Consolidated financial statements

Consolidated statement of comprehensive income

for the period 1 January to 31 December 2018

€ '000

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

Consolidated balance sheet

as at 31 December 2018

Assets – € ’000

	Note	31 Dec. 2018	31 Dec. 2017
Non-current assets			
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
		170,858	168,598
Current assets			
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
		103,381	96,420
		274,239	265,018

Equity and liabilities – € ’000

	Note	31 Dec. 2018	31 Dec. 2017
Equity			
Equity attributable to shareholders	05.10 / 05.11 / 05.12	**165,726**	143,460
Non-controlling interests	05.13	**1,887**	1,836
		167,613	145,296
Non-current liabilities			
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
		45,631	52,898
Current liabilities			
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
		60,995	66,824
		274,239	265,018

*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	
1 January 2017	**25,000**	**41,900**	**- 3,161**	**58,534**	**122,273**	**64**	**1,499**	**123,836**
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
31 December 2017	**25,000**	**41,900**	**- 4,512**	**81,072**	**143,460**	**84**	**1,752**	**145,296**
1 January 2018	**25,000**	**41,900**	**- 4,512**	**81,072**	**143,460**	**84**	**1,752**	**145,296**
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
31 December 2018	**25,000**	**41,900**	**- 5,373**	**104,199**	**165,726**	**84**	**1,803**	**167,613**

Consolidated statement of cash flows

for fiscal 2018

€ '000	2018	2017
EBIT (earnings before interest and taxes)	**35,941**	**33,909**
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
Cash flow from operating activities	**29,466**	**26,759**
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
Cash flow from investing activities	**- 16,686**	**- 22,309**
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
Cash flow from financing activities	**- 4,513**	**- 957**
Cash change in cash and cash equivalents	**8,320**	3,655
Exchange-rate-related changes in cash and cash equivalents	**- 53**	- 162
Total change in cash and cash equivalents	**8,267**	**3,493**
Cash funds at the beginning of the period	**32,285**	28,792
Cash funds at the end of the period	**40,552**	**32,285**

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, cooperatives, 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 Closing rate		Statement of comprehensive income Average exchange rate	
		2018	2017	**2018**	2017
United Kingdom	GBP	**0.8945**	0.8872	**0.8847**	0.8767
Sweden	SEK	**10.2548**	9.8438	**10.2583**	9.6351
Norway	NOK	**9.9483**	9.8403	**9.5975**	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:

New standards/interpretations	Issued	Endorsed	Effective date
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

Revised standards	Issued	Endorsed	Effective date
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 of 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 ob-ligation 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
Total	**236,613**	**221,316**

Revenues by product group in € ’000

	2018	2017 Restated	2017
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
Total*	**236,613**	**221,316**	**221,316**

*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
Total	**236,614**	**221,316**

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
Total	**5,351**	**5,902**

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
Total	**40,078**	**32,638**

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
Total	**122,019**	**116,861**

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:

Employees (excluding temporary staff, trainees and interns) – year-end figures

	2018	2017
Employees	**1,453**	1,427
Executive managers	**74**	82
Total	**1,527**	**1,509**
of which: part-time employees	**346**	353

Employees (excluding temporary staff, trainees and interns) – annual average figures

	2018	2017
Employees	**1,445**	1,360
Executive managers	**76**	82
Total	**1,521**	**1,442**
of which: part-time employees	**345**	289

Employees (excluding temporary staff, trainees and interns) – annual average by business segment

	2018	2017
Germany	**854**	792
International	**667**	650
Total	**1,521**	**1,442**

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
Total	**38,048**	**36,830**

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
Total	**- 296**	**- 287**

04.7 Income taxes

Income taxes in € ’000

	2018	2017
German income taxes	**9,078**	7,905
Foreign income taxes	**3,440**	2,762
Actual tax expense	**12,518**	**10,667**
Deferred income tax assets/liabilities	**- 2,590**	- 404
Total	**9,927**	**10,263**

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
Earnings before income taxes	**35,645**	**33,622**
Trade tax	**5,347**	5,338
Corporation tax	**5,658**	5,043
Solidarity surcharge	**294**	277
Expected tax expense	**11,299**	**10,658**
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
Tax expense reported	**9,927**	**10,263**

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**
Total	**85,048**	**275**	**- 477**	**84,846**

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*
ERP solutions	**17,794**	**14,334**
Germany	**3,563**	2,570
International Business	**14,231**	11,764
Digital solutions	**8,129**	**7,929**
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
Total	**25,924**	**22,264**

*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
Other loans (recognised through profit or loss)	**5,456**
blackprint Booster Fonds GmbH & Co. KG	250
Immomio GmbH	1,295
MPC Best Select Company Plan GmbH & Co. KG, Germany	187
Investments – equity instruments (recognised through other comprehensive income)	**1,732**

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

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

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

05.4 Shareholdings

Name and registered office of company

	Interest held %
Aareon AG, Mainz	
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
Total deferred income tax assets	**6,457**	**5,737**
Measurement of assets under construction	**6**	711
Current deferred income tax liabilities	**6**	**711**
Intangible assets	**10,258**	11,194
Miscellaneous	**12**	580
Non-current deferred income tax liabilities	**10,270**	**11,774**
Total deferred income tax liabilities	**10,276**	**12,485**

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
Total	**57,134**	**56,716**

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
Impairments as of 1 January	**1,650**	**1,179**
Addition from the adoption of IFRS 9	**347**	0
First-time consolidation	**0**	468
Additions	**843**	746
Reversals	**713**	446
Utilisation	**425**	297
Total as of 31 December	**1,702**	**1,650**

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
Total	**4,927**	**5,109**

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
Funds with maturities of up to three months	**40,552**	**32,285**

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

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
Pension provisions as of 31 December	**33,944**	**33,457**

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**
Total	**430**

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	11,716	0	9,800	25	9,594	1,378	10,569
(previous year)	(11,851)	(0)	(10,619)	(0)	(9,784)	(970)	(11,716)
Other provisions	6,114	0	1,390	- 25	2,991	454	4,034
(previous year)	(3,272)	(0)	(4,547)	(0)	(1,758)	(170)	(6,114)
Total	**17,830**	**0**	**11,190**	**0**	**12,585**	**1,832**	**14,603**
(previous year)	**(15,123)**	**(0)**	**(15,166)**	**(0)**	**(11,542)**	**(1,140)**	**(17,830)**

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	11,148	10,085	568	484
(previous year)	(11,292)	(11,148)	(559)	(568)
Other provisions	4,999	3,107	1,115	927
(previous year)	(1,831)	(4,999)	(1,441)	(1,115)
Total	**16,147**	**13,192**	**1,683**	**1,411**
(previous year)	**(13,123)**	**(16,147)**	**(2,000)**	**(1,683)**

05.16 Purchase price liabilities

Purchase price liabilities in € ’000

	31 Dec. 2018	31 Dec. 2017
Non-current purchase price liabilities		
Kalshoven	**0**	1,238
mse companies	**0**	4,036
Total	**0**	**5,274**
Current purchase price liabilities		
Kalshoven	**1,285**	794
mse companies	**3,794**	1,080
FIRE	**0**	150
phi-Consulting	**0**	755
Total	**5,079**	**2,779**
Total	**5,079**	**8,053**

Purchase price liabilities developed as follows:

Purchase price liabilities in € ’000

	1 Jan. 2018	Payment	Interest cost	Reclassifications	Measurement	Miscellaneous	31 Dec. 2018
Non-current purchase price liabilities							
Kalshoven	**1,238**	0	47	- 1,285	0	0	**0**
mse companies	**4,036**	0	89	- 4,125	0	0	**0**
Total	**5,274**	0	136	- 5,410	0	0	**0**
Current purchase price liabilities							
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**
Total	**2,779**	- 2,360	0	5,410	- 702	- 47	**5,079**
Total	**8,053**	- 2,360	136	0	- 702	- 47	**5,079**

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 though profit or loss in the year under review.

05.19 Other liabilities

Other liabilities in € '000

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

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
Total	**27,188**	**31,285**	**7,652**

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 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
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 responsibility 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	ppa. Thomas Körner
German Public Accountant	German Public Accountant