

Aareon Annual Report 2018

# Next level values



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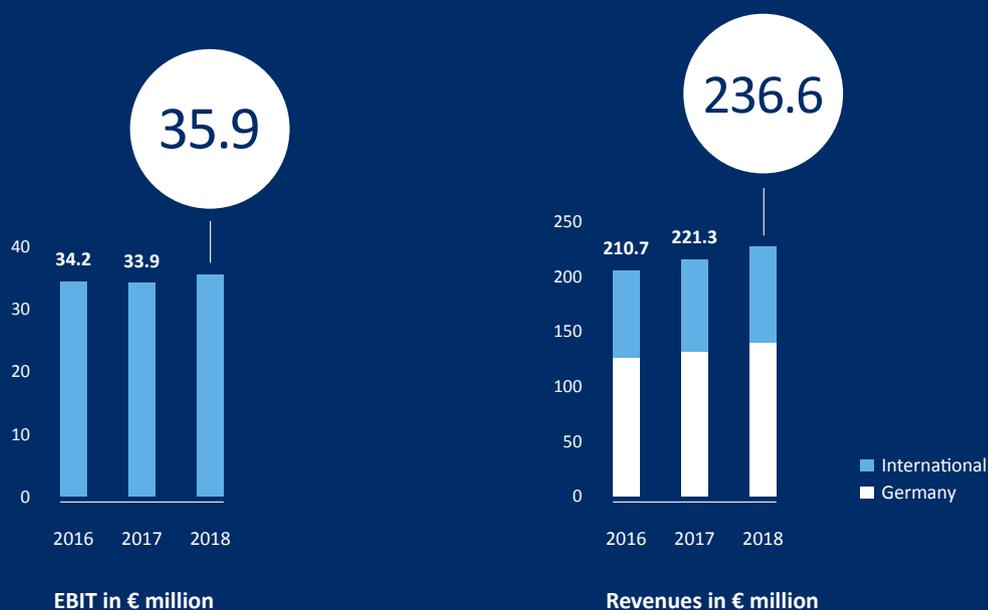
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→ The annual report is also available online  
<https://ar2018.aareon.com>

The pace is rapid. Those who want to set standards in the digital transformation have to create added value – at all levels.

**Next level values** are created through innovative strength and quality awareness, through networking and collaboration, through trend research and customer focus – and last but not least, through the willingness to keep optimising a company's own products and processes. Our Aareon Smart World shows how it's done.

# Key performance indicators 2018



## IFRS key indicators (in € million)

	2018	2017	Change
Revenues	236.6	221.3	6.9%
Of which international	87.7	80.3	9.3%
EBIT	35.9	33.9	5.9%
Consolidated net income after tax	25.7	23.4	9.8%
Consolidated net income after non-controlling interests	24.1	21.8	10.6%
Total assets	274.2	265.0	3.5%
Equity	167.6	145.3	15.3%
Cash flow from operating activities	29.5	26.8	10.1%
Number of employees (as at 31 December)	1,581	1,559	1.4%
Of which international	677	678	-0.1%
Return on Equity in %	22.3	24.5	-9.0%

# Fiscal 2018

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- Higher EBIT: € 35.9 million  
(previous year: € 33.9 million)
- Revenues up: € 236.6 million  
(previous year: € 221.3 million)
- Higher research and development expenses:  
€ 34.9 million (previous year: € 30.9 million)
- Sights set on new technologies: virtual reality,  
drones, chatbots and services such as Alexa
- Aareon Smart World portfolio expanded –  
digital solutions in high demand
- Collaboration with customers, PropTech  
partners and adjacent sectors strengthened
- Offering for the German utility sector extended
- Exploitation of the opportunities offered by the digital  
working world continued in the work4future project

# Aareon at a glance

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Aareon is the leading provider of systems and consulting services for the European property industry and its partners in the digital age.

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## Cornerstones of strategy



### Having a clear customer focus

Top priority is given to customer satisfaction and creating customer benefit.



### Offering pioneering solutions

Future issues, technical innovation and new demands from the sector and users all influence research and development.



### Being a dependable partner

Aareon is a dependable and reliable partner for its customers, employees, investors and stakeholders.

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# 37

**Locations**

Aareon has its headquarters in Mainz, Germany, and international subsidiaries in Finland, France, the UK, the Netherlands, Norway and Sweden.

# 3,000

**Clients**

make use of Aareon's consulting, software and services to simplify and automate their processes. They manage over 10 million units with the help of Aareon's IT solutions.

# 1,581

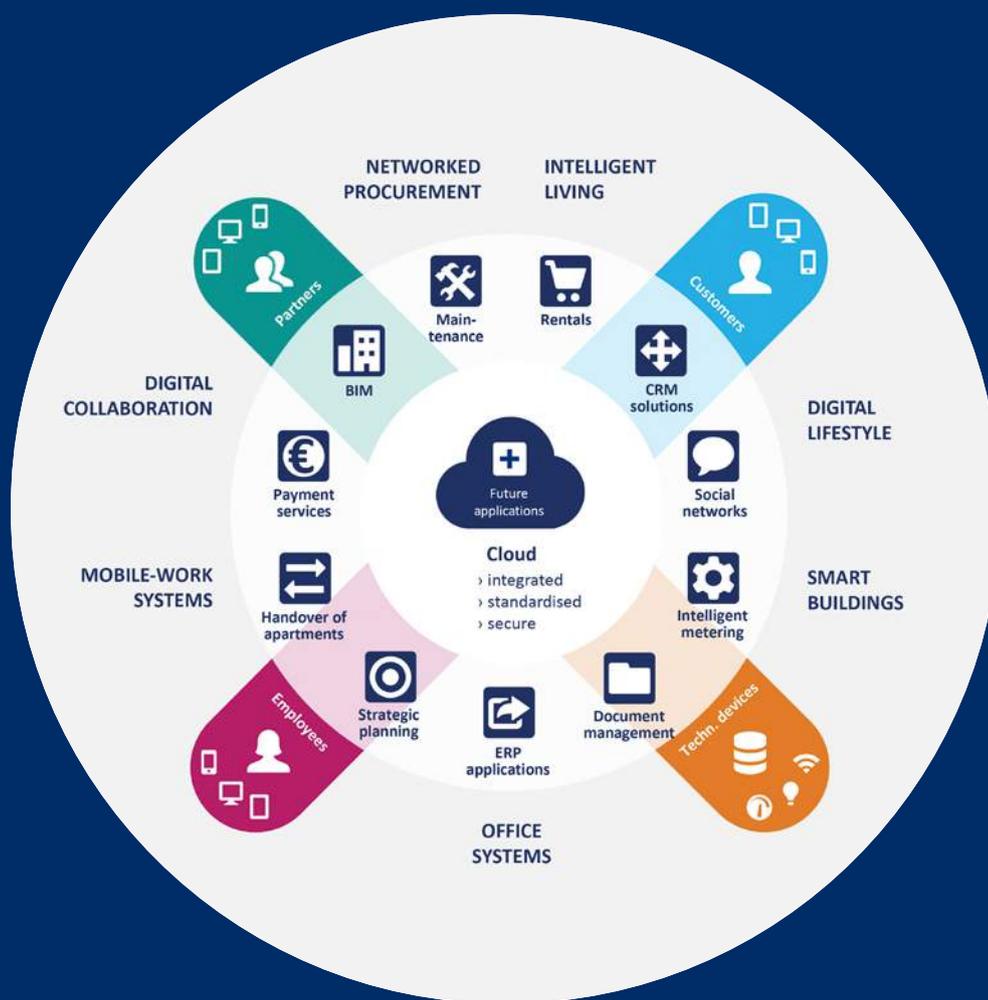
**Employees**

of different nationalities and from different cultures and age groups are the key to our success. They have the necessary IT and property-industry expertise, are dedicated and willing to perform, and always remain focused on the customer.

# 61

**years of success**

Aareon has developed steadily ever since the data centre was first founded in 1957. Today, for good reason, it has become the leading provider of systems and consulting services to the European property industry in the digital age.



## Aareon Smart World

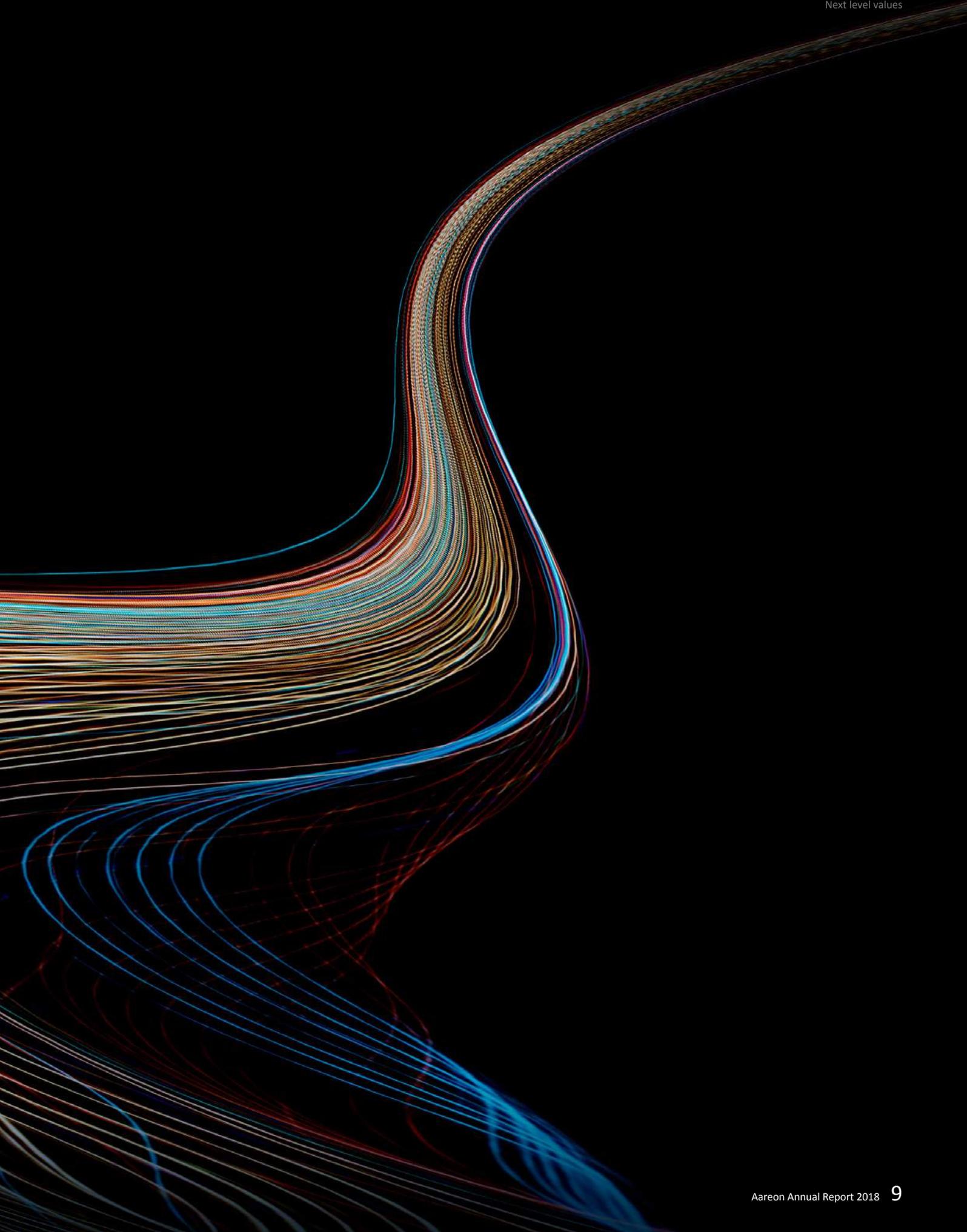
Harness the opportunities presented by digitisation with Aareon Smart World. This digital ecosystem enables property companies to link up with their customers, employees and business partners and can interconnect technical devices, both in individual apartments and entire buildings. It also allows processes to be redesigned and optimised. Aareon Smart World adds value by lowering costs, enabling new business models and facilitating the dialogue between customers and housing-industry employees.

# Fully integrated

Aareon has no problem equipping housing companies for the digital future, thanks to its proven partnership-oriented methods and innovative solutions. Streamlining the software architecture plays a crucial role in this context.

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→ A UK housing association shows how it's done in our [online journal](#).



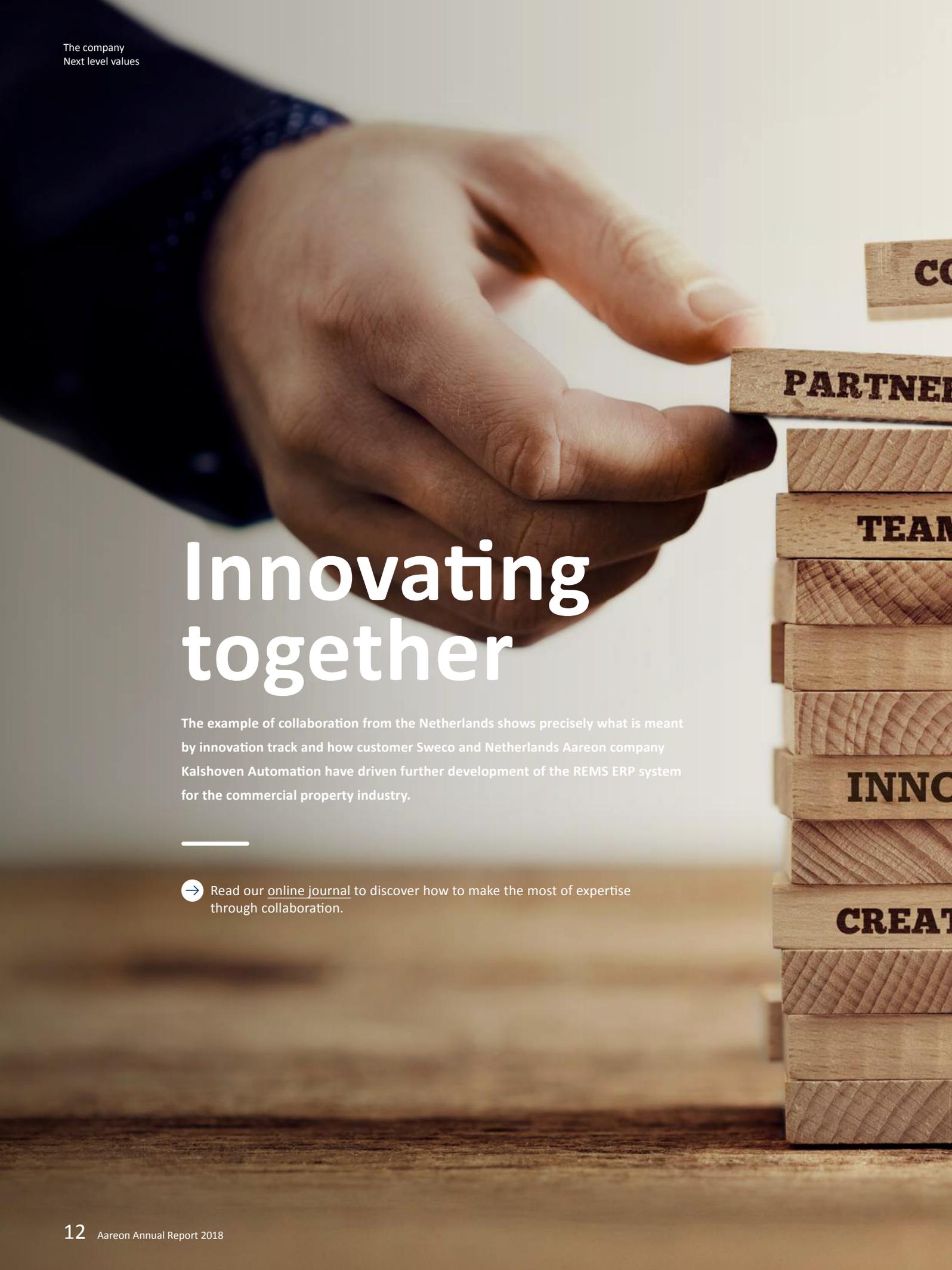
# Stress-free parking

A PropTech from France shows how quick and painless the search for a city parking space can be. And Aareon France can provide valuable support.

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→ Read our [online journal](#) to find out exactly how it works.





# Innovating together

The example of collaboration from the Netherlands shows precisely what is meant by innovation track and how customer Sweco and Netherlands Aareon company Kalshoven Automation have driven further development of the REMS ERP system for the commercial property industry.

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→ Read our [online journal](#) to discover how to make the most of expertise through collaboration.

**OPERATION**

**SHIP**

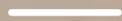
**WORK**

**OVATION**

**TIVITY**

# Full steam ahead!

The energy sector is undergoing major transformation. Two experts from energy provider ENTEGA and Stadtwerke Düsseldorf explain how Aareon is supporting this process in practice.



- Read our [online journal](#) to find out how we are networking the energy sector with housing companies.



# Geared to the future

Big Data, Virtual Reality, Artificial Intelligence, the Internet of Things, Building Information Modelling – how innovative are housing companies when it comes to technologies like these? A study carried out by Aareon looked for answers to such questions.

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→ Our [online journal](#) provides details of the study.



# Preface of the Management Board

## Ladies and Gentlemen,

Fiscal 2018 was another year marked by fundamental changes in society and the economy, with digitalisation, innovation, start-ups and a working world in flux featuring prominently. For years now, Aareon has been driving digitalisation in the housing industry with the aim of helping its customers achieve their corporate goals through process optimisation, more services and new business models. This transformation can generate greater benefit for those involved – whether property companies, tenants or property owners. We gained a head start in this process by creating Aareon Smart World, our digital ecosystem, and gearing our range of products and services to the future on the basis of our ERP solutions. In doing so, we have set a new benchmark for digital connectivity in the property industry and related sectors.

### Innovation – investments in the future

Our partnerships in R&D form the solid foundation underpinning our portfolio of digital solutions. In view of its crucial importance, we invested a total € 34.9 million in R&D in the reporting period (previous year: € 30.9 million). Key success factors in our R&D activities are the innovative, user-centric approach we take when collaborating with our customers – e.g. in pilot projects, design thinking workshops and innovation partnerships – and the way our experts at different international locations share and pool their knowledge. In our InnovationLabs, we test new technologies – such as traffic-safety drones, chatbots for communication with tenants, virtual reality applications or voice-controlled intelligent personal assistants like Alexa. The focus is on assessing the potential benefits and technical integrability of such innovations.

→ [Innovating together.](#) An example from the Netherlands shows how it's done in our online journal.

In order to analyse more closely how property companies innovate, and to gain important insights for our R&D activities, we commissioned forsa, a market research and opinion-polling company, to perform a survey of customers in Germany, France, the UK, the Netherlands and Sweden in autumn 2018. One thing the survey underscored was the importance of enhancing tenant satisfaction by means of customer portals and apps. Another finding was the high popularity of building information modelling and data analyses, e.g. for predictive maintenance.

→ [Read our online journal to discover how housing companies are Geared to the future.](#)

### The start-up scene – close contacts provide valuable impetus

The market for providers of digital solutions has changed. Now, large numbers of prop-techs offer individual solutions. The new economy is providing impetus of a novel kind, and Aareon enjoys close contacts with this scene. As a strategic partner of blackprint PropTech Booster, which supports promising start-ups in the property industry, we are in constant dialogue with prop-techs. It is an ideal environment in which both start-ups and established enterprises can profit from one another. We are also collaborating with prop-techs across the entire Aareon Group so as to enhance the utility of our Aareon Smart World ecosystem. These partnerships can include pilot projects that embrace a user-oriented process of experience, learning and development from which all those taking part can benefit. Aareon established a new structure in 2018 to test out its own business ideas in the market: Ampolon Ventures, the brand of AV Management GmbH. An integral part of the prop-tech scene, it aims to set up new joint ventures and forge partnerships with ambitious company founders.

→ [Stress-free parking is now possible thanks to a cooperation partner of Aareon France.](#) Find out more in the online journal.

→ Fully integrated by dint of streamlining the software architecture – an example from the UK. Find out more in the online journal.

## ERP solutions – the core of Aareon Smart World

Country-specific ERP systems form the linchpin of Aareon Smart World, where they are linked to digital solutions, and we are investing in their ongoing development. In the reporting period, the focus was on products like RELion (Germany, Austria) and its integration in Aareon Smart World, new releases of Wodis Sigma (Germany), Portallmmo and Prem'Habitat (France), and on enhancing the Xpand solution in Sweden. In the Netherlands, we invested in adapting Tobias AX to run on the latest Microsoft® release (365). Our ERP product in the UK is being expanded to include web browser functions (QL.web). With more than 1,000 customers, Wodis Sigma has consolidated its standing as the industry benchmark in Germany. We continued to expand our customer base for SAP® solutions/Blue Eagle and implemented our first SAP® S/4HANA projects.

With one eye on the commercial property market, Aareon Nederland B.V. acquired all the shares in Kalshoven Automation B.V., Amsterdam, in 2017. The company markets REMS, an ERP solution. In Germany, we strengthened our presence in this market segment in 2017 by acquiring the sales companies mse Augsburg GmbH (Augsburg) and mse Immobiliensoftware GmbH (Hamburg) and the development company mse RELion GmbH (Augsburg), all three of which offer the RELion ERP solution. At the same time, we gained a foothold in the Austrian market. In 2018, we completed the integration of these new companies – and their ERP solutions – into the Aareon Group.

## Aareon Smart World – robust demand for digital solutions

Business volumes for digital solutions continued to grow strongly. In particular, the company pursued the coordinated development of Aareon CRM at different locations in Germany and abroad, with the goal of simplifying the management of relationships with tenants and property owners. Marketing of the Aareon CRM app in Germany has been a success. We also offered our clients workshops focusing on external marketing (i.e. to tenants and property owners) because the more people that use the app, the greater the value added for housing companies.

→ Discover how the energy sector is networked with housing companies and metering service providers in our online journal under [Full steam ahead!](#)

Energy suppliers are important partners of the property industry. In Germany, Aareon provides solutions that optimise processes for both sides, offering its clients in the energy supply industry a comprehensive portfolio of services. Several customers have already opted for Aareon's new Vacancy Management solution, which links up housing companies, energy suppliers and heat metering services.

## The EU's General Data Protection Regulation – requirements met ahead of schedule

In the digital age, data protection and security are more relevant than ever. After all, data – and the information it contains – has virtually replaced oil as the driver of the economy. Aareon places great emphasis on ensuring the highest levels of data protection and security at its Data Centre, home to the Aareon Cloud. That is why we implemented the requirements of the EU's General Data Protection Regulation well before the transition date of 25 May 2018. A certificate issued in 2017 by TÜV Rheinland i-sec GmbH, a technical inspection agency, verified that, especially in the area of order processing, Aareon has effectively put in place technical and organisational measures aimed at protecting personal data and data that could be related to individuals.

## Renewed growth in revenues and EBIT

In fiscal 2018, EBIT was 5.9% higher at € 35.9 million (2017: € 33.9 million). We grew Aareon Group revenues by 6.9% to € 236.6 million (previous year: € 221.3 million). The main factors in this growth were substantial revenue increases and efficiency gains, especially in Germany, France and the UK, and the acquisitions made during the prior year (sales companies of mse and Kalshoven Automation). The International Business segment accounted for 37.1% of consolidated revenues (previous year: 36.3%). Demand for digital solutions rose across the Group.

## New working world – digitalisation only possible with people

In 2018, the work4future project initiated the previous year focused on preparations for a digital collaboration tool, slated for launch in 2019. The goal goes beyond finding a technical communication solution; it is all about collaboration, networking, transparency, sharing ideas and, above all, achieving a cultural transformation across the entire company. work4future supports this digital transformation process – because we cannot make the most of the opportunities offered by digitalisation without our employees' support. We reviewed the flexibility of our working-time models in the light of our employees' requirements and, in 2018, signed a new company-wide agreement on off-site working options.

## Outlook for 2019 – investing in the future

We will continue investing in our customers' digital future and work to ensure the ERP solutions offered by the Aareon Group are future-proof. We intend to expand our range of digital solutions, making use of the latest technological options where appropriate. We will continue our partnerships with prop-techs and company founders: Ampolon Ventures launched its first joint venture in Q1 2019. Fine-tuning of our Group structure will continue, not only to further strengthen the Aareon Group's market orientation, but also to do justice to the specific conditions for growth in ERP and digital solutions.

Our aim in Germany is to enhance our position in the market by building on the successes our digital Change Management solution – and the rest of our product portfolio – have enjoyed with the energy supply industry. We want to concentrate our commercial property market expertise more effectively within the Aareon Group, leveraging it to strengthen our market position.

To achieve our goals, we are relying on close cooperation with our customers, business partners, employees and our shareholder, the Aareal Bank Group. Only with a shared, customer-centric mindset can we create solutions that add value for all concerned. We expressly thank our customers and all those involved for the inspiration they have given us. By our own understanding, we are our customers' partner for digitalisation, providing them with enduring and holistic support throughout the transformation process. We want to continue pursuing this goal with you in 2019.

Kind regards,



Dr. Manfred Alflen



Sabine Fischer



Dr. André Rasquin



Christian M. Schmahl

# Management Board



**Dr. André Rasquin**  
Chief Sales Officer

Central Sales; Regional Sales; Solution Sales & Sales Management; Advisory Board work; Strategic Product Marketing; BauSecura product; mse Corporate Group (RELion product)

**Dr. Manfred Alflen**  
Chairman of the Management Board

International Business Development; Human Resources & Organisation; Legal, Risk Management & Compliance; Data Protection & Data Security; Internal Audit; Corporate Marketing & Communications; Board Office; International Business; Strategy

**Sabine Fischer**  
Chief Operating Officer

ERP Systems and Digital Systems of Aareon Smart World; Aareon IT Service Centre and IT Outsourcing Services; Support and Consulting Services; phi-Consulting; IT Solutions for Energy Suppliers

**Christian M. Schmahl**  
Chief Financial Officer

International Finance; Controlling; Accounting; Contract & Receivables Management; Central Purchasing; Facility & Fleet Management

# Overview of 2018

## 01

### January

#### Rheinessen Chamber of Industry and Commerce marks 60 years of innovation at Aareon

The Rheinessen Chamber of Industry and Commerce marks Aareon's 60th anniversary (in December 2017) with the presentation of a certificate to Aareon's CEO Dr. Manfred Alflen by Günter Jertz, its Managing Director. (Photo below)



#### Wodis Sigma CTI cracks the hundred-customer mark

More than 100 customers opt for the Wodis Sigma CTI (= computer-telephony integration) module which renders telephone customer support much easier.

#### EUROPA-CENTER AG, Hamburg, opts for the RELion ERP solution

With a construction volume of 385,000 m<sup>2</sup> in 24 buildings, EUROPA-CENTER AG is not just a leading investor, housebuilder and developer, but also a portfolio manager and landlord for commercial properties in Germany.



#### The Torus Group goes live with Aareon QL, 1st Touch Mobile and Aareon QL Asset Management in the UK

The Torus Group (22,000 units) goes live with the integrated systems, creating an integrated digital ecosystem with access to a uniform database which renders business processes more efficient. (Photo above)

## 02

### February

#### Wodis Sigma Dialogues also successful in 2018

Some 500 participants attend the Wodis Sigma Dialogues 2018 held across Germany. One major topic is the interaction between the ERP solution and the Aareon Smart World digital solutions. (Photo below)



#### FLÜWO Bauen Wohnen eG opts for Wodis Sigma

The biggest housing cooperative in southern Germany signs a contract for over 14,000 units.

## 03

### March

#### Geraint Griffiths appointed new CEO of Aareon UK

Geraint Griffiths, who has worked at Aareon since 1993, is now in charge of all UK business. (Photo below)



## 04

### April



#### 200th customer for mobile services

WIS Wohnungsbaugesellschaft im Spree-wald mbH, Lübbenau, is the 200th property company to opt for Aareon's mobile services, enabling its staff to access the latest data at any time and from any location. (Photo above)



### Girls' Day celebrates 10 years at Aareon

The Girls' Day motto is: "Do IT smart – tomorrow's female IT specialists". Twenty-one female school students aged between ten and 15 are given the chance to see what working in IT at Aareon really entails. (Photo above)

## 05

### May

#### Green consulting – cutting costs and raising money for a good cause

Aareon is exploiting the opportunities provided by the digital working world and offering its customers an optimised consulting environment. Green consulting saves on travel expenses and DESWOS receives a donation of EUR 10 for every online consulting day, with a total of EUR 5,500 raised over the first nine months alone.

#### New EU General Data Protection Regulation – Aareon is well prepared

Data protection is one of Aareon's core competencies. All EU-GDPR requirements have been implemented well in advance of the deadline.

## 06

### June

#### Aareon Congress 2018 – Next level networking

This year's topic is "next level networking": experts in the fields of politics, science and the economy, as well as from society at large meet to discuss a new era of networked collaboration. (Photo below)



#### 15. Presentation of the DW Innovation Award for the Property Sector

"Countering centralised climate change economics – intelligent solutions instead of even more regulation" is the motto for the DW Innovation Award for the Property Sector, which is presented at the Aareon Congress. (Photo below)



#### Tapiolan Lämpö, one of Finland's biggest property management companies, opts for Aareon

The company plans to use Incit Xpand to advance the digital transformation process.



#### Aareon Update 2018: Join a smarter world

The annual customer event of Aareon Nederland B.V., held under the motto "Join a smarter world", attracts over 250 visitors. The focus is on digitalisation and data protection trends. (Photo above)

#### Aareon France's client convention

Aareon France's annual client convention is held in Paris and attended by 180 participants seeking information on digitalisation, artificial intelligence and data protection in a series of lectures and workshops. (Photo below)



#### First ever Aareon Customer Conference in Coventry

The event is attended by 120 participants wanting to learn more about product innovations and future trends. Aareon also presents its scheme to include customers in the development of new solutions.

# 07

## July

### Five years of market success: CRM solutions from Aareon (Germany)

The CRM portal and the tenant app launched in 2017 make customer relationship management easier, thanks to self-service offerings and the like. These digital solutions are fully integrated in Aareon Smart World and interact perfectly with the ERP system and other digital solutions. (Photo below)



### Aareon Deutschland joins Connected Living

The Connected Living innovation centre supports the establishment of cross-industry partnerships for the development of smart home and Internet of Things solutions. Since joining Connected Living, Aareon has been able to exchange information with over 65 other members with a view to further expanding its digitalisation activities.

### MATRIX Immobilien GmbH signs contract for the RELion ERP solution

Since its foundation in 2003, Matrix Immobilien has constructed retail property covering some 155,000 m<sup>2</sup> and valued at over EUR 300 million.



### Learning islands to promote young talent

Aareon supports learning islands organised on the island of Juist and in Berlin for trainees in the housing industry. One topic is the analysis of the maintenance process with interaction between property companies, tradespeople and tenants using the design thinking method; solutions to optimise the process are developed. (Photo above)

# 08

## August

### Bike leasing for staff

For many people who work at Aareon, commuting by bike is already an active and flexible option with a low CO<sub>2</sub> footprint. And bike leasing has now made cycling to work even more attractive. Over 60 employees sign up immediately.

### Over 1 petabyte of data now managed

Aareon now manages over 1 PB of data (equivalent to 1,000 terabytes) in its storage network, having doubled its data volume over the past two years. Its high-availability data storage is connected to the servers via a fibre optic network (SAN).

# 09

## September

### RELion awarded Microsoft® Dynamics® NAV 2017 certification

The RELion ERP solution based on Microsoft Dynamics NAV is awarded the quality seal "Certified for Microsoft Dynamics NAV 2017".



### Aareon at Future PropTech

As a representative of an established company that has driven digitalisation in the property industry since the outset, Aareon's CEO Dr. Manfred Alflen is invited to speak and take part in a panel discussion. Some 400 participants from both the start-up and established sectors of the property industry meet here to network and take part in a constructive exchange of views. (Photo above)

### **CG Gruppe AG opts for the RELion ERP solution**

CG Gruppe AG, one of Germany's leading project developers, plans to use RELion to manage over 10,000 residential units and around 200,000 m<sup>2</sup> of commercial space at 10 locations.

## **10**

### **October**

#### **Customers benefit from online knowledge portal**

The e-learning offering provides access to videos, webinars, training courses, training documentation, instructions, tips and tricks at any time.

#### **Digital Academy at Aareon France**

Aareon France launches its workshop on the topic of innovation, based on the design thinking method, with nine customers. The focus is on digitalisation.

#### **Aareon Nordic Forum 2018 in Stockholm**

The focus is on digital solutions and new business models at this two-day event attended by 200 customers. (Photo below)



### **Jigsaw Homes Group goes live with the Aareon 360 Portal**

The company is one of England's biggest housing firms with over 34,000 apartments.

#### **Grundstücks- und Gebäude-wirtschafts-Gesellschaft m.b.H Chemnitz opts for Wodis Sigma**

The company manages around 32,000 apartments and plans to use Wodis Sigma as a service from the exclusive Aareon Cloud.

## **11**

### **November**



#### **Aareon Forum – digitalisation trends in practice**

Industry experts demonstrate the potential for added value in the efficient interaction between solutions of the Aareon Smart World digital ecosystem in practice. The focus is on current trends and their added value for the sector. (Photo above)



#### **79th Social Housing Congress in Marseilles**

Aareon France is once again represented at the Social Housing Congress this year. The event is attended by over 10,000 experts, with customers seizing the opportunity to discuss Aareon's products and digital solutions. (Photo above)

## **12**

### **December**

#### **1,000th Wodis Sigma customer**

FRANK-Gruppe, Hamburg, signs the 1,000th contract for Wodis Sigma. A long-standing Aareon customer, it manages around 20,000 units. (Photo below)



# Group management report

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# Group business fundamentals

## Group business model

Aareon – the leading European provider of consulting services and systems for the property industry – offers its customers secure, ground-breaking solutions in the areas of consulting, software and services, enabling them to optimise their IT-based business processes and expand their business models. The property industry and its partners see Aareon as their provider of support for the digital transformation process. The Aareon Group has a presence at 37 locations in Europe's key property markets, including 14 in Germany. International subsidiaries are located in Finland, France, the Netherlands, Norway, Sweden and the UK. Aareon also has a presence in Austria through a subsidiary of mse Augsburg GmbH. The Aareon Group's research and development activities benefit from the individual expertise of its different locations and the sharing of know-how between them. In the context of the digital transformation, the Group harnesses each country's speciality for the ongoing expansion of the Aareon Smart World portfolio.

Aareon AG is a wholly owned subsidiary of Aareal Bank AG, Wiesbaden, a leading international property specialist. Within the Aareal Bank Group, Aareon belongs to the Consulting/ Services segment, which offers solutions and services for target groups such as the residential and commercial property industries, and the energy supply and waste disposal sectors. The majority of Aareal Bank customers are also customers of Aareon.

## Aareon's portfolio

The enterprise resource planning (ERP) systems marketed in each of its footprint countries form the linchpin of Aareon's digital ecosystem, Aareon Smart World. Aareon uses these systems to secure its customer base and generate a stable long-term business volume. Aareon's customer relationships are sustainable and have often been in place for decades. The ERP systems can be integrated with digital solutions, which are constantly being expanded. New and existing customers make

use of these integrated digital solutions not only to connect with their stakeholders – such as customers, employees and business partners – but also to link up to technical appliances in apartments and buildings. That makes it possible to redesign and optimise processes. By interconnecting all parties, digital solutions help to reduce costs as well as create new business models and enhance convenience and transparency in communication.

Both in Germany and abroad, Aareon provides software solutions that can be accessed in different modes: either via in-house operations, hosting or as software as a service (SaaS) from the exclusive Aareon Cloud. Customer data is stored in Aareon's certified IT Service Centre in Mainz, which ensures high levels of data security and data protection (see p. 31). After completion of the consultation, implementation and training phases, the customer generally opts for a maintenance model that guarantees support services on a regular basis.

The Aareon Group reports on two segments: Germany and International Business.

In Germany, Aareon markets ERP products and services based on cutting-edge IT standards. Products of this kind targeting the housing industry include, in particular, Wodis Sigma and SAP® solutions/Blue Eagle. The legacy system GES will remain available to customers until 31 December 2020 and, until then, will be upgraded and maintained. The affected customers were informed about this process several years ago. The vast majority of them have opted for state-of-the-art ERP systems like Wodis Sigma or SAP® Solutions/Blue Eagle, and many have already completed system migration. Aareon is represented in the commercial property market with its RELion product (via the mse subsidiaries). An important partner for property companies is the utility sector, where phi-Consulting GmbH, Bochum, offers consulting solutions for ERP products.

Aareon Smart World connects the ERP products offered in Germany to digital solutions such as Mareon (integration of tradespeople), Aareon invoicing service (integration of invoice issuers), Aareon Immoblue Pro (tenant acquisition solution), Mobile Services, Aareon CRM (portal and app for tenants/owners) and Aareon Archiv kompakt (digital archiving solution). What is more, customers can benefit from our partners' solutions, including the intelligent keyless entry system KIWI, which can be integrated in Mareon, and the tenant matching system from Immomio. Aareon developed Aareon Vacancy Management specifically for the energy supply market. This cross-industry solution for changes of residence targets tenants and owners and is already being used by customers. Customers in both the property and utility segments can benefit from this integrated portfolio of products and services.

Over and above this, Aareon in Germany offers add-on products and services such as the BauSecura insurance management solution and outsourcing services.

In the International Business segment, Aareon's subsidiaries offer ERP solutions that are tailored to their particular national markets, supplementing them with integrated digital solutions from Aareon Smart World – some of which are identical across the entire group. In the Netherlands, Aareon Nederland markets Tobias AX, an ERP product based on Microsoft Dynamics® AX that targets the social-housing industry, while Kalshoven Automation sells REMS, an ERP solution for the commercial property market. The ERP products Prem'Habitat and Portallmmo Habitat are marketed by Aareon France, while Aareon UK offers the ERP product QL in its local market. In Scandinavia, Aareon Sverige and the subsidiaries Aareon Norge and Aareon Finland (founded in Helsinki in December 2018) market Incit Xpand, an ERP product. Aareon was previously represented in Finland via a branch office of Aareon Sverige. Owing to legal requirements in the local market, there is heightened interest in Scandinavia in the BIM (Building Information Modelling) system integrated in Xpand.

Aareon markets portal and app versions of its Aareon CRM digital solution (tenants portal, 360° Tenant Portal) internationally, namely in the UK, France and the Netherlands. Aareon Smart World products such as Mareon and Aareon Archiv kompakt are also sold outside Germany. In the British market, Aareon UK offers digital solutions like 1st Touch Mobile and 360° Field Worker as well as products of partner companies. In France, the product range also includes e-documents (digital dispatch) and Group Ware (digital exchange of files). In the Netherlands, Aareon Nederland deploys the Trace & Treasury product as well as the Facilitor solution for facility management in the commercial property sector. Square DMS, a subsidiary of Aareon Nederland, markets ShareWorX®, a case management solution, in both the Netherlands and the Flemish-speaking region of Belgium.

Within the International Business Segment, Aareon Sverige offers add-on products. It provides its customers with fact books – reference works containing standard information on operating and maintenance costs. In addition, Aareon Nederland offers outsourcing services to its customers in the Netherlands.

In Germany, Aareon is a leader in IT services. In France, the UK, the Netherlands and Scandinavia, Aareon's subsidiaries rank among the leading providers of software and services to the property industry. Competitors in this sector include providers of proprietary industry products, SAP® partners and, increasingly, prop-tech companies offering individual digital solutions.

### Goals and strategies

Aareon continued to prosper in fiscal 2018 in line with its strategy of profitable growth. The strategy is based on the Aareon Flight Plan, which was formulated in 2016 and is adapted annually to meet the latest requirements. Aareon's goal is to be the leading international partner for the property industry and related markets. Within the Aareal Bank Group, the

Aareon Flight Plan forms part of the Aareal 2020 future programme.

Key strategic areas of the Aareon Flight Plan are:

- More added value for customers
- Growth in digital solutions
- Further strengthening of ERP systems
- Tapping relevant new markets and related sectors
- Enhanced organisational performance and profitability

#### More added value for customers

We want to use our solutions and services to add value for our customers – as well as for their business partners and clients. To achieve this, we can draw on our customer relationships, our work in customer advisory councils, specific customer events, our participation in associations and the application of user-centric approaches – like design thinking – in the development process.

#### Growth in digital solutions

Compared with other sectors, the European property industry is in a relatively early phase of the digital transformation. For this reason, we see significant growth potential for the current and future digital solutions of Aareon Smart World. That is why our capital expenditures on digital solutions and on solutions based on innovative technologies are substantial. By deploying our own international R&D teams to expand these solutions, we share knowledge across the entire Group (see p. 32). Aareon also participates in start-ups through its corporate venturing model.

Beyond that, Aareon forges partnerships with prop-tech companies that have developed solutions that can add value for stakeholders of Aareon Smart World (see p. 35). These partnerships include the following:

- Germany: Immomio (stake of 14.54%; tenant acquisition management solution), KIWI (electronic keyless entry system)
- France: Intent Technologies (platform offering valuable additional data on tradespeople, service providers and the Internet of Things), DPM Technologies (predictive maintenance), Yespark (solution for using vacant underground parking spaces)
- Netherlands: ValidSign (solution for validating digital signatures), Mail2Pay (platform for efficient communication between those owing rent and those extending credit)
- Northern Europe: Metry (smart energy services)

In addition, since 2017, Aareon has been a strategic partner of blackprint PropTech Booster, which promotes promising start-ups in the property industry. Aareon has established a new structure to test out its own business ideas in the market: Ampolon Ventures, the brand of AV Management GmbH.

#### Further strengthening of ERP systems

Aareon invests to continuously improve its ERP software solutions. In 2018, the focus was on products like RELion (including its integration in Aareon Smart World), on new releases of Wodis Sigma in Germany and of Portallmmo and Prem'Habitat in France, and on enhancing the Xpand solution in Sweden. In the Netherlands, we invested in adapting Tobias AX to run on the latest Microsoft® release (365). Our ERP product in the UK is being expanded to include web browser functions (QL.web).

In Germany, the migration of GES to Wodis Sigma or to SAP® Solutions/Blue Eagle is going according to plan (see p. 34).

#### Entry into relevant new markets and related sectors

The energy supply and commercial property markets are relevant target markets for Aareon. Energy suppliers are important partners of the property industry. Aareon provides solutions that optimise processes for both sides, offering its clients in the industry a comprehensive portfolio of services.

The solutions in question include the Aareon invoicing service and Mareon. Aareon has also developed a solution for digitalising processes when residences change hands. Targeting energy suppliers, property companies and metering service providers, the solution has already been deployed with a number of customers (see p. 35).

With one eye on the commercial property market, in 2017 Aareon Nederland B.V. acquired all the shares in Kalshoven Automation B.V., Amsterdam, a company that markets REMS, an ERP solution. In Germany, we had already strengthened our presence in this market segment in 2017 by acquiring all the shares in the sales companies mse Augsburg GmbH (Augsburg) and mse Immobiliensoftware GmbH (Hamburg) and the development company mse RELion GmbH (Augsburg). In doing so, we also gained a foothold in the Austrian market. The companies in question market RELion, an ERP solution. Integration in the Aareon Group means their customers will profit from the digital solutions of Aareon Smart World. What is more, Aareon is active in the Scandinavian commercial property market through its Northern European subsidiaries.

#### **Enhanced organisational performance and profitability**

Aareon intends to further enhance its profitability thanks to an efficient organisational structure that has clearly defined processes and that harnesses synergies to grow revenues and keep costs firmly in check.

In order to increase efficiency within the Aareon Group, Aareon Immobilien Projekt Gesellschaft mbH and Aareon International Solutions GmbH were merged with Aareon Deutschland GmbH. Previously, these subsidiaries were fully owned by Aareon AG. In the Netherlands, Incit Nederland B.V. and SG2All B.V. were merged with the parent company, Aareon Nederland B.V. In addition to these measures, Aareon helped enhance its organisational performance in particular by means of the following centrally managed projects:

- SAP® S/4HANA as a state-of-the-art, group-wide system for homogeneous processes in the area of finance and for measuring performance
- work4future for a digital working environment that forms part of Aareon’s corporate culture (see p. 40)
- ITSM (IT Service Management) for the optimisation of support processes; owing to its complexity, the project is scheduled to run for several years; implementation began in the Netherlands in 2018 and the first stage has been completed
- Expansion of the genesisWorld customer relationship management solution to include our international subsidiaries

#### **Quality and security standards**

Data privacy and data security are of crucial importance to Aareon. Numerous clients in Germany and abroad make use of Aareon solutions as a service from the exclusive Aareon Cloud – meaning that their data is stored solely in the Aareon Data Centre and at a backup location in Germany. Aareon Data Centre operations are regularly audited for compliance with the PS 951 nF auditing standard of the Institute of Public Auditors in Germany (IDW). In 2017, the TÜV Saarland Group, a technical inspection agency, re-certified the Aareon Data Centre for a further two years (“Certified Computer Centre Network – Fail-Safe Level 4”). Since 2010, Aareon has voluntarily submitted to regular external data-protection audits in accordance with Section 9a of Germany’s Federal Data Protection Act (BDSG). In 2016, the corresponding audits were carried out by the TÜV Rheinland technical inspection agency; the certification awarded is valid until 2019. TÜV Rheinland confirmed Aareon’s status as a “service provider with audited data protection management”. Aareon’s system of information security management complies with the internationally recognised ISO/IEC 27001:2013 standard. Following a re-audit in 2017, the certification was extended until 2020.

The transition period for implementation of the EU's General Data Protection Regulation (GDPR) ended on 25 May 2018. As a company domiciled in the European Union and with a data centre in Germany, Aareon AG began implementing the GDPR requirements at an early stage. A certificate issued in the previous year by TÜV Rheinland i-sec GmbH, a technical inspection agency, verified that, especially with regard to order processing, Aareon had effectively put in place technical and organisational measures aimed at protecting personal data and data that could be related to individuals. The certificate is valid until 2019.

### Research and development (R&D)

Aareon's collaborative R&D activities, which focus on unlocking value for its clients, form the foundation for its new digital solutions. Aareon's R&D profits from the different digitalisation specialities in each country in which the Group operates, combining them to enhance Aareon Smart World as a whole. Aareon pursues an agile approach to the development process in order to carry out intensive testing at an early stage and take the step from idea to prototype as quickly as possible. The international development team factors social, legal, economic and technical aspects into both new and existing digital solutions.

Aareon works hand in hand with property companies in line with the design thinking method. This user-centric approach to problem-solving also provides the methodological underpinnings for the Aareon DesignLab. More and more customers

are making the most of the design thinking workshops offered by specialists at the Aareon DesignLab premises.

The information gained from the day-to-day business dialogue with customers also feeds into the company's R&D activities. Aareon gauges the requirements of its customers by talking to them regularly – e.g. by means of institutions such as customer advisory councils as well as through repeated Group-wide customer surveys.

Research needs to take account of technologies such as virtual reality, drones and chatbots, as well as services like Alexa, in terms of their benefit for the property industry and their technical integratability.

R&D expenditure can be broken down into the development of updates, the maintenance and upkeep of existing functions as well as the ongoing development of new functions and the creation of new products. Total expenditure of the R&D teams came to € 34.9 million in 2018 (previous year: € 30.9 million).

In order to develop new functions and products for customers, Aareon invested € 14.9 million in 2018 (previous year: € 9.3 million) (see p. 36), the majority of which had to be capitalised. The capitalisation rate was 53%. Amortisation of internally generated software amounted to € 3.9 million.

# Economic report

## General economic and industry environment

### Economic growth

Economic growth in the eurozone was robust in 2018, but substantially lower than in the previous year. This was due mainly to reduced external demand, but also to non-recurring effects in the individual countries. The Netherlands was one of the eurozone countries posting the highest growth rates. By contrast, growth rates in Germany and France were considerably lower than the average. New methods for vehicle emissions tests caused car sales to slump in Germany, while strikes were one factor depressing growth in France. Growth rates in a number of non-eurozone EU countries were higher than in the eurozone itself. Sweden, for instance, repeated its performance of the previous year, growing substantially faster than the eurozone.

On the other hand, growth was weak in the UK, although the economy was more robust than initially expected. Considerable uncertainty arose when the withdrawal agreement negotiated with the EU toward the end of the year was rejected by a large majority in the British parliament on 15 January 2019, leaving businesses unable to plan for the future.

Labour markets benefited from good economic fundamentals and from the prolonged business cycle. Unemployment rates in the eurozone continued to edge down in the reporting year, while the rate in the UK remained stable at a low level.

#### Annual real growth in GDP in %

	2018 <sup>1)</sup>	2017 <sup>2)</sup>
Eurozone	1.8	2.5
Germany	1.4	2.5
Finland	2.4	2.8
France	1.5	2.3
Netherlands	2.6	3.0
Austria	2.6	2.7
United Kingdom	1.4	1.8
Norway	2.4	1.7
Sweden	2.3	2.4

(Source: Oxford Economics)

Annual real growth in GDP in %

1) Preliminary figures; 2) Adjusted to reflect final figures

### Industry trend

The digital transformation of the property industry continued to gather pace worldwide, though the focus differed from country to country. In addition to process efficiency gains, the networking of market players – such as property companies and their staff, customers, business partners and buildings – is gaining in importance and enhancing interest in integrated solution packages. Digital solutions are benefiting people's private and working lives, and enhancing flexibility and convenience. Data sovereignty and the utilisation of data are other key issues increasingly being discussed. Given that more and more buildings are being equipped with sensors, these issues are gaining in importance.

In addition to established companies in the “old economy”, numerous prop-tech companies have entered the market in recent years. They generally offer individual digital solutions for the property industry. This trend has further increased awareness of digitalisation among property industry players. Aareon is monitoring developments and will make use of partnership options where they add value for customers. Beyond that, Aareon is a strategic partner of blackprint PropTech Booster (see p. 30).

In order to analyse innovation behaviour in the face of digitalisation, Aareon commissioned an international survey of housing companies in 2018.

Awareness of the digital transformation has grown noticeably across the property industry in Germany, too, with demand increasing accordingly. Networking, integratability and the tapping of efficiency potentials are key factors in this process. Over and above this, there is a growing focus on the prospects for new business models.

Rising financial pressure on social-housing companies in the Netherlands is pushing down prices at tenders. At the same time, customers expect digital solutions to deliver more and more. They also demand flexibility as regards contract durations, so that contracts are now often concluded or renewed for shorter time periods.

In France, the social-housing industry is still strongly influenced by political decisions. The ELAN Act, which was passed in October 2018, was intended as a comprehensive response to the altered conditions prevailing in the French housing market. The Act will lend further impetus to the mergers of publicly owned housing companies that began in 2017 with the goal of enhancing tenant satisfaction and reducing administrative costs for the portfolio.

A new law in the UK states that social-housing rents have to be reduced by one percent a year between 2016 and 2020. While this legal obligation is forcing companies to rationalise (and, especially, to digitalise their processes), it is also putting pressure on providers of housing-industry IT to cut their prices.

In Scandinavia, the digitalisation of society is already well advanced – with consequences for the property industry, too. Digital signatures for (rental) contracts are already a matter of course and readily accepted by tenants. What is more, the integration of start-ups – to feed digital data from related processes and systems into the housing industry's processes (e.g. for invoices or information for tenants) – is not simply encouraged, but demanded.

### Key performance indicators

Revenue and EBIT are the key financial performance indicators used by Aareon to measure and manage its business segments.

Customer satisfaction and employee satisfaction are the main non-financial indicators that Aareon regularly monitors Group-wide (see p. 32, 39). They are not used for the purposes of corporate management and control.

## Business performance

### Germany segment

Aareon succeeded in winning over a large number of new customers – some of them major accounts – for its ERP solution Wodis Sigma. Many new Wodis Sigma customers are former GES customers (see p. 28). The majority of GES customers opt for state-of-the-art ERP systems like Wodis Sigma, RELion or SAP® Solutions/Blue Eagle, and many have already completed system migration. As anticipated, customers prefer to use Wodis Sigma as a service from the exclusive Aareon Cloud. We are still implementing a large number of migration projects, which are going according to plan. The total number of Wodis Sigma customers has risen to around 1,000. The business volume for SAP® solutions/Blue Eagle was only roughly the same as the previous year due to the impact of a major project. In the commercial property market, Aareon won further customers for the RELion ERP solution.

As part of the ongoing digital transformation process, Aareon Smart World's digital solutions are being expanded Group-wide in two ways: firstly, by our own R&D team, which entails the transfer of knowledge between our locations; secondly, by means of partnerships with prop-tech companies that have developed solutions adding value for Aareon Smart World stakeholders. In addition, as part of its efforts to acquire further stakes in attractive, innovative companies, the Aareon Group set up AV Management GmbH, which operates under the Ampolon Ventures brand name and has close links to the start-up scene. A particular focus of digital solutions business was the coordinated development of Aareon CRM at different locations in Germany and abroad, with the goal of simplifying the management of relationships with tenants and property owners. Intensive marketing of the CRM app continued in Germany and the app is already in productive operation with several customers. Aareon supplements the digital CRM solution by offering its customers workshops that focus on how to market the app to their own customers – the tenants and property owners.

The business volume for digital solutions grew strongly again year over year. There was particular demand in Germany for the following solutions: Mareon Service Portal, Aareon Archiv kompakt, Aareon CRM (portal and app for tenants/owners) and Aareon ImmoBlue Pro (tenant acquisition solution). Demand is also being boosted by ERP solution migration business, as customers generally purchase one or more new digital solutions along with an ERP solution.

In the area of add-on products in Germany, the positive trend in outsourcing business continued. BauSecura's insurance business was more or less unchanged compared with the previous year.

Energy suppliers are another of Aareon's target groups (see p. 31). Marketing of the Aareon Change Management solution has commenced and we have already signed up our first customers.

#### **International Business segment**

In the international markets in which Aareon is present and offers country-specific ERP products, business trends differed from country to country. On the whole, the segment posted growth, particularly thanks to the markets in the UK, France and the Netherlands.

In the Netherlands, tenders led to the acquisition of several major accounts for the ERP solution Tobias AX; a number of go-lives were also completed. With one eye on the commercial property market, several high-profile customers renewed their REMS contracts, opting for the REMS cloud solution. ERP products remained in demand in France, as changes in statutory requirements needed to be implemented in the software. On top of that, further customers signed Platinum contracts, which provide a more comprehensive range of services. Despite fierce competition in the local market, Aareon UK succeeded in winning several tenders for Aareon QL. Similarly, Aareon Sverige landed key tenders with its ERP solution Incit Xpand, also in the commercial property market. Aareon Sverige also

scored successes in the Finnish market, signing up a second major customer, Finland's biggest provider of financial and technical services to the housing industry. In addition, improvements were made to the project implementation process. Business in Norway was dampened by the delayed start of one project and difficulties with another project for a major customer – the latter was resolved through cancellation of the contract at year-end (see p. 36).

In the Netherlands, several customers, some of them major ones, opted for digital solutions, and we also completed further go-lives. In France, customers signed contracts for digital solutions such as the customer relationship management system Aareon CRM. Some customers have begun developing highly tailored solutions for their own use on the basis of Aareon's digital platform. That ensures they will be able to integrate the solutions in their existing systems. In the UK, more customers signed up for digital solutions. The tenant portal is being successfully marketed in Scandinavia. In addition, marketing recently began of an online shop for housing companies and property management companies, who can benefit from the new business potential the online shop offers. In Norway, our first customer went live with Facilitor, our facility management solution. Facilitor was adapted and honed for the Scandinavian market on the basis of a solution originally developed in the Netherlands.

Aareon Nederland entered into a partnership with ValidSign, a prop-tech offering a solution for validating digital signatures. The solution streamlines the validation process and can be integrated into numerous applications. Aareon France launched a partnership with Yespark. The prop-tech provides a digital solution for finding a parking spot, which involves property companies renting out their vacant parking spaces on a time-limited basis.

Outsourcing business in the Netherlands was one of the main drivers of revenue growth for add-on products in our International Business segment.

## Economic situation

### Earnings

In 2018, Aareon's EBIT amounted to € 35.9 million, up 5.9 % year on year (2017: € 33.9 million). Adjusted for a non-recurring effect, EBIT came in at € 37.6 million, which was 10.9 % higher than the previous year. Consolidated revenues rose 6.9 % to € 236.6 million (2017: € 221.3 million), in line with expectations. Although capital expenditures were higher year on year, revenue growth was driven by substantial increases and efficiency gains, especially in Germany, France and the UK, and by the acquisitions made during the previous year (sales companies of mse and Kalshoven Automation). Problems with two major projects – delays in Norway and a cost overshoot in Germany – weighed on earnings. As a result, Aareon had to revise down its original EBIT guidance of € 40 million to € 37–38 million during the year. Finally, in December 2018, a mutual settlement was reached to cancel the Norwegian project prematurely; a contract termination payment was made and the outstanding receivables waived. The result was a non-recurring effect of € 1.6 million, with a negative impact on revenues of € 0.5 million.

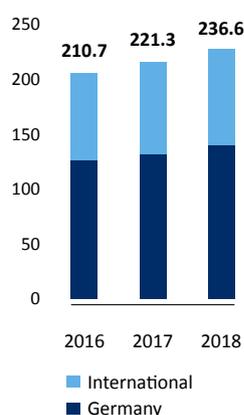
Internally generated assets increased to € 7.8 million in 2018 (previous year: € 4.5 million). In the current fiscal year, capital expenditure to expand the digital solutions portfolio and develop ERP products increased substantially (see p. 32). Other operating income amounted to € 5.4 million (previous year: € 5.9 million) and was influenced in both 2017 and 2018 by re-measurements of purchase price liabilities from acquisitions. The Group's total expenses rose by 8.1%, from € 197.8 million to € 213.8 million. The cost of materials rose by 23.0 % to € 40.1 million (previous year: € 32.6 million). This rise was driven by acquisition effects, higher licence revenue – also for third-party software – and increased expenses for external consultants owing to the large number of migration projects. The increase of 4.4 % in personnel expenses to € 122.0 million (previous year: € 116.9 million) was predominantly due to the higher personnel numbers triggered by the acquisitions made in 2017. At € 38.0 million, other operating expenses were up

3.3 % year on year (previous year: € 36.8 million). Apart from acquisition effects, another negative impact was the payment made in Norway to cancel a contract with a major customer. On the other hand, consulting expenses were lower than in 2017, when capital expenditure on system landscape optimisation and internal processes (SAP® S/4HANA) was high.

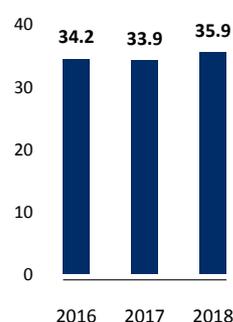
As expected, Aareon grew its revenues in the Germany segment by 5.6 % to € 148.9 million (previous year: € 141.0 million). ERP product revenues were higher, especially due to acquisition of the mse sales companies in 2017. As expected, consulting revenues for GES and Wodis Sigma rose due to ongoing migration projects, also leading to a shift in business volume from the former to the latter. Revenues from SAP® solutions/Blue Eagle were unchanged year on year. Higher licence revenues due to renewals compensated for the lower revenues from a complex major project completed at year-end. Migration business, in particular, brought about a substantial increase in revenue from digital solutions, as they are marketed in combination with ERP products. The Mareon, Mobile Services, Aareon CRM and Aareon Archiv kompakt products were revenue drivers. Revenue growth in add-in products was attributable mainly to Outsourcing business. Despite higher costs for external consulting services in connection with a major project, cost savings were higher than expected thanks to a restrictive personnel policy and a year-on-year decline in costs for internal projects. The positive revenue trend, coupled with lower costs, meant EBIT in the Germany segment was higher, at € 28.3 million, than the forecast figure of € 26–27 million and 6.0 % above the prior-year figure of € 26.7 million.

Adjusted for non-recurring effects, revenues in the International Business segment were up by 9.8 % to € 88.2 million (previous year: € 80.3 million). If currency-translation effects were factored out, segment revenue would have been € 0.7 million higher, in line with expectations. The key growth driver with ERP products was the increase in maintenance business, which was due in part to the acquisition of Kalshoven Automation in 2017. Maintenance revenues were also

### Revenues in € million



### EBIT in € million



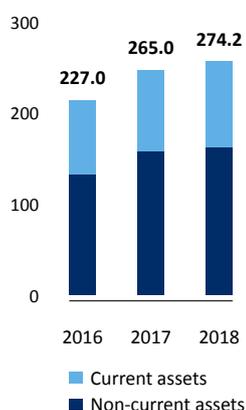
markedly higher in the Netherlands (due to further customer go-lives) and in France (due to the higher number of Platinum contracts concluded). Licence revenues contributed to growth, mainly because of the large number of new contracts signed despite a highly competitive market. In the Scandinavian market, the acquisition of further new customers in Norway, Sweden and Finland prompted a slight increase in licence revenues. In the International Business segment, consulting business for ERP products was on a par with the previous year and thus lower than forecast. The increases in performance expected in the Scandinavian markets did not materialise in the year under review. In Norway, in particular, higher costs were incurred (see above). Overall, our International Business segment recorded significant growth in digital-solutions business. The UK and the Netherlands achieved double-digit growth rates with the Treasury, Mareon and 1st Touch Mobile products as well as with third-party products. Demand for digital solutions rose in France, too. As customer demand for ERP-related services was higher, some digital-

solutions projects had to be postponed until 2019. Administrative expenses declined in France. As a result, EBIT (adjusted for non-recurring effects) rose 27.8% to € 9.2 million (previous year: € 7.2 million)

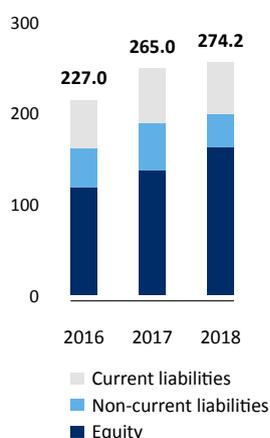
### Net assets

Aareon's total balance sheet amounted to € 274.2 million in 2018, up 3.5% compared with the previous year (€ 265.0 million). At € 170.9 million, non-current assets were roughly on a par with the previous year (€ 168.6 million). Asset additions were roughly equivalent to depreciation/amortisation of non-current assets. Current assets increased by 7.2% year on year to € 103.4 million (previous year: € 96.4 million), mainly due to an increase in cash and cash equivalents (see statement of cash flows).

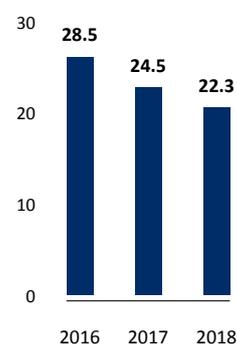
### Assets in € million (asset structure)



### Total equity and liabilities in € million (capital structure)



### Return on equity in %



## Financial situation

### Capital structure

Compared with the previous year, equity climbed by 15.4%, from € 145.3 million to € 167.6 million. Net profit for the year of € 25.7 million (previous year: € 23.4 million) was added, while exchange-rate fluctuations reduced the currency reserve by € 0.9 million. As a result of these factors, the return on equity declined to 22.3% (previous year: 24.5%).

Non-current liabilities decreased by 13.7% to € 45.6 million (previous year: € 52.9 million). This decline resulted from the reclassification of non-current purchase price liabilities as current, and from further reversals of deferred tax liabilities from earlier corporate acquisitions. At € 61.0 million, current liabilities were up by 8.7% (previous year: € 66.8 million). That both contract liabilities and other provisions were lower is attributable to the difference in payment dates. Loan liabilities were repaid in full. As several previous tax years were closed and paid, income tax liabilities also fell substantially.

### Liquidity

The statement of cash flows is the key to analysing Group liquidity. At € 29.5 million, cash flow from operating activities was higher than in the previous year (€ 26.8 million). Payments received from customers rose because of increased business volumes. These were in turn due to higher EBIT and better management of receivables, of which the smaller year-on-year increase in assets is an indicator. On the other hand, tax payments were higher due to the closing and payment of several tax years at once. At € -16.7 million, cash flow from investing activities was slightly reduced (previous year: € -22.3 million). The primary outflows included € 15.4 million in capital expenditure on non-current assets and € 2.4 million in due purchase price liabilities from earlier corporate acquisitions. Cash flow from financing activities amounted to € -4.5 million (previous year: € -1.0 million). The main capital flows concerned payments to non-controlling interests and the complete repayment of a loan liability in the Netherlands.

# Our staff

As the digital transformation of the working world progresses, it is ever more important to have a personnel policy that focuses on employees as people. That is why Aareon introduced a sustainable, life-phase-oriented personnel policy several years ago. Aareon takes account not only of its employees' work-life balance, but also what level of performance can be expected of individuals in the particular phase of life in which they find themselves. Changes in society – including the digital transformation, demographic change, higher retirement ages and immigration – mean that factors such as knowledge and expertise, health, equal opportunities and diversity are as much a part of our personnel policy as is the professional development of each employee. Given the ever faster pace of technical progress, the concept of agility is gaining in significance. Flexibility and life-long learning are becoming increasingly important for companies and are encouraged under Aareon's personnel policy.

For over ten years now, Aareon has been carrying out anonymised Group-wide employee surveys. They serve as a tool for measuring the mood among employees and provide insights into how specific improvement measures can be adopted. The Group-wide response rate of 68% for the employee survey shows that both rank-and-file employees and management consider it important to contribute towards the future success of the company. General levels of employee satisfaction remain high.

As at 31 December 2018, Aareon had a total of 1,581 employees (previous year: 1,559). The average period of service with the company was 11.9 years (previous year: 11.8 years). The international subsidiaries accounted for 42.8% of the workforce (previous year: 43.5%). Aareon supports flexible working time models: at the end of 2018, the company had 346 part-time positions, constituting 21.9% of the total workforce (previous year: 353 or 22.6%). In addition, many employees work some of their hours from home or off-site. The proportion of women in the workforce was 31.0% (previous year: 31.3%), while the share of women in management positions was 21.6% (previous year: 20.7%).

## Qualification and further training

One of the aspects on which Aareon focused its attention in 2018 was the development of its management staff. In the course of the Professional Individual Management Development programme (ProFI), managers were offered training sessions (e.g. leadership at Aareon), diagnostics (including a development centre for new managers) and consultation (e.g. personalised coaching sessions and leadership groups). Other points of focus were SAP® HANA and entrenching internationalisation at Aareon, especially through online English language courses. The Certified Housing Manager (HfWU) training course at the Nürtingen-Geislingen University for Economics and the Environment in Germany was held once again in 2018.

Aareon launched its third cross-mentoring programme in 2018. Cross-mentoring is a personnel development tool aimed at encouraging knowledge transfer. It involves the systematic sharing of ideas and experiences between employees at different companies.

## Initial training and the promotion of young talent

In addition to trainee programmes, Aareon offers dual-study degrees in Business IT and in Media, IT and Management, as well as a variety of vocational training courses in office management and IT (the latter with a specialisation in either application development or systems integration). At year-end 2018, the Aareon Group employed 22 trainees and four dual-study students in Germany.

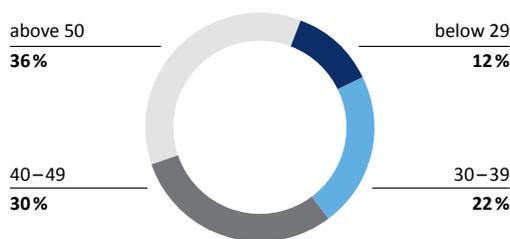
As part of its programme to promote young talent, Aareon organised a Girls' Day and supported JOBLINGE, an initiative for young people who have had a hard start in life. Three former participants of the JOBLINGE initiative are now completing their vocational training at Aareon.

In order to foster young talent and promote education, Aareon works together with a number of universities as well as with four students from Johannes Gutenberg University Mainz who are holders of a scholarship (Deutschlandstipendium).

### Number of employees (as at 31 Dec.)



### Age structure of workforce



### Forward-looking corporate culture

As an innovative company that is driving the digital transformation in all areas and managing the associated change process for its staff, Aareon launched the work4future project in 2017. Building on its existing life-phase-oriented personnel policy, Aareon focuses on the evolution of working time models – especially against the backdrop of increasing mobility – on smart and effective collaboration between employees, and on the digital workplace. In corporate health management, numerous measures were taken in 2018 to support staff in the digital working world.

The company’s personnel-related services to help employees achieve a healthy work-life balance include more flexible working hours in the shape of part-time and teleworking models, a partnership with a family service company, parent-child offices as well as crèche and kindergarten places in cooperation with a company based in Mainz.

Equal opportunities form an integral part of Aareon’s personnel policy. Women are represented in various management roles as well as on the Management Board and Supervisory Board. Many women also exercise responsibility in projects and sub-projects or play a role as specialists. Aareon’s goal is to achieve even more balance in this area. In this context, targets for the representation of women were set at the subsidiary Aareon Deutschland GmbH in the previous year in accordance with the German Act on the Equal Participation of Women and Men in Leadership Positions in the Private and the Public Sector.

### Compensation principles

With their transparency and sustainability, Aareon’s compensation systems support its strategic goals. The objective is to provide employees with compensation that is attractive and motivating as well as in line with market benchmarks and personal performance. Equal pay for men and women

# Internal control system

performing the same duties is part of that as well. This policy can help Aareon to attract and retain highly qualified, dedicated employees with high potential. It is up to each individual company within the Group to design its own compensation system in line with these principles. The ultimate responsibility for this rests with local management, who must also take into account the co-determination rights of the bodies representing the employees in each company as well as local statutory regulations. Aareon makes its principles for compensation systems known at every Group company.

Aareon's internal control system (ICS) consists of systematic organisational measures and checks that are designed to ensure compliance with the company's directives and to avert potential losses caused by the company's own staff or third parties. The purpose of the accounting-related internal control system is to guarantee that Aareon's operations are properly executed in legal and business terms. One of the principal aims is to ensure the conformity of internal and external accounting processes and compliance with the relevant legal provisions.

In addition to customers and products, which constitute the company's core processes, the processes in question relate to liquidity, personnel and legal affairs.

The Management Board of Aareon AG is responsible for designing, establishing, applying, refining and reviewing an appropriate system of internal control over financial accounting. At Aareon AG, the processes for (Group) financial accounting are managed by the International Finance unit, which is also responsible for Group reporting. All of the company's subsidiaries are included in its consolidated financial statements. Accounting and Contract Management handles financial accounting, including preparation of the annual financial statements, for Aareon AG and its subsidiaries Aareon Deutschland and AV Management. The unit also supports phi-Consulting's independent financial accounting systems. The financial accounts of BauSecura are handled by the Funk Group. Aareon UK, Aareon France, the Netherlands-based companies, the Scandinavian companies and the mse companies have independent financial accounting systems, while 1st Touch receives financial accounting support from Aareon UK. With the exception of the Scandinavian companies, Kalshoven Automation and the mse companies, all the companies enter their financial data independently in the Group's SAP® software programme. In fiscal 2018, the financial data reported by these companies was entered in the Group's software programme by Finance unit employees. The data is consolidated at Group level.

The Group accounting manual is an aid to preparing Aareon's financial statements and provides internal guidelines for the accounting process that comply with the legal requirements. These guidelines are made available to all Aareon subsidiaries, reviewed on a regular basis and updated as required. During preparation of the financial statements, plausibility checks are carried out in the accounting systems of subsidiaries and key individual items analysed. In addition, a schedule for preparation of the annual financial statements is in place, in accordance with which all the subsidiaries complete their separate financial statements and submit them to the relevant Group department for preparation of the consolidated financial statements. Appropriate control processes are in place to monitor both automated and manual entries. Key accounting procedures are subject to the dual-control principle. An authorisation process is in place to protect the accounting and financial reporting systems against unauthorised access. Aareon's Finance unit has an adequate number of highly qualified staff, who have the requisite knowledge and experience for their areas of responsibility. Aareon also makes use of external service providers, for instance to assist in measuring pension obligations.

Aareon regularly monitors compliance with various guidelines, e.g. in respect of signatory powers, the use of company cars or travel expenses.

Aareon has summarised its core processes in matrix form. It has analysed the relevant objectives of the control process and devised appropriate control activities. Performance of the control activities, and hence the effectiveness of the controls, is documented in a variety of ways.

The Supervisory Board receives quarterly reports on the Group's performance.

Aareon AG's Internal Auditing unit exercises a process-independent supervisory function, reporting directly to the Management Board and providing audit and advisory services that are focused on monitoring the compliance, security and profitability of Aareon's business processes.

Aareon is integrated in the financial processes of its parent company, Aareal Bank AG.

Aareon AG maintains a risk management manual, which describes the main elements of its risk management system. In this context we also refer to the information provided in the risk report.

# Risk report

Aareon AG monitors and manages its business risks by means of a Group-wide risk management system that is based on the R2C\_risk to chance standard software and includes an early warning function. The risk management system enables those responsible for the relevant divisions, investments and projects to regularly record and analyse their respective risks – but not the associated opportunities – as well as to develop proactive risk management measures. Risks are assessed in two separate dimensions, namely in terms of their impact and their probability of occurrence. Only residual risk is assessed and reported, i.e. any risk minimisation measures in place are taken into account. The resulting risk reports, which are consolidated by the Group's Legal, Risk Management and Compliance unit, provide the basis for quarterly risk reporting. This topic is dealt with regularly at board meetings and also forms part of the quarterly reports submitted to the Supervisory Board of Aareon AG. Aareon uses the risk reporting system to shed light on its risk situation and provide management with a basis for deciding what action to take. For each of the ten risks assessed in each quarter as having the highest expectancy (i.e. the product of impact and probability of occurrence), the corresponding measures specified by the risk owners are documented in the risk reports, to the extent that the risk expectancy exceeds a defined threshold. The threshold is currently set at € 100,000. At the applicable reporting date in the fourth quarter, five risks met the criteria for special individual reporting. In addition to documentation of the measures taken in the fourth quarter, the measures taken against risks whose expectancy ranked among the top ten in any of the preceding three quarters are also documented. This juxtaposition of risks and measures serves two purposes: firstly, to aid comprehension of the risk assessments and, secondly, to assess the effectiveness of the measures taken. Over and above this, the Management Board of Aareon AG and the management of Aareon Deutschland GmbH decide on the measures to be taken against risks whose expectancy exceeds a further defined threshold.

Aareon's Internal Auditing unit carries out reviews of the risk management system. That includes checking for compliance with legal provisions and with the Group-wide guidelines documented in the risk management manual. In addition, a control owner carries out an internal audit in accordance with German auditing standard IDW PS 951 nF to ascertain whether the internal risk management controls in place are effective.

Financial and market risks, management and organisational risks, risks from incidental and ambient conditions as well as production risks are among the categories of risk to which Aareon is exposed. Financial risks comprise liquidity, cost and revenue risks. Market risks include customer and competition risks, risks relating to associations' and advisory councils' opinion leadership as well as supplier risks. The management and organisational risk category combines risks relating to personnel and internal processes. The incidental and ambient conditions category includes legal risks as well as political, regulatory and compliance risks. Production risks comprise product and project risks as well as risks relating to information security. Interdependencies exist between individual risks. No overall risk value is calculated at the risk-category level. The planning period at this level is one year.

The introduction of categories and subcategories assists Aareon in drafting a harmonised risk atlas and achieving a uniform approach to the examination of risks. The risk atlas summarises the risks and indicators monitored by the individual divisions and Group companies.

If any major changes are decided on at meetings of the corporate bodies as regards the organisation, strategy or management policy, the central risk management department adjusts the risk atlas accordingly.

Viewed on average across the quarterly risk assessments, the risks faced by the company in 2018 were deemed to be only marginally higher than in the previous year. Overall,

Aareon was not exposed to any risks that threatened its status as a going concern or had a significant impact on its net assets, financial situation or earnings. The following is a description of risks of material interest to the readers of the financial statements.

### Financial risks

In order to avoid liquidity risks throughout the entire Aareon Group, risks are monitored and controlled in Germany in weekly liquidity planning rounds. Short-term fluctuations in cash flow are monitored on a daily basis and, where necessary, suitable countermeasures taken. At the international subsidiaries, this liquidity forecast is prepared on a monthly basis.

As Aareon AG is integrated in the financing processes of the Aareal Bank Group, its funding is judged to be secure at all times. That is why no funding risk is recorded. Exchange rate risks can be posed by transactions carried out in foreign currencies. Such transactions are monitored on an ongoing basis and reported to the CFO of Aareon AG. Exchange rate risks are managed centrally. Where necessary, currency risks are hedged Group-wide using hedging instruments.

To ensure that the revenue target is achieved despite the large number of implementation projects in progress, Aareon deploys a resource management planning tool to assign the available consulting resources (and their corresponding expertise) to the projects still to be completed. On top of that, projects are closely monitored so as to detect any deviations from the plan/forecast in good time.

The assessment of tax risks was unchanged compared with the previous year. The main concern was potential claims arising out of company audits and losses that do not qualify as loss carryforwards.

Financial risks were assessed as being unchanged in terms of content and slightly higher than in the previous year.

### Market risks

Aareon counteracts the risk of being unable to enforce its planned prices in the marketplace by regularly monitoring the agreed terms and conditions. The results of these monitoring activities are presented once a quarter at a meeting of executive management. The Aareon Group also deals with general market risks, which include customer churn and the entry of new competitors into the market. Risks of this kind are monitored and the findings provided to the Management Board in a monthly sales report. Aareon counters the risk of any deterioration in customer relationships by regularly checking levels of customer satisfaction.

### Management and organisational risks

In order to meet changing customer requirements, the company must ensure that the requisite personnel resources with the corresponding qualifications are made available in the right place at the right time. To achieve this, individual tasks have to be outsourced. The work4future project, the purpose of which is to establish a future-oriented working culture with the right equipment, continued in 2018.

Relative to the previous year, leadership and organisational risks were assessed as being unchanged.

### Risks from incidental and ambient conditions

At Aareon, the term “incidental and ambient conditions” is used to cover legal, political, regulatory and compliance risks. Aareon uses standard contracts that are refined and adapted on an ongoing basis to reflect changes in products and laws as well new court rulings. Where necessary, Aareon mutually agrees changes or additions to existing contracts with the relevant contracting parties in order to ensure that the contractually agreed services match those actually delivered to, or required by, the customer. Complaints management is a means of minimising potential claims for damages in connection with software implementation projects.

The measures taken by Aareon to raise awareness of the importance of compliance include sensitising, training and advising staff. In the reporting period, a compliance training course was rolled out at the international associates. In addition to this, the Compliance Officer carries out checks after approval of the corresponding audit plan by the Management Board. Compliance-relevant processes are honed and adapted so as to continuously improve the compliance management system.

The consequences for Aareon's established risk management system of the EU's General Data Protection Regulation (GDPR) and, in particular, of the risk-based approach that underpins it, are being taken into account in a Group-wide programme launched to implement the GDPR requirements.

As a holding company, Aareon AG is classified as a finance company and is thus subject to the provisions of the German Anti-Money Laundering Act (GwG). The statutory requirements it must meet as a result of this classification include the adoption of money-laundering safeguards, such as the preparation of risk analyses, compliance with reporting obligations and the appointment of an anti-money laundering officer. To this end, Daniel Klein was appointed as the company's anti-money laundering officer and Andrea Zimmermann as his deputy.

### Production risks

Like any other project, software development harbours the risk that the final product cannot be provided at the targeted cost, in the expected quality, or within the time frame required by the market. That is why such work is carried out using development and management methods based on internationally recognised standards. Procedures and standards are set down in a uniform international development policy that places particular emphasis on security and data privacy, and takes account of both agile and traditional development methods. Development and customer projects are increasingly being implemented using agile methods. That enables risks to be identified early and tracked further. Responsibilities for continuous improvement processes for software quality have

been assigned within the organizational structure. A particular focal point in this context is capital expenditure on the automation of testing with a view to achieving consistently high standards of quality at reduced cost.

As part of the continuous improvement of the information security management system, Aareon revised its risk management system for information security risks in the reporting period to conform to the BSI 100-3 standard. A dedicated IT risk organisation was established and integrated as a logical part of the Group's risk management system. The revised risk management system for information security risks was explicitly included in the ISO 27001 re-audit.

Realistic, documented countermeasures are taken to minimise the risk of any serious disruptions during the operation of customer software. Thus far, we have not experienced any disruptions leading to a prolonged loss of service. In order to minimise the risk of an application being disrupted as a result of unauthorised access or an attack, technical and organisational measures have been taken that are anchored in the internal control system in accordance with German auditing standard IDW PS 951 nF. Appropriate fire-protection, loss-protection and disaster-prevention measures have also been put in place. Internal redundancies are in place to counter the failure of individual systems or components. Aareon's IT Service Centres were built in 2011, audited by the TÜV technical inspection agency and certified as compliant with High-Availability Level 4. Key factors in this certification were the utilisation of state-of-the-art technologies, such as building infrastructure with heat-recovery technology, the mirroring of data between the two data centres, and fibre-optic cabling with cutting-edge encryption technology. The company has also installed comprehensive data backup processes that allow it to reconstruct lost data in whole or in part within corresponding time frames. Aareon has addressed the issue of liability risk by taking out financial liability insurance for a limited scope and amount. The insurance policy provides cover in the event that Aareon is found liable to a third party for financial losses incurred as a result of its activities as an IT provider.

# Opportunities

Identifying, creating and utilising opportunities is central to Aareon's corporate strategy of managing the digital transformation process in a purposeful manner. Aareon's own research and development activities play a crucial role here, as do its ongoing observation and analysis of developments in the property and IT industries, the competitive environment and society as a whole. The insights gained are incorporated into its strategic programme, the Aareon Flight Plan. The opportunities this gives rise to, some of which are correlated with each other, are categorised below. They were largely unchanged compared with the prior year:

- Opportunities from customer focus
- Opportunities from pioneering digital solutions
- Opportunities from active brand management and quality
- Opportunities from being an international corporate group
- Opportunities from being a preferred employer
- Opportunities from a sustainable business model

When utilising opportunities, Aareon weighs them up against the risks involved.

## Opportunities from customer focus

Customer focus is pivotal at Aareon. The goal is to use Aareon's portfolio of products and services to add value for customers. In many cases, our relationships with our customers and with the property industry have grown over many years. The company is a member of several property industry associations, including the German Federation of Housing and Property Companies (GdW). Over and above this, Aareon systematically maintains a dialogue with its customers – through the Aareon customer advisory councils, at numerous customer events and in individual discussions with them. This proximity to the industry and customers presents opportunities to identify customer trends, needs and requirements as they arise and to factor them into the ongoing development and expansion of Aareon's portfolio of products and services. In this context, Aareon also makes use of agile development methods like design thinking and collaborates

with customers in pilot projects. These approaches can help enhance utility for the customer.

## Opportunities from pioneering digital solutions

The digital transformation process in society and the economy is proceeding apace. Aareon integrates the opportunities offered by the digital transformation into its product strategy. It is constantly expanding the digital ecosystem Aareon Smart World, with its pioneering digital and mobile solutions, and also enhancing it with solutions from its prop-tech partners. Aareon Smart World connects the partners in the property industry. Our customers can use it to work in a convenient, process-efficient manner using a single database, to expand their own customer service capabilities and to leverage potential for new business models. Their data is stored in the exclusive Aareon Cloud, which is located in the certified Aareon IT service centre. Aareon offers professional consulting services for all its products and services. Aareon consultants assist their customers in setting a digital agenda and focusing on the right products and solutions to optimise their business processes. They also provide them with ongoing support throughout their implementation projects, for example with marketing workshops when rolling out CRM solutions. Companies often want to be able to source their IT services from a single provider because of the high degree of complexity involved. Compared with its competitors, Aareon has opportunities because of its ability to offer consulting, software and services from a single source. This sits well with Aareon's corporate strategy of building on its leading position in the market. When refining and enhancing existing products and services or developing entirely new ones, Aareon harnesses the growth potential arising out of the new trends and requirements of both customers and the market. Aareon's R&D plays a central role in this process (see p. 32). When carrying out R&D, Aareon also collaborates with property companies in adherence to the design thinking method (see above). It also works together with prop-tech companies and is a strategic partner of blackprint PropTech Booster (see p. 30).

### **Opportunities from active brand management**

Aareon takes an active approach to brand management, honing its profile and setting itself off from the competition. This is of central importance to its growth strategy as it influences customers' purchasing decisions. Aareon aspires to offer every customer the right solution or solution package. By resolutely pursuing this goal, Aareon sees an opportunity to grow faster than its competitors. In order to make good on its claims, Aareon systematically utilises quality management tools such as customer and employee surveys, and commissions regular audits and certifications in a variety of areas. In addition, the IT solutions it develops are reviewed and vetted in multiple quality assurance rounds.

### **Opportunities from being an international corporate group**

In recent years, Aareon has grown to become an international group. Digitalisation of the property industry has different points of focus in each of the countries in which Aareon operates. This creates opportunities not only for the transfer of knowledge between the Group's international and domestic entities, but also for research and development (see p. 32). Aareon makes use of these opportunities to expand Aareon Smart World and thus generate additional growth potential.

### **Opportunities from being a preferred employer**

The demographic trend is making competition for qualified workers more intense. It is also essential to manage the transformation to a digital working world and make sure all employees are on board. That is why constantly honing our profile as a preferred employer, one that is capable of attracting new employees, is crucial to success. Our work4future project is addressing this issue (see p. 40). Aareon has implemented many measures in recent years and will continue to build on them. These include services to enable employees to achieve a healthy work-life balance, a life-phase-oriented personnel policy, equal opportunities, diversity, knowledge sharing and

corporate health management. With the digital working world in mind, Aareon carried out an INQA audit (INQA = New Quality of Work Initiative) in 2016. Binding leadership guidelines and a systematic dialogue between line managers and staff are additional components of our employer profile. This creates opportunities for enhancing employee satisfaction and loyalty, and for facilitating the recruitment of qualified employees. In the race to recruit new, highly qualified workers, Aareon relies on employer branding activities that help to establish a link with potential employees at a very early stage.

### **Opportunities from a sustainable business model**

Together with the Aareal Bank Group, Aareon pursues a strategy geared to sustainability. This creates opportunities to ensure its viability in the long term and to cultivate an image of a responsible company with its stakeholders. Since 2012, the Aareal Bank Group has been accorded Prime Status in the sustainability rankings of ISS-oekom, a well-known rating agency. Key aspects of sustainability at Aareon include: a sustainable, future-proof business model; Aareon Smart World, which leverages the potential of digitalisation with its customer-centric, high-quality IT solutions; high levels of data protection and security; a responsible, life-phase-oriented personnel policy that makes the most of the opportunities offered by the digital working world; and systematic resource management. The Aareal Bank Group's annual Sustainability Report also describes the sustainability measures adopted by Aareon.

# Outlook

In 2019, Aareon will continue to pursue its growth strategy on the basis of the Aareon Flight Plan, which forms part of the Aareal 2020 programme for the future. Consolidated revenues are expected to grow significantly. For the reasons given below, EBIT will remain on a par with the previous year. Key factors include:

- Accelerating organic growth through strategic capital expenditure
  - on the further development of digital solutions
  - to tap new business fields
  - on solutions utilising innovative technologies
  - on corporate venturing activities in the start-up scene
- Achieving greater market penetration for digital solutions
- Strengthening ERP business, especially through further successful migrations, greater capital expenditure and enhanced competitiveness
- Expanding activities in the energy supply and commercial property markets
- Enhancing earnings in the International Business segment

The effects of IFRS 16, Leases, which is to be applied as of 1 January 2019, have not been factored into the outlook given here. The impact on earnings – particularly after interest (EBT) – will not be significant.

## Germany segment

We expect revenues in Germany to rise slightly in 2019, to € 152.0–154.0 million. At € 26.0–27.0 million, EBIT is expected to be marginally lower than in 2018.

ERP sales are anticipated to rise slightly. One focal point in this context will be the migration of GES customers to Wodis Sigma, which will continue to account for a substantial share of consulting business in 2019. Consulting revenues for ERP business are also expected to gain a boost from SAP®

solutions/Blue Eagle, as business with existing customers is expanded, e.g. through the roll-out of SAP® S/4HANA. We also expect to clinch further project deals in the energy supply and commercial property markets, which will enhance consulting business. By the same token, the implementation of these new projects will lead to higher personnel costs and an increase in external consulting expenses. The switch from GES to other ERP solutions will initially dampen recurring revenues, though they are set to rise again in the medium term. Once the corresponding fixed costs for the GES IT landscape in the Aareon IT Service Centre are eliminated and all GES customers have been migrated, we expect to earn higher margins. Licence revenues for ERP products will decline because GES migration business is coming to an end and no significant licence revenues for SAP® business are expected in 2019. What is more, we expect a higher number of new SaaS contracts to be signed, along with extensions.

Digital solutions will be a factor in Aareon's ability to realise its growth potential in Germany, given the increasingly high profile these products enjoy in the property industry and the growing interest in them from customers. Revenues generated by the Aareon CRM digital solution (portal and app for tenants and owners) are anticipated to rise substantially, as will those from Mobile Services thanks to further go-lives. To date, we have not always been able to satisfy the strong customer demand immediately, which is why we took measures in 2018 to add further capacity in 2019.

Business volumes for add-on-products such as the BauSecura insurance management solution and outsourcing services should be roughly the same as last year.

## International Business segment

In the International Business segment, we expect revenues to increase significantly in 2019, rising to € 94.0–96.0 million,

while EBIT will grow to € 15.0–16.0 million. The growing market penetration of digital solutions and increased earnings in the UK and Sweden will be key factors in this growth.

ERP product revenues are expected to be slightly lower than last year. In particular, licence revenues will decline as only very few regular licence renewals for customers in the Netherlands are due in 2019. By contrast, consulting business will grow, given that the 2018 figure was dampened by project postponements and a complex major project. Recurring revenues are expected to be positive in all countries.

Revenue from digital solutions will be substantially higher than last year. Both consulting and maintenance revenues are expected to grow. In France, numerous ERP projects for customers were prioritised in 2018 due to statutory requirements. As a consequence, other projects that were put off will now be implemented in 2019. New CRM product generations will be rolled out in the UK and the Netherlands, which should trigger greater demand. Another key area for revenue growth will be Sweden, where digital products are to be marketed independently of ERP products going forward.

### Strategic investments

Over and above its operating activities, Aareon is planning strategic capital expenditures in both its business segments in 2019 and subsequent years. The effect on EBIT will amount to € -6.0–-7.0 million in 2019 and comprise expenses for the further development of digital solutions and those utilising innovative technologies, for tapping new business fields and for corporate venturing activities in the start-up scene in order to accelerate organic growth. Ampolon Ventures will manage the company's start-up activities. Start-ups are planned in which Aareon will have a non-controlling interest and contribute its property industry expertise. Initial solutions and processes are slated for 2019. These strategic investments are

intended to accelerate growth at Aareon. They will also be beneficial for the entire Aareal Bank Group in the medium term and, in some cases, are being supported by Aareal Bank.

### Summary

In view of the information provided above, Aareon expects to post a substantial overall increase in revenues in 2019, which will rise to € 247.0–250.0 million. At around € 42.0 million, EBIT before strategic capital expenditures should also be significantly higher than last year. After strategic capital expenditures, Aareon expects to post EBIT of € 35.0–36.0 million in 2019.

All statements made in this Group Management Report that do not pertain to past events should be regarded as forward-looking statements. The company does not accept any responsibility for updating or correcting such forward-looking statements. All forward-looking statements are subject to differing risks and levels of uncertainty. As a result, the actual figures may deviate from expectations. The forward-looking statements reflect the prevailing opinion at the time that they were made.

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# Consolidated statement of comprehensive income

for the period 1 January to 31 December 2018

€ '000	Note	2018	2017
Revenues	04.1	<b>236,613</b>	221,316
Germany		<b>148,893</b>	141,054
International Business		<b>87,720</b>	80,262
Other own work capitalised	05.1	<b>7,758</b>	4,461
Other operating income	04.2	<b>5,351</b>	5,902
Cost of materials	04.3	<b>40,078</b>	32,638
Staff costs	04.4	<b>122,019</b>	116,861
Depreciation/amortisation		<b>12,809</b>	10,724
Other operating expenses	04.5	<b>38,048</b>	36,830
Other taxes		<b>827</b>	717
<b>EBIT (earnings before interest and taxes)</b>		<b>35,941</b>	<b>33,909</b>
Net financial income/expense	04.6	<b>-296</b>	-287
<b>EBT (Earnings before taxes)</b>		<b>35,645</b>	<b>33,622</b>
Income taxes	04.7	<b>9,927</b>	10,263
<b>Consolidated net profit</b>		<b>25,718</b>	<b>23,359</b>
Of which attributable to:			
Shareholders of the parent company		<b>24,064</b>	21,757
Non-controlling interests		<b>1,654</b>	1,602
<b>Other comprehensive income (OCI)</b>		<b>-590</b>	<b>781</b>
<b>Items not recycled to profit and loss</b>		<b>-590</b>	<b>781</b>
Actuarial losses from defined benefit plans		<b>-948</b>	1,128
Income tax on actuarial losses from defined benefit plans		<b>358</b>	-347
<b>Comprehensive income</b>		<b>25,128</b>	<b>24,140</b>
Of which attributable to:			
Shareholders of the parent company		<b>23,474</b>	22,538
Non-controlling interests		<b>1,654</b>	1,602

# Consolidated balance sheet

as at 31 December 2018

<b>Assets – € '000</b>			
	Note	31 Dec. 2018	31 Dec. 2017
<b>Non-current assets</b>			
Intangible assets	05.1	142,153	142,781
Property, plant and equipment	05.2	15,060	13,667
Financial assets	05.3	7,188	6,413
Deferred tax assets	05.5	6,457	5,737
		<b>170,858</b>	<b>168,598</b>
<b>Current assets</b>			
Inventories		262	236
Contract assets and receivables from customers	05.6	57,134	56,716
Other current assets	05.7	4,927	5,109
Current income tax receivables		162	1,712
Securities	05.8	344	362
Cash and cash equivalents	05.9	40,552	32,285
		<b>103,381</b>	<b>96,420</b>
		<b>274,239</b>	<b>265,018</b>

<b>Equity and liabilities – € '000</b>			
	Note	31 Dec. 2018	31 Dec. 2017
<b>Equity</b>			
Equity attributable to shareholders	05.10/05.11/05.12	165,726	143,460
Non-controlling interests	05.13	1,887	1,836
		<b>167,613</b>	<b>145,296</b>
<b>Non-current liabilities</b>			
Provisions for pensions and similar obligations	05.14	33,944	33,457
Other non-current provisions	05.15	1,411	1,682
Deferred tax liabilities*	05.5	10,276	12,485
Non-current purchase price liabilities	05.16	0	5,274
		<b>45,631</b>	<b>52,898</b>
<b>Current liabilities</b>			
Liabilities to banks		0	1,112
Other current provisions	05.15	13,192	16,148
Current income tax liabilities*		3,405	5,394
Trade payables	05.16	5,079	2,779
Current purchase price liabilities	05.17	8,856	7,542
Contract liabilities*	05.18	14,077	16,516
Other liabilities*	05.19	16,386	17,333
		<b>60,995</b>	<b>66,824</b>
		<b>274,239</b>	<b>265,018</b>

\*Adjustment to previous year (owing to reclassification of deferred and actual income tax as well as the requirements of IFRS 15)

# Consolidated statement of changes in equity

for the period 1 January 2017 to 31 December 2018

€ '000

	Equity attributable to shareholders				Total before non-controlling interests	Non-controlling interests		Total
	Subscribed capital	Share premium	Currency translation differences	Accumulated group earnings and profits		Subscribed capital	Accumulated group earnings and profits	
<b>1 January 2017</b>	<b>25,000</b>	<b>41,900</b>	<b>-3,161</b>	<b>58,534</b>	<b>122,273</b>	<b>64</b>	<b>1,499</b>	<b>123,836</b>
Dividend	0	0	0	0	0	0	-1,499	-1,499
Consolidated net profit	0	0	0	21,757	21,757	0	1,602	23,359
Other comprehensive income (OCI)	0	0	0	781	781	0	0	781
Capital increase	0	0	0	0	0	20	150	170
Other changes	0	0	-1,351	0	-1,351	0	0	-1,351
<b>31 December 2017</b>	<b>25,000</b>	<b>41,900</b>	<b>-4,512</b>	<b>81,072</b>	<b>143,460</b>	<b>84</b>	<b>1,752</b>	<b>145,296</b>
<b>1 January 2018</b>	<b>25,000</b>	<b>41,900</b>	<b>-4,512</b>	<b>81,072</b>	<b>143,460</b>	<b>84</b>	<b>1,752</b>	<b>145,296</b>
Dividend	0	0	0	0	0	0	-1,603	-1,603
Consolidated net profit	0	0	0	24,064	24,064	0	1,654	25,718
Other comprehensive income (OCI)	0	0	0	-590	-590	0	0	-590
Changes in scope of consolidation	0	0	0	0	0	0	0	0
Other changes	0	0	-861	-347	-1,208	0	0	-1,208
<b>31 December 2018</b>	<b>25,000</b>	<b>41,900</b>	<b>-5,373</b>	<b>104,199</b>	<b>165,726</b>	<b>84</b>	<b>1,803</b>	<b>167,613</b>

# Consolidated statement of cash flows

for fiscal 2018

€ '000

	2018	2017
<b>EBIT (earnings before interest and taxes)</b>	<b>35,941</b>	<b>33,909</b>
Write-up from the measurement of financial assets	12,809	10,724
Income taxes paid and income tax refunds received	- 13,295	- 4,705
Interest received	41	16
Interest paid	- 145	- 264
Increase (-)/decrease (+) from changes in assets	- 267	- 7,147
Increase (+)/decrease (-) from changes in liabilities	- 5,618	- 5,774
<b>Cash flow from operating activities</b>	<b>29,466</b>	<b>26,759</b>
Net payments for investments in non-current assets	- 15,370	- 11,755
Payments for the purchase of consolidated companies and other business units (less cash in hand acquired)	- 2,360	- 11,576
Exchange-rate-related changes in non-current assets	1,044	1,022
<b>Cash flow from investing activities</b>	<b>- 16,686</b>	<b>- 22,309</b>
Payments made/received for working capital loan	- 1,112	1,112
Payments to non-controlling interests	- 1,603	- 1,499
Other changes in capital	- 1,798	- 570
<b>Cash flow from financing activities</b>	<b>- 4,513</b>	<b>- 957</b>
Cash change in cash and cash equivalents	8,320	3,655
Exchange-rate-related changes in cash and cash equivalents	- 53	- 162
<b>Total change in cash and cash equivalents</b>	<b>8,267</b>	<b>3,493</b>
Cash funds at the beginning of the period	32,285	28,792
<b>Cash funds at the end of the period</b>	<b>40,552</b>	<b>32,285</b>

# Notes to the consolidated financial statements

## 01 General disclosures

### 01.1 Compliance with legal requirements

The consolidated financial statements of Aareon AG, Isaac-Fulda-Allee 6, 55124 Mainz, Germany, for fiscal 2018 were prepared voluntarily in accordance with International Financial Reporting Standards (IFRS), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), the interpretations of the former Standing Interpretations Committee (SIC) as applicable in the EU, as well as with the applicable provisions of Section 315e (1) of the German Commercial Code (Handelsgesetzbuch – HGB). All of the International Financial Reporting Standards that must be applied for the consolidated financial statements as of 31 December 2018 were taken into account. The financial statements give a true and fair view of the net assets, financial situation and earnings of the Aareon Group. The consolidated financial statements have been prepared in euros. Unless indicated otherwise, all amounts are shown in thousands of euros (€ '000 or € k).

For the sake of enhanced clarity and transparency, all information on individual items in the balance sheet or statement of comprehensive income that is provided in accordance with statutory provisions and that may be shown in either the balance sheet or statement of comprehensive income or in the Notes section is given in the Notes. Where individual items are summarised in the balance sheet and the statement of comprehensive income, they are broken down in the Notes.

Aareon AG is a wholly owned subsidiary of Aareal Bank AG, Paulinenstraße 15, 65189 Wiesbaden, Germany, which prepares its consolidated financial statements for the lowest and highest consolidation levels. Aareon AG is included in the consolidated financial statements of Aareal Bank AG pursuant to the pertinent provisions concerning consolidation. The financial statements are published in Germany's Federal Gazette (Bundesanzeiger).

### 01.2 Disclosures on operating activities

Aareon is the leading European provider of consulting services and systems for the property industry and the industry's partner for digitalisation. The Aareon Group has a presence at 37 locations in Europe's key property markets, including 14 in Germany. Its international subsidiaries are located in Finland, France, the Netherlands, Norway, Sweden and the UK. Aareon also has a presence in Austria through a subsidiary of mse Augsburg GmbH. As of 31 December 2018, Aareon had 1,581 employees (previous year: 1,559). Its head office is located in Mainz, Germany.

Aareon's customers include private housing companies, co-operatives, municipal and church-run housing organisations, property management companies, home owners' associations, insurance companies, property investment funds, companies with property holdings (corporate real estate), commercial property operators as well as energy suppliers and providers of heat-metering services.

## 02 Information on accounting policies and consolidation methods

### 02.1 Accounting principles

In order to ensure the comparability of the financial statements of different periods, a general continuity is preserved in the methods of presentation used and the accounting policies applied.

The principle of materiality is observed when disclosing information. For arithmetical reasons, rounding differences of up to one unit in either direction may occur in tables. The statement of comprehensive income has been prepared using the total cost method. All assets and liabilities with maturities of less than one year are recognised as current assets.

The presentation of the consolidated financial statements is subject both to the recognition and measurement methods used to prepare those statements and to the uncertainty of the assumptions and estimates made in respect of future events. Where assumptions and estimates are required for accounting and measurement purposes, they are made in accordance with the relevant accounting standards. The estimates and assumptions are based on historical experience and other

metrics such as planning figures. The estimates and assessments used, as well as the underlying assessment factors and estimation methods, are regularly reviewed and compared with the events that actually occur. In our opinion, the parameters used are both suitable and reasonable.

The main assumptions concerning the future and other sources of estimation uncertainty giving rise to a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year concern, in particular, the calculation of pension obligations and of provisions, and the measurement of intangible assets and of tax assets and liabilities. Discretionary decisions, and estimation uncertainties associated with them, arise in connection with the recognition of revenues (apportionment of transaction prices, application of input methods).

## 02.2 Consolidation principles

In accordance with IFRS, the separate financial statements of the individual subsidiaries are included in the consolidated financial statements by uniformly applying the accounting policies defined by Aareon AG. The historical cost of the consolidated subsidiaries is offset against their proportionate equity on their respective dates of acquisition in accordance with the purchase method. Any goodwill remaining is recognised under intangible assets.

All receivables and liabilities as well as revenues, income or expenses resulting from transactions between the consolidated companies have been eliminated. Balancing items for non-controlling interests were created for any shares in consolidated subsidiaries not held by the parent company. These non-controlling interests are affected by any consolidation measures recognised through profit or loss.

## 02.3 Currency translation

The international companies belonging to the Aareon Group are independent sub-units, whose financial statements are translated into euros using the functional currency method. The items in the statement of comprehensive income are translated using the average exchange rate; all monetary and non-monetary assets and liabilities are translated into euros using the European Central Bank's reference rate on the

reporting date. Differences affecting equity are disclosed directly in a separate equity item until disposal of the subsidiary. This also applies to any deviations between the unappropriated surplus, which is converted using the closing rate at the reporting date, and the results shown in the consolidated statement of comprehensive income, which are based on average exchange rates. The components of equity to be consolidated as capital are translated using historical exchange rates. The following rates were used for currency translation:

		1 € =			
		Balance sheet		Statement of comprehensive income	
		Closing rate		Average exchange rate	
		2018	2017	2018	2017
United Kingdom	GBP	<b>0.8945</b>	0.8872	<b>0.8847</b>	0.8767
Sweden	SEK	<b>10.2548</b>	9.8438	<b>10.2583</b>	9.6351
Norway	NOK	<b>9.9483</b>	9.8403	<b>9.5975</b>	9.3270

## 02.4 Scope of consolidation

The group of consolidated companies includes Aareon AG as well as all subsidiaries in which Aareon AG either directly or indirectly holds the majority of voting rights or has the right to appoint the majority of the Supervisory Board members. Three companies were merged and two founded in the reporting year. In order to simplify the corporate structure, Aareon Immobilien Projekt Gesellschaft mbH and Aareon International Solutions GmbH were merged with Aareon Deutschland GmbH. The mergers were entered in the Commercial Register on 12 November 2018 with retroactive effect from 1 January 2018. Further, SG2ALL B.V. was merged with Aareon Nederland B.V., also with retroactive effect from 1 January 2018. Aareon Finland OY, Helsinki, was established on 5 December 2018 as a result of expanding business activities in Finland. In addition, AV Management GmbH, Mainz, was established to manage the company's activities in the start-up scene. Please see Note 05.4 for a list of all subsidiaries included in the consolidated financial statements.

## 02.5 Changes in accounting policies

The following accounting and reporting standards (IAS/IFRS) were applied for the first time in the reporting period:

— IFRS 15, Revenue from Contracts with Customers

IFRS 15 provides a single model to be applied to all contracts with customers. It replaces the provisions on revenue recognition in IAS 11, IAS 18 and the associated interpretations. IFRS 15 is to be applied by all companies that conclude contracts with customers for the delivery of goods or the provision of services, unless those contracts fall within the scope of other standards. For instance, financial instruments and other contractual rights or obligations falling within the scope of IAS 39 or IFRS 9 are excluded from IFRS 15. The core principle of the new standard is that an entity will recognise revenue once or as it satisfies the performance obligations it has assumed, i.e. when control of the goods or services has passed to the customer. The amount of revenue recognised corresponds to the consideration that the entity is likely to receive in exchange for these goods or services. IFRS 15 contains a five-step model that is used to determine in what amount and at what point in time or over what period of time the revenue is recognised. The standard requires additional disclosures, e.g. on a breakdown of the total revenues, on performance obligations, on the reconciliation of the opening and closing balances of the contract assets and liabilities as well as on key discretionary decisions and estimates made. With the publication of Effective Date of IFRS 15 in September 2015, the IASB postponed the first-time application of IFRS 15 to accounting periods beginning on or after 1 January 2018. In July 2015, additional amendments and clarifications to the standard were proposed. Aareon examined the effects of the new standard on its consolidated financial statements and, in the process, analysed the standard contracts used in different countries. The overwhelming majority of agreements concluded with customers are standard contracts. Aareon's business model does not provide for any contract initiation costs that would need to be capitalised. Nor is any material variable compensation payable for services provided by Aareon. Customers are not granted any material financing

components. Aareon has not identified any material effects on its existing practice of accounting revenues. Aareon presents its performance obligations using five revenue categories (Licenses, Consulting, Maintenance, SaaS and Fees, and Other).

— IFRS 9, Financial Instruments

IFRS 9 revises the recognition of financial instruments in the financial statements and replaces IAS 39, Financial Instruments: Recognition and Measurement. The new classification of financial instruments to be applied as of 1 January 2018 in accordance with IFRS 9 will have no effect on the consolidated financial statements. Loans and receivables will continue to be recognised at cost. Available-for-sale financial instruments will continue to be recognised at fair value on initial and subsequent measurement. The new rules concerning impairments will also have no significant impact on Aareon.

Up until 31 December 2018, the following accounting and reporting standards (IAS/IFRS) and interpretations (IFRIC), which are to be applied in future accounting periods, had been

issued by the International Accounting Standards Board (IASB) and endorsed by the European Union:

<b>New standards/interpretations</b>	<b>Issued</b>	<b>Endorsed</b>	<b>Effective date</b>
IFRS 17, Insurance Contracts	May 2017		Accounting periods beginning on or after 1 January 2021
IFRIC 23, Uncertainty over Income Tax Treatments	June 2017	October 2018	Accounting periods beginning on or after 1 January 2019
IFRS 16, Leases	January 2016	October 2017	Accounting periods beginning on or after 1 January 2019

<b>Revised standards</b>	<b>Issued</b>	<b>Endorsed</b>	<b>Effective date</b>
IAS 1/IAS 8, Definition of Materiality	October 2018		Accounting periods beginning on or after 1 January 2020
IFRS 9, Financial Instruments – Prepayment Features with Negative Compensation	October 2017	March 2018	Accounting periods beginning on or after 1 January 2019
IAS 28 (revised 2011), Investments in Associates and Joint Ventures – Long-Term Interests	October 2017		Accounting periods beginning on or after 1 January 2019
IAS 19, Employee Benefits – Plan Amendment, Curtailment or Settlement	February 2018		Accounting periods beginning on or after 1 January 2019
IFRS 10 and IAS 28, Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	September 2014		Date of first-time application post-poned indefinitely
Effective date of amendments to IFRS 10 and IAS 28	December 2015		
IFRS 3, Business Combinations	October 2018		Accounting periods beginning on or after 1 January 2020

— IFRS 16, Leases

The new IFRS 16 standard covering the accounting of leases will replace IAS 17 and the associated interpretations IFRIC 4, SIC 15 and SIC 7. It introduces a single accounting model for lessees. As a result, lessees are obliged to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The lessee recognises an asset representing its right of use of the underlying leased object. It also recognises a lease liability representing its obligation to make lease payments. For lessors, the accounting approach is essentially unchanged versus IAS 17, with leases continuing to be classified as either operating or finance. The classifications in IFRS 16 use the same criteria as in IAS 17. IFRS 16 also includes a number of other provisions on recognition, disclosures in the notes and sale-and-lease-back transactions. Aareon expects IFRS 16 to have material effects on the presentation of its financial statements. The new standard will be implemented using the modified retrospective approach, i.e. the effect of € -5 million expected from retrospective application will be recognised directly in equity under retained earnings. We expect the right-of-use assets to amount to € 62 million and the corresponding lease liabilities to € 67 million. These figures will result mainly from the recognition of right-of-use assets from long-term leases of office buildings and in relation to the vehicle fleet for employees. In future, there will be reclassifications in the statement of comprehensive income from other operating expenses to depreciation; the latter will increase, reaching the high-single-digit-million range. Interest expenses will also be higher in future.

— IFRS 9, Financial Instruments – Prepayment Features with Negative Compensation

Under certain circumstances, financial instruments exhibiting prepayment features with negative compensation may be recognised at amortised cost or at fair value through other comprehensive income rather than at fair value through profit or loss.

— IAS 19, Employee Benefits – Plan Amendment, Curtailment or Settlement

When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 sets out that a company must remeasure its net defined benefit liability or asset. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In addition, any impairments of a surplus position are deemed part of past service cost and must be recognised through profit or loss.

— IAS 28 (revised 2011), Investments in Associates and Joint Ventures

The amendments to IAS 28 clarify that IFRS 9 is to be applied to non-current investments in joint ventures and associates that are not accounted for using the equity method.

— IFRIC 23, Uncertainty over Income Tax Treatments

The tax treatment of certain items and transactions may depend on their future recognition by tax authorities or fiscal courts. IAS 12, Income Taxes, defines how actual and deferred taxes are to be recognised. IFRIC 23 supplements the rules in IAS 12 to take account of uncertainties regarding the tax treatment of items and transactions.

— Annual Improvements Cycle 2015 – 2017

The Annual Improvements Cycle 2015 – 2017 covers minor amendments to existing standards and interpretations. If, through the acquisition of additional shares, an entity obtains control within the meaning of IFRS 10 over what was previously a joint operation, the previously held interest must be remeasured under IFRS 3. If, on the other hand, the entity obtains joint control over the joint operation through the acquisition of additional shares, the previous interest does not need to be remeasured. The amendments to IAS 12, Income Taxes, clarify that the income tax consequences of dividends must be recognised where the transactions or events that generated distributable profits are recognised. Therefore, the underlying transaction is not considered to be the dividend itself (in the sense of an equity transaction), but the business transactions leading to the distributable profit. The amendments in relation to IAS 23, Borrowing

Costs, clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

Aareon applied IFRS 15 for the first time as of 1 January 2018. Application of the modified retrospective approach, which entailed changes to the accounting principles of IAS11/18 as of 1 January 2018, had no material effects on the financial statements. Aareon has a large number of (combined) contracts that comprise more than one service. In such contracts, the consideration for each service is generally the same as that for the standalone service. The contracts do not contain any variable considerations or significant financing components. On the formation of contracts, Aareon does not incur any costs that would have to be recognised as assets. The terms “contract assets” (previously: receivables from unbilled services) and “contract liabilities” (previously: advance payments received from customers) were introduced into the consolidated balance sheet. In 2018, Aareon did not make use of the option of the early application of standards applicable in future accounting periods. Aareon is currently assessing the effects of the implementation of the new and amended accounting and reporting standards on its consolidated financial statements.

## 03 Accounting principles

### 03.1 Intangible assets

As a rule, goodwill is tested for impairment in the fourth quarter of each year. Its value is measured on the basis of the present value of future cash flows (value in use), which are determined using medium-term planning figures. This entails using the projected pre-tax cash flows from the three-year plan adopted by the Management Board of Aareon AG and approved by the Supervisory Board. Thus, the revenue and expense items are planned individually over this three-year period. The values assigned to the main assumptions are based on internal and external factors as well as on past experience. The previous year's planning figures also play a central role. Revenue planning is based mainly on assumptions regarding migration projects and new business as well as renewals of contracts and additional business with existing customers. These assumptions also represent the main sources of estimation uncertainty. Regular revenues from existing customers, such as fees from licensing and maintenance contracts, are not generally subject to any major estimation uncertainty. The cost of materials is planned on the basis of planned revenues. Personnel numbers and salary growth are the main factors determining the personnel budget. Other costs are generally projected on the basis of prior-year figures, taking into account known non-recurring effects. On the expenses side, estimation uncertainty arises as a result of unplanned price increases and unpredictable non-recurring effects. The more forward-looking the assumptions, the higher the estimation uncertainty. Cash flows after the four-year time horizon are measured taking the perpetual annuity into account. The present value of future cash flows is determined on the basis of a Group-wide risk-adjusted discount rate of 6.20 % after tax. The discount rate is calculated as the sum of a risk-free base interest rate of 1.00 % plus a company-specific risk loading of 6.50 % multiplied by a beta factor of 0.80. In view of the uncertain nature of planning beyond three years, we take a cautious view of the market environment and assume a growth rate of 2 %, which corresponds to the expected inflation rate. The recoverable amounts exceed the carrying amounts. If there is

a significant change in one of the main assumptions described above – such as an increase of 1.0% in the risk-adjusted discount rate, a reduction of 5.0% in the EBIT included in cash flow or a drop in the growth rate to 1% – no individual impairment is recognised. There was no need to recognise any impairment losses in the reporting period.

Purchased intangible assets, primarily software, are capitalised at cost and subject to straight-line amortisation in accordance with their customary useful lives. The amortisation methods and useful lives are reviewed annually. Any adjustments are made in accordance with IAS 8.

#### Useful lives of intangible assets

Internally generated intangible assets	3–10 years
Acquired intangible assets	3–10 years
Customer relations	5–20 years
Brands	20–25 years

Research costs are treated as current expense in accordance with IAS 38. Development costs for internally generated software are recognised as assets if the prerequisites for recognition under IAS 38 are met.

### 03.2 Property, plant and equipment

Items of property, plant and equipment are measured at cost, including restoration obligations that are required to be capitalised under IAS 16. Insofar as the items are wasting assets, they are subject to straight-line depreciation in accordance with the expected useful lives of the components. The depreciation methods and useful lives are reviewed annually. Any adjustments are made in accordance with IAS 8. The useful lives of the principal components are presented below:

#### Useful lives of property, plant and equipment

Buildings	40 years
Tenant's improvements	8–15 years
Other equipment, and office furniture/equipment	3–23 years

An impairment loss within the meaning of IAS 36 is recognised if it is compulsory to carry the asset at a lower value, i.e. if the net realisable value or the value in use of the asset in question is lower than its carrying amount.

### 03.3 Leases

The finance lease requirements of IAS 17 are fulfilled for the use of leased property, plant or equipment if all of the major opportunities and risks associated with ownership are transferred to the lessee. In this case, the respective assets are capitalised at the present value of the minimum lease payments and depreciated using the straight-line method over the asset's useful life or the duration of the lease, whichever is shorter. The obligations from future lease payments are discounted and recognised as a liability. The provisions of IFRIC 4 were observed when applying IAS 17.

After expiry of the lease period, the lessee generally has the option of concluding a follow-on lease, purchasing the asset at its respective residual value or having it transferred to the lessee so that it can be scrapped. The discount factor equals the assumed interest rate underlying the lease.

### 03.4 Financial assets and financial liabilities

Under IFRS 9, the classification of financial assets and liabilities depends on the respective business model. The following business models are possible with debt instruments (e.g. receivables or fixed-income securities):

- Held-to-collect
- Held-to-collect and for sale
- Other business models (those that cannot be assigned to either of the above models)

With equity instruments, IFRS 9 distinguishes between business models in which the instrument is held with or without the intention to trade.

It also makes a distinction between whether the financial assets are subject to contractual cash flows or whether the cash flows are solely payments of principal and interest (SPPI) for the asset.

Aareon classifies trade receivables, contract assets, other financial assets as well as financial liabilities as held-to-collect. They are thus recognised at amortised cost. Aareon does not exercise its option to recognise them at fair value. With equity instruments, Aareon decides on a case-by-case basis whether to exercise its option to recognise an instrument through other comprehensive income. Otherwise it is measured at fair value through profit or loss. Derivatives are also recognised at fair value through profit or loss.

Adequate loss allowances are recognised for trade receivables, either as fixed percentages and by means of an individual approach that takes account of the customer situation and maturity structure. Low-interest-bearing receivables are carried at their discounted amount, taking into account appropriate interest.

Foreign-currency receivables are converted into euros using the closing rate at the reporting date.

Contract assets in connection with service contracts not yet satisfied as of the reporting date are recognised based on their percentage of completion (input method). The percentage of completion is calculated based on a comparison of the order costs already incurred with the expected total order

costs. Other unfinished customer orders are recognised in the amount of the order costs incurred, insofar as it is probable that these will be covered by income.

We refer to the risk report, which forms part of the management report, for information regarding the Group-wide system in place at Aareon to measure, limit and control risks as well as for information provided in accordance with IFRS 7 concerning the description and scope of the risks arising out of financial instruments.

### 03.5 Inventories

Inventories are recognised at cost. Financing costs are not taken into account. Inventories are measured at the reporting date at cost or net realisable value, whichever is lower.

### 03.6 Deferred taxes

Deferred taxes are recognised in line with IAS 12 for all temporary differences between the carrying amounts in the tax base and those in the consolidated balance sheet (temporary difference approach). Deferred taxes also have to be recognised for losses carried forward. The liability method is used to calculate deferred taxes. The deferred amounts recognised reflect the assumed tax burden or relief in future accounting periods based on the applicable tax rate at the time of realisation. Deferred taxes are determined using country-specific tax rates that are either already in effect or have been announced at the reporting date. Deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which the temporary differences and unused tax loss carryforwards can be offset. The carrying amounts are reviewed at each reporting date and adjusted where necessary. They are reduced accordingly if it is no longer probable that sufficient taxable profit will be available for offset.

No deferred taxes are recognised if income from subsidiaries is tax-free due to specific local tax regulations and it is unclear what tax effects will result from removal of the temporary tax exemption.

### 03.7 Provisions for pensions and similar obligations

Provisions for pension obligations are primarily recognised for commitments arising out of pension plans, i.e. retirement pensions, disability pensions and benefits for surviving dependants. The actuarial measurement of pension provisions is based on the projected unit credit method prescribed for pension commitments in IAS 19. As a rule, these are defined benefit commitments, i.e. the pension promised to the respective employees depends on the development of their salaries and the number of years of service they achieve (defined benefit obligation). This method takes future increases in salaries and pensions into account as well as the pensions and commitments known at the reporting date. The amount recognised as the provision is the present value of the entitlement to pension benefits that the eligible employees have earned. Any plan assets offset against the provision are recognised at fair value.

### 03.8 Income tax liabilities

Provisions for taxes include obligations in connection with current income taxes. Deferred taxes are disclosed under a separate balance sheet item and in the tax reconciliation statement.

### 03.9 Other provisions

Other provisions are recognised if the Aareon Group has a present obligation arising from a past event, the settlement of which is expected to result in an outflow of resources. The amount of the provision corresponds to the best possible estimate at the reporting date of the amount required to settle the present obligation. Provisions that will not already lead to an outflow of resources in the following year are recognised at their settlement value if no material impact on interest would result. The settlement value also comprises any cost increases to be taken into account at the reporting date. Provisions in foreign currencies are translated using the closing rate at the reporting date.

### 03.10 Liabilities

Liabilities are recognised at their repayment or settlement amount. Liabilities from finance leases and purchase price liabilities are recognised at their present value.

### 03.11 Recognition of income and expenses

Revenues and other operating income are recognised when the performance obligation is satisfied or when the customer obtains control of the goods or services.

Aareon generates its revenues mainly through

- Licensing agreements
- Consulting and training projects
- Maintenance contracts
- SaaS/ASP and hosting from the exclusive Aareon Cloud

Software licence revenue is recognised if a contract has been signed by both parties with no rights of withdrawal, the product has been delivered in full (e.g. through provision of the licence key), the licence fee has been determined and payment is probable. This means the customer has obtained control of the right to use the product. Payment is generally made after conclusion of the licence agreement or after successful implementation of the software (sometimes after defined milestones have been reached); the deadline for payment can be up to 45 days. Until implementation has been completed or the milestones reached, the revenue is recognised as a contract asset. Thereafter, it is recognised as a trade receivable. Maintenance, SaaS/ASP and hosting services are realised pro rata over the contractual performance period. This type of revenue from contracts with customers is not recognised until the product goes live. The majority of customers pay their maintenance and hosting fees in advance for a certain period (at most one year) and have differing deadlines for payment (up to 45 days). That portion of the advance payment covering the performance obligation not yet satisfied is recognised as a contract liability and reversed in proportion to future performance. The customer derives benefit from the service and, at the same time, makes use of the service as it is being provided.

Consulting and training services are recognised through profit or loss when the service has been performed. The Group also provides implementation services as part of its project work. In these cases, assets are created or improved over which the customer obtains control. Revenue and contract assets are recognised in accordance with the percentage of completion, which is generally based on an input method. A project's percentage of completion is calculated based on a comparison of the order costs already incurred with the total order costs expected. Application of an input method would incur excessively high costs. Customers make advance payments for services Aareon provides over a long period. These are netted under the corresponding contract assets or recognized under contract liabilities to the extent that the advance payment received exceeds the contract asset. Provisions are recognised for impending losses from this type of service in the period in which the losses were caused.

Operating expenses are recognised through profit or loss when the service is utilised or when the expenses are incurred in economic terms. Interest income and expense are recognised on an accrual basis.

In addition to country-specific ERP business for the property and energy supply industries, Aareon offers digital solutions – some of them internationally. These solutions include Mareon, Aareon Archiv kompakt, mobile services, Aareon CRM (tenants portal), Aareon ImmoBlue Pro, ShareWorX®, Facilitor and Trace & Treasury. Aareon also has other add-on products and services in its portfolio, such as the BauSecura insurance management solution, IT outsourcing and Integrated Payment Transactions.

## 04 Notes to the statement of comprehensive income of the Aareon Group

### 04.1 Revenues

#### Revenues by business segment in € '000

	2018	2017
Germany	148,893	141,054
International Business	87,720	80,262
<b>Total</b>	<b>236,613</b>	<b>221,316</b>

#### Revenues by product group in € '000

	2018	2017	2017
		Restated	
ERP products	167,677	161,105	155,204
Digital solutions and services	42,409	36,500	36,500
Add-on products and services	26,527	23,712	29,612
<b>Total*</b>	<b>236,613</b>	<b>221,316</b>	<b>221,316</b>

\*Prior-year figure restated due to reclassification between product groups

#### Revenues by category in € '000

	2018	2017
Licensing revenues	25,663	19,978
Consulting revenues	60,746	58,644
Maintenance revenues	58,632	60,855
Fees and SaaS	78,262	68,754
Other revenues	13,311	13,086
<b>Total</b>	<b>236,614</b>	<b>221,316</b>

Revenues from the **Germany** segment increased by € 7,839 k year on year. The main reason for the increase in revenues for ERP products was consolidation of the mse companies. Acquired on 1 October 2017, these companies were included only in the Q4 2017 figures, but over the entire year in 2018. Consulting revenues continued to grow thanks to the increasing

number of projects for the migration from GES to Wodis Sigma. Owing to resource bottlenecks, revenues for the ERP product SAP® Solutions/Blue Eagle did not increase. However, Aareon was able to sign a large number of new licensing contracts. Revenues from digital solutions rose significantly, underscoring their importance as a growth driver. Add-on products and services grew amid increasing outsourcing business. Revenues from the **International Business** segment rose by € 7,458 k year on year. Growth was especially strong for ERP products. Growth in licensing and maintenance business was particularly robust in the Netherlands, France and the UK, chiefly due to the higher number of new contracts, further go-lives and the increasing number of Platinum contracts concluded by existing customers. Consulting revenues were unchanged year on year. Revenues did not increase in the Scandinavian market due to both a complex major project and project delays. Aareon posted strong growth for digital products. The International Business segment accounted for 37.1 % of consolidated revenues (previous year: 36.3 %). All revenue was from contracts with customers and reflects that portion of the total transaction price for which the performance obligation has been satisfied. In the reporting period, revenues in the amount of € 1,513 k were recognised for performance obligations from earlier periods.

#### 04.2 Other operating income

Other operating income in € '000		
	2018	2017
Non-cash income	1,518	1,440
Income from trade fairs and congresses	993	1,046
Income from affiliated companies outside the Aareon Group	879	1,230
Measurement of purchase price liabilities	832	1,339
Income from the reversal or reduction of individual impairment losses	590	140
Other income	539	707
<b>Total</b>	<b>5,351</b>	<b>5,902</b>

The growth in income from the adjustment of purchase price liabilities is explained in Note 05.16.

#### 04.3 Cost of materials

Cost of materials in € '000		
	2018	2017
Software and hardware costs	5,040	3,708
Cost of services purchased	35,038	28,930
<b>Total</b>	<b>40,078</b>	<b>32,638</b>

The cost of materials in 2018 was € 7,440 k higher than in the previous year. One of the reasons for this was that the mse companies were included in the financial statements for the full 12-month period (previous year: three months). In addition, the higher volume of licensing sales included third-party products that generate a material input. Owing to the high number of migration projects in the Germany and International Business segments, Aareon had to rely more often on the services of external consultants.

#### 04.4 Staff costs/employees

Staff costs in € '000		
	2018	2017
Salaries	99,598	95,371
Social security costs	22,421	21,490
of which: for post-employment benefits	4,946	4,803
<b>Total</b>	<b>122,019</b>	<b>116,861</b>

**Staff costs** increased by € 5,158 k compared with the previous year. The main reason for this increase was the full-year inclusion of the mse companies acquired in the course of 2017, and the recruitment of personnel in the International Business segment.

The number of employees of Aareon as of 31 December – excluding temporary staff, trainees and interns – was as follows:

	2018	2017
<b>Employees (excluding temporary staff, trainees and interns) – year-end figures</b>		
Employees	1,453	1,427
Executive managers	74	82
<b>Total</b>	<b>1,527</b>	<b>1,509</b>
of which: part-time employees	346	353

	2018	2017
<b>Employees (excluding temporary staff, trainees and interns) – annual average figures</b>		
Employees	1,445	1,360
Executive managers	76	82
<b>Total</b>	<b>1,521</b>	<b>1,442</b>
of which: part-time employees	345	289

	2018	2017
<b>Employees (excluding temporary staff, trainees and interns) – annual average by business segment</b>		
Germany	854	792
International	667	650
<b>Total</b>	<b>1,521</b>	<b>1,442</b>

#### 04.5 Other operating expenses

Other operating expenses in € '000	2018	2017
Occupancy expenses	9,279	8,800
Motor vehicle expenses	5,109	4,891
Travel expenses	5,011	5,105
Legal and consultation expenses/auditing costs	4,516	5,291
Advertising/marketing/entertainment	3,742	3,834
Other staff costs and temporary staff	2,578	2,218
Software maintenance	1,972	2,378
Payment made in connection with a major project	990	0
Communication costs	942	851
Further training	815	829
Leasing/technology	726	362
Insurance costs	480	470
Compensation for Supervisory Board and Advisory Board	334	303
Fees and contributions	321	262
Office material	203	330
Impairments of receivables	172	269
Measurement of purchase price liabilities	144	0
Miscellaneous other operating expenses	714	637
<b>Total</b>	<b>38,048</b>	<b>36,830</b>

**Other operating expenses** grew by € 1,218 k year on year. In Norway, a major project was cancelled prematurely against a payment of € 990 k and waiver of all outstanding receivables. The total non-recurring effect (including legal expenses) came to € 1,630 k. In the previous year, consulting expenses were impacted by internal projects to upgrade the IT system landscape. All impairment losses stem from contracts with customers.

#### 04.6 Net financial income/expense

Net financial income/expense in € '000		
	2018	2017
Other interest and similar income	30	15
of which: with affiliated companies	0	0
Interest and similar expenses	- 326	- 302
of which: with affiliated companies	- 68	- 85
<b>Total</b>	<b>- 296</b>	<b>- 287</b>

#### 04.7 Income taxes

Income taxes in € '000		
	2018	2017
German income taxes	9,078	7,905
Foreign income taxes	3,440	2,762
<b>Actual tax expense</b>	<b>12,518</b>	<b>10,667</b>
Deferred income tax assets/liabilities	- 2,590	- 404
<b>Total</b>	<b>9,927</b>	<b>10,263</b>

The increase in deferred tax income is attributable to further reversals of deferred tax liabilities from corporate acquisitions. In addition, deferred tax assets were recognised on the loss carryforward of Aareon Norge in the year under review. The following table shows the reconciliation statement for the differences between income taxes based on the net income before taxes and the actual income tax reported. In order to calculate the expected tax expense, the Group tax rate of 31.7% valid in fiscal 2018 (previous year: 31.7%) was multiplied by earnings before taxes.

Reconciliation of tax expenses in € '000		
	2018	2017
<b>Earnings before income taxes</b>	<b>35,645</b>	<b>33,622</b>
Trade tax	5,347	5,338
Corporation tax	5,658	5,043
Solidarity surcharge	294	277
<b>Expected tax expense</b>	<b>11,299</b>	<b>10,658</b>
Reconciliation:		
Non-deductible expenses	582	535
Tax-free income	- 1,215	- 1,178
Taxes for prior years	- 121	217
Differences in tax rates of international subsidiaries	- 515	91
Other differences	- 103	- 60
<b>Tax expense reported</b>	<b>9,927</b>	<b>10,263</b>

## 05 Notes to the consolidated balance sheet of the Aareon Group

### 05.1 Intangible assets

Goodwill mainly results from the acquisition of companies in the software industry. It is allocated to the cash generating units that derive benefit from the synergies created through the acquisition and on the basis of which management monitors goodwill for internal control purposes. The cash generating units are grouped together in the business segments. The amortised goodwill by business segment is as follows:

Carrying amounts in € '000				
	31 Dec. 2017	Additions	Exchange-rate effects	31 Dec. 2018
Germany	34,908	275	0	35,182
International Business	50,140	0	- 477	49,664
<b>Total</b>	<b>85,048</b>	<b>275</b>	<b>- 477</b>	<b>84,846</b>

The item “Internally generated intangible assets” relates to internal and external development costs capitalised in accordance with IAS 38. The development costs in each country were capitalised using a standard per-diem rate. The capitalised carrying amounts are as follows:

Carrying amounts in € '000		
	31 Dec. 2018	31 Dec. 2017*
<b>ERP solutions</b>	<b>17,794</b>	<b>14,334</b>
Germany	3,563	2,570
International Business	14,231	11,764
<b>Digital solutions</b>	<b>8,129</b>	<b>7,929</b>
Customer Relationship Management (CRM)	3,071	3,466
Digital platform	1,700	1,921
Supplier Relationship Management (SRM)	752	789
Vacancy Management	662	736
Building Relationship Management (BRM)	585	106
Trace & Treasury	556	582
Miscellaneous	803	329
<b>Total</b>	<b>25,924</b>	<b>22,264</b>

\*Prior-year figure restated due to reclassification between product groups

Internally generated software in the amount of € 17,663 k was completed in the reporting period, while internally generated software worth € 8,261 k was still under development. Research and development costs to create new functions and products totalled € 14,898 k in the year under review. Internally generated assets came to € 7,842 k.

## 05.2 Property, plant and equipment

Operating leases primarily concern the rental of business premises, motor vehicles, office furniture and equipment, and telecommunications equipment. In 2018, € 11,996 k in lease payments was recognised through profit or loss.

The minimum lease payments due to operating leases were as follows:

Operating leases in € '000			
	2019	2020–2023	After 2023
Lease payments as lessee	9,995	26,207	6,758
Lease receivables as lessor	541	2,171	833

## 05.3 Financial assets

Financial assets are recognised at fair value. A portion of the financial assets are recognised as equity instruments through other comprehensive income in accordance with IFRS 9.

Financial assets in € '000	
	31 Dec. 2018
Time deposits	3,260
Guarantee for a lawsuit	1,100
Rent deposits	990
Other	106
<b>Other loans (recognised through profit or loss)</b>	<b>5,456</b>
blackprint Booster Fonds GmbH & Co. KG	250
Immomio GmbH	1,295
MPC Best Select Company Plan GmbH & Co. KG, Germany	187
<b>Investments – equity instruments (recognised through other comprehensive income)</b>	<b>1,732</b>

These deposits relate to the guarantee issued to cover existing and future obligations in connection with membership in two supplementary pension funds.

**Consolidated statement of changes in fixed assets 2018**  
as at 31 December 2018

€ '000	1 Jan. 2018	Currency translation differences	Historical cost				Reclassifications	31 Dec. 2018
			Changes in scope of consolidation	Additions	Disposals			
<b>I. Intangible assets</b>								
1. Goodwill	118.684	- 487	0	275	0	0	<b>118.472</b>	
2. Acquired intangible assets	48.814	- 328	0	1.265	302	759	<b>50.208</b>	
3. Internally generated intangible assets	48.200	- 434	0	7.842	0	- 78	<b>55.530</b>	
4. Customer relations	21.734	- 164	0	0	0	0	<b>21.570</b>	
5. Brands	2.754	- 36	0	0	0	0	<b>2.718</b>	
6. Advance payments made	681	0	0	0	0	- 681	<b>0</b>	
	<b>240.867</b>	<b>- 1.449</b>	<b>0</b>	<b>9.382</b>	<b>302</b>	<b>0</b>	<b>248.498</b>	
<b>II. Property, plant and equipment</b>								
1. Land, leasehold rights and buildings	8.994	- 3	0	342	157	0	<b>9.176</b>	
2. Plant and machinery	11.999	0	0	79	127	- 3.776	<b>8.175</b>	
3. Other equipment, and office furniture/equipment	8.652	- 53	0	5.120	4.301	3.776	<b>13.194</b>	
4. Advance payments made	0	0	0	40	0	0	<b>40</b>	
	<b>29.645</b>	<b>- 56</b>	<b>0</b>	<b>5.581</b>	<b>4.585</b>	<b>0</b>	<b>30.585</b>	
<b>III. Financial assets</b>								
1. Equity investments	497	0	0	1.290	44	0	<b>1.743</b>	
2. Other loans	6.408	0	0	73	544	0	<b>5.937</b>	
	<b>6.905</b>	<b>0</b>	<b>0</b>	<b>1.363</b>	<b>588</b>	<b>0</b>	<b>7.680</b>	
	<b>277.417</b>	<b>- 1.505</b>	<b>0</b>	<b>16.326</b>	<b>5.475</b>	<b>0</b>	<b>286.763</b>	

1 Jan. 2018	Accumulated depreciation and amortisation				Carrying amounts		
	Currency translation differences	Additions	Disposals	Reclassifications	31 Dec. 2018	31 Dec. 2018	31 Dec. 2017
33.636	-10	0	0	0	<b>33.626</b>	<b>84.846</b>	85.048
35.969	-136	3.770	299	0	<b>39.304</b>	<b>10.904</b>	12.845
25.936	-229	3.899	0	0	<b>29.606</b>	<b>25.924</b>	22.264
2.275	-37	1.188	0	0	<b>3.426</b>	<b>18.144</b>	19.459
270	-8	121	0	0	<b>383</b>	<b>2.335</b>	2.484
0	0	0	0	0	<b>0</b>	<b>0</b>	681
<b>98.086</b>	<b>-420</b>	<b>8.978</b>	<b>299</b>	<b>0</b>	<b>106.345</b>	<b>142.153</b>	<b>142.781</b>
3.707	1	467	4	0	<b>4.171</b>	<b>5.005</b>	5.287
7.029	0	231	0	0	<b>7.260</b>	<b>915</b>	4.970
5.242	-42	3.110	4.216	0	<b>4.094</b>	<b>9.100</b>	3.410
0	0	0	0	0	<b>0</b>	<b>40</b>	0
<b>15.978</b>	<b>-41</b>	<b>3.808</b>	<b>4.220</b>	<b>0</b>	<b>15.525</b>	<b>15.060</b>	<b>13.667</b>
11	0	0	0	0	<b>11</b>	<b>1.732</b>	486
481	0	0	0	0	<b>481</b>	<b>5.456</b>	5.927
<b>492</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>492</b>	<b>7.188</b>	<b>6.413</b>
<b>114.556</b>	<b>-461</b>	<b>12.786</b>	<b>4.519</b>	<b>0</b>	<b>122.362</b>	<b>164.401</b>	<b>162.861</b>

## 05.4 Shareholdings

Name and registered office of company	Interest held %
<b>Aareon AG, Mainz</b>	
Aareon Deutschland GmbH, Mainz, Germany	100
BauSecura Versicherungsmakler GmbH, Hamburg, Germany	51
mse Augsburg GmbH, Augsburg, Germany	100
mse Immobiliensoftware GmbH, Hamburg, Germany	100
mse RELion GmbH, Augsburg, Germany	100
phi-Consulting GmbH, Bochum, Germany	100
AV Management GmbH, Mainz, Germany	100
1st Touch Ltd., Southampton, UK	100
Aareon Finland OY, Helsinki, Finland	100
Aareon France SAS, Meudon-la-Forêt, France	100
Aareon Nederland B.V., Emmen, Netherlands	100
Aareon Norge AS, Oslo, Norway	100
Aareon Sverige AB, Mölndal, Sweden	100
Aareon UK Ltd., Coventry, UK	100
Facilitor B.V., Enschede, Netherlands	100
FIRE B.V., Utrecht, Netherlands	60
Kalshoven Automation B.V., Amsterdam, Netherlands	100
Square DMS B.V., Grathem, Netherlands	100
blackprint Booster Fonds GmbH & Co. KG, Frankfurt am Main, Germany	*
Immomio GmbH, Hamburg, Germany	*
MPC Best Select Company Plan GmbH & Co. KG, Germany	*

\*Stake < 20 %

## 05.5 Deferred taxes

Deferred taxes in € '000	31 Dec. 2018	31 Dec. 2017
Pension provisions	5,241	4,964
Liabilities	0	373
Other provisions	368	119
Loss carryforwards	790	102
Miscellaneous	57	179
<b>Total deferred income tax assets</b>	<b>6,457</b>	<b>5,737</b>
Measurement of assets under construction	6	711
<b>Current deferred income tax liabilities</b>	<b>6</b>	<b>711</b>
Intangible assets	10,258	11,194
Miscellaneous	12	580
<b>Non-current deferred income tax liabilities</b>	<b>10,270</b>	<b>11,774</b>
<b>Total deferred income tax liabilities</b>	<b>10,276</b>	<b>12,485</b>

In Germany, unused tax loss carryforwards for which no deferred tax assets were recognised amounted to € 4,199 k.

## 05.6 Contract assets and receivables due from customers

Contract assets and receivables due from customers € '000	31 Dec. 2018	31 Dec. 2017
Contract assets	24,123	18,664
Trade receivables	31,064	34,722
Receivables from affiliated companies	3,649	4,980
Impairment losses on contract assets and receivables from customers	-1,702	-1,650
<b>Total</b>	<b>57,134</b>	<b>56,716</b>

That portion of project performance obligations not yet satisfied amounts to € 9,758 k, of which € 9,095 k is likely to be realised in 2019 and € 663 k in 2020 or thereafter. Aareon does not recognise the unsatisfied portion of performance obligations in connection with maintenance and SaaS contracts, as the customer's consideration corresponds to the performance delivered by Aareon.

Receivables from affiliated companies include reimbursements by Aareal Bank for Aareon's activities in the start-up scene in relation to the property industry. In the previous year, Aareon had a claim against Aareal Bank mainly in the form of compensation for implementing personnel measures. There are no restrictions on ownership or disposal of the disclosed receivables. Write-downs were made to account for the risk of default. Trade receivables were impaired as follows:

**Impairment losses on contract assets and receivables from customers in € '000**

	2018	2017
Impaired contract assets and receivables from customers	5,280	3,620
<b>Impairments as of 1 January</b>	<b>1,650</b>	<b>1,179</b>
Addition from the adoption of IFRS 9	347	0
First-time consolidation	0	468
Additions	843	746
Reversals	713	446
Utilisation	425	297
<b>Total as of 31 December</b>	<b>1,702</b>	<b>1,650</b>

In Germany, overdue but not impaired receivables relate solely to receivables that are overdue by up to 90 days.

### 05.7 Other assets

**Other assets in € '000**

	31 Dec. 2018	31 Dec. 2017
Other current financial assets	1,106	1,190
Other current non-financial assets	3,821	3,919
<b>Total</b>	<b>4,927</b>	<b>5,109</b>

Other financial assets include a receivable of € 1,249 k from a former development partner, which was fully impaired as of 31 December 2017. In view of the favourable legal situation, the impairment loss was reversed in the amount of € 590 k. Other non-financial assets mainly comprise deferred advance payments of € 3,673 k for subsequent periods.

### 05.8 Securities

As part of the acquisition of the mse companies, Aareon received listed securities that were classified as equity instruments not held for trading and recognised at fair value. Aareon did not take up the option of recognising these securities through other comprehensive income. As the trading volumes for these securities enable reliable inputs to be determined, the securities were assigned to Level 1 of the fair value hierarchy.

### 05.9 Cash and cash equivalents

As in the previous year, this balance sheet item includes cash in hand and balances held with banks.

**Cash and cash equivalents in € '000**

	31 Dec. 2018	31 Dec. 2017
Cash in hand	16	123
Balances held with banks	40,536	32,162
of which: with affiliated companies	25,803	18,523
<b>Funds with maturities of up to three months</b>	<b>40,552</b>	<b>32,285</b>

No loan liabilities existed as of 31 December 2018.

### 05.10 Subscribed capital

The subscribed capital of Aareon AG is fully paid up and at 31 December 2018 was as follows:

**Number and class of shares in € '000**

25,000,000 no-par value ordinary shares	25,000
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Each share has a theoretical par value of € 1.00.

### 05.11 Share premium

The share premium was unchanged compared with the previous year.

### 05.12 Accumulated Group earnings and profits

Accumulated Group earnings and profits comprise other retained earnings within the meaning of the disclosures required under German commercial law. Retained earnings include additions from the net profit of the year under review or of previous years as well as currency translation differences from the financial statements of subsidiaries recognised under other comprehensive income. Aareon AG's Memorandum and Articles of Association contain no provisions regarding the formation of reserves.

### 05.13 Non-controlling interests

Non-controlling interests are reported as a separate item in the consolidated statement of changes in equity. They are held by BauSecura Versicherungsmakler GmbH, Hamburg and FIRE B.V., Utrecht.

### 05.14 Provisions for pensions and similar obligations

Pension obligation trend:

Pension obligation in € '000	2018	2017
1. Pension provisions as of 1 January (accrued pension cost)	33,457	33,858
2. Changes in the group of consolidated companies	0	1,233
3. Net expense for the period		
a) Service cost	373	417
b) Interest cost	601	607
4. Experience-based adjustments recognised through OCI	-345	-166
5. Actuarial adjustments recognised through OCI	1,310	-945
6. Actual utilisation	1,452	1,547
<b>Pension provisions as of 31 December</b>	<b>33,944</b>	<b>33,457</b>

These obligations have been calculated on the basis of the following assumptions:

Assumptions in %	31 Dec. 2018	31 Dec. 2017
Interest rate	1.67	1.84
Expected inflation rate	1.75	1.75
Income trend	2.00	2.00
Pension trend	1.75	1.75
Fluctuation rate	3.00	3.00

Pension obligations were calculated in the reporting period using the Heubeck-Richttafeln 2018 G © biometric tables (previous year: Heubeck-Richttafeln 2005 G © ).

Changes in these assumptions would have the following consequences:

Sensitivity analysis 2018	Sensitivity	Obligation adjusted due to sensitivities, in € '000
Interest rate (1.67 %)	1.00 %	29,791
Interest rate (1.67 %)	-1.00 %	39,126
Pension trend (1.75 %)	0.25 %	34,903
Pension trend (1.75 %)	-0.25 %	33,001
Income trend (2.00 %)	0.50 %	35,157
Income trend (2.00 %)	-0.50 %	32,826
Life expectancy (Heubeck 2018 G)	+1 year	36,149
Life expectancy (Heubeck 2018 G)	-1 year	31,718

#### Sensitivity analysis 2017

	Sensitivity	Obligation adjusted due to sensitivities, in € '000
Interest rate (1.84 %)	1.00 %	29,374
Interest rate (1.84 %)	- 1.00 %	38,562
Pension trend (1.75 %)	0.25 %	34,365
Pension trend (1.75 %)	- 0.25 %	32,519
Income trend (2.00 %)	0.50 %	34,866
Income trend (2.00 %)	- 0.50 %	32,230
Life expectancy (Heubeck 2005 G)	+ 1 year	35,516
Life expectancy (Heubeck 2005 G)	- 1 year	31,388

The sensitivity analysis is based on changes in a single assumption, with all other assumptions remaining constant. It is unlikely that this would occur in reality, and there could indeed be a correlation between changes in certain assumptions. For this reason, the same method was employed to calculate the sensitivity of the defined benefit obligation to changes in actuarial assumptions as is used to determine the pension provisions in the balance sheet (see Note 03.7). The types and methods of the assumptions used when preparing sensitivity analyses did not change compared with the previous period. No sensitivity analysis was carried out that factored in changes in the fluctuation rate or expected inflation rate because these rates do not represent material actuarial assumptions.

The defined benefit obligation can be broken down into the following plan participant categories:

#### Plan participant categories

	31 Dec. 2018
Active employees	263
Former employees with vested benefits	29
Pensioners	138
<b>Total</b>	<b>430</b>

The effects on cash flow in subsequent years are as follows:

#### Maturities of the defined benefit obligation (DBO) in € '000

2019	1,583
2020	1,581
2021	1,577
2022	1,582
2023	1,607
2024–2028	7,936

Service and interest costs are recognised under staff costs. The expense recognised for defined contribution pension plans amounted to € 8,340 k. These plans mainly comprise employer contributions to the statutory pension scheme. For reasons of materiality, pension provisions are not presented by maturity.

Aareon has pension plans in place in Germany and France. The pension plans of Aareon AG and Aareon GmbH have been closed to new members. All of these plans are defined benefit plans within the meaning of IAS 19. This means that, subject to certain conditions, Aareon guarantees that the beneficiaries will receive a particular benefit amount. Depending on the plan type, the amount of employee benefits varies according to different factors such as eligible salary, period of service, amount of the statutory pension, and benefits paid under individual direct insurance plans.

## 05.15 Other provisions

### Other provisions in € '000

	Balance as of Jan. 1, 2018	Change of consolidated companies	Additions	Reclassi- fications	Utilisation	Reversals	Balance as of Dec. 31, 2018
Variable salary components (previous year)	11,716 (11,851)	0 (0)	9,800 (10,619)	25 (0)	9,594 (9,784)	1,378 (970)	10,569 (11,716)
Other provisions (previous year)	6,114 (3,272)	0 (0)	1,390 (4,547)	- 25 (0)	2,991 (1,758)	454 (170)	4,034 (6,114)
<b>Total (previous year)</b>	<b>17,830 (15,123)</b>	<b>0 (0)</b>	<b>11,190 (15,166)</b>	<b>0 (0)</b>	<b>12,585 (11,542)</b>	<b>1,832 (1,140)</b>	<b>14,603 (17,830)</b>

Development in 2018 (prior-year figures in parentheses)

Aareon AG makes payments to the members of its Management Board that qualify as cash-settled **share-based payments** within the meaning of IFRS 2. The obligations arising out of these share-based payments are recognised as staff costs and via corresponding provisions. Claims to the phantom stocks of Aareal Bank are paid in cash. The payments are distributed over three or four calendar years from the grant date. Provisions for share-based payment are recognised in full from the commitment date. The provisions are recognised in the amount of the fair value of the obligation in question at the reporting date and adjusted if the share price changes. Provisions for share-based payment (SAR) amounted to € 531 k. At the end of the period under review, 12,138 shares were outstanding at an average price per share of € 35.51 (previous year: 13,046 shares; € 31.37). Of these outstanding shares, 8,370 (previous year: 9,171) were exercisable and 4,734 (previous year: 5,180) were granted. The exercise prices of the outstanding shares range between € 27.53 and € 39.10.

**Other provisions** are also recognised in accordance with IAS 37 for all identifiable risks and uncertain obligations in the amount of their probable occurrence. The interest cost for non-current provisions amounted to € 30 k in the reporting period.

Other provisions by maturity:

### Other provisions € '000

	1 Jan. 2018	31 Dec. 2018	1 Jan. 2018	31 Dec. 2018
	< 1 year		> 1 year	
Variable salary components (previous year)	11,148 (11,292)	10,085 (11,148)	568 (559)	484 (568)
Other provisions (previous year)	4,999 (1,831)	3,107 (4,999)	1,115 (1,441)	927 (1,115)
<b>Total (previous year)</b>	<b>16,147 (13,123)</b>	<b>13,192 (16,147)</b>	<b>1,683 (2,000)</b>	<b>1,411 (1,683)</b>

## 05.16 Purchase price liabilities

Purchase price liabilities in € '000		
	31 Dec. 2018	31 Dec. 2017
<b>Non-current purchase price liabilities</b>		
Kalshoven	0	1,238
mse companies	0	4,036
<b>Total</b>	<b>0</b>	<b>5,274</b>
<b>Current purchase price liabilities</b>		
Kalshoven	1,285	794
mse companies	3,794	1,080
FIRE	0	150
phi-Consulting	0	755
<b>Total</b>	<b>5,079</b>	<b>2,779</b>
<b>Total</b>	<b>5,079</b>	<b>8,053</b>

Purchase price liabilities developed as follows:

Purchase price liabilities in € '000							
	1 Jan. 2018	Payment	Interest cost	Reclassifications	Measurement	Miscellaneous	31 Dec. 2018
<b>Non-current purchase price liabilities</b>							
Kalshoven	1,238	0	47	-1,285	0	0	0
mse companies	4,036	0	89	-4,125	0	0	0
<b>Total</b>	<b>5,274</b>	<b>0</b>	<b>136</b>	<b>-5,410</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Current purchase price liabilities</b>							
Kalshoven	794	-876	0	1,285	130	-47	1,285
mse companies	1,080	-657	0	4,125	-754	0	3,794
FIRE	150	-150	0	0	0	0	0
phi-Consulting	755	-677	0	0	-78	0	0
<b>Total</b>	<b>2,779</b>	<b>-2,360</b>	<b>0</b>	<b>5,410</b>	<b>-702</b>	<b>-47</b>	<b>5,079</b>
<b>Total</b>	<b>8,053</b>	<b>-2,360</b>	<b>136</b>	<b>0</b>	<b>-702</b>	<b>-47</b>	<b>5,079</b>

### 05.17 Trade payables

All trade payables are classified as current. With the exception of customary retention of title and similar rights, liabilities are not collateralised.

### 05.18 Contract liabilities

Contract liabilities relate to deferred revenues and to projects in which the advance payments received exceed the value of the contract assets. As of 1 January 2018, contract liabilities amounted to € 16,516 k, of which € 13,815 k was recognised through profit or loss in the year under review.

### 05.19 Other liabilities

Other liabilities in € '000		
	31 Dec. 2018	31 Dec. 2017
<b>Current other financial liabilities</b>		
Paid-leave liabilities	3,522	3,191
Miscellaneous current other financial liabilities	4,447	4,270
	<b>7,969</b>	<b>7,461</b>
<b>Current other non-financial liabilities</b>		
Other tax liabilities	8,077	9,411
Miscellaneous	340	461
	<b>8,417</b>	<b>9,872</b>
<b>Total</b>	<b>16,386</b>	<b>17,333</b>

The miscellaneous other financial liabilities mainly comprise liabilities in connection with wages and salaries. The other tax liabilities consist solely of transaction taxes such as value-added tax and income tax liabilities.

## 06 Other explanatory notes

### 06.1 Other financial obligations

The nominal amounts of the other financial obligations can be broken down by maturity as follows:

Other financial obligations in € '000			
	2019	2020–2023	After 2023
Lease agreements	9,995	26,507	6,758
Purchase commitments	17,193	4,778	894
<b>Total</b>	<b>27,188</b>	<b>31,285</b>	<b>7,652</b>

### 06.2 Related-party transactions

In addition to the subsidiaries included in its consolidated financial statements, Aareon AG has, in the course of its ordinary activities, direct or indirect relations with subsidiaries of the Aareal Bank Group that are included in the latter's consolidated financial statements. The majority of Aareon AG's business relationships are with Aareal Bank.

These primarily relate to service provision and comprise the following:

- Collaboration with Aareal Bank with regard to the fully automated and integrated accounting and payment services for property companies in Germany as implemented in the software systems Wodis Sigma, SAP® solutions/Blue Eagle, and GES
- Provision of IT centre services and related implementation consultancy services
- Purchase of IT equipment such as mobile phones and workstations
- Compensation of expenses incurred to implement measures relating to the start-up scene and corporate ventures
- Co-financing of the Aareon Congress

In the reporting period, the business transactions with Aareal Bank comprised revenues and other operating income in the amount of € 16,852 k as well as cost of materials and other operating expenses in the amount of € 546 k. The compensation of € 2,992 k paid by Aareal Bank for measures relating to the start-up scene and corporate ventures was netted directly against the costs incurred.

Related parties controlled by Aareon AG, or over which Aareon AG can exert a controlling influence, are included in the consolidated financial statements. They also appear in the list of shareholdings in Note 05.4, with information on the equity interest held and the net profit/loss for the year.

All transactions with related parties were conducted on the basis of international price comparison methods as per IAS 24, on the same conditions that are customary with non-Group third parties (arm's-length transactions).

In the Aareon Group, members of the Management Board and the Supervisory Board are defined as members of management in key positions.

The total compensation paid to members of the Management Board amounted to € 2,162 k, and included contributions to defined contribution plans in the amount of € 100 k. The total expenses for share-based payment amounted to € 101 k.

### **06.3 Auditors' fees**

In the reporting period, € 493 k was recognised for auditing of the financial statements, € 49 k for other attestation services, € 7 k for tax consultancy services and € 20 k for other services.

### **06.4 Exemption for domestic group companies as per Section 264 (3) of the German Commercial Code (HGB)**

Aareon Deutschland GmbH, Mainz, which is included in the consolidated financial statements of Aareon AG, has, with the approval of the General Meeting of Shareholders granted in accordance with Section 264 (3) of the German Commercial

Code (HGB), been exempted from the obligation of preparing annual financial statements and a management report in compliance with the corresponding provisions for corporations.

### **06.5 Events after the reporting date**

On 1 January 2019 Facilitor B.V. and Square DMS B.V. were merged with their immediate parent company, Aareon Nederland B.V. Further, in a cross-border merger subject to EU law, UK-based 1st Touch Ltd. was merged with Aareon AG; the merger was entered in the German Commercial Register effective 20 February 2019. OFI GROUP GmbH was established on 1 February 2019. Aareon will hold a stake of 19.96 % in the new company, which is the first to be founded on the basis of the company's corporate venturing model. No other events or business transactions have occurred since the close of the fiscal year that could have an effect on Aareon's net assets, financial situation or earnings as presented in this report.

## 07 Corporate bodies

### 07.1 Supervisory Board

**Thomas Ortmanns, Chairman**

**Member of Management Board**

Aareal Bank AG, Wiesbaden

**Hermann J. Merkens, Deputy Chairman**

**Chairman of the Management Board**

Aareal Bank AG, Wiesbaden

**Lutz Freitag**

**Consultant**

Hamburg

**Dagmar Knopek (until 31 Dec. 2018)**

**Member of the Management Board**

Aareal Bank AG, Wiesbaden

**Marc Heß (as of 1 Jan. 2019)**

**Member of the Management Board**

Aareal Bank AG, Wiesbaden

The compensation paid to members of the Supervisory Board in the reporting year amounted to € 10 k.

### 07.2 Management Board

**Dr. Manfred Alfien**

**Chairman of the Management Board**

International Business Development; Human Resources & Organisation; Legal, Risk Management & Compliance; Data Protection & Data Security; Internal Audit; Corporate Marketing & Communications; Board Office; International Business; Strategy

**Sabine Fischer**

**Member of Management Board**

ERP Systems and Digital Systems of Aareon Smart World; Aareon IT Service Centre and IT Outsourcing Services; Support and Consulting Services; phi-Consulting; IT Solutions for Energy Suppliers

**Dr. André Rasquin**

**Member of Management Board**

Central Sales; Regional Sales; Solution Sales & Sales Management; Advisory Board work; Strategic Product Marketing; BauSecura product; mse Corporate Group (RELion product)

**Christian M. Schmahl**

**Member of Management Board**

International Finance; Controlling; Accounting; Contract & Receivables Management; Central Purchasing; Facility & Fleet Management

## 08 Concluding remarks

As a rule, Aareon AG is obliged to prepare consolidated financial statements and a group management report. As Aareon AG and its subsidiaries are included in the consolidated financial statements and group management report of Aareal Bank AG, Wiesbaden, the requirements for the company's exemption pursuant to section 291 (2) of the German Commercial Code (HGB) have been fulfilled. Thus, Aareon AG's preparation of consolidated financial statements and a group management report is entirely voluntary.

Aareal Bank also prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). These financial statements are published in Germany's Federal Gazette (Bundesanzeiger).

Mainz, 12 March 2019

The Management Board

Dr. Manfred Alflen

Sabine Fischer



Dr. André Rasquin



Christian M. Schmahl

# Independent Auditor's Report

To Aareon AG, Mainz

## Audit Opinions

We have audited the consolidated financial statements of Aareon AG, Mainz and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Aareon AG for the financial year from 1 January to 31 December 2018.

### In our opinion, on the basis of the findings made in the audit,

- the accompanying consolidated financial statements comply in all material respects with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, are a true and fair reflection of the assets, liabilities, and financial position of the Group as at 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying group management report as a whole accurately reflects the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and is a true reflection of the opportunities and risks associated with future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit did not give rise to any reservations concerning the legal compliance of the consolidated financial statements and of the group management report.

## Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB, taking into account the accounting principles for the auditing of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Our responsibilities under those requirements and principles are described in greater detail in the section entitled "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" in our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law and have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is an adequate and appropriate basis for our audit opinions on the consolidated financial statements and on the group management report.

## Responsibility of the Company's Legal Representatives and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The company's legal representatives are responsible for preparing consolidated financial statements that comply in all material respects with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) HGB, and for ensuring that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. Furthermore, the legal representatives are responsible for the internal controls they have deemed necessary to facilitate the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the respon-

sibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to discontinue operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for preparing a group management report that, as a whole, accurately reflects the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and is a true reflection of the opportunities and risks associated with future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) they deem necessary to facilitate the preparation of a group management report that complies with German legal requirements and to provide adequate appropriate evidence for the assertions made in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

#### **Auditor's Responsibility for the Audit of the Consolidated Financial Statements and of the Group Management Report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the findings made in the audit, complies with German legal requirements and is a true reflection of the opportunities and risks associated with future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

While reasonable assurance constitutes a high degree of certainty, it does not guarantee that an audit conducted in accordance with § 317 HGB and taking into account the accounting principles for the auditing of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they might reasonably be expected to influence the economic decisions of stakeholders made on the basis of these consolidated financial statements and this group management report.

#### **We exercise professional judgement and maintain a degree of professional scepticism throughout the audit. We also**

- identify and appraise the risks of material misstatement – whether due to fraud or error – of the consolidated financial statements and of the group management report, design and execute audit procedures in response to those risks, and gather audit evidence that is adequate and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement arising from fraud is greater than that resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the overriding of internal controls.
- obtain an understanding of the internal control system relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the efficacy of these systems.
- assess the appropriateness of the accounting policies applied by the legal representatives and the rationality of estimates made by the legal representatives and related disclosures.
- draw conclusions on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists related to events or conditions

that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. Future events or conditions may, however, result in the Group no longer being able to continue as a going concern.

- assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in such a manner that they constitute a true and fair reflection of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- obtain adequate appropriate audit evidence on the financial information of the entities or business activities within the Group that enable us to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for directing, supervising and executing the group audit. We remain solely responsible for our audit opinions.
- verify the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the picture of the Group's position it provides.
- perform audit procedures on the forward-looking statements promulgated by the company's legal representatives in the group management report. On the basis of adequate appropriate audit evidence, we verify, in particular, the significant assumptions used by the legal representatives as the basis for their forward-looking statements, and examine whether the forward-looking statements were derived correctly from these assumptions. We do not express a

separate audit opinion on the forward-looking statements and on the underlying assumptions. There is a substantial unavoidable risk that future events will differ substantially from the forward-looking statements.

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

Frankfurt am Main, 12 March 2019

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

Stefan Palm  
German Public Accountant

ppa. Thomas Körner  
German Public Accountant

# Report of the Supervisory Board

During the year under review, the Supervisory Board continually monitored the management of Aareon AG and the Aareon Group. It was kept informed by the Management Board, both verbally and in writing (especially through written quarterly reports), on the progress of the company's business, its overall situation, the business policies planned by the Management Board, corporate planning issues, significant transactions and Aareon's internal control system. The Supervisory Board also dealt with issues that required its approval pursuant to applicable statutes or the company's Articles of Association.

The Supervisory Board met on four occasions during 2018, twice in the first half of the year and twice in the second, while one resolution was adopted by circular memorandum. At all of these meetings, the Management Board informed the Supervisory Board in detail of the business policies, economic development, strategic orientation and sales activities of both the company and the Group. The content and findings of the audits carried out of the Group companies were explained to the Supervisory Board. The risk reporting and internal control systems were also presented to it on a regular basis.

The Supervisory Board was kept informed by the Management Board of the Group companies' products and their customer-side implementation and launch, with emphasis being placed on major customer and acquisition projects. Particular points of focus in this regard were the company's growth strategy, its strategic planning, potential acquisitions as well as the ERP product Wodis Sigma, enhancing business for the ERP product SAP® solutions/Blue Eagle, the further expansion of Aareon Smart World and business trends for digital solutions, Aareon's range of consulting services and its International Business segment, especially business trends in the UK and Scandinavia. The Supervisory Board was kept up to date on the progress of migration from GES to Aareon's other ERP solutions.

The Management Board explained the company's international strategy to the Supervisory Board. The market environment, competitive situation, products, expected

developments and growth potential of the Group companies were also discussed. The Supervisory Board was provided with detailed information on the status of the company's strategy programme Aareon Flight Plan, including the project to comply with the General Data Protection Regulation (GDPR) and the Aareon Ventures concept. The work4future project, the purpose of which is to evolve the Aareon work environment, was presented to the Supervisory Board.

The Management Board provided the Supervisory Board with details of the establishment of AV Management GmbH. The Management Board reported to the Supervisory Board more closely on development of the International Business segment and the activities of Aareon AG's international subsidiaries.

The Supervisory Board discussed and approved the business plan. The Management Board regularly informed the Supervisory Board of the company's actual business performance compared with business-plan forecasts. The Supervisory Board has a Human Resources Committee and an Auditing Committee. The Human Resources Committee met once, and the Auditing Committee twice, during 2018.

The Supervisory Board appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the company's auditors.

PricewaterhouseCoopers audited the annual financial statements and management report of Aareon AG as of 31 December 2018 (prepared in accordance with the German Commercial Code – HGB) as well as the consolidated financial statements and group management report as of 31 December 2018 (prepared in accordance with IFRS). Based on the results of its audit, PricewaterhouseCoopers GmbH issued an unqualified auditor's report for both the annual and consolidated financial statements. On the basis of the annual financial statements prepared in accordance with the German Commercial Code, Aareon closed the fiscal year with an unappropriated surplus of € 67,990,547.22, of which € 0 will be distributed to

shareholders and € 67,990,547.22 will be carried forward. No allocations will be made to retained earnings.

On 27 March 2019, the Supervisory Board examined and discussed the company's annual financial statements and management report, the consolidated financial statements compiled in accordance with IFRS and the Group management report for fiscal 2018 – all of which received an unqualified auditor's report – as well as the Management Board's proposal for the appropriation of profit. In preparation for their deliberations, the members of the Supervisory Board were provided in advance with comprehensive documentation, which they dealt with in depth.

Representatives of PricewaterhouseCoopers GmbH were available to the Supervisory Board to answer questions and provide information. On the basis of the final results of its own review, the Supervisory Board agreed with the findings of the auditors. The Supervisory Board confirmed that it had no objections to raise and endorsed the respective financial statements and management reports of Aareon AG and the Aareon Group as prepared by the Management Board. The 2018 annual financial statements of Aareon AG were thus adopted and the consolidated financial statements of the Aareon Group approved.

The Supervisory Board reviewed the Management Board's proposal for the appropriation of profit and accepted that proposal on the basis of its review.

In addition, the Supervisory Board assessed the Management Board's report on the company's relations with affiliates, which was prepared in accordance with Section 312 of the German Stock Corporation Act (AktG). No objections were raised. The auditors issued the following unqualified audit opinion with respect to this report:

"After carrying out our audit in compliance with our obligations, we hereby confirm that

1. the actual disclosures made in the report are accurate,
2. the consideration paid by the company for the transactions mentioned in the report was not inappropriately high or any disadvantages were compensated."

Having completed its examination, the Supervisory Board has no objections to raise to the report of the Management Board on the company's relations with affiliated enterprises.

On 17 December 2018, the annual general meeting voted to appoint Mr Marc Heß to the Supervisory Board of Aareon AG, effective 1 January 2019. The Supervisory Board of Aareon AG wishes him every success in his new position. Ms Dagmar Knopek stepped down from the Supervisory Board of Aareon AG with effect from 31 December 2018. The Supervisory Board wishes to thank Ms Knopek for her many successful years of service on the Supervisory Board.

The Supervisory Board would also like to express its gratitude to the company's employees for the dedication they have shown.

Mainz, March 2019

The Supervisory Board



Thomas Ortmanns  
(Chair)

# Aareon customers

Around 3,000 customers have opted for consulting, software and services from Aareon.

## Germany (selection)

- Aachener Siedlungs- und Wohnungsgesellschaft mbH, Cologne
- ABG FRANKFURT HOLDING Wohnungsbau- und Beteiligungsgesellschaft mbH, Frankfurt am Main
- Adlershorst Baugenossenschaft eG, Norderstedt
- ADO Properties, Berlin
- alstria office REIT-AG, Hamburg
- ANTAN Real Estate GmbH & Co. KG, Frankfurt
- ATOS Property Management GmbH, Hamburg
- Baugenossenschaft dhu eG, Hamburg
- Baugesellschaft München-Land GmbH, Haar
- BVE Bauverein der Elbgemeinden eG, Hamburg
- degewo AG, Berlin
- DERAG Deutsche Realbesitz AG & Co. KG, Munich
- DIC ONSITE GmbH, Frankfurt
- DIM Hausverwaltung, Berlin
- eG Wohnen 1902, Cottbus
- Eisenhüttenstädter Wohnungsbaugenossenschaft eG, Eisenhüttenstadt
- EUROPA CENTER AG, Hamburg
- FONCIA DEUTSCHLAND GmbH & Co. KG, Frankfurt am Main
- FORTUNA Wohnungsunternehmen e.G., Berlin
- GAG Immobilien AG, Cologne
- Gallus Services GmbH (formerly FUTURA), Leipzig
- GBS Gemeinnützige Bau- und Siedlungs-GmbH, Saarlouis
- GEG German Estate Group AG, Frankfurt
- Grundstücks-Gesellschaft TRAVE mbH, Lübeck
- GSW Gemeinnütziges Siedlungswerk GmbH, Frankfurt
- GSW Gesellschaft für Siedlungs- und Wohnungsbau Baden-Württemberg mbH, Sigmaringen
- HASPA HanseGrund GmbH, Hamburg
- JOSEPH-STIFTUNG Kirchliches Wohnungsunternehmen, Bamberg
- Jost Hurler Beteiligungs und Verwaltungs GmbH & Co. KG, Munich
- Matrix Immobilien GmbH, Hamburg
- Max Aicher GmbH & Co. KG, Freilassing
- Münch Wohnungsverwaltungs GmbH, Cologne
- NEULAND Wohnungsgesellschaft mbH, Wolfsburg
- Polis Immobilien AG, Berlin
- Rheinwohnungsbau GmbH, Düsseldorf
- Sächsische Wohnungsgenossenschaft Chemnitz eG, Chemnitz
- Sedlmayr Grund und Immobilien AG, Munich
- Sontowski & Partner GmbH, Erlangen
- Stendaler Wohnungsbaugesellschaft mbH, Stendal
- STRABAG Residential Property Services GmbH, Berlin
- TREUREAL GmbH, Leipzig
- WBM Wohnungsbaugesellschaft Mitte mbH, Berlin
- WIELANT HOFFMANN GmbH, Hamburg
- WIRO Wohnen in Rostock Wohnungsgesellschaft mbH, Rostock
- Wöhr + Bauer GmbH, Munich
- Wohnungsbaugenossenschaft Gablonzer Siedlungswerk Kaufbeuren eG, Kaufbeuren
- Wohnungsgenossenschaft „Glückauf“ Süd Dresden e.G., Dresden
- Wohnungsgenossenschaft WARNOW Rostock-Warnemünde e. G., Rostock

## International (selection)

### Finland

— Espoon Asonnut, Espoo

### France

— Adoma, Paris  
— Batigère, Metz  
— Cus Habitat, Strasbourg  
— Dyar Al Madina, Casablanca/Morocco  
— Erilia, Marseille  
— Espace Habitat, Charleville-Mézières  
— Foyer Rémois, Reims  
— Groupe Valophis, Créteil  
— Les résidences Yvelines Essonne, Versailles  
— Limoges Habitat, Limoges  
— Loire HABITAT, Saint-Étienne  
— Neolia, Monbéliard  
— OPAC Amiens, Amiens  
— Silène, Saint-Nazaire  
— Société Immobilière du Grand Hainaut, Valenciennes  
— 1001 Vies Habitat, Paris

### United Kingdom

— Andium Homes, St Helier, Jersey  
— Bromsgrove DHT, Bromsgrove  
— County Durham Housing Group, Seaham, County Durham  
— Halton Housing Trust, Runcorn  
— Knowes HA, Failfey, Scotland  
— Luminus Group, Huntingdon  
— Northwards/Manchester City Council, Manchester  
— NPT Homes, Neath, Port Talbot, Wales

— Ocean Housing Group, St Austell, Cornwall  
— One Manchester, Manchester  
— Paragon, Falkirk, Scotland  
— Soha, Didcot, Oxon  
— Together Housing Group, Halifax  
— Torus, St Helens, Merseyside  
— West Dunbartonshire Council, Dumbarton, Scotland

### The Netherlands

— de Alliantie, Hilversum  
— GroenWest, Woerden  
— Parteon, Wormerveer  
— Stadlander, Bergen op Zoom  
— Stichting Intermaris, Hoorn  
— Trudo, Eindhoven  
— Woningstichting Den Helder, Den Helder  
— WoonFriesland, Grou  
— Woonmensen, Apeldoorn  
— Woonstede, Ede

### Norway

— Forsvarets forskningsinstitutt, Oslo  
— Forsvarsbygg, Oslo  
— Forvaltningspartner, Kristiansand  
— Kongsberg kommunale eendom KF, Kongsberg  
— Maya Eendom, Oslo  
— NorgesGruppen, Oslo  
— Olav Thon Gruppen, Oslo  
— Oslo kommune, Oslo  
— Universitetet i Oslo, Oslo

### Austria

— Baugenossenschaft „Frieden“, Vienna  
— Techem Messtechnik GmbH, Innsbruck

### Sweden

— AB Gavlegårdarna, Gävle  
— Akelius Lägenheter AB, Stockholm  
— Bostads AB Mimer, Västerås  
— Göteborgs Stad, Gothenburg  
— Malmö Stad, Malmö  
— SBC, Stockholm  
— Stena Fastigheter, Gothenburg  
— Stockholms Stad, Stockholm  
— Uppsalahem AB, Uppsala  
— Willhem AB, Gothenburg

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