POLIS

ANNUAL REPORT 2022

Cologne | Neumarkt 49

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Senior officers of POLIS AG, from left:

Holger Bongardt
Authorized signatory;
Commercial Director

Dr Michael Piontek
Chief Financial Officer

Mathias Gross
Chief Operating Officer

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

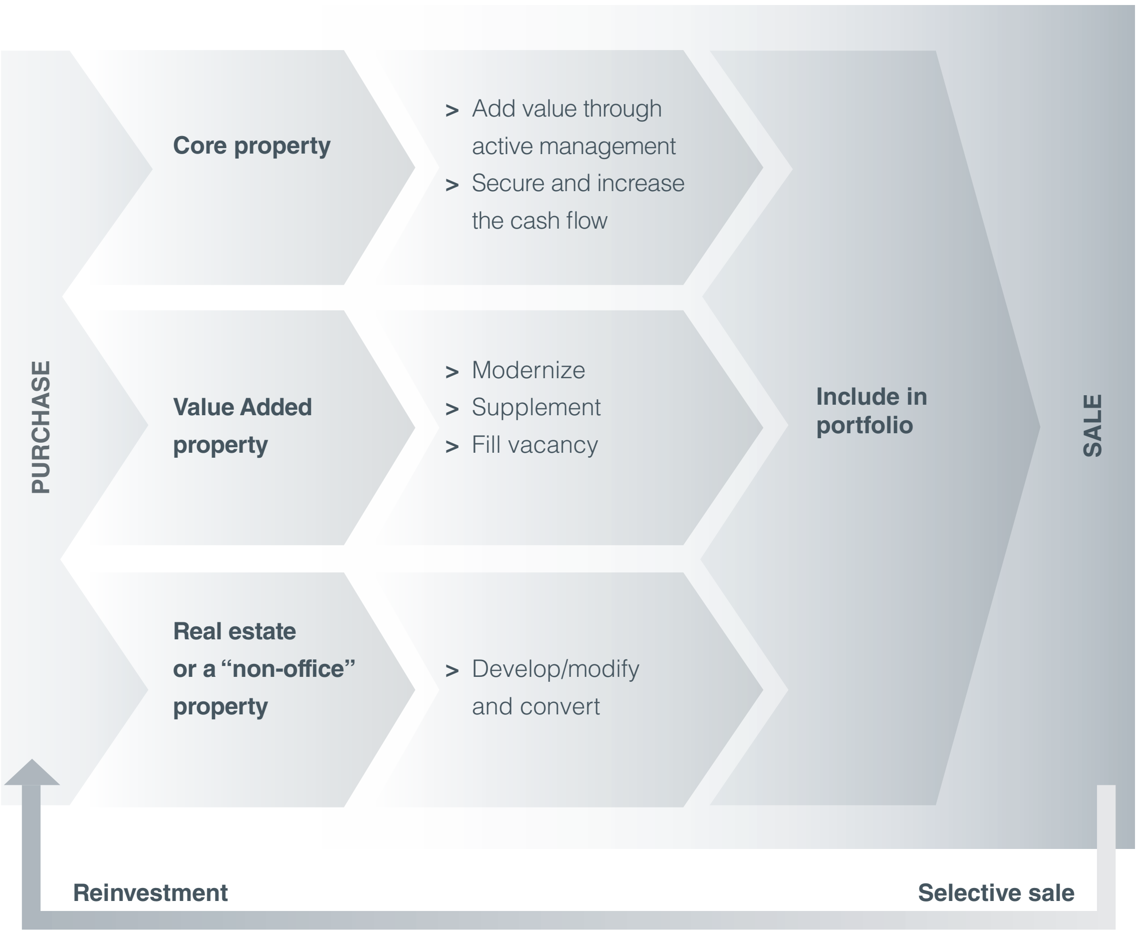
ANNUAL REPORT 2022

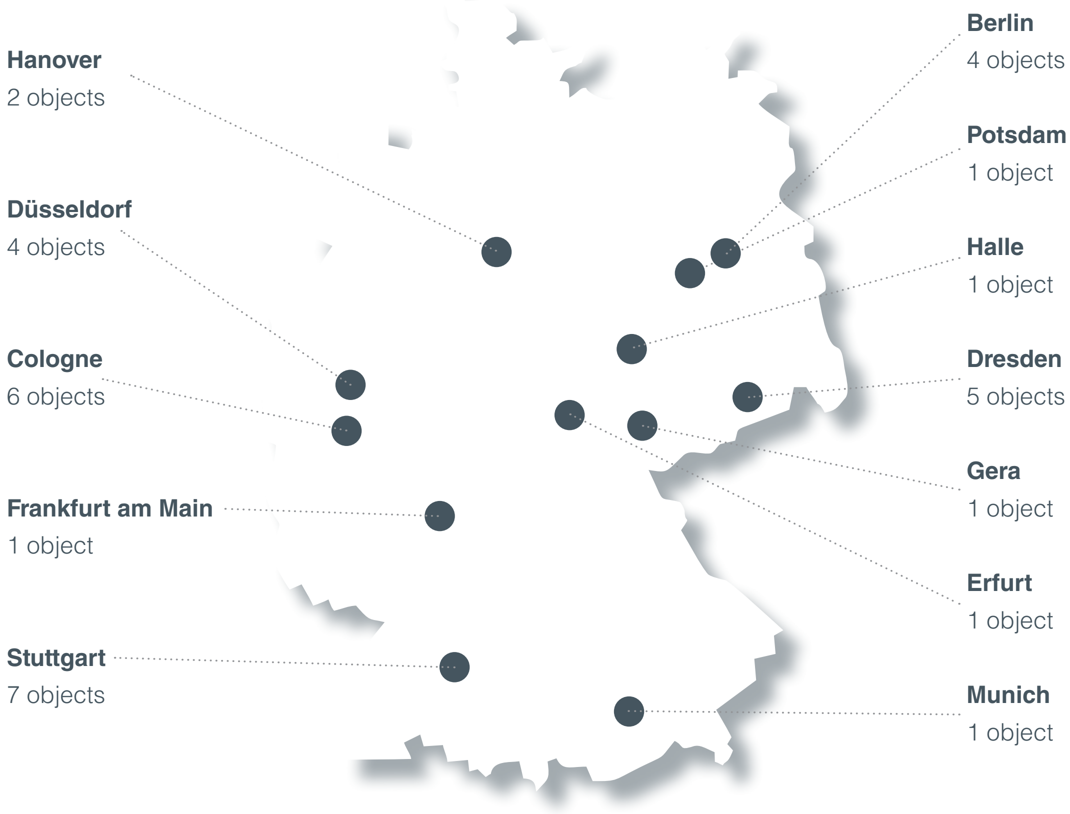
POLIS AG key ratios at a glance

	2022	2021
Rental income	**EUR 32.2 million**	28.9 Mio. EUR
Total assets	**EUR 761.2 million**	672.2 Mio. EUR
Equity	**EUR 447.0 million**	414.1 Mio. EUR
Earnings before taxes	**EUR 17.7 million**	44.3 Mio. EUR
Property portfolio (own commercial space sqm)	**216,485 sqm**	199,150 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

Creating sustainable assets

We invest in properties with potential. 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, high-growth B-list cities for 25 years, including increasingly properties in up-and-coming cities in eastern Germany.

The focus of our acquisitions is on buildings in attractive, established office locations in city centres and in excellent secondary locations. They have efficient ground plans, allow flexible usage, enjoy very good transport connections and offer medium to long-range development potential.

We give preference to let-out properties with a wide-ranging mix of tenants. This assures a high degree of diversification regarding space and lease terms in order to reduce the risk from loss of rental income and vacancies. POLIS also prioritizes properties where the tenants enjoy impeccable credit ratings.

Unlocking potential

We identify specific opportunities to increase value for example in properties with short remaining lease terms, with potential for rent increases or in ones that are in need of architectural and technical modernization work. We also consider office and commercial properties where vacancies can be remedied or which offer scope for development so that the properties in question can then be successfully repositioned in the market. From the outset, POLIS pursues a manage-to-core strategy and adopts measures such as adjusting the ground plan, changing how the space is used or completely modernizing the building.

Acting with foresight

Dependability, financial soundness, a careful and deliberate risk approach and the pooling of key skills in-house: these are core success factors for POLIS Immobilien AG and are all reflected in how we act.

Other core elements of our entrepreneurial approach are transparent and reliable processes, compliance with agreed schedules and a workable, proven financing structure. We believe it is imperative to achieve a solid financial structure with an equity ratio of at least 40% alongside optimum management of liquidity, which enables us to seize investment opportunities swiftly as the gateway to sustainable growth for POLIS.

Dresden | Kramergasse 2 – 4

Our team combines real estate, legal, commercial, tax and financing expertise, as well as practical experience of the property market. By conducting asset, construction and property management ourselves, we are in a position to manage our portfolio efficiently and handle even complex construction projects and transactions (asset and share deals). This approach means we not only preserve value over the long term, but also make a vital contribution to upgrading the individual micro-locations. To maintain this high level of professionalism and anticipate innovations, we attach great importance to providing continuing professional development for our employees and to qualifying new specialists. By providing commercial and technical training and offering dual study courses, we train up significant numbers of real estate managers, building technicians, IT specialists and agents for the key areas of tax, accounting and controlling, for example. We believe the high occupancy rate, the steady development in value and the good structural condition of our properties endorse how successful our strategy is.

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

LETTING

Quality in attractive locations

The POLIS portfolio comprises a wide range of office properties and commercial buildings in Germany's top 7 locations and high-growth B-list cities. The properties are situated in attractive, established office city centre locations or in high-quality secondary locations that have excellent transport connections. The buildings feature modern, technically well-equipped rental space with solutions for many different sectors and user groups. We hold one-to-one talks with prospective tenants in order to submit a proposal tailored exactly to their requirements.

Our portfolio focuses especially on office or retail spaces with top-class infrastructure that adjoin 1a locations, but with the advantage of lower rents. Our tenants benefit from a combination of high-quality spaces in good to excellent locations and good value for money.

Sustainably into the future

POLIS has a strategy of pursuing sustainable value growth and steadily improving performance in every area of building services. The spotlight of our efforts is always on tenant requirements. To satisfy our tenants and meet the demands of the modern working world, we provide rental space with state-of-the-art technical facilities. That involves everything from keeping pace with the digital age to optimizing energy consumption and operating costs for our tenants. We maintain our rental space at a high standard of quality by continuously modernizing the portfolio and employing innovative building maintenance methods.

We also regard the architectural authenticity of our properties as hugely important. Our aim is to preserve a property's character. For example, in the course of comprehensively revitalizing the office building at Neumarkt 49 in Cologne in keeping with its listed status, we created modern, high-quality, efficient office space that also preserves the historical identity of the Neumarkt building.

Custom-designed and customer-centred

Developing modern, personalized letting concepts is a core skill of our experienced team of experts – as has been the case for now 25 years. 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? Together we can find the best possible solution for your individual needs.

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.


Energie
Karriere
Team
Praktikum
Studium

SUSTAINABILITY

Not merely in light of the energy crisis, the sustainable transformation of the economy continues to grow in importance and will be one of the core issues of the next few years. Energy efficiency, the use and expansion of renewables and resource-efficient management will determine how future-proof our economy is.

The real estate sector plays a crucial role in creating a sustainable society and achieving climate targets. That is also highlighted in the Report on Buildings published by the German Energy Agency (dena): it states that in 2021 the building sector accounted for about 35 % of Germany's energy consumption. Out of a total of 907 terawatt-hours, 36 % was used for the operation of non-residential buildings[1].

Handling resources responsibly, increasing energy efficiency and avoiding greenhouse gas emissions should therefore be priorities for how real estate businesses act. As a portfolio holder throughout Germany, we at POLIS create sustainable assets and acknowledge our commitment both to exercise sound corporate governance and also to manage especially our properties in an economically and environmentally responsible manner.

As well as expressing the social responsibility that our Company bears, those objectives form the very basis of our economic success. That is because sustainability is a decisive factor in optimizing real estate portfolio performance. The ESG-compliant operation of buildings cuts running costs, improves tenant satisfaction and retention, and increases property values. A consistent focus on environmental and social sustainability criteria moreover means POLIS is better positioned to recruit highly qualified professionals. Businesses that operate sustainably are more resilient and more successful in the long run.

In light of this, we created a sustainability department in 2022 and drew up a comprehensive sustainability strategy that sets out the parameters of a ESG-compliant future direction for POLIS at both corporate and property level, covering the various different aspects of the Environmental, Social and Governance areas.

[1] *dena report on buildings, p. 78*

E = Environmental

As a responsible portfolio holder, we are mindful of our duty to preserve our building stock for the long term by conducting comprehensive modernization in order to prevent a possible future climate-harming demolition and rebuilding. At the same time, we need to strive for the most efficient and ecologically sustainable solution for the ongoing management of our real estate holdings. That goal is a crucial part of our sustainability strategy and at the heart of the POLIS business model.

Energy management is an especially important instrument for cutting real estate energy consumption and consequently reducing their carbon emissions and operating costs. This is the context in which POLIS strives to optimize energy and heat consumption across its entire property portfolio. Going forward, a uniform smart metering system will be the basis for optimizing facility management and energy consumption, with the automated remote reading of all meters; this will provide a digital picture of all consumption data at any point in the year. With the help of these consumption figures, which we can visualize on a central dashboard and regularly evaluate, we will be able to identify potential for economies in our property portfolio.

The data gleaned from the smart measuring system will also be used to calculate each building's carbon emissions. That will serve as the starting point for the POLIS team to determine the individual carbon reduction path for each property. Using that basis, the best measures for reducing emissions at each individual property can be identified, implemented and their effectiveness continuously monitored.

Other examples of our environmental activities are:

Replacing heating systems that run on fossil fuels and optimizing existing district heating installations

Using energy-efficient light sources across the portfolio and switching to green power

POLIS-vehicle fleet: plug-in hybrids

Public transport season tickets for POLIS employees

S = Social

A rounded view of sustainability includes not merely environmental aspects but also the social context, over which we exercise influence in our capacity as a Germany-wide portfolio holder and office property landlord. As well as placing the interests of our tenants at the heart of POLIS' entrepreneurial actions, we believe having satisfied employees is also very important. With measures such as in-house healthcare provision, flexible working hours models and occupational pension arrangements, we provide the context for a modern working experience as the basis for assuring our long-term success.

POLIS also offers talented young people a wide range of opportunities to embark on a successful career with the Company and supports their personal and professional development. The training opportunities we offer include dual study courses in Technical Facility Management, Business Administration/Real Estate Management and Business Informatics as well as IHK training courses to qualify as real estate professionals. POLIS is steadily broadening the range of specialist disciplines for which it offers training and the number of student placements, including in such fields as ESG management and taxation. With trainees currently making up 20 % of the employee total in 2020, we are well above the national average of 4.8 %. This specialized talent pool brings new working practices and perspectives into our Company, enables us to reap the rewards of having internally trained professionals and a knowledge transfer between business and academia, and increases POLIS' potential to innovate.

By training up highly qualified employees ourselves and then retaining their services on a permanent basis, we also create skills profiles that are perfect for meeting the requirements of modern, enduringly successful portfolio management.

Other examples of our social activities are:

Active dialogue with tenants to gauge tenant satisfaction

Sustainable mobility infrastructure for tenants

Occupational pensions

Tenant satisfaction surveys

G = Governance

Ever since its establishment in 1998, POLIS has pursued a business model that strives for responsible, transparent and long-term value creation, while taking account of both commercial and social interests. Sound corporate governance includes compliance with tightly defined compliance guidelines and active risk management that encompasses every area of the Company.

One factor that has increased significantly in importance in this context is digitalization. Because of the substantial potential it offers for improving efficiency in property management, the use of information technology and the amount of data generated and processed in this segment are steadily growing.

For a portfolio holder that actively promotes the use of digital applications, minimizing cyber risks is increasingly a core task of entrepreneurial activity. To achieve the highest possible level of information security, we have further increased the human resources at our internal IT department, which is responsible for all the processes involved in implementing and operating a secure data infrastructure. Taking international standards as our starting point, we are steadily improving how we use specific technical and organizational solutions to protect secure data. This paves the way for a digital infrastructure that is consistent with sound, responsible corporate governance.

Other examples of our entrepreneurial activities are:

Internal
audit department

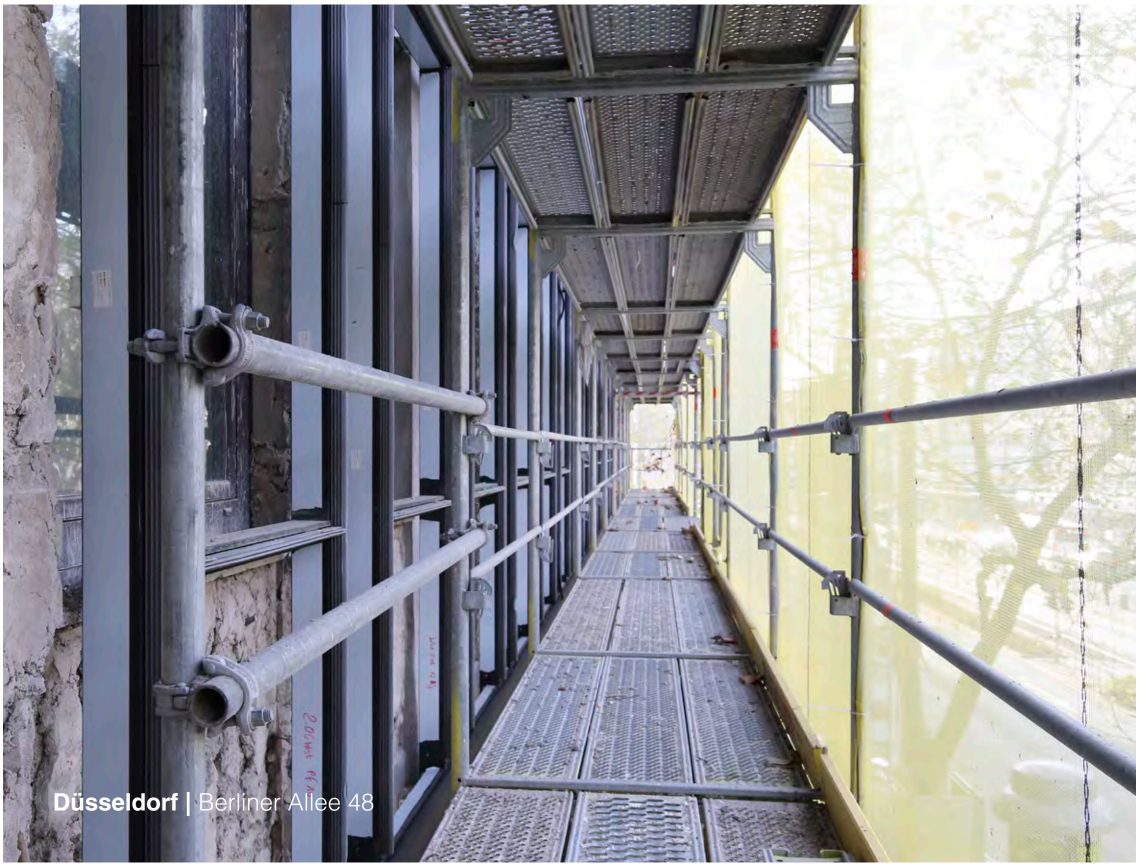
Creation of an internal
audit service to prevent
money laundering

Code of Conduct
for suppliers

Transparent
management
structures

MAKING THE BUILDING STOCK CLIMATE-NEUTRAL: THE SUSTAINABLE MODERNIZATION OF BERLINER ALLEE 48

POLIS draws on proven partnerships with established and experienced service providers to optimize the fabric of its existing properties. Following the successful revitalization of the property at Neumarkt in Cologne, it is now modernizing a property in Düsseldorf.



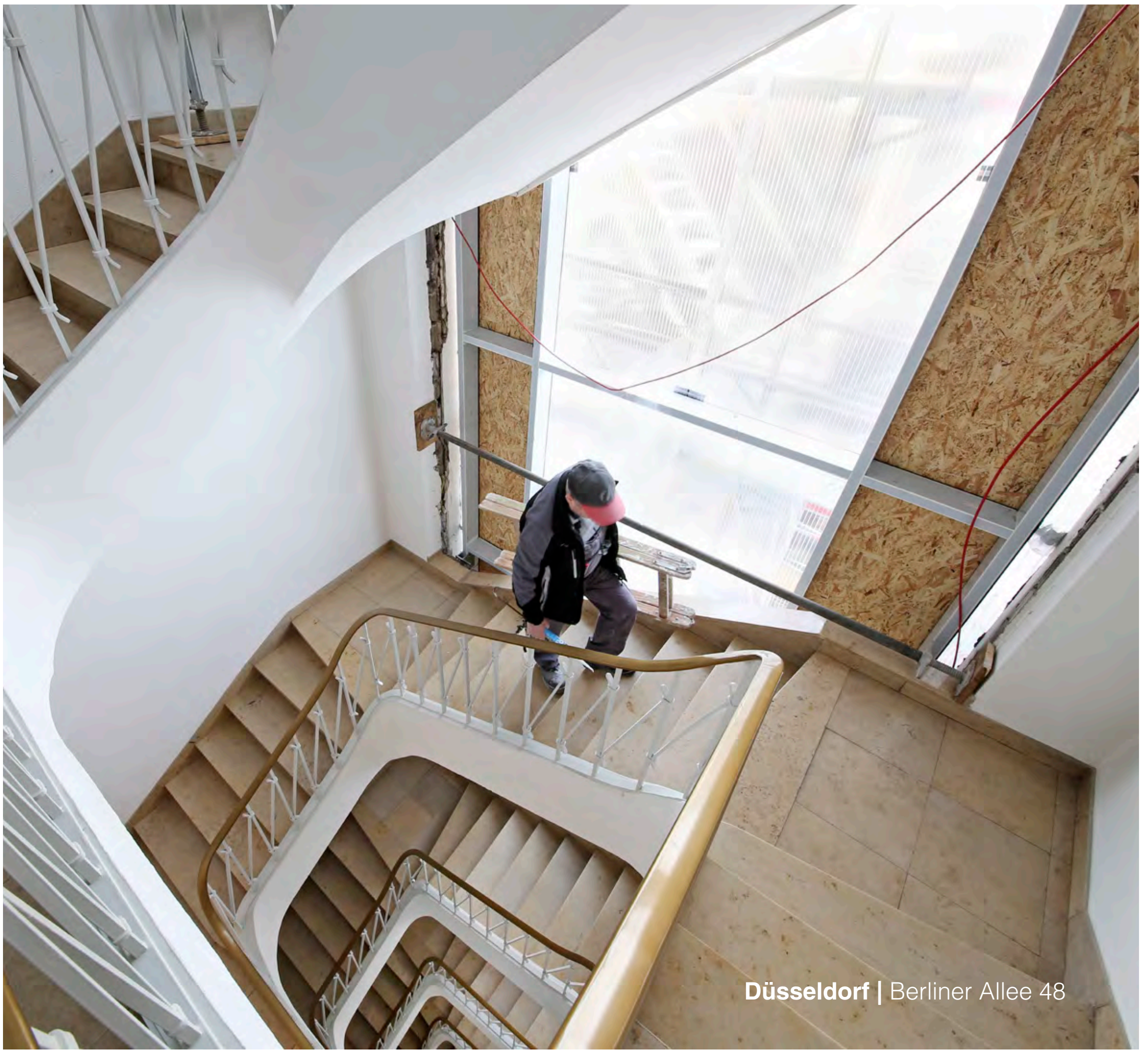
Düsseldorf | Berliner Allee 48

Like the completed project in Cologne, the property at Berliner Allee 48 is a post-war building that has comparatively high energy consumption. A building's facade and roof act as a thermal envelope and consequently have a big impact on its energy footprint. As such, they are the core elements of the extensive energy-efficient modernization of the Düsseldorf office and commercial building, which dates from 1956. The Arup engineering office has drawn up the plans for the project, which will be completed in 2023. The building work will bring around a 40 % reduction in the annual energy consumption and therefore in the carbon emissions of the property, which is located close to Königsallee.

Despite the renewal of the building's facade, the original arrangement of the office space will be preserved thanks to the use of thin mineral fibre insulation. The windows have been kept the same size by virtue of composite windows within the post and beam facade. The combination of high-grade insulation and optimized, wind-protected sun and glare shields cuts the energy consumption of the rental space without diminishing occupant comfort.

The use of a back-ventilated curtain wall provides optimal thermal insulation, which also reliably controls the moisture balance inside the building thanks to its durable, diffusion-friendly design and therefore helps to protect the building's fabric. In addition to its merits with regard to energy efficiency and building physics, this facade solution affords plenty of design freedom, giving the revitalization project scope for aesthetically pleasing features. When the building work is complete, the facade and its contemporary design will blend well into the district's urban development concept.

The ESG-compliant modernization of the building stock is not simply about improving energy efficiency; it also involves using raw materials and building products sparingly. For modernization we give priority to recyclable materials that can be reused or separated and sorted by grade at the end of their useful life. This helps to economize on resources and reduce carbon emissions. In that connection POLIS is constantly examining clear options for the reuse of building materials, for instance by employing old facade sections as structural elements for redesigned spaces.



Düsseldorf | Berliner Allee 48

Upgrading existing buildings using custom solutions to make them fit for the future is an investment with a payback in both environmental and economic terms – not just for the Company, but also for the tenants of POLIS. By modernizing buildings to be more energy-efficient, we cut operating costs across the portfolio and maintain the high quality of the rental space.

THE USE OF MODERN FACADE CONCEPTS HELPS TO CUT ENERGY CONSUMPTION AND CARBON EMISSIONS

Interview with Andreas Ewert, architect and facade planner, Arup Deutschland GmbH

Arup is a firm with operations worldwide and a pioneer of sustainable facade design. What makes you different?
We are able to draw on the rich experience that Arup has built up over its 75-year corporate history – over many hundreds of projects, in a wide variety of disciplines and spanning now 140 different countries. We have a globally active, carefully coordinated team of engineers, designers and architects with a rigorous focus on Arup's core values, which include quality, social responsibility and developing a sustainable built environment.
In the area of facade design, we take a holistic view of all the relevant planning criteria; for every project we develop the most efficient combination of insulation, heating and shading, also incorporating environmental and economic aspects.

You were commissioned by POLIS to design the facade as part of the renovation of the Neumarkt property in Cologne and to plan the renovation of the facade of a property in Düsseldorf. What were the special features of those projects?
The Neumarkt property is a post-war office block in a prominent location, so it plays a special role in shaping the architectural character of Cologne's city centre. To preserve it as an example of architectural heritage, the city designated the building's facade by Theodor Kelter as a listed building.
The office and commercial building at Berliner Allee 48 in Düsseldorf is also from the 1950s. In a street running parallel to the renowned Königsallee, it plays a part in defining the appearance of Düsseldorf city centre. It will need to continue to blend harmoniously into the cityscape after its revitalization.

What particular challenges did you face when renovating the building on Neumarkt?
A renovation in the 1980s that did not adequately respect the building's heritage status had done irreversible damage to the envelope. The task that the Arup team now faced was to reconstruct the facade's historical status while meeting state-of-the-art technical standards. To revive the architectural charm of

the 1950s, working closely with the relevant agencies we came up with a whole raft of individual solutions that have recreated the details and overall design concept of the post-war building. For example, to prevent the insulation from interfering with the Neumarkt building's slimline silhouette, we repositioned the facade slightly further forward. This meant the building could be insulated without its proportions being changed.

How have you found working with POLIS?
As a Germany-wide portfolio holder, POLIS is an expert in modernizing and managing real estate. Cooperation on both the execution of the revitalization of the Neumarkt building in Cologne and the planning of the Düsseldorf modernization project was correspondingly professional. A swift, productive sharing of ideas, reliable timescales and both parties' years of experience in modernizing older buildings made for a very satisfying collaborative venture and good results.

What are the latest trends in facade renovation?
As well as reducing energy consumption, renovation projects are increasingly about economizing on resources. Circular design is the watchword. That means we use raw materials very sparingly and consider the reusability of materials in our facade concept. For the Neumarkt building, we designed the envelope such that it can be reused or remain in use at the end of the occupancy phase.

What specific potential for cutting energy consumption and reducing carbon emissions do modern facade concepts offer for existing buildings?
Modern facade concepts can reduce both energy consumption and carbon emissions. To take the example of a renovated 1950s or 1960s building, target/actual comparisons indicate the potential for cutting transmission losses via a facade is usually around 100 %. That does not cover technical installations and losses via the ventilation. The biggest factor in reducing carbon emissions is preserving the structural framework, which is usually made from reinforced concrete and masonry, instead of demolishing and rebuilding it. Merely keeping the reinforced-concrete structure in use meant the Neumarkt renovation project saved around 2,400 tonnes of embodied carbon.

What degree of standardization are you fundamentally seeing in building renovation?
A building's renovation depends on a wide range of factors and will always necessitate custom solutions. That said, standardized components can equally make renovating the building stock quicker and more cost-effective. The combination of digital planning, industrial prefabrication and standardized processes allows serial concepts that make energy-efficient building modernization scalable.

Thank you for the interview.

www.arup.com

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 resulting from increased rental revenues – in part thanks to taking possession of a further investment property in Potsdam – we again witnessed slightly positive market value changes in our investment properties this year, despite sharp interest rate rises due to high inflation. The valuation result for our interest rate hedging instruments was clearly positive thanks to interest rate movements.

A very good letting result

In all, we concluded new lease agreements for a total of 15,459 sqm of rental space in 2022. It is also especially pleasing to note that existing lease agreements for 15,288 sqm were extended, with an average lease period for all new agreements of 4.1 years. High continuity in extensions to existing lease agreements is very important for a stable pattern to our income stream. The occupancy rate at 31 December 2022 rose to 96.7 %. The occupancy rate achieved again provides a basis for stable earnings from portfolio business in 2023.

Thanks to the new investment property in Potsdam and rent adjustments in the portfolio, rental income climbed year on year by EUR 3,304 thousand (+11.42 %). Re-letting in 2022 on substantially better terms and rental income for the whole of 2023 and beyond for the recently acquired property will lead to further rises in rental income in future years.

Net rental income improved by EUR 4,302 thousand to EUR 25,719 thousand. Funds from operations (FFO) after tax, which excludes valuation effects, grew from EUR 12,364 thousand to EUR 15,504 thousand over the past financial year. Cash flow from operating activities remained almost unchanged year on year at EUR 20,037 thousand.

Balanced valuation result for the investment properties, substantial write-ups of interest rate hedging instruments

Interest rates went up markedly in 2022 in response to the sharp rise in inflation, which remains high, but also due to the war in Ukraine. The cost of refinancing real estate acquisitions has consequently jumped, making alternative investment options more attractive. As POLIS has always adopted a conservative approach when valuing its real estate holdings, it nevertheless achieved a mildly positive valuation result from investment properties of EUR 588 thousand in 2022. The rising, highly volatile long-term interest rates over the year led to non-cash valuation gains from interest rate hedging instruments in the amount of EUR 22,114 thousand. Overall, profit before tax declined year on year to EUR 17,702 thousand mainly because of the drop of approximately EUR 30.2 million in the valuation result.

New financial flexibility created

Long-term loans were raised in 2022 to finance the acquisition of the Potsdam investment property and create low-interest liquidity reserves for future ventures. There is also a sizeable portfolio of unencumbered properties. That moreover enables us to raise further liquidity swiftly as and when financing is required, for example for new acquisitions.

At 31 December 2022 we had liquidity of EUR 27.7 million. The key ratio of loan to value has edged up to 34 %. Including the excess liquidity that would be available as an alternative option for the repayment of loans,

Mathias Gross
Chief Operating Officer

Dr Michael Piontek
Chief Financial Officer

net loan to value is 30.1 %. As a result of the higher short-term interest rates the weighted average interest rate for debt financing rose to 2.23 %, as against 1.67 % in the previous year. Our Company remains soundly financed with an equity ratio of 59 % and therefore enjoys a high degree of investment security and growth potential.

HGB result and proposal on the appropriation of profits

Mainly due to the elevated construction costs for the Halle property that cannot be capitalized under German commercial law, the HGB result (EUR 4,326 thousand) that serves as the basis for the payment of a dividend is much lower than the IFRS result, including because the latter does not directly reflect the relevant valuation results described above. The HGB result consists mainly of investment income.

As we expect a marked deterioration in the result next year and further uncertainty looms against a backdrop of rising interest rates, a portion of EUR 2,163 thousand from net income was allocated to retained earnings. That aside, the Board of Management proposes that the remaining unappropriated profit totalling EUR 20,291 thousand be carried forward to new account because we plan to use the available liquidity and reservoirs of value to finance further expansion and as a backstop in the prevailing economic climate.

Stable prospects for 2023 but lower result expected

In 2022 the real estate economy stayed unexpectedly stable despite the geopolitical crises and inflation; this is reflected in a positive letting result in an unquestionably more difficult environment. Inflation and the war in Ukraine will continue to have an impact in 2023 even if the threat of a general economic recession has currently receded.

Property values for portfolio properties could potentially come under pressure due to interest rates, as is already being witnessed in the transactions market. Because our valuations are inherently conservative, we expect the impact on POLIS to be only moderate. Rising rental revenues, partly thanks to rental indexing, will additionally support the key ratios and property values. Despite a still-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 a continuing rise in rental revenues in 2023. In addition, the income from renting out the newly acquired investment property in Potsdam for a first full year will filter through into net rental income. Due to continuing uncertainty over future interest rate movements, very much as a precaution our planning envisages a slightly negative valuation result from investment properties in the order of EUR 21.2 million (=3 %). The resulting assessment factor of around 20.5 can be considered conservative for the very healthy portfolio. Overall we will prospectively achieve a solid result for 2023 that is likely to be marginally negative due to the falls in value that affect the valuation result as explained above. Because no sales or extraordinary income are planned, we anticipate negative earnings before tax (EBT) of around EUR 6.5 million.

For operational reasons, funds from operations will be slightly higher than in 2022. Any additional impact of the war in Ukraine or even its spread, as well as other geopolitical risks to the economy as a whole – and therefore including the real estate sector – are difficult to forecast with any reliability. Equally the future development of inflation is highly relevant for the real estate sector. That will have consequences for prices – including planned construction costs – as well as for rental indexing.

New investment property added

At the end of February 2022 we were able to add the investment property in Potsdam to our portfolio. The attractive office property built in 1997 offers around 17,800 sqm of rental space and the improvable annual rent of more than EUR 2.1 million will give an added lift to our economic performance in 2023.

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 major shareholders' commitment to our Company and are pursuing the goal of creating solid assets for our shareholders through our letting, active property management and long-term growth. Throughout now 25 years in business, the tried-and-tested POLIS business model has previously helped us through several economic cycles, including notably the coronavirus pandemic, 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 our employees; we sincerely appreciate your efforts. 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, im April 2023
POLIS Immobilien AG
– The Board of Management –


La Commedia
Ristorante
Pizza
Bar
Stuttgarter
Hofbräu

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, on the situation and development of the Company. In connection with this 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 matters 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 those 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 procedure.

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

At its meeting on 6 April 2022, the annual and consolidated financial statements for 2021 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. That meeting also included a discussion of the latest developments in costs, inflation, energy and interest rates, the current status of the sustainability strategy and of potential property purchases, as well as a review of the revitalization of the property at Neumarkt in Cologne. The resolution to hold the Annual General Meeting on 15 June 2022 in virtual form was also passed, along with the agenda for the meeting.

The main topics of discussion at the meeting on 7 October 2022 were the current business development, including the valuation of the investment properties given the prevailing market environment, and potential changes to the property portfolio.

On 18 October 2022 the Supervisory Board approved the Board of Management resolution of 7 October 2022 that the consolidated financial statements are to be prepared exclusively in accordance with the accounting standards of the German Commercial Code (HGB) starting with financial year 2023.

The meeting on 30 November 2022 focused on the economic data for the first ten months of 2022, the forecast for financial year 2022, the 2023 budget including the updated, five-year medium-term financial plan, as well as the sustainability strategy for POLIS Immobilien AG. The 2022 business plan was passed. All Supervisory Board meetings for the year 2022 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 that require its approval. As there were no investment projects for the Supervisory Board to consider, the committee did not meet in the year under review.

The Personnel Committee, comprising Mr Müller (Chairman), Mr Herr and Mr Mann, met on one occasion. 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 2022 as well as the consolidated financial statements and group management report at 31 December 2022 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 at the Supervisory Board meeting on the financial statements on 29 March 2023 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 answer our 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 29 March 2023, 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.

Relationships with affiliated companies

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

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

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

The Supervisory Board reviewed the report on the relationships with affiliated companies prepared by the Board of Management and reviewed by the auditor as well as the dependency audit report pursuant to Section 314 of AktG. After concluding its review, the Supervisory Board raised 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 2023


PLANUNG + BAU

THE PORTFOLIO OF POLIS IMMOBILIEN AG IN FINANCIAL YEAR 2022

12 Cities

34 Properties

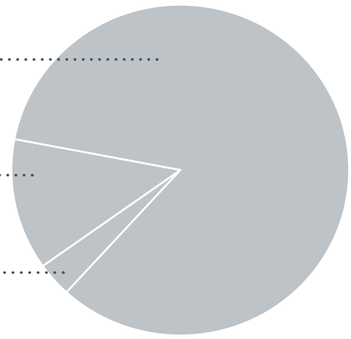
216,500 sqm

Portfolio by type of use | Basis: sqm | 216,500 sqm

Office (incl. storage)
190,400 | 88 %

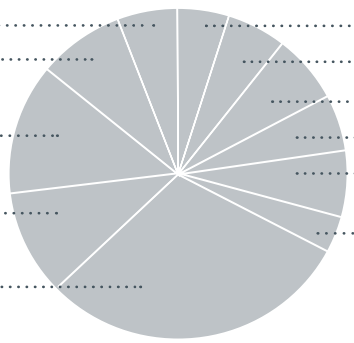
Retail
21,400 | 10 %

Residential
4,700 | 2 %



Composition of rental revenues by sector | in %

Educational institutions 6 %
Auditors/
tax consultants 8 %
State institutions 17 %
Real estate
management 9 %
Rest 28 %

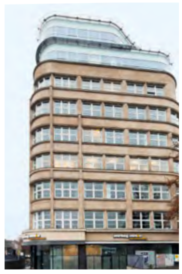


Insurance 5 %
IT and data processing services 6 %
Retail and wholesale 6 %
Power supply 5 %
Health and social services 7 %
Entertainment
and recreation 3 %

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

BERLIN

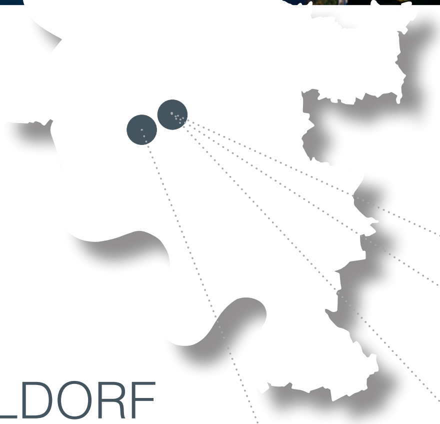




Property	Rankestrasse 21/ Lietzenburger Strasse 44, 46	Luisenstrasse 46	Potsdamer Strasse 58
Year of construction	1993/1969/1957	1936	1930
Space available (rounded)	12,100	3,100	5,500
Office	10,605	2,622	4,238
Retail	1,039	440	932
Residential	0	0	0
Archive	467	71	305
Parking bays	132	18	20

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	13,350	10,400	19,050
Office	5,934	13,167	9,105	11,597
Retail	0	210	1,030	5,311
Residential	0	0	0	1,313
Archive	1,256	0	278	800
Parking bays	33	0	90	203



DÜSSELDORF

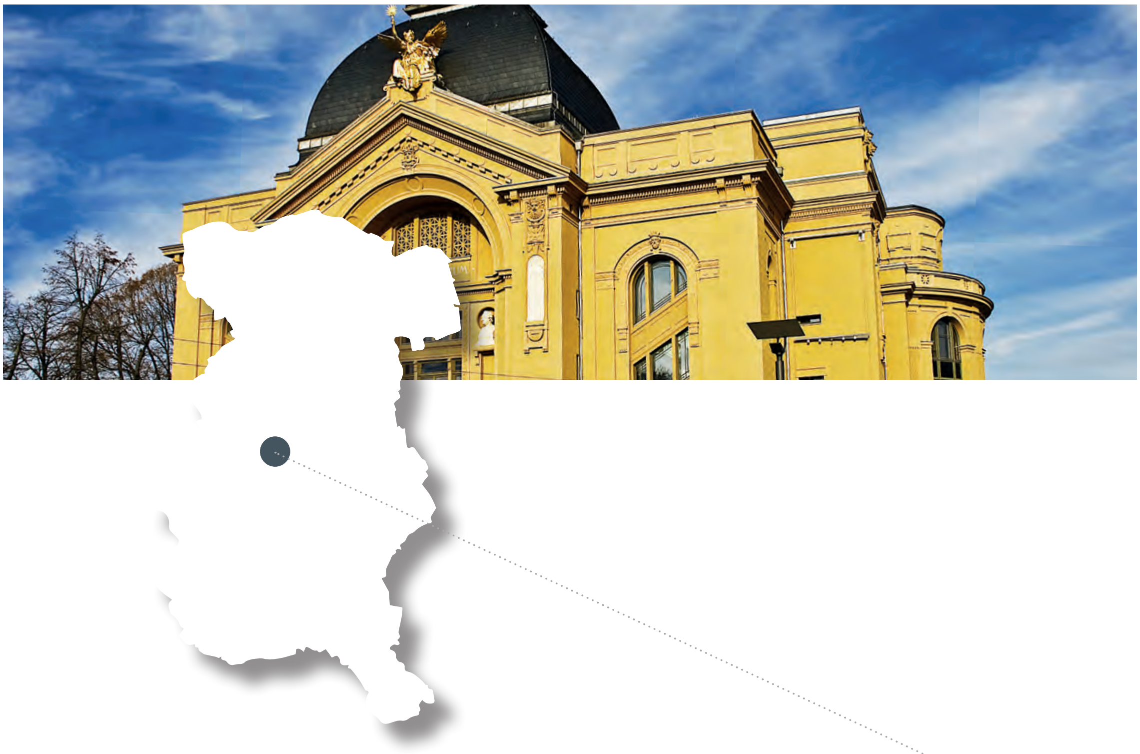
Property	Steinstrasse 27	Berliner Allee 42	Berliner Allee 44/ Alexanderstrasse 19	Berliner Allee 48/ Bahnstrasse 38
Year of construction	1960	1960	1957	1956
Space available (rounded)	3,650	3,450	3,750	2,650
Office	3,457	2,161	2,965	1,675
Retail	0	784	444	336
Residential	0	229	23	402
Archive	222	290	293	236
Parking bays	20	15	16	0

ERFURT

Property	Juri-Gagarin-Ring 90/ Thomasstrasse 83-84
Year of construction	1997
Space available (rounded)	6,300
Office	4,232
Retail	1,082
Residential	796
Archive	208
Parking bays	209

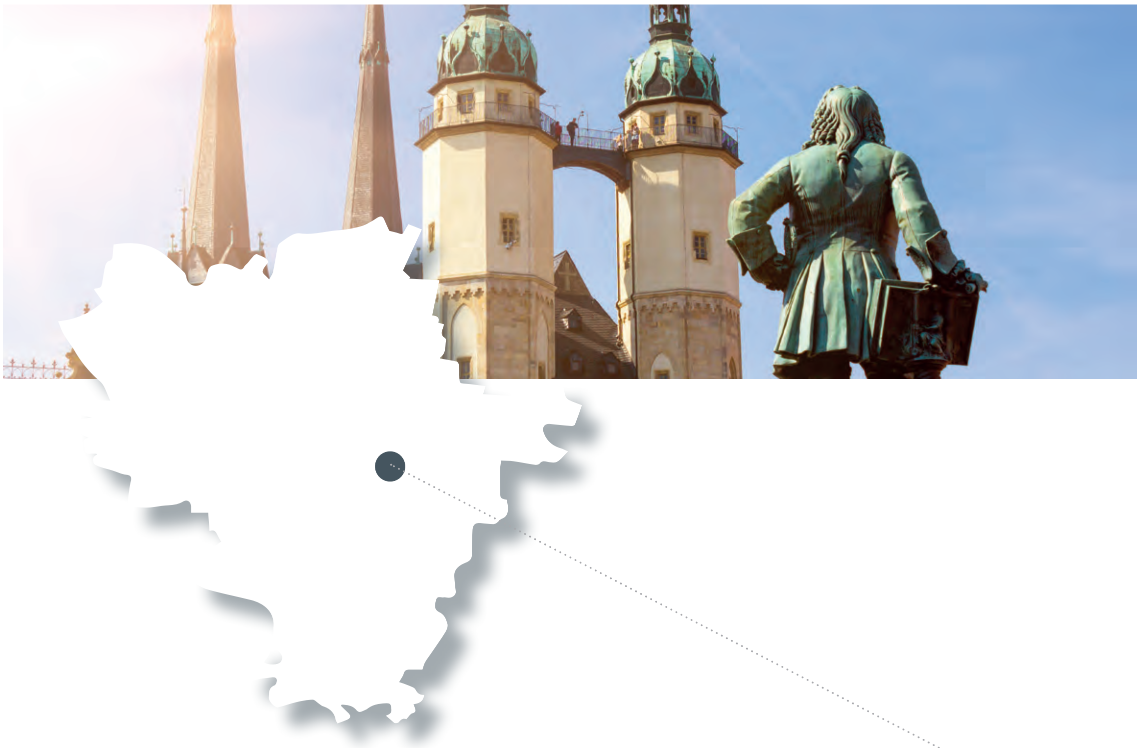
FRANKFURT AM MAIN

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



GERA

Property	Hermann-Drechsler-Stasse 1
Year of construction	1988
Space available (rounded)	29,100
Office	23,929
Retail	2,469
Residential	0
Archive	2,682
Parking bays	376



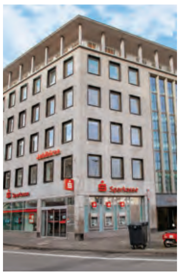
HALLE

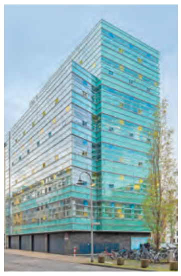
Property	Hansering 15, 16
Year of construction	1968
Space available (rounded)	9,400
Office	7,792
Retail	906
Residential	0
Archive	679
Parking bays	40

HANOVER

Property	Landschaftstrasse 2	Landschaftstrasse 8
Year of construction	1983	1885
Space available (rounded)	3,600	2,600
Office	3,579	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	2,200
Office	3,257	7,069	2,093
Retail	198	0	0
Residential	0	0	0
Archive	669	532	116
Parking bays	0	197	10

COLOGNE

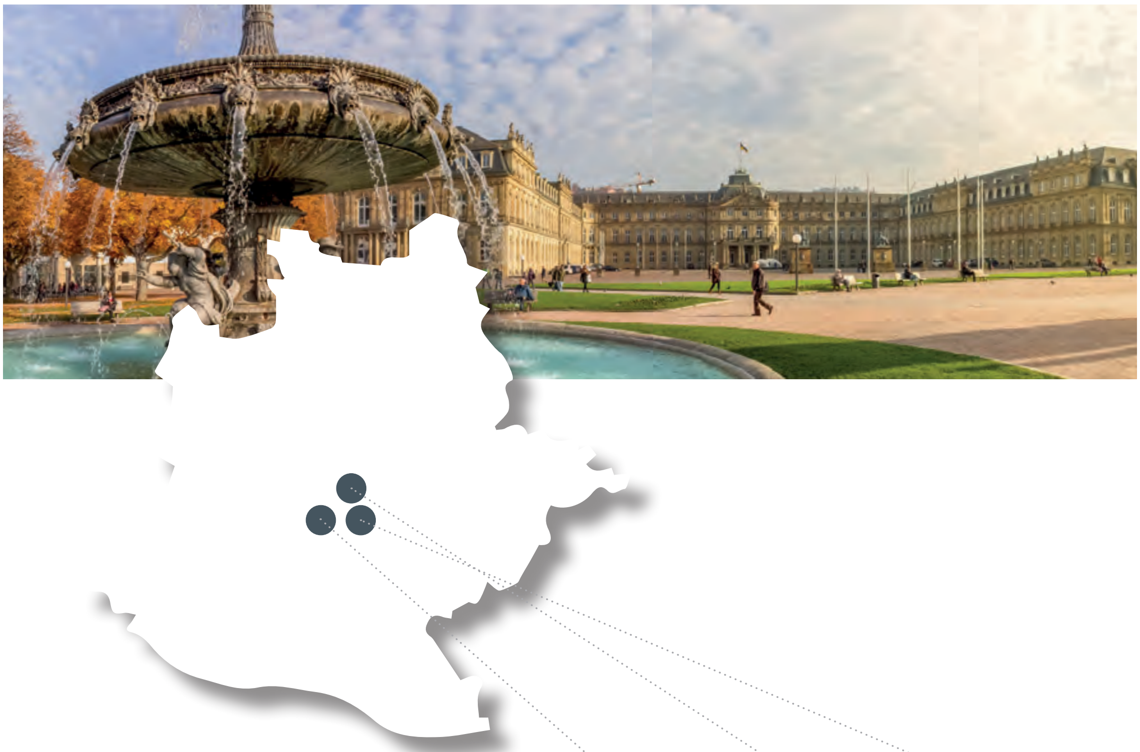
Property	Konrad-Adenauer-Ufer 41-45	Neumarkt 49	Weyerstrasse 79-83/ Pantaleonswall 65-75
Year of construction	1953	1957	1962
Space available (rounded)	5,950	3,850	9,300
Office	5,582	3,164	7,237
Retail	0	533	1,302
Residential	0	0	0
Archive	364	161	768
Parking bays	53	8	94

MUNICH

Property	Lessingstrasse 14
Year of construction	1967
Space available (rounded)	3,350
Office	2,604
Retail	409
Residential	0
Archive	330
Parking bays	33

POTSDAM

Property	Zeppelinstrasse 47-49
Year of construction	1998
Space available (rounded)	17,750
Office	16,739
Retail	266
Residential	0
Archive	747
Parking bays	225



STUTTGART

Property	Böblinger Strasse 8/ Arminstrasse 15	Quartier Büchsenstrasse	Tübinger Strasse 31/33
Year of construction	1973	1907 - 1970	1949
Space available (rounded)	2,550	16,600	4,350
Office	1,138	11,782	2,740
Retail	920	1,520	1,282
Residential	359	1,360	183
Archive	112	1,955	156
Parking bays	35	129	13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THE GROUP MANAGEMENT REPORT OF POLIS IMMOBILIEN AG FOR FINANCIAL YEAR 2022

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 and in up-and-coming locations with development potential, as well as 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. The Chief Financial Officer is in charge of controlling, finances and accounting, taxes, risk management and organization/IT. 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 the property companies have their registered offices in Berlin. Merely POLIS Objekt Zeppelinstraße B.V. has its registered office in Amsterdam/Netherlands. There are no branch offices.

Business processes

The principal business processes of POLIS are focused on the letting of 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, the general economic development in Germany, developments in locations and competition in the German property market but especially the office market, 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 crisis had no material impact on business for POLIS in 2022.

However the outbreak of war in Ukraine in February 2022 brought huge and in some cases fundamental changes for Germany as a whole, affecting both business life and private individuals. Inflation, which had already risen in 2020/2021, continued to climb as a result of sharply increased energy costs due to restricted energy supplies. The European Central Bank responded with significant interest rate rises in order to tackle inflation and indicated that further interest moves were likely. The interest rates now reached are also affecting the property market, particularly with regard to the valuation of investment properties.

Energy costs have in some cases quadrupled, heaping pressure on private individuals and businesses alike and therefore also on POLIS's tenants. However POLIS has tenants with very high creditworthiness and no rental losses or reductions have been registered at present. As a result of the higher interest rates, POLIS achieved a marginally positive valuation result from investment properties that was, however, well down on the level of previous years.

In light of the continuing uncertainty surrounding economic life, the economic results for 2023 could depart from the target figures stated in this report. 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 2022

One investment property in Potsdam was added to the portfolio in the financial year by way of a share deal. The purchase agreement was concluded on 23 December 2021 and the transfer of benefits and encumbrances took place on 1 March 2022.

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 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 by loans representing up to 60% of the property value. Interest rate hedges are concluded to some degree 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

In 2022 the ifo Business Climate Index for trade and industry in Germany climbed significantly from 96.1 (01/2022) to 98.8 in February 2022, fuelled by expectations of a recovery after the second wave of the coronavirus, but then fell as low as 84.3 in the autumn because of the war in Ukraine. Only towards the end of the year was there a slight recovery in the index to 88.6, mainly thanks to improved business expectations.

According to the Federal Statistical Office, gross domestic product showed a price-adjusted year-on-year rise of 1.8% (+2.6% in 2021) despite the consequences of the war in Ukraine, the extreme energy price rises, more acute bottlenecks for materials and supplies and the leap in food prices.

The labour market was stable at the end of the year. With a working population of 45.7 million, there was a clear rise in employment in Germany. The number of people subject to social security contributions also rose to 34.45 million. The unemployment rate in 2022 averaged 5.3%, down 0.4% points on the prior-year average.

Average inflation (consumer price index) for 2022 showed a marked rise to 7.9%. Inflation climbed rapidly to more than 10% in 2022, only easing somewhat in the final quarter, ending the year on 8.6 % in December.

Short-term interest rates as a whole showed a very sharp rise over the course of 2022 (three-month EURIBOR down from -0.572% at 2021 year-end to +2.112% at 2022 year-end). Meanwhile the ten-year swap rate (against the three-month EURIBOR) rose even more sharply from +0.274% at 31 December 2021 to 3.111% at 31 December 2022.

Industry-specific environment

Office space turnover in 2022 came to 3.4 million sqm, exactly the same as in the previous year. Every submarket apart from Düsseldorf experienced a clear contraction in the final quarter. The highest turnover rates were in Berlin, Munich and Hamburg, though turnover in Berlin was down 7%.

The prospective development for 2023 is viewed with cautious optimism. Office space turnover could see a marked revival by mid-2023 at the latest and reach pre-pandemic levels.

Source: BNPPRE “At a Glance Q4 2022”

Trends in the investment market for office properties in Germany

YEAR-ON-YEAR LOWER TRANSACTION VOLUME

The transaction volume in the commercial property sector is in 2022 declined by 16% to EUR 54.1 billion due to the difficult circumstances created by the war in Ukraine and the development in interest rates. The largest asset class was once again the market for office buildings, which attracted EUR 22.3 billion in investment, accounting for some 41% of the transaction volume.

The volume for A-list locations was even lower, declining -24 %. Berlin led the way, ahead of Frankfurt and Hamburg.

Prime yields equally went up in 2022 as a result of the higher interest rates. In the fourth quarter alone, yields in the office sector were up by 30 base points. Berlin and Munich registered the lowest prime yields of 3.2%, followed by Hamburg and Cologne on 3.3%.

The transaction volume for 2023 is expected to decline, mainly due to the fall in property prices.

Source: BNPPRE

Trends in the office property rental market in Germany

SHARP RISE IN NEW CONSTRUCTION VOLUME

New construction activity in the top locations in 2022 was above the level of previous years at 4.2 million sqm, though only 2.3 million sqm plus a currently vacant approx. 7.6 million sqm are available. There is a further 10.2 million sqm in the pipeline.

Prime rents rose across the board in 2022, notwithstanding the external factors. The highest prime rents are again reported from Frankfurt (EUR 48.00/sqm), Munich (EUR 45.00/sqm), Berlin (EUR 44/sqm) and Hamburg (EUR 35.00/sqm). Prime rents rose especially fast in Düsseldorf to EUR 34/sqm.

RISING VACANCIES IN THE OFFICE MARKET

Vacancies for office space in the leading cities increased more sharply than expected to 5.3 million sqm (5.4%) (+0.2% points). The vacancy rate is 3.2% (-0.2% points) in Berlin and 4.7% (+0.4%) in Munich. A sharp uptick in market dynamics is expected in 2023.

Sources: BNPPRE

OVERVIEW OF BUSINESS PERFORMANCE

FINANCIAL PERFORMANCE, FINANCIAL POSITION AND NET ASSETS

Figures in EUR ’000	2021	Forecast for 2022	2022	Change, 2022 over 2021	Change, 2022 over 2022 forecast
Rental revenues	28,930	Rising only slightly	32,234	3,304	Risen more sharply
Net rental income	21,417	In line with PY figures	25,719	4,302	Rose, contrary to expectations
Occupancy rate	93%	Rising to 95%	97%	4% points	Risen more sharply
FFO (after tax)	12,364	Slightly below previous year	15,504	3,140	Rose, contrary to expectations
Consolidated earnings before tax (EBT)	44,252	Approx. EUR 18.5 million	17,702	-26,550	Slightly lower than expected
Cash flow from operating activities	19,855	Approx. EUR 8.3 million down on previous year	20,037	182	Rose slightly, contrary to expectations
Equity ratio	62%	Rising slightly	59%	-3% points	Fell, contrary to expectations
Loan to value (LTV)	28%	Slightly lower	34%	6% points	Rose, contrary to expectations
Net asset value (NAV)	464,284	Rising in line with EBT	503,843	39,559	Rose more sharply, contrary to expectations

Rental revenues and net rental income rose more sharply than expected because the takeover of the Zeppelinstrasse property in Potsdam is not yet included in the planned figures. Funds from operations (FFO) have likewise risen. In a departure from the forecast, EBT declined slightly because the lower valuation result of the investment properties more than cancelled out the positive factors stated above. Cash flow from operating activities remained virtually constant because the inflow of liquidity from the new Zeppelinstrasse property and from further rent increases was largely offset by higher cash outflows from the change in working capital and for income taxes. The financing needed to acquire the Zeppelinstrasse property in Potsdam and the low-interest loans raised meant the equity ratio fell slightly and the LTV was slightly higher. Furthermore, NAV rose more steeply than planned due to the unplanned high, positive valuation result from derivatives within equity. This valuation result also more than made up for the lower valuation result for the investment properties.

FINANCIAL PERFORMANCE

Figures in EUR ’000	2022	2021
Rental income	32,234	28,930
Renovation and maintenance expenses	-5,312	-5,984
Property management expenses	-1,203	-1,529
Other income	301	565
Other expense	-296	-152
Administrative expenses	-5,447	-4,988
Interest income	53	29
Interest expense	-4,568	-4,473
FFO (before tax)	**15,762**	**12,398**
Current income taxes	-258	-34
FFO (after tax)	**15,504**	**12,364**
FFO per share (in EUR)	1.40	1.12

We again achieved good results in concluding new lease agreements for 15,459 sqm in financial year 2022 (previous year 14,486 sqm). The biggest single contributors to the letting performance in 2022 were the lease agreements in the properties at Hansering 15, 16 in Halle for 4,970 sqm of office space, at Potsdamer Strasse 58 in Berlin for around 1,490 sqm of office space, and at Altmarkt 10 a-d in Dresden for 1,285 sqm of office space. Thanks to the letting performance and active management of lease agreements, the occupancy rate for the portfolio at 31 December 2022 increased from 93.4% to 96.7%.

In addition, lease agreements for approximately 15,288 sqm (previous year 6,502 sqm) were extended, to some extent on significantly better terms. In economic terms the most significant lease agreement extensions were for around 4,390 sqm and around 3,210 sqm of office space in the property at Zeppelinstrasse in Potsdam, followed by around 2,730 sqm in the property at Tübinger Strasse in Stuttgart and around 1,090 sqm in the property at Landschaftstrasse 2 in Hanover. In addition to these properties, existing lease agreements were extended with other sitting tenants for rental spaces ranging between 125 sqm and 560 sqm.

Newly concluded lease agreements in 2022 produced a contractually secured rental income of around EUR 32,252 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 14.12 per sqm. The average remaining term of existing lease agreements for the use categories office, retail and archive is 3.7 years (previous year 3.8 years), with an average rent across the portfolio of approximately EUR 12.72 per sqm (previous year EUR 12.14 per sqm) across the use categories office, retail, residential and archive.

	Rental space at 31 Dec 2021	**Rental space at 31 Dec 2022**	Occupancy rate at 31 Dec 2021	**Occupancy rate at 31 Dec 2022**
	sqm	**sqm**	%	**%**
Berlin	20,764	**20,719**	100	**100**
Dresden	50,042	**50,000**	98	**98**
Düsseldorf	13,530	**13,517**	91	**95**
Cologne	33,040	**33,044**	95	**97**
Stuttgart	23,655	**23,506**	96	**98**
Other cities*	58,057	**75,699**	86	**95**
Total	**199,088**	**216,485****	**93.4**	**96.7**

Based on portfolio at the respective reporting date
*Frankfurt am Main, Hanover, Munich, Erfurt, Gera
From 03/2022 the property in Potsdam
**Minor discrepancies in space figures as a result of re-surveying before re-letting, as well as conversion work.

Overview of rental income

Categorized by properties in the individual locations, rental revenues for the Group developed as follows compared with 2021:

Figures in EUR ’000	**2022**	**2021**
Berlin	5,018	5,118
Dresden	6,535	6,100
Düsseldorf	2,049	2,068
Cologne	6,127	5,463
Stuttgart	4,525	4,350
Other cities*	7,980	5,831
Total	**32,234**	**28,930**

*Frankfurt am Main, Hanover, Munich, Gera, Erfurt, Halle
From 03/2022 with property in Potsdam

Rental income rose by EUR 3,304 thousand in 2022 to EUR 32,234 thousand (previous year EUR 28,930 thousand) as a result of the acquisition of the property at Zeppelinstrasse, Potsdam, and also new lease agreements and rent adjustments. Renovation and maintenance expenses fell by 11.22% to EUR 5,312 thousand (previous year EUR 5,984 thousand). Property management expenses declined from EUR 1,529 thousand to EUR 1,203 thousand because the prior-year figure included high letting fees in connection with an almost completely re-let property. Overall, net rental income went up 20.09% to EUR 25,719 thousand (previous year EUR 21,417 thousand).

Administrative expenses for 2022 came to EUR 5,447 thousand and were therefore 9.20% down on the prior-year level of EUR 4,988 thousand. A detailed list is provided in the notes to the consolidated financial statements, under Section 4.7. “Administrative expenses”.

Interest expenses of EUR 4,568 thousand showed a slight rise compared to the prior-year figure (EUR 4,473 thousand). Within this, actual interest paid is EUR 4,433 thousand (previous year EUR 4,047 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 rose to 2.23% (previous year 1.67%) as a result of market interest rate movements at the end of 2022.

The consolidated financial statements show a year-on-year decline in consolidated net income to EUR 14,280 thousand (previous year EUR 38,017 thousand), down approximately 62.4% on the previous year. It is to be noted that EUR 30,752 thousand or more than 70% of profit before tax for the previous year came from valuation gains from investment properties with no effect on liquidity. Excluding the revaluation result, the result for 2022 is actually up on the prior-year level.

FINANCIAL POSITION

Figures in EUR ’000	**2022**	**2021**
Cash flow from operating activities	20,037	19,855
Cash flow from investing activities	-61,019	-7,371
Cash flow from financing activities	55,186	-8,097
Cash in banks at the end of the period	27,669	13,465

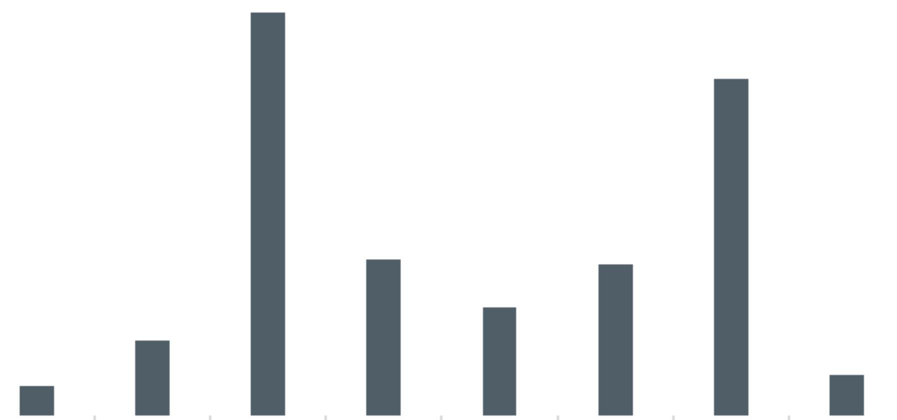
Cash flow from operating activities remained virtually constant because the inflow of liquidity from the new Zeppelinstrasse property and from further rent increases was largely offset by higher cash outflows from the change in working capital and for income taxes. Cash flow from investing activities was substantially determined by investments in investment properties and the acquisition of the owner company of the Potsdam property. Cash flow from financing activities comprises debt capital raised for the investments and excess liquidity for planned purchases, redemption payments and interest paid.

EQUITY RATIO – LOAN-TO-VALUE RATIO
POLIS remains on a sound financial footing with an equity ratio of 59% (previous year 62%).

The loan-to-value ratio (that is, the ratio between liabilities to banks and the market value of the properties) went up by six percentage points to around 34% as a result of new loans raised for the acquisition of the investment property in Potsdam and excess liquidity of 28%.

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	2%	6%	31%	12%	8%	12%	26%	3%
VOLUMEN	5,421,885	13,950,000	74,927,500	28,944,900	20,000,000	28,225,000	62,650,833	7,520,000
YEAR	2023	2025	2027	2028	2029	2030	2032	2036

LOW-RISK MATURITIES STRUCTURE OF LIABILITIES TO BANKS

The weighted average remaining term of the bank loans at 31 December 2022 was 6.5 years (previous year 6.6 years).

At 31 December 2022, just under 77% (previous year 100%) of liabilities to banks were hedged. The average maturity of interest rate hedges including forward interest rate contracts was 5.0 years (previous year 7.3 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 2023.

NET ASSETS

Because of the newly acquired property, the investments in the investment properties and higher liquidity, there was a clear rise in total assets to EUR 761.2 million in financial year 2022 (previous year EUR 672.2 million). Non-current assets consist mainly of the 34 investment properties and account for 94.9% of total assets, in line with the business model. It should be noted that POLIS Immobilien AG had a bank balance of EUR 27.7 million at 31 December 2022 (previous year EUR 13.5 million).

Asset and capital structure

Figures in EUR ’000	**31/12/2022**	**31/12/2021**
Non-current assets	722,056	647,348
Current assets	39,149	24,835
Equity	446,989	414,093
Total assets	761,205	672,183

INVESTMENTS IN INVESTMENT PROPERTIES

The modernization investments of around EUR 7.7 million are reported in detail in the notes to the consolidated financial statements, under 3.1. “Investment properties”. The balance due for the acquisition of shares in a Dutch property company that holds an office property in Potsdam was also paid in the financial year. The purchase price was financed through mortgages on unencumbered investment properties.

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 amounting to EUR 588 thousand comprises mainly rent increases and changes in property-specific discount rates.

The fair values of the investment properties came to EUR 711,660 thousand at the end of 2022 (previous year EUR 645,260 thousand). The increase is mainly attributable to investments. 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 2022 amounted to EUR 45.59 (previous year EUR 42.01). The figure including the effect of deferred taxes is known as the net net asset value (NNAV), and was EUR 40.45 per share at 31 December 2022 (previous year EUR 37.47).

Figures in EUR '000	2022	2021
Carrying amounts of properties	711,660	645,260
Other assets less other equity and liabilities	33,823	1,047
Liabilities to banks	-241,640	-182,022
NET ASSET VALUE	**503,843**	**464,285**
NAV/share	45.59	42.01
Deferred taxes	-56,854	-50,191
NNAV	**446,989**	**414,094**
NNAV/share	40.45	37.47

OVERALL ASSESSMENT OF THE BUSINESS PERFORMANCE

Particularly as a result of the takeover of an additional investment property in Potsdam and further positive rent adjustments as well as lower-than-planned maintenance costs, the key ratios for past financial year turned out better than expected.

Successfully let properties and the rental revenues from the additional investment property paved the way for higher rental revenues. Net rental income therefore rose by around 20%. The key ratio of funds from operations (FFO) after adjustment for valuation effects was consequently likewise up on the previous year. The still positive overall valuation result has confirmed that high modernization investments in the past have led to clear appreciation and steady values, and that the development in the market at the locations we have selected for the most part remains stable despite higher interest rates. Overall, however, a high price level has now been reached.

The HGB result in the POLIS annual financial statements that serves as the basis for the payment of a dividend is EUR 4,326 thousand (previous year EUR 4,030 thousand). The HGB result comprises mainly the investment income of the property companies. Especially due to the commercial-law depreciation of property, maintenance measures not capitalized under commercial law and the non-consideration of unrealised valuation results, the distributable net profits of the property companies are well below the IFRS consolidated earnings.

As we expect a marked deterioration in consolidated earnings next year and further uncertainty looms against a backdrop of rising interest rates, a portion of EUR 2,163 thousand from net income was allocated to retained earnings. That aside, the Board of Management proposes that the remaining unappropriated profit totalling EUR 20,291 thousand be carried forward to new account because we plan to use the available liquidity and mortgage reserves to finance further expansion and as a backstop in the prevailing economic climate.

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

TENANT SATISFACTION:
We conduct regular tenant surveys to determine tenant satisfaction. These give us direct feedback away from the context of our daily business dealings. The information is evaluated and the findings are used to nurture good relations with tenants.

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:
As a nationwide real estate portfolio holder, we are mindful of our responsibilities to the environment (E), social criteria (S) and sound governance (G). We are especially eager to implement our corporate strategy and achieve organic, low-risk growth in a sustainable way.

We identify ESG-related risks predominantly in medium-term regulatory developments, which could potentially limit our scope to let or sell properties that are not climate-neutral (known as “stranded assets”). This could lead to increasing losses in value and additional expenditure on optimization measures. Such developments could equally create opportunities in the market, such as discounted purchase prices for non-ESG-compliant properties, premium-price lease agreements and increases in the value of climate-neutral properties. In light of this, the wide-ranging area of ESG is embedded right at the heart of our corporate strategy, with our focus as a portfolio holder on optimizing our properties’ energy efficiency and decarbonizing them. The measures we have taken in response include the changeover already made from fossil fuels to renewables (green power), the digitalization of consumption data monitoring (smart metering) and property-specific carbon emissions reporting, the location-specific provision of charging points for electric vehicles and the use of environmentally sensitive, value-enhancing construction methods. In certain areas we are also dependent on third parties, for example for tenant-generated power and heat supplies (district heating). We undertake energy-efficient improvements whenever repair and modernization work is due. Based on the standard already achieved and completed or upcoming construction measures, we do not currently see any material risks for the Company and the Group in the area of sustainability.

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. These are additional risks that are not reflected in planning and therefore the forecast.

Financial risks
Material risks are defined from a risk value of EUR 100 thousand upward, after taking account of counter-measures 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. No material risks are identified in this area and the overall liquidity and financial risk is assessed at EUR 190 thousand.

II. POLIS protects itself against interest rate risks by concluding derivative interest rate hedging instruments or fixed interest rate agreements. 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. The valuation risk for the derivatives is therefore put at around EUR 200 thousand.

III. Debt finance was excellent for POLIS in 2022 thanks to the strategy of keeping leverage permanently moderate at no more than 60%. 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 could turn to the capital market instead. No material risks are identified in that area.

IV. POLIS holds bank balances with private and public banks. No material risks are identified in that area.

V. With a Group equity ratio of approximately 59% and cash in banks of approximately EUR 28 million available at Group level, as well as a positive, secure cash flow from operating activities, the modernization investments and maintenance measures planned for 2023 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 the debt positions (maturities structure and fixed interest periods) please 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, the shareholder structure of POLIS, with its financially strong institutional investors, can be considered to represent 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 in the POLIS portfolio exhibited an average vacancy rate of 3.3% of the rental space at 31 December 2022. As a multi-tenant provider, the Company takes an occupancy rate of 95% (in year under review 96.7%) to mean effectively full occupancy. Overall, POLIS lease agreements have an average term of 3.7 years so that lease agreements regularly come up for extension and are available for re-letting. In 2023, around 24,615 sqm of office and commercial space will be available for letting. A letting risk of up to EUR 544 thousand is identified in 2023 due to the deterioration in the market as a result of the expected recession. With regard to rent payments from existing lease agreements, a risk of up to EUR 681 thousand is identified. In addition, the general market risk and an office market risk are estimated at EUR 1,545 thousand overall.

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, the Company has 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 reports. In financial year 2023, the Company will invest approximately EUR 12.6 million in its investment properties. The construction costs risk associated with the planned construction work is estimated at up to EUR 1,871 thousand. The estimated risks from project developments to portfolio properties amount to EUR 120 thousand.

III. 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 2023 overall, the anticipation that market values for properties will in any case fall, the war in Ukraine and its consequences, the higher interest rates, the expected recession and also in view of the price level now reached, we identify an additional risk of devaluations in the double-digit millions.

IV. STAFF RISKS
All property-related tasks can be performed by our asset and property management team. Acquisitions and sales are managed internally using experienced staff. We equally have highly

qualified employees available for all commercial tasks. Highly trained specialists are deployed in all areas in order to achieve the 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, it offers 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. A substantial occupational pension was introduced in 2020 as a means of retaining staff. The risk from staff fluctuation is put at EUR 360 thousand. The general risks from corporate governance (organization, communications, occupational safety, environmental and data protection) have a total value of EUR 787 thousand, and the risks from the IT infrastructure EUR 290 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 equity capital available for 2023.

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

Office markets revealed the initial impact of rising interest rates in 2022. There was a high level of new construction activity but the vacancy rate and prime yields increased and the transaction volume was down. We expect the difficult environment to continue in 2023; property values and the transaction volume will be determined by the future course of interest rates. Lease agreements and rent levels will be substantially influenced by the impending recession. The further development of geopolitical events will be hugely significant for the economy as a whole and therefore 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 2023 and beyond. With our quality-focused business model and our homogeneous portfolio, the letting performance should remain good in 2023 even if the market environment will remain difficult due to the uncertain outcome of the war in Ukraine. Despite the high occupancy rates now achieved and 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. However in the present circumstances any forecast is subject to unpredictable future developments and geopolitical outcomes. 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 2023

Based on the risks and opportunities presented above, the prospect that the office market that is relevant for us will remain steady – notwithstanding the many challenges that it will present especially in the letting and transactions area – and despite the expectation that interest rates will remain high in 2023, we anticipate that the key operating ratios will remain solid thanks to high occupancy rates. However we expect a slight devaluation in investment properties of up to EUR 50 million in the course of 2023 as a result of the interest rate adjustments the year is expected to bring.

Net rental income will be slightly up on the prior-year figure.

The occupancy rate will prospectively be 95% at the end of 2023 due to temporarily empty properties in Düsseldorf and Potsdam following tenant moves.

Rental revenues will rise slightly.

The key ratio of FFO will equally rise slightly in 2023.

Profit before tax will be eroded by the interest rate rises expected in 2023 and a planned negative valuation result, and will therefore prospectively be clearly negative for 2023.

Cash flow from operating activities (before financing) will come to about EUR 19.5 million.

The equity ratio will be slightly higher in 2023 despite the devaluation of properties, because of the decline in total assets. LTV is expected to remain flat as a result of ongoing redemption payments coupled with slight falls in property values.

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

Furthermore, growth is to be generated by acquiring new investment properties and expanding the property portfolio through further targeted purchases of newer properties. We are also prepared to draw on the available liquidity and the mortgage reserves to achieve that. Should opportunities arise, suitable investment properties could also be disposed of to realize the valuation gains previously built up. A conservative financing structure and a maximum loan-to-value ratio of 60% for the overall portfolio will be maintained. These measures could additionally improve the above key ratios.

Actual results can also 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. In that connection we expressly refer particularly to the uncertainty and risks to Germany's economy as a whole from the war in Ukraine.

Overall, POLIS will again achieve sound key earnings ratios in 2023.

As matters stand we do not expect the sanctions against Russian and Belarusian businesses and individuals following the outbreak of war in Ukraine on 24 February 2022 to have any direct impact on POLIS's business. Nevertheless, inflation is likely to remain high for longer. That will have consequences for prices – including for planned construction costs – and to some extent for rental indexing. The mutual imposition of sanctions between Russia and the West will have a wider impact on various branches of industry in Germany and on consumer spending. It cannot be ruled out that the conflict could spread further. That could have unforeseeable consequences and risks for the economy as a whole and therefore for POLIS. Such risks cannot be forecast reliably.

NON-FINANCIAL PERFORMANCE INDICATORS

To assure tenant satisfaction, we will 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. It can therefore be assumed that tenant satisfaction will remain high over the coming years.

The measures taken 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. POLIS has also taken up the option approved by the German parliament to award employees a special payment to compensate for the steep price rises triggered by the war in Ukraine.

POLIS has drawn up a sustainability strategy that will ensure the topic of sustainability is addressed comprehensively and at all locations. The sustainability of our activities has also been confirmed by the certification of several of our construction projects by the German Sustainable Building Council (DGNB). POLIS will make further headway in that direction and apply the same principles to all future projects, too.

It will continue to digitalize processes and tasks on a property-by-property basis. Since 2020 POLIS has offered its tenants charging points for electric vehicles at their parking bays.

DEPENDENCY REPORT

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

"The Board of Management declares the following pursuant to Section 312 (3) of AktG: for each legal transaction stated 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 2022, 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 2023

POLIS Immobilien AG
– The Board of Management –

Mathias Gross **Dr Michael Piontek**

THE CONSOLIDATED FINANCIAL STATEMENTS OF POLIS IMMOBILIEN AG FOR FINANCIAL YEAR 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2022, according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

Assets

Figures in EUR '000	Notes	31/12/2022	31/12/2021
Non-current assets			
Investment properties	3.1.	711,660	645,260
Intangible assets	3.2.	60	104
Property, plant and equipment	3.2.	517	496
Other financial assets	3.7.	8,266	0
Other assets	3.7.	1,553	1,487
Total non-current assets		**722,056**	**647,347**
Current assets			
Advance payments for investment properties	3.1.	0	2,730
Trade receivables and other receivables	3.4.	9,192	8,375
Other financial assets	3.4.	1,880	0
Current tax receivables	3.5.	66	31
Cash in banks and cash holdings	3.6.	27,669	13,465
Other assets	3.7.	342	235
Total current assets		**39,149**	**24,836**
Total assets		**761,205**	**672,183**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Equity and liabilities

Figures in EUR '000	Notes	31/12/2022	31/12/2021
Equity			
Subscribed capital	3.8.	110,510	110,510
Capital reserves	3.8.	18,186	18,186
Cash flow hedge reserve		10,143	-8,472
Retained earnings	3.8.	293,870	255,853
Consolidated earnings		14,280	38,017
Share in equity allocable to the equity holders of the parent		446,989	414,094
Total equity		**446,989**	**414,094**
Liabilities			
Non-current liabilities			
Loan liabilities to banks	3.9.	233,881	178,812
Deferred tax liabilities	3.3.	56,854	50,191
Other financial liabilities	3.9.	44	10,374
Total non-current liabilities		**290,779**	**239,377**
Current liabilities			
Loan liabilities to banks	3.9.	7,759	3,209
Advance payments received	3.9.	7,972	6,811
Trade payables	3.9.	2,983	4,540
Income tax liabilities	3.9.	48	346
Other financial liabilities	3.9.	4,675	3,806
Total current liabilities		**23,437**	**18,712**
Total assets		**761,205**	**672,183**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2022, according to International Financial Reporting Standards (IFRS) – POLIS Immobilien AG, Berlin

Figures in EUR '000	Notes	01/01 - 31/12/22	01/01 - 31/12/21
Rental income	4.1.	32,234	28,930
Renovation and maintenance expenses	4.2.	-5,312	-5,984
Property management expenses	4.3.	-1,203	-1,529
		-6,515	-7,513
Net rental income		**25,719**	**21,417**
Unrealized gains from the revaluation of investment properties		22,154	37,627
Unrealized losses from the revaluation of investment properties		-21,566	-6,875
Result from the revaluation of investment properties	**4.4.**	**588**	**30,752**
Other income	4.5.	301	565
Other expense	4.6.	-296	-152
Administrative expenses	4.7.	-5,447	-4,988
Result before financing activity and taxes		**20,865**	**47,594**
Interest income	4.8.	53	29
Result from the valuation of derivative financial instruments	3.9.	1,352	1,102
Interest expense	4.9.	-4,568	-4,473
Profit before tax		**17,702**	**44,252**
Deferred taxes	4.10.	-3,164	-6,200
Current taxes	4.10.	-258	-34
Total income taxes		-3,422	-6,234
Consolidated earnings		**14,280**	**38,018**
of which allocable to minority interests		0	0
of which allocable to the equity holders of the parent		14,280	38,018
Consolidated earnings		**14,280**	**38,018**
Other comprehensive income through profit or loss in subsequent periods:			
Market value of cash flow hedges	3.9.	20,865	3,728
Attributable deferred tax assets	3.3.	-3,302	-590
Market value of cash flow hedges reclassified to the result	3.9.	1,249	1,977
Attributable deferred tax assets	3.3.	-198	-313
Other comprehensive income		18,614	4,802
Consolidated comprehensive income		**32,894**	**42,821**

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January to 31 December 2022, according to International Financial Reporting Standards (IFRS) – POLIS Immobilien AG, Berlin

Figures in EUR '000	Notes	01/01 - 31/12/22	01/01 - 31/12/21
Profit before tax		**17,702**	**44,252**
Adjusted for:			
Financial and investment result	4.8.,4.9.	4,412	3,885
Result from the revaluation of investment properties	3.1.	-588	-30,752
Depreciation/amortization on intangible assets and property, plant and equipment	3.2.	208	224
Change in trade receivables and other assets not allocable to investing or financing activities		-11,171	1,468
Change in trade payables and other liabilities not allocable to investing or financing activities		10,159	720
Income tax received	4.10.	100	64
Income tax paid	4.10.	-785	-5
Cash flow from operating activities		**20,036**	**19,856**
Payments for the acquisition of software, fixtures and equipment	3.2.	-186	-274
Payments for the purchase of investment properties	3.1.	-52,069	-2,730
Payments for investments in modernization	3.1.	-8,817	-4,396
Interest received	4.8.	53	29
Cash flow from investing activities		**-61,019**	**-7,371**
Payments for the redemption of loans	3.9.	-3,381	-32,636
Proceeds from the raising of loans	3.9.	63,000	28,586
Interest paid	4.9.	-4,433	-4,047
Cash flow from financing activities		**55,186**	**-8,097**
Net change in cash and cash equivalents		**14,204**	**4,387**
Cash in banks at the beginning of the period	**3.6.**	**13,465**	**9,078**
Cash in banks at the end of the period	**3.6.**	**27,669**	**13,465**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2022, according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

Figures in EUR '000	Subscribed capital	Capital reserves	Retained earnings	Consoli-dated net income	Cash flow hedge reserve	Share in equity allocable to the equity holders of the parent	Total equity
Balance at 31 Dec 2020	**110,510**	**18,186**	**216,819**	**39,034**	**-13,274**	**371,275**	**371,275**
Offsetting against prior-year result	0	0	39,034	- 39,034	-	-	-
Consolidated earnings	0	0	-	38,017	-	38,017	38,017
Other comprehensive income	0	0	-	-	4,802	4,802	4,802
			-	-	-	-	-
Balance at 31 Dec 2021	**110,510**	**18,186**	**255,853**	**38,017**	**-8,472**	**414,094**	**414,094**
Offsetting against prior-year result	0	0	38,017	- 38,017	-	-	-
Consolidated earnings	0	0	-	14,280	-	14,280	14,280
Other comprehensive income	0	0	-	-	18,615	18,615	18,615
Balance at 31 Dec 2022	**110,510**	**18,186**	**293,870**	**14,280**	**10,143**	**446,989**	**446,989**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the IFRS Consolidated Financial Statements of POLIS Immobilien AG, Berlin, Germany, at 31 December 2022

1. GENERAL INFORMATION

POLIS Immobilien AG (hereinafter "POLIS") was founded in 1998 in Berlin. It has its registered office in Berlin, Lietzenburger Strasse 46, and acquires office buildings for its own portfolio, 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 2022 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 2023 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 2022. 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 2022.

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 2022 and 2021.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Company	Nominal capital	Inter-est	HGB equity 31/12/2022	HGB result 2022
	EUR ’000	%	EUR ’000	EUR ’000
POLIS Objekte Altmarkt Kramergasse GmbH & Co. KG, Berlin	51	100	5,879	1,094
POLIS Objekt Gutleutstraße 26 GmbH & Co. KG, Berlin	8,665	100	2,579	352
POLIS Objekt Luisenstraße 46 GmbH & Co. KG, Berlin	100	100	1,092	676
POLIS Objekt Landschaftstraße GmbH & Co. KG, Berlin	100	100	5,505	200
POLIS Objekt Konrad-Adenauer-Ufer GmbH & Co. KG, Berlin	100	100	10,791	691
POLIS Quartier Büchsenstraße GmbH & Co. KG, Berlin	100	100	13,800	700
POLIS Erste Objektgesellsch. Stuttgart GmbH & Co. KG, Berlin	100	100	2,344	144
POLIS Erste Objektgesellschaft Köln GmbH & Co. KG, Berlin	100	100	2,628	328
POLIS Objekt Lessingstraße GmbH & Co. KG, Berlin	100	100	4,121	406
POLIS Zweite Objektgesellschaft Düsseldorf GmbH & Co. KG, Berlin	100	100	6,443	304
POLIS Zweite Objektgesellschaft Köln GmbH & Co. KG, Berlin	100	100	6,818	518
POLIS Objekt Könneritzstraße GmbH & Co. KG, Berlin	100	100	17,113	2,013
POLIS Objekte Berliner Allee GmbH & Co. KG, Berlin	100	100	10,612	-1,013
POLIS Erste Objektgesellschaft Köln GmbH & Co. KG, Berlin	100	100	12,350	479
POLIS Zweite Objektgesellschaft Stuttgart GmbH & Co. KG, Berlin	100	100	9,108	378
POLIS Objekt Rankestraße 21 GmbH & Co. KG, Berlin*	100	100	10,109	1,465
POLIS Objekt Erfurt GmbH & Co. KG, Berlin	100	100	313	-4,089
POLIS Objekt Gera GmbH & Co. KG, Berlin	100	100	1,020	920
POLIS GmbH & Co. Fünfundvierzigste Objekt KG, Berlin	100	100	94	-2
POLIS GmbH & Co. Sechsundvierzigste Objekt KG, Berlin	100	100	94	-2
POLIS Grundbesitz Objekt Verwaltungs GmbH, Berlin	26	100	1,223	105
POLIS Beteiligungs- und Verwaltungs GmbH, Berlin	25	100	8,156	0
POLIS Objekt Potsdamer Straße 58 GmbH, Berlin	26	94	2,712	598
POLIS Objekt Zeppelinstraße B.V., Amsterdam/Netherlands	25	100	22,258	-2,389
POLIS Service GmbH, Berlin	100	100	739	-39

*Including indirect interest of 6%

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 25 fully consolidated companies as listed in the above overview, of which 24 have their registered offices in Berlin. Compared with 31 December 2021 the group of consolidated companies increased with the acquisition of the company POLIS Objekt Zeppelinstraße B.V. with registered office in Amsterdam, the Netherlands.

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 Item 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 under Item 2.4.13 in the financial year.

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 and 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 Item 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 in respect of 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 (currently none in existence)**
   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 satisfy the criteria of IFRS 9 with respect to hedging relationships (hedge accounting).

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 of 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 rental income, 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 adopted for the first time in 2022
A number of amendments to the standards were to be adopted for the first time in 2022 but had no effect on the consolidated financial statements.

2.4.14 New and amended standards and interpretations to be adopted in future financial years
In the past, the IASB has published further amendments to standards that would not need to be adopted until future financial years (2023 or later). If these amendments to standards were to be adopted by the Company in future IFRS consolidated financial statements, our preliminary assessment indicates no material effect on future consolidated financial statements. We point out that in the future, i.e. from the 2023 financial year, we intend to prepare the consolidated financial statements according to German accounting standards (HGB) instead of to IFRS as adopted in the EU.

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, Halle and Potsdam 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 2022:

Figures in EUR '000	Fair values 01/01/2022	Additions from acquisition	Modernization investments	Market value change	Fair values 31/12/2022
Berlin	127,680	0	24	5,316	133,020
Dresden	138,300	0	646	914	139,860
Düsseldorf	46,170	0	1,767	2,453	50,390
Cologne	123,730	0	530	3,930	128,190
Stuttgart	101,860	0	137	-367	101,630
Other cities*	107,520	58,123	4,584	-11,657	158,570
Total	**645,260**	**58,123**	**7,689**	**588**	**711,660**

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

On 23 December 2021 a purchase agreement was concluded on the acquisition of 100% of the shares in a Dutch property company that holds an office property in Potsdam and an advance payment of EUR 2.73 million was made. The transfer of benefits and encumbrances took place on 1 March 2022 upon payment of the balance of the purchase price of around EUR 52 million. This acquisition is furthermore subject to property transfer tax, which will prospectively be due in 2023.

The acquisition of the above shares does not constitute a transaction that falls within the scope of IFRS 3. Both the optional concentration test and the substance test indicated that the acquired company does not constitute a business establishment, meaning that the transaction is to be qualified as an acquisition of a group of assets and liabilities. In addition to the commercial property in Potsdam, the acquisition included the current receivables and liabilities as well as cash relating to the property and its acquisition. The purchase price paid excluding ancillary acquisition costs and property transfer tax amounted to EUR 54,546 thousand. As well as the commercial property itself, receivables and other assets (EUR 647 thousand), cash (EUR 352 thousand) and liabilities (EUR 864 thousand) were acquired.

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

Of the modernization investments conducted in 2022, EUR 6,726 thousand (previous year EUR 2,305 thousand) is cash-effective; including payments made for modernization costs in the previous year, overall payments come to EUR 8,817 thousand (EUR 4,396 thousand).

Revaluation produced an overall increase in market value of EUR 588 thousand. There were positive valuation results in particular for the properties in Berlin and Dresden from successful letting on improved terms, from the extension of several lease agreements and from improved market rents in conjunction with changed discount rates. Devaluations arose especially in Halle and for the new property in Potsdam.

The following overview highlights the development of the investment properties in 2021:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Figures in EUR '000	Fair values 01/01/2021	Additions from acquisition	Modernization investments	Market value change	Fair values 31/12/2021
Berlin	118,800	0	577	8,303	127,680
Dresden	130,970	0	206	7,124	138,300
Düsseldorf	49,330	0	361	-3,521	46,170
Cologne	116,540	0	2,418	4,772	123,730
Stuttgart	94,820	0	27	7,013	101,860
Other cities*	99,990	0	469	7,061	107,520
Total	**610,450**	**0**	**4,059**	**30,752**	**645,260**

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

Expenses and income directly attributable to investment properties

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

	2022 Investment properties EUR '000	2021 Investment properties EUR '000
Rental revenues from investment properties	32,234	28,930
Expenses directly attributable to the generation of rental revenues		
Renovation and maintenance expenses	5,312	5,984
Property management expenses	898	1,312
Total	**6,210**	**7,296**
Expenses directly attributable to but not resulting in the generation of rental revenues		
Property management expenses	305	216
Total	**305**	**216**

Information concerning property valuation at 31 December 2022

The fair values of the properties at 31 December 2022 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

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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 judgements are confirmed objectively by applying quantitative analytical methods. As a general principle, a remaining useful life of 100 years was assumed for all valuation properties. To achieve this, life-cycle planning is drawn up for this period, comprehensively taking into account all key components as well as the key technical installations of a property.

In addition, properties were valued internally. The valuations take place quarterly, with one-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 2022 (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 2022 using the discount rate. Rental income initially contains the contractually agreed rents. The rental income from letting vacant space and from re-letting properties after the existing lease agreements have expired is forecast on the basis of the market rents that are expected for each property and then added to the above figure. The property-specific market rent is determined by Wüest Partner in the course of the market value appraisals.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The planning assumptions that feed into the valuation are presented below (excluding the new investment property in Potsdam).

The cash flow projections are based on the following assumptions:

- The average vacancy rate across the portfolio of 3.27% at the valuation date (previous year 6.62%) will increase within one year to an anticipated 4.67% at 31 December 2023. The mid-term planning horizon anticipates a vacancy rate across the individual properties ranging between 0.0% and a maximum of 32.5% (Berliner Allee in Düsseldorf, due to planned change of tenant).

- The cash flow scenario shows an average increase in rents of 6.74% (previous year 6.07%) in the first year. The development in short-term rental revenues is benefiting from significant increases in rents in Düsseldorf (Berliner Allee 42) and Halle. Thereafter, we expect an increase in rents averaging 2.31% per year (previous year 2.74%) from the second year up until the end of the ten-year planning horizon. The currently high occupancy rate in the properties in Cologne and Stuttgart means a slower development is expected there.

- 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 2022 across the entire portfolio is much lower than the previous year's projection (4.36%), at 3.27%. The assumed higher vacancy rate at the end of 2023 of 4.67% is based mainly on situational vacancies in the properties in Düsseldorf.

The assumptions used for the cash flow projection and the discount rates applied are presented in detail in the following table:

All figures in %	Vacancy rate 31/12/2022 (area)	Expected vacancy rate 31/12/2023 (area)	Planned short-term rent increase (revenue)	Planned long-term rent increase (revenue)	Discount rates (percent)
Berlin	0.49	1.57	7.65	2.23	5.5-5.6
Dresden	2.45	3.73	0.79	2.59	5.8-6.1
Düsseldorf	4.72	13.35	2.41	2.66	4.7-5.3
Cologne	3.09	1.12	6.85	1.25	5.3-6.6
Stuttgart	2.16	3.63	5.68	1.50	5.4-6.0
Other cities*	4.73	6.46	12.67	3.25	5.1-9.2
Portfolio	**3.27**	**4.67**	**6.74**	**2.31**	

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

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The assumptions used for the cash flow projection and the discount rates applied in the previous year are presented in detail in the following table:

All figures in %	Vacancy rate 31/12/2021 (area)	Expected vacancy rate 31/12/2022 (area)	Planned short-term rent increase (revenue)	Planned long-term rent increase (revenue)	Discount rates (percent)
Berlin	0.48	8.27	7.41	4.43	5.0-5.4
Dresden	2.19	3.06	3.92	2.46	4.8-5.9
Düsseldorf	9.16	15.20	0.90	2.65	4.4-5.0
Cologne	4.93	2.96	15.45	2.01	5.1-6.2
Stuttgart	3.63	4.40	0.76	0.78	4.9-5.4
Other cities*	14.23	2.35	0.64	2.12	4.8-7.7
Portfolio	**6.62**	**4.36**	**6.07**	**2.74**	

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

For the long term (2023 to 2027), POLIS makes plans based on average maintenance costs of EUR 2.93 (previous year EUR 2.78) per square metre of rental space per month, including general modernization costs; of this figure, EUR 0.55 (previous year EUR 0.53) 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.

For 2023 maintenance costs of EUR 2.46 per square metre of rental space per month were identified, including a component of EUR 0.55 for current maintenance. The increased maintenance costs in 2024 are attributable to work for the renewal of the elevators and the natural stone façade of the property at Altmarkt in Dresden and work on the exterior in Gera. In the years 2025 to 2027 the planned maintenance costs average EUR 2.93 per square metre of rental space per month.

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

Long-term (2023 to 2027) planned maintenance costs (average)	**2023**	**2024**	**2025**	**2026**	**2027**
Maintenance – Group	6,401,597	8,823,683	8,255,937	7,200,425	7,368,631
Area	216,529 sqm	216,579 sqm	216,579 sqm	216,579 sqm	216,579 sqm
Average p.a.	€ 2.46/ sqm	€ 3.40/ sqm	€ 3.18/ sqm	€ 2.77/ sqm	€ 2.84/ sqm
Average total period	**€ 2.93/ sqm**				
Average 2025 – 2027			**€ 2.93/ 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. Upcoming extensions to existing lease agreements or new contracts generally increase the value of the property because these can mostly be concluded at a higher net rent exclusive of utilities. Any decision on such measures is based on whether the conversion and marketing costs can be refinanced through higher rents. In each of the sensitivity analyses shown in the summary, in each case only one variable was changed compared with the basic scenario (fair value at 31 December 2022).

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

Sensitivity analysis	**Fair value at**	**Long-term rental income**		**Annual rent growth**		**Loss of rental revenue**		**Discount rate**	
Change in valuations, EUR ’000	31/12/2022	-10%	+10%	-1%	+1%	+1%	-1%	+100 base points	-100 base points
Berlin	133,020	- 12,658	12,673	- 7,859	9,048	- 434	460	- 10,760	11,894
Dresden	139,860	- 11,999	11,970	- 6,689	7,957	- 510	527	- 11,223	12,409
Düsseldorf	50,390	- 5,343	5,329	- 2,641	3,605	- 134	116	- 4,460	4,950
Cologne	128,190	- 11,682	11,681	- 7,475	8,452	- 467	471	- 10,392	11,499
Stuttgart	101,630	- 9,517	9,469	- 4,643	5,333	- 341	348	- 8,295	9,174
Other cities*	158,570	- 14,986	14,968	- 7,240	8,606	- 714	757	- 12,919	14,277
Portfolio	**711,660**	**-66,185**	**66,090**	**-36,547**	**43,001**	**-2,600**	**2,679**	**-58,049**	**64,203**

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

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

Sensitivity analysis	Fair value at	Long-term rental income		Annual rent growth		Loss of rental revenue		Discount rate	
Change in valuations, EUR '000	31/12/2021	-10%	+10%	-1%	+1%	+1%	-1%	+100 base points	-100 base points
Berlin	127,680	-12,000	12,004	-7,797	8,360	-454	445	-10,305	11,398
Dresden	138,300	-10,178	10,219	-6,806	7,329	-503	541	-11,147	12,337
Düsseldorf	46,170	-4,570	4,577	-2,746	2,966	-106	146	-4,135	4,587
Cologne	123,730	-10,877	10,867	-7,645	8,168	-448	436	-10,005	11,020
Stuttgart	101,860	-8,500	8,498	-4,816	5,191	-343	330	-8,238	9,118
Other cities*	107,520	-10,333	10,308	-6,278	6,714	-461	466	-8,809	9,750
Portfolio	**645,260**	**-56,458**	**56,473**	**-36,088**	**38,728**	**-2,315**	**2,364**	**-52,639**	**58,210**

* Erfurt, Gera, Frankfurt am Main, Halle, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.2. Intangible assets and property, plant and equipment

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

	Acquisition and production cost				Depreciation/amortization				Carrying amounts	
Figures in EUR '000	01/01/ 2022	Addi- tions	Dis- posals	31/12/ 2022	01/01/ 2022	Addi- tions	Dis- posals	31/12/ 2022	31/12/ 2021	31/12/ 2022
Software	1,236	12	0	1,248	1,132	56	0	1,188	104	60
Fixtures and equipment	1,321	175	7	1,489	825	152	5	972	496	517
Total	**2,557**	**187**	**7**	**2,737**	**1,957**	**208**	**5**	**2,160**	**600**	**577**

Depreciation/amortization 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/ 2021	Addi- tions	Dis- posals	31/12/ 2021	01/01/ 2021	Addi- tions	Dis- posals	31/12/ 2021	31/12/ 2020	31/12/ 2021
Software	1,170	66	0	1,236	1,045	87	0	1,132	125	104
Fixtures and equipment	1,213	208	99	1,321	691	137	2	825	522	496
Total	**2,383**	**274**	**99**	**2,557**	**1,736**	**224**	**2**	**1,957**	**647**	**600**

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	**2022**	**2021**
	EUR '000	EUR '000
Tax losses carried forward	360	637
Hedging reserves	0	1,593
Total before offsetting	360	2,230
Offsetting	-360	-2,230
Deferred tax assets	0	0
Deferred tax liabilities		
Investment properties	55,307	52,421
Hedging reserves	1,907	0
Other financial liabilities	0	0
Offsetting	-360	-2,230
Deferred tax liabilities	56,854	50,191

Deferred tax assets are offset against deferred tax liabilities (EUR 360 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 -3,456 thousand; previous year EUR -822 thousand) as well as the reclassification of the market value changes of the replaced swaps reported in the reserve for cash flow hedges (EUR -44 thousand, previous year EUR -81 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 86,517 thousand (previous year EUR 78,651 thousand) because their use within the next five years is unlikely based on the business plan.

3.4. Receivables and other financial assets

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

	31/12/2022	31/12/2021
	EUR '000	EUR '000
Trade receivables	9,035	7,557
of which allocable operating expenses	8,642	7,092
of which rent receivables	393	465
Other receivables	2,036	818
of which derivative financial instruments, current	1,880	0
TOTAL	**11,072**	**8,375**

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

At 31 December 2022, receivables from operating costs not yet settled stood at EUR 8,642 thousand (previous year EUR 7,092 thousand) and advance payments received for operating costs amounted to EUR 7,972 thousand (previous year EUR 6,811 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 derivative financial instruments within other receivables (current portion) amounting to EUR 1,880 thousand (previous year EUR 0 thousand) together with the non-current portion of the derivative financial instruments of EUR 8,266 thousand (previous year EUR 0 thousand) represent the total positive market value of derivative financial instruments, cf. 3.7.

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
31/12/2022					
9,035	8,788	142	12	63	30
31/12/2021					
7,557	7,348	129	1	56	23

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 1,223 thousand (previous year EUR 915 thousand). POLIS is able to access this collateral in the event of payment arrears, in accordance with the terms of the lease agreements.

Impairments for other receivables and other assets were not required.

3.5. Current tax receivables

As in the previous year, the current tax receivables amounting to EUR 66 thousand (previous year EUR 31 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 financial and other assets

OTHER FINANCIAL ASSETS

This item reports the positive market value of the derivative financial instruments (non-current portion). In the previous year, the market value was negative. Please refer to Item 3.4. for the current portion.

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 2022 and previous years.

Non-current other assets include rights of use from the leasing of vehicles in the amount of EUR 46 thousand (previous year EUR 48 thousand).

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 18,186 thousand; previous year EUR 18,186 thousand) include the premium from the issue of POLIS shares less the expenses associated with the initial public offer, taking into account deferred taxes.

RETAINED EARNINGS

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

3.9. 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	241,640 (182,022)	7,759 (3,209)	233,881 (178,812)	98,620 (33,103)	135,261 (145,710)
Advance payments received	7,972 (6,811)	7,972 (6,811)	0 (0)	0 (0)	0 (0)
Trade payables	2,983 (4,540)	2,983 (4,540)	0 (0)	0 (0)	0 (0)
Income tax liabilities	48 (346)	48 (346)	0 (0)	0 (0)	0 (0)
Other liabilities	4,719 (14,180)	4,675 (3,806)	44 (10,374)	0 (7,572)	0 (2,802)
	257,362 (207,898)	**23,437** (18,712)	**233,925** (189,186)	**98,620** (40,675)	**135,261** (148,512)
plus deferred tax liabilities			56,854 (50,191)		
Total non-current liabilities			**290,779** (239,377)		
Total current liabilities		**23,437** (18,712)			

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
2023	3.24	3	5,422
2025	variable		13,950
2027	variable		74,928
2028	variable		28,945
2029	0.78		20,000
2030	0.515-1.070		28,225
2032	1.39/variable	1	62,651
2036	variable		7,520
		Total	**241,640**

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
2021	3.28-3.51	1	1,258
2023	3.24	3	5,370
2025	variable		14,100
2027	variable		76,123
2028	variable		29,247
2029	0.78		20,000
2030	0.515-1.070		28,325
2036	variable		7,600
		Total	**182,022**

There was a cash outflow amounting to EUR 3,381 thousand in financial year 2022 as a result of redemption payments. In addition, loans with a volume of EUR 63 million were raised.

Of the liabilities to banks, a total of EUR 180,020 thousand (previous year EUR 127,069 thousand) is at variable interest rates (to some extent hedged by interest rate swaps) and EUR 61,444 thousand (previous year EUR 53,695 thousand) at fixed interest rates; the item also includes accrued interest of EUR 176 thousand (previous year EUR 1,258 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 287,264 thousand (previous year EUR 223,464 thousand) against the property portfolio (carrying amount: EUR 711,660 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 2022 was 2.23% (previous year 1.67%). The weighted average remaining term of the bank loans is 6.5 years (previous year 6.6 years). The fair values of the variable-rate liabilities correspond to their carrying amount.

The fair values of the fixed-rate liabilities at 31 December 2022 amounted to EUR 49,234 thousand (previous year EUR 52,626 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 3.79% to 4.68% (previous year -0.76% to 1.07%) including margin.

Advance payments received include the advance payments for operating costs paid by tenants. Trade payables largely pertain to construction work.

The item other current liabilities is composed as follows:

	31/12/2022	**31/12/2021**
	EUR '000	EUR '000
Negative market value of derivative financial instruments	0	2,720
Miscellaneous	4,675	1,086
Total	**4,675**	**3,806**

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	124,928	1.65%
Over 1 year to 2 years	123,742	1.65%
Over 2 years to 5 years	112,446	1.62%
Over 5 years to 10 years	31,331	1.68%
Over 10 years to 15 years	6,580	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 that EUR 275 thousand (previous year EUR 513 thousand) less deferred taxes of EUR 44 thousand

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(previous year EUR 81 thousand) was reclassified from the reserve for cash flow hedges to interest expense.

Derivative financial instruments:

EUR '000	Assets			
	31/12/2022		31/12/2021	
	Nominal volume	Fair value	Nominal volume	Fair value
Interest rate swaps	125,373	10,147	0	0
of which within cash flow hedges	125,373	10,147	0	0
Total	125,373	10,147	0	0

EUR '000	Equity and liabilities			
	31/12/2022		31/12/2021	
	Nominal volume	Fair value	Nominal volume	Fair value
Interest rate swaps	0	0	126,559	13,045
of which within cash flow hedges	0	0	120,959	12,675
Total	0	0	126,559	13,045

The hedges that POLIS has designated as cash flow hedges have the following effects on the statement of financial position at 31 December 2022:

Interest rate risk (interest rate swaps with fixed outgoing payments and variable incoming payments), EUR '000	31/12/2022	31/12/2021
Nominal amounts	125,373	120,959
Fair value of hedges	10,147	-12,675
of which non-current	1,880	-2,636
of which current	8,267	-10,039
of which liabilities	0	-12,675
Fair value change in hedges	22,821	6,015
For measurement of ineffectiveness	Hypothetical derivatives method	Hypothetical derivatives method
Balance sheet item for hedges	Other financial liabilities	Other financial liabilities

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

Interest rate hedges	31/12/2022	31/12/2021
OCI cash flow hedge reserve (profit/loss recorded from hedging, after income taxes)	10,143	-8,472
Change in cash flow hedge reserve	18,615	4,802
of which addition recognized in other comprehensive income	17,563	3,138
of which reclassified from OCI to income statement following materializing of underlying transaction	1,052	1,664
Income statement item for unclassified amounts	Interest expense	Interest expense
Hedge ineffectiveness (result) in income statement	954	823
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 intrayear valuation effects from allocations from the existing hedges that were subsequently reversed again because the underlying transaction took place, in the amount of EUR -974 thousand (previous year EUR -1,464 thousand), plus deferred taxes of EUR 154 thousand (previous year EUR 232 thousand). Without these effects, the net market value change of the derivatives in a hedging relationship in the financial year amounted to EUR 21,839 thousand (previous year EUR 5,192 thousand), less deferred taxes of EUR 3,456 thousand (previous year less EUR 822 thousand). Because the underlying transaction took place, EUR 275 thousand (previous year EUR 513 thousand) less deferred taxes of EUR 44 thousand (previous year EUR 81 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 1,249 thousand (previous year EUR 1,977 thousand), less deferred taxes of EUR 198 thousand (previous year EUR 313 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	2022	2021
		EUR '000	EUR '000
Other financial assets	Derivatives measured at fair value with an effective hedging relationship	10,147	0
Receivables and other financial assets	Measured at amortized cost	9,192	8,375
Cash in banks	Measured at amortized cost	27,669	13,465
Total		**47,008**	**21,840**
Liabilities to banks	Measured at amortized cost	241,640	182,022
Trade payables	Measured at amortized cost	2,983	4,540
Other financial liabilities	Measured at amortized cost	4,675	3,806
	Derivatives measured at fair value without effective hedging relationships	0	370
	Derivatives measured at fair value with an effective hedging relationship	0	12,675
Total		**249,298**	**203,413**

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	2022	2021
		EUR '000	EUR '000
Receivables and other financial assets	Measured at amortized cost	10	-35
Cash in banks	Measured at amortized cost	-11	4
Receivables and other financial assets and other financial liabilities	Derivatives measured at fair value without effective hedging relationships	398	279
	Derivatives measured at fair value with an effective hedging relationship	954	823
Total		**1,352**	**1,071**

The net gains or losses from the derivatives at fair value that are not components of effective cash flow hedges include valuation gains recognized through profit or loss from interest rate swaps in the amount of EUR 398 thousand (previous year EUR 279 thousand).

The net gains or losses from the derivatives at fair value that are components of effective cash flow hedges result from ineffectiveness recognized through profit or loss in the amount of EUR 954 thousand (previous year EUR 823 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 20,865 thousand; previous year EUR 3,728 thousand) were recognized through "Other comprehensive income" after deduction of deferred taxes (EUR 3,302 thousand; previous year EUR 590 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	2022	2021
	EUR '000	EUR '000
Position at 1 January	48	61
Depreciable amount for the financial year	-38	-37
Disposals from rights of use	-1	-1
Additions to rights of use	36	25
Position at 31 December	46	48

Amounts recognized in income statement:

Amounts recognized in income statement	2022	2021
	EUR '000	EUR '000
Interest expense for lease liabilities	1	1
Expenses for leases of low-value assets	7	0

Amounts recognized in cash flow statement:

Amounts recognized in cash flow statement	2022	2021
	EUR '000	EUR '000
Total cash outflows for leases	49	40

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 2022 the Group recognized lease income amounting to EUR 32,234 thousand (previous year EUR 28,930 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	1st year	2nd year	3rd year	4th year	5th year	Over 5 years
Minimum rent payments (31/12/2022)	161,712	30,590	27,069	24,120	19,662	14,643	45,628
Minimum rent payments (31/12/2021)	169,206	28,597	25,319	22,836	20,121	15,980	56,353

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 -128 thousand (previous year EUR 166 thousand) that are attributable to rent-free periods. The rise in rental income stems from the acquisition of an investment property in Potsdam and major new lease agreements in 2022.

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:

	2022	2021
	EUR ’000	EUR ’000
Non-allocable operating costs	557	687
Letting costs	352	641
Other property management expenses	294	201
Total	**1,203**	**1,529**

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

In financial year 2022, other income mainly comprises derecognized liabilities and corrections pursuant to Section 15a of the German Turnover Tax Act (UStG).

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:

	2022	2021
	EUR '000	EUR '000
Staff costs	3,107	2,903
Legal, consultancy and auditing fees	415	371
Office and travel expenses	1,520	1,367
Annual Report, Annual General Meeting	245	245
Marketing and advertising expenses	87	53
Other expense	73	49
Total	**5,447**	**4,988**

Staff costs mainly comprise salaries amounting to EUR 2,412 thousand (previous year EUR 2,232 thousand), of which EUR 157 thousand (previous year EUR 138 thousand) was for defined contribution pension plans for employees, as well as social security expenditure amounting to EUR 427 thousand (previous year EUR 396 thousand). In addition to the two members of the Board of Management, on average 41 persons were employed in financial year 2022 (previous year 37), ten of who work in the "General Administration" area and 31 in the "Asset and Property Management" area, including seven trainees. At the end of the financial year there were 43 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:

	2022	2021
	EUR '000	EUR '000
Interest expense	4,144	3,748
Ancillary financing costs	148	212
Reclassified result from the reserve for cash flow hedges	275	513
Total	**4,568**	**4,473**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 (+)	**2022**	**2021**
	EUR '000	EUR '000
Deferred taxes on losses carried forward	-277	-637
Deferred taxes from temporary differences	-2,887	-5,563
Current taxes	-258	-34
Total	**-3,422**	**-6,234**

The expense from deferred taxes for losses carried forward is the result of reducing tax losses carried forward.

The corporate income tax rate in Germany was 15% in 2022 (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.

	2022	**2021**
	EUR '000	EUR '000
Profit before tax	17,702	44,252
Group tax rate	15.825%	15.825%
Expected income tax expense	-2,801	-7,003
Non-deductible operating expenses	-10	-13
Income tax – previous years	244	-3
Adjustment losses carried forward	-206	115
Income taxes – current year	0	-30
Deferred taxes – previous years	-356	0
Other	-292	700
Taxes on income	-3,422	-6,234
Tax rate	19.3%	14.1%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.11. Earnings per share

Earnings per share are determined as follows:

	01/01/2022-31/12/2022	01/01/2021-31/12/2021
Consolidated earnings after profit allocable to minority interests (EUR '000)	14,280	38,017
Average number of ordinary shares outstanding (units)	11,051,000	11,051,000
Earnings per share (basic and diluted) (in EUR)	1.29	3.44

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, changes in 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. Board of Management and Supervisory Board

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. The figures include contributions of EUR 36 thousand (previous year EUR 36 thousand) towards defined contribution pension plans.

	2022	**2021**
	EUR '000	EUR '000
Gross compensation	730	674
Other benefits	12	12
Defined contribution pension plans	36	36
Total	**778**	**722**

Compensation of the Supervisory Board

The compensation of the Supervisory Board is set forth in Article 21 of the Articles of Association. The Supervisory Board received compensation amounting to EUR 126 thousand in financial year 2022 (previous year EUR 126 thousand).

6.2. Related party disclosures

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

Services provided for the Mann Group in the financial year were billed on generally accepted market terms. The revenue of EUR 198 thousand (previous year EUR 70 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 balance sheet 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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% to 90% of variable-rate loans. 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 2022, the variable-rate bank liabilities of POLIS stood at EUR 180,020 thousand (previous year EUR 127,069 thousand). Of this, EUR 125,373 thousand (previous year EUR 120,959 thousand) was converted into fixed-rate liabilities through interest rate swaps. Fixed-rate liabilities to banks amounted to EUR 61,444 thousand (previous year EUR 53,695 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 2022, 77.4% of the interest-bearing liabilities to banks were hedged. This means that 22.6% (EUR 54.65 million) of the loans are not hedged. A 100 base point rise in interest rates would increase the interest expense by approximately EUR 546 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 75 base points would have increased the derivatives at 31 December 2022 by about EUR 4,844 thousand (previous year EUR 2,506 thousand), and the same movement in the opposite direction would have reduced them correspondingly. With an estimated probability of this scenario assumed to be 75%, the risk amounts to EUR 3,633 thousand (EUR 501 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.

B) 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.

For reasons of risk management 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 2022 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 credit volume of POLIS in respect of the EURIBOR that is designated in hedges is nominally EUR 125,373 thousand at 31 December 2022 (see Item 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.

C) DEFAULT OR 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 2022, receivables from operating costs not yet settled stood at EUR 8,642 thousand (previous year EUR 7,092 thousand), and advance payments received for operating costs amounted to EUR 7,972 thousand (previous year EUR 6,811 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.

To assess creditworthiness, POLIS implements the default probability calculations provided by Creditreform.

The assessment of future defaults is based on monitoring of the German economy as a whole. For changes in the default rates, reference is made to the rating tables of individual states unless specific individual creditworthiness ratings are available.

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 estimated probability of default is assumed based on credit checks 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-unim-paired loans	LECL-impaired loans	LECL-simplified approach	
100 – 349		0.19% (0.14%)				EUR '000 4,543 (3,918)	
350 – 499		0.40% (0.50%)				EUR '000 6,314 (4,581)	
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 0.19% to 0.40% (prior-year figures in brackets).

Development in impairment of trade receivables pursuant to IFRS 9

Trade receivables at amortized cost (previous year: loans and receivables)	31/12/2022
Impairment at 31 December 2021	125
Increase in impairment through profit or loss	10
Impairment at 31 December 2022	**135**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Trade receivables at amortized cost (previous year: loans and receivables)	31/12/2021
Impairment at 31 December 2020	137
Decrease in impairment through profit or loss	-12
Impairment at 31 December 2021	**125**

Determination of default risk for cash in banks

Generally speaking the default risk for cash in banks is to be rated as low, because the POLIS portfolio consists exclusively of 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% to 0.10% / EUR 18 thousand (previous year 0.03% to 0.06% / EUR 7 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.

The Company monitors the default risk of banks and financial institutions by regularly consulting the ratings of the institutes S&P and Fitch and Moody's, as well as by checking 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 would be 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 cash in banks					
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-unim-paired loans	LECL-impaired loans	LECL-simplified approach	
						EUR '000	
AAA – A-		0.02 – 0.10% (0.03 – 0.06%)				25,921 (13,470)	
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 therefore corresponds to 0.02% to 0.10% (prior-year figures in brackets).

Development in impairment of receivables from banks pursuant to IFRS 9

Receivables from banks measured at amortized cost (previous year: loans and receivables)	31/12/2022
Impairment at 31 December 2021	7
Impairment at 31 December 2022	**18**

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 (prior-year figures in brackets):

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 ’000			
Gross carrying amount of risk provisioning at 1 January 2022	7 (11)	125 (137)	132 (148)
Depreciation/amortization	0	0	0
Compounding	0	0	0
Newly launched or acquired financial assets	25,921 (13,470)	10,857 (9,284)	36,778 (22,754)
Reclassifications	0	0	0
In/(out) 12-month ECL	0	0	0
In/(out) lifetime ECL – unimpaired loans	0	0	0
In/(out) lifetime ECL – impaired loans	0	0	0
Financial assets derecognized in the period (not written down) as a result of repayments, modifications, disposals, etc.	-13,470 (-9,089)	9,284 (-7,335)	22,754 (-16,424)
Changes to models/ risk parameters	0	0	0
Impairment at 31 December 2022	11 (-4)	10 (-12)	21 (-16)
Gross carrying amount of risk provisioning at 31 December 2022	18 (7)	135 (125)	153 (132)

D) 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 2022 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 at 31 December 2022						
Figures in EUR '000	Gross cash outflows	2023	2024	2025	2026	From 2027
Liabilities to banks	241,640	7,759	2,337	15,837	9,387	206,321
Trade payables	2,983	2,983	0	0	0	0
Other liabilities	4,719	4,675	44	0	0	0
Non-derivative financial liabilities	249,342	15,417	2,381	15,837	9,387	206,321
Designated derivative financial instruments	0	0	0	0	0	0
Non-designated derivative financial instruments	0	0	0	0	0	0
Derivative financial liabilities	0	0	0	0	0	0
Maturity before utilization of loan commitments	**249,342**	**15,417**	**2,381**	**15,837**	**9,387**	**206,321**
Loan commitments	0	0	0	0	0	0
Maturity after utilization of loan commitments	**249,342**	**15,417**	**2,381**	**15,837**	**9,387**	**206,321**

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 2,804 thousand (previous year EUR 2,933 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 2023, which amount to approximately EUR 12.4 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Analysis of maturities at 31 December 2021

Figures in EUR ’000	Gross cash outflows	2022	2023	2024	2025	From 2026
Liabilities to banks	182,022	3,209	7,073	1,826	15,327	154,587
Trade payables	4,540	4,540	0	0	0	0
Other liabilities	14,180	3,806	2,260	1,878	1,788	4,448
Non-derivative financial liabilities	200,742	11,555	9,333	3,704	17,115	159,035
Designated derivative financial instruments	12,675	2,636	2,145	1,826	1,739	4,329
Non-designated derivative financial instruments	370	84	66	52	49	119
Derivative financial liabilities	13,045	2,720	2,211	1,878	1,788	4,448
Maturity before utilization of loan commitments	**213,787**	**14,275**	**11,544**	**5,582**	**18,903**	**163,483**
Loan commitments	0	0	0	0	0	0
Maturity after utilization of loan commitments	**213,787**	**14,275**	**11,544**	**5,582**	**18,903**	**163,483**

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 was 34% (previous year 28%).

6.4. Fees and services of the auditor

The fees for services provided by the auditor Ernst & Young Wirtschaftsprüfungsgesellschaft in financial year 2022 were as follows:

	2022	**2021**
	EUR ’000	EUR ’000
Audit fees	129	105
TOTAL	**129**	**105**

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 2023

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 2022, 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 2022 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 2022.

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 2022 as well as of its financial performance for the financial year from 1 January to 31 December 2022, 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

The 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: "At a glance", "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. In addition, the management is responsible for such internal controls as it has determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements due to fraudulent acts or errors, and whether the group management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our audit opinions on the consolidated financial statements and on the group management report.

INDEPENDENT AUDITOR'S 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 misstatement. Misstatements can arise through fraudulent acts or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the assurance engagement. Furthermore

- we identify and assess the risks of material misstatements in the consolidated financial statements and the group management report, whether due to fraudulent acts or errors, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting material misstatements resulting from fraudulent acts is higher than the risk of not uncovering material misstatements resulting from errors, because fraudulent acts may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;

- we obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems;

- we evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures;

- we conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue 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 (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 appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinions;

- we evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides;

INDEPENDENT AUDITOR'S REPORT

- we perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in internal control that we identify during our audit.

Berlin, 29 March 2023

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Canzler	**Pilawa**
Certified Public Accountant	Certified Public Accountant

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Further informations
Phone +49 30 225 00 250
Fax +49 30 225 00 299
E-Mail info@polis.de

Photos
Branislav Jesic, Tom Reindel, Dalís Pacheco
Photos for Header in Portfolio:
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HAUS
NEUMARKT
49
LODES

POLIS

POLIS IMMOBILIEN AG
Lietzenburger Strasse 46
10789 Berlin

Phone +49 30 225 00 250
Fax +49 30 225 00 299

www.polis.de
info@polis.de