

# 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.

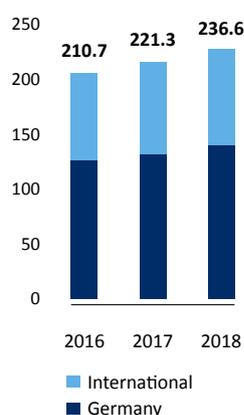
Internally generated assets increased to € 7.8 million in 2018 (previous year: € 4.5 million). In the current fiscal year, capital expenditure to expand the digital solutions portfolio and develop ERP products increased substantially (see p. 32). Other operating income amounted to € 5.4 million (previous 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.

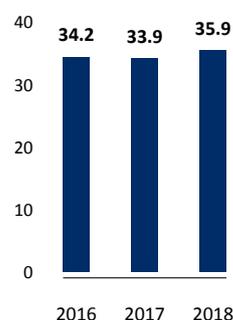
As expected, Aareon grew its revenues in the Germany segment by 5.6 % to € 148.9 million (previous year: € 141.0 million). ERP product revenues were higher, especially due to acquisition of the mse sales companies in 2017. As expected, consulting revenues for GES and Wodis Sigma rose due to ongoing migration 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



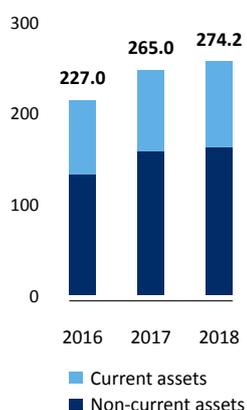
markedly higher in the Netherlands (due to further customer go-lives) and in France (due to the higher number of Platinum contracts concluded). Licence revenues contributed to growth, mainly because of the large number of new contracts signed despite a highly competitive market. In the Scandinavian market, 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)

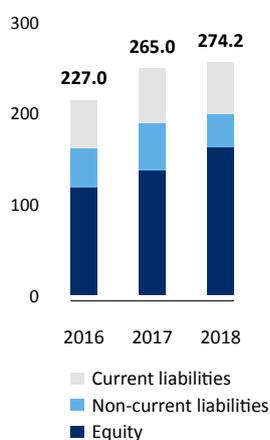
### Net assets

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).

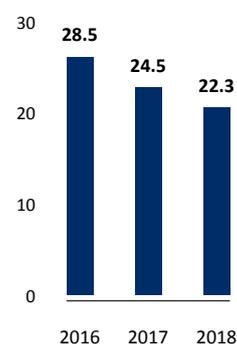
### Assets in € million (asset structure)



### 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.

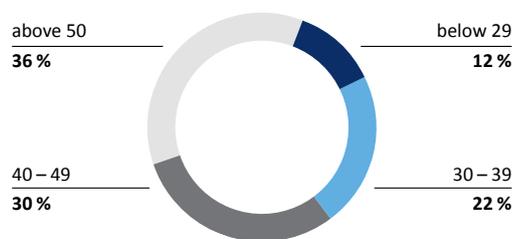
As part of its programme to promote young talent, Aareon organised a Girls' Day and supported JOBLINGE, an initiative for young people who have had a hard start in life. Three former participants of the JOBLINGE initiative are now completing their vocational training at Aareon.

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.