796	14,250,000	77,317,500	29,548,700	20,000,000	4,925,000	7,680,000
YEAR	2021	2023	2025	2027	2028	2029	2030	2036

LOW-RISK MATURITIES STRUCTURE OF LIABILITIES TO BANKS

The weighted average remaining term of the bank loans at 31 December 2020 was 6.4 years (previous year 7.0 years).

At 31 December 2020, 87% (previous year 87%) of the interest-bearing liabilities to banks were hedged. The average maturity of interest rate hedges including forward interest rate contracts was 7.0 years (previous year 7.5 years).

Some loan agreements contain typical clauses requiring that certain financial ratios be maintained with respect to individual properties or the loan portfolio. As a result of the high occupancy rates in all loan portfolios and the good market values of the properties, all financial covenants required by the banks are currently met. From the current perspective this will remain the case in 2021.

NET ASSETS

Because of the newly acquired properties, investments in the investment properties and their increases in market value, total assets rose sharply to EUR 632 million in financial year 2020 (previous year EUR 586 million). Non-current assets consist mainly of the 33 investment properties and account for 97% of total assets, in line with the business model. It should be noted that POLIS Immobilien AG reported a high bank balance as well as substantial credit lines available for drawing at 31 December 2020; these are to be used prospectively for new acquisitions but are also available for the repayment and restructuring of loans.

Asset and capital structure

Figures in EUR '000	**31/12/2020**	**31/12/2019**
Non-current assets	612,585	552,622
Current assets	19,182	33,575
Equity	371,274	334,290
Total assets	631,767	586,197

INVESTMENTS IN INVESTMENT PROPERTIES

The investments of around EUR 2.0 million are reported in detail in the notes to the consolidated financial statements, under 3.1 "Investment properties". In addition, the property in Halle was taken over in 2020 and reported under fixed assets for the first time.

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 result from the valuation of investment properties comprises mainly rent increases and lower property-specific discount rates.

The fair values of the investment properties came to EUR 610,450 thousand at the end of 2020 (previous year EUR 550,700 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 2020 amounted to EUR 37.50 (previous year EUR 33.56). The figure including the effect of deferred taxes is known as the net net asset value (NNAV), and was EUR 33.60 per share at 31 December 2020 (previous year EUR 30.25).

Figures in EUR '000	**2020**	**2019**
Carrying amounts of properties	610,450	550,700
Other assets less other equity and liabilities	-10,493	10,107
Liabilities to banks	-185,596	-189,964
NET ASSET VALUE	**414,361**	**370,843**
NAV/share	37.50	33.56
Deferred taxes	-43,087	-36,553
NNAV	**371,274**	**334,290**
NNAV/share	33.60	30.25

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-than-planned maintenance costs and effects of the coronavirus crisis that did not materialize, the past financial year brought rises in the key ratios that went well beyond our expectations.

The takeover of further investment properties and the successful letting of our properties had the effect of increasing rental revenues. Net rental income therefore rose by around 3%. 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.

The HGB result (EUR 1,972 thousand) that serves as the basis for the payment of a dividend is much lower than the IFRS result because the latter does not directly reflect the relevant valuation results described above. The HGB result consists mainly of income from investments.

Because we expect a negative HGB result for the years 2021 and 2022 in view of the planned renovation and maintenance expenses, a portion of EUR 986 thousand from net income was allocated to retained earnings. That aside, the Board of Management proposes that the remaining unappropriated profit totalling EUR 16,113 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.

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. We are digitalizing internal processes and tasks as well as the reporting system in order to improve efficiency and validate our processes. Since 2020 we have offered our tenants charging points for electric vehicles at certain locations.

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 between 50.0% and 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 and assess the overall liquidity and financial risk at EUR 20 thousand.

II. POLIS protects itself against interest rate risks by concluding derivative interest rate hedging instruments. The derivatives exhibit a risk from market value changes that may to some extent impact earnings for accounting reasons, even in the absence of cash flows. 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. We therefore assess the valuation risk for the derivatives at only around EUR 400 thousand. For variable unsecured loans amounting to around EUR 24 million, the risk of an interest rate rise of 100 base points is a weighted EUR 240 thousand. Taking account of the probability we assess the risk at EUR 72 thousand.

III. Debt finance was excellent for POLIS in 2020 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 59% and cash in banks of approximately EUR 9 million available at Group level, as well as a positive, secure cash flow from operating activities, the modernization investments and maintenance measures planned for 2021 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 3.9 and 6.3 “Liabilities to banks” in the notes to the consolidated financial statements.

VII. 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 LETTING

The properties held by the Company exhibited an average vacancy rate of 4.6% based on the rental space at 31 December 2020. As a multi-tenant provider, we equate an occupancy rate of 95.4% with full occupancy. On average, POLIS lease agreements have average terms of 4.0 years, so that lease agreements regularly come up for extension and be available for re-letting. In 2021, around 13,536 sqm of office and commercial space will be available for letting. We identify a letting risk in 2021 of up to EUR 324 thousand due to the deterioration in the market as a result of the coronavirus pandemic. With regard to rent payments from existing lease agreements, we identify a risk of up to EUR 41 thousand on top of a higher calculated loss of rental revenue risk for 2021. We also identify a general market and office market risk amounting to EUR 248 thousand.

II. RISKS ASSOCIATED WITH CONSTRUCTION COSTS

POLIS invests in properties requiring varying degrees of modernization. The strategy of actively managing the portfolio includes modernizations as well as – to a lesser extent – project developments. These may 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 2021, we will invest approximately EUR 15.5 million in our investment properties. We estimate the construction costs risk associated with the planned construction work at up to EUR 1.1 million. We assess the risks from project developments to portfolio properties at EUR 100 thousand.

RISKS ASSOCIATED WITH REVALUATIONS

POLIS reports the properties in its 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 2021 overall, we perceive a risk of devaluations of up to around EUR 6.1 million despite an assessment of steady property values, due to the coronavirus pandemic among other factors.

III. STAFF RISKS

With our asset and property management team, we are in a position to perform all property-related asks. We manage acquisitions and sales internally using experienced staff. We equally have highly qualified employees available for all commercial tasks. We use highly trained specialists in all areas in order to achieve our corporate objectives. Therefore, our commercial success depends crucially on the management team and our employees. In order to promote the integration of the employees into the Company we offer attractive, well-equipped workplaces and performance-based compensation packages, additional welfare offerings, supplementary arrangements to promote health as well as the prospect of further training and development. The interaction between employees and managers is characterized by trust and the awareness that the corporate objectives can only be achieved by working together. We introduced a substantial occupational pension in 2020 as a means of retaining staff. We assess the risk from staff fluctuation at EUR 88 thousand We assess the general risks from corporate governance (organization, communications, occupational safety, environmental and data protection) at a total of EUR 123 thousand, and the risks from the IT infrastructure at EUR 10 thousand.

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 2021 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 2020. New construction activity resulted in a slightly higher vacancy rate in the office market. We expect to see an economic recovery in 2021 along with the stabilization of the office property market.

MAJOR OPPORTUNITIES FOR POLIS GROUP

Thanks to the 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 2021 and beyond. With our quality-focused business model and our homogeneous portfolio, the take-up level should remain good in 2021, even if the market environment will be more difficult due to the coronavirus crisis. Thanks to the high occupancy rates now achieved, despite the already-high market rent level both new lease agreements and further increases in rents should be achievable, in the latter case especially from market-appropriate extensions to lease agreements. POLIS always seeks to increase its income as well as reduce costs without diminishing the quality of its work, in order to improve its returns.

OUTLOOK FOR 2021

Based on the risks and opportunities presented above, the prospect of a continuing steady development in the office market that is relevant to us – for all the challenges that will be presented especially in the letting area – and the still-low interest rates expected in 2021 lead us to anticipate that the key operating ratios will remain solid thanks to high occupancy rates.

Prospectively much higher maintenance costs, in particular due to the postponement of modernization costs for the property at Neumarkt in Cologne and from other changes of tenant, will lead to net rental income well down on the previous year's figure.

Changes of tenant especially in Halle, Düsseldorf and Dresden will cause the occupancy rate to fall temporarily to 90% at the end of 2021.

FFO for 2021 will be around EUR 9.2 million lower than in 2020 due to significantly higher renovation and maintenance expenses.

Profit before tax is consequently anticipated to reach approximately EUR -1.4 million in 2021.

Cash flow from operating activities will be approximately EUR 3.7 million below the level of the previous financial year because costs recognized in profit or loss were already paid in the previous year.

The equity ratio will be slightly higher in 2021 and LTV will fall slightly as a result of redemption payments coupled with the steadily appreciating values of the properties.

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

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 2021. Earnings will be substantially lower than in 2020 due to a prospectively much lower valuation result from investment properties and the much higher maintenance programme planned for 2021.

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, as previously, that tenant satisfaction will remain high 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 offers 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. We will continue to digitalize processes and tasks, including using robotics and also on a property-by-property basis. Since 2020 we have offered our tenants charging points for electric vehicles at their parking bays. This option is being trialled initially at one location in Berlin, in readiness for its roll-out nationwide across the portfolio.

DEPENDENCY REPORT

The concluding declaration of the Board of Management pursuant to Section 312 (3) of the AktG states:

"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 2020, our Company received appropriate consideration. This assessment is based on the circumstances known to us at the time at which the legal transactions were carried out. No measure was undertaken or omitted in the interests or at the instigation of the controlling company or of one of its affiliated companies that placed the Company at a disadvantage."

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

SUBSCRIBED AND AUTHORIZED CAPITAL

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

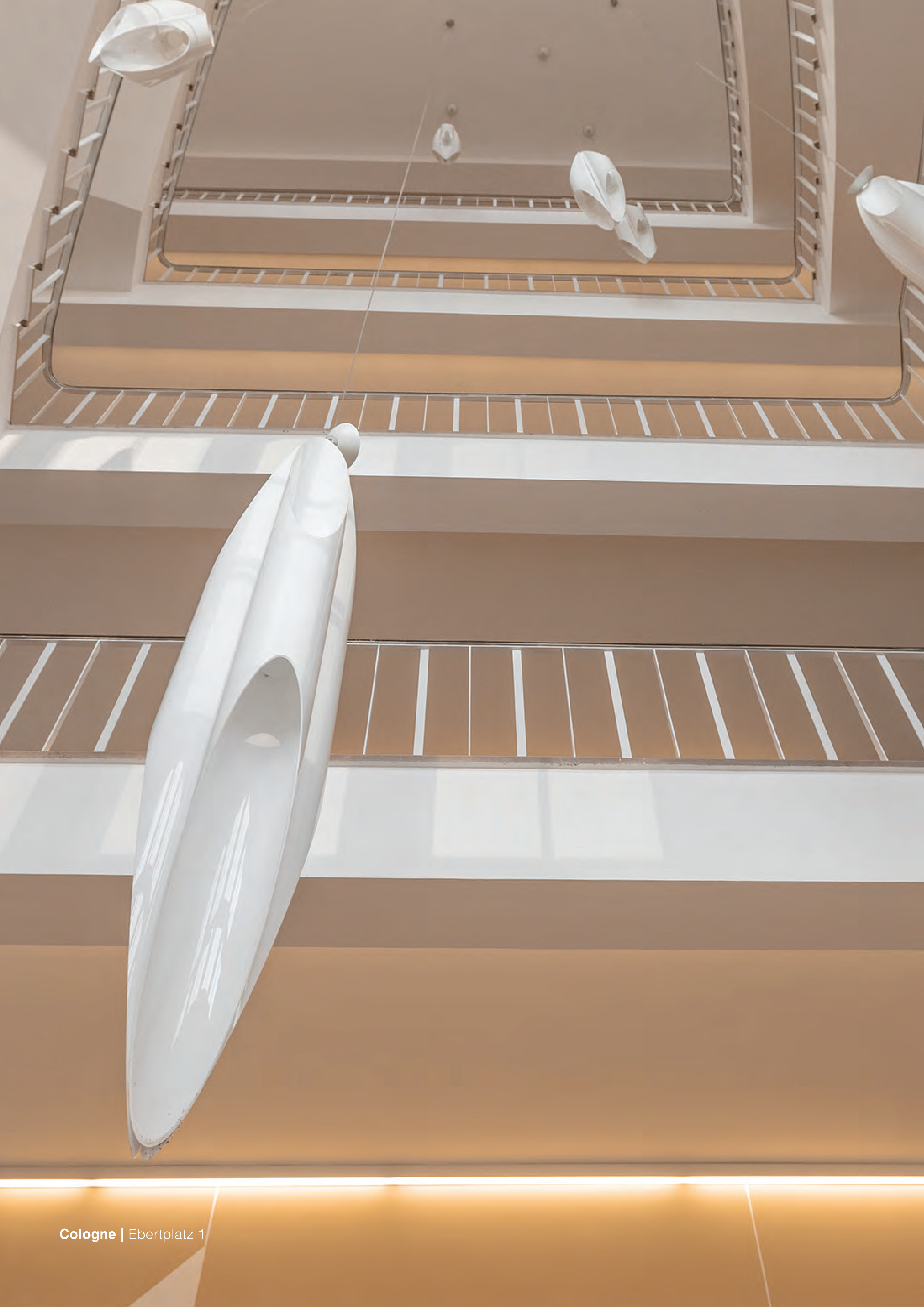
SHAREHOLDER STRUCTURE

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

Berlin, 24 March 2021

POLIS Immobilien AG
– The Board of Management –

Mathias Gross **Dr Michael Piontek**



Cologne | Ebertplatz 1

THE CONSOLIDATED FINANCIAL STATEMENTS OF POLIS IMMOBILIEN AG FOR FINANCIAL YEAR 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020, according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

Assets

Figures in EUR ’000	Notes	31/12/2020	31/12/2019
Non-current assets			
Investment properties	3.1.	610,450	550,700
Intangible assets	3.2.	125	174
Property, plant and equipment	3.2.	522	504
Other assets	3.7.	1,488	1,244
Total non-current assets		**612,585**	**552,622**
Current assets			
Receivables and other financial assets	3.4.	9,990	7,867
Current tax receivables	3.5.	26	104
Cash in banks and cash holdings	3.6.	9,078	25,187
Other assets	3.7.	88	417
Total current assets		**19,182**	**33,575**
Total assets		**631,767**	**586,197**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Equity and liabilities

Figures in EUR '000	Notes	31/12/2020	31/12/2019
Equity			
Subscribed capital	3.8.	110,510	110,510
Capital reserves	3.8.	18,185	18,185
Cash flow hedge reserve		-13,274	-11,224
Retained earnings	3.8.	216,819	164,107
Consolidated earnings		39,034	52,712
Share in equity allocable to the equity holders of the parent		371,274	334,290
Total equity		**371,274**	**334,290**
Liabilities			
Non-current liabilities			
Loan liabilities to banks	3.9.	157,263	177,043
Deferred tax liabilities	3.3.	43,087	36,553
Other financial liabilities	3.9.	17,111	14,013
Total non-current liabilities		**217,461**	**227,609**
Current liabilities			
Loan liabilities to banks	3.9.	28,333	12,921
Advance payments received	3.9.	6,589	5,937
Trade payables	3.9.	4,352	2,195
Income tax liabilities	3.9.	347	6
Other financial liabilities	3.9.	3,411	3,239
Total current liabilities		**43,032**	**24,298**
Total liabilities		**631,767**	**586,197**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2020, according to International Financial Reporting Standards (IFRS) – POLIS Immobilien AG, Berlin

Figures in EUR '000	Notes	01/01 – 31/12/2020	01/01 – 31/12/2019
Rental income	4.1.	26,555	24,028
Renovation and maintenance expenses	4.2.	-5,436	-4,107
Property management expenses	4.3.	-1,115	-567
		-6,551	-4,674
Net rental income		**20,004**	**19,354**
Unrealized gains from the revaluation of investment properties		37,659	53,310
Unrealized losses from the revaluation of investment properties		-1,305	0
Result from the revaluation of investment properties	**4.4.**	**36,354**	**53,310**
Other income	4.5.	91	446
Other expense	4.6.	-305	-495
Administrative expenses	4.7.	-5,084	-4,655
Result before financing activity and taxes		**51,060**	**67,960**
Interest income	4.8.	12	31
Result from the valuation of derivative financial instruments	3.9.	364	234
Interest expense	4.9.	-5,096	-4,960
Profit before tax		**46,340**	**63,265**
Deferred taxes	4.10.	-6,907	-10,371
Current taxes	4.10.	-399	-182
Total income taxes		-7,306	-10,553
Consolidated earnings		**39,034**	**52,712**
of which allocable to minority interests		0	0
of which allocable to the equity holders of the parent		39,034	52,712
Consolidated earnings		**39,034**	**52,712**
Other comprehensive income through profit or loss in subsequent periods:			
Market value of participating interests reclassified to the result		0	242
Attributable deferred tax assets		0	-38
Market value of cash flow hedges	3.9.	-4,928	-8,536
Attributable deferred tax assets	3.3.	780	1,351
Market value of cash flow hedges reclassified to the result	4.9.	2,505	2,397
Attributable deferred tax assets	3.3.	-397	-379
Other comprehensive income		-2,040	-4,963
Consolidated comprehensive income		**36,994**	**47,749**

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January to 31 December 2020, according to International Financial Reporting Standards (IFRS) – POLIS Immobilien AG, Berlin

Figures in EUR '000	Notes	01/01 – 31/12/2020	01/01 – 31/12/2019
Profit before tax		**46,340**	**63,265**
Adjusted for:			
Financial and investment result	4.8.,4.9.	4,720	4,695
Result from the revaluation of investment properties	3.1.	-36,354	-53,310
Result from the sale of property, plant and equipment	3.2.	4	0
Depreciation/amortization on intangible assets and property, plant and equipment	3.2.	266	269
Change in trade receivables and other assets not allocable to investing or financing activities		-1,960	-1,717
Change in trade payables and other liabilities not allocable to investing or financing activities		525	-126
Income tax paid	4.10.	108	193
Income tax received	4.10.	99	22
Cash flow from operating activities		**13,748**	**13,291**
Payments for the acquisition of software, fixtures and equipment	3.2.	-240	-233
Payments for the purchase of investment properties	3.1.	-14,831	-31,361
Payments for investments in modernization	3.1.	-6,482	-2,133
Interest received	4.8.	12	31
Cash flow from investing activities		**-21,541**	**-33,696**
Payments for the redemption of loans	3.9.	-12,219	-2,170
Proceeds from the raising of loans	3.9.	7,845	20,000
Interest paid	4.9.	-3,942	-3,923
Cash flow from financing activities		**-8,316**	**13,907**
Net change in cash and cash equivalents		**-16,108**	**-6,498**
Cash in banks at the beginning of the period	**3.6.**	**25,187**	**31,685**
Cash in banks at the end of the period	**3.6.**	**9,078**	**25,187**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2020, according to International Financial Reporting Standards (IFRS) – POLIS Immobilien AG, Berlin

Figures in EUR '000	Subscribed capital	Capital reserves	Retained earnings	Consolidated net income	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 2018	**110,510**	**18,185**	**115,686**	**48,421**	**-6,057**	**-204**	**286,541**	**286,541**
Offsetting against prior-year result	0	0	48,421	-48,421	0	0	0	0
Consolidated earnings	0	0	0	52,712	0	0	52,712	52,712
Other comprehensive income	0	0	0	0	-5167	204	-4,963	-4,963
Balance at 31 Dec 2019	**110,510**	**18,185**	**164,107**	**52,712**	**-11,224**	**0**	**334,290**	**334,290**
Offsetting against prior-year result	0	0	52,712	-52,712	0	0	0	0
Consolidated earnings	0	0	0	39,034	0	0	39,034	39,034
Other comprehensive income	0	0	0	0	-2,050	0	0	-2,050
Balance at 31 Dec 2020	**110,510**	**18,185**	**216,819**	**39,034**	**-13,274**	**0**	**373,324**	**371,274**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the IFRS Consolidated Financial Statements of POLIS Immobilien AG, Berlin, Germany, at 31 December 2020

1. GENERAL INFORMATION

POLIS Immobilien AG was founded in 1998 in Berlin. Hereinafter referred to as “POLIS”, it has its registered office in Berlin, Lietzenburger Str. 46; it acquires office buildings for its own portfolio and then renovates and possibly also extends them, as necessary. POLIS focuses on office buildings in attractive central locations in key German business centres, but also in up-and-coming locations with development potential, and invests in properties that offer specific potential for appreciation or for 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 2020 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 315e (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 6 March 2021 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 2020. 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2020.

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 2020 and 2019.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Company	Nominal capital	Interest	HGB equity 31/12/2020	HGB result 2020
	EUR '000	%	EUR '000	EUR '000
POLIS Grundbesitz Objekt Verwaltungs GmbH, Berlin	26	100	1,024	60
POLIS Beteiligungs- und Verwaltungs GmbH, Berlin	25	100	8,156	0
POLIS Objekte Altmarkt Kramergasse GmbH & Co. KG, Berlin	51	100	5,380	595
POLIS Objekt Gutleutstraße 26 GmbH & Co. KG, Berlin	665	100	1,948	261
POLIS Objekt Luisenstraße 46 GmbH & Co. KG, Berlin	100	100	619	204
POLIS Objekt Potsdamer Straße 58 GmbH, Berlin	26	94	1,878	149
POLIS Objekt Landschaftstraße GmbH & Co. KG, Berlin	100	100	5,531	226
POLIS Objekt Konrad-Adenauer-Ufer GmbH & Co. KG, Berlin	100	100	10,226	126
POLIS Quartier Büchsenstraße GmbH & Co. KG, Berlin	100	100	12,462	235
POLIS Erste Objektgesellsch. Stuttgart GmbH & Co. KG, Berlin (formerly POLIS Objekte Mannheim Stuttgart GmbH & Co. KG)	100	100	2,096	-104
POLIS Dritte Objektgesellsch. Köln GmbH & Co. KG, Berlin (formerly POLIS Objekte Kassel Köln GmbH & Co. KG)	100	100	2,293	136
POLIS Objekt Lessingstraße GmbH & Co. KG, Berlin	100	100	3,417	-320
POLIS Zweite Objektgesellschaft Düsseldorf GmbH & Co. KG, Berlin	100	100	6,053	138
POLIS Zweite Objektgesellschaft Köln GmbH & Co. KG, Berlin	100	100	14,043	-143
POLIS Objekt Könneritzstraße GmbH & Co. KG, Berlin	100	100	16,959	1,859
POLIS Objekte Berliner Allee GmbH & Co. KG, Berlin	100	100	11,972	447
POLIS Erste Objektgesellschaft Köln GmbH & Co. KG, Berlin	100	100	12,522	650
POLIS Zweite Objektgesellschaft Stuttgart GmbH & Co. KG, Berlin	100	100	8,881	249
POLIS Objekt Rankestraße 21 GmbH & Co. KG, Berlin	100	100	9,622	977
POLIS Objekt Erfurt GmbH & Co. KG, Berlin	100	100	5,884	784
POLIS Objekt Gera GmbH & Co. KG, Berlin	100	100	1,113	1,013
POLIS GmbH & Co. Fünfundvierzigste Objekt KG, Berlin	100	100	98	-2
POLIS GmbH & Co. Sechsundvierzigste Objekt KG, Berlin	100	100	98	-2
POLIS Service GmbH, Berlin	100	100	349	73

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 24 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 2019.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 and detailed in Section 2.4.13.

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% to 20%. POLIS acquires properties for its own portfolio and does not have specific intentions of selling them; however, opportunities that arise are pursued.

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

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

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

Investment properties are derecognized if they are sold.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 measurement 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”.

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 comprise 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

2.4.9 Impairment

Impairment is to be reported for expected credit losses for all financial assets that are not recognized at fair value through profit or loss, 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.

2.4.10 Expense and income realization

Income is recognized if it is probable that the economic benefit will accrue and if the income can be reliably determined. Sales revenues or other operating income are recognized as soon as the service has been rendered. Rental income is realized when the leased property has been handed over. Rental income is distributed on a straight-line basis corresponding to the term of the lease agreements and thus reflects the income that is attributable to the rent-free periods.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.4.11 Leases

At the start of a contract POLIS assesses whether the contract constitutes or contains a lease. That is the case if the contract creates the entitlement to control use of an identified asset in exchange for payment of a consideration for a specified period.

As lessee

POLIS leases vehicles and office equipment. As the lessee in these leases, the Group has taken the decision not to distinguish them from non-lease components and instead to account for lease and non-lease components as a single lease component.

At the date of provision the Group recognizes an asset for the right of use granted, as well as a lease liability. The right of use is valued initially at cost, which corresponds to the initial valuation of the lease liability, adjusted for payments made on or before the date of provision, plus any initial direct costs, less any lease incentives received.

The right of use is then amortized by the straight-line method from the date of provision to the end of the lease period. In addition, the right of use is continuously adjusted for impairment and for certain revaluations of the lease liability.

The lease liability is initially discounted at the present value of the lease payments not yet made at the date of provision, using the underlying interest rate for the lease or, if this cannot readily be determined, using the incremental borrowing rate for the Group. The Group normally uses its incremental borrowing rate as the discount rate.

The lease payments included in the valuation of the lease liabilities comprise the fixed payments during the agreed lease period.

The lease liability is valued at the amortized carrying amount, using the effective interest method. It is revalued if the fixed lease payments change. In such a revaluation of the lease liability, a corresponding adjustment is made to the carrying amount of the right of use or this is performed through profit or loss if the carrying amount of the right in use has declined to nil. The Group reports rights of use in the statement of financial position under property, plant and equipment, and lease liabilities under other financial liabilities.

POLIS exercises the option not to state rights of use and lease liabilities for leases with low-value underlying assets, as well as for short-term leases including office equipment. The Group recognizes the lease payments associated with these leases by the straight-line method as an expense, over the term of the lease.

As lessor

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 recognizes lease payments from operating leases by the straight-line method as income, under revenue, over the term of the lease.

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 New and amended standards and interpretations

A number of other amendments and interpretations are to be adopted for the first time in 2020 but have no effect on the consolidated financial statements. POLIS was not an early adopter of any standards, interpretations or amendments that have been published but have not yet taken effect.

IFRS 17 Insurance Contracts

In May 2017 the IASB published IFRS 17 Insurance Contracts, a comprehensive new accounting standard that establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. Upon its entry into force IFRS 17 replaces IFRS 4 Insurance Contracts, published in 2005. IFRS 17 is applicable to all types of insurance contracts (i.e. life assurance, property insurance, direct insurance and reinsurance) irrespective of the nature of the issuing company, as well as to certain guarantees and financial instruments with discretionary participation features. There are individual derogations regarding the scope. The overarching goal of IFRS 17 is to create a more useful and standardized accounting model for insurers. Unlike the provisions of IFRS 4, which largely guarantee grandfathering of older local accounting rules, IFRS 17 constitutes a comprehensive model for insurance contracts that covers all relevant aspects of accounting. The core of IFRS 17 constitutes the general model, supplemented by

- a specific variant for contracts with direct profit participation (variable fee approach) and
- a simplified model (premium allocation approach), normally for short-term contracts. IFRS 17 is to be adopted for the first time for financial years commencing on or after 1 January 2023. Comparative information must be stated. Early adoption is permissible provided the enterprise already adopts IFRS 9 and IFRS 15 or adopts them for the first time concurrently with IFRS 17. IFRS 17 is not applicable to the Group.

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020 the IASB published amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements, to clarify the rules for the classification of liabilities as short or long-term.

The amendments clarify the following:

- The right to defer settlement of a liability is explained.
- The right to defer settlement of a liability must exist at the end of the reporting period.
- Classification is unaffected by expectations about whether an entity will exercise this right.
- Only if a derivative embedded in a convertible debt instrument is an equity instrument to be accounted for separately may the conditions of the debt instrument be disregarded in its classification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The amendments apply to financial years beginning on or after 1 January 2023 and are to be applied retrospectively. POLIS is currently examining what effects the amendments will have on current accounting practices and whether existing loan agreements might need to be renegotiated.

Amendments to IFRS 3: Reference to the Conceptual Framework
In May 2020 the IASB published amendments to IFRS 3 Business Combinations: Reference to the Framework. The amendments replace the reference to the Conceptual Framework for the preparation and presentation of financial statements published in 1989 with a reference to the Conceptual Framework for financial reporting published in March 2018, without significantly changing the existing rules of the standard. The Board furthermore introduced an exception to the principles for recognition in IFRS 3, to avoid the occurrence of day 2 gains or losses for separately recognized liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21 Levies. At the same time the Board agreed to supplement the standard with a clarifying statement that the existing rules for contingent receivables in IFRS 3 are not affected by the replacement of the reference to the Conceptual Framework for the preparation and presentation of financial statements. The amendments apply to financial years beginning on or after 1 January 2022 and are to be applied prospectively.

Amendments to IAS 16: Proceeds before Intended Use
In May 2020 the IASB published amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use. This specifies that in future an enterprise will no longer be permitted to deduct from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, are recognized in profit or loss. The amendments apply to financial years beginning on or after 1 January 2022 and are effective retrospectively for property, plant and equipment items that achieve intended use status on or after the start of the earliest reporting period in the financial statements in which the amendments are first adopted. POLIS assumes that the amendments will have no significant effect on the consolidated financial statements.

Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract
In May 2020 the IASB published amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract to specify which costs an enterprise should include when assessing whether a contract is onerous or unprofitable. The amendment focuses on costs that relate directly to the contract (directly related cost approach). The costs associated with the fulfilment of contracts for the delivery of goods or the provision of services comprise both the directly allocable (incremental) costs of fulfilling the contract and also overheads that relate directly to activities in fulfilment of the contract. General administrative expenses are not directly associated with the contract and therefore do not come under the costs of fulfilling the contract, unless passing them on to the tenant is expressly envisaged in the contract. The amendments apply to financial years beginning on or after 1 January 2022. POLIS will adopt these amendments for contracts where not all obligations were fulfilled yet at the start of the financial year in which it adopts the amendments for the first time.

Amendments to IFRS 1: Subsidiary as a first-time adopter
As part of its annual improvement process for IFRS standards for the 2018–2020 cycle, the IASB has made an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that applies Paragraph D16(a) of IFRS 1 to measure cumulative translation

differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs. This amendment also applies to associates and joint ventures that apply IFRS 1.D16(a). The amendment is effective for financial years beginning on or after 1 January 2022. Earlier adoption is permissible.

Amendment to IFRS 9: Fees in the '10 per cent' test for derecognition of financial liabilities
As part of its Annual Improvements to IFRS standards for the 2018–2020 cycle, the IASB has made an amendment to IFRS 9 Financial Instruments. The amendment clarifies which fees an enterprise includes when it assesses whether the terms of a new or modified financial liability differ materially from those of the original financial liability. Only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf, are included. An enterprise is to adopt the amendment for financial liabilities that are modified or exchanged on or after the start of the financial year in which the enterprise adopts the amendment for the first time. The amendment is effective for financial years beginning on or after 1 January 2022. Earlier adoption is permissible. POLIS will adopt the amendment for financial liabilities that are modified or exchanged on or after the start of the financial year in which it adopts the amendment for the first time. POLIS assumes that the amendments will have no significant effect on the consolidated financial statements.

Amendment to IAS 41: Taxation in fair value measurements
As part of its Annual Improvements to IFRS standards for the 2018–2020 cycle, the IASB has made an amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 for enterprises to exclude taxation cash flows when measuring the fair value of biological assets. An enterprise is to adopt the amendment prospectively at or after the start of the first financial year beginning on or after 1 January 2022, for measurements of fair value. Earlier adoption is permissible.

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 Erfurt, Gera, Frankfurt am Main, Munich, Hanover and Halle are grouped together as a single segment. All operating segments have comparable economic characteristics (office buildings situated in the city centres of key German office locations) and similar long-term revenue prospects and, in accordance with IFRS 8.12, are therefore aggregated into a single operating segment with reporting obligations.

3. DISCLOSURES RELATING TO THE STATEMENT OF FINANCIAL POSITION

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following overview highlights the development of the investment properties in 2020:

Figures in EUR ’000	Fair values 01/01/2020	Additions from acquisition	Modernization investments	Market value change	Fair values 31/12/2020
Berlin	111,600	0	406	6,794	118,800
Dresden	117,850	0	402	12,718	130,970
Düsseldorf	48,030	0	276	1,024	49,330
Cologne	105,910	0	7,054	3,576	116,540
Stuttgart	89,360	0	303	5,157	94,820
Other cities*	77,950	14,831	125	7,084	99,990
Total	**550,700**	**14,831**	**8,565**	**36,353**	**610,450**

** Erfurt, Gera, Halle, Frankfurt am Main, Hanover, Munich*

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

Of the modernization investments conducted in 2020, EUR 6,475 thousand (previous year EUR 2,037 thousand) is cash-effective; including payments made for modernization costs in the previous year, overall payments come to EUR 6,482 thousand (EUR 2,133 thousand).

Revaluation produced an overall increase in market value of EUR 36,353 thousand. There were positive valuation results in particular for the properties in Dresden and Stuttgart from successful letting on improved terms, from the extension of several lease agreements and from improved market rents in conjunction with reduced discount rates.

The following overview highlights the development of the investment properties in 2019:

Figures in EUR ’000	Fair values 01/01/2019	Additions from acquisition	Modernization investments	Market value change	Fair values 31/12/2019
Berlin	104,000	0	604	6,996	111,600
Dresden	104,620	0	299	12,931	117,850
Düsseldorf	42,070	0	734	5,226	48,030
Cologne	94,810	0	259	10,841	105,910
Stuttgart	76,665	0	61	12,634	89,360
Other cities*	41,820	31,361	87	4,682	77,950
Total	**463,985**	**31,361**	**2,044**	**53,310**	**550,700**

** Erfurt, Gera, Frankfurt am Main, Hanover, Munich*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

	2020 Investment properties EUR '000	2019 Investment properties EUR '000
Rental revenues from investment properties	26,555	24,028
Expenses directly attributable to the generation of rental revenues		
Renovation and maintenance expenses	5,436	4,107
Property management expenses	766	366
Total	**6,202**	**4,473**
Expenses directly attributable to but not resulting in the generation of rental revenues		
Property management expenses	349	201
Total	**349**	**201**

Information concerning property valuation at 31 December 2020

The fair values of the properties at 31 December 2020 and 31 December of 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 the properties owned by POLIS 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In addition, properties were valued internally. The valuations take place quarterly, with one-third of the portfolio valued externally by Wüest Partner and two-thirds valued internally at each valuation date in the first three quarters. At the valuation date of 31 December 2020 (fourth quarter), the valuation was performed solely internally. 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 2020 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.

The planning assumptions that feed into the valuation are presented below.

The cash flow projections are based on the following assumptions:

- The average vacancy rate across the portfolio of 4.59% at the valuation date (previous year 3.72%) will rise substantially within one year to an anticipated 9.52% at 31 December 2021. The mid-term planning horizon anticipates a vacancy rate across the individual properties ranging between 0.0% and a maximum of 74.1% (modernization project at Neumarkt 49).

- The cash flow scenario shows an average increase in rents of 3.94% (previous year 6.3%) in the first year. The development in short-term rental revenues is benefiting from significant increases in rents in Berlin, Cologne and Dresden. Thereafter, we expect an increase in rents averaging 2.46% per year (previous year 2.30%) from the second year up until the end of the ten-year planning horizon. The temporarily somewhat muted development expectations in Düsseldorf are attributable to imputed vacancies in the forecasting period.

- Detailed figures on the current occupancy rates and on rental revenues are given in the management report on page 8.

The actual vacancy rate at 31 December 2020 across the entire portfolio is much lower than the previous year's projection (7.09%), at 4.59%. The assumed higher vacancy rate at the end of 2021 is based mainly on the expected vacancies of 3.095 sqm in the properties in Düsseldorf, of 8,522 sqm in Halle (Saale) and of 2,948 sqm in Dresden. We anticipate that the vacancy caused by the ongoing refurbishment of the building in Cologne (2,910 sqm) will have been reduced by the end of 2021.

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

All figures in %	Vacancy rate 31/12/2020 (area)	Expected vacancy rate 31/12/2021 (area)	Planned short-term rent increase (revenue)	Planned long-term rent increase (revenue)
Berlin	2.87	0.29	5.43	4.20
Dresden	2.86	5.89	5.13	2.06
Düsseldorf	7.71	21.45	-1.76	2.45
Cologne	13.44	3.07	14.19	2.41
Stuttgart	2.43	5.27	6.02	1.97
Other cities*	1.82	18.67	1.91	2.10
Portfolio	**4.59**	**9.52**	**3.94**	**2.46**

** Erfurt, Gera, Halle, Frankfurt am Main, Hanover, Munich*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

All figures in %	Vacancy rate 31/12/2019 (area)	Expected vacancy rate 31/12/2020 (area)	Planned short-term rent increase (revenue)	Planned long-term rent increase (revenue)
Berlin	3.16	2.02	5.32	3.65
Dresden	0.54	6.95	1.78	0.60
Düsseldorf	5.92	9.95	6.97	2.71
Cologne	11.68	14.35	-2.17	2.15
Stuttgart	2.37	6.01	6.15	2.36
Other cities*	1.98	4.36	2.27	2.03
Portfolio	**3.72**	**7.09**	**6.30**	**2.30**

** Erfurt, Gera, Halle, Frankfurt am Main, Hanover, Munich*

For the long term (2021–2025), POLIS makes plans based on average maintenance costs of EUR 3.64 (previous year EUR 3.45) per square metre of rental space per month, including general modernization costs; of this figure, EUR 0.53 (previous year EUR 0.49) per square metre per month is 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 6.41 in 2021 and EUR 3.05 in 2022 were identified, in each case per square metre of rental space per month, including a component of EUR 0.55 for current maintenance. The increased maintenance costs in 2021 and 2022 result mainly from the comprehensive construction work on a property in Cologne and façade renovation of a property in Düsseldorf. In the years 2023 to 2025 the planned maintenance costs average EUR 2.91 per square metre of rental space per month.

The assumptions on maintenance and modernization costs are presented in the following table:

Long-term (2021 to 2025) planned maintenance costs (average)	**2021**	**2022**	**2023**	**2024**	**2025**
Maintenance – Group	15,267,240	7,265,595	7,680,927	6,234,644	6,899,823
Area	198,532 sqm	198,532 sqm	198,532 sqm	198,532 sqm	198,532 sqm
Average p.a.	€ 6.41/sqm	€ 3.05/sqm	€ 3.22/sqm	€ 2.62/sqm	€ 2.90/sqm
Average total period	**€ 3.64/sqm**				
Average 2023 – 2025			**€ 2.91/sqm**		

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Because the POLIS portfolio contains exclusively 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 2020).

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

Sensitivity analysis	**Fair value at**	**Long-term rental income**		**Annual rent growth**		**Loss of rental revenue**		**Discount rate**	
Change in valuations, EUR '000	31/12/2020	-10%	+10%	-1%	+1%	+1%	-1%	+100 base points	-100 base points
Berlin	118,800	-11,336	11,346	-6,683	7,123	-405	412	-9,612	10,630
Dresden	130,970	-9,684	9,701	-6,720	7,218	-372	376	-10,790	11,941
Düsseldorf	49,330	-4,610	4,616	-2,646	3,306	-128	130	-4,285	4,746
Cologne	116,540	-10,174	10,166	-7,097	7,610	-419	416	-9,411	10,411
Stuttgart	94,820	-7,969	8,042	-5,015	5,404	-316	347	-7,630	8,445
Other cities*	99,990	-10,327	10,337	-5,829	6,229	-404	410	-8,571	9,485
Portfolio	**610,450**	**-54,100**	**54,208**	**-33,990**	**36,890**	**-2,044**	**2,091**	**-50,299**	**55,658**

** Erfurt, Gera, Frankfurt am Main, Halle, Hanover, Munich*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Sensitivity analysis	**Fair value at**	**Long-term rental income**		**Annual rent growth**		**Loss of rental revenue**		**Discount rate**	
Change in valuations, EUR '000	31/12/2019	-10%	+10%	-1%	+1%	+1%	-1%	+100 base points	-100 base points
Berlin	111,600	-10,113	8,178	-3,572	3,724	-375	393	-8,937	9,881
Dresden	117,850	-10,425	6,723	-6,542	7,088	-468	455	-9,633	10,652
Düsseldorf	48,030	-4,016	2,957	-2,613	2,814	-128	118	-4,036	4,473
Cologne	105,910	-9,874	6,530	-4,362	4,667	-452	449	-8,895	9,837
Stuttgart	89,360	-4,298	6,962	-1,829	6,465	-298	358	-7,146	7,893
Other cities*	77,950	-6,724	4,984	-4,255	4,591	-324	322	-6,528	7,230
Portfolio	**550,700**	**-45,450**	**36,334**	**-23,173**	**29,349**	**-2,045**	**2,095**	**-45,175**	**49,966**

** Erfurt, Gera, Frankfurt am Main, Hanover, Munich*

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 one percentage point 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.

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/ 2020	Addi- tions	Dis- posals	31/12/ 2020	01/01/ 2020	Addi- tions	Dis- posals	31/12/ 2020	31/12/ 2019	31/12/ 2020
Software	1,100	70	0	1,170	926	119	0	1,045	174	125
Fixtures and equipment	1,064	170	20	1,213	560	147	16	691	504	522
Total	**2,164**	**240**	**20**	**2,383**	**1,486**	**266**	**16**	**1,736**	**678**	**647**

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/ 2019	Addi- tions	Dis- posals	31/12/ 2019	01/01/ 2019	Addi- tions	Dis- posals	31/12/ 2019	31/12/ 2018	31/12/ 2019
Software	1,043	57	0	1,100	781	145	0	926	262	174
Fixtures and equipment	894	176	6	1,064	442	124	6	560	452	504
Total	**1,937**	**233**	**6**	**2,164**	**1,223**	**269**	**6**	**1,486**	**714**	**678**

Fixtures and equipment includes rights of use from the leasing of vehicles in the amount of EUR 61 thousand (previous year EUR 42 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.3. 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	**2020**	**2019**
	EUR '000	EUR '000
Tax losses carried forward	0	89
Hedging reserves	2,495	1,757
Total before offsetting	2,495	1,846
Offsetting	-2,495	-1,846
Deferred tax assets	0	0
Deferred tax liabilities		
Investment properties	44,701	37,968
Other financial liabilities	881	431
Offsetting	-2,495	-1,846
Deferred tax liabilities	43,087	36,553

Deferred tax assets are offset against deferred tax liabilities (EUR 2,495 thousand) only to the extent that they pertain to income taxes that are levied by the same tax authority for the same taxable entity.

The changes in the deferred tax assets that pertain to derivatives (interest rate swaps) and are components of an effective cash flow hedge (EUR 554 thousand; previous year EUR 1,145 thousand) as well as the reclassification of the market value changes of the replaced swaps reported in the reserve for cash flow hedges (EUR -182 thousand, previous year EUR -174 thousand) were reported under "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 73,360 thousand (previous year EUR 67,854 thousand) because they are not used according to the business plan.

3.4. 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:

	31/12/2020	31/12/2019
	EUR '000	EUR '000
Trade receivables	7,335	7,020
of which allocable operating expenses	6,877	6,525
of which rent receivables	458	495
Other receivables	2,655	847
TOTAL	**9,990**	**7,867**

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

At 31 December 2020, receivables from operating costs not yet settled stood at EUR 6,877 thousand (previous year EUR 6,525 thousand) and advance payments received for operating costs amounted to EUR 6,589 thousand (previous year EUR 5,937 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 result from the furnishing of security for the market valuation of derivatives (collaterals) that are not held within a cash flow hedge.

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

		of which: not impaired but due for			
Carrying amount	of which: neither impaired nor due	Over 90 days	61-90 days	31-60 days	0-30 days
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
31/12/2020					
7,335	7,016	152	102	10	55
31/12/2019					
7,020	6,851	29	12	41	87

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 727 thousand (previous year EUR 924 thousand). POLIS is

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

able to access this collateral in the event of payment arrears, in accordance with the terms of the lease agreements. Deferment agreements exist for the overdue receivables of EUR 102 thousand (previous year EUR 12 thousand), so no impairment is required.

Impairments for other receivables and other assets were not required.

3.5. Current tax receivables

As in the previous year, the current tax receivables amounting to EUR 26 thousand (previous year EUR 104 thousand) within the other receivables concern interest withholding taxes, the solidarity surcharge and corporate income tax credits.

3.6. Cash in banks and cash holdings

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

3.7. Other assets

Other assets largely pertain to accruals relating to rent-free periods. The accruals relating to rent-free periods were calculated based on the terms of the lease agreements, taking into account the rents attributable to the rent-free periods in 2020 and previous years.

3.8. Equity

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

SUBSCRIBED CAPITAL

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

CAPITAL RESERVES

The capital reserves (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.9. 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	185,596 (189,964)	28,333 (12,921)	157,263 (177,043)	26,177 (35,154)	131,086 (141,889)
Advance payments received	6,589 (5,937)	6,589 (5,937)	0 (0)	0 (0)	0 (0)
Trade payables	4,352 (2,195)	4,352 (2,195)	0 (0)	0 (0)	0 (0)
Income tax liabilities	347 (6)	347 (6)	0 (0)	0 (0)	0 (0)
Other liabilities	20,522 (17,252)	3,411 (3,239)	17,111 (14,013)	17,111 (14,013)	0 (0)
	217,406 (215,354)	**43,032** (24,298)	**174,374** (191,056)	**43,288** (49,167)	**131,086** (141,889)
plus deferred tax liabilities			43,087 (36,553)		
Total non-current liabilities			**217,461** (227,609)		
Total current liabilities		**43,032** (24,298)			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Maturity / year	Interest rate / %	Initial amortization / %	Remaining debt / EUR '000
2020	1.28	1	782
2021	3.28-3.51	1	25,603
2023	3.24	3	5,490
2025	variable		14,250
2027	variable		77,318
2028	variable		29,549
2029	0.78		20,000
2030	0.52		4,925
2036	variable		7,680
		Total	**185,596**

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

Maturity / year	Interest rate / %	Initial amortization / %	Remaining debt / EUR '000
2020	1.28		10,769
2021	3.28-3.51	1	23,067
2023	3.24	3	5,606
2025	variable		14,400
2027	variable		78,512
2028	variable		29,850
2029	0.78		20,000
2036	variable		7,760
		Total	**189,965**

There was a cash outflow amounting to EUR 2.17 million in financial year 2020 as a result of scheduled redemption payments. In addition, loans with a volume of EUR 20 million were raised.

Of the liabilities to banks, a total of EUR 128,796 thousand (previous year EUR 130,523 thousand) is at variable interest rates and EUR 56,018 thousand (previous year EUR 58,673 thousand) at fixed interest rates; the item also includes accrued interest of EUR 782 thousand (previous year EUR 769 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 248,563 thousand (previous year EUR 230,563 thousand) against the property portfolio (carrying amount: EUR 610,450 thousand) as well as by assignments, e.g. of 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 2020 was 1.97% (previous year 2.01%). The weighted average remaining term of the bank loans is 6.4 years (previous year 7.0 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 2020 amounted to EUR 52,666 thousand (previous year EUR 58,673 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 -0.44% to 0.02% (previous year -0.21% to 0.30%) 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:

	31/12/2020	31/12/2019
	EUR '000	EUR '000
Negative market value of derivative financial instruments	2,291	2,039
Miscellaneous	1,120	1,200
Total	**3,411**	**3,239**

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	104,631	1.63%
Over 1 year to 2 years	120,514	1.66%
Over 2 years to 5 years	118,142	1.66%
Over 5 years to 10 years	63,652	1.63%
Over 10 years to 15 years	11,242	1.67%
Over 15 years	6,460	1.51%

The original term of the designated interest rate swaps is ten to 20 years (previous year ten to 20 years).

For previously replaced interest rate 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

that EUR 1,149 thousand (previous year EUR 1,098 thousand) less deferred taxes of EUR 182 thousand (previous year EUR 174 thousand) was reclassified from the reserve for cash flow hedges to interest expense.

Derivative financial instruments:

EUR '000	Equity and liabilities			
	31/12/2020		31/12/2019	
	Nominal volume	Fair value	Nominal volume	Fair value
Interest rate swaps	127,745	-19,339	128,931	-16,132
of which within cash flow hedges	122,145	-18,690	123,331	-15,646
Total	127,745	-19,339	128,931	-16,132

The hedges that POLIS has designated as cash flow hedges have the following effects on the statement of financial position at 31 December 2020:

Interest rate risk (interest rate swaps with fixed outgoing payments and variable incoming payments), EUR '000		31/12/2020	31/12/2019
Nominal amounts		122,145	123,331
Fair value of hedges		-18,690	-15,646
of which non-current		-2,204	-2,039
of which current		-16,486	-13,607
of which assets		0	0
of which liabilities		-18,690	-15,646
Fair value change in hedges		-3,044	-6,672
For measurement of ineffectiveness	Hypothetical derivatives method		Hypothetical derivatives method
Balance sheet item for hedges	Other financial liabilities		Other financial liabilities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Interest rate hedges	31/12/2020	31/12/2019
OCI cash flow hedge reserve (profit/loss recorded from hedging, after income taxes)	-13,274	-11,224
Change in cash flow hedge reserve	-2,050	-5,167
of which addition recognized in other comprehensive income	-4,159	-7,185
of which reclassified from OCI to income statement following materializing of underlying transaction	2,109	2,018
Income statement item for unclassified amounts	Interest expense	Interest expense
Hedge ineffectiveness (result) in income statement	527	573
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 reported under “Other income” includes in-year valuation effects from allocations from the existing hedges that were subsequently reversed again because the underlying transaction took place, in the amount of EUR 1,357 thousand (previous year EUR 1,300 thousand), less deferred taxes of EUR 215 thousand (previous year EUR 206 thousand). Without these effects, the net market value change of the derivatives in a hedging relationship in the financial year amounted to EUR -3,571 thousand (previous year EUR -7,236 thousand), plus deferred taxes of EUR 554 thousand (previous year EUR 1,145 thousand). Because the underlying transaction took place, EUR 1,149 thousand (previous year EUR 1,098 thousand) less deferred taxes of EUR 182 thousand (previous year EUR 174 thousand) was reclassified from the reserve for cash flow hedges to interest expense resulting from interest rate swaps replaced in the past. Consequently, the overall market value of cash flow hedges reclassified to the result comes to EUR 2,505 thousand (previous year EUR 2,397 thousand), less deferred taxes of EUR 397 thousand (previous year EUR 379 thousand).

3.10. Additional information concerning financial instruments

The financial instruments used by POLIS are classified as cash in banks and financial instruments, according to the IFRS 9 measurement categories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	2020	2019
		EUR '000	EUR '000
Receivables and other financial assets	Measured at amortized cost	9,990	7,867
Cash in banks	Measured at amortized cost	9,078	25,187
Total		**19,068**	**33,054**
Liabilities to banks	Measured at amortized cost	185,596	189,964
Trade payables	Measured at amortized cost	4,352	2,195
Other financial liabilities	Measured at amortized cost	3,411	1,120
	Derivatives measured at fair value without effective hedging relationships	649	486
	Derivatives measured at fair value with an effective hedging relationship	18,690	15,646
Total		**212,698**	**209,411**

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

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	2020	2019
		EUR '000	EUR '000
Receivables and other financial assets	Measured at amortized cost	-69	-136
Cash in banks	Measured at amortized cost	-11	-11
Receivables and other financial assets and other financial liabilities	Derivatives measured at fair value without effective hedging relationships	-163	-339
	Derivatives measured at fair value with an effective hedging relationship	527	573
Total		**364**	**87**

The net gains from the derivatives at fair value that are not components of effective cash flow hedges include valuation losses recognized through profit or loss from interest rate swaps in the amount of EUR -163 thousand (previous year EUR -339 thousand).

The net gains from the derivatives at fair value that are components of effective cash flow hedges result from valuation losses recognized income-neutrally in the amount of EUR 3,017 thousand (previous year EUR 6,095 thousand) as well as the ineffectiveness recognized through profit or loss in the amount of EUR 527 thousand (previous year EUR 573 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The effective changes in the market value of derivatives that form part of effective cash flow hedges (EUR -4,928 thousand; previous year EUR -8,536 thousand) were recognized through “Other comprehensive income” after deduction of deferred taxes (EUR 769 thousand; previous year EUR 1,351 thousand).

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.

3.11. Leases

As the lessee in leases

POLIS leases vehicles and office equipment. The term of the lease agreements is typically three years for vehicle leasing and typically four years for office equipment leasing. There are no options on extending the lease agreements beyond these periods. To all intents and purposes, however, it is possible to continue to use vehicles from expired lease agreements until the vehicle from the follow-on contract is made available to POLIS. POLIS therefore states a term of 37 months for its vehicle lease agreements.

Office equipment leasing involves low-value objects. The Group has decided not to recognize either rights of use or lease liabilities for these lease agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Information on leases in which the Group is the lessee is presented in the following:

Rights of use:

Development in rights of use for vehicles	2020	2019
	EUR '000	EUR '000
Position at 1 January	42	53
Depreciable amount for the financial year	-34	-32
Additions to rights of use	53	21
Position at 31 December	61	42

Amounts recognized in income statement:

Amounts recognized in income statement	2020	2019
	EUR '000	EUR '000
Interest expense for lease liabilities	1	0
Expenses for leases of low-value assets	5	5

Amounts recognized in cash flow statement:

Amounts recognized in cash flow statement	2020	2019
	EUR '000	EUR '000
Total cash outflows for leases	39	38

As the lessor in leases

POLIS lets its investment property. From the lessor's perspective all leases are classified as operating leases because they do not transfer essentially all risks and rewards of ownership. In 2020 the Group recognized lease income amounting to EUR 26,555 thousand (previous year EUR 24,028 thousand).

The following table presents an analysis of maturities for the lease receivables and shows the undiscounted lease payments to be received after the balance sheet date:

EUR '000	Total	Up to 1 year	2 to 5 years	Over 5 years
Minimum rent payments (31/12/2020)	156,426	26,473	77,877	52,076
Minimum rent payments (31/12/2019)	134,605	24,349	67,675	42,581

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 -93 thousand (previous year EUR -287 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 2020.

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 recognized.

4.3. Property management expenses

This item comprises:

	2020	2019
	EUR '000	EUR '000
Non-allocable operating costs	510	173
Letting costs	263	197
Other property management expenses	342	197
Total	**1,115**	**567**

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. Other income

Other income for financial year 2020 substantially comprises compensation for cosmetic repairs and insurance payouts.

4.6. Other expense

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.7. Administrative expenses

The following table shows the composition of the administrative expenses:

	2020	2019
	EUR '000	EUR '000
Staff costs	2,930	2,570
Legal, consultancy and auditing fees	396	300
Office and travel expenses	1,374	1,329
Annual Report, Annual General Meeting	257	262
Marketing and advertising expenses	87	106
Other expense	40	87
Total	**5,084**	**4,655**

In addition to the two members of the Board of Management, on average 33 persons were employed in financial year 2020 (previous year 25), nine of who work in the "General Administration" area and 24 in the "Asset and Property Management" area, including three trainees. At the end of the financial year there were 31 persons working at POLIS.

4.8. Financial income

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

4.9. Interest expense

Financial expense represents financial liabilities that were classified to amortized cost in accordance with the measurement categories of IFRS 9.

The overall interest expense is shown below:

	2020	2019
	EUR '000	EUR '000
Interest expense	3,777	3,745
Ancillary financing costs	170	117
Reclassified result from the reserve for cash flow hedges	1,149	1,098
Total	**5,096**	**4,960**

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

4.10. Income taxes

Expense (-)/income (+)	2020	2019
	EUR '000	EUR '000
Deferred taxes on losses carried forward	0	1,008
Deferred taxes from temporary differences	-6,907	-11,379
Current taxes	-399	-182
Total	**-7,306**	**-10,553**

The income from deferred taxes for losses carried forward was the result of capitalizing tax losses carried forward.

The corporate income tax rate in Germany was 15% in 2020 (previous year 15%), and the solidarity surcharge was 5.5% on this. The resulting combined tax rate is 15.83% (previous year 15.83%).

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

	2020	2019
	EUR '000	EUR '000
Profit before tax	46,340	63,265
Group tax rate	15.825%	15.825%
Expected income tax expense	-7,333	-10,012
Non-deductible operating expenses	-13	-13
Income tax – previous years	-60	-29
Adjustment losses carried forward	-33	-576
Income taxes – current year	-339	-98
Other	472	175
Taxes on income	-7,306	-10,553
Tax rate	15.8%	16.7%

4.11. Earnings per share

Earnings per share are determined as follows:

	01/01/2020-31/12/2020	01/01/2019-31/12/2019
Consolidated earnings after profit allocable to minority interests (EUR '000)	39,034	52,712
Average number of ordinary shares outstanding (units)	11,051,000	11,051,000
Earnings per share (basic and diluted) (in EUR)	3.53	4.77

5. DISCLOSURES RELATING TO 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.

6. OTHER DISCLOSURES

6.1. Supervisory Board and Board of Management

The members of the Board of Management were:

Mathias Gross
Board of Management member, Berlin

Dr Michael Piontek
Chief Financial Officer, Berlin

The following persons were members of the Supervisory Board:

Klaus R Müller
Member of the Supervisory Board of Mann Immobilien-Verwaltung AG, 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)

Leopold Mann
Member of the management of Mann Management GmbH, Karlsruhe, residing in Baden-Baden

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:

	2020	2019
	EUR '000	EUR '000
Gross compensation	677	625
Other benefits	17	21
Total	**694**	**646**

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 126 thousand in financial year 2020 (previous year EUR 126 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

Services provided for the Mann Group, in the financial year were billed on generally accepted market terms. The revenue of EUR 98 thousand is included in other income.

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 entered into 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 as well as the 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 at 70% – 90 % of variable-rate loans (proportion hedged at the time of reporting: 87%). This interest rate hedging takes the form of fixed-rate loans or 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 2020, the variable-rate bank liabilities of POLIS stood at EUR 128,796 thousand (previous year EUR 130,523 thousand). Of this, EUR 104,987 thousand (previous year EUR 106,173 thousand) was converted into fixed-rate liabilities through interest rate swaps. Fixed-rate liabilities to banks amounted to EUR 56,018 thousand (previous year EUR 58,673 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 2020, 87% of the interest-bearing liabilities to banks were hedged. This means that 13% (EUR 24 million) of the loans are not hedged. A 100 base point rise in interest rates would increase the interest expense by approximately EUR 240 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 2020 by about EUR 2,729 thousand (previous year EUR 3,101 thousand), and the same movement in the opposite direction would have reduced them correspondingly. With an estimated probability of this scenario assumed to be 20%, the risk amounts to EUR 546 thousand (EUR 310 thousand).

The existing interest rate swaps represent hedging of clearly identifiable existing or planned underlying transactions. As a form of micro-hedging, they are accordingly matched directly to the corresponding variable-rate loans at property company level 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Handling of the reform of reference rates and associated risks

A fundamental reform of the main reference rates is in progress worldwide, including the replacement of some interbank offered rates (IBORs) with alternative, almost risk-free interest rates (referred to as "IBOR Reform"). Financial instruments of the Group are exposed to IBORs that are being replaced or reformed in the course of these market-wide initiatives. The timing and methods of the transition remain uncertain. The Group assumes that the IBOR Reform will affect its risk management and hedge accounting.

POLIS is monitoring and managing the transition to alternative reference rates and evaluating to what extent contracts refer to IBOR cash flows, whether such contracts need to be amended as a result of the IBOR Reform and how communication of the IBOR Reform with the parties to the contract is being handled. The Board of Management reports regularly to the Supervisory Board on interest rate risks and risks arising from the IBOR Reform.

For risk management purposes the Group holds interest rate swaps designated as cash flow hedges. The variable amounts of the interest rate swaps are linked to EURIBOR. The Group's derivative instruments are governed by contracts that are based on the framework contracts of the International Swaps and Derivatives Association (ISDA). ISDA has reviewed its standardized contracts in light of the IBOR Reform and amended certain options concerning variable interest rates in the 2006 ISDA definitions to include fallbacks that would be applied when certain important IBORs are permanently discontinued. To amend the 2006 ISDA Definitions, ISDA has published a Supplement to ISDA Fallbacks and an IBOR fallbacks protocol to enable multilateral amendments for including the amended options on variable interest rates in derivatives transactions that were concluded prior to the date of the supplement. POLIS is currently planning to observe the protocol and monitoring whether other contracting parties will equally adhere to it. If this plan changes or if there are contracting parties that do not observe the protocol, POLIS will negotiate with them bilaterally on the adoption of new fallbacks.

The Group has assessed to what extent its cash flow hedges are subject to uncertainties at 31 December 2020 due to the IBOR Reform. The Group's hedged underlying transactions and hedges remain linked to the EURIBOR. These reference rates are quoted every day and the IBOR cash flows are exchanged between the contracting parties as usual.

The method of calculating the EURIBOR changed in the course of 2019. In July 2019 the Belgian Financial Services and Markets Authority authorized the EURIBOR under the EU Benchmarks Regulation. This allows market operators to continue using the EURIBOR for both existing and new contracts. The Group expects that the EURIBOR will remain in existence for the foreseeable future as a reference rate.

Hedges that are affected by the IBOR Reform may be exposed to ineffectiveness attributable to the expectations of market operators regarding when the switch from the existing IBOR reference rate to an alternative reference rate will take place. This transition may take place at different points in time for the hedged underlying transaction and the hedge, potentially rendering the hedge ineffective. POLIS has performed a valuation of its hedges that are linked to the EURIBOR using available quoted market rates for EURIBOR-based instruments with the same term and a similar maturity, and valued the cumulative change in the present value of the hedged cash flows that are attributable to the changes in the EURIBOR on a similar basis.

The risk to POLIS in respect of the EURIBOR that is designated in hedges is nominally EUR 122,145 thousand at 31 December 2020 (see note 3.9); this corresponds to both the nominal amount of the interest rate swaps for hedging and the nominal amount of the hedged, EURIBOR-based, collateralized bank loans.

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, 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 2020, receivables from operating costs not yet settled stood at EUR 6,877 thousand (previous year EUR 6,525 thousand), and advance payments received for operating costs amounted to EUR 6,589 thousand (previous year EUR 5,937 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, tenants are monitored intensively on an individual basis. Second, a portfolio that reflects the remaining tenants is created. A credit check is carried out on these tenants before a contract is entered into. The creditworthiness of all tenants 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 tenants, an

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	Proba-bility 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		0.27%				EUR '000 4,162	
350 – 499		0.50%				EUR '000 4,593	
500							
600							

The Creditreform rating classes are to be interpreted in ascending order. The higher the rating class, the poorer 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 0.3% to 0.5%.

Development in impairment of trade receivables pursuant to IFRS 9

Trade receivables at amortized cost (previous year: loans and receivables)	31/12/2020
Impairment at 31 December 2019	110
Increase through profit or loss in impairment	27
Impairment at 31 December 2020	**137**

Determination of default risk for cash in banks

Generally speaking the default risk for cash in banks is to be rated as low, because POLIS has in its portfolio exclusively banks that are in deposit-guarantee schemes (of the savings bank and cooperative bank sector and of the private banking industry). The credit standing of banks is regularly examined. There was no significant increase in the default risk or objective evidence of impairment of receivables from banks in the financial year. Nevertheless, risk provisioning of 0.02% – 0.06% (EUR 11 thousand) was calculated based on the bank rating. No transfer from stage 1 to stage 2 or 3 of the impairment model was necessary in the financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company monitors the default risk of banks and financial institutions by regularly consulting the ratings of the institutes S&P, Fitch and Moody's, 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 and by the competent staff members, 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 trade receivables					
External rating class according to rating agencies	Internal rating class	Proba-bility 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	
						EUR '000	
AAA – A-		0.08 – 0.2%				9,089	
BBB+ – B-							
CCC+ – CCC-							

The banks' ratings were classified as "very good" according to Moody's and Fitch Ratings. According to the rating matrix, the probability of default is therefore 0.02% – 0.06%.

Development in impairment of receivables from banks pursuant to IFRS 9

Receivables from banks measured at amortized cost (previous year: loans and receivables)	31/12/2020
Impairment at 31 December 2019	11
Impairment at 31 December 2020	**11**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Development in risk provisioning in the financial year

The 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	12-month ECL	Lifetime ECL – simplified approach for trade receivables, asset-side contract items and leasing receivables	Total
EUR	Cash in banks		
Gross carrying amount of risk provisioning at 1 January 2020	25,187	7,020	32,207
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 2020	-	-26	-26
Gross carrying amount of risk provisioning at 31 December 2020	9,089	7,335	16,424

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 regularly at management team and Board of Management meetings.

The following table presents all contractually agreed, non-discounted payments at 31 December 2020 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	Gross cash outflows	2021	2022	2023	2024	From 2025
Liabilities to banks	192,816	28,892	2,606	2,601	2,302	156,415
Trade payables	4,352	4,352	0	0	0	0
Other liabilities	3,411	3,411	0	0	0	0
Non-derivative financial liabilities	200,579	36,655	2,606	2,601	2,302	156,415
Designated derivative financial instruments	19,035	2,221	2,699	2,627	2,540	8,948
Non-designated derivative financial instruments	638	87	90	88	85	288
Derivative financial liabilities	19,673	2,308	2,789	2,715	2,625	9,236
Maturity before utilization of loan commitments	**220,252**	**38,963**	**5,395**	**5,316**	**4,927**	**165,651**
Loan commitments	15,000	15,000	0	0	0	0
Maturity after utilization of loan commitments	**205,252**	**23,963**	**5,395**	**5,316**	**4,927**	**165,651**

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 2,177 thousand (previous year EUR 538 thousand) from the 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 2021, which amount to approximately EUR 22.5 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Analysis of maturities at 31 December 2019

Figures in EUR '000	Gross cash outflows	2020	2021	2022	2023	From 2024
Liabilities to banks	175,177	13,740	26,038	2,613	2,607	130,179
Trade payables	2,195	2,195	0	0	0	0
Other liabilities	1,120	1,120	0	0	0	0
Non-derivative financial liabilities	178,492	17,055	26,038	2,613	2,607	130,179
Designated derivative financial instruments	15,635	2,028	2,007	2,242	2,035	7,323
Non-designated derivative financial instruments	486	80	79	71	63	193
Derivative financial liabilities	16,121	2,108	2,086	2,313	2,098	7,516
Maturity before utilization of loan commitments	**194,613**	**19,163**	**28,124**	**4,926**	**4,705**	**137,695**
Loan commitments	0	0	0	0	0	0
Maturity after utilization of loan commitments	**194,613**	**19,163**	**28,124**	**4,926**	**4,705**	**137,695**

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 30% (previous year 34%).

6.4. Fees and services of the auditor

The fees for services provided by the auditor Ernst & Young Wirtschaftsprüfungsgesellschaft in financial year 2020 were as follows:

	2020	**2019**
	EUR '000	EUR '000
Audit fees	106	103
TOTAL	**106**	**103**

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 Erste Objektgesellschaft Stuttgart GmbH & Co. KG, Berlin
POLIS Objekte Dritte Objektgesellschaft Köln GmbH & Co. KG, Berlin
POLIS Objekt Lessingstraße GmbH & Co. KG, Berlin
POLIS Zweite Objektgesellschaft Düsseldorf GmbH & Co. KG, Berlin
POLIS Zweite Objektgesellschaft Köln GmbH & Co. KG, Berlin
POLIS Objekt Könneritzstraße GmbH & Co. KG, Berlin
POLIS Objekte Berliner Allee GmbH & Co. KG, Berlin
POLIS Erste Objektgesellschaft Köln GmbH & Co. KG, Berlin
POLIS Zweite Objektgesellschaft Stuttgart GmbH & Co. KG, Berlin
POLIS Objekt Rankestraße 21 GmbH & Co. KG, Berlin
POLIS Objekt Erfurt GmbH & Co. KG, Berlin
POLIS Objekt Gera GmbH & Co. KG, Berlin
POLIS GmbH & Co. Fünfundvierzigste Objekt KG, Berlin
POLIS GmbH & Co. Sechsundvierzigste Objekt KG, Berlin

Berlin, 24 March 2021

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, Berlin, and its subsidiaries (the Group) – comprising the consolidated statement of financial position at 31 December 2020, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of movements in equity for the financial year from 1 January to 31 December 2020 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 2020.

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 2020 as well as of its financial performance for the financial year from 1 January to 31 December 2020, 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".

INDEPENDENT AUDITOR'S REPORT

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 consolidated financial statements, group 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 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

INDEPENDENT AUDITOR’S REPORT

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 IDW will always reveal a material misrepresentation. 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. In addition

- 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 as well as – including the disclosures – 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 suitable 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;

INDEPENDENT AUDITOR'S REPORT

- 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, 26 March 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schepers	**Pfeiffer**
Certified Public Accountant	Certified Public Accountant

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