POLIS

ANNUAL REPORT 2021

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Senior officers of POLIS AG, from left:

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

Andreas Goldau
Authorized signatory;
Commercial Director

Mathias Gross
Chief Operating Officer

Dr. Michael Piontek
Chief Financial Officer

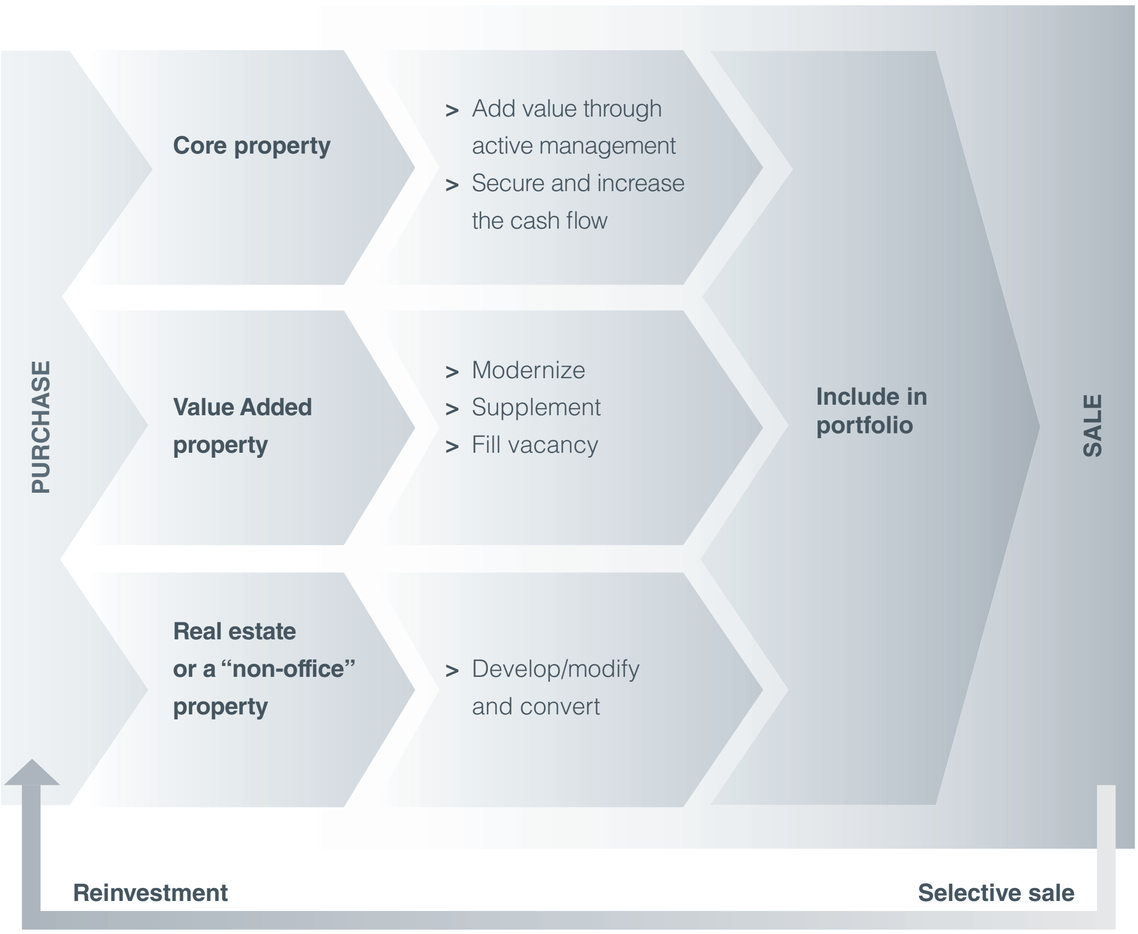
ANNUAL REPORT 2021

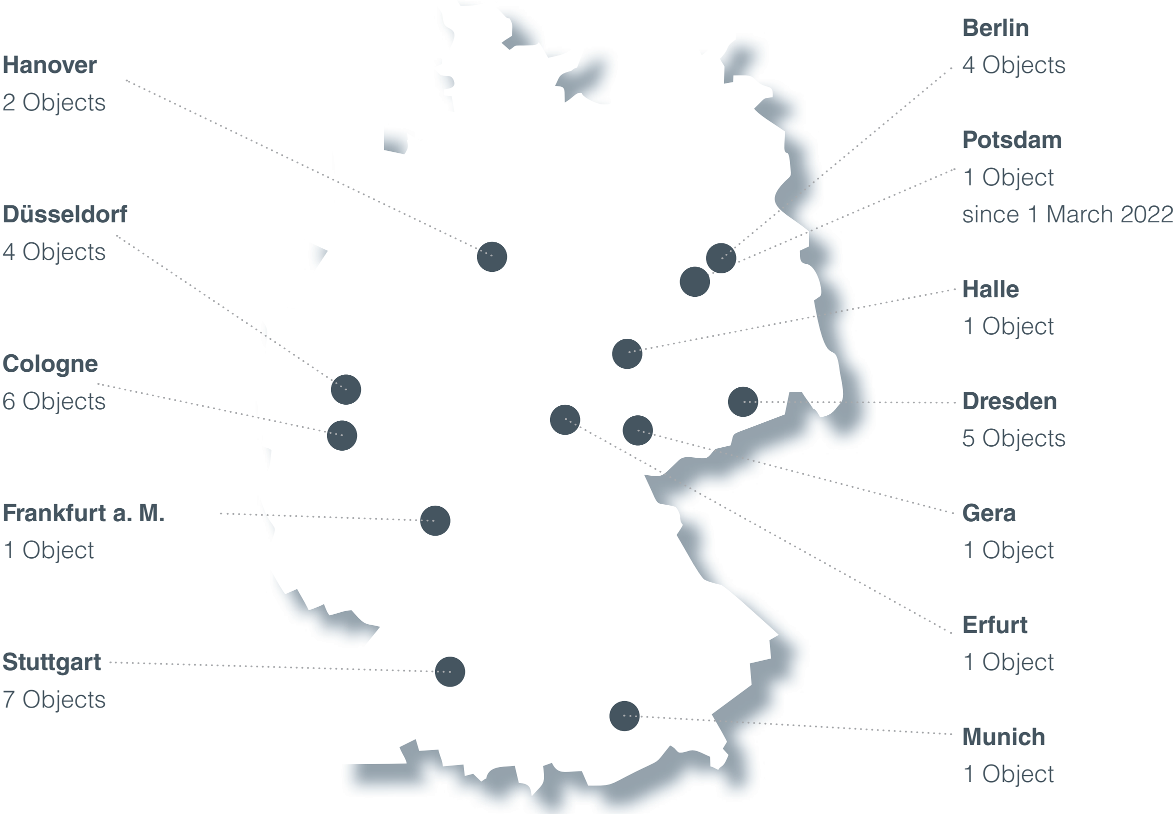
POLIS AG key ratios at a glance

	2021	2020
Rental income	**EUR 28.9 million**	EUR 26.6 million
Total assets	**EUR 672.2 million**	EUR 631.8 million
Equity	**EUR 414.1 million**	EUR 371.3 million
Earnings before taxes	**EUR 44.3 million**	EUR 46.3 million
Property portfolio (own commercial space sqm)	**199,150 sqm**	198,550 sqm

OUR BUSINESS MODEL

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





ACQUISITIONS

Far-sighted investments

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

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

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

Properties with potential

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

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

Dependable and financially strong

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

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

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

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

LETTING

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

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

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

Living the future
We attach huge importance to meeting the requirements of our tenants and the modern working world over the long term, too. For that reason, as well as wanting properties in good locations we seek to maintain state-of-the-art technical facilities, whether that means keeping pace with the digital age or optimizing energy consumption and operating costs for our tenants. When modernizing our properties we also pay considerable attention to architectural authenticity. We want to preserve a property’s character. The building at Neumarkt 49 in Cologne is a good example. The extensive renovation project that respects the building’s listed status is creating high-quality, efficient office space that is now coming onto the rental market in units of various sizes. For further information, please also refer to our website. Please contact us if you are interested.

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

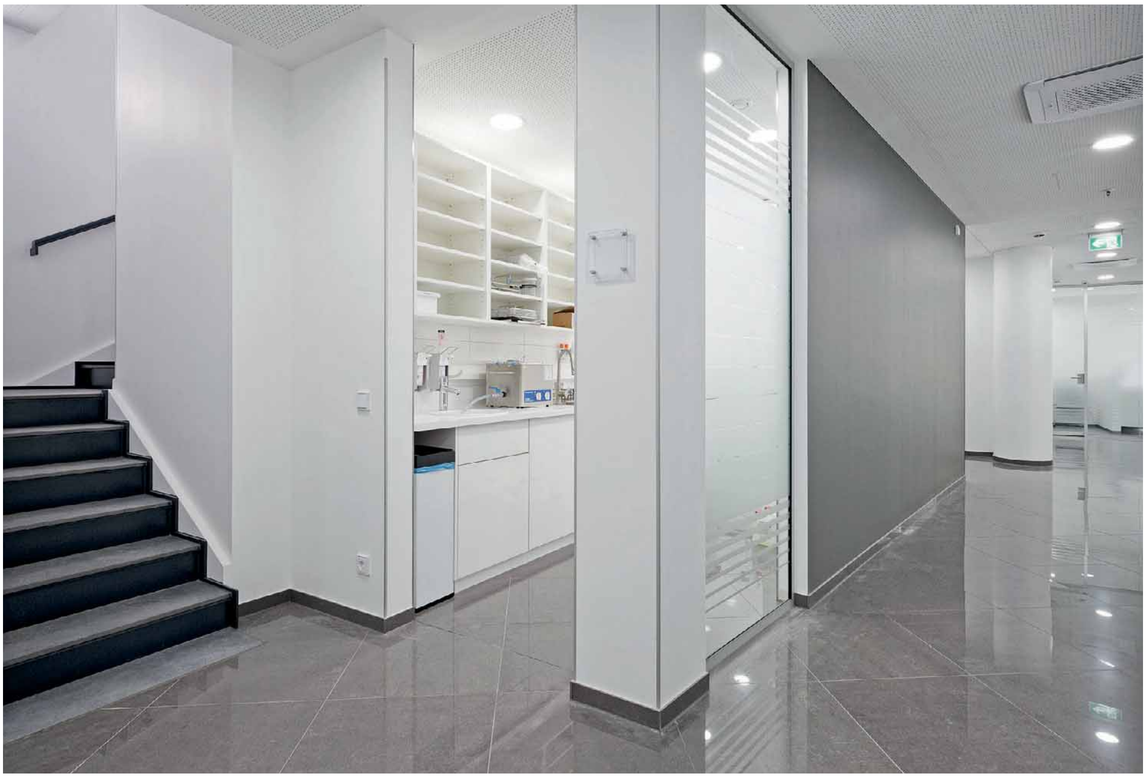
Developing modern, personalized letting concepts is a core skill of our experienced letting experts – and has now been the case for over 20 years.

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


working motion
working motion
GOLVET
Hochzeitswelt

TOP LOCATION IN THE HEART OF DRESDEN

Interview with Timur Meister, Real Estate Manager of AllDent Holding GmbH



AllDent Zahnzentrum GmbH offers its patients an easy solution for all-round medical care with impressive professional expertise, fair prices and long opening hours. In 2021 the innovative healthcare company took out a long-term lease agreement for the Altmarkt 10 in Dresden and opened its eleventh practice covering around 1,200 square metres there in July.

Mr. Meister, AllDent operates eleven dental centres in locations such as Munich, Hamburg and Frankfurt. What made you choose the property at am Altmarkt 10 in Dresden?
As a university city, the state capital and the second-most populous place in Saxony, Dresden is very important for the entire region and its population has been steadily growing. Also, there are very few dental establishments that can offer patients the complete package of services that AllDent does. Our advantages include an in-house dental technology master lab, a 24-hour emergency service, specialists and cutting-edge equipment. So the decision to set up operations there came easily. In Dresden itself, the central location was important for us, with retail and food outlets within walking distance for patients. The property's excellent transport links were also a plus point for us.

Have the premises you recently moved into met your expectations?
Yes, the high fit-out standard is just right for a state-of-the-art dental technology setup. The building itself has satisfyingly bright, welcoming rooms, the overall package is very good and it offers an agreeable patient experience for our customers every time they visit. One priority for us was to find a large, continuous space with a central location where we could offer our customers a wide treatment range. The am Altmarkt 10 building ticks every box in terms of both the floor plan and the technical facility.

How have you found working with POLIS?
Right from the start, the cornerstones of our partnership have been trust, open-handed communication and binding agreements with our direct contact person. That has kept the process of negotiating and also our continuing cooperation swift and productive.

We'd especially like to mention how POLIS has been proactive on asset and property management matters. It is always an advantage to have a strong partner at your side with many years of experience in letting and operating commercial properties – especially when you move into bigger premises and set up business in a new location. Working with POLIS definitely helped with our market entry in Dresden.

Our society has become increasingly aware of the healthcare sector in recent years. What do patients and employees expect nowadays of those who provide medical services?
There is a much more pronounced expectation of state-of-the-art equipment and implements. A high level of digitalization is seen as the norm, which is something we welcome. For the actual dental appointment, both our patients and our employees appreciate the pleasant working environment. The light and airy room design creates a friendly atmosphere and we also benefit from the lively city centre location with its attractive range of shops, restaurants and cafés in the immediate vicinity. The outstanding public transport connections add to the overall impression and make it an easy location for customers and employees alike to reach.

The focus of our treatments is on top-quality dental care at fair prices. By bringing a number of dentists and experts all together in one location, we are able to provide all-round medical care. Another benefit of that is we can realize cost savings (e.g. for equipment and materials) that we gladly pass on to patients.

Thank you for the interview.

www.alldent.de

SUSTAINABILITY

At POLIS, we want to create sustainable values – in the economic, ecological and social sense. We th-erefore think long-term and base our entrepreneurial actions on the key economic and social issues of the next few years. As a holder of a portfolio comprising 34 properties in eleven German cities, we are mindful of our ecological and social responsibility, but also regard it as a vital success factor for the future of POLIS. Alongside our ambition to make successful investments with a stable cash flow and steady value growth and be a reliable partner to our tenants, sustainability is therefore firmly embedded in our corporate strategy.

Underpinned by this self-view, POLIS has been promoting the environmentally and socially res-ponsible real estate sector since 2007 as a founder member of the German Sustainable Building Council (DGNB). The DGNB certification system plays a major role in increasing real sustainability in building projects and the operation of buildings. Today, the association of around 1,200 member organizations is Europe's biggest network for sustainable building and portfolio management.

We have remained steadfastly on the course we adopted in 2007 ever since, and in 2021 we defined specific, ambitious targets. These sustainability-related objectives will gradually take root in every corporate division. One particular challenge we face is to decarbonize existing portfolio properties, which simultaneously represent the biggest potential to cut greenhouse gas emissions. That is becau-se most of the buildings we need have already been built. In Germany alone, the management of existing buildings currently generates carbon emissions of around 120 million tonnes per year.[1]

If net zero is to be achieved by 2045, it therefore matters how much energy buildings consume, what energy sources are used and how consumption can be optimized. Factors that play a part in this in-clude implementing digital solutions for property management, the energy-efficient modernization of existing properties and optimizing how a building is operated. As well as cutting greenhouse gases, our sustainability strategy includes focus topics such as the circular economy, water management and the use of environmentally compatible building materials. Our collective efforts to operate sustainably are encapsulated by the three corporate responsibility areas of Environmental, Social and Governance (ESG), which we would like to illustrate below with reference to a few best cases.

[1] bundesregierung.de

E = Environmental

If we are to avoid the carbon and resource-intensive dismantling and construction of buildings as far as possible, it is urgently necessary to increase the useful lives of properties. At the same time, the ongoing management of Germany's building stock needs to become more ecologically sustainable. These goals are firmly embedded in the POLIS business model, which sets out how we acquire properties for the portfolio and handle their resource-friendly modernization and management.

Last year, we successfully completed the revitalization of the property "Haus Neumarkt" in the south of Cologne's Old Town. The building was erected in 1958 to a design by Theodor Kelter based on urban development plans by Wilhelm Riphahn, one of the leading architects of Cologne's post-war reconstruction. As a classic example of the architecture of the time, the property is now listed.

This presented us with the particular challenge of identifying specific structural solutions that would minimize resource consumption (heat, power, water) in the comprehensive modernization of the office and commercial building, but at the same time preserve the main characteristics of the historic building.

Spread over some 3,900 sqm of office, retail and service space, our tenants now have superbly equipped premises as an ideal basis for a contemporary workplace. The historic elements of the 1950s building, which are notable for their clear lines and sober elegance, were preserved to create a harmonious bend of the traditional and the modern. Energy consumption was also cut significantly by incorporating modern insulating materials and installing heating and climate control technology, saving over 280,000 kWh/a and 43 kg of CO_2/a compared with prior to the building's revitalization.

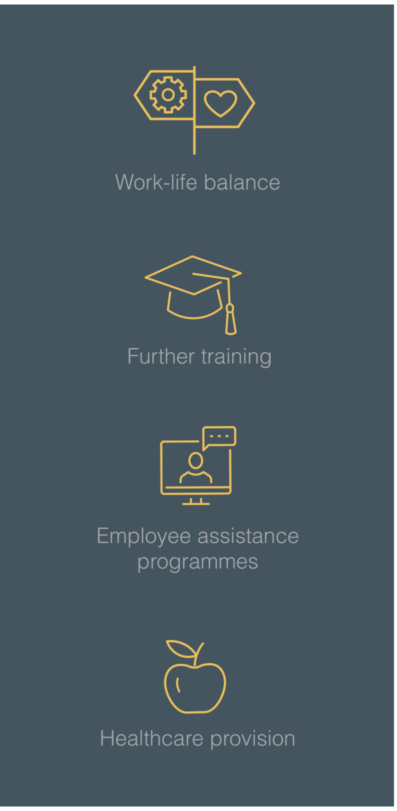
DGNB certification

Integration of EV charging points

Switching the common-area power supply to green power

Reuse of building materials

Cologne | Neumarkt 49



S = Social

People should always be at the centre of all economic endeavours. We at POLIS therefore have high regard for our tenants, our business associates and of course our employees. They are the very basis of our economic success. We want to offer them sustainable jobs and everything they need to develop personally and play an active role in shaping the future.

Top-quality opportunities for advancement and an extensive advisory service for health, professional and personal matters under our employee assistance programmes are just some of the options available. We adopt a horizon that extends beyond their period of employment and want to help our employees enjoy financial security in retirement. We therefore introduced an occupational pension in 2020; POLIS makes the maximum contributions permitted under tax rules and also meets all contractual and marketing costs in order to improve the yield. As well as creating a source of income in retirement, these occupational pensions provide for surviving dependants and therefore support employees' families. In providing long-term pension arrangements, companies have an important role to play in tackling the declining pension levels that Germany is experiencing due to demographic change.

G = Governance

For POLIS Immobilien AG, good corporate governance is a far-reaching issue that affects every area of the Company. Responsible cooperation based on a spirit of trust – both within the Company between the Board of Management and the Supervisory Board and externally with all relevant stakeholders – has always been the basis of entrepreneurial action for POLIS. This also determines our corporate culture, the hallmarks of which are individual responsibility, transparency and integrity. We regard a corporate governance approach that accommodates the interests of social and economic players as fundamental to a sustainably successful performance. We therefore operate on the basis of tightly defined compliance guidelines that cover both our compliance with statutory requirements and voluntary commitments that are in line with POLIS values and principles.

In accordance with the German Corporate Governance Code, our actions satisfy internationally and nationally accepted standards of sound, responsible corporate governance; as such, they assure long-term acceptance of our entrepreneurial activity by society at large.


Café Luise
Schäfer's

DEAR SHAREHOLDERS, LADIES AND GENTLEMEN,

we again achieved a very good overall result in the past financial year. In addition to higher net rental income that was attributable to increased rental revenues – partly thanks to a first full year of rental income from the property in Halle acquired in the previous year – this year we again saw substantial, unexpectedly positive market value changes in our investment properties despite the coronavirus pandemic; these make up around 70 % of the Company's pre-tax earnings. On top of that, another attractive office property was acquired in Potsdam.

A very good letting result

In all, we concluded new lease agreements for a total of 14,486 sqm of rental space in 2021. It is also especially pleasing to note that existing lease agreements for 6,502 sqm were extended, with an average lease period of 4.26 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 2021 was 93.4 %; this was slightly below the prior-year figure due to the temporary complete changeover of tenants for Hansering 15, 16 in Halle prior to its occupation by the tenants from the above new lease agreements for the property, and due to a tenant changeover for Kramergasse 2, 4 in Dresden.

The occupancy rate achieved again provides a basis for stable earnings from portfolio business in 2022. Re-letting in 2021 on substantially better terms will lead to further rises in rental income in future years despite a lower occupancy rate for operational reasons. In addition, the acquisition of the new investment property in Potsdam will lead to markedly higher future rental income.

Thanks to the positive development in operating ratios, the new investment property and rent adjustments in the portfolio, rental income climbed year on year by EUR 2,375 thousand (+8.9 %). Net rental income rose by EUR 1,413 thousand to EUR 21,417 thousand. Funds from operations (FFO) after tax, which excludes valuation effects, grew from EUR 9,223 thousand to EUR 12,364 thousand over the past financial year. Cash flow from operating activities was also substantially higher year on year at EUR 19,855 thousand.

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

The continuing positive market development despite the coronavirus pandemic produced a very positive, non-cash overall valuation result of more than 5 %, or EUR 30,752 thousand in total, for all investment properties. While we do not yet regard the value level reached as constituting a valuation risk, market movements in the opposite direction cannot be ruled out if there are sharper interest rate rises or coronavirus impacts. Thanks to the rising, highly volatile long-term interest rates over the year, there arose earnings-relevant, non-cash valuation gains from interest rate hedging instruments in the amount of EUR 1,102 thousand. Overall, profit before tax declined year on year to EUR 44,252 thousand mainly because of the EUR 5.6 million drop in the valuation result.

New financial flexibility created

Long-term loans from available credit lines were repaid in 2021, paving the way for new, more effective opportunities for borrowing collateralized by the unencumbered properties. This enables us to raise further liquidity swiftly as and when financing is required, for example for new acquisitions.

At 31 December 2021 we had liquidity of EUR 13.5 million. The key ratio of loan to value came down to 28 %.

Mathias Gross
Chief Operating Officer

Dr. Michael Piontek
Chief Financial Officer

Including the excess liquidity that would be available as an alternative option for the repayment of loans, net loan to value is 26.1 %.

As a result of historically still-low market interest rates and the restructuring of financing in 2021, the weighted average interest rate for debt financing was 1.67 %, as against 1.97 % in the previous year. Our Company remains very soundly financed with an equity ratio of 62 % and therefore enjoys a high degree of investment security and growth potential.

HGB result and proposal on the appropriation of profits

Based on the net profit for 2021, we achieved a net income of EUR 4,030 thousand – the result that serves as the basis for the proposal on the appropriation of profits according to German accounting standards (HGB – German Commercial Code). Its significantly lower level compared with the IFRS result is because construction work is for the most part recorded as maintenance expenses, and under HGB the appreciation in the investment properties with no liquidity effect is not positive. Because we expect a lower positive HGB result for 2022 in view of the planned renovation and maintenance expenses, a portion of EUR 2,015 thousand from net income was allocated to retained earnings. That aside, the Board of Management proposes that the remaining unappropriated profit totalling EUR 18,128 thousand be carried forward to new account because we plan to use the available liquidity and reservoirs of value to finance further expansion.

Stable prospects for 2022 but lower result expected

In 2021 the economic situation for real estate unexpectedly remained stable despite the coronavirus crisis; this was reflected in a positive letting result in a clearly more difficult environment, but also in the unexpectedly positive valuation result. The coronavirus crisis will continue in 2022, with a quite considerable impact on Germany's economic development and consequently also on the field of business of POLIS.

The longer the crisis continues, the greater its impact will be. Progress with vaccinating and immunizing the population will have a positive impact. Despite the difficult letting situation we expect to be able to let what little rental space is standing or falling vacant.

We are planning further growth through the acquisition of properties, increasingly in Central Germany. We expect a continuing slight rise in rental income in 2022. In addition, the income from the newly acquired investment property in Potsdam will filter through into net rental income. Our plans envisage a positive valuation result from the investment properties of around 1.1 %, well down on the previous year, because we do not expect the positive valuation result for the investment properties to be repeated to the same extent due to rising expected returns during the coronavirus crisis and because of rising interest rates. Overall we will prospectively achieve a solid result for 2022, but one that will be much lower than the previous year's due to the reduced valuation result in 2022. Because no sales or extraordinary income are planned, and bearing in mind that it is not possible to forecast changes in market values to the investment properties and financial instruments reliably, we are working on the assumption that earnings before tax (EBT) will be lower than the 2021 figure at around EUR 18.5 million.

For operational reasons, funds from operations will be slightly higher than in 2021.

As matters stand we do not expect the sanctions against Russian and Belarusian businesses and individuals following the outbreak of war in Ukraine on February 24 to have any direct impact on POLIS's business. However rises in gas and oil prices to potentially permanently higher levels are likely to trigger a protracted period of higher inflation. That will have consequences for prices – including planned construction costs – as well as 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. However such risks cannot be forecast reliably.

New investment property acquired
In December 2021 we were able to acquire a further investment property in Potsdam for our portfolio by way of an international share deal. Its economic transfer took place in the first quarter of 2022. The attractive office property built in 1997 has around 17,800 sqm of rental space and the improvable annual rent of more than EUR 2.1 million will provide an added lift to our economic performance from 2022.

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 more than 20 years in business for POLIS, our tried-and-tested business model has previously helped us through several economic cycles, including especially 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, April 2022
POLIS Immobilien AG
– The Board of Management –

Potsdam | Zeppelinstrasse 47 – 49

DEAR SHAREHOLDERS, LADIES AND GENTLEMEN,

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

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

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

Supervisory Board meetings and resolutions

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

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

At its meeting on 13 April 2021, the annual and consolidated financial statements for 2020 as well as the group management report were discussed in detail in the presence of the auditor and approved. The separate financial statements of POLIS Immobilien AG were adopted. In addition the management bonus for the Board of Management was resolved. Other matters discussed at this meeting were the drafting of a sustainability strategy and the impact of the coronavirus pandemic. The resolution to hold the Annual General Meeting on 22 July 2021 in virtual form and the agenda for the meeting were passed by circulation procedure on 28 May 2021.

The main topics of discussion at the meeting on 2 September 2021 were the current business development, including the impact of the coronavirus pandemic, potential property purchases and human resources matters.

The meeting on 30 November 2021 focused on the economic data for the first ten months of 2021, the forecast for financial year 2021, the 2022 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 2021 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. The Investment Committee came together twice, conducting its discussions by telephone, and considered current investment projects. The projects were debated with the Board of Management and the committee's external experts.

The Personnel Committee, comprising Mr Müller (Chairman), Mr Herr and Mr Mann, met on 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 2021 as well as the consolidated financial statements and group management report at 31 December 2021 and has issued an unqualified audit certificate.

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

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

The annual and consolidated financial statements, group management report and audit reports of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft were available to all members of the Supervisory Board and were discussed comprehensively in Supervisory Board meeting to discuss the financial statements on 6 April 2022 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 6 April 2022, 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.

Hanover | Landschaftstrasse 8

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

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

- the factual details contained in the report are accurate, and

- in the case of the legal transactions detailed in the report, the expenditure of the Company was not unreasonably high”

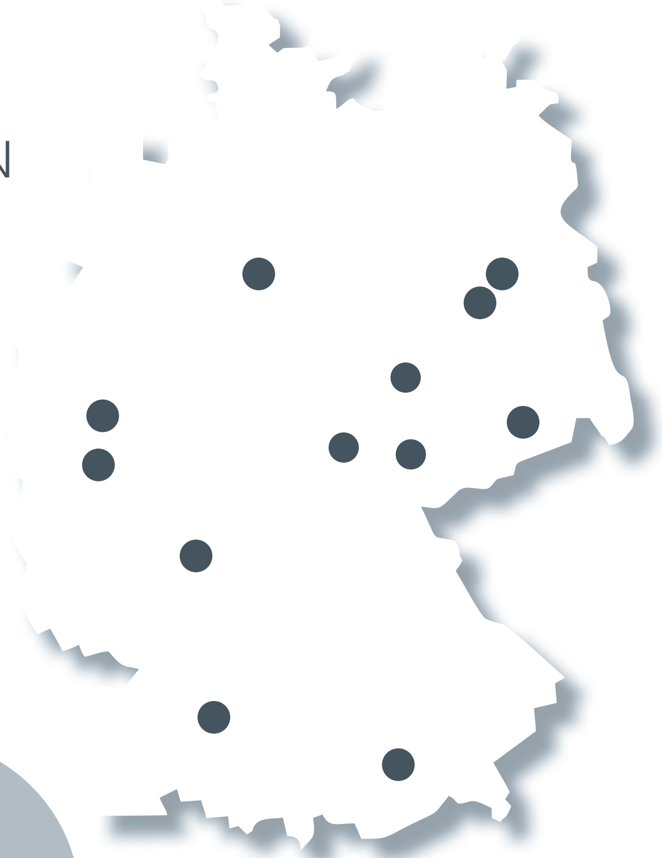
The Supervisory Board reviewed the report on the relationships with affiliated companies prepared by the Board of Management and reviewed by the auditor as well as the dependency audit report pursuant to Section 314 of AktG. After concluding its review, the Supervisory Board raised no objections with 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 2022

THE PORTFOLIO OF POLIS IMMOBILIEN AG IN FINANCIAL YEAR 2021

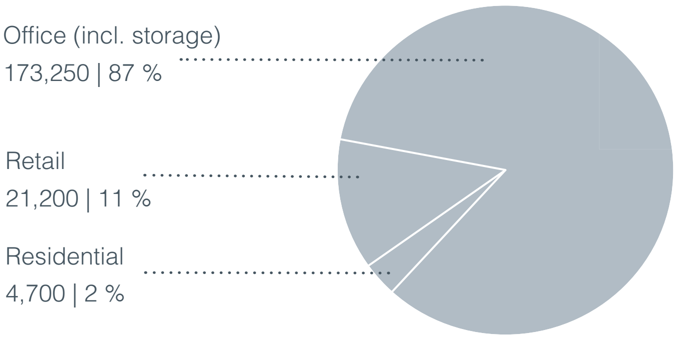


11 Cities

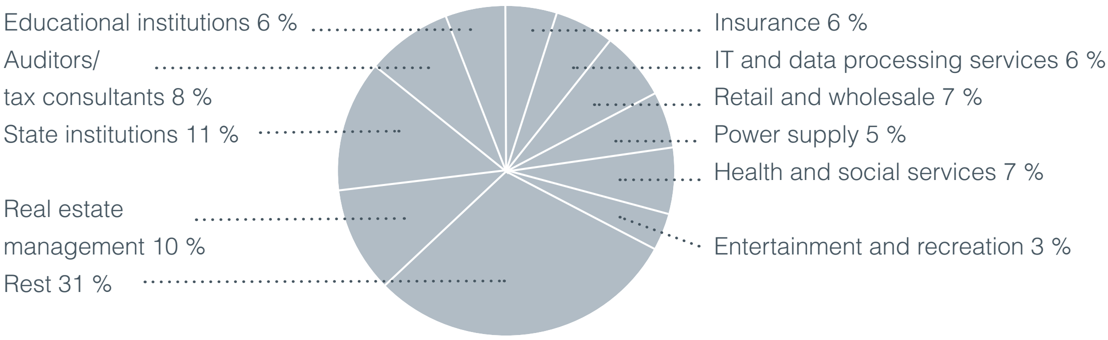
33 Properties

199,150 sqm

Portfolio by type of use | Basis: sqm | 199,150 sqm



Composition of rental revenues by sector | in %



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

Erfurt | Juri-Gargarin-Ring 90

BERLIN

Property	Rankestr. 21 / Lietzenburger Str. 44, 46	Luisenstrasse 46	Potsdamer Strasse 58
Year of construction	1993/1969/1957	1936	1930
Space available (rounded)	12,150	3,150	5,500
Office	10,626	2,622	4,262
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	13,400	10,400	19,150
Office	5,934	13,167	9,092	11,596
Retail	0	210	1,030	5,366
Residential	0	0	0	1,313
Archive	1,256	0	278	800
Parking bays	33	0	90	203

DÜSSELDORF

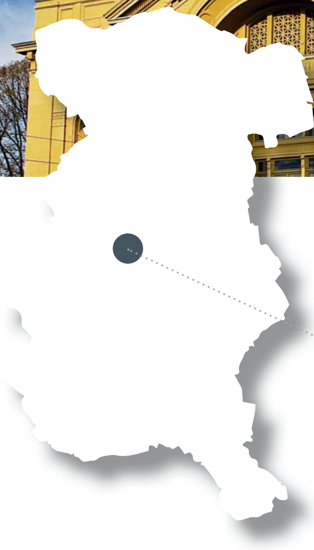
Property	Steinstrasse 27	Berliner Allee 42	Berliner Allee 44/ Alexanderstrasse 19	Berliner Allee 48/ Bahnstrasse 38
Year of construction	1960	1960	1957	1956
Space available (rounded)	3,700	3,450	3,750	2,650
Office	3,456	2,166	2,979	1,675
Retail	0	784	444	336
Residential	0	229	23	402
Archive	222	285	293	236
Parking bays	20	15	16	0

ERFURT

Property	Juri-Gagarin-Ring 90
Year of construction	1997
Space available (rounded)	6,300
Office	4,232
Retail	1,082
Residential	795
Archive	199
Parking bays	209

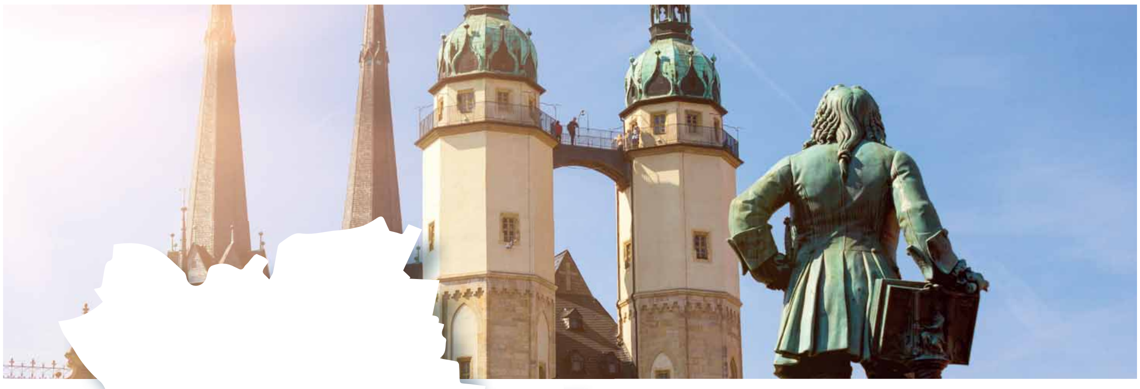
FRANKFURT AM MAIN

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



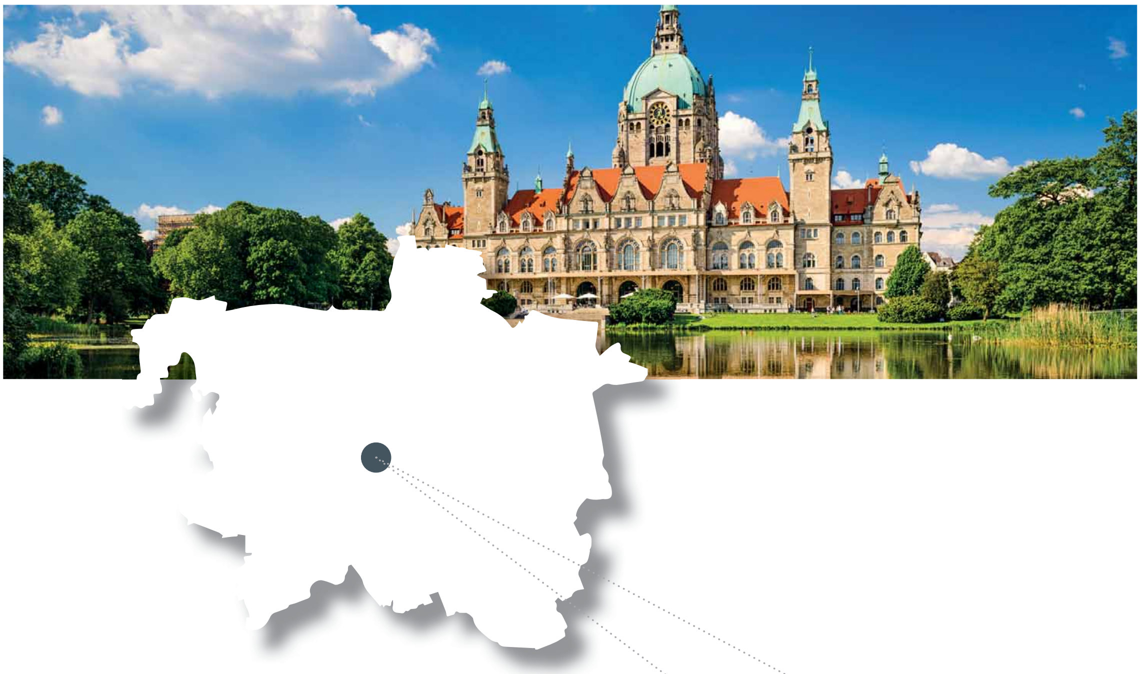
GERA

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



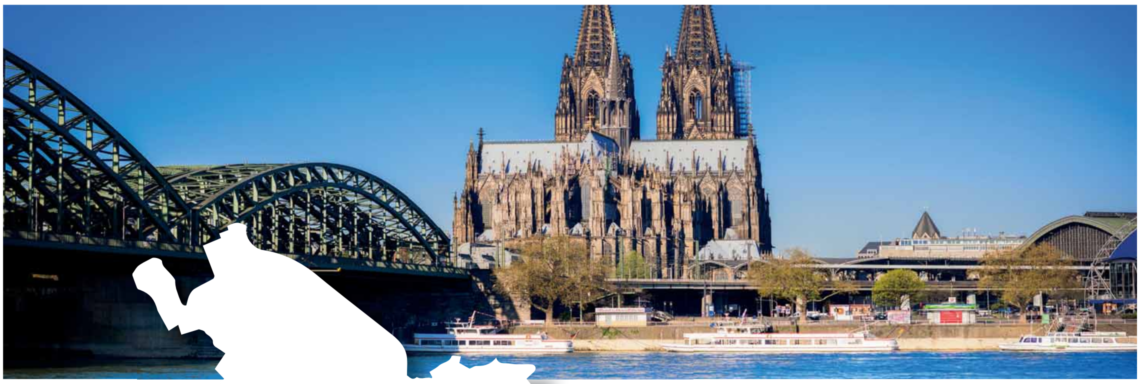
HALLE

Property	Hansering 15, 16
Year of construction	1968
Space available (rounded)	9,450
Office	7,871
Retail	873
Residential	0
Archive	679
Parking bays	41



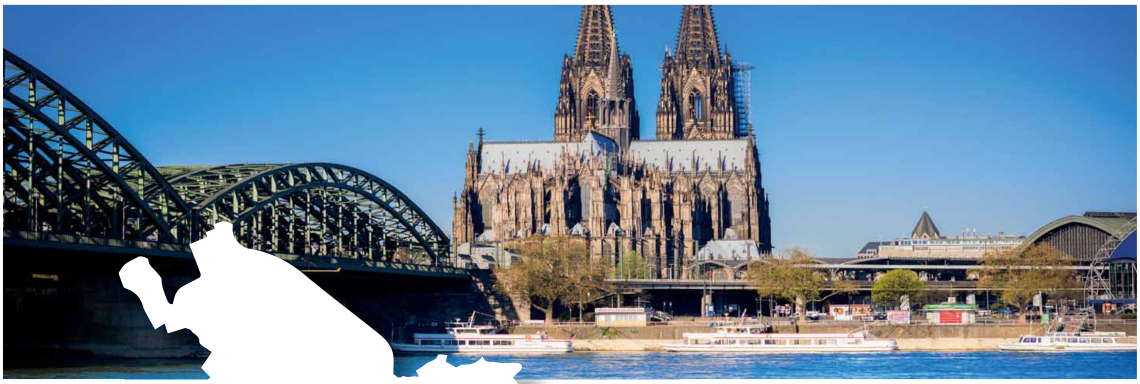
HANOVER

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



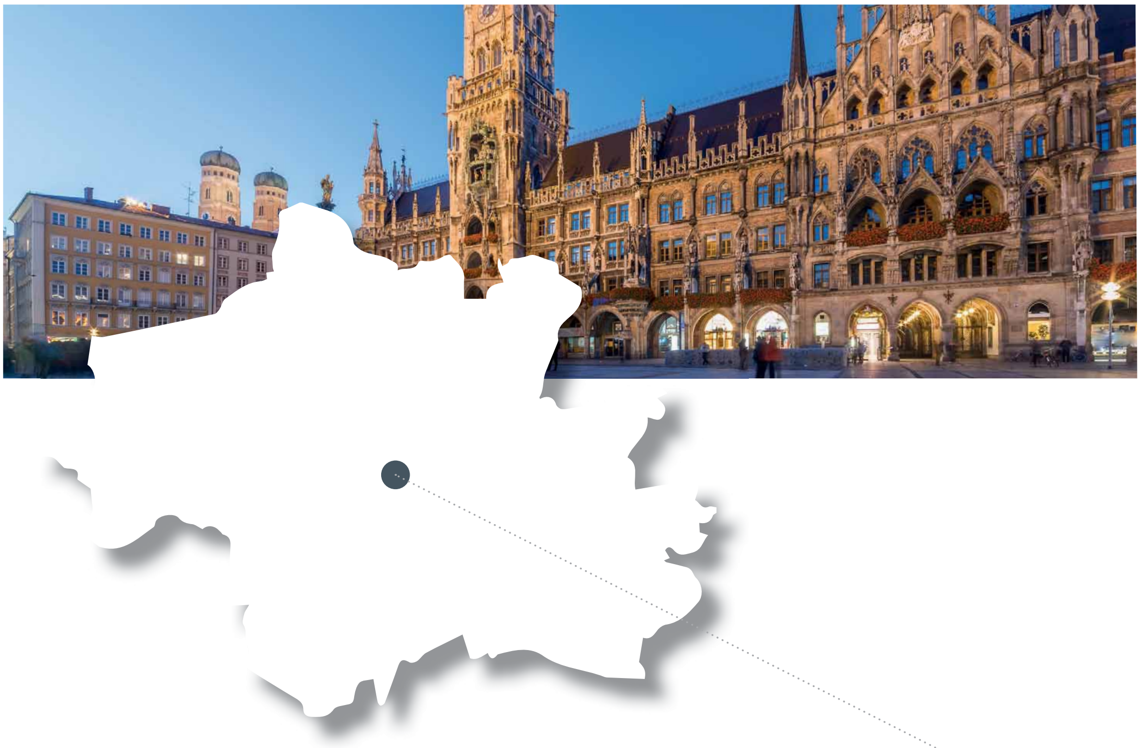
COLOGNE

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	3,154	7,237
Retail	0	542	1,302
Residential	0	0	0
Archive	364	158	768
Parking bays	53	9	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

STUTTGART

Property	Böblinger Strasse 8/ Arminstrasse 15	Quartier Büchsenstrasse	Tübinger Strasse 31/33
Year of construction	1973	1907 - 1970	1949
Space available (rounded)	2,500	16,600	4,500
Office	1,138	11,785	2,740
Retail	920	1,520	1,282
Residential	359	1,360	183
Archive	112	1,955	301
Parking bays	35	129	13

POTSDAM ACQUISITION

POLIS acquires "Büropark Sanssouci" in Potsdam

Potsdam is thought of as an attractive place to live and work. Today, Potsdam is not only the largest city in Brandenburg – it is also an important centre of science and research in the fields of biotechnology and medical technology, and a flourishing university city with that is well connected to the infrastructure of the Berlin-Brandenburg region.

POLIS has spotted this development potential and in December 2021 acquired an office complex in Zeppelinstrasse 47 – 49 on the west side of Potsdam. Commercial properties have previously been in short supply in that district. Yet growing employment, a significant fall in the vacancy rate in recent years and steadily rising rents make Potsdam – especially the Potsdam-West district – an attractive office market with good prospects for growth.

The acquisition represents the Company's most sizeable single investment to date. The property transaction took the form of a share deal involving the purchase of 100% of shares. The property acquired was built in 1998 and comprises five buildings in total. With 17,772 square metres of rental space overall, the complex houses offices, practices, space for storage and food catering as well as 203 parking spaces for cars. 91 percent of the space is currently let.

As well as the quality construction and the remarkable architectural concept, we were won over by the building ensemble's location. The complex has very good public transport connections from various tram and bus stops, and is just a few minutes' walk from Charlottenhof Station, from which there are direct trains to Potsdam's main station and Berlin's City West.

Potsdam | Zeppelinstrasse 47 – 49


Jahnstraße
Adecco
Adecco
Adecco
Adecco

THE GROUP MANAGEMENT REPORT OF POLIS IMMOBILIEN AG FOR FINANCIAL YEAR 2021

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Potsdam | Zeppelinstrasse 47-49

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, while the Chief Financial Officer is in charge of controlling, finances and accounting, taxes, risk management, organization and information technology. Human resources and legal matters are handled jointly by the officers. Our employees are for the most part employed by the holding company, while the properties are held via property companies (which usually take the German legal form of GmbH & Co. KG). POLIS and all property companies have their registered offices in Berlin. There are no branch offices.

Business processes

The principal business processes of POLIS are focused on 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, location and competitive developments in the German property market, and in particular the office market, by interest developments in the money and capital markets, as well as by statutory and regulatory requirements along with the recruitment of well-qualified personnel.

The coronavirus (SARS-Cov-2) emerged in Germany in 2020 and had a considerable economic impact worldwide, including in Germany. In the 2020 and 2021 financial years, but also in the current year of 2022, this included the (office) property market that is relevant to us. POLIS was able to clearly limit its effects on the economic result by actively managing rent arrears caused by the coronavirus. It had no material impact on new and follow-on leases or on construction work in 2021. Independently of the effects of the coronavirus crisis, POLIS succeeded in achieving a clearly positive valuation result from investment properties, albeit lower than the prior-year figure. In light of the further restrictions on economic life, the economic results for

2022 may 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 2021

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 still contain a clause for adjusting the rent in line with inflation, the inflation rate also influences the level of rental income.

FINANCE COSTS AND INTEREST RATE LEVELS

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

MARKET ENVIRONMENT

We draw on the research conducted by bulwiengesa AG, Berlin, and a wide range of other sources covering around 130 locations in Germany. The market for acquiring and managing office properties remains sizeable and provides opportunities for further development for specialized property companies.

Source: bulwiengesa AG bulletin

ECONOMIC AND INDUSTRY-SPECIFIC ENVIRONMENT

Development of overall economic environment

The ifo Business Climate Index for trade and industry in Germany rose significantly in 2021 from 90.9 (01/2021) to 101.7, fuelled by expectations of a recovery after the second wave of the coronavirus, but then fell back to 94.7 at the end of the year as a new wave of coronavirus infections took hold. Whereas business sentiment was clearly positive mid-way through the year, it entered another phase of marked slowdown in business expectations at the end of the year.

According to the Federal Statistical Office, the development in gross domestic product was 2.7 % in 2021 due to the coronavirus crisis, compared with -4.6 % in 2020.

The labour market remained flat year on year with a working population of 44.8 million in Germany, of which 33.8 million are subject to social security contributions (+0.5 million compared with previous year). The unemployment rate in 2021 averaged 5.7 %, down 0.2 % points on the prior-year figure. It is interesting to note that the monthly unemployment rate steadily declined over the year, touching 5.1 % in December 2021.

Average inflation for 2021 showed a marked rise from 0.5 % to 3.1 %. Over the course of 2021 inflation rose steadily and very dynamically each month, reaching 5.3 % in December 2021.

Short-term interest rates as a whole remained almost stable over the course of 2021 (three-month EURIBOR moved from -0.545 % at 2020 year-end to -0.572 % at 2021 year-end). Meanwhile the ten-year swap rate (against the three-month EURIBOR) showed a clear rise, with substantial volatility, from -0.284 % at 31 December 2020 to 0.274 % at 31 December 2021.

Industry-specific environment

Office space turnover in 2021 came to 3.4 million sqm, up 26.4 % on the prior-year figure despite the difficult market environment. The rates of turnover were higher in all top markets, in some cases significantly so. The highest percentage rates of revenue growth came in Cologne, Hamburg and Frankfurt. With 834,000 sqm, Berlin remains the market with the highest office space turnover, followed by Munich (661,000 sqm) and Frankfurt (538,000 sqm).

The development in 2022 will be determined by factors including the consequences of the measures taken to combat the coronavirus pandemic. Office space turnover could see a marked revival by mid-2022 at the latest and reach pre-pandemic levels.

Source: BNPPRE

Trends in the investment market for office properties in Germany

YEAR-ON-YEAR HIGHER TRANSACTION VOLUME

The transaction volume in the commercial property sector climbed to EUR 64.1 billion in 2021 despite the coronavirus pandemic, an overall rise of around 12 % on the previous year. This represents the second-best result ever. The largest asset class was the market for office buildings, which attracted EUR 30.7 billion in investment, accounting for some 48 % of the transaction volume.

The capital values of office properties climbed by about 8 %, with yield compression playing only a minor role. The value growth stems mainly from increased rents for the properties.

In some cases prime yields declined further in 2021. Some of the top cities saw a drop in yields of between 5 and 20 base points in the fourth quarter alone. On the other hand the most expensive locations Berlin (2.40 %), Munich (2.50 %) and Hamburg (2.55 %) remained stable. The development for 2022 is expected to remain healthy against the backdrop of expected positive trends regarding the coronavirus pandemic and the steady rental market.

Source: BNPPRE, JLL

Trends in the office property rental market in Germany

SHARP RISE IN NEW CONSTRUCTION VOLUME

New construction activity in the top locations was well above the level of previous years at 3.8 million sqm in 2021. There are plans for an overall new construction volume of around 10.9 million sqm in Germany. Just under 30 % of the expected new construction volume has already been let in advance.

Prime rents remained stable in 2021 despite the coronavirus pandemic, with further slight increases in several locations (Berlin, Hamburg, Cologne and Munich). The highest prime rents are again reported from Frankfurt (EUR 47.00/sqm), Munich and Berlin (EUR 43.00/sqm) and Hamburg (EUR 33.00/sqm).

RISING VACANCIES IN THE OFFICE MARKET

Vacancies for office space in the leading cities rose more sharply than expected to 5.2 % (+1.5 % points) but the rate of increase slowed markedly in Q4 2021. This trend was attributable to project developments that were started in previous years but could not be let as planned during the pandemic. Vacant space rose by 17 % overall. The vacancy rate climbed to 3.4 % in Berlin and 4.3 % in Munich. Growth in the vacancy rate is expected to slow further in 2022. Demand for A-grade locations is much stronger and will also have an impact on how the vacancy rate develops.

Sources: BNPPRE, JLL, ifo Business Climate Index, statista

OVERVIEW OF BUSINESS PERFORMANCE

FINANCIAL PERFORMANCE, FINANCIAL POSITION AND NET ASSETS

Figures in EUR ’000	2020	Forecast for 2021	2021	Change, 2021 over 2020	Change, 2021 over 2021 forecast
Rental revenues	26,555	Rising	28,930	2,375	As expected
Net rental income	20,004	Much lower	21,417	1,413	Rose, contrary to expectations
Occupancy rate	95 %	Falling to 90 %	93 %	-2 % points	Smaller fall
FFO (after tax)	9,223	Approx. EUR 9.2 million down on previous year	12,364	3,141	Rose, contrary to expectations
Consolidated earnings before tax (EBT)	46,340	Approx. EUR -1.4 million	44,251	-2,089	Fell much less sharply, contrary to expectations
Cash flow from operating activities	13,748	Approx. EUR 3.7 million down on previous year	19,855	6,107	Rose, contrary to expectations
Equity ratio	59 %	Rising slightly	62 %	3 % points	As expected
Loan to value (LTV)	30 %	Slightly lower	28 %	-2 % points	As expected
Net asset value (NAV)	414,362	Rising only slightly	464,284	49,922	Rose much more sharply, contrary to expectations

The unscheduled capitalization of investments and the postponement or abandonment of construction work meant that net rental income, FFO and cash flow from operating activities were well above the planned levels. On top of the above factors, the unexpectedly high valuation gains from investment properties with no effect on liquidity produced an EBT figure well ahead of the forecast, as well as a sharper rise in NAV than anticipated.

FINANCIAL PERFORMANCE

Figures in EUR ’000	**2021**	**2020**
Rental income	28,930	26,555
Renovation and maintenance expenses	-5,984	-5,436
Property management expenses	-1,529	-1,115
Other income	565	91
Other expense	-152	-305
Administrative expenses	-4,988	-5,084
Interest income	29	12
Interest expense	-4,473	-5,096
FFO (before tax)	**12,398**	**9,622**
Current income taxes	-34	-399
FFO (after tax)	**12,364**	**9,223**
FFO per share (in EUR)	1.12	0.83

We again achieved good results in concluding new lease agreements for 14,486 sqm in financial year 2021 (previous year 17,309 sqm). The biggest single contributors to the letting performance in 2021 were the lease agreements in the properties at Hansering 15, 16 in Halle for 4,271 sqm of office space, at Ebertplatz 1 in Cologne for 826 sqm of office space, and at Lietzenburger Strasse 46 in Berlin, again for 826 sqm of office space. Notwithstanding the successes in the letting area and the active management of lease agreements, the occupancy rate across the portfolio declined year on year from 95.4 % to 93.4 % due to the temporary complete changeover of tenants for Hansering 15, 16 in Halle (prior to its occupation by the tenants from the above new lease agreements) and the change of tenants for Kramergasse 2, 4 in Dresden at 31 December 2021.

In addition, lease agreements for approximately 6,502 sqm (previous year 22,733 sqm) were extended, to some extent on significantly better terms. In economic terms the most significant lease agreement extension, for approximately 2,085 sqm of office space, concerned the property at Lessingstrasse 14 in Munich, followed by approximately 2,212 sqm in the property at Hermann-Drechsler-Strasse 1 in Gera. In addition to these properties, existing lease agreements were extended with other sitting tenants for rental spaces ranging between 116 sqm and 809 sqm.

Newly concluded lease agreements in 2021 produced a contractually secured rental income of around EUR 27,953 thousand over the full term of the respective lease agreements. The average weighted term to break option is 3.9 years with an effective rental rate of EUR 16.03 per sqm. The average remaining term of all existing lease agreements is 3.8 years (previous year 4.0 years), with an average rent across the portfolio of approximately EUR 12.14 per sqm (previous year EUR 11.52 per sqm) across all types of use (office, retail, residential, archive).

	Rental space at 31 Dec 2020	**Rental space at 31 Dec 2021**	Occupancy rate at 31 Dec 2019	**Occupancy rate at 31 Dec 2021**
	sqm	**sqm**	%	**%**
Berlin	20,746	**20,764**	97	**100**
Dresden	50,039	**50,042**	97	**98**
Düsseldorf	13,300	**13,530**	92	**91**
Cologne	33,062	**33,040**	87	**95**
Stuttgart	23,651	**23,655**	98	**96**
Other cities*	57,734	**58,057**	98	**86**
Total	**198,532**	**199,087**	**95.4**	**93.4**

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

Overview of rental income

Categorized by properties in the individual locations, rental revenues for the Group developed as follows compared with 2020:

Figures in EUR ’000	**2021**	**2020**
Berlin	5,118	4,576
Dresden	6,100	5,941
Düsseldorf	2,068	1,973
Cologne	5,463	4,487
Stuttgart	4,350	4,139
Other cities*	5,831	5,440
Total	**28,930**	**26,555**

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

Rental income rose by EUR 2,374 thousand in 2021 to EUR 28,930 thousand (previous year EUR 26,555 thousand) as a result of the first full year of letting the investment property at Hansering 15, 16, Halle, and also from new lease agreements and rent adjustments. Renovation and maintenance expenses rose by 10.07 % to EUR 5,984 thousand (previous year EUR 5,436 thousand). Property management expenses increased from EUR 1,115 thousand to EUR 1,529 thousand. The new investment property in Halle drove both of the above changes because additional work was required there in preparation for individual lets and its almost complete re-letting incurred the corresponding letting fees. Overall, net rental income went up 7.06 % to EUR 21,417 thousand (previous year EUR 20,004 thousand).

Administrative expenses for 2021 came to EUR 4,988 thousand and were therefore -1.89 % down on the prior-year level of EUR 5,084 thousand. A detailed list is provided in the notes to the consolidated financial statements, under Section 4.7 .“Administrative expenses”.

Interest expenses of EUR 4,473 thousand reveal a difference of -12.24 % over the prior-year figure (EUR 5,096 thousand). Within this, actual interest paid is EUR 4,047 thousand (previous year EUR 3,942 thousand); the remainder of the expense constitutes non-cash changes in the market values of interest rate hedging instruments.

The weighted average interest rate for debt financing fell to 1.67 % (previous year 1.97 %) as a result of market interest rate movements and the reorganization of interest rate hedges at the end of 2021.

The consolidated financial statements show a year-on-year decline in consolidated net income to EUR 38,017 thousand (previous year EUR 39,034 thousand), down approximately 2.6 % on the previous year. It is to be noted that more than 70 % of the profit before tax comes from valuation gains with no effect on liquidity.

FINANCIAL POSITION

Figures in EUR ’000	2021	2020
Cash flow from operating activities	19,855	13,748
Cash flow from investing activities	-7,371	-21,541
Cash flow from financing activities	-8,097	-8,316
Cash in banks at the end of the period	13,465	9,078

Cash flow from operating activities showed a clear rise thanks to the improved FFO. Cash flow from investing activities was substantially determined by investments in investment properties, especially in the form of payments for modernization work (EUR 4.4 million) and the advance payment for the acquisition of the owner company of the Potsdam property. Cash flow from financing activities comprises redemptions, the raising of debt capital as well as interest paid.

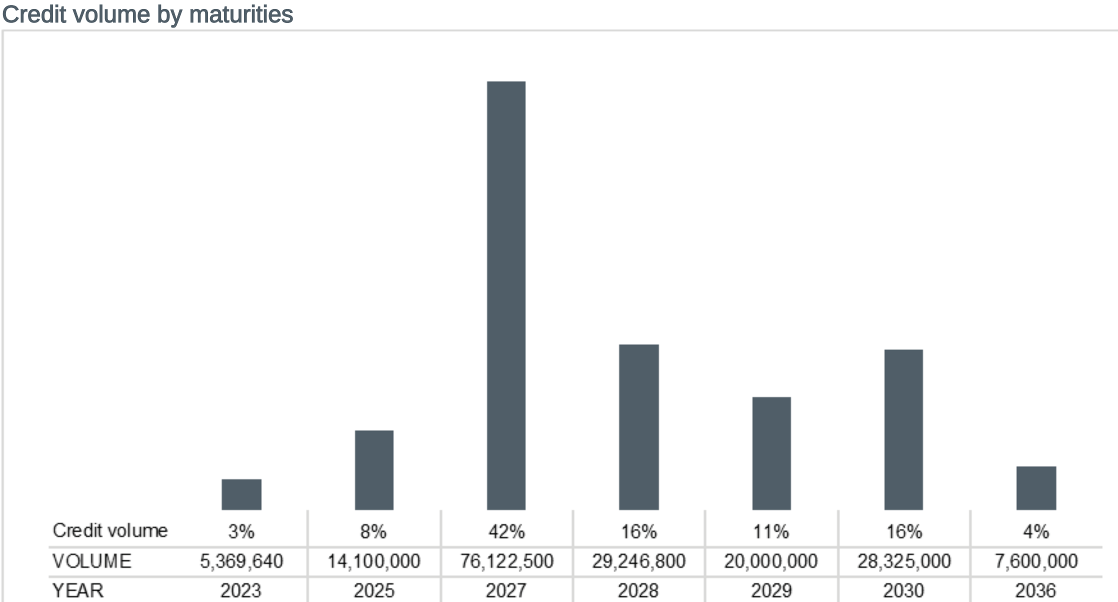
EQUITY RATIO – LOAN-TO-VALUE RATIO

POLIS remains on a sound financial footing, with an equity ratio of 62 %.

The loan-to-value ratio (that is, the ratio between liabilities to banks and the market value of the properties) fell by two percentage points to around 28 % as a result of market value increases for investment properties coupled with lower net borrowings.

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



LOW-RISK MATURITIES STRUCTURE OF LIABILITIES TO BANKS

The weighted average remaining term of the bank loans at 31 December 2021 was 6.6 years (previous year 6.4 years).

At 31 December 2021, just under 100 % (previous year 87 %) of liabilities to banks were hedged. The average maturity of interest rate hedges including forward interest rate contracts was 7.3 years (previous year 7.0 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 2022.

NET ASSETS

Advance payments for the newly acquired properties, investments in the investment properties and their increases in market value meant total assets rose sharply to EUR 672.2 million in financial year 2021 (previous year EUR 631.8 million). Non-current assets consist mainly of the 33 investment properties and account for 96 % of total assets, in line with the business model. It should be noted that POLIS Immobilien AG had a bank balance of EUR 13.5 million (previous year EUR 9.1 million) at 31 December 2021.

Asset and capital structure

Figures in EUR '000	**31/12/2021**	**31/12/2020**
Non-current assets	647,348	612,585
Current assets	24,835	19,182
Equity	414,093	371,274
Total assets	672,183	631,767

INVESTMENTS IN INVESTMENT PROPERTIES

The investments of around EUR 4.1 million are reported in detail in the notes to the consolidated financial statements, under 3.1 “Investment properties”. An advance payment for the acquisition of shares in a Dutch property company that holds an office property in Potsdam was also made in the financial year. The balance of the purchase price is being 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 comprises mainly rent increases and lower property-specific discount rates.

The fair values of the investment properties came to EUR 645,260 thousand at the end of 2021 (previous year EUR 610,450 thousand). The recognized market values for the individual locations are set forth in the notes to the consolidated financial statements, in Section 3.1.

NET ASSET VALUE

With 11,051,000 shares in total, the net asset value per share at 31 December 2021 amounted to EUR 42.01 (previous year EUR 37.50). The figure including the effect of deferred taxes is known as the net net asset value (NNAV), and was EUR 37.47 per share at 31 December 2021 (previous year EUR 33.60).

Figures in EUR '000	2021	2020
Carrying amounts of properties	645,260	610,450
Other assets less other equity and liabilities	1,046	-10,493
Liabilities to banks	-182,022	-185,596
NET ASSET VALUE	**464,284**	**414,361**
NAV/share	42.01	37.50
Deferred taxes	-50,191	-43,087
NNAV	**414,094**	**371,274**
NNAV/share	37.47	33.60

OVERALL ASSESSMENT OF THE BUSINESS PERFORMANCE

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

Successfully let properties and the first full year of rental income for an investment property acquired in the previous year meant increased rental income. Net rental income therefore rose by around 7 %. This led to a year-on-year rise in funds from operations (FFO) after adjustment for valuation effects. The strongly positive overall valuation result has confirmed that high modernization investments in the past have led to a clear appreciation in value, and that the development in the market at the locations we have selected is favourable for our properties. Overall, however, a high price level has now been reached.

The HGB result (EUR 4,030 thousand) that serves as the basis for the payment of a dividend is much lower than the IFRS result because the latter does not directly reflect the relevant valuation results described above. The HGB result consists mainly of income from investments.

Because we expect a lower positive HGB result for 2022 in view of the planned maintenance expenses and capital outlay, a portion of EUR 2,015 thousand from net income was allocated to retained earnings. That aside, the Board of Management proposes that the remaining unappropriated profit totalling EUR 18,127 thousand be carried forward to new account because we plan to use the available liquidity and reservoirs of value to finance further expansion.

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

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

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

SUSTAINABILITY:
We constantly maintain a focus on sustainability in our activities. Construction work is thus designed to preserve value and protect the environment. We are especially eager to implement our corporate strategy and achieve organic, low-risk growth in a sustainable way. We are digitalizing internal processes and tasks as well as the reporting system in order to improve efficiency and validate our processes. Since 2020 we have offered our tenants charging points for electric vehicles at certain locations.

PRESENTATION AND QUANTIFICATION OF INDIVIDUAL RISKS

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

Financial risks

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 20 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 500 thousand. Because almost all loans were hedged at the time of reporting, the current assumption is that there is no interest rate risk.

III. Debt finance was excellent for POLIS in 2021 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 62 % and cash in banks of approximately EUR 13 million available at Group level, as well as a positive, secure cash flow from operating activities, the modernization investments and maintenance measures planned for 2022 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 6.6 % of the rental space at 31 December 2021. As a multi-tenant provider, the Company takes an occupancy rate of 95 % (in year under review 93.4 %) to mean effectively full occupancy. Overall, POLIS lease agreements have average terms of 4.0 years so that lease agreements regularly come up for extension and are available for re-letting. In 2022, around 8,500 sqm of office and commercial space will be available for letting. A letting risk of up to EUR 265 thousand is identified in 2022 due to the deterioration in the market as a result of the coronavirus pandemic. With regard to rent payments from existing lease agreements, a risk of up to EUR 41 thousand is identified. In addition, the general market risk and an office market risk are estimated at EUR 547 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 2022, the Company will invest approximately EUR 9.9 million in its investment properties. The construction costs risk associated with the planned construction work is estimated at up to EUR 743 thousand. The estimated risks from project developments to portfolio properties amount to EUR 100 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 2022 overall, despite an assessment of steady property values on the market a risk of devaluations of up to around EUR 3.8 million is identified due to the coronavirus pandemic and in light of the price level achieved.

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 88 thousand. The general risks from corporate governance (organization, communications, occupational safety, environmental and data protection) have a total value of EUR 123 thousand, and the risks from the IT infrastructure EUR 20 thousand.

Risk assessment

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

Even the cumulative occurrence of all the above individual risks could be covered by the planned consolidated earnings for 2022 without eroding the available equity capital.

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

REPORT ON EXPECTED DEVELOPMENTS

DEVELOPMENT OF THE MARKETS FOR OFFICE PROPERTIES

The office markets stabilized at a high level in 2021. New construction activity resulted in a slightly higher vacancy rate in the office market. We expect to see a continuing economic recovery and stabilization of the office property market in 2022.

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 2022 and beyond. With our quality-focused business model and our homogeneous portfolio, the take-up level should remain good in 2022, even if the market environment will still make this difficult due to the coronavirus crisis. 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. 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 2022

Based on the risks and opportunities presented above, the prospect of a continuing steady development in the office market that is relevant to us – for all the challenges that will be presented especially in the letting area – and the still comparatively low interest rates expected in 2022 lead us to anticipate that the key operating ratios will remain solid thanks to high occupancy rates.

Net rental income will be in line with the prior-year figures.

The occupancy rate will prospectively be 95 % due to a number of temporarily empty properties in Düsseldorf following tenant moves at the end of 2022.

Rental income will rise only slightly.

As a result, FFO for 2022 will be slightly lower than in the previous year because of the higher planned maintenance expenses.

Profit before tax is anticipated to be approximately EUR 18.5 million in 2022 because of a lower planned valuation result than in the previous year.

Cash flow from operating activities (before financing) will be approximately EUR 8.3 million below the level of the past financial year, mainly due to increased maintenance expenses.

The equity ratio will be slightly higher in 2022 and LTV will fall slightly as a result of redemption payments coupled with the steadily appreciating values of the properties.

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

Furthermore, growth is to be generated by acquiring new investment properties and expanding the property portfolio through further purchases. We are also prepared to make full use of the available liquidity and our reservoirs of value to that end. 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.

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

Overall, POLIS will again achieve sound key earnings ratios in 2022.

As matters stand we do not expect the sanctions against Russian and Belarusian businesses and individuals following the outbreak of war in Ukraine on February 24 to have any direct impact on POLIS's business. However rises in gas and oil prices to potentially permanently higher levels are likely to trigger a protracted period of higher inflation. That will have consequences for prices – including planned construction costs – as well as 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. However 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 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, including using robotics and also on a property-by-property basis. Since 2020 POLIS has offered its tenants charging points for electric vehicles at their parking bays. This option was trialled initially at one location in Berlin and will now be rolled out nationwide across the portfolio.

DEPENDENCY REPORT

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

"For each legal transaction mentioned in the report of the Board of Management on relationships with affiliated companies of POLIS Immobilien AG in the period from 1 January to 31 December 2021, 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 2022

POLIS Immobilien AG
– The Board of Management –

Mathias Gross **Dr Michael Piontek**

THE CONSOLIDATED FINANCIAL STATEMENTS OF POLIS IMMOBILIEN AG FOR FINANCIAL YEAR 2021

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2021, according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

Assets

Figures in EUR '000	Notes	31/12/2021	31/12/2020
Non-current assets			
Investment properties	3.1.	645,260	610,450
Intangible assets	3.2.	104	125
Property, plant and equipment	3.2.	496	522
Other assets	3.7.	1,487	1,488
Total non-current assets		**647,347**	**612,585**
Current assets			
Advance payments for investment properties	3.1.	2,730	0
Receivables and other financial assets	3.4.	8,375	9,990
Current tax receivables	3.5.	30	26
Cash in banks and cash holdings	3.6.	13,465	9,078
Other assets	3.7.	235	88
Total current assets		**24,835**	**19,182**
Total assets		**672,183**	**631,767**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Equity and liabilities

Figures in EUR ’000	Notes	31/12/2021	31/12/2020
Equity			
Subscribed capital	3.8.	110,510	110,510
Capital reserves	3.8.	18,185	18,185
Cash flow hedge reserve		-8,472	-13,274
Retained earnings	3.8.	255,853	216,819
Consolidated earnings		38,017	39,034
Share in equity allocable to the equity holders of the parent		414,093	371,274
Total equity		**414,093**	**371,274**
Liabilities			
Non-current liabilities			
Loan liabilities to banks	3.9.	178,812	157,263
Deferred tax liabilities	3.3.	50,191	43,087
Other financial liabilities	3.9.	10,374	17,111
Total non-current liabilities		**239,377**	**217,461**
Current liabilities			
Loan liabilities to banks	3.9.	3,209	28,333
Advance payments received	3.9.	6,811	6,589
Trade payables	3.9.	4,540	4,352
Income tax liabilities	3.9.	346	347
Other financial liabilities	3.9.	3,806	3,411
Total current liabilities		**18,712**	**43,032**
Total assets		**672,183**	**631,767**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2021, according to International Financial Reporting Standards (IFRS) – POLIS Immobilien AG, Berlin

Figures in EUR ’000	Notes	01/01 - 31/12/21	01/01 - 31/12/20
Rental income	4.1.	28,930	26,555
Renovation and maintenance expenses	4.2.	-5,984	-5,436
Property management expenses	4.3.	-1,529	-1,115
		-7,513	-6,551
Net rental income		**21,417**	**20,004**
Unrealized gains from the revaluation of investment properties		37,627	37,659
Unrealized losses from the revaluation of investment properties		-6,875	-1,305
Result from the revaluation of investment properties	**4.4.**	**30,752**	**36,354**
Other income	4.5.	565	91
Other expense	4.6.	-152	-305
Administrative expenses	4.7.	-4,988	-5,084
Result before financing activity and taxes		**47,594**	**51,060**
Interest income	4.8.	29	12
Result from the valuation of derivative financial instruments	3.9.	1,102	364
Interest expense	4.9.	-4,473	-5,096
Profit before tax		**44,252**	**46,340**
Deferred taxes	4.10.	-6,200	-6,907
Current taxes	4.10.	-34	-399
Total income taxes		-6,234	-7,306
Consolidated earnings		**38,018**	**39,034**
of which allocable to minority interests		0	0
of which allocable to the equity holders of the parent		38,018	39,034
Consolidated earnings		**38,018**	**39,034**
Other comprehensive income through profit or loss in subsequent periods:			
Market value of participating interests reclassified to the result		0	0
Attributable deferred tax assets		0	0
Market value of cash flow hedges	3.9.	3,728	-4,941
Attributable deferred tax assets	3.3.	-590	782
Market value of cash flow hedges reclassified to the result	3.9.	1,977	2,505
Attributable deferred tax assets	3.3.	-313	-396
Other comprehensive income		4,802	-2,050
Consolidated comprehensive income		**42,821**	**36,984**

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January to 31 December 2021, according to International Financial Reporting Standards (IFRS) – POLIS Immobilien AG, Berlin

Figures in EUR ’000	Notes	01/01 - 31/12/21	01/01 - 31/12/20
Profit before tax		**44,251**	**46,340**
Adjusted for:			
Financial and investment result	4.8.,4.9.	3,885	4,720
Result from the revaluation of investment properties	3.1.	-30,752	-36,354
Result from the sale of property, plant and equipment	3.2.	0	4
Depreciation/amortization on intangible assets and property, plant and equipment	3.2.	224	266
Change in trade receivables and other assets not allocable to investing or financing activities		1,468	-1,960
Change in trade payables and other liabilities not allocable to investing or financing activities		720	525
Income tax paid	4.10.	64	108
Income tax received	4.10.	-5	99
Cash flow from operating activities		**19,855**	**13,748**
Payments for the acquisition of software, fixtures and equipment	3.2.	-274	-240
Payments for the purchase of investment properties	3.1.	-2,730	-14,831
Payments for investments in modernization	3.1.	-4,396	-6,482
Interest received	4.8.	29	12
Cash flow from investing activities		**-7,371**	**-21,541**
Payments for the redemption of loans	3.9.	-32,636	-12,219
Proceeds from the raising of loans	3.9.	28,586	7,845
Interest paid	4.9.	-4,047	-3,942
Cash flow from financing activities		**-8,097**	**-8,316**
Net change in cash and cash equivalents		**4,387**	**-16,109**
Cash in banks at the beginning of the period	**3.6.**	**9,078**	**25,187**
Cash in banks at the end of the period	**3.6.**	**13,465**	**9,078**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2021, 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 2019	**110,510**	**18,185**	**164,107**	**52,712**	**-11,224**	**334,290**	**334,290**
Offsetting against prior-year result	0	0	52,712	- 52712	-	-	-
Consolidated earnings	0	0	-	39,034	-	39,034	39,034
Other comprehensive income	0	0	-	-	- 2,050	- 2,050	- 2,050
			-	-	-	-	-
Balance at 31 Dec 2020	**110,510**	**18,185**	**216,819**	**39,034**	**-13,274**	**371,274**	**371,274**
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**	**18,185**	**255,853**	**38,017**	**-8,472**	**414,093**	**414,093**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the IFRS Consolidated Financial Statements of POLIS Immobilien AG, Berlin, Germany, at 31 December 2021

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 2021 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 10 March 2022 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 2021. An affiliated company is consolidated if it is controlled by the Group. Control exists if the Group is exposed to a risk or enjoys entitlements to fluctuating returns from its involvement in the affiliated company, and can also exercise its power of disposal over the affiliated company to influence those returns. In particular, the Group controls an affiliated company if, and only if, it meets all the following criteria:

- It holds power of disposal over the affiliated company (i.e. on the basis of rights currently existing the Group has the possibility of controlling those activities of the affiliated company that have a material influence on its returns),
- It is exposed to a risk from or enjoys entitlements to fluctuating returns from its involvement in the affiliated company, and
- It is able to handle its power of disposal over the affiliated company in such a way as to influence the returns of the affiliated company.

The direct or indirect share of voting rights of POLIS in all subsidiaries included in the consolidated financial statements is between 94 % and 100 %.

There are no major restrictions to access to the assets of the Group.

The annual financial statements of all individual subsidiaries are incorporated in the consolidated financial statements using uniform accounting and measurement principles. The reporting date for all subsidiaries is 31 December 2021.

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 2021 and 2020.

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

Company	Nominal capital	Interest	HGB equity 31/12/2021	HGB result 2021
	EUR ’000	%	EUR ’000	EUR ’000
POLIS Grundbesitz Objekt Verwaltungs GmbH, Berlin	26	100	1,118	94
POLIS Beteiligungs- und Verwaltungs GmbH, Berlin	25	100	8,156	0
POLIS Objekte Altmarkt Kramergasse GmbH & Co. KG, Berlin	51	100	5,500	715
POLIS Objekt Gutleutstraße 26 GmbH & Co. KG, Berlin	8,665	100	2,227	280
POLIS Objekt Luisenstraße 46 GmbH & Co. KG, Berlin	100	100	757	342
POLIS Objekt Potsdamer Straße 58 GmbH, Berlin	26	94	2,115	237
POLIS Objekt Landschaftstraße GmbH & Co. KG, Berlin	100	100	5,478	173
POLIS Objekt Konrad-Adenauer-Ufer GmbH & Co. KG, Berlin	100	100	10,840	740
POLIS Quartier Büchsenstraße GmbH & Co. KG, Berlin	100	100	13,589	1,127
POLIS Erste Objektgesellsch. Stuttgart GmbH & Co. KG, Berlin (formerly POLIS Objekte Mannheim Stuttgart GmbH & Co. KG)	100	100	2,320	224
POLIS Dritte Objektgesellsch. Köln GmbH & Co. KG, Berlin (formerly POLIS Objekte Kassel Köln GmbH & Co. KG)	100	100	2,583	290
POLIS Objekt Lessingstraße GmbH & Co. KG, Berlin	100	100	3,715	298
POLIS Zweite Objektgesellschaft Düsseldorf GmbH & Co. KG, Berlin	100	100	6,277	224
POLIS Zweite Objektgesellschaft Köln GmbH & Co. KG, Berlin	100	100	6,300	-7,743
POLIS Objekt Könneritzstraße GmbH & Co. KG, Berlin	100	100	16,989	1,889
POLIS Objekte Berliner Allee GmbH & Co. KG, Berlin	100	100	12,107	481
POLIS Erste Objektgesellschaft Köln GmbH & Co. KG, Berlin	100	100	12,525	653
POLIS Zweite Objektgesellschaft Stuttgart GmbH & Co. KG, Berlin	100	100	9,209	479
POLIS Objekt Rankestraße 21 GmbH & Co. KG, Berlin	100	100	10,038	1,393
POLIS Objekt Erfurt GmbH & Co. KG, Berlin	100	100	4,402	-698
POLIS Objekt Gera GmbH & Co. KG, Berlin	100	100	1,088	988
POLIS GmbH & Co. Fünfundvierzigste Objekt KG, Berlin	100	100	96	-2
POLIS GmbH & Co. Sechsundvierzigste Objekt KG, Berlin	100	100	96	-2
POLIS Service GmbH, Berlin	100	100	328	-21

2.2. Consolidated companies

The consolidated financial statements include POLIS Immobilien AG and all companies controlled by POLIS. In addition to POLIS Immobilien AG, the group of consolidated companies includes the 24 fully consolidated companies in Germany with their registered offices in Berlin, as listed in the above overview. The group of consolidated companies did not change compared with 31 December 2020.

2.3. Discretionary decisions and estimates

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.4. Accounting and valuation policies

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

The Group adopted the new and revised IFRS standards and interpretations listed 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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

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

Investment properties are derecognized if they are sold.

2.4.3 Intangible assets

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

2.4.4 Property, plant and equipment

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

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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.

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.

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 revenue, over the term of the lease.

2.4.12 Borrowing costs

All borrowing costs are recognized through profit or loss in the period in which they are incurred.

2.4.13 New and amended standards and interpretations

A number of other amendments and interpretations are to be adopted for the first time in 2021 but have no effect on the consolidated financial statements. POLIS was not an early adopter of any standards, interpretations or amendments that have been published but have not yet taken effect.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

The amendments offer adopters temporary exceptions for effects on financial reporting that will arise from the replacement of interbank offered rates (IBOR) with alternative, virtually risk-free interest rates (RFR). The amendments envisage the following practical expedients:

• A practical expedient that allows contractual changes or changes to contractual the cash flows that arise directly from the reform – such as fluctuations in a market interest rate – to be treated as changes in a variable interest rate:

• A practical expedient that allows amendments to the designation and documentation of a hedging relationship that are necessitated by the IBOR reform, without this leading to the cessation of hedge accounting:

• A temporary exemption from the requirement of separate identifiability if an RFR instrument is used to hedge a risk component.

These amendments had no effect on the consolidated financial statements. The Group intends to make use of the practical expedients from the time they take effect.

Amendments to IFRS 16: Covid-19-Related Rent Concessions beyond 30 June 2021

On 28 May 2020 the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16).

The amendments provide lessees with exemptions to the adoption of the rules in IFRS 16 on accounting for lease modifications due to rent concessions granted directly as a result of the coronavirus pandemic. By way of a practical expedient, a lessee may decide to suspend evaluation of whether a COVID-19-related rent concession by a lessor constitutes a lease modification. A lessee choosing this option accounts for every qualifying change in lease payments arising from the COVID-19-related rent concession in the same way as it would account for the change under IFRS 16 if it were not a lease modification.

These amendments were originally intended to apply until 30 June 2021. However in light of the continuing coronavirus pandemic, on 31 March 2021 the IASB extended the time period over which the practical expedient is available until 30 June 2022.

The amendments apply to financial years beginning on or after 1 April 2021.

So far, the Group has not received any rent concessions in relation to COVID-19. However should that become the case within the time period in question, it intends to use the practical expedient.

2.5. Segment reporting

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

3. DISCLOSURES RELATING TO THE STATEMENT OF FINANCIAL POSITION

3.1. Investment properties

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

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

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

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, Halle, Frankfurt am Main, Hanover, Munich

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 2022.

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 2021, EUR 2,305 thousand (previous year EUR 6,475 thousand) is cash-effective; including payments made for modernization costs in the previous year, overall payments come to EUR 4,396 thousand (EUR 6,482 thousand).

Revaluation produced an overall increase in market value of EUR 30,752 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 reduced discount rates.

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

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

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

Expenses and income directly attributable to investment properties

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

	2021 Investment properties EUR ’000	2020 Investment properties EUR ’000
Rental revenues from investment properties	28,930	26,555
Expenses directly attributable to the generation of rental revenues		
Renovation and maintenance expenses	5,984	5,436
Property management expenses	1,312	766
Total	**7,296**	**6,202**
Expenses directly attributable to but not resulting in the generation of rental revenues		
Property management expenses	216	349
Total	**216**	**349**

Information concerning property valuation at 31 December 2021

The fair values of the properties at 31 December 2021 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.

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

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

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

In addition, properties were valued internally. The valuations take place quarterly, with one-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 2021 (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 2021 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.

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Other input factors can have a significant influence on market values: vacancy rate, rent growth, letting scenario, as well as construction and maintenance costs.

The planning assumptions that feed into the valuation are presented below (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 6.62 % at the valuation date (previous year 4.59 %) will decline within one year to an anticipated 4.36 % at 31 December 2022. The mid-term planning horizon anticipates a vacancy rate across the individual properties ranging between 0.0 % and a maximum of 45.8 % (Böblinger Strasse 8 in Stuttgart, due to a planned change of tenant for the ground-floor retail space).

- The cash flow scenario shows an average increase in rents of 6.07 % (previous year 3.9 %) in the first year. The development in short-term rental revenues is benefiting from significant increases in rents in Berlin, Cologne (Neumarkt 49) and Dresden. Thereafter, we expect an increase in rents averaging 2.74 % per year (previous year 2.46 %) from the second year up until the end of the ten-year planning horizon. The high occupancy rate in the properties in Düsseldorf, Stuttgart and other cities 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 2021 across the entire portfolio is much lower than the previous year’s projection (9.52 %), at 6.62 %. The assumed lower vacancy rate of 4.36 % at the end of 2022 is based mainly on the reduction in vacancies in the properties in Halle (Saale) of 7,050 sqm and in Cologne of 650 sqm. Rising vacancies are expected in the properties in Berlin of 1,620 sqm, in Düsseldorf of 825 sqm and in Dresden of 440 sqm. We expect the residual vacancy caused by the refurbishment of the property at Neumarkt 49 in Cologne to have been resolved by the end of 2022.

The assumptions used in the cash flow projections 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)
Berlin	0.48	8.27	7.41	4.43
Dresden	2.19	3.06	3.92	2.46
Düsseldorf	9.16	15.20	0.90	2.65
Cologne	4.93	2.96	15.45	2.01
Stuttgart	3.63	4.40	0.76	0.78
Other cities*	14.23	2.35	0.64	2.12
Portfolio	**6.62**	**4.36**	**6.07**	**2.74**

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

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

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

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

For the long term (2022–2026), POLIS makes plans based on average maintenance costs of EUR 2.78 (previous year EUR 3.64) per square metre of rental space per month, including general modernization costs; of this figure, EUR 0.53 (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 2022 maintenance costs of EUR 2.47 per square metre of rental space per month were identified, including a component of EUR 0.51 for current maintenance. The increased maintenance costs in 2023 and 2024 results from the expansion of the cooling unit at Altmarkt in Dresden and work on the exterior in

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Gera. In the years 2024 to 2026 the planned maintenance costs average EUR 2.80 per square metre of rental space per month.

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

Long-term (2022 to 2026) planned maintenance costs (average)	**2022**	**2023**	**2024**	**2025**	**2026**
Maintenance – Group	5,892,706	7,182,985	7,251,155	6,469,258	6,357,397
Area	199,087 sqm	199,087 sqm	199,087 sqm	199,087 sqm	199,087 sqm
Average p.a.	€ 2.47/ sqm	€ 3.01/ sqm	€ 3.04/ sqm	€ 2.71/ sqm	€ 2.66/ sqm
Average total period	**€ 2.78/ sqm**				
Average 2024 – 2026			**€ 2.80/ 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.

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 2021).

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

Sensitivity analysis	Fair value at	Long-term rental income		Annual rent growth		Loss of rental revenue		Discount rate	
Change in valuations, EUR ’000	31/12/2021	-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 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	31/12/2020	-10 %	+10 %	-1 %	+1 %	+1 %	-1 %	+100 base points	-100 base points
Berlin	118,800	-11,336	11,346	-6,683	7,123	-405	412	-9,612	10,630
Dresden	130,970	-9,684	9,701	-6,720	7,218	-372	376	-10,790	11,941
Düsseldorf	49,330	-4,610	4,616	-2,646	3,306	-128	130	-4,285	4,746
Cologne	116,540	-10,174	10,166	-7,097	7,610	-419	416	-9,411	10,411
Stuttgart	94,820	-7,969	8,042	-5,015	5,404	-316	347	-7,630	8,445
Other cities*	99,990	-10,327	10,337	-5,829	6,229	-404	410	-8,571	9,485
Portfolio	**610,450**	**-54,100**	**54,208**	**-33,990**	**36,890**	**-2,044**	**2,091**	**-50,299**	**55,658**

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

The deviations shown under long-term rental income were determined as follows: a 10 % increase or decrease was applied to the property-specific market rents for “Office” as the principal type of use from the measurement date. In subsequent years, the change in property-specific market rents is unchanged.

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

The deviation analyses stated under “Loss of rental revenue” are based on existing or assumed lease agreements. The loss of rental revenue risk for these was increased or decreased for these by one percentage point in each case.

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

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

3.2. Intangible assets and property, plant and equipment

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

	Acquisition and production cost				Depreciation/amortization				Carrying amounts	
Figures in EUR ’000	01/01/ 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**

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

	Acquisition and production cost				Depreciation/amortization				Carrying amounts	
Figures in EUR ’000	01/01/ 2020	Addi-tions	Dis-posals	31/12/ 2020	01/01/ 2020	Addi-tions	Dis-posals	31/12/ 2020	31/12/ 2019	31/12/ 2020
Software	1,100	70	0	1,170	926	119	0	1,045	174	125
Fixtures and equipment	1,064	170	20	1,213	560	147	16	691	504	522
Total	**2,164**	**240**	**20**	**2,383**	**1,486**	**266**	**16**	**1,736**	**678**	**647**

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	2021	2020
	EUR '000	EUR '000
Tax losses carried forward	637	0
Hedging reserves	1,593	2,495
Total before offsetting	2,230	2,495
Offsetting	-2,230	-2,495
Deferred tax assets	0	0
Deferred tax liabilities		
Investment properties	52,421	44,701
Other financial liabilities	0	881
Offsetting	-2,230	-2,495
Deferred tax liabilities	50,191	43,087

Deferred tax assets are offset against deferred tax liabilities (EUR 2,230 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 -822 thousand; previous year EUR 554 thousand) as well as the reclassification of the market value changes of the replaced swaps reported in the reserve for cash flow hedges (EUR -81 thousand, previous year EUR -182 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 78,651 thousand (previous year EUR 73,360 thousand) because their use within the next five years is unlikely based on the business plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

	31/12/2021	31/12/2020
	EUR '000	EUR '000
Trade receivables	7,557	7,335
of which allocable operating expenses	7,093	6,877
of which rent receivables	465	458
Other receivables	818	2,655
TOTAL	**8,375**	**9,990**

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

At 31 December 2021, receivables from operating costs not yet settled stood at EUR 7,093 thousand (previous year EUR 6,877 thousand) and advance payments received for operating costs amounted to EUR 6,811 thousand (previous year EUR 6,589 thousand).

All rent receivables shown relate to commercial tenants located in Germany. The rent receivables have largely been assigned as collateral for bank loans. They can only be called in after cancellation of the corresponding credit agreements has become legally effective.

The other receivables result from the furnishing of security for the market valuation of derivatives (collaterals) that are not held within a cash flow hedge.

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

		of which: not impaired but due for			
Carrying amount	of which: neither impaired nor due	Over 90 days	61-90 days	31-60 days	0-30 days
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
31/12/2021					
7,557	7,348	129	1	56	23
31/12/2020					
7,335	7,016	152	102	10	55

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 915 thousand (previous year EUR 727 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 30 thousand (previous year EUR 26 thousand) within the other receivables concern interest withholding taxes, the solidarity surcharge and corporate income tax credits.

3.6. Cash in banks and cash holdings

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

3.7. Other assets

Other assets largely pertain to accruals relating to rent-free periods. The accruals relating to rent-free periods were calculated based on the terms of the lease agreements, taking into account the rents attributable to the rent-free periods in 2021 and previous years.

Non-current other assets include rights of use from the leasing of vehicles in the amount of EUR 48 thousand (previous year EUR 61 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 18,185 thousand; previous year EUR 18,185 thousand) include the premium from the issue of POLIS shares less the expenses associated with the initial public offer, taking into account deferred taxes.

RETAINED EARNINGS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.9. Liabilities

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

		Remaining terms			
Liabilities schedule	**Total**	**Up to 1 year**	**Total over 1 year**	**1 to 5 years**	**Over 5 years**
Figures in EUR '000					
Liabilities to banks	182,022 (185,596)	3,209 (28,333)	178,813 (157,263)	33,103 (26,177)	145,710 (131,086)
Advance payments received	6,811 (6,589)	6,811 (6,589)	0 (0)	0 (0)	0 (0)
Trade payables	4,540 (4,352)	4,540 (4,352)	0 (0)	0 (0)	0 (0)
Income tax liabilities	345 (347)	345 (347)	0 (0)	0 (0)	0 (0)
Other liabilities	14,180 (20,522)	3,806 (3,411)	10,374 (17,111)	7,572 (17,111)	2,802 (0)
	207,898 (217,406)	**18,712** (43,032)	**189,186** (174,374)	**40,675** (43,288)	**148,512** (131,086)
plus deferred tax liabilities			50,191 (43,087)		
Total non-current liabilities			**239,377** (217,461)		
Total current liabilities		**18,712** (43,032)			

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
2021			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	0.52		28,325
2036	variable		7,600
		Total	**182,022**

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

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

There was a cash outflow amounting to EUR 32.6 million in financial year 2021 as a result of redemption payments, of which EUR 4.4 million was scheduled. In addition, loans with a volume of EUR 28.6 million were raised.

Of the liabilities to banks, a total of EUR 127,069 thousand (previous year EUR 128,796 thousand) is at variable interest rates and EUR 53,695 thousand (previous year EUR 56,018 thousand) at fixed interest rates; the item also includes accrued interest of EUR 1,258 thousand (previous year EUR 782 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The loans are secured by real estate liens of EUR 223,464 thousand (previous year EUR 248,563 thousand) against the property portfolio (carrying amount: EUR 645,260 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 2021 was 1.67 % (previous year 1.97 %). The weighted average remaining term of the bank loans is 6.6 years (previous year 6.4 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 2021 amounted to EUR 52,626 thousand (previous year EUR 52,666 thousand). The fair values of the liabilities to banks are based on discounted cash flows that were determined on the basis of current market interest rates. The discount rates serving as the basis were -0.76 % to 1.07 % (previous year -0.36 % to 0.66 %) including margin.

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

The other current liabilities item is composed as follows:

	31/12/2021	31/12/2020
	EUR '000	EUR '000
Negative market value of derivative financial instruments	2,720	2,291
Miscellaneous	1,086	1,120
Total	**3,806**	**3,411**

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	120,514	1.66 %
Over 1 year to 2 years	119,328	1.66 %
Over 2 years to 5 years	116,956	1.66 %
Over 5 years to 10 years	46,419	1.64 %
Over 10 years to 15 years	6,620	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 513 thousand (previous year EUR 1,149 thousand) less deferred taxes of EUR 81 thousand (previous year EUR 182 thousand) was reclassified from the reserve for cash flow hedges to interest expense.

Derivative financial instruments:

EUR ’000	Equity and liabilities			
	31/12/2021		31/12/2020	
	Nominal volume	Fair value	Nominal volume	Fair value
Interest rate swaps	126,559	-13,045	127,745	-19,339
of which within cash flow hedges	120,959	-12,675	122,145	-18,690
Total	126,559	-13,045	127,745	-19,339

The hedges that POLIS has designated as cash flow hedges have the following effects on the statement of financial position at 31 December 2021:

Interest rate risk (interest rate swaps with fixed outgoing payments and variable incoming payments), EUR ’000	31/12/2021	31/12/2020
Nominal amounts	120,959	122,145
Fair value of hedges	-12,675	-18,690
of which non-current	-2,636	-2,204
of which current	-10,039	-16,486
of which assets	0	0
of which liabilities	-12,675	-18,690
Fair value change in hedges	6,015	-3,044
For measurement of ineffectiveness	Hypothetical derivatives method	Hypothetical derivatives method
Balance sheet item for hedges	Other financial liabilities	Other financial liabilities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Interest rate hedges	31/12/2021	31/12/2020
OCI cash flow hedge reserve (profit/loss recorded from hedging, after income taxes)	-8,472	-13,274
Change in cash flow hedge reserve	4,802	59
of which addition recognized in other comprehensive income	3,138	-2,050
of which reclassified from OCI to income statement following materializing of underlying transaction	1,664	2,109
Income statement item for unclassified amounts	Interest expense	Interest expense
Hedge ineffectiveness (result) in income statement	823	527
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 -1,464 thousand (previous year EUR -1,357 thousand), plus deferred taxes of EUR 232 thousand (previous year EUR 215 thousand). Without these effects, the net market value change of the derivatives in a hedging relationship in the financial year amounted to EUR 5,192 thousand (previous year EUR -3,571 thousand), less deferred taxes of EUR 822 thousand (previous year EUR 554 thousand). Because the underlying transaction took place, EUR 513 thousand (previous year EUR 1,149 thousand) less deferred taxes of EUR 81 thousand (previous year EUR 182 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 1,977 thousand (previous year EUR 2,505 thousand), less deferred taxes of EUR 313 thousand (previous year EUR 396 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.

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	2021	2020
		EUR '000	EUR '000
Receivables and other financial assets	Measured at amortized cost	8,375	9,990
Cash in banks	Measured at amortized cost	13,465	9,078
Total		**21,840**	**19,068**
Liabilities to banks	Measured at amortized cost	182,022	185,596
Trade payables	Measured at amortized cost	4,540	4,352
Other financial liabilities	Measured at amortized cost	3,806	3,411
	Derivatives measured at fair value without effective hedging relationships	370	649
	Derivatives measured at fair value with an effective hedging relationship	12,675	18,690
Total		**203,413**	**212,698**

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	2021	2020
		EUR '000	EUR '000
Receivables and other financial assets	Measured at amortized cost	-35	-69
Cash in banks	Measured at amortized cost	4	-11
Receivables and other financial assets and other financial liabilities	Derivatives measured at fair value without effective hedging relationships	279	-163
	Derivatives measured at fair value with an effective hedging relationship	823	527
Total		**1,071**	**284**

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 279 thousand (previous year EUR -163 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 823 thousand (previous year EUR 527 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 3,728 thousand; previous year EUR -4,941 thousand) were recognized through "Other comprehensive income" after deduction of deferred taxes (EUR 590 thousand; previous year EUR 782 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.

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	2021	2020
	EUR '000	EUR '000
Position at 1 January	61	42
Depreciable amount for the financial year	-37	-34
Disposals from rights of use	-1	0
Additions to rights of use	25	53
Position at 31 December	48	61

Amounts recognized in income statement:

Amounts recognized in income statement	2021	2020
	EUR '000	EUR '000
Interest expense for lease liabilities	1	1
Expenses for leases of low-value assets	0	5

Amounts recognized in cash flow statement:

Amounts recognized in cash flow statement	2021	2020
	EUR '000	EUR '000
Total cash outflows for leases	40	39

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 2021 the Group recognized lease income amounting to EUR 28,930 thousand (previous year EUR 26,555 thousand).

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

EUR '000	Total	Up to 1 year	2 to 5 years	Over 5 years
Minimum rent payments (31/12/2021)	169,206	28,597	84,256	56,353
Minimum rent payments (31/12/2020)	156,426	26,473	77,877	52,076

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 166 thousand (previous year EUR -93 thousand) that are attributable to rent-free periods. The rise in rental income stems from the acquisition of additional investment properties in the previous year and major new lease agreements in 2021.

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:

	2021	2020
	EUR ’000	EUR ’000
Non-allocable operating costs	687	510
Letting costs	640	263
Other property management expenses	201	342
Total	**1,529**	**1,115**

4.4. Result from the revaluation of investment properties

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

4.5. Other income

Other income for financial year 2021 substantially comprises a grant, compensation for cosmetic repairs and insurance payouts.

4.6. Other expense

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

4.7. Administrative expenses

The following table shows the composition of the administrative expenses:

	2021	2020
	EUR '000	EUR '000
Staff costs	2,903	2,930
Legal, consultancy and auditing fees	371	396
Office and travel expenses	1,367	1,374
Annual Report, Annual General Meeting	245	257
Marketing and advertising expenses	53	87
Other expense	49	40
Total	**4,988**	**5,084**

Staff costs comprise salaries amounting to EUR 2,232 thousand (previous year EUR 2,361 thousand), of which EUR 138 thousand (previous year EUR 113 thousand) was for defined contribution pension plans for employees, as well as social security expenditure amounting to EUR 396 thousand (previous year EUR 389 thousand). In addition to the two members of the Board of Management, on average 37 persons were employed in financial year 2021 (previous year 33), twelve of who work in the “General Administration” area and 25 in the “Asset and Property Management” area, including three trainees. At the end of the financial year there were 33 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:

	2021	2020
	EUR '000	EUR '000
Interest expense	3,748	3,777
Ancillary financing costs	212	170
Reclassified result from the reserve for cash flow hedges	513	1,149
Total	**4,473**	**5,096**

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 (+)	2021	2020
	EUR '000	EUR '000
Deferred taxes on losses carried forward	637	0
Deferred taxes from temporary differences	-6,837	-6,907
Current taxes	-34	-399
Total	**-6,234**	**-7,306**

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

The corporate income tax rate in Germany was 15 % in 2021 (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.

	2021	2020
	EUR '000	EUR '000
Profit before tax	44,251	46,340
Group tax rate	15.825 %	15.825 %
Expected income tax expense	-7,003	-7,333
Non-deductible operating expenses	-13	-13
Income tax – previous years	-3	-60
Adjustment losses carried forward	36	-33
Income taxes – current year	-30	-339
Other	779	472
Taxes on income	-6,234	-7,306
Tax rate	14.1 %	15.8 %

4.11. Earnings per share

Earnings per share are determined as follows:

	01/01/2021-31/12/2021	01/01/2020-31/12/2020
Consolidated earnings after profit allocable to minority interests (EUR '000)	38,017	39,034
Average number of ordinary shares outstanding (units)	11,051,000	11,051,000
Earnings per share (basic and diluted) (in EUR)	3.44	3.53

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. Supervisory Board and Board of Management

The members of the Board of Management were:

Mathias Gross
Board of Management member, Berlin

Dr Michael Piontek
Chief Financial Officer, Berlin

The following persons were members of the Supervisory Board:

Klaus R Müller
Member of the Supervisory Board of Mann Immobilien-Verwaltung AG, Karlsruhe, residing in Germersheim (Supervisory Board Chairman)

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

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

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

Board of Management compensation
The following compensation was paid to the two members of the Board of Management of POLIS in the course of the financial year. The figures include contributions of EUR 71 thousand (previous year EUR 71 thousand) towards defined contribution pension plans.

	2021	2020
	EUR '000	EUR '000
Gross compensation	686	677
Other benefits	12	17
Total	**698**	**694**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Compensation of the Supervisory Board

The compensation of the Supervisory Board is set forth in Section 21 of the Articles of Association. The Supervisory Board received compensation amounting to EUR 126 thousand in financial year 2021 (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 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 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 (proportion hedged at the time of reporting temporarily 99.7 %). 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 2021, the variable-rate bank liabilities of POLIS stood at EUR 127,069 thousand (previous year EUR 128,796 thousand). Of this, EUR 120,959 thousand (previous year EUR 122,145 thousand) was converted into fixed-rate liabilities through interest rate swaps. Fixed-rate liabilities to banks amounted to EUR 53,695 thousand (previous year EUR 56,018 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 2021, 99.7 % of the interest-bearing liabilities to banks were hedged. This means that 0.3 % (EUR 0.5 million) of the loans are not hedged. A 100 base point rise in interest rates would increase the interest expense by approximately EUR 5 thousand per year and reduce the consolidated comprehensive income.

The market price of derivative financial instruments, too, is exposed to an interest rate risk. A rise in interest rates by 30 base points would have increased the derivatives at 31 December 2021 by about EUR 2,506 thousand (previous year EUR 2,729 thousand), and the same movement in the opposite direction would have reduced them correspondingly. With an estimated probability of this scenario assumed to be 20 %, the risk amounts to EUR 501 thousand (EUR 546 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2021 due to the IBOR Reform. The Group’s hedged underlying transactions and hedges remain linked to the EURIBOR. These reference rates are quoted every day and the IBOR cash flows are exchanged between the contracting parties as usual.

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

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

The risk to POLIS in respect of the EURIBOR that is designated in hedges is nominally EUR 120,959 thousand at 31 December 2021 (see note 3.9); this corresponds to both the nominal amount of the interest rate swaps for hedging and the nominal amount of the hedged, EURIBOR-based, collateralized bank loans.

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 2021, receivables from operating costs not yet settled stood at EUR 7,093 thousand (previous year EUR 6,877 thousand), and advance payments received for operating costs amounted to EUR 6,811 thousand (previous year EUR 6,589 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, because the overall economic risk of a state is the matter of relevance.

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

Default risk rating class		Gross carrying amounts of trade receivables					
External rating class according to Creditreform	Internal rating class	Proba-bility of default	12-month expected credit loss	Lifetime expected credit loss			Financial instruments already impaired upon acquisition
				LECL-unim-paired loans	LECL-impaired loans	LECL-simplified approach	
100 – 349		0.14 %				EUR '000 3,918	
350 – 499		0.50 %				EUR '000 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 0.3 % to 0.5 %.

Development in impairment of trade receivables pursuant to IFRS 9

Trade receivables at amortized cost (previous year: loans and receivables)	31/12/2021
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 POLIS has in its portfolio exclusively banks that are in deposit-guarantee schemes (of the savings bank and cooperative bank sector and of the private banking industry). The credit standing of banks is regularly examined. There was no significant increase in the default risk or objective evidence of impairment of receivables from banks in the financial year. Nevertheless, risk provisioning of 0.03 % – 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	
AAA – A-		0.03 – 0.06 %				EUR '000 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 is therefore 0.03 % – 0.06 %.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Development in impairment of receivables from banks pursuant to IFRS 9

Receivables from banks measured at amortized cost (previous year: loans and receivables)	31/12/2021
Impairment at 31 December 2020	11
Impairment at 31 December 2021	**7**

Development in risk provisioning in the financial year

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

Development in risk provisioning per class for assets at cost	12-month ECL	Lifetime ECL – simplified approach for trade receivables, asset-side contract items and leasing receivables	Total
EUR ’000			
Gross carrying amount of risk provisioning at 1 January 2021	11	137	148
Depreciation/amortization	-	-	-
Compounding	-	-	-
Newly launched or acquired financial assets	13,470	9,284	22,754
Reclassifications	-	-	-
In/(out) 12-month ECL	-	-	-
In/(out) lifetime ECL – unimpaired loans	-	-	-
In/(out) lifetime ECL – impaired loans	-	-	-
Financial assets derecognized in the period (not written down) as a result of repayments, modifications, disposals, etc.	-9,089	-7,335	-16,424
Changes to models/ risk parameters	-	-	-
Impairment at 31 December 2021	-4	-12	-16
Gross carrying amount of risk provisioning at 31 December 2021	7	125	132

C) LIQUIDITY RISK

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table presents all contractually agreed, non-discounted payments at 31 December 2021 for redemptions, interest and repayments

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

Analysis of maturities						
Figures in EUR '000	Gross cash outflows	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	12,933	2,644	2,153	1,842	1,775	4,519
Non-designated derivative financial instruments	370	84	66	52	49	119
Derivative financial liabilities	13,303	2,728	2,219	1,894	1,824	4,638
Maturity before utilization of loan commitments	**214,045**	**14,283**	**11,552**	**5,598**	**18,939**	**163,673**
Loan commitments	0		0	0	0	0
Maturity after utilization of loan commitments	**214,045**	**14,283**	**11,552**	**5,598**	**18,939**	**163,673**

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 2,933 thousand (previous year EUR 2,177 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 2022, which amount to approximately EUR 9.9 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Analysis of maturities at 31 December 2020						
Figures in EUR ’000	Gross cash outflows	2021	2022	2023	2024	From 2025
Liabilities to banks	192,816	13,740	26,038	2,613	2,607	130,179
Trade payables	4,352	2,195	0	0	0	0
Other liabilities	3,411	1,120	0	0	0	0
Non-derivative financial liabilities	200,579	17,055	26,038	2,613	2,607	130,179
Designated derivative financial instruments	19,035	2,028	2,007	2,242	2,035	7,323
Non-designated derivative financial instruments	638	80	79	71	63	193
Derivative financial liabilities	19,673	2,108	2,086	2,313	2,098	7,516
Maturity before utilization of loan commitments	**220,252**	**19,163**	**28,124**	**4,926**	**4,705**	**137,695**
Loan commitments	15,000	0	0	0	0	0
Maturity after utilization of loan commitments	**205,252**	**19,163**	**28,124**	**4,926**	**4,705**	**137,695**

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

POLIS monitors capital by means of the loan-to-value ratio (ratio of loans to the value of the investment properties); it aims not to exceed an LTV of 60 %. At the reporting date, this ratio is 28 % (previous year 30 %).

6.4. Fees and services of the auditor
The fees for services provided by the auditor Ernst & Young Wirtschaftsprüfungsgesellschaft in financial year 2021 were as follows:

	2021	**2020**
	EUR ’000	EUR ’000
Audit fees	105	106
TOTAL	**105**	**106**

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 2022

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 2021, 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 2021 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 2021.

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 2021 as well as of its financial performance for the financial year from 1 January to 31 December 2021, and

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

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

Basis for the audit opinions

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

Other information

Management is responsible for the other information. The other information comprises the following components envisaged for the Annual Report, of which we obtained a version up until the issuing of this Auditor's Report: "Letter from the Board of Management", "Report of the Supervisory Board" and "Portfolio overview".

Our audit opinions of the consolidated financial statements and group management report do not extend to the other information, and we accordingly express neither an audit opinion nor any other form of audit conclusion in that regard.

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

- exhibits material discrepancies with the consolidated financial statements, group management report or our knowledge obtained in the course of the audit, or

- appears in any other respects to be misrepresented.

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

The management is responsible for the preparation of the consolidated financial statements, which comply in all material respects with the IFRS as adopted in the EU, and the additional requirements of German law pursuant to Section 315e (1) of HGB, and for ensuring that in accordance with these requirements the consolidated financial statements give a true and fair view of the net assets, financial position and financial performance of the Group.

The management is also responsible for the internal controls that it has determined to be necessary to enable the preparation of consolidated financial statements that are free from material – intentional or unintentional – misrepresentations.

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

development, as well as to provide an audit report that contains our audit opinions on the consolidated financial statements and group management report.

Reasonable assurance means a high degree of assurance, but no guarantee that an audit conducted in accordance with Section 317 of HGB and German generally accepted standards for the audit of financial statements promulgated by the IDW will always reveal a material misrepresentation. Misrepresentations may result from infringements or misstatements and are regarded as material if it could reasonably be expected that they might individually or as a whole influence the economic decisions of the reader made on the basis of these consolidated financial statements and this group management report.

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

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

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

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

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

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

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

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

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

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

Berlin, 25 March 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Canzler	**Pfeiffer**
Certified Public Accountant	Certified Public Accountant

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