

Annual Report 2005

Focusing on the market



CONSULTANCY AND SYSTEMS HOUSE
FOR THE PROPERTY SECTOR

Corporate Mission

“Aareon AG focuses its activities on the property industry and related sectors.

Accordingly, it is our objective to become the leading consultancy and systems house to the European property sector.

We want to set the standards for managing complex business processes in the property sector – today and in future.

We provide first-class and forward-looking solutions comprising consultancy and training, software products, support and IT services to our customers and manage their outsourced business processes.

Our goal is to create tangible added value for our customers and shareholders and to be the preferred employer to our staff.”

Indicators, facts and figures

| Indicators (IFRS) (€ m) | 2005 | 2004 | CHANGE |
|---|-------|-------|--------|
| Revenues | 162.6 | 159.7 | 1.8% |
| of which international | 14.8 | 14.1 | 5.0% |
| Expenses | 165.2 | 157.7 | 4.8% |
| Profits from ordinary activities | 8.6 | 13.0 | -33.8% |
| Consolidated net income | 3.9 | 6.2 | -37.1% |
| Consolidated net income after minority interest | 3.1 | 5.4 | -42.6% |
| EBIT | 8.2 | 12.3 | -33.3% |
| Total assets | 125.6 | 124.8 | 0.6% |
| Shareholder's equity | 55.2 | 58.2 | -5.2% |
| Cashflow | 23.3 | 26.7 | -12.7% |
| Number of staff* (average) | 1,061 | 1,015 | 4.5% |

* excluding Management Board/ managing directors, vocational trainees, temporary staff

Facts and figures

| | |
|-------------------------------|---|
| Business | International consultancy and systems house for the property sector. Aareon's systems are employed by more than 50,000 users in Germany and abroad to manage some 8 million homes and commercial premises. Aareon is the German market leader in its business. |
| Business divisions | <ul style="list-style-type: none"> • Consulting: Consulting Services, Training • IT Solutions: Software development, Support, Energy Management, Mareon, BauSecura, Integrated Banking • IT Services: IT Service Centre, Networks |
| Customer structure | Private-sector property companies, cooperative societies, municipal housing enterprises, property management companies and home owners' associations, insurance companies, property investment funds, companies associated with industrial companies, commercial property operators |
| Number of customers | Approximately 2,000 |
| Group affiliation | Wholly owned by Aareal Bank Group, Wiesbaden. Aareon AG is part of the Consulting and Services business segment of Aareal Bank AG. |
| International presence | France, Italy, Poland, Switzerland, United Kingdom |
| History | <ul style="list-style-type: none"> • 1957: Start of development from the computer centre of Deutsche Bau- und Bodenbank AG to an IT services group • 1996: Spin-off of IT services into a newly-established independent subsidiary, BauBoden Systemhaus GmbH • 1999: Incorporation of a Group which is eligible for stock market listing, establishing a holding structure; followed by a company name change to DePfa IT Services AG. International business expansion. • 2001: Market launch of the Mareon service portal • 2002: Cooperation with SAP AG to develop Blue Eagle, a new generation of software; change of company name to Aareon AG • 2004: Market launch of Blue Eagle Release 1.0 and the new Aareon Energy Management service • 2005: Market launch of Blue Eagle Release 2.0 • 2006: Market launch of Blue Eagle Release 3.0; first migration of a major customer to Blue Eagle (DEGEWO Group, Berlin, approx. 90,000 residential units) |

Overview of the Aareon Group



GERMANY

- **Aareon AG**, Mainz
- **Aareon Deutschland GmbH**, Mainz (100%)
Other office: Berlin, Dresden, Erfurt, Hamburg, Hanover, Leipzig, Munich, Rostock, Stuttgart
- **BauSecura Versicherungsmakler GmbH**, Hamburg (51%)
- **Aareon DSK GmbH**, Berlin (70%)

INTERNATIONAL

- **Aareon France SAS**, Orléans/France (100%)
Other offices: Lyon, Nantes, Paris
- **Aareon Italia S.r.l.**, Rome/Italy (100%)
- **Aareon UK Ltd.**, Coventry/United Kingdom (100%)
Other office: Swansea
- **Aareon Schweiz AG**, Bülach/Switzerland (100%)
Other office: Solothurn
- **Mareon Polska SP. Z.O.O.**, Wrocław/Poland (100%)

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Aareon has a clear **market focus**. We analyse the developments in the property sector and incorporate them into our offers. Our customers thus benefit from carefully **selected** products and services within a well-**balanced**, industry-specific, **certified** quality portfolio.

The title photo shows the weekly market in Mainz. In the background, properties of Wohnbau Mainz, a long-standing Aareon customer, can be seen (yellow house on the right and grey house to the left of it).

Highlights 2005



Blue Eagle advertising campaign



The Aareon Congress - an industry get-together



Winners and jury of the second Innovation Award for the Property Sector

January

On-schedule market launch of the **Blue Eagle Release 2.0** property software. Release 2.0 includes the most important functionalities for the housing industry. Release 1.0 was primarily aimed at commercial properties.

Standardised **Blue Eagle implementation packages** facilitate the migration to the new property software.

February

Aareon Italia presents Blue Eagle to 6,000 industry visitors at the SAP Forum in Milano.

March

The property company HWG Halle (24,430 residential units) starts using the **Mareon service portal**.

Aareon Italia is represented at **Expo Italia Real Estate**, the property trade fair in Milano. The company presents the new Aareon Esse-RE and Blue Eagle software.

April

The **Mareon service portal** processes the one millionth tradesmen contract. The Internet-based platform is an integrated solution bringing together property companies, tradesmen and other business partners.

May

Some 1,000 decision makers from the property sector convene in Garmisch-Partenkirchen to attend the **15th Aareon Congress**, the forum for the property industry. The theme of the Congress is "Recognising Directions - Developing Strategies".

Presentation of the second **Innovation Award** for the Property Sector at the Aareon Congress. Six property companies are awarded the prize for their ideas to reduce ancillary rental costs.

The cooperation with ista Deutschland GmbH for the recording of consumption data and for the integrated billing of heating and operating costs in the **Energy Management** division is announced.

June

The Swiss subsidiary RIMO Consulting AG changes its name to **Aareon Schweiz AG**. The name change is intended to further expand the market position of the Aareon Group as a leading European provider and to strengthen the Aareon brand internationally.

2005



Cooperation project at Wohnungsgenossenschaft Schiffahrt-Hafen Rostock

“Initiative Lerninsel”, a project to promote young talent, offers industry-related events as well as personal development training

Third Innovation Award for the Property Sector

Aareon's state-of-the-art IT Service Centre

July

August

September

October

November

December

One of the coveted **Microsoft Worldwide Specialization Excellence Awards** is awarded to Fujitsu Siemens Computers for the storage solution that was implemented together with Aareon at Wohnungsgenossenschaft Schiffahrt-Hafen Rostock, a cooperative housing society.

Initiative Lerninsel, a project to promote young talent in the property sector, takes place for the second time on the North Sea island of Juist. Aareon is a sponsor of the project. About 40 trainees participated in seminars and workshops for one week.

HOWEGE Wohnungsbau-gesellschaft mbH in Berlin (50,000 units) starts using the **Mareon service portal** (Mareon inventory management and Mareon tradesmen collaboration).

Introduction of a more performance-oriented **remuneration system** under the E² personnel development programme. The variable salary component becomes more important relative to the fixed component.

The Aareon event **WohnData Change** takes place in Lübeck.

Further customers start using **Blue Eagle**: Sächsische Wohnungsgenossenschaft Chemnitz and Spaten-Franziskaner-Bräu, Munich.

Aareon and the trade publication DW Die Wohnungswirtschaft jointly organise the third **Innovation Award** for the Property Sector. This year's topic is “Changing Housing for the better”.

The **Mareon service portal** has more than 40 certified interfaces to software programmes for tradesmen.

Aareon upgrades its state-of-the-art **IT Service Centre** by completing comprehensive modernisation and security measures.

Aareon France presents the property solutions Blue Eagle and Prem' at SIMI 2005 (Salon de l'Immobilier d'Entreprise).

Some 100 customers have already signed **contracts for Blue Eagle**.

Aareon carries out project measures for the successful launch of **Blue Eagle Release 2.0** and the integrated BKXL® payment system at its major customer, DEGEWO in Berlin, on January 1, 2006.



Dr. Manfred Alflen
Chairman of the Management Board

Responsible for corporate strategy, international product management, products and services, energy management, foreign business, as well as for Finance, Internal Audits, Internal Projects and Organisation, Marketing and Communications, Human Resources and Legal Affairs.

Dr. Manfred Alflen joined Aareon AG as chairman of the Management Board on 15 March 2002, after 11 years at EDS Deutschland, the German subsidiary of the leading global IT services provider. He was appointed Managing Director of EDS Deutschland in 1998, and more recently as Chairman and Chief Operating Officer at the EDS subsidiary MSH International Service AG as well. His work involved a wide range of management duties, both in Germany and abroad.

Lothar Gebhard
Sales

Responsible for Sales, the domestic business, property software Blue Eagle and Aareon DSK GmbH.

Lothar Gebhard joined Aareon AG on 1 September 2002. Prior to this, he was employed by SAP AG for ten years, most recently as their Sales Director. In this position, the industrial engineer was responsible for the global support of the company's key account customers. During his first five years at SAP, he acted as a Senior Consultant to global companies.



Jürgen Pfeiffer
Consulting

Responsible for the Consulting division (Consulting services, Training), BauSecura, advisory councils and associations.

Jürgen Pfeiffer has been with the Aareon Group since 1972. At the time, it was still called DePfa Group. After acting as Head of Department for Consulting and Acquisition at Deutsche Bau- und Bodenbank, he was responsible for establishing the Consulting divisions in Mainz and Munich. After the conversion to a public limited company in 1999, he was appointed to the Management Board of Aareon AG.

Letter from the Management Board

Ladies and Gentlemen,

As a result of market conditions, we faced a number of pressing challenges last year. The weak overall economic situation continued through 2005. The property sector experienced structural changes. Significant housing portfolios in Germany were acquired by foreign investors. Topics occupying the sector included the proposed introduction of energy certificates, the drastic increases in heating oil prices, and the abolition of the home owner allowance from 2006. Vacancy rates, an aging population and changing household structures continued to be of concern.

Because our products and services have been specifically developed to help the property sector cope with challenges, it is hardly surprising that the 2005 financial year was an eventful one for the Aareon Group. We launched the Blue Eagle 2.0 property software, with its focus on the housing industry, as planned at the beginning of the year. By the end of 2005, we had signed up about 100 customers. We pushed ahead single-mindedly with the development of Blue Eagle Release 3.0 and worked at full stretch with our international subsidiaries on country-specific localisations of Blue Eagle.

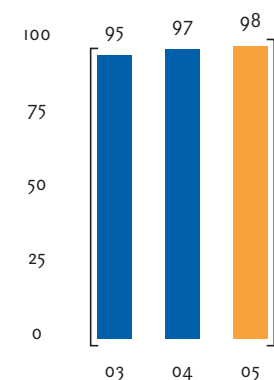
The heart of our outsourcing business – the IT Service Centre in Mainz – was thoroughly modernised and equipped with the latest technologies. Contracts facilitated via the market-leading Internet-based Mareon service portal passed the one million mark and the interface count to software programmes for tradesmen increased to over 40. We expanded our energy management service and formed a strategic alliance with ista Deutschland GmbH.

Despite the market conditions touched on above, we succeeded in increasing our year-on-year revenues by just over 1.8% to € 162.6 million, with all three business segments contributing towards this growth: Consulting achieved revenues growth of 7.1%, with IT Solutions and IT Services achieving 0.8% and 3.3% respectively. However, because expenses rose in 2005, group earnings declined. The net income was € 3.9 million (previous year: € 6.2 million). EBIT amounts to € 9.0 million (previous year: € 12.3 million).

Our entire focus is on meeting the needs of our customers. We want them to be satisfied both with us as a service partner and with our products, and we want to see our customers' companies growing in value as a direct consequence of our business relationship. To maintain and improve our customer focus, every year we carry out a standardised, anonymous customer satisfaction survey. We are pleased to announce that we again polled an improved level of customer satisfaction. A total of 98% of customers surveyed said they were satisfied or very satisfied with Aareon, compared with 97% in the previous year. We also maintained an active dialogue with our customers at numerous customer events, customer advisory board meetings and customer technical committee meetings.

Continued development of Blue Eagle property software

Customers are very satisfied with Aareon (in %)



We rely for our success on the enthusiastic, achievement-oriented work of our employees. We constantly endeavour to foster a corporate culture where our employees enjoy coming to work each day – a culture that also encourages commitment and performance. Our corporate culture is based on fair rules, carefully defined leadership principles and the continued development of our employees' professional qualifications. In 2005, we implemented a new and fairer remuneration system, the final module in the E² personnel development programme (Entfalten und Entwickeln, or "Evolve and Develop") introduced in 2004. Here, we increased the importance of the variable salary component relative to the fixed component.

Assuming social responsibility

In addition to our commercial responsibilities to our customers, staff and shareholders, our company is conscious of its responsibilities to society. These include supporting the family unit by providing family-friendly working models such as part-time work and teleworking. We encourage training in property management by sponsoring guest lecturers at the University of Cooperative Education in Leipzig and a series of lectures at the University of Nürtingen. We sponsor the 'Initiative Lerninsel' education initiative aimed at trainees in the housing industry. In 2005, we confirmed our support for innovation within the housing industry when we once again co-sponsored the Innovation Award for the Property Sector with the specialist publication "DW Die Wohnungswirtschaft". Our support for a number of charitable institutions provided further expression of our commitment to the society in which we operate.

Thanks to staff, works council, customers and partners

We wish to thank our staff, the works council, our customers and our partners. We greatly appreciate the dedication of our staff that made it possible for us to bring the Blue Eagle development to fruition on schedule. We appreciate the close cooperation of the works council in the implementation of the new remuneration system. Without the continuing dialogue with our customers, our integrated services would not have evolved to anywhere near their current state. The cooperation and collective competencies of our partners have also made a valuable contribution to the development of our integrated services.

We launched Blue Eagle Release 3.0 on schedule at the beginning of the New Year. Also on 1 January 2006, our first major Blue Eagle customer, the DEGEWO Group in Berlin, went operational with Blue Eagle and BKXL[®] based on Release 2.0. We will continue to expand our integrated services for the benefit of our customers.

With this in mind, we look forward with confidence to the coming financial year.



Dr. Manfred Alflen



Lothar Gebhard



Jürgen Pfeiffer



SELECTED

Carefully selected products and services enhance the efficiency of processes at housing companies. As a market leader with 50 years of experience in the property sector, we also ensure that our customers' investments are future-proof.

Everyone is talking about the property sector

The property sector has always played a crucial role in the national economy, but recently, both the media and the general public have shown an increased level of interest in the industry. The interest has been triggered by events such as the acquisition of German residential portfolios by foreign investors, the dramatic rise in energy prices and new challenges relating to the way we live.

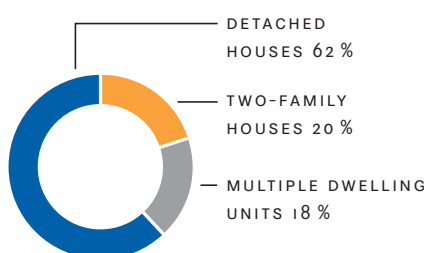
The way we live is in a state of flux, and there are many reasons why this is so. While it was normal a generation or two ago to remain fixed in one place, today this is no longer the norm. Flexibility is what counts today. Employers commonly insist on occupational mobility. There have also been changes in household structures (caused in part by the need for employment flexibility), with more single households, affluent double-income households with no children, and more people wishing to work from home. Our concepts for living have been changing as a result of the increasing number of older people who continue to value their independence well into old age. Add to this the fact that many people are now struggling financially, particularly because of unemployment. Technological developments also influence the way we live and these are making building services more of a challenge. The overall picture has been influenced by the change in many regions from lessor's to tenant's market and by raised expectations on the part of tenants. Ancillary services provided as part of the rental package, such as care services for the elderly, security services and assistance with removals, are gaining in importance. And finally, the expansion of globalisation provides property companies with a continuous stream of new challenges. It is hardly surprising, therefore, that the public has been taking an increasing interest in the property industry. Despite partially stagnating key figures, the sector is still able to deliver a high return on investment - a fact that has not been missed by international investors, who are looking for growth at least in the medium-term in whatever sector of the economy they choose to invest in.



There is continued international interest in German property portfolios.

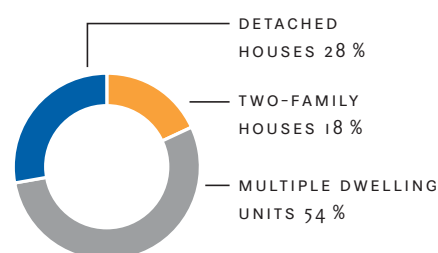
Residential building inventory 2004 by building type*

(total 17,293,678 residential buildings)



Number of residential units 2004 by building type in 2004*

(total 38,369,632 residential units)



*Source: Cf. Federal Statistical Office, ifo Institute for Economic Research: "The economic significance of the property sector", special publication 2005, p. 47

Number of households increasing

When we look more closely at how and where the Germans live, we discover that more than half of all residential units are located in multifamily buildings¹. However, multiple family dwellings account for just 18% of all residential buildings in Germany. Although the number of households – a key indicator for the housing industry – grew by 6.6% in the ten years from 1994 to 2004,² the average number of persons per household continues to fall. This is related to the increase in the number of single- and two-person households and the fact that people in younger and older age groups are more inclined to live on their own³. The share of pensioner households has increased as a result of demographic changes.

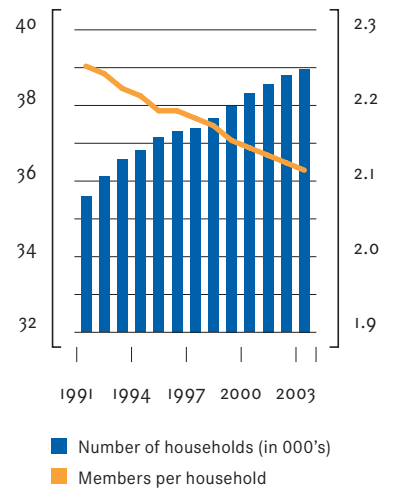
The industry revises its thinking

Faced with these complex changes, property companies continue to revise their thinking. Innovative housing companies appreciate that the time is ripe for exploring new avenues. New services and living concepts are being developed, for example, for age-appropriate accommodation and for single-person households. Property marketing and tenant loyalty programmes have increased noticeably and are becoming more important. Companies have also been looking to new in-house processes in an attempt to improve the economic situation. Increased costs – particularly property running costs – have forced companies to take action. More efficient internal and external processes are felt to be an appropriate starting point for reducing these costs.

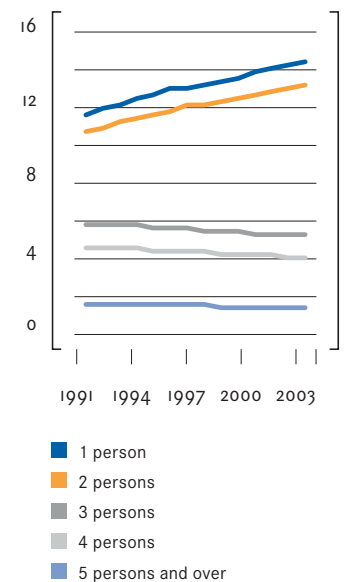
IT systems create added value

Aareon AG has been tackling the critical issues in the housing industry. Together with the trade magazine “DW Die Wohnungswirtschaft”, we will be awarding the third Innovation Award for the Property Sector for 2006 on the topic of “Changing Housing for the Better”. By acknowledging new ideas in the three categories “Neighbourhoods – Customer focus – Service”, this competition precisely reflects the mood of the times. The question is, why should a consultancy and systems house be concerned with these issues? Firstly, we feel that we have a mission to be actively involved in issues that concern the industry. After all, Aareon is a market and an opinion leader. Secondly, anticipating the challenges that lie ahead is an ideal way of ensuring that our products and services remain at the cutting edge of future developments. After all, a property company’s IT system must support all of these changes. This is why here at Aareon, where we are known for our capacity to innovate, the futureproofing of IT systems and the provision of relevant advice and guidance are a top priority. In providing these services, we are driven strictly by the needs of our customers. Whether they are concerned with traditional rental management, new statutory accounting requirements and changed inventory valuations related to the introduction of REITS, or networking with business partners – a modern IT system must be able to do all of this.

Private households in Germany and average household size*



Private households in Germany by household size* (in 000's)

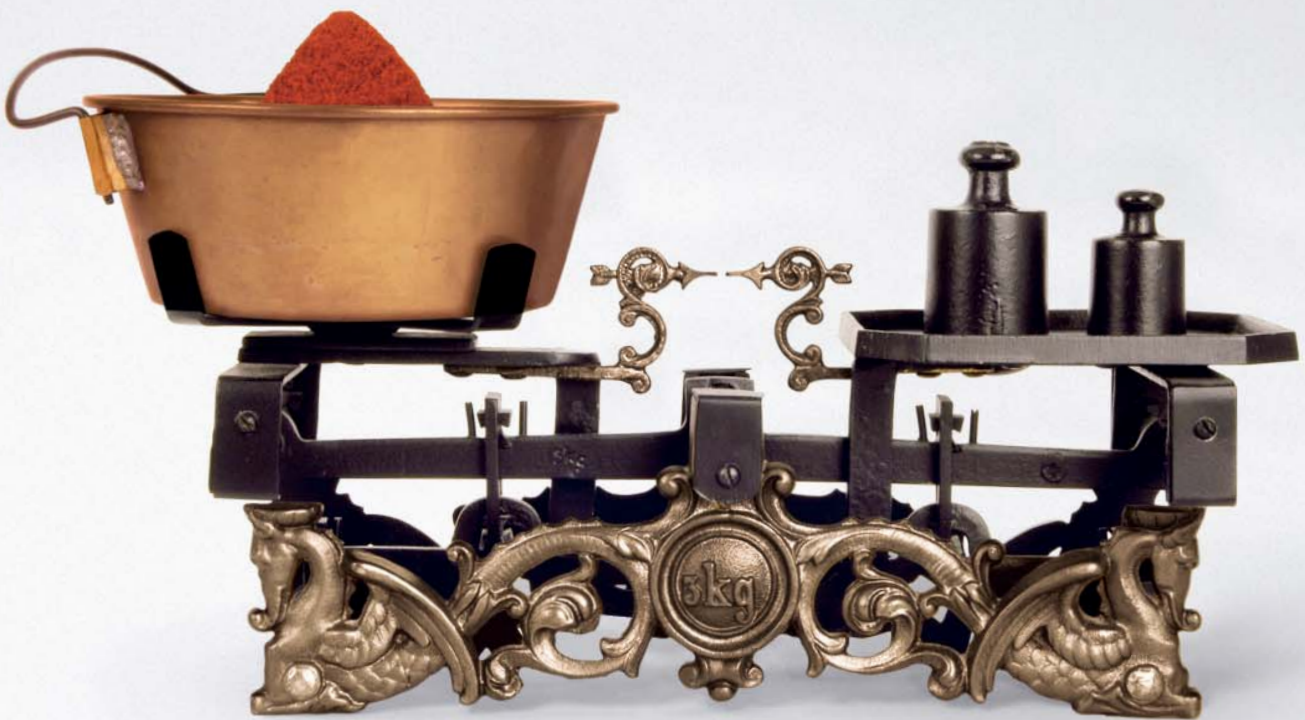


*Source: Federal Statistical Office: “Living and Working in Germany – 2004 Micro-census”, table 1: Private households by size

¹ Cf. Federal Statistical Office, ifo Institute for Economic Research: “The economic significance of the property sector”, special publication 2005, p. 47

² Cf. Federal Statistical Office: “Living and Working in Germany – 2004 Micro-census”, table 1: Private households by size

³ Cf. Wohnungswirtschaftliche Daten und Trends 2005/2006, data and analyses from the GdW’s annual statistics, p. 94



BALANCED

The exchange with customers, associations, partners and universities results in a well-balanced, industry-specific product portfolio. We help our customers to master the challenges the industry faces. We are committed to creating customer value.

Group Management Report

Business and economic environment

Business activities

Aareon AG is an international consultancy and systems house for the property sector. We have gained a leadership position in the German market that is backed by nearly fifty years of experience in the industry, our in-depth knowledge of the property market and our excellent relationships with customers, associations and partners. Our business activities focus on optimising the IT-supported business processes of property companies of all sizes.

Aareon is market leader
in Germany

We offer an integrated portfolio of consulting services, software, support and training. The company's reporting is divided into three business segments:

- Consulting: consulting services, training
- IT Solutions: software development, support, Aareon Energy Management, Mareon, BauSecura, integrated banking
- IT Services: IT Service Centre, networks

In Europe, Aareon has subsidiaries in France, the UK, Italy, Poland and Switzerland in addition to its presence in Germany. Our parent company is the Aareal Bank Group, Wiesbaden. Aareon AG is part of the Group's Consulting and Services business segment. There was one change with respect to the integration of Aareon AG into the Group structure of Aareal Bank AG in 2005. Aareal IT Beteiligungen GmbH (formerly Real Fünfundzwanzigste Verwaltungsgesellschaft mbH), a subsidiary of Aareal Bank AG, acquired all shares in Aareon AG. This does not result in any changes with regard to Group affiliation and business activities.

In addition to high quality software, computer centre services and a wide range of consultancy services, Aareon provides integrated services that are a unique aspect of our business. They include, for example, integrated payment processing, the Mareon Web-based service portal and Aareon Energy Management. Our competition in the field of software products for the property sector includes SAP and a number of smaller suppliers. Although our competition also offers computer centre services, none can match Aareon's extensive range of services in this field.

Aareon supplies a wide range of
services from a single source

Mareon is the market leader in the relatively new property portal market, but there are also many niche products catering to this sector. Our competitors in the field of Aareon Energy Management include companies specialising in heat measurement and reading, with some of whom we are also cooperating. The consulting firms that can broadly be considered as competitors to Aareon specialise primarily in SAP, e-business and IT consulting work.

Macroeconomic and property market developments

The dynamics of the world economy were weakened by the rise in oil prices in 2005. In Germany, as in the entire euro zone, economic growth slowed down. Unemployment continues at a high level¹.

Difficult economic environment in Germany

The German Council of Economic Experts predicted a slowdown in growth of GDP within the euro zone from 2.1% in 2004 to 1.3% in 2005. In Germany, growth is estimated at 0.8% for 2005, which compares with 1.6% the previous year. Once again, exports have bolstered economic growth in Germany. Domestic demand has suffered as a result of restrained consumer spending. Indeed, there was an assumption that spending by consumers would fall by 0.3% in 2005, compared with a rise of 1.3% in the euro zone as a whole. Germany's unemployment rate for 2005, estimated at 9.3%, was once again above the euro zone average of 8.7%, putting Germany at the bottom of the table alongside Greece (10.4%), Spain (9.9%) and France (9.7%). No major changes are expected to have an impact on future economic development, although macroeconomic risks are present as a result of the continued effects of oil price rises and the increases in long-term interest rates.

Structural changes in the property sector

Germany's property sector continued to experience structural changes during 2005. One of the burning issues in the sector was the acquisition of housing portfolios from companies and local authorities by international investment companies, who have been taking advantage of historically low interest rates to leverage their acquisitions and to provide a favourable rate of return for their investors. This is leading to greater consolidation among providers in the property market. In 2004, portfolio sales involved the sale of 300,000 residential units². Deutsche Bank Research has forecast that portfolios of approximately one million units will change ownership by 2010³.

¹ Cf. the 2005/06 annual report from the German Council of Economic Experts – "Seize the chance – boldly advance the reforms", November 2005

² Cf. Housing portfolios in Germany: Scene set for further divestment, Deutsche Bank Research, May 3, 2005, p. 29

³ Cf. Housing portfolios in Germany: Scene set for further divestment, Deutsche Bank Research, May 3, 2005, p. 1, 31

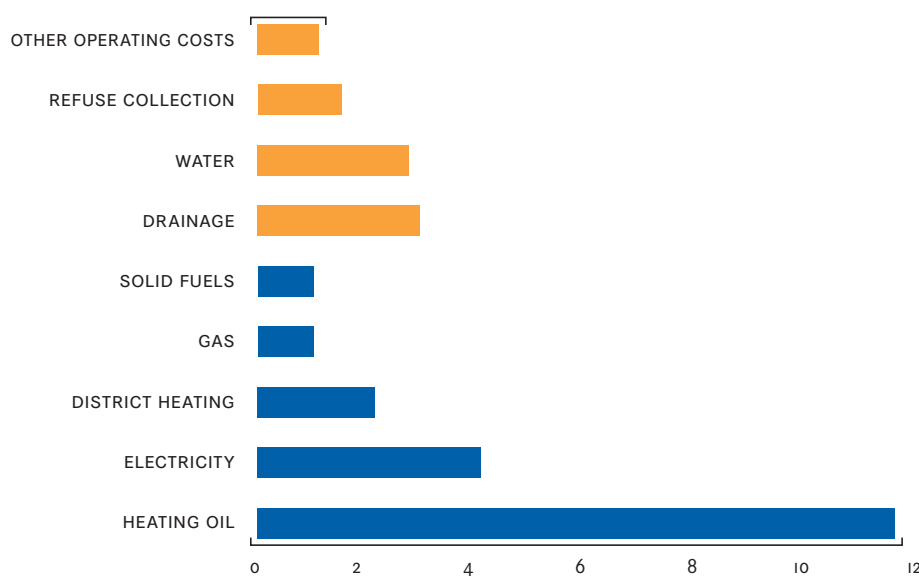
Another important issue was the increase in energy costs. In 2004, for example, there was a year-on-year increase in the price of heating oil of 11.4%, and in the price of gas of 1%⁴. The price of heating oil rose again in 2005. In October 2005, heating oil cost 23.0% more and gas cost 15.3% more than in the same month one year earlier⁵. Lowering energy costs is more important today than ever before, particularly as it is being promoted in the European directive on the energy performance of buildings, which is expected to be transposed into German law at the beginning of 2006. The introduction of a system of energy certification for buildings, which categorises properties by energy efficiency classes, is also the subject of much controversy.

Reducing both energy costs (heating and electricity) and ancillary costs (water, refuse collection, etc.) is one of the property sector's stated objectives. These costs increased in 2004 by 2.3% compared with the previous year. Aareon AG continued to back the movement to lower ancillary rental costs with the 2005 Innovation Award for the Property Sector, an award for services designed to reduce ancillary property costs. The prize was awarded for the second time at a special ceremony during the Aareon Congress in Garmisch-Partenkirchen in May.



Energy costs continue to rise.

The cost of running a home in 2004 compared with 2003 - in %



Source: Federal Statistical Office, GdW

⁴ Cf. Housing industry data and trends, figures and analyses from the annual statistics of GdW, GdW, October 2005, p. 33

⁵ Federal Statistical Office, consumer prices October 2005

Other challenging issues for the property sector continue to be vacancy rates (even though these have reduced somewhat), demographic developments and changing standards with regard to quality of accommodation. Despite very little change in the size of the population as a whole, the number of households has increased as a result of a rise in the number of single-person households.

The uncertainty within the property sector about what changes the new government might make to laws affecting property ownership does not help matters either. The abolition of both the home owner allowance and the declining balance method of depreciation for homes, as well as further limitations in the options for offsetting losses incurred with investment funds, had already been decided in the 2005 coalition agreement and are currently affecting decisions being taken in the property sector.

Corporate strategy

Aareon AG is a forward-looking company with exceptional expertise in the property market. Our key strategic success factor is our ability to offer customers consulting, IT-supported solutions and services from a single source. Our product and service portfolio is carefully tailored to suit the needs of the customer. We spot trends in the sector through dialogue with customers, associations, partners and universities and adapt our services accordingly. Cornerstones of the Aareon strategy:

- **A clear focus on markets and customers.** Aareon seeks to be a stable, long-term partner to customers and assigns top priority of customer satisfaction. Every year, we carry out a customer survey and incorporate the results into our continued efforts to meet customer needs. Customer satisfaction once again improved in 2005. A total of 98 % of those surveyed stated that they were satisfied or very satisfied with Aareon (previous year: 97 %). Aareon is an international company with its base in the German market, where we will continue to expand our market leadership position. Nevertheless, we also intend to strengthen our international presence. In those countries where Aareon AG is present, our goal is to become the market leader. The gradual introduction of our new Blue Eagle property software plays a key role in this context. In 2005, we pushed ahead with the localisation of the Blue Eagle property software for foreign markets (cf. p. 19). Product development is geared to marketing our products internationally.



Customer-oriented
company strategy.

- **Customer-focused solutions:** Our integrated range of products and services is designed to suit the needs of the customer; they set high standards for innovation and quality. As a result of changes in the property market, it is becoming increasingly important to optimise processes and develop new areas of business. At Aareon AG, we analyse the trends and incorporate our findings into our products and services. In order to provide the best solutions possible, Aareon maintains a close dialogue with customers and partners. Customer suggestions are discussed in bodies such as customer advisory boards and customer technical committees. Partnerships combine the core competencies of different companies. Our partners include SAP AG, Walldorf (development and sales partner), WRW Wohnungswirtschaftliche Treuhand Rheinland-Westfalen GmbH, Dusseldorf, TTW Erfurt Treuhandgesellschaft für die Thüringer Wohnungswirtschaft (sales partners), ImmobilienScout24, Berlin (partner in the Mareon service portal) and CSC, Wiesbaden (implementation partner for Blue Eagle with property customers). In the field of energy management, Aareon has entered into a new cooperation with ista Deutschland GmbH, a provider of trade fair services (cf. p. 20).

Combining core competencies through partnerships

- **Motivated and achievement-oriented employees:** Aareon's corporate culture makes the company a preferred employer. Aareon employees combine in-depth expertise in the property market with excellent IT skills and a commitment to service. Aareon fully supports the professional and personal development of its employees and employs a compensation scheme that fairly reflects employee performance (cf. p. 22).

- **Customer-focused internal processes:** The internal processes at Aareon are designed to serve our customers' needs. They comply with quality management standards and are subject to continual improvement. The Quality Management department is responsible for Aareon's quality standard strategy. This includes the step-by-step implementation of DIN EN ISO 9001:2000, which supports the ongoing optimisation of Aareon products and services. The following areas have received certification: Sales, Products and Services (including Support, Software Development, IT Service Centre and Networks), Internal Projects and Services (including Quality Management, Project Management, Central Purchasing and Internal IT), as well as the Blue Eagle project. In addition, Quality Management is responsible for the implementation of quality management standards (regular employee and customer surveys) and for the quality-oriented improvement of internal processes. As a project-oriented company, Aareon's work is based on setting goals, achieving results and ensuring transparency. Our centralised functions cooperate closely with our project teams. Project management is also continually optimised.

Aareon is quality leader

Modifications of the corporate structure

Blue Eagle project transferred to line organisation

We have been changing our corporate structure to meet new demands and have streamlined specific areas in order to improve efficiency and transparency. In May, we disbanded the major Blue Eagle project, as planned, and transferred its work to the line organisation. The Blue Eagle Steering Committee has been replaced by two new steering committees: the Product Steering Committee, which is responsible for the overall strategy of Blue Eagle, and the Product Operations Board, whose main task is the operational deployment of Blue Eagle.

Another change has been the expansion of the International Product Management division, which was created in 2004 and which reported directly to the Management Board. Central control of domestic and international product strategy now allows us to improve transparency and to respond more quickly and more flexibly to new market requirements.

The Energy Management division was restructured in July and split into Energy Management Sales and Energy Management Products & Services. The Energy Management Sales business unit is now part of the corporate Sales division.

In the Consulting division, we created the Migration Competence Center to help our customers prepare for and migrate to Blue Eagle as efficiently as possible.

In 2005, we continued to push ahead with our "Process Management" project, a high priority project begun at the end of 2003 to improve our organisational processes. The project was concluded on schedule at the end of 2005. The benefits of the optimised process landscape were communicated at a variety of events and may be viewed by employees on the corporate intranet. To further improve collaboration between the Consulting and Sales divisions, we initiated the "QVC²" project, a training and qualification programme for sales and consulting.

Standardisation of our international market presence

As part of the standardisation of the Aareon Group's international market presence, our Swiss subsidiary, previously known as Rimo Consulting AG, has been doing business as Aareon Schweiz AG since June 2005. Our Prem' SAS subsidiary in France will be renamed Aareon France SAS as of January. Similarly, DSK GmbH, Berlin, in which Aareon AG acquired a majority (70%) share in 2004, officially changed its name to Aareon DSK on 17 June 2005.

Business divisions

Two of the key developments during the 2005 financial year were the continued rollout of the Blue Eagle property software and the expansion of the Aareon Energy Management service. We pushed ahead with the preparations for the international launch of Blue Eagle, which is now imminent.

Consulting

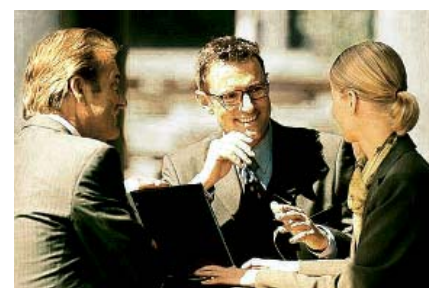
The Consulting division plays an important role at Aareon AG. The integration of management consulting services and ERP and IT services for the property sector with a portfolio of IT solutions delivers significant benefits to Aareon customers. All consulting projects are carried out according to Aareon project management standards.

To enable our customers to migrate to Blue Eagle as easily as possible, we introduced five standardised introductory sets. These include key services to support the implementation of Blue Eagle property software.

Major consultancy projects included a number of Blue Eagle introductory projects for companies such as Henningsdorfer Wohnungsbaugesellschaft mbH (HWB), Fortuna Wohnungsunternehmen e. G. in Berlin, and DEGEWO in Berlin (a large customer with 90,000 units). On 1 January 2006, DEGEWO went live on schedule with Release 2.0 of Blue Eagle and BKXL®. The international IT consulting project for DEPFÄ BANK plc, which included the development of a new IT infrastructure as well a hardware upgrade for both domestic and international branches, was concluded in 2005. Important management consulting projects included “Maintenance process optimisation” for the residential property co-operative Mieter- und Bauverein eG (MBV) in Karlsruhe, and a wide-ranging organisational development project for the ABG Holding Group, Frankfurt.

During the course of the switchover to Blue Eagle, Aareon introduced a number of “preliminary studies” to enhance its range of consultancy products. These studies, designed to help customers with their decision-making and to support the successful implementation of the Blue Eagle package, became increasingly popular in 2005. Around 60 preliminary studies were carried out on the following topics: costs, optimum timing for migration, IT requirements and environment.

To maintain their high level of professionalism, Aareon ensures that its consultants receive regular training in the latest issues relevant to the industry. In 2005, they received in-depth training on Blue Eagle, SAP, IT consulting and project management. At the same time, we recruited additional project managers with SAP experience. We ensure high quality training for our staff in a number of ways, including maintaining close links with Nürtingen University.



Aareon offers consultancy services surrounding management, ERP and IT issues in the property sector.

Preliminary advisory studies on Blue Eagle

Aareon training programme extended to cover the latest issues

Our Training unit organises training for customers at six centres throughout Germany and also runs in-house seminars for customers. The range of training products was expanded in 2005 to include courses on Blue Eagle and topics such as Liability Risks for Companies, Debt Management and Conflict Management. A total of 3,950 people have now attended Aareon training courses.

IT-Solutions

Blue Eagle property software sets the standard for the industry

Blue Eagle is the new software application for the property market based on the latest SAP technology and developed by Aareon Deutschland GmbH in partnership with SAP AG. The partnership has been in existence since 2002. Following the successful launch at the beginning of 2004 of Blue Eagle Release 1.0, with its focus on commercial property management, Blue Eagle Release 2.0 focusses on the housing market and was released in January 2005. At the same time, Blue Eagle software was being used in the municipal property management enterprise of the town of Neubrandenburg (Eigenbetrieb Immobilienmanagement der Stadt Neubrandenburg). In October 2005, the Chemnitz residential property co-operative in Saxony (Sächsische Wohnungsgenossenschaft Chemnitz) and Spaten Franziskaner Bräu in Munich went live with Blue Eagle. By the end of 2005, 90 customers had signed agreements for Blue Eagle (for a total of 430,000 units). One of Blue Eagle's key advantages lies in the integrated services it provides, such as BKXL[®], the automated payment processing system, Aareon Energy Management, and the Mareon service portal. The development of Blue Eagle Release 3.0 is currently on schedule. Several studies have confirmed that Blue Eagle is now setting the standards for the industry.

Aareon will ensure that its customers migrate to Blue Eagle as efficiently and economically as possible. We have developed standardised procedures for data migration. Our Migration Tool 3.0 was released on schedule. This tool uses automated data conversion routines to support the migration of data to Blue Eagle.

We continued to commit our full support to the Blue Eagle market communications activities. We build upon the high level of interest shown by the industry in Blue Eagle at the annual Aareon Congress in Garmisch-Partenkirchen, which has established itself as a regular meeting place for the property sector. Many experts come here to give talks and to discuss the industry's hot topics. A fictitious property company - "Blue Eagle Residential Developments" - was created in the exhibition section of the conference to show how business processes can be made more effective and more efficient by employing expert advice, Blue Eagle and integrated services.

In 2005, we pushed ahead with the preparatory work for the launch of Blue Eagle through our international offices. Our focus here was on producing the technical infrastructure, providing ongoing training for employees, localising the system, and kicking off our marketing activities. Blue Eagle has already put in an appearance at the major property trade shows in France, Italy and Switzerland. 2006 will see the launch of Blue Eagle (based on Release 2.0) in Switzerland and Italy. Details for the localisation of Blue Eagle for the UK and France have been set.

Blue Eagle prepared for international launch

We continued to develop our GES and WohnData database systems to our usual high standards. In September, we implemented WohnData Release 9.1 and presented it at the WohnData Change event in Lübeck. We released an updated version of our NetOffice line with added features for 2005. The Aareon NetOffice family of products was further extended with the introduction of Aareon Contact Manager, a utility designed to optimise tenant management by property companies.

In addition to its head office in Orléans, our French subsidiary Aareon France has offices in three other locations: Lyon, Nantes and Paris. The 115 customers who have already implemented the ERP Prem' system include housing companies and commercial property management companies - for example, SCIC Habitat, Boulogne Bilancourt, Pas de Calais Habitat, Arras, and the Hainaut Group, Valenciennes. In 2005, Aareon France presented its products at the most important trade exhibitions SIMI (Salon de l'Immobilier d'Entreprise), Paris, and H'Expo, Nantes, showing Blue Eagle as well as the well established Prem' software package. New customers acquired by Aareon France in 2005 included the Groupe Galeries Lafayette and the banking group BNP Paribas.

Software solutions from the international subsidiaries

The 13 major customers of Aareon Italia S.r.l., Rome, manage approximately 550,000 units using the ERP systems SGAP2000 and Esse-RE. Esse-RE was launched on the Italian market in 2005 and is already being used by ten customers. Important customers of Aareon Italia include Ferservizi S.p.A., the Italian railway company, and Sogei S.p.A.

The Rimo R4 software from our Swiss subsidiary is being used by 700 customers to manage 1.4 million units. Customers of Aareon Schweiz include Swiss Re, Zürich, Sulzer Immobilien AG, Winterthur and T. Graf Immobilien in Bern.

A total of 112 customers of our Coventry-based subsidiary Aareon UK Ltd. - mainly social housing companies - are using the ERP solution QL Housing. Customers include Housing 21, Bournville Village Trust and Sandwell Metropolitan Borough Council. The QL Housing software package was updated and enhanced, resulting in increased sales figures in the UK. There was also a successful move to expand sales into the Scottish market.



Aareon has international offices in France, Great Britain, Italy, Poland and Switzerland.

Aareon Energy Management delivers benefits for property companies and tenants

In 2005, we expanded the Aareon Energy Management service first introduced in 2004. Aareon Energy Management offers property companies the benefits of quick, low-cost, automated billing of heating and ancillary costs. It allows property companies to streamline their processes and lower their service and maintenance charges. The fully integrated service saves money by metering remotely by wireless and feeding the data directly into the property company's ERP system, making data transfer between heat metering services and IT systems a thing of the past. Since the introduction of Aareon Energy Management, we have been working in close partnership with Siemens Building Technologies and Sensus Metering Services GmbH. Aareon Deutschland GmbH has also entered into a comprehensive cooperation agreement with exhibition service company ista Deutschland GmbH. Both partners have agreed to extend their cooperation to selected international markets.

Mareon service portal leads the market

Mareon is the Internet-based service portal of Aareon Deutschland GmbH, providing a networking facility for participating businesses. With its project management, inventory management, tradesmen collaboration, heating oil management, insurance company collaboration and property documentation modules, the portal supports all phases of the property lifecycle. In 2005, the portal confirmed its market leadership with a market share of 55% and coverage of the whole of Germany. The number of property companies using Mareon rose by approximately 35 to 130; the number of tradesmen using Mareon rose by 1,000 to 5,000. The number of links to software programmes for the trade increased yet again in 2005 to 42. Mareon handles approximately 5,000 orders and 5,000 invoices every day, and in 2005, celebrated the completion of its millionth order. By the end of the year, this had risen to 1.7 million orders, worth a total invoiced value of € 210 million. Mareon maintains links to Blue Eagle and to other service portals such as ImmobilienScout24. In a survey of tradesmen carried out in March 2005, 70% of respondents stated that they would recommend Mareon to others. The reasons given were time saving, faster issuing and processing of orders and invoices, and the user-friendliness of the portal. We implemented Mareon Releases 8.0 and 9.0 on schedule. These releases contained improvements to the general design, user friendliness, the digital signatures and the digital invoice filing system.

The range of services provided by Aareon is enhanced by the services of several product-specific hotline teams, which provide fast support and advice for users.

BauSecura Versicherungsmakler GmbH, Hamburg is a joint venture between Aareon AG (51 %) and the Funk Gruppe, an international, Hamburg-based insurance service provider. BauSecura is the property sector's leading insurance broker and provider of unique specialist insurance claim processing software. The company, with offices in two locations in Germany, provides insurance services for more than one million residential units, business parks, property funds and major building projects. BauSecura's services include consulting on any insurance-related issues, the analysis and assessment of individual risk situations, and the development of insurance concepts. In future, it will also offer integrated claims processing through BKXL® under Blue Eagle similar to the GES insurance module with Integrated Banking/BK01®.

BauSecura – the insurance specialist for the property sector

IT-Services

The IT Services division comprises the IT Service Centre and the Networks unit. They are responsible for ensuring the high standards of ASP (Application Service Providing), ERP systems hosting and IT outsourcing. It is our aim to maintain the technologically advanced status of our IT Service Centre at all times. We carried out modernisation work in 2005 to increase capacity as well as to improve power supplies, air conditioning, and protection against fire and against unauthorised entry. The computer capacities used for Blue Eagle production were also upgraded further.

State of the art IT Service Centre

In recent years, we have enlarged our range of IT outsourcing services, which are available to companies within the property sector as well as to companies from other sectors. These services provide the customer with the benefits of a powerful and failsafe IT system. Our services include mainframes, Unix, Linux, Windows and SAP systems, databases, LAN and WAN management including the latest firewall technologies. Customers using our IT services include DEPFA BANK plc, Dublin, and Aareal Bank AG, Wiesbaden. New customers acquired during 2005 included Deutsche Anlagenleasing GmbH in Mainz.

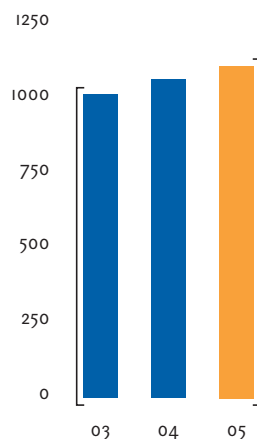


The Aareon IT Service Centre was upgraded in 2005.

The Networks business unit is responsible for the wide area network (WAN) between the local and international outsourcing locations, ASP customers and the Aareon IT Service Centre in Mainz. There are approximately 1,500 live network connections.

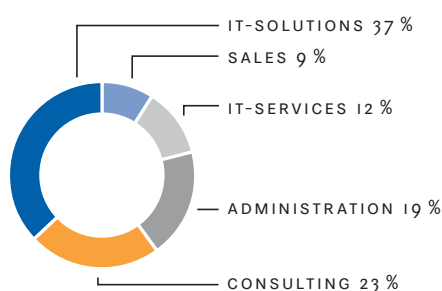
Our employees - a key success factor

Employees (average)

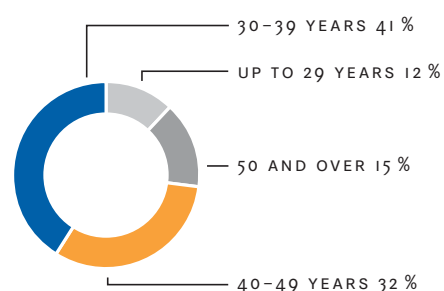


The average size of the workforce was 1,113 (previous year: 1,067).

Employees by business division



Employees by age structure



New compensation system

The E² (Entfalten und Entwicklung, or 'Evolve and Develop') personnel development plan, which Aareon AG introduced in 2004, has led to greater transparency in projects, objectives and prospects. In the past financial year, we agreed the E² compensation system with the Works Council. This new model provides a fairer compensation structure, since there is now increased emphasis on the variable salary component in addition to the fixed component. Also, the previous commission systems in the Consulting business segment and in Sales were superseded by the new compensation model. In October, we organised information events on the new compensation system for employees throughout the Group.

E² has enabled us to make our staff training programmes more individual and more effective. We invested € 1.3 million in the professional development of our staff in 2005, compared with € 1.2 million the previous year. The main emphasis was on training for Blue Eagle, SAP and project management. We have now trained a total of 88 employees as Certificated Project Management Practitioners (IPMA Level D), with 19 employees qualifying in 2005. Seven employees are currently in the process of qualifying as Certificated Project Management Professionals (IPMA Level C) and Certificated Project Managers (IPMA level B).

Aareon employed 19 trainees at end of 2005. The company enjoys excellent relationships with universities and offers students traineeships and support in completing degree dissertations. As a result, Aareon is able to meet highly qualified, potential new recruits at an early stage.

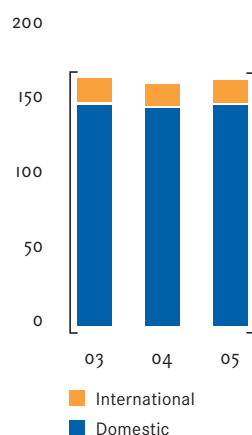
As part of our quality management system, we carry out an annual employee survey, which provides a meaningful indicator of the climate within the company and of the quality of leadership provided by senior management. The fifth groupwide survey was undertaken in November. The overall level of employee satisfaction was around the same level as in the previous year.

Business developments

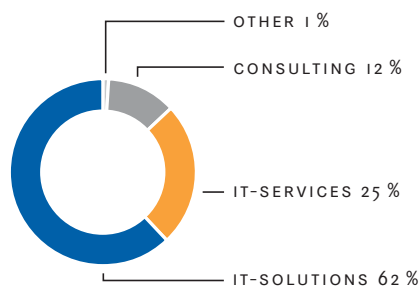
Earnings

Following the revenue decline in the previous three years, which was related to the adoption of a new line of software products and a generally sluggish demand for consulting services, Group revenue increased again in 2005 by 1.8% to € 162.6 million (previous year: € 159.7 million). While 90.9% of the Group's revenue (€ 147.8 million) was recorded in Germany (previous year: € 145.6 million), the foreign share was 9.1% or € 14.8 million (previous year: € 14.1 million). Growth was distributed over all three business divisions. The IT Solutions business division recorded revenues of € 101.0 million, a slight increase of 0.8% from the previous year (€ 100.2 million). This is primarily due to an increase in revenues in the energy management business. Revenues in the IT Services division grew by 3.3% to € 40.5 million (previous year: € 39.2 million). Consulting revenue was up 7.1% to € 19.7 million due to a larger volume of projects (previous year: € 18.4 million). This figure includes project services that are provided at fixed prices and accounted for based on the percentage of completion. These are mostly Blue Eagle migration projects which have not yet been billed.

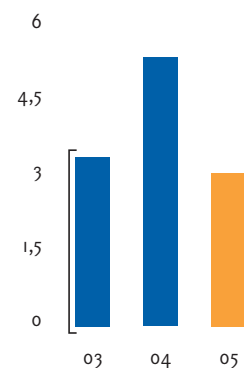
Revenue (€ m)



Revenue by business division



Net income after minority interest (€ m)

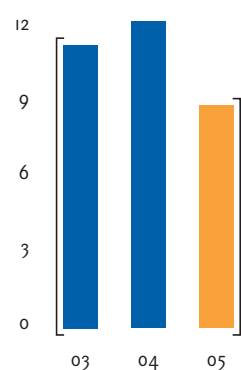


Despite the growth in revenues, earnings declined because of an increase in expenses. The consolidated net income decreased by 37.1% to € 3.9 million (previous year: € 6.2 million). At € 8.2 million, earnings before interest and taxes (EBIT) were down 33.3% (previous year: € 12.3 million).

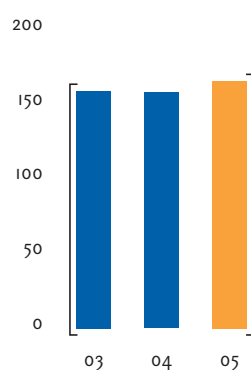
After expenses had decreased in previous years, total expenditure showed an increase of 4.8% to € 165.2 million in 2005 (previous year: € 157.7 million). While material costs increased only slightly by 0.6% to € 49.0 million (previous year: € 48.7 million), staff costs rose by 8.8% to € 78.1 million (previous year: € 71.8 million). The slight rise in material costs was related to an increased use of material in the energy management business. The increase in staff costs is due to a growth in workforce, salary adjustments and one-off effects.

Aareon attaches high priority to research and development. Activities in this field focus essentially on Blue Eagle, Mareon and energy management. Expenditure for research and development in 2005 was € 12.0 million (previous year: € 14.5 million). This represents 7.3% of total expenditure.

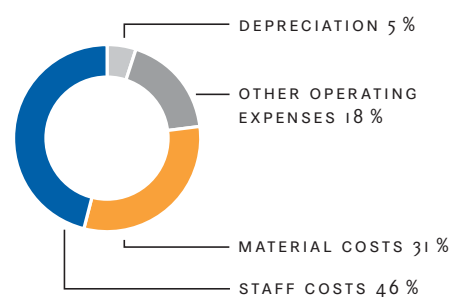
EBIT (€ m)



Expenditure (€ m)



Expenditure by cost group



In 2005, we continued to expand and optimise our sales operation. At year's end, the Group was managing 1,036 sales projects for 522 customers. Projects for the introduction of the Blue Eagle software and the Aareon Energy Management service topped the list of orders received by the Group. Blue Eagle projects focused on existing customers who migrated from GES and WohnData systems to Blue Eagle. Aareon also expanded its new business with Blue Eagle.

Assets and financial position

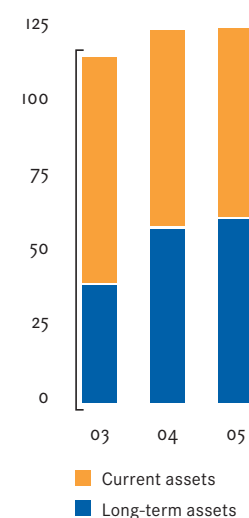
Total increased slightly by 0.6% and reached € 125.6 million (previous year: € 124.8 million). Non-current assets rose by 5.7% to € 61.4 million (previous year: € 58.1 million). This is primarily due to an increase in intangible assets. Industrial rights and similar rights and assets showed a particular strong increase of 25.4% to € 14.3 million (previous year: € 11.4 million). This increase was caused by the capitalisation of development costs for Blue Eagle Release 3.0 and continued developments of in-house solutions of our international subsidiaries. Current assets decreased by 3.6% to € 64.3 million (previous year: € 66.7 million). While receivables and other assets grew year-on-year, inventories - particularly goods - and cash and cash equivalents declined. Receivables and other assets rose by 20.1% to € 22.7 million (previous year: € 18.9 million). This development is related to an increase in receivables from unbilled services and trade receivables. Cash and cash equivalents decreased by 12.7% to € 23.3 million (previous year: € 26.7 million).

Major investment projects in 2005 concerned the comprehensive modernisation of the IT Service Centre in Mainz (€ 1.7 million) and hardware and software maintenance for Areal's Summit server operation (€ 0.9 million).

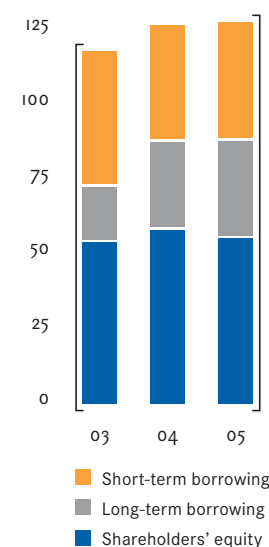
The decline in consolidated earnings and a payment to the parent company resulted in a 5.2% decrease of equity to € 55.2 million (previous year: € 58.2 million). The minority interest in equity amounted to € 0.7 million (previous year: € 0.9 million). These shares are held by BauSecura Versicherungsmakler GmbH, Hamburg, and Aareon DSK GmbH, Berlin. Non-current liabilities rose by 11.3% to € 31.6 million (previous year: € 28.4 million), primarily as a result of the increase in non-current provisions and deferred tax liabilities. The slight increase in current liabilities of 1.8% to € 38.8 million (previous year: € 38.1 million) is due to a rise in current provisions and other liabilities while current tax liabilities decreased.

Cash and cash equivalents declined by 12.7% to € 23.3 million (previous year: € 26.7 million). The 62.2% decrease in cash flow from operating activities to € 7.4 million (previous year: € 19.6 million) was only partially offset by the improved yet still negative cash flow from investing activities of € -10.0 million (previous year: € 20.4 million), which was caused by additions to both intangible assets and property, plant and equipment. It has to be noted that profit distribution to the shareholders of Aareon, which was resolved for the 2005 financial year, will not result in an outflow of cash until 2006. The cash provided by operating activities in the reporting period did not fully cover the cash used by investing activities and the payments to the shareholder. The difference resulted in a decrease in cash and cash equivalents.

Assets (€ m)
(Structure of assets)



Shareholders' equity and liabilities (€ m)
(Capital structure)



Supplementary report

There were no events or business transactions which occurred after the close of the financial year and which could have an effect on the results of operations, financial position and net assets presented in this report.

Risk report

Aareon AG has introduced a Group risk management system with an early warning function to monitor and control its corporate risks. This system includes the recording and reporting of risks based on the regular measurement and assessment of all corporate risks. The risk management system is constantly adapted to changes in the organisational structure. Aareon uses its own "Aareon Risikoanalyse" software for the risk management system.

The strategic, organisational and operational risks are recorded, observed and assessed where they occur by the persons responsible for the business segment, subsidiary or project concerned, who then report to Risk Management. They, in turn, consolidate the submitted risk reports and present them to the Management Board, which then decides whether or not to take further measures. Risk assessment is controlled by the Management Board and is a regular item on the agenda of board meetings.

The key risk types to which Aareon is exposed are software development, process, project, financial and market risks. In the majority of cases, these risks are linked to each other.

Software development risk

The complete new development of the ERP product line entails the risk of being unable to develop the new Blue Eagle property software within budget, with the required quality and within the time frame expected by the market.

To avert the risks related to the development of Blue Eagle, the company set up several monitoring and control committees in which all members of the Management Board have assumed personal responsibility. We deal with the risk associated with the transformation of employee expertise in view of the introduction of Blue Eagle with an intensive training programme.

Aareon relies on a high degree of standardisation in software development, implementation and operation in order to reduce development and implementation costs and increase market acceptance.

Process risk

The new internal and external processes which are required to create the new Blue Eagle product line and the new product technology entail process and technology risks. Development is carried out under a new, companywide process model for uniform and professional project work (Aareon Project Management), which is based on international standards. The application of this process model also reduces the risks resulting from customer projects.

Aareon uses its project management system to minimise the risks involved in the introduction of processes for the new Energy Management business. Technology risks are being reduced through cooperation with experienced companies such as Siemens Building Technologies and Sensus Metering Services, for instance.

In 2005, Aareon also set up an International Product Management division to manage product investments, avoid price increases and leverage synergies, especially between different products. However, there still remain internal process risks due to the current lack of experience in new fields of business.

Project risk

Project risks arise from the large number of customer projects during the rollout of Blue Eagle. A simple migration method (Blue Eagle Migration Tool) was developed to ensure that as many orders as possible could be delivered from the order pipeline with reduced risk.

Financial risk

The development and quality risks arising from the development of the new ERP product line also increase the risk associated with consulting services. Therefore, the Consulting segment of Aareon Deutschland GmbH was restructured to reflect the changed situation resulting from the introduction of Blue Eagle. We responded to the declining demand for consulting services by stepping up our sales efforts in this area.

Business development with the international subsidiaries also involves earnings risks. In order to absorb these risks, we continued our restructuring and consolidation measures in 2005, and we will constantly review the strategy we have adopted.

Market risk

The completely new development of the Blue Eagle property software application is recognised as a market risk inasmuch as customers might not accept the new product and be unwilling to pay for its licensing and launch costs. Further market risks also arise with regard to the acceptance of the products and their prices. In order to offer attractive prices at launch time, Aareon chose to harness the potential for rationalisation by preparing standardised Blue Eagle introductory software packages, some of which were designed for specific groups of customers.

By means of an annual, anonymous and standardised customer survey, we monitor the degree of market acceptance of the new Blue Eagle product line and analyse views on the product and the company. Further input is provided by intensive customer communication and cooperation with customer advisory boards and industry associations. This enables the Group to identify market needs early on and to incorporate them in the development of its products. Price increases are avoided by controlling development and administrative costs.

Aareon is developing its Energy Management business, which has a significantly broader scope compared to the previous, successful business of calculating and billing ancillary costs. Aareon reduces market risks for the Energy Management division by ensuring a high degree of board-level involvement and by maintaining additional controlling and reporting structures.

We counter the risk that might arise as a result of structural changes in the property sector and the consequent consolidation of property companies by offering a range of products that allows major customers to carry out highly customised projects. Here, Blue Eagle can be used as a starting point and as a template. As a result, we are able to use our project experience to offer major customers individual projects at competitive, economically attractive terms.

We reduce the market risks of the international rollout of Blue Eagle by adapting the software to national markets in close collaboration with the national subsidiaries of the SAP Group. Market development using pilot installations with selected customers also reduces risks by lowering the costs of localising Blue Eagle for the national markets.

Technological risks

Appropriate measures and rigorous standards are employed to avoid the risk of system failure. To date, no system failure has ever occurred which could have prevented access to the ASP applications, with the exception of partial interruptions. In principle however, we cannot rule out future system failures that could have a detrimental impact on Aareon's business reputation or which could lead to claims or liability against Aareon. In the event of any such system failure, we have a complete backup data-processing centre that is permanently available at an external location. Furthermore, multiple backup copies of all data are prepared regularly. Aareon has addressed the issue of liability risk by taking out property damage/liability insurance with limited scope and cover provided. This policy provides cover in the event of Aareon being judged liable to a third party for damage incurred as a result of its operation of a data-processing centre.

Outlook

We will be introducing Blue Eagle Release 3.0 as planned at the beginning of 2006. It will contain a number of additional functionalities. The international launch of Blue Eagle will start in Switzerland, Italy and France.

We expect the Aareon Group to enjoy a positive development of earnings in the next two years and are aiming to double our EBIT margin during this time. In particular, we anticipate increased revenue figures for the Consulting and IT Solutions divisions. Consulting revenues are expected to grow thanks to the rising number of Blue Eagle migration projects carried out for existing customers as well as the acquisition of new customers. Revenues from the IT Solutions division, which includes Software Development, Support and Energy Management, are expected to rise as a result of increased sales of Blue Eagle licenses to in-house customers. In addition, there are indications of growing demand from the property sector for the Aareon Energy Management service. Aareon Energy Management is concerned with the sale and rental of wireless devices for remote metering and transmission of data to our integrated billing systems. We will continue with and further improve the intensive marketing of the integrated services (Mareon, Aareon Energy Management, BauSecura etc.) which make Aareon so unique in the marketplace. We are expecting sales volumes for the IT Services division (IT Service Centre and Networks) to remain steady as the GES ASP business is replaced by the Blue-Eagle ASP business.

Positive development
of earnings expected

Despite the general risk of acceptance for the completely new Blue Eagle software, the software provides an opportunity for the Group to open up new markets and to retain its existing customer base by delivering the latest technology. We are committed to adapting our portfolio of products to the needs of the market and to the general economic conditions.

As the main development of Blue Eagle will be completed in 2006, we do not expect to capitalise any significant in-house development costs from 2007 on.

Expenses for raw materials and consumables will rise in line with the predicted growth in revenues. This expenditure will mainly concern cost of materials purchased as a consequence of the purchase of licenses from SAP for Blue Eagle software and the purchase of equipment for the Energy Management division. Staff costs are expected to rise in line with the amount of the annual salary increase. Depreciation and amortisation will not increase significantly in the next two years. However, we do expect a slight increase as a result of the SAP licenses in the ASP business. We are planning a significant investment in the expansion of a mainframe computer system.

We expect consulting expenditures for internal projects – under the financial statement item ‘other operating expenses’ – to decline over the next few years. We forecast an increase in travel expenses over the next two years reflecting the anticipated increase in revenues from the Consulting division. We will continue to pay particular attention to effective cost management and use targeted measures to improve our cost structure. In conjunction with our planned revenue growth, these measures will result in increased profitability for the company.

Efficient cost management

We will retain our strong commitment to the E² personnel development programme and compensation system and play an active part in supporting the development of our personnel. Aareon’s customer-focused strategy will also continue. We will develop and implement measures based on the results of our customer survey. In line with the realignment of the Aareal Group, we will further drive cooperation with the housing industry business of Aareal Bank and take advantage of synergies.

Mainz, 30 January 2006

The Management Board



Dr. Manfred Alflen



Lothar Gebhard



Jürgen Pfeiffer

All statements made in this Group Management Report which 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 different 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. The photos and captions in the margin of the Group management report are not part of the audited report.



CERTIFIED

Certified quality gives our customers peace of mind. Six out of ten residential units in Germany are professionally managed with Aareon systems. We feel honoured by this vote of confidence from the market, which confirms the high quality of our products and services.

Consolidated Income Statement

for the period from 1 January to 31 December 2005

| (€ 000's) | NOTES | 2005 | 2004 |
|--|-------|--------------|---------------|
| Revenues | 4.1 | 162,603 | 159,671 |
| Other own work capitalised | | 4,150 | 4,725 |
| Other operating income | 4.2 | 6,861 | 6,489 |
| Cost of materials | 4.3 | 48,972 | 48,571 |
| Staff costs | 4.4 | 78,053 | 71,835 |
| Depreciation and amortisation | | | |
| on intangible assets and on property, plant and equipment | | 8,464 | 8,187 |
| Other operating expenses | 4.5 | 29,708 | 29,072 |
| Other interest and similar income | 4.6 | 557 | 682 |
| Including from affiliated companies: € 207,000 (2004: € 302,000) | | | |
| Interest and similar expenses | 4.6 | 361 | 938 |
| Including paid to affiliated companies: € 0 (2004: € 0) | | | |
| Result from ordinary activities | | 8,613 | 12,964 |
| Income taxes | 4.7 | 4,562 | 5,894 |
| Other taxes | | 196 | 911 |
| Consolidated net income/loss | | 3,855 | 6,159 |
| Of which attributable to: Shareholders of the parent company | | 3,126 | 5,404 |
| Minority shareholders | | 729 | 755 |

Consolidated Balance Sheet

as at 31 December 2005

| Assets (€ 000's) | NOTES | 2005 | 2004 |
|---|-------|----------------|----------------|
| Non-current assets | | | |
| Intangible assets | 5.1 | 33,209 | 30,253 |
| Property, plant and equipment | 5.2 | 16,168 | 17,400 |
| Financial assets | 5.3 | 3,684 | 3,818 |
| Trade receivables and other assets | 5.6 | 2,052 | 427 |
| Deferred tax assets | 5.9 | 6,239 | 6,202 |
| | | 61,352 | 58,100 |
| Current assets | | | |
| Inventories | 5.5 | 13,103 | 15,762 |
| Trade receivables and other assets | 5.6 | 22,747 | 18,876 |
| Current tax assets | 5.7 | 5,171 | 5,289 |
| Cash on hand and balances held with banks | 5.8 | 23,260 | 26,726 |
| | | 64,281 | 66,653 |
| | | 125,633 | 124,753 |

| Shareholders' Equity and Liabilities (€ 000's) | NOTES | 2005 | 2004 |
|---|-----------|----------------|----------------|
| Equity | | | |
| Equity attributable to shareholders | 5.10/5.11 | 54,509 | 57,321 |
| Minority interest | 5.13 | 729 | 904 |
| | | 55,238 | 58,225 |
| Non-current liabilities | | | |
| Provisions for pensions and similar obligations | 5.14.1 | 18,622 | 18,098 |
| Other non-current provisions | 5.14.2 | 4,788 | 4,037 |
| Deferred tax liabilities | 5.9 | 5,374 | 3,813 |
| Other liabilities | 5.16 | 2,840 | 2,476 |
| | | 31,624 | 28,424 |
| Current liabilities | | | |
| Other current provisions | 5.14.2 | 12,141 | 11,434 |
| Current tax liabilities | 5.15 | 4,077 | 6,617 |
| Trade payables and other liabilities | 5.16 | 22,553 | 20,053 |
| | | 38,771 | 38,104 |
| | | 125,633 | 124,753 |

Consolidated Statement of Changes in Shareholders' Equity

for the period from 1 January to 31 December 2005

| Of which attributable to shareholders of the parent company (€ 000's) | SUBSCRIBED CAPITAL | CAPITAL RESERVES | TRANSLATION DIFFERENCES | ACCUMULATED GROUP EARNINGS | TOTAL |
|--|-----------------------|---------------------|----------------------------|----------------------------------|---------------|
| 01 January 2005 | 25,000 | 26,400 | -406 | 6,327 | 57,321 |
| Addition to reserves | 0 | 0 | 0 | 0 | 0 |
| Distribution | 0 | 0 | 0 | -6,000 | -6,000 |
| Group earnings | 0 | 0 | 0 | 3,126 | 3,126 |
| Other changes | 0 | 0 | 62 | 0 | 62 |
| 31 December 2005 | 25,000 | 26,400 | -344 | 3,453 | 54,509 |

| Of which attributable to minority interest (€ 000's) | MINORITY EQUITY | CAPITAL RESERVES | TRANSLATION DIFFERENCES | ACCUMULATED GROUP EARNINGS | TOTAL |
|---|--------------------|---------------------|----------------------------|----------------------------------|------------|
| 01 January 2005 | 79 | 0 | 0 | 825 | 904 |
| Addition to reserves | 0 | 0 | 0 | 0 | 0 |
| Distribution | 0 | 0 | 0 | -904 | -904 |
| Group earnings | 0 | 0 | 0 | 729 | 729 |
| Other changes | 0 | 0 | 0 | 0 | 0 |
| 31 December 2005 | 79 | 0 | 0 | 650 | 729 |

Consolidated Statement of Cash Flows

of the Aareon Group (IFRS)

| (€ 000's) | 2005 | 2004 |
|--|----------------|----------------|
| Net income for the period (including income/loss portion attributable to minority interest) before net interest income and tax expense | 6,738 | 11,620 |
| Amortisation/depreciation of fixed assets | 8,464 | 8,187 |
| Write-up on fixed assets | -37 | 0 |
| Income taxes paid | -3,079 | -5,205 |
| Interest paid | -361 | -938 |
| Interest received | 557 | 682 |
| Increase/decrease (-) in provisions | 1,877 | 2,305 |
| Increase (-)/decrease in deferred taxes | 1,484 | 833 |
| Increase (-)/decrease in inventories | 2,659 | 1,116 |
| Increase (-)/decrease in receivables and other assets | -5,495 | -1,540 |
| Increase (-)/decrease in other assets | -1,082 | 275 |
| Increase/decrease (-) in liabilities | -4,278 | 1,879 |
| Increase/decrease (-) in other liabilities | -54 | 414 |
| Cash flow from operating activities | 7,393 | 19,628 |
| Payments for investments in fixed assets | -10,529 | -20,694 |
| Payments for investments in financial assets | 0 | -40 |
| Changes to group of consolidated companies | 0 | -75 |
| Income from the disposal of fixed assets | 566 | 460 |
| Exchange rate-related changes in fixed assets | -54 | -15 |
| Cash flow from investing activities | -10,017 | -20,364 |
| Change in minority interest | 0 | 85 |
| Payments to minority shareholders | -904 | -746 |
| Payment to shareholders | 0 | -2,000 |
| Cash flow from financing activities | -904 | -2,661 |
| Net change in cash and cash equivalents | -3,528 | -3,397 |
| Exchange rate-related change in cash and cash equivalents | 62 | 12 |
| Total change in cash and cash equivalents | -3,466 | -3,385 |
| Cash funds at the beginning of the year | 26,726 | 30,111 |
| Cash funds at the end of the year | 23,260 | 26,726 |

Notes to the Consolidated Financial Statements

[1]

General notes

[1.1]

Compliance with legal requirements

The consolidated financial statements of Aareon AG, Im Münchfeld 1-5, 55122 Mainz, Germany, were prepared according to International Financial Reporting Standards (IFRS) and the interpretations of the Standing Interpretations Committee (SIC/IFRIC) for the 2005 financial year. All of the compulsory International Financial Reporting Standards required for the consolidated financial statements as of 31 December 2005 were taken into account. The financial statements give a true and fair view of the financial position of the Aareon Group and the results of its operations.

The consolidated financial statements are prepared in euros. Unless indicated otherwise, all amounts are shown in thousands of euros (€ 000's).

The income statement is prepared using the total cost (nature of expense) method.

For the sake of enhanced clarity and transparency, all notes added to individual items in the balance sheet and the income statement in accordance with statutory provisions, which may optionally be shown either in the balance sheet/the income statement or in the Notes, are listed in the Notes. Where individual items are summarised in the balance sheet and the income statement, these are broken down in the Notes.

Preparing the consolidated financial statements according to IFRS requires estimates to be made for several items. These affect the carrying amounts on the consolidated balance sheet or income statement.

In the reporting year, Aareal Bank sold its share in Aareon AG to Aareal IT Beteiligungen GmbH. This does not result in any changes with regard to Group affiliation and business activities.

Aareon AG is included in the consolidated financial statements of Aareal Bank AG according to the provisions for full consolidation. The Group did not prepare consolidated financial statements and a Group management report according to the German Commercial Code in line with sections 291 (1) and (2) of the German Commercial Code (Handelsgesetzbuch - "HGB").

Aareon AG's consolidated financial statements are thus prepared according to International Financial Reporting Standards (IFRS). This does not have an exemptive effect within the meaning of section 315a of the HGB.

IAS 1.51 requires current and non-current assets and liabilities to be stated separately in the balance sheet. Previous year's figures were adjusted accordingly for the preparation of the balance sheet based on the current/non-current classification.

[1.2]

Operating activities

Aareon AG is an international consultancy and systems house for residential and commercial properties, with a leading position in the German market. The company's offering covers all of the sector's key requirements: consultancy services, software solutions, support and other services as well as training.

The company has around 1,100 employees at its head office in Mainz and numerous other offices in Germany and abroad.

Its customer groups include private and municipal housing companies, property management companies, home owners' associations, insurance companies, property investment funds, enterprises associated with industrial companies, commercial property operators (e.g. shopping centres, office properties, store chains) and cooperative societies.

Information on accounting, valuation and consolidation methods

[2]

The group of fully consolidated companies includes Aareon AG as well as all key subsidiaries in which Aareon AG either directly or indirectly holds the majority of voting rights or the right to appoint the majority of the Supervisory Board members and where control exists. Two subsidiaries whose influence on the Group's financial position and results of operations are of minor importance are not included in the consolidated financial statements.

[2.1]

Scope of consolidation

Participations in such enterprises are valued at cost, less any necessary depreciation and amortisation.

In accordance with legal requirements, the financial statements of the individual subsidiaries are included in the consolidated financial statements by uniformly applying the accounting policies defined by Aareon AG. The acquisition value of the subsidiaries included in consolidation is offset against their proportionate equity on their respective dates of acquisition using the purchase method. Any goodwill remaining is carried under intangible assets. According to IFRS 3, amortisation of goodwill has been discontinued since 2004.

[2.2]

Principles of consolidation

All receivables and liabilities as well as revenues, intra-Group earnings, income or expenses resulting from transactions between the consolidated companies have been eliminated. A reconciliation item for minority interest was created for any shares in fully consolidated subsidiaries which are not held by the parent company. As a rule, this reconciliation item is affected by any consolidation measures which affect the income statement.

The foreign companies which form part of the Aareon Group are foreign entities, whose financial statements are translated to euros using the functional currency concept.

[2.3]

Currency translation

The items in the income statement are translated using the average exchange rate, all monetary and non-monetary assets and liabilities are translated using the closing rate on the balance sheet date. Differences which impact equity are disclosed directly in a separate equity item until the subsidiary is disposed of. This also applies to any deviations between the accumulated profit translated using the closing rate on the balance sheet date and the results shown in the consolidated income statement based on average exchange rates. The components of shareholders' equity to be included in capital consolidation are translated using historical exchange rates.

The following exchange rates were used for translation:

| | | BALANCE SHEET CLOSING RATE | | INCOME STATEMENT AVERAGE EXCHANGE RATE | |
|----------------|-----|----------------------------|------------|---|--------|
| | | 31.12.2005 | 31.12.2004 | 2005 | 2004 |
| 1 € = | | | | | |
| United Kingdom | GBP | 0.6853 | 0.7073 | 0.6841 | 0.6789 |
| Poland | PLN | 3.86 | 4.0774 | 4.0215 | 4.5147 |
| Switzerland | CHF | 1.5551 | 1.5444 | 1.5489 | 1.5436 |

[3]

Accounting and valuation principles

[3.1]

Intangible assets

Purchased intangible assets, primarily software, are capitalised at their acquisition costs and subject to scheduled amortisation in line with their useful life. Goodwill mainly arises from the acquisition of software companies and is attributed mostly to the IT Solutions segment.

Goodwill is subject to an annual impairment test. Its value is determined based on the cash value of future cash flows ("value in use") which are determined by using mid-term planning figures. A stable growth factor of 0 is assumed. The determination of the cash value of future cash flows is based on a discount factor of 18% before tax which is adequate to the risks concerned.

Research costs are treated as ongoing expense in line with IAS 38. Development costs for software produced in-house are capitalised, as the conditions for capitalisation according to IAS 38 are fulfilled. They are subject to amortisation in line with their useful life.

[3.2]

Property, plant and equipment

Property, plant and equipment are measured at their acquisition or historical cost according to IAS 16 and, insofar as these are wasting assets, subject to straight-line depreciation in line with their useful life. Low-value assets are written down in full in the year of acquisition. Non-scheduled write-downs within the meaning of IAS 36 are made if it is compulsory to carry the asset at a lower value, i.e. if the net selling price or the value in use of the affected asset is lower than its book value. If the reasons for non-scheduled write-downs made in previous years no longer exist, then this is written up/reversed accordingly in line with IAS 36.104 and recognised as income.

| | USEFUL LIFE OF PROPERTY, PLANT AND EQUIPMENT |
|--------------------------------|---|
| Buildings | 50 years |
| Tenant's improvements | According to the term of the lease or 10 years |
| Hardware | 3 to 5 years |
| Office furniture and equipment | 3 to 23 years |
| Motor vehicles | 6 years |

The requirements of IAS 17 are fulfilled for the use of leased assets 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 cash value of the minimum leasing payments and written down using the straight-line method over the asset's useful life or the shorter duration of the lease. The payment obligations resulting from the future leasing instalments are discounted and carried as a liability.

[3.3] Leases

These primarily relate to IT equipment and associated peripherals and domestic waste disposal facilities with leases of various durations between one and eight years. After the lease period expires, as a rule the lessee has the opportunity to conclude a subsequent lease or purchase the asset at its respective residual value or transfer the asset to the lessee to have it scrapped. The discount factor equals the interest rate underlying the leasing agreement. If this rate is unknown, an incremental borrowing rate of 4% is taken into account.

| (€ 000's) | 2006 | 2007-2010 | AFTER 2010 |
|------------------|-------|-----------|------------|
| Leasing payments | 2,178 | 3,318 | |
| Discount amounts | 91 | 392 | |
| Present values | 2,087 | 2,926 | |

Revenues from future, non-terminable sub-leasing agreements amounted to € 3,130,000.

Operating leases primarily concern motor vehicles, office furniture and equipment and telecommunication equipment. Minimum leasing payments due to operating leases were as follows:

| (€ 000's) | 2006 | 2007-2010 | AFTER 2010 |
|------------------|-------|-----------|------------|
| Leasing payments | 4,831 | 8,796 | 1,910 |

The minimum leasing payments recognised in income amount to € 4,966,000.

[3.4]
Financial instruments

Financial instruments are amounts that simultaneously lead to a financial asset for one company and a financial liability or equity instrument for another company.

IAS 39 breaks financial assets down into the following categories:

- “Financial assets at fair value through profit or loss”
- “Held-to-maturity investments”
- “Loans and receivables”
- “Available-for-sale financial assets”

Financial assets held by the Aareon Group are primarily loans and receivables.

As a rule, financial instruments are not treated as “held-to-maturity investments”. No “financial assets held for trading” were acquired. Insofar as the Group acquires securities, these are generally treated as “available-for-sale financial assets”. The financial instruments disclosed are not subject to any interest rate risk.

“Loans and receivables” and liabilities are measured at their net acquisition or historical cost, if this is not greater than their fair value. This category includes in particular:

- Loans and advances held as financial assets
- Receivables from financing
- Trade payables and trade receivables
- Receivables from unbilled services
- Current other receivables and assets as well as debt

Specific loss provisions for trade receivables are created to the extent required – as a rule using a lump-sum method. Low-interest bearing receivables are carried at their discounted amount taking into account appropriate interest.

Foreign currency receivables are translated at the exchange rate on the balance sheet date.

Receivables from production or service contracts that had not been completed on the balance sheet date are capitalised at their production cost as well as a profit supplement in line with their degree of completion to the extent that the result of the contract can be reliably estimated. Other unfinished customer contracts are capitalised in the amount of the production costs incurred, insofar as it is probable that these will be covered by income.

Production costs are calculated based on standard hourly rates. These include a reasonable amount of material and production overheads in addition to unit costs. Administrative costs are taken into account to the extent that these are attributable to production.

As a rule, “available-for-sale assets” are carried at their fair value. These are mostly marketable securities. As a rule, the fair value is the stock market or market value. If this cannot be calculated, these are valued according to financial mathematical principles by discounting future cash flows using a risk-adjusted discount factor.

Inventories are carried at acquisition or production costs. Production costs comprise all costs directly allocable to the production process as well as reasonable amounts of the production-related overheads. Financing costs are not included. They are measured at the lower of cost and net realisable value as at the balance sheet. In so doing, this is generally based on the net selling price of the finished product.

**[3.5]
Inventories**

Deferred taxes are formed in line with IAS 12 for all temporary differences between the carrying amounts in the tax base and the consolidated balance sheet (temporary concept). In addition, deferred taxes must be carried for losses carried forward.

**[3.6]
Deferred taxes**

The so-called liability method is used to calculate deferred taxes.

Deferrals are made in the amount of the assumed tax burden or relief in coming financial years based on the tax rate which applies at the time of realisation.

Deferred taxes are carried at their nominal amount (IAS 12.54 et seq.). The book values are reviewed at each balance sheet date and adjusted if necessary. The carrying amount should be reduced accordingly to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit or part or all of that deferred tax asset to be realised (valuation deduction).

The deferred tax rates in foreign countries are between 26 % and 40 %.

No deferred taxes are carried if income from subsidiaries is tax-free due to specific local tax regulations, and if tax effects from the removal of the temporary tax exemption cannot be foreseen.

Provisions for pension commitments are primarily formed for commitments arising from pension plans, i. e. retirement pensions, disability pensions and benefits for surviving dependants.

**[3.7]
Pension provisions and similar obligations**

The actuarial valuation of pension provisions which relate exclusively to commitments to German employees is based on the projected unit credit method prescribed by IAS 19 for pension commitments. As a rule, these are performance-oriented commitments, i. e. the company pension commitment to the respective employees depends on the development of their salary and the number of years of service (defined benefit plan). During this process, future increases in salaries and pensions are taken into account as well as the pensions and commitments known on the balance sheet date.

The so called 10 % corridor rule is used in measuring pension provisions and calculating pension costs. Actuarial profits or losses are not taken into account if these do not exceed 10 % of the scope of the commitment. The amount in excess of the corridor is recognised in income and distributed over the average remaining service periods of the active workforce and carried on the balance sheet.

[3.8]
Tax provisions Provisions for taxes include commitments from current income taxes. Deferred taxes are disclosed under a separate balance sheet item and in the tax reconciliation statement.

[3.9]
Other provisions The other provisions account for all identifiable risks and uncertain liabilities at the reporting date.

Provisions which do not already lead to an outflow of resources in the following year are not carried at their fulfilment amount discounted to the balance sheet date in line with IAS 37.45 as no material impact on interest would result. The fulfilment amount also comprises the cost increases to be taken into account on the balance sheet date.

Provisions in foreign currencies were translated using the closing rate on the balance sheet date.

Stock option plans (IFRS 2 “Share-based payment”) are accounted for retroactively as at the time the options are granted. The payment of “phantom stocks” as a bonus is distributed evenly over three calendar years. Regardless of this, the full provision is made as of time the options are granted.

The resulting expense of € 157,000 was recognised as staff costs.

[3.10]
Liabilities Liabilities are carried at their repayment or fulfilment amount.

Liabilities from finance leases are carried at the present value of the leasing payments.

[3.11]
Realisation of income and expense Revenues or other operating income are only carried when the service has been performed or the goods or products have been delivered, i. e. risk has been transferred to the customer.

The company primarily generates its sales through:

- consulting projects and training;
- software sales and software maintenance contracts;
- ASP services;
- integrated banking services;
- the Mareon service portal;
- Aareon Energy Management (including the billing of heating and ancillary operating costs); and
- insurance brokerage services for the property industry.

ASP services are billed monthly and recorded as revenues. Income from the implemented, fully-automated, integrated accounting and payments service for property companies (integrated banking) is calculated based on an annual flat fee and is collected quarterly.

As IFRS do not include any clear rule for the realisation of software revenue, the US GAAP rule (SOP 97-2) is applied.

According to SOP 97-2, software revenue is considered to have been realised if there is a contract signed by both parties with no right to withdraw from the contract, the product has been supplied in full, the licence fee has been determined and it is probable that this will be paid. If licence contracts include agreements on future deliveries and performance, part of the software income is allocated to the deliveries and performance based on the underlying calculations, and is only collected when the services have been performed.

Maintenance services are realised proportionately over the contractual performance period. Consulting and training services are recognised in income when the service has been performed. In addition, the Group offers project services at fixed prices. In these cases, revenues are realised according to the percentage of completion method. The percentage of completion of the projects is calculated based on a comparison of the costs already incurred with the total project costs. These figures are modified regularly as a result of changes to forecast. Provisions are formed for contingent losses from this type of service in the period in which they are caused, insofar as there is no assets item.

Operating expenses are recognised in income when the service is taken up or when these are incurred economically. Provisions for warranties are formed at the time the corresponding revenues are realised. Interest income and expense are recognised on an accrual basis.

Notes to the Consolidated Income Statement of the Aareon Group

[4]

| (€ 000's) | REVENUES BY BUSINESS DIVISION | |
|----------------|----------------------------------|----------------|
| | 2005 | 2004 |
| IT-Solutions | 101,074 | 100,220 |
| IT-Services | 40,514 | 39,190 |
| Consulting | 19,698 | 18,383 |
| Other revenues | 1,317 | 1,878 |
| Total | 162,603 | 159,671 |

[4.1]
Revenues

Compared to the previous year, revenues in the IT Solutions segment rose by € 854,000. This is primarily due to an increase in revenues in the energy management business and additional revenues generated in connection with a new cooperation agreement while central service and integrated banking revenues declined. Furthermore, consulting revenues showed an increase of € 1,315,000 due to higher project and hardware business volumes.

In addition to its German presence, Aareon AG maintains subsidiaries in France, Italy, Poland, Switzerland and the UK.

| (€ 000's) | REVENUES BY REGION | |
|---------------|--------------------|----------------|
| | 2005 | 2004 |
| Germany | 147,838 | 145,617 |
| International | 14,765 | 14,054 |
| Total | 162,603 | 159,671 |

[4.2]
Other operating income

| (€ 000's) | 2005 | 2004 |
|--|--------------|--------------|
| Income from the release of provisions | 2,072 | 2,217 |
| Non-cash income | 900 | 836 |
| Income from letting premises | 112 | 115 |
| Income from the writing back/reduction of specific and general loss provisions | 554 | 1,962 |
| Other income | 3,223 | 1,359 |
| Total | 6,861 | 6,489 |

The increase in other operating income results essentially from credits for discounts on third-party consultancy services and from a refund on software maintenance expenses from 2004.

[4.3]
Cost of materials

| (€ 000's) | 2005 | 2004 |
|---|---------------|---------------|
| Expenses for raw materials, consumables and supplies and goods for resale | 6,383 | 5,699 |
| Costs for services used | 42,589 | 42,872 |
| Total | 48,972 | 48,571 |

Compared to the previous year, the cost of material purchased rose by € 401,000. This is due to the increase in materials used in the energy management business.

| (€ 000's) | 2005 | 2004 |
|-------------------------------|---------------|---------------|
| Salaries | 65,042 | 59,403 |
| Social security costs | 13,011 | 12,432 |
| of which: Retirement benefits | 2,645 | 2,451 |
| Total | 78,053 | 71,835 |

[4.4]
Staff costs/employees

Staff costs rose by €6,218,000 compared to the previous year. This increase is essentially due to a growth in workforce and salary adjustments. Furthermore, it has to be noted that one subsidiary was included in previous year's figures on a pro rata basis only. Expenses for severance payments and additions to long-service provisions also increased.

Average number of staff excluding Managing Directors, temporary staff and vocational trainees:

| | 2005 | 2004 |
|----------------|--------------|--------------|
| Germany | 885 | 839 |
| Rest of Europe | 176 | 176 |
| Total | 1,061 | 1,015 |

| (€ 000's) | 2005 | 2004 |
|--|---------------|---------------|
| Occupancy expenses | 6,906 | 6,729 |
| Leasing/rents | 406 | 507 |
| Legal, audit and advisory expenses | 4,300 | 3,412 |
| Advertising/marketing | 2,884 | 2,920 |
| Travel expenses | 3,512 | 3,533 |
| Other staff expenses | 938 | 1,105 |
| Further training | 1,301 | 1,193 |
| Motor vehicle expenses | 2,529 | 2,321 |
| Costs of communication | 1,176 | 1,217 |
| Allowances on and write-downs of receivables | 280 | 1,218 |
| Costs for repairs and maintenance | 1,001 | 923 |
| Insurance premiums | 603 | 528 |
| Office supplies, stationery printing, newspapers and magazines | 339 | 485 |
| Subcontracted work | 467 | 779 |
| Emoluments for Supervisory Board and Advisory Council | 377 | 462 |
| Other operating expenses | 2,689 | 1,740 |
| Total | 29,708 | 29,072 |

[4.5]
Other operating expenses

Other operating expenses increased by € 636,000. This is essentially due to a revised invoice from 2003 not related to the accounting period and an increase in consultancy expenses. However, lower allowances as a result of an improved reminder process had a positive impact on expenses.

[4.6]
Net interest income

| (€ 000's) | 2005 | 2004 |
|-----------------------------------|------------|-------------|
| Other interest and similar income | 557 | 682 |
| Interest and similar expenses | 361 | 938 |
| Total | 196 | -256 |

[4.7]
Income taxes

| (€ 000's) | 2005 | 2004 |
|------------------------------|--------------|--------------|
| German income taxes | 2,789 | 5,195 |
| Foreign income taxes | 289 | 10 |
| Actual tax expenses | 3,078 | 5,205 |
| Deferred tax expenses/income | 1,484 | 689 |
| Income taxes | 4,562 | 5,894 |

The following table shows the reconciliation statement for the differences between income taxes based on the net income and the actual income tax reported. To determine the expected tax expense, the Group tax rate of 40.1% in effect in the 2005 financial year is multiplied by the pre-tax earnings.

| (€ 000's) | 2005 | 2004 |
|---|--------------|---------------|
| Earnings before taxes | 8,418 | 12,053 |
| Trade tax | 1,529 | 2,254 |
| Corporation tax | 1,722 | 2,450 |
| Solidarity surcharge | 95 | 135 |
| Anticipated tax expense/tax income | 3,346 | 4,839 |
| Reconciliation: | | |
| Non-deductible expenses | 570 | 309 |
| Taxes for previous years | 214 | 1,670 |
| Change in tax rate for deferred taxes (Germany) | -33 | 71 |
| Other differences | 465 | -995 |
| Disclosed tax expense | 4,562 | 5,894 |

Notes to the Consolidated Balance Sheet of the Aareon Group

[5]

| (€ 000's) | INDUSTRIAL RIGHTS AND SIMILAR RIGHTS AND ASSETS | GOODWILL | PAYMENTS ON ACCOUNT | TOTAL |
|------------------------------------|--|---------------|------------------------|---------------|
| Acquisition costs | | | | |
| 01.01.2005 | 24,248 | 51,961 | 449 | 76,658 |
| Additions | 5,646 | 16 | 275 | 5,937 |
| Disposals | 151 | 0 | -151 | 0 |
| Abgänge | 328 | 110 | 0 | 438 |
| Currency translation difference | 3 | 91 | 0 | 94 |
| 31.12.2005 | 29,720 | 51,958 | 573 | 82,251 |
| Accumulated amortisation | | | | |
| 01.01.2005 | 12,871 | 33,534 | 0 | 46,405 |
| Additions | 2,828 | 0 | 0 | 2,828 |
| Reclassifications | 0 | 0 | 0 | 0 |
| Disposals | 238 | 0 | 0 | 238 |
| Currency translation difference | 6 | 41 | 0 | 47 |
| 31.12.2005 | 15,467 | 33,575 | 0 | 49,042 |
| Net book value (31.12.2005) | 14,253 | 18,383 | 573 | 33,209 |
| Net book value (31.12.2004) | 11,377 | 18,427 | 449 | 30,253 |

[5.1]
Intangible assets

The additions to "Industrial rights and similar rights and assets" primarily relate to the capitalisation of development costs according to IFRS/IAS 38 for Blue Eagle Release 3.0 and the continued development of foreign in-house solutions. Capitalisation was made in the amount reflecting development services rendered based on a standard per-diem rate and pro-rated project management costs. During the year under review, € 11,925,000 was spent on research and development. Of this amount, a total of € 4,150,000 was capitalised.

The amortised goodwill per segment is as follows:

1. Consulting: € 0
2. IT-Solutions: € 17,359,000
3. IT-Services: € 936,000
4. Other: € 88,000

In the 2005 financial year, goodwill was retroactively adjusted by € 110,000 according to IFRS 3.33.

[5.2]
Property, plant
and equipment

| (€ 000's) | REAL PROPERTY, EQUIVALENT RIGHTS AND BUILDINGS IN- CLUDING BUILD- INGS ON THIRD- PARTY PROPERTY | PLANT AND MACHINERY | OTHER EQUIP- MENT, AND OFFICE FURNI- TURE AND EQUIPMENT | PAYMENTS ON ACCOUNT AND ACCOUNT AND UNDER CON- STRUCTION | TOTAL |
|------------------------------------|---|------------------------|---|--|---------------|
| Acquisition costs | | | | | |
| 01.01.2005 | 14,424 | 2,740 | 30,264 | 26 | 47,454 |
| Additions | 45 | 469 | 2,922 | 1,156 | 4,592 |
| Write-ups | 0 | 0 | 37 | 0 | 37 |
| Reclassifications | 68 | 188 | -63 | -193 | 0 |
| Disposals | 4,199 | 700 | 3,536 | 0 | 8,435 |
| Currency translation difference | 3 | 27 | -7 | 0 | 23 |
| 31.12.2005 | 10,341 | 2,724 | 29,617 | 989 | 43,671 |
| Accumulated depreciation | | | | | |
| 01.01.2005 | 9,028 | 1,758 | 19,268 | 0 | 30,054 |
| Additions | 565 | 363 | 4,710 | 0 | 5,638 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 |
| Disposals | 4,199 | 668 | 3,338 | 0 | 8,205 |
| Currency translation difference | 1 | 16 | -1 | 0 | 16 |
| 31.12.2005 | 5,395 | 1,469 | 20,639 | 0 | 27,503 |
| Net book value (31.12.2005) | 4,946 | 1,255 | 8,978 | 989 | 16,168 |
| Net book value (31.12.2004) | 5,396 | 982 | 10,996 | 26 | 17,400 |

Thereof: leased assets

| (€ 000's) | REAL PROPERTY, EQUIVALENT RIGHTS AND BUILDINGS IN- CLUDING BUILD- INGS ON THIRD- PARTY PROPERTY | PLANT AND MACHINERY | OTHER EQUIP- MENT, AND OFFICE FURNI- TURE AND EQUIPMENT | PAYMENTS ON ACCOUNT AND ACCOUNT AND UNDER CON- STRUCTION | TOTAL |
|------------------------------------|---|------------------------|---|--|---------------|
| Acquisition costs | | | | | |
| 01.01.2005 | 0 | 0 | 26,894 | 0 | 26,894 |
| Additions | 0 | 0 | 785 | 0 | 785 |
| Write-ups | 0 | 0 | 37 | 0 | 37 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 818 | 0 | 818 |
| Currency translation difference | 0 | 0 | 0 | 0 | 0 |
| 31.12.2005 | 0 | 0 | 26,898 | 0 | 26,898 |
| Accumulated amortisation | | | | | |
| 01.01.2005 | 0 | 0 | 22,515 | 0 | 22,515 |
| Additions | 0 | 0 | 2,446 | 0 | 2,446 |
| Write-ups | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 818 | 0 | 818 |
| Currency translation difference | 0 | 0 | 0 | 0 | 0 |
| 31.12.2005 | 0 | 0 | 24,143 | 0 | 24,143 |
| Net book value (31.12.2005) | 0 | 0 | 2,755 | 0 | 2,755 |
| Net book value (31.12.2004) | 0 | 0 | 4,379 | 0 | 4,379 |

[5.3]
Financial assets

| (€ 000's) | PARTICIPATION | INVESTMENT SECURITIES | LOANS TO AFFILIATED COMPANIES | OTHER LOANS AND ADVANCES | TOTAL |
|------------------------------------|---------------|--------------------------|-------------------------------------|-----------------------------|--------------|
| Acquisition costs | | | | | |
| 01.01.2005 | 25 | 2 | 333 | 4,287 | 4,647 |
| Additions | 0 | 0 | 0 | 0 | 0 |
| Write-ups | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 2 | 0 | 132 | 134 |
| 31.12.2005 | 25 | 0 | 333 | 4,155 | 4,513 |
| Accumulated amortisation | | | | | |
| 01.01.2005 | 0 | 0 | 333 | 496 | 829 |
| Additions | 0 | 0 | 0 | 0 | 0 |
| Write-ups | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| 31.12.2005 | 0 | 0 | 333 | 496 | 829 |
| Net book value (31.12.2005) | 25 | 0 | 0 | 3,659 | 3,684 |
| Net book value (31.12.2004) | 25 | 2 | 0 | 3,791 | 3,818 |

The other loans and advances include time deposits in the amount of € 2,660,000 at Landesbank Rheinland-Pfalz. These deposits are intended to secure a guaranty issued in connection with the membership in two supplementary pension funds.

| Name and registered office of company | INTEREST HELD IN % OF CAPITAL | INTEREST HELD BY | SHAREHOLDERS' EQUITY 2005 (€ 000's) | PROFIT 2005 (€ 000's) |
|--|-------------------------------|------------------|-------------------------------------|-----------------------|
| 1. Aareon AG, Mainz | | | 66,513 | 724 |
| 2. Aareon Deutschland GmbH, Mainz | 100% | 1. | 38,406 | 3,487 |
| 3. Aareon DSK GmbH, Berlin | 70% | 1. | 153 | 50 |
| 4. BauSecura Versicherungsmakler GmbH, Hamburg | 51% | 1. | 1,599 | 1,469 |
| 5. Aareon Italia S.r.l., Rome (Italy) | 95% | 1. | 713 | -761 |
| | 5% | 2. | | |
| 6. Aareon Schweiz AG, Bülach (Switzerland) | 100% | 1. | -663 | 293 |
| 7. Aareon UK Ltd., Coventry (UK) | 100% | 1. | 1,095 | 79 |
| 8. Aareon France SAS, Orléans (France) | 100% | 1. | 534 | 94 |
| 9. Mareon Polska, Wrocław (Poland) | 100% | 2. | 96 | -26 |

[5.4]
Shareholdings

Companies not included in the scope of consolidation:

| | | | | |
|---|-----|----|-----|-----|
| 10. RUSKOM BauConsult GmbH, Moskow (Russia) | 50% | 1. | n/a | n/a |
| 11. RusBauTec GmbH, Moskow (Russia) | 80% | 2. | n/a | n/a |

| (€ 000's) | 2005 | 2004 |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | 144 | 126 |
| Goods inventories | 1,283 | 4,396 |
| Payments on account | 11,676 | 11,240 |
| Total | 13,103 | 15,762 |

[5.5]
Inventories

The payments on account made primarily relate to a payment on account made to SAP AG.

There are no restraints to ownership or disposal for the inventories disclosed.

[5.6]

Receivables and other assets

| (€ 000's) | 2005 | 2004 |
|---|---------------|---------------|
| Receivables from unbilled services | 1,458 | 712 |
| of which: with a remaining term of more than one year | 0 | 0 |
| Trade receivables | 19,375 | 15,914 |
| of which: with a remaining term of more than one year | 2,052 | 427 |
| Receivables from affiliated companies | 268 | 234 |
| of which: with a remaining term of more than one year | 0 | 0 |
| Receivables from shareholders | 220 | 0 |
| of which: with a remaining term of more than one year | 0 | 0 |
| Prepayments | 2,861 | 1,779 |
| of which: with a remaining term of more than one year | 0 | 0 |
| Other assets | 617 | 664 |
| of which: with a remaining term of more than one year | 0 | 0 |
| Total current receivables and assets | 22,747 | 18,876 |
| Total non-current receivables and assets | 2,052 | 427 |

Prepayments mainly relate to the deferral of rents and leasing rates as well as maintenance expenses and licence fees.

“Receivables from unbilled services” are broken down as follows:

| (€ 000's) | 2005 | 2004 |
|---|--------------|------------|
| Income from orders received by the balance sheet date | 3,624 | 1,222 |
| Order costs booked as expenses by the balance sheet date | -2,908 | -668 |
| Impairment write-downs booked as expenses by the balance sheet date | -273 | -51 |
| Accumulated disclosed profits less losses | 443 | 503 |
| Receivables from unbilled services | 3,624 | 1,321 |
| Payments received on account of orders | -2,166 | -609 |
| Balance of production contracts | 1,458 | 712 |
| The balance comprises: | | |
| Positive balance of production contracts, for which the costs including profit or loss shares exceed the payments on account received | 1,458 | 712 |
| Negative balance of production contracts, for which the payments received on account exceed the costs including profit or loss shares | 0 | 0 |

Further details on the receivables from unbilled services can be found in the section 3.11 “Realisation of income and expense” Income from orders received was by € 2,253,000 in the reporting year.

Ownership and disposal are not restricted for the disclosed receivables. Write-downs were made to account for the risk of default.

Bad debt allowances in the year under review totalled € 280,000.

| (€ 000's) | 2005 | 2004 |
|-------------------------|--------------|--------------|
| Current tax receivables | 4,953 | 4,993 |
| Deferred tax assets | 218 | 296 |
| | 5,171 | 5,289 |

[5.7]
Current tax assets

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

| (€ 000's) | 2005 | 2004 |
|---|---------------|---------------|
| Cash reserve | 40 | 155 |
| Balances held with banks | 23,220 | 26,571 |
| Funds with terms of up to three months | 23,260 | 26,726 |

[5.8]
Cash and cash equivalents

| (€ 000's) | 2005 | 2004 |
|-----------------------------------|--------------|--------------|
| Provision for pensions | 1,204 | 1,289 |
| Liabilities | 1,211 | 1,899 |
| Other provisions | 1,497 | 860 |
| Losses carried forward (domestic) | 1,110 | 1,186 |
| Losses carried forward (abroad) | 389 | 456 |
| Other | 1,046 | 808 |
| Deferred tax assets | 6,457 | 6,498 |
| Intangible assets | 3,798 | 2,290 |
| Property, plant and equipment | 1,096 | 1,752 |
| Other | 861 | 271 |
| Deferred tax liabilities | 5,755 | 4,313 |

[5.9]
Deferred taxes

Of the deferred tax assets, a total of € 6,239,000 are due within more than one year. Current deferred tax assets of € 218,000 are reported under “current tax assets” (section 5.7).

Of the deferred tax liabilities, € 381,000 are current liabilities and € 5,374,000 are non-current liabilities. Current deferred tax liabilities are reported under “tax liabilities” (section 5.15).

Unused tax loss carryforwards, for which no deferred tax assets were taken into account, amounted to € 4,265,000.

[5.10]
Subscribed capital

The subscribed capital of Aareon AG as of 31 December 2005 shows the following breakdown:

| Number and class of shares | (€ 000's) |
|---|-----------|
| 25,000,000 no-par value ordinary shares | 25,000 |

Each share has a theoretical par value of € 1.00.

[5.11]
Capital reserves

During financial year 2002, € 26,400,000 was added to capital reserves by way of the capital increase by Aareal Bank AG, Wiesbaden.

[5.12]
Retained earnings

Retained earnings are other revenue reserves within the meaning of the disclosures prescribed by the Handelsgesetzbuch (HGB – German Commercial Code). They include additions from the results of the financial year or previous years and differences from currency translation directly recognised in equity from the financial statements of subsidiaries. In addition, adjustments from the initial application of new IAS that were recognised directly in equity are added to or offset against retained earnings. In the case of the previous year's figures, the unchanged application of the accounting and valuation regulations did not require any adjustment that is recognised directly in equity.

Aareon AG's Memorandum and Articles of Association do not include any provisions for the formation of reserves.

[5.13]
Minority interest

Minority interest is reported as a separate item under consolidated equity in line with IAS 27.33 and IAS 1.68. Minority interests exist with respect to BauSecura Versicherungsmakler GmbH, Hamburg, and Aareon DSK GmbH, Berlin.

Provisions developed as follows:

[5.14]
Provisions

| (€ 000's) | 01.01.2005 | ADDITIONS | CHARGE-OFFS | AMOUNTS RELEASED | 31.12.2005 |
|------------------------|---------------|---------------|---------------|---------------------|---------------|
| Provision for pensions | 18,098 | 1,434 | 910 | 0 | 18,622 |
| Provision for taxes | 4,193 | 526 | 3,008 | 39 | 1,672 |
| Other provisions | 15,471 | 10,851 | 7,321 | 2,072 | 16,929 |
| Total | 37,762 | 12,811 | 11,239 | 2,111 | 37,223 |

Development of pension provisions:

[5.14.1]
Provisions for pensions
and similar obligations

| | (€ 000's) | (€ 000's) |
|--|-----------|---------------|
| Pension provision as of 01.01.2005 | | |
| 1. Pension provision as of 31.12.2004 (accrued pension cost) | | 18,098 |
| Expense for financial year 2005 | | |
| 2. Expense for financial year 2005, net | | |
| a) Service cost | 308 | |
| b) PBO interest cost | 1,027 | |
| c) Amortisation | | |
| - Gains (-)/Losses | 126 | |
| - Prior service cost | | |
| - Initial net obligation | | |
| 3. Actual utilisation | 910 | |
| 4. Other additions and transfers | -27 | |
| Pension provision as of 31.12.2005 | | 18,622 |
| Commitments as of 01.01.2005 | | |
| Projected Benefit Obligation (PBO) on 01.01.2005 | | 19,109 |
| Expense for financial year 2005 | | |
| 5. Expense for financial year 2005, net | | |
| a) Service cost | 308 | |
| b) PBO interest cost | 1,027 | |
| c) Amortisation | | |
| - Gains (-)/Losses | 126 | |
| - Prior service cost | | |
| - Initial net obligation | | |
| 6. Actual utilisation | 910 | |
| 7. Other additions and transfers | -27 | |
| 8. Actuarial Gain (-)/Loss | 4,820 | |
| Pension commitment as of 31.12.2005 | | 24,453 |

The calculation of these obligations is based on the following assumptions:

| in % | 2005 | 2004 |
|-------------------------|----------------------------------|--------------------------------|
| Interest rate | 4.25 | 4.75 |
| Development of salaries | 2.25 | 2.25 |
| Expected inflation rate | 2.0 | 1.75 |
| Fluctuation rate | 3.2 | 3.2 |
| Calculation base on | “Mortality Tables 2005 G”* | “Mortality Tables 1998”* |

*Prof. Klaus Heubeck

[5.14.2]
Other provisions

| (€ 000's) | 01.01.2005 | ADDITIONS | CHARGE-OFFS | AMOUNTS RELEASED | 31.12.2005 |
|------------------------------|---------------|---------------|--------------|---------------------|---------------|
| Warranties | 1,619 | 10 | 0 | 456 | 1,173 |
| Staff salary components | 1,941 | 1,218 | 767 | 150 | 2,242 |
| Long-service commitments | 2,927 | 1,394 | 147 | 104 | 4,070 |
| Bonus payments | 4,084 | 3,529 | 3,705 | 220 | 3,688 |
| Early retirement commitments | 70 | 0 | 62 | 8 | 0 |
| Other provisions | 4,830 | 4,700 | 2,640 | 1,134 | 5,756 |
| Total | 15,471 | 10,851 | 7,321 | 2,072 | 16,929 |

Provisions are only formed that are subject to a reporting obligation, i.e. to the extent that there is a current obligation from a past event to a third party, which will probably lead to a future outflow of resources and which can be reliably estimated.

Warranty provisions were set aside for any sales revenue associated with any such claims. The formation of these provisions is based on an average contractual life of three years. The con-current portion (€ 717,000) and long-service commitments (€ 4,070,000) are reported under non-current provisions.

In addition, specific provisions were formed for individual risks.

Provisions for commitments to staff result essentially from variable performance-linked remuneration to be paid after the balance sheet date.

The other provisions were also formed in line with IAS 37 for all recognisable risks and uncertain commitments in the amount of their probable occurrence insofar as these are not subject to recourse claims.

| (€ 000's) | 2005 | 2004 |
|--------------------------|--------------|--------------|
| Income tax liabilities | 2,053 | 4,693 |
| Other liabilities, taxes | 2,024 | 1,924 |
| | 4,077 | 6,617 |

[5.15]
Current tax liabilities

The income tax liabilities reported under current tax liabilities include deferred tax liabilities of € 381,000.

The statutory information with regard to liabilities is summarised in the table below. With the exception of customary retention of title and similar rights, liabilities are not collateralised.

[5.16]
Other liabilities

| (€ 000's) | REMAINING TERM UP TO 1 YEAR | REMAINING TERM OVER 1 YEAR UP TO 5 YEARS | REMAINING TERM MORE THAN 5 YEARS | VALUE ON 31 DEC 2004 | VALUE ON 31 DEC 2003 |
|-------------------------------------|-----------------------------|--|----------------------------------|----------------------|----------------------|
| Advances received from customers | 333 | 0 | 0 | 333 | 305 |
| Trade payables und Leistungen | 5,317 | 2,840 | 0 | 8,157 | 9,862 |
| Liabilities to affiliated companies | 4,759 | 0 | 0 | 4,759 | 3,075 |
| Other liabilities | 9,484 | 0 | 0 | 9,484 | 6,573 |
| Prepayments received | 2,660 | 0 | 0 | 2,660 | 2,714 |
| Total | 22,553 | 2,840 | 0 | 25,393 | 22,529 |

Trade payables with a residual term of more than one year are liabilities from leasing arrangements.

The advance payments received from customers primarily relate to the rent and maintenance fees charged by Aareon Deutschland GmbH and paid by customers as part of "three-way equipment transactions". As a rule, the company's calculations are based on the start of the period, whereas the cooperation partners base their calculations at the end of the period.

The liabilities to affiliated companies predominantly comprise liabilities to Aareal IT Beteiligungen GmbH, Wiesbaden.

The other liabilities primarily include provisions from other supplier invoices and tax liabilities of € 2,024,000 (previous year: € 1,924,000).

Prepayments received mainly includes the deferral of future maintenance revenues.

[6]

Other explanatory notes

[6.1]

Other financial commitments

The nominal values of the other financial commitments are broken down by maturities as follows:

| (€ 000's) | 2006 | 2007-2010 | AFTER 2010 |
|--------------------|---------------|---------------|--------------|
| Licence agreements | 16,000 | 73,000 | |
| Rental agreements | 3,462 | 6,735 | 1,340 |
| Leasing agreements | 3,968 | 5,904 | 570 |
| Other contracts | | | |
| Total | 23,430 | 85,639 | 1,910 |

[6.2]

Related parties

In addition to the subsidiaries included in consolidation, Aareon AG has direct or indirect links to a large number of related, non-consolidated parties in conducting its ordinary activities.

These are subsidiaries of the Aareal Bank Group, which are included in the consolidated financial statements of Aareal Bank AG. Many of the business relationships are with Aareal Bank AG.

This primarily relates to the following services:

- Cooperation with Aareal Bank AG with regard to the fully automated and integrated accounting and payment services for property companies in Germany incorporated in the software systems "WohnData" and "GES" (Integrated Banking)
- Provision of computer centre services and related implementation consultancy services
- Franking and postage services
- Consulting projects
- Sharing the costs of the Aareon Congress

Related parties controlled by Aareon AG, or over which Aareon AG can exert a controlling influence, are included in the consolidated financial statements and included in the list of shareholdings with information on the equity interest held and annual earnings on page 51 et seq.

All transactions with related parties were conducted based on international price comparison methods in line with IAS 24, as is also standard practice with non-Group third parties.

The members of the Management Board of Aareon AG, the managing directors of Aareon Deutschland GmbH and the members of the Supervisory Board were identified as being key management personnel as defined by IAS 24.9. Total compensation for key management personnel totalled €1,427,000 in the financial year. There are no pension commitments to key management personnel.

The members of the Supervisory and Management Boards are listed individually on page 60.

Furthermore, provisions for share-based compensation (SAR) in the amount of € 124,000 and long-service provisions in the amount of € 16,000 were made for key management personnel.

Consolidated Cash Flow Statement

[7]

All means of payment with terms of up to three months are deemed to be cash and cash equivalents.

The cash flow statement shows how the Aareon Group's cash and cash equivalents have changed during the year under review. To this end, the cash flows are annotated for financial year 2005 and for the previous year in line with IAS 7, with a distinction between cash inflows and cash outflows from operating, investing and financing activities. The effects of the consolidated group, exchange rates and other changes on the cash and cash equivalents are disclosed separately.

Investing activities comprise additions to and disposals from the financial assets as well as the effects of changes to the consolidated group.

Financing activities includes the outflow of cash and cash equivalents from dividend disbursements and profits or losses from the disposal of fixed assets as well as payments and subsidies from shareholders as well as the change in other financial debt.

The "cash flow from operating activities" totalling € 7,393,000 essentially results from the consolidated net income. The "cash flow from investing activities" amounts to € -10,017,000. This results primarily from the capitalisation of software that was produced in-house, especially Blue Eagle Release 3.0, and from reconstruction measures in connection with the IT Service Centre. The "cash flow from financing activities" in the amount of € -904,000 is primarily due to payments to Aareal Bank AG and to minority shareholders.

[8]

Corporate Bodies of Aareon AG

[8.1]

Supervisory Board

| | |
|--|--|
| Dr. Wolf Schumacher, Chairman Aareal Bank AG, Wiesbaden since 01.04.2005 | Chairman of the Management Board |
| Karl-Heinz Glauner, Chairman Aareal Bank AG, Wiesbaden until 31.03.2005 | Chairman of the Management Board in retirement |
| Dr. Peter Lammerskitten, Deputy Chairman Aareal Bank AG, Wiesbaden | Supervisory Board |
| Prof. Dr. Björn Dreher University of Applied Sciences Wiesbaden | Lecturer for Information Technology |
| Prof. Dr. Wilhelm Haarmann Haarmann, Hemmelrath & Partner | Solicitor and Wirtschaftsprüfer (German Chartered Accountant) |
| Hermann J. Merkens Aareal Bank AG, Wiesbaden | Member of the Management Board |
| Thomas Ortmanns Aareal Bank AG, Wiesbaden, since 24.11.2005 | Member of the Management Board |
| Dr. Manfred Schlottke Telekom Forum | Business Consultant |
| Christof Schörnig Aareal Bank AG, Wiesbaden | Member of the Management Board |

[8.2]

Management Board

| | |
|--------------------|-------------------------------------|
| Dr. Manfred Alflen | Chairman of the Management Board |
| Lothar Gebhard | Sales |
| Jürgen Pfeiffer | Consulting |

Concluding remarks

[9]

The company's financial statements are included in the consolidated financial statements of Aareal Bank AG, Wiesbaden.

As Aareon AG is included in the consolidated financial statements and in the Group management report of Aareal Bank AG, the requirements for the company's exemption from presenting consolidated financial statements and a Group management report pursuant to section 291 (2) of the Handelsgesetzbuch (HGB - German Commercial Code) have been fulfilled.

Aareal Bank AG also prepares its consolidated financial statements according to International Financial Reporting Standards (IFRS).

These consolidated financial statements are available from Aareal Bank AG in Wiesbaden, Germany.

Mainz, 30 January 2006


The Management Board



Dr. Manfred Alflen



Lothar Gebhard



Jürgen Pfeiffer

Auditor's Report

We have audited the consolidated financial statements prepared by Aareon AG, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. (paragraph) 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany/IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (and supplementary provisions of the shareholder agreement/articles of incorporation) and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Dusseldorf, 31 January 2006

Deutsche Baurevision Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Consoir)
Wirtschaftsprüfer
(German Public Auditor)

(Künemann)
Wirtschaftsprüfer
(German Public Auditor)

Report of the Supervisory Board

During the year under review, the Supervisory Board continually monitored the management of the company. The Supervisory Board was kept informed by the Management Board, both orally and in writing, especially through written quarterly reports, regarding the company's business development and its overall situation, as well as on the business policies contemplated by the Management Board, on corporate planning issues as well as on significant transactions. The Supervisory Board also dealt with issues that required its approval pursuant to applicable statutes or the company's Articles of Association.

The Supervisory Board met on four occasions during the year under review, of which two meetings took place during the first half of the year. In addition, five resolutions were adopted in writing via circulars. During all meetings, the Supervisory Board was informed in detail by the Management Board with regard to the business policies, economic development, strategic orientation and sales activities of the company. The company's internal audit department explained its work and the result of its examinations to the Supervisory Board.

The Supervisory Board was informed by the Management Board with regard to the development of the company's products and their installation and introduction with customers, putting special emphasis on major customer projects. Information regarding the newly developed Blue Eagle software and the relatively new Energy Management business was particularly detailed.

The business planning was discussed and approved by the Supervisory Board. The Management Board provided informed the Supervisory Board continually of the actual economic development versus the company's planning. The Supervisory Board established a Human Resources Committee and an Auditing Committee.

The company's Financial Statements as at 31 December 2005, together with the accounting records and the Management Report, have been examined and certified without qualification by Deutsche Baurevision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, the external auditors appointed by the Supervisory Board. The corresponding reports prepared by the auditors were made available to all members of the Supervisory Board. The results of the audit were fully endorsed by the Supervisory Board.

The Supervisory Board has examined the Financial Statements, the Management Report and the proposal of the Management Board for the appropriation of distributable profit. These were discussed by the Auditing Committee and the Supervisory Board in the presence of the auditors. Having completed the examination, no objections were raised by the Supervisory Board. Within the scope of its duties of monitoring the management of the company, the Supervisory Board has not become aware of any risks that have not been appropriately accounted for in the Financial Statements. The Supervisory Board has endorsed the assessments made by the Management Board in preparing the Management Report. The Supervisory Board has approved the Financial Statements, which are thus confirmed, and has endorsed the proposal for the appropriation of results as submitted by the Management Board.

The Management Board has submitted its report on the company's relationships with related parties pursuant to section 312 of the German Stock Corporation Act to the Supervisory Board, together with the corresponding report prepared by the external auditors. The dependent companies report was examined and certified without qualification by the auditors.

The Supervisory Board has examined the report on the company's relationships with related parties and duly noted the auditors' opinion submitted in this respect. Having completed its examination, the Supervisory Board raised no objections against the declaration made by the Management Board at the end of the report on the company's relationships with related parties.

Karl-Heinz Glauner resigned from his office as a member of the Supervisory Board on 31 March 2005. The Supervisory Board would like to thank Mr Glauner for his trusting and constructive cooperation.

Dr. Wolf Schumacher was voted to the Supervisory Board at the shareholders' meeting on 17 March 2005. In April 2005, Dr. Schumacher was voted chairman of the Supervisory Board in a written resolution via circulars.

Mr. Thomas Ortmanns was voted to the Supervisory Board at the shareholders' meeting on 24 November 2005.

Mainz, March 2006

The Supervisory Board



Dr. Wolf Schumacher
(Chairman)

References

Germany (selection)

- Baugenossenschaft Kempten eG, Kempten
- Eigenbetrieb Immobilienmanagement der Stadt Neubrandenburg (EBIM), Neubrandenburg
- Fortuna Wohnungsunternehmen eG, Berlin
- Gemeinnützige Wohnungsgenossenschaft Gartenstadt-Kolonie-Reform eG, Magdeburg
- Hennigsdorfer Wohnungsbaugesellschaft mbH, Hennigsdorf
- KITHAN Grundstücks- und Handelsgesellschaft mbH, Munich
- Sächsische Wohnungsgenossenschaft Chemnitz, Chemnitz
- Spaten Brauereibeteiligung und Immobilien KGaA, Munich
- Wohnungsgenossenschaft Duisburg-Mitte eG, Duisburg
- Wolgaster Wohnungswirtschafts GmbH, Wolgast
- WSK Wohnungsgesellschaft der Stadtwerke Köln mbH, Cologne

International (selection)

Great Britain

- Cosmopolitan Housing Association, Liverpool
- Cross Keys Homes, Peterborough
- Progress Housing Group, Leyland, Lancashire

France

- Groupe Hainaut Immobilier, Valenciennes
- Pas de Calais Habitat, Arras
- SCIC Habitat, Boulogne Billancourt

Italy

- Agenzia del Demanio, Rome
- Beni Stabili, Rome
- Ferservizi Gruppo F. S., Rome

Switzerland

- Sulzer Immobilien, Winterthur
- Swiss Re, Zurich
- T. Graf Immobilien, Bern

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