

Success for the property industry

Annual Report

07

Facts and figures

FACTS AND FIGURES	
Business	Europe's leading consultancy and systems house to the property sector. Aareon's systems are employed by about 55,000 users in Germany and abroad to manage some 9 million rental units.
ERP systems	Blue Eagle (based on SAP® ERP 6.0) and SAP®, GES, WohnData, Wodis, systems of the international subsidiaries
Consulting	Process, ERP, IT and SAP® consulting
Integrated Services	Mareon service portal, integrated banking, Aareon human resources management BauSecura insurance services etc.
Modes of operation	ASP (Application Service Providing), hosting, inhouse
Customer structure	Private-sector housing companies, cooperative housing societies, church-owned housing societies, property management companies and home owners' associations, insurance companies, property investment funds, companies managing large owner-occupied property portfolios (Corporate Real Estate), commercial property operators, financial investors
Number of customers	Approximately 2,700
Group affiliation	Wholly owned by the Aareal Bank Group, Wiesbaden. Aareon AG is part of the Consulting and Services business segment of Aareal Bank AG.
International presence	France, Italy, 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, 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• 2006: First migration of a major customer to Blue Eagle (DEGEWO Group, Berlin). Conclusion of a strategic partnership with energy services provider Techem resulting in the exchange of the Aareon Energy Management division for Techem IT Services (now Aareon Wodis GmbH). Introduction of a multi-product strategy• 2007: Aareon celebrates its 50th anniversary. Start of construction of the new Aareon head office in Mainz.

Overview of the Aareon Group



GERMANY

- **Aareon AG**, Mainz
- **Aareon Deutschland GmbH**, Mainz (100%)
Other offices: Berlin, Dortmund, Dresden, Erfurt, Hamburg, Hanover, Leipzig, Munich, Rostock, Stuttgart
- **Aareon DSK GmbH**, Berlin (70%)
- **Aareon Immobilien Projekt Gesellschaft mbH (AIPG)**, Oberhausen (51%)
Other office: Hückelhoven
- **Aareon Wodis GmbH**, Dortmund (100%)
- **BauSecura Versicherungsmakler GmbH**, Hamburg (51%)

INTERNATIONAL

- **Aareon France SAS**, Orléans/France (100%)
Other offices: Lyon, Nantes, Paris
- **Aareon Italia S. r. l.**, Rome /Italy (100%)
Other office: Milan
- **Aareon Schweiz AG**, Otelfingen/Switzerland (100%)
- **Aareon UK Ltd.**, Coventry/United Kingdom (100%)
Other office: Swansea

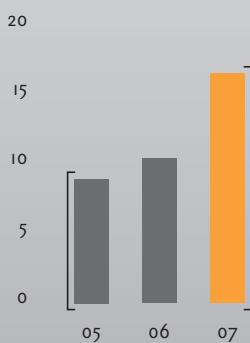
Indicators

Indicators IFRS (€ m)	2007	2006	CHANGE
Revenues	157.3	156.1	0.8%
of which international	16.2	14.5	11.7%
Operating expenses	147.6	167.4	-11.8%
Profits from ordinary activities	16.9	10.8	56.5%
Consolidated net income	11.0	7.1	54.9%
Consolidated net income after minority interest	10.4	6.5	60,0%
EBIT	16.6	10.4	59.6%
Total assets	132.9	126.6	5.0%
Shareholder's equity	55.2	53.7	2.8%
Cashflow	31.8	16.0	98.8%
Number of staff* (average)	1,014	1,082	-6.3%
of which international	143	174	-17.8%
Key ratios in %			
Return on equity	31.0	19.9	
Cost/income ratio	89.9	94.1	

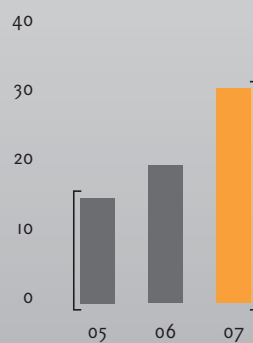
* including Management Board/managing directors, vocational trainees, temporary staff

EBIT increased considerably Return on equity

(in € million)



(in %)



Success for the property industry

Aareon AG is Europe's leading consultancy and systems house for the property sector, providing forward-looking, sector-specific solutions that include consulting, software, support and IT services. Aareon AG looks after its customers' outsourced business processes. 2,700 customers throughout Europe manage 9 million rental units with Aareon's ERP solutions.



Aareon ERP solutions – flexible in operation – easily customised – suitable for all

The ERP solutions Blue Eagle and SAP®, GES, WohnData and Wodis together with the country-specific solutions from our European subsidiaries are the leading products in their market segments. Aareon customers are free to choose the level of customisation they need to suit their own operating environment.

Blue Eagle and SAP® solutions

The SAP® solution that is best for a particular property company depends on that company's business strategy. The customer can choose our sophisticated Blue Eagle product, which is the result of outstanding property expertise, the SAP® Real Estate Management ERP system, or he can have Aareon set up and customise its in-house SAP system. Every SAP solution from Aareon integrates optimally into the corporate structure, maximises the customer's investment over the long term and provides the flexibility needed to meet the challenges of today and tomorrow.

Complying with capital market reporting requirements

Franconofurt AG, a listed company, made a conscious decision to deploy Blue Eagle. Metehan Sen, spokesman



“BLUE EAGLE’S OVERALL CAPABILITY WAS THE CRITICAL FACTOR”

Metehan Sen



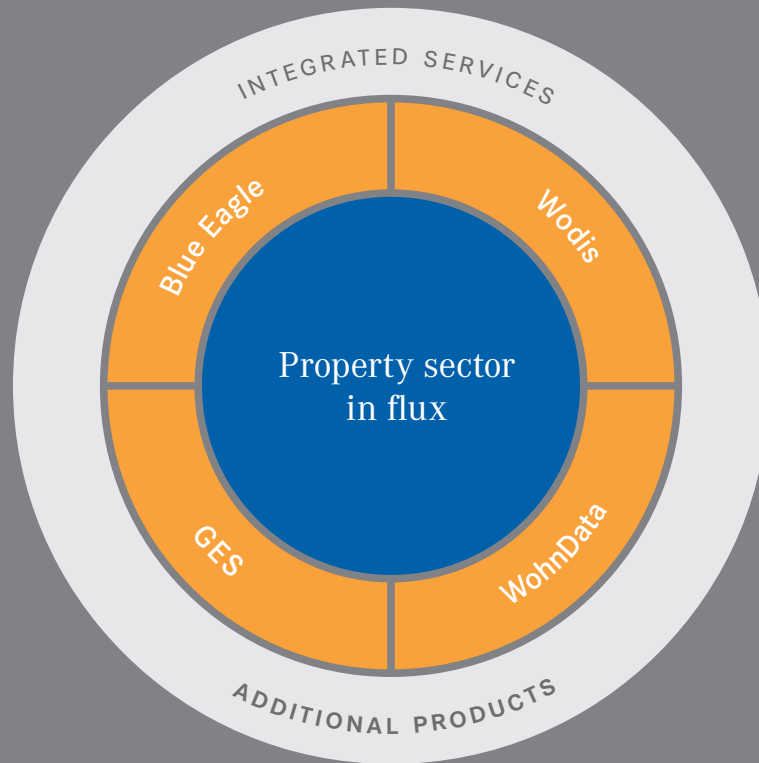
“THE MAJOR BENEFITS OF BLUE EAGLE ARE ITS TRANSPARENCY, CLARITY AND SPEED.”

Helmut Knüpp

for the Franconofurt AG Management Board, explains: “Our complex business model and our capital market reporting requirements tipped the decision in favour of Blue Eagle.” The critical factors, however, were the system's overall capability and its developer's market leadership position.

Blue Eagle offers transparency, clarity and speed

As one of the first (pilot) customers, the Wankendorfer Baugenossenschaft for Schleswig-Holstein eG chose Blue Eagle in 2004. According to chairman Helmut Knüpp, one of the reasons for their decision was that the company did not want a proprietary, or isolated, solution. Blue Eagle has now been in operation at wankendorfer for a good



18 months. Knüpp sees the major benefits of the system, which is based on SAP ERP 6.0 with RE-FX, in its real-time processing together with its transparency, clarity and speed.

Aareon ERP solutions Wodis, GES und WohnData

Since the autumn of 2006, Wodis has enabled Aareon to offer a solution suitable for medium-sized companies. The Wodis base modules are adapted to suit the business's core processes. Additional module packages are available on the same principle for associations or third-party management, for example, as well as for special administrative tasks. The integration of Wodis within the Aareon Group has been successful and is viewed as positive by its users – especially as they can now benefit from our Integrated Services. Our established GES and WohnData systems widen the choice available to our customers. The GES ASP solution and the WohnData

in-house solution offer a high degree of integration and automation.

Aareon – leader in the SAP® Real Estate Market

In just a few years, Aareon has grown to become Europe's leading consulting and system solution provider in the SAP Real Estate market, with some 130 SAP systems, including over 60 customer systems, and the largest number of SAP installations in Europe. With the proven expertise of around 120 SAP expert advisers and SAP developers, Aareon is the top performer in this market sector. In recognition of its achievements, SAP has granted Aareon Value Added Reseller (VAR) and Development Partnership status for the property sector.

Integrated Services

from Aareon increase process efficiency
and connect business partners

Property companies have a relationship with a variety of market participants: tenants, tradesmen, architects, banks, insurance companies, and so on. Integrated Services provided by Aareon AG such as the Mareon service portal, our integrated payment transaction services and BauSecura insurance services, facilitate collaboration with business partners and so reduce costs.

Reducing costs and simplifying processes with Mareon

Mareon is the market-leading service portal for everyone involved in the property sector. Thanks to their high potential for automation, property companies can save up to eight euros per residential unit on the cost of managing regular maintenance work or building and refurbishing projects. What is more, the necessary repairs can be completed more quickly, which in turn makes for improved tenant satisfaction.

HOWOGE Wohnungsbaugesellschaft mbH, one of the largest landlords in Berlin with approximately 57,000 rental units under management, has been using Mareon since 2005. “The key reason was the process optimisation,” says Roland Manker, head of information processing. “The task of placing an order with a tradesman, monitoring the work and processing the invoice involved us in several labour-intensive steps. Today, the entire process is handled via the portal.

“The solution for tradesmen collaboration is excellent.”



“THE ORDER
PROCESS IS MUCH
MORE TRANSPAR-
ENT.”

Dirk Menzel



“A TOTAL SAVING
OF 5,000 WORKING
HOURS.”

Uwe Flotho

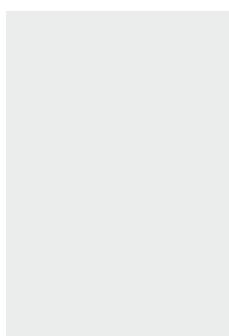
One of the first Wodis customers to use Mareon was swb Service-, Wohnungsvermietungs- und -baugesellschaft mbH in Mülheim an der Ruhr. Dirk Menzel, deputy head of the IT department and Mareon project leader at swb, is of the same opinion. “The solution for tradesmen collaboration is excellent. The order process is much more transparent.”

“A quantum leap in our housing company’s working methods”

Wodis customer GWG Gemeinnützige Wohnungsbaugesellschaft der Stadt Kassel mbH is a firm believer in how effectively Mareon can improve processes. “The introduction of Mareon has meant a quantum leap in our company’s working methods,” points out Uwe Flotho, Head of Business Administration. By way of illustration, he says, “A company like ours with 9,000 residential units generates something like 20,000 orders a year. By putting them through Mareon, we save 15 minutes per order, which equates to a total saving of 5,000 working hours.” And that speaks for itself.

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50 years of Aareon: One important highlight of the 2007 financial year was Aareon's 50th anniversary. The company's roots date back to 1957. Even then, the focus was on simplifying business processes by offering forward-looking solutions. The consultancy and systems house has evolved into the market leader by combining property and IT expertise for the benefit of its customers.



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Letter from the Management Board



The Management Board (from left to right)

Dr. Manfred Alflen (Chairman of the Board)
 Jürgen Pfeiffer
 Gereon Neuhaus
 Eberhard Villmow

Ladies and Gentlemen,

“The future is built on experience” – that was the slogan of our 50th anniversary in 2007. Thanks to the confidence customers have shown in our property and IT expertise ever since we opened for business in 1957, Aareon has grown to become the leading consulting and IT system house for the property sector. Our forward-looking, customer-focused solutions are the result of longstanding business relationships based on trust. To celebrate this important milestone in an appropriate manner with our customers and staff, we organized special events during the 2007 financial year to mark our jubilee.

2007 was a successful year for Aareon. Having already implemented a large part of it the previous year, we successfully completed our major WoWi+ project in 2007. WoWi+ was designed to improve customer satisfaction with our range of products and services while at the same time increasing our profitability. The increased profitability shown in the Group’s 2007 consolidated financial statements is also attributable to this project. The positive reaction of the market confirms the persuasiveness of our multiple product strategy (Blue Eagle and SAP®, GES, WohnData, Wodis, Integrated Services/related products).

Our corporate success is fully reflected in the financial results. We have maintained the positive earnings momentum of the past two years. Consolidated net income after tax rose by a substantial 54.9% to € 11.0 million. EBIT, at € 16.6 million, was up by 59.6%. The improved results are directly related to improved operating efficiencies within the Group, a claim that is supported by the lower cost/income ratio, which fell from 94.1% to 89.9%. Operating expenses decreased significantly by -11.8% to € 147.6 million. There were particularly large reductions in the cost of materials (-19.6%, € 34.9 million) and staff costs (-11.4%, € 74.2 million).

We succeeded in greatly expanding the customer base for our Blue Eagle and SAP product lines, with over 60 customer systems already in service. We strengthened the Group’s SAP expertise by hiring additional SAP consultants and developers and now have a total of 120 staff working for us in this segment.

Aareon Wodis GmbH, which we acquired in autumn 2006, has integrated very well into the Aareon Group. Sales of our Wodis solution have been good, and the number of regular users continues to grow. Because Wodis is now part of the Aareon Group, its customers are able to take advantage of our Integrated Services such as the Mareon service portal.

We were able to expand the western sales region following the ending of our strategic alliance with WRW in 2006. As a result of the information events we held and the commitment of our staff, we succeeded in signing 300 new contracts in this region.

Profitability improved

Integration of Aareon Wodis
a success



Left: Jürgen Pfeiffer, member of the Aareon Management Board, and the winners of the Aareon Award.

Right: Dr. Manfred Alflen, chairman of the Aareon Management Board, presents the donation for the Aleppey relief project in Kerala to Georg Potschka, general secretary of DESWOS.

In order to improve the accommodation situation at the Aareon head office in Mainz, we signed a lease for a new head office building on 6 July 2007. We expect to utilise synergies by uniting all of our Mainz-based staff in a single building in the medium term. The new office building, which will be using an innovative energy concept based on geothermal heat, is being built for us by Wohnbau Mainz.

As well as acknowledging its responsibilities towards its customers, shareholders, employees and partners, Aareon AG places a high priority on its socio-political and social responsibilities. We therefore sponsor property market-related competitions, we encourage young talent, and we support social and cultural organisations and institutions.

We would like to thank our customers, our staff, the works council and our partners for a successful year. Our dialogue with customers – especially at events such as customer advisory board meetings – has provided valuable input for the ongoing development of Aareon products and services, which has delivered tremendous benefits to our customers. Thanks to the professionalism and commitment of our staff, 2007 was a year in which we were able to confirm our market leadership once again. We wish to thank the works council for its valuable and constructive cooperation. As a result of our relationship with our partners, we are now able to offer our customers benefits that extend beyond the core Aareon offering.

We consider our starting position for the year 2008 to be favourable. We will continue to consolidate and expand the leadership position of Aareon AG. We see particular growth potential for Blue Eagle and SAP®, for the Wodis ERP solution and for Integrated Services, as well as for the sales of consulting services linked to these solutions. On January 1, 2008, three more customers put Blue Eagle into operation. We intend to focus our international activities on major strategic markets. We also intend to further strengthen the market leadership position of our existing products.

Generating customer benefits will remain the main focus of our work in the entire Aareon Group. We will make sure that our customers continue to reach their goals more effectively, more easily and more quickly thanks to Aareon products and services.

Partnerships that benefit everyone - thanks to customers, staff, the works council and partners

Dr. Manfred Alflen

Gereon Neuhaus

Jürgen Pfeiffer

Eberhard Villmow

Group Management Report

Aareon - Europe's leading consultancy and systems house for the property sector.



Business and economic environment

Business activities

Aareon AG is Europe's leading consultancy and systems house for the property sector. Our business activities focus on optimising the IT-supported business processes of property companies of all sizes. We offer an integrated portfolio of consulting services, other services, software, support and training. Our market leadership is also rooted in our property and IT expertise and in our excellent relationships with customers, associations and partners.

The company celebrated its 50th anniversary in 2007. The Aareon Group is represented at 22 locations Europe, including 13 in Germany. The company has subsidiaries in France, the UK, Italy and Switzerland.

Aareon AG is part of the Aareal Bank Group, Wiesbaden, which is one of the leading international companies in the property sector. Aareon is a wholly-owned subsidiary of Aareal IT Beteiligungen GmbH, Wiesbaden, which in turn is wholly owned by Aareal Bank AG, Wiesbaden. Within the Aareal Bank Group, Aareon AG is part of the Consulting and Services business segment.

Aareon is a partner for the property sector that optimises process efficiency and supports companies in reducing costs and developing new revenue sources. Our product and service portfolio is carefully tailored to suit the needs of the customer. We offer several software solutions - each of which is the market leader in the relevant segment - to different target groups: Blue Eagle based on SAP® ERP 6.0, GES, WohnData and Wodis. Depending on the product, our customers can choose among different operating modes, i.e. Application Service Providing (ASP), hosting and in-house. We combine our product portfolio with comprehensive consulting services. Our experience in the property sector not only enables us to provide highly efficient ERP systems but also to link property companies and their target groups such as tenants, tradesmen, or insurance companies and banks via Integrated Services. These Integrated Services include Mareon, the online service portal; Aareon document management systems; computer-based insurance services; as well as integrated payment transaction services. According to the 2007 Lünendonk list - a market survey that has been established for years - Aareon is ranked

Aareon is market leader in Europe

Aareon offers everything from a single source: software, consultancy and integrated services

among Germany's 25 leading IT service companies¹. Aareon's main competition in the property software market includes a number of smaller vendors. Among them are ESS EDV-Software-Services AG in Preußisch Oldendorf and GAP Gesellschaft für Anwenderprogramme und Organisationsberatung mbH in Bremen. Although some of our competitors also offer computer centre services, none can match Aareon's extensive range of services in this field. While Mareon is the market leader in the property portal market, there are also many other niche suppliers catering to this sector. Consulting firms which may be considered competitors of Aareon specialize primarily in SAP, e-business and IT consulting. These would include Promos Consult GmbH & Co. KG in Berlin, DKB IT-Services GmbH in Potsdam, Services for Business IT Ruhr GmbH (SBI Ruhr) in Gelsenkirchen, COMLINE Computer + Softwarelösungen AG in Hamburg, and Wiscore GmbH in Bochum.

Macroeconomic and property market developments

Following GDP growth of 2.9% in 2006, German GDP rose by only 2.6% in 2007 (estimate of the German Council of Economic Experts in its annual report for 2007/2008).² This growth was based on an increase in capital investments in equipment as well as on high foreign demand. Dampening effects arose from both the VAT increase in 2007 and uncertainty triggered by the crisis in the financial markets. GDP is forecast to expand in 2008 by 1.9%, driven primarily by growth in domestic demand. In 2007, estimated GDP growth in the euro zone was 2.6% as well (previous year: 2.8%) and 2.9% in the European Union (previous year: 3.0%).

After declining in 2006, the unemployment rate fell further in 2007. The estimated unemployment rate in the financial year just ended was 8.3% (previous year: 9.8%), thus surpassing the figures for both the euro zone (7.3%) and the European Union (7.0%) yet again, just as in the past two years.

The German property sector remained lively in 2007. Numerous property portfolios that were first acquired in recent years have by now been resold, giving property companies the opportunity to optimise their portfolios. However, high ancillary costs for residential units – especially due to energy costs – continue to pose a challenge. Even though vacancy rates have declined on average in Germany, in some regions the situation remains problematic. This has made it even more important to boost the attractiveness of rented flats as such and address specific customer groups efficiently. A flat by itself has long ceased to be the only product that is marketed. Property companies are increasingly offering supplementary services aimed at enhancing the attractiveness of rental property.

The property sector remains lively

The IT market for property management has seen a rising number of providers as well as increasing individualisation.³ This is a fiercely competitive market in which customers do not often switch to new software providers.⁴

Aareon has effortlessly integrated numerous changes in statutes into its products, including the 2007 VAT increase, the amendment of the German Residential Property Act effective 1 July 2007 as well as the tax benefits for household services and related services pursuant to Section 35a German Income Tax Act.

Indeed, as a forward-looking specialist in the property sector that helps its customers achieve their objectives, Aareon consistently promotes innovative action. For instance, in 2007 the company awarded the Innovation Award for the Property Sector for the fourth time in cooperation with the trade journal, Die Wohnungswirtschaft.

¹ Cf. Lünendonk List 2006, Lünendonk GmbH, Bad Wörishofen 2007, as of 29 May 2007

² Cf. Annual Report 2007 /08 of the German Council of Economic Experts for its analysis of macroeconomic developments, "The Gains Must Not Be Squandered", November 2007

³ Cf. "Aktuelle Tendenzen des Marktes der IT für die Immobilienverwaltung" (Current Trends in the IT Market for Property Management), HMC Dr. K. Höring, 20 March 2007

⁴ Cf. "Wohnungswirtschaftliche Systeme im Vergleich" (Comparison of Housing Industry Systems), Hörings EDV-Welt, Die Wohnungswirtschaft, 5/2007

The property sector welcomes Aareon's strategic realignment

Corporate strategy

The market welcomed the strategic realignment of Aareon AG, which we already undertook in the 2006 financial year with the aim of intensifying the company's focus on individual customer groups. Our new multiproduct strategy, in particular, enables us to offer leading solutions for a diverse range of customer groups. We tap into growth potential by acquiring new customers as well as by providing our Integrated Services to a larger percentage of existing customers. Launching the Blue Eagle and SAP® product line has enabled us to enhance our position in the growth market for SAP® Real Estate Solutions.

The "WoWi+" project that was introduced in 2006 in connection with the company's strategic realignment continued in 2007. Based on a strong market focus, the project has the following objectives:

- Improved profitability
- Development of a product portfolio that conforms with the business strategy
- Adjustment of the corporate structure
- Continued development of a modern corporate culture

Material initiatives aimed at helping us achieve our objectives were already implemented a year ago (see Aareon's 2006 annual report). Additional projects that were launched in 2007 included a review of our international strategy with respect to growth potential; establishing Aareon Immobilien Projekt Gesellschaft mbH (AIPG), which is specialised in SAP® consulting services; setting up our new western sales region in Germany; the ongoing enhancement of our sales management; as well as completing the personnel reduction.

The framework for Aareon's strategy rests on the following pillars:

- **A clear focus on markets and customers:** Creating customer benefits and customer satisfaction is our top priority. We want to be a stable partner for our customers. We ascertain our customers' views through an annual survey. In 2007, customer satisfaction again was at a high level. A total of 95% of the customers surveyed said that they were satisfied, very satisfied, or completely satisfied with Aareon (previous year: 93%, including the customers of Aareon AG Wodis GmbH).
- **Customer-focused solutions:** Our integrated portfolio of products and services, which is characterised by quality and innovation, offers Aareon AG's customers a range of solutions from a single source. Changes in both the property sector and IT are incorporated into the enhancement of our products and services. In order to provide solutions that offer real value, Aareon maintains a close dialogue with customers and partners. Customer requirements are discussed in committees such as the customer advisory boards and addressed during product development.

Creating customer benefits is our top priority

SAP partnership



We use partnerships to combine different companies' core competencies for the benefit of our customers. Aareon partners include SAP AG, Walldorf (development and sales partner), Techem AG, Eschborn (strategic partnership), CSC Deutschland Solutions GmbH, Wiesbaden (joint project to implement Blue Eagle with property sector customers), Immobilien Scout GmbH, Berlin (partner in the Mareon service portal), TTW Erfurt Treuhandgesellschaft für die Thüringer Wohnungswirtschaft mbH, Erfurt, and ista Deutschland GmbH, Essen (sales partners).

- **Motivated and achievement-oriented employees:** It is our employees who are the key to customer satisfaction and, in the final analysis, Aareon's success. We want to be a preferred employer in the job market. The capacity for open dialogue and fairness are critical aspects of Aareon's corporate culture. Aareon employees combine in-depth expertise in the property market with excellent IT skills and great commitment. Consistency in continued education and training is equally essential to us.
- **Customer-focused internal processes:** Our products and services are customer-focused, as are our internal processes. They comply with quality management standards and are subject to continual improvement. As a project-oriented company, Aareon's work is based on setting goals and achieving results, as well as on ensuring transparency in carrying out its tasks.



Aareon began construction of its new head office in Mainz in 2007. The groundbreaking ceremony took place in November.

Modifications of the corporate structure

In the 2007 financial year, further optimisation measures followed on the heels of the changes in our corporate structure that were undertaken in 2006 with the aim of realigning our organisation along product lines.

The Internal Projects and Services Group division, which bore chief responsibility for introducing and executing Aareon's project management standards in recent years, was dissolved as a separate division and integrated into existing divisions.

Once the establishment of our new subsidiary, Aareon Immobilien Projekt Gesellschaft mbH (AIPG), had been initiated in the 2006 financial year, the company's employees took up their work during the year as planned. The integration of AIPG into the Aareon Group helped to further expand our SAP® expertise.

Additional staff was hired to enhance sales of the Blue Eagle and SAP® product line.

SAP® expertise expanded through AIPG

The IT Consulting product line was folded into Aareon AG DSK GmbH, Berlin, pursuant to preparations in the 2006 financial year. Previously, Aareon Deutschland GmbH had also provided these services within the Aareon Group.

The establishment of the western sales region that started in 2006 – following the termination of the cooperation agreement with WRW, Wohnungswirtschaftliche Treuhand Rheinland-Westfalen GmbH, Düsseldorf – went very well. We set up a separate sales network for this region and organised a variety of customer events. Almost all of the customers decided to continue using Aareon's products.

We prepared a change in the structure of three of our German sales regions – West, Southwest and South – in order to align Aareon's regions more closely with the geographical regions covered by the Association of the German Property Industry. This change took effect at the start of 2008.

Construction of our new head office in Mainz, Germany, has started. Aareon signed a lease for the property in early July 2007. This will enable the company to combine its offices that are currently spread across three locations and fully commit itself to Mainz as a business centre. The resulting centralisation will also simplify linking the company's divisions and facilitate internal communications. The new building will be completed and occupied in two phases in 2009 and 2011.

Aareon products and services

In the past, Aareon reported by segment, specifically, Consulting, IT Solutions and IT Services. However, we have switched our reporting system to the following product groups as of the 2007 financial year:

- ERP products
- Integrated Services
- International business
- Other products

The change was executed in conjunction with the adjustment of our product strategy in 2006. As a result, we will manage our products largely based on their net profit contribution. Consulting services (process and ERP consulting) are now provided as part of each product line by consulting teams specialised in the relevant product.

Product lines are managed based on net profit contribution

Consulting at Aareon means:

- Professionally recognise, understand and solve customer needs
- Create value for the customer
- Provide competent and committed employees in proximity to the customer
- Provide the best possible services to customers in tandem with other Aareon divisions
- Ensure market leadership through qualifications and innovation
- Maintain the highest level of competence with respect to consulting in the European property sector

We offer ERP solutions in a variety of operating modes – ASP, hosting, in-house – depending on the product. The Aareon IT Service Centre ensures state-of-the-art Application Service Providing (ASP) and hosting. The security of our IT Service Centre is a top priority of Aareon.



Left: (from left to right) Gereon Neuhaus, member of the Aareon Management Board, Kerstin Mallwitz, managing director of NEULAND Wohnungsgesellschaft mbH, and Norbert Friedenbogen, Aareon. NEULAND Wohnungsgesellschaft mbH was acquired as a new Blue Eagle customer.

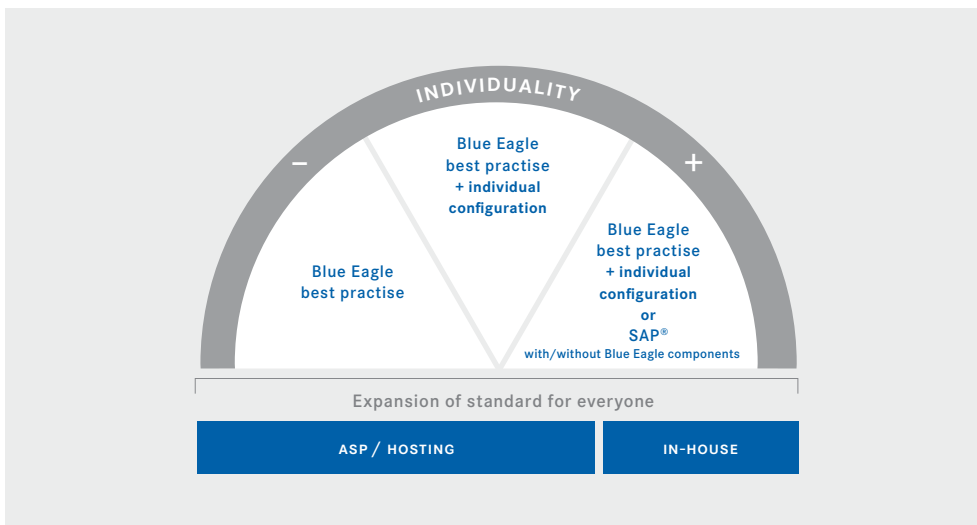
ERP products

Blue Eagle

With more than 60 productive customers compared to other system houses in the property sector, Aareon maintains the largest number of SAP® installations in Europe and is thus the leader in the SAP® real estate market. Approximately 120 SAP® consultants and developers provide Aareon with mature SAP® know-how. In return, Aareon is the only company in the property sector to have been granted the status of “Value Added Reseller (VAR) with Development Partnership” by SAP.

Every SAP® solution from Aareon integrates optimally into the corporate structure, maximises the customer’s investment over the long term and provides the flexibility needed to meet the challenges of tomorrow. Deciding which SAP® solution is best suited to a particular company depends entirely on its corporate strategy. Aareon offers its customers a broad range of solutions from standardised systems all the way to individual solutions. The degree to which a system can be customised increases exponentially once it has been introduced.

Aareon is a leader in the SAP® real estate market

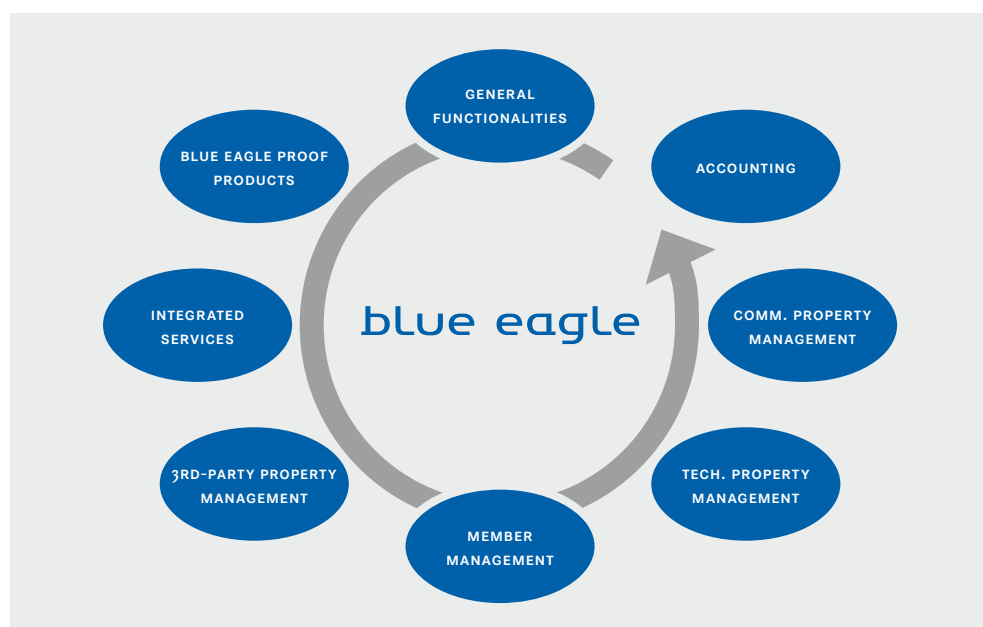


Blue Eagle: a mature standard that can be flexibly adapted to customer needs

Blue Eagle was developed as part of the cooperation agreement we concluded with SAP AG in January 2002 and brought to market two years later. The software is based on SAP® ERP 6.0 and SAP® NetWeaver™. The special features of Blue Eagle include:

- Complete process coverage
- Accounting and controlling with flexible reporting, including consolidation and IFRS
- All functions can be individualised
- Integrated Services such as the BKXL® payment transaction system, the Mareon online services portal, or the insurance services of BauSecura.

Capabilities of the
SAP® Blue Eagle solution



Blue Eagle's penetration of the relevant market continued along a positive trajectory in the 2007 financial year. About 100 customers have already opted for Blue Eagle. For instance, Blue Eagle implementation projects were launched at ABG Frankfurt/Main Holding GmbH; TAG Tegernsee Immobilien- und Beteiligungs-AG, Hamburg; HANSAINVEST Hanseatische Investment GmbH, Hamburg; and Neuland GmbH, Wolfsburg. Blue Eagle went live at the TREUREAL Group, Leipzig, and Franconofurt AG, Frankfurt/Main.

The ongoing development of Blue Eagle focused, among other things, on third-party management (German Residential Property Act, property management, separately owned rented property) and publicly owned enterprises. Blue Eagle Release 4.1 was successfully introduced in 2007.

GES

The well-established GES system is Aareon's tried and tested ASP solution. Roughly 1,200 customers use GES to manage 3.7 million units (including garages). This system is ideally suited for companies that focus on pivotal property management processes and do not expect fully individualised IT solutions. A great many customers have extended their existing contracts thanks to Aareon's new multiproduct strategy and the related GES life-cycle guarantee.

Issues such as performance figure reporting, Section 35a German Income Tax Act, amendment of the German Residential Property Act, electronic dunning letters and energy efficiency certificates were incorporated into two versions that were released in 2007. More than 95% of GES customers in Germany's western sales region decided to work directly with Aareon starting in 2008. Our GES consulting team will launch its activities in this region too from 2008 onward.

WohnData

WohnData is a fully established solution for in-house customers. Close to 120 customers use it to manage about 1.1 million units. Aareon has been providing services directly to WohnData customers in Germany's western sales region since 2007. The new Release 9.3, which includes product innovations, was introduced at Hamburg's "WohnData Change" event in October 2007 where it met with a highly positive response. The majority of WohnData customers have opted for new service contracts that run until 2011.

Wodis

Since the autumn of 2006, Wodis has enabled Aareon to offer a solution suitable for medium-sized companies. About 400 housing companies use Wodis to manage more than 1.0 million units. The integration of Aareon Wodis GmbH into the Aareon Group was successful and Wodis customers now also benefit from Aareon AG's Integrated Services. Wodis basic modules are tailored to a housing company's core processes. The basic modules may be expanded by additional module packages focused on individual issues such as marketing.

Wodis customers were included in Aareon's customer satisfaction survey in the autumn of 2006 in order to determine the degree to which they are satisfied with our services, especially against the backdrop of the shareholder change. Subsequently, the results of the customer satisfaction survey were translated into the following actions:

- Communication was reinforced and
- our consulting and support activities were strengthened.

We succeeded in gaining a total of 12 new customers and almost 30 customers were migrated to Wodis in 2007. We also established the Wodis advisory board, among other things, in order to enhance our professional dialogue with Wodis customers. Wodis was represented at Aareon's Congress in June for the first time. The annual traditional Wodis Forum took place in November 2007 in Bochum, Germany.

Integrated Services, outsourcing and IT consulting

Aareon's Integrated Services product group comprises Integrated Services, outsourcing and IT consulting.

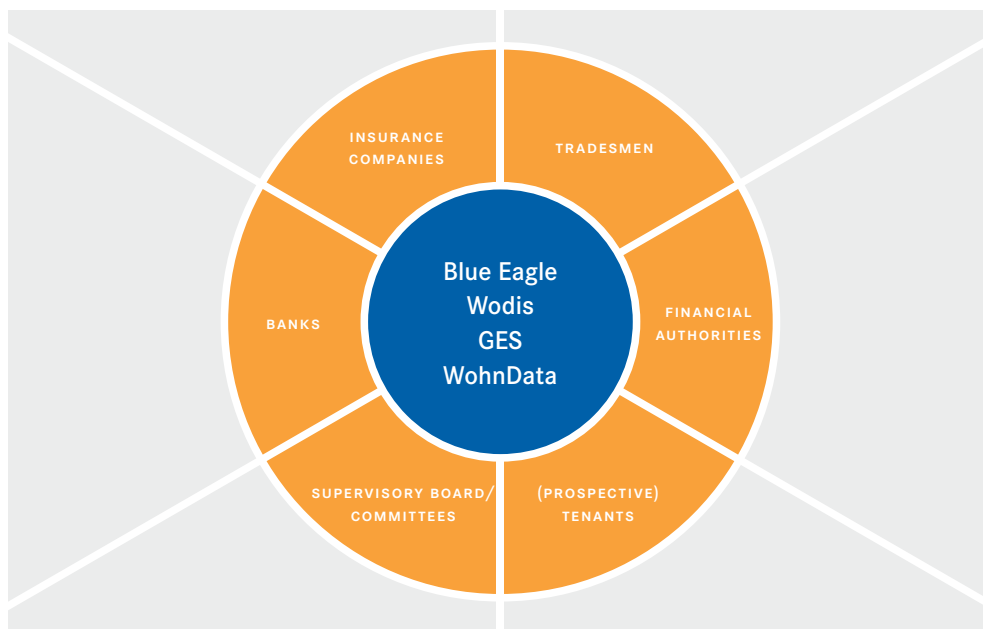
Integrated Services

All ERP solutions can be supplemented by Integrated Services and additional products such as, for example, the Mareon online services portal, integrated payment transaction services, personnel and payroll services, document and data management systems, as well as the products offered by BauSecura, the insurance brokerage firm. Integrated Services help housing companies to improve processes both internally and across companies as well as to cut costs and deliver management data/reports for making sound decisions.

Aareon Wodis GmbH was successfully integrated into the Aareon Group

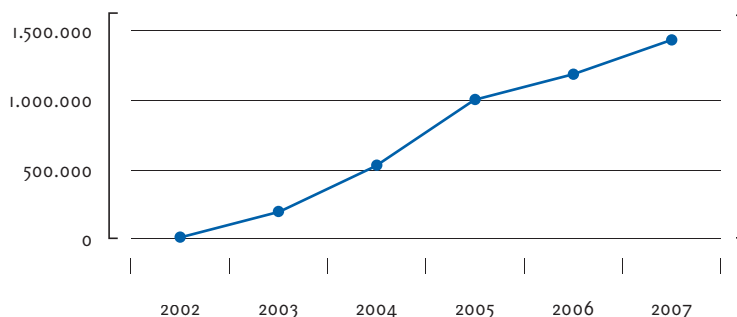
Integrated Services
 - simplify processes
 - result in cost savings
 - link market participants

Integrated Services from Aareon link our customers' ERP systems from the property sector with their different target groups.



Mareon is the online service portal of Aareon Deutschland GmbH that links participating business partners, offering all of them benefits from high automation potentials. The modules – tradesmen collaboration, inventory management and insurance company collaboration – serve to support all essential maintenance processes and technical aspects of construction projects. A market share of more than 60% makes this portal the market leader in Germany. About 130 property companies and 6,000 trade businesses use Mareon, not to mention that the portal provides a total of 47 certified interfaces to trade software programmes. To date, we have transacted about 4 million orders and a total order volume in excess of € 1 billion via Mareon. In 2007, the order volume totalled more than € 300 million.

Mareon: Number of jobs accepted per year



The Aareon human resources management solution boosts productivity in personnel management, especially in connection with payroll. We offer the GES wage and salary systems as well as mySAP HR. Both solutions can be used either as separate IT solutions or as integrated components of the ERP system.

BauSecura: BauSecura Versicherungsmakler GmbH, Hamburg is a joint venture between Aareon AG (51%) and the Funk Group, an international, Hamburg-based insurance service provider. BauSecura enables Aareon's customers to benefit from value and efficiency gains through integrated risk and insurance management. BauSecura's services include consulting on any insurance-related issues, the analysis and assessment of individual risk situations, and the development of insurance concepts.

Risk and insurance management with BauSecura

epiqr® facilitates medium and long-term maintenance planning by evaluating the structural condition of buildings and related cost parameters for each individual building. In addition, this product can be used to prepare energy efficiency certificates based on consumption and need.

Aareon's NetOffice product portfolio increases the efficiency, speed and transparency of business processes through specialised additional products. This product portfolio includes Aareon Archiv (Archive), Aareon Bilddatenbank (Image Database) and Aareon Contact Manager.

Integrated payment transaction services: In cooperation with Aareal Bank, Aareon offers the BK01® payment system for GES, WohnData and Wodis as well as the analogous BKXL® system for Blue Eagle. Thanks to these systems, posting, payment and accounting are merged into a single unit. When a tenant pays rent to the assigned bank account, the deposit is automatically posted to the right account and simultaneously allocated to the correct financial accounting items. Property companies thus benefit from the automation of routine processes.

WohnData and Wodis customers were switched to Aareal Bank's new account management system in 2007, and all GES customers will have been switched by the end of 2008. This means that all technical requirements for the Single Euro Payments Area (SEPA) have been put in place. All economic preparations for the uniform European payment system are being executed as planned. The integrated signature was introduced for BKXL® as a new security standard.

Outsourcing

Aareon's IT outsourcing services 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 mainframe, Unix, Linux, Windows and SAP® systems, databases, LAN and WAN management including the latest firewall technologies. Aareon takes care of hardware and software installation and maintenance, creates backups, keeps systems up-to-date and ensures the applications' availability.

IT Consulting

Aareon DSK GmbH uses the IT Consulting product line to develop intelligent IT solutions for IT infrastructures, including hardware and software. In the financial year just ended, Aareon DSK installed a new IT infrastructure at WGS Wohnungsgenossenschaft „Glückauf“ Süd, Dresden, among others. The company also executed more than 100 VPN conversions for customers seeking to reduce their remote data transmission costs. Yet another major project entailed updating portions of the worldwide system environment of DEPFA BANK plc, Dublin, our IT outsourcing customer.

Intelligent IT solutions for IT infrastructures

International business

Aareon France SAS

Our French subsidiary - Aareon France SAS, Orléans, France - employs a staff of 60 also in its Lyon, Nantes and Paris offices. The company continued to grow in its main market, IT solutions for social housing companies. Prem' Habitat ERP (the company's ERP solution) is tailored to both housing and commercial property management companies while Prem' Property was developed for enterprises associated with industrial companies, another target group. The company's market communications focused on the March 2007 customer conference in Paris as well as numerous information events. Aareon France has about 130 customers. New customers that were acquired in France during the financial year just ended include OPAC de l'Indre, Châteauroux; CIF Habitat, Nantes; and Opac des Vosges, Epinal. We succeeded in winning Port Autonome de Paris (the Paris port authority) as a new customer for the recently established commercial customer segment.

Aareon Italia S.r.l.

Aareon Italia S.r.l., Rome, offers the ERP systems, SGAP2000 and Esse-RE, which are used by about 25 customers. Our Italian subsidiary has 25 employees. Its customers include Ferservizi S.p.A., the Italian railway company, and Sogei S.p.A. The number of customers that use the Esse-RE system rose substantially. IGD Immobiliare Grande Distribuzione S.p.A., Ravenna, for example, is one of our newly acquired customers.

Aareon Schweiz AG

Aareon Schweiz AG, Otelfingen, Switzerland, has about 20 employees. In Switzerland, roughly 16,000 users manage approximately one million units using the systems of Aareon Schweiz. The company has 850 customers with multi-user licenses and 2,500 customers with single-user licenses. Its product portfolio includes the following ERP systems: Rimo R4 and the SAP®-based Blue Eagle system. Its customers include Swiss Re, Zurich; Sulzer Immobilien AG, Winterthur; and graf.riedi ag, Bern.

Aareon UK Ltd.

Aareon UK Ltd., Coventry, has about 50 employees; registered social landlords are among its main customers. The company offers the QL ERP solution, which was expanded by the QL Reporting Services module in 2007. We succeeded in acquiring Charnwood Borough Council and Wessex Housing Partnership as important new customers for QL. Overall, about 100 customers in the UK use Aareon systems.

Our employees - a key success factor

Our employees are critical to our success. We attach high priority to employee satisfaction. This is why we carry out an annual employee survey, which provides an indication of the climate in the company and the quality of senior management's leadership. The seventh groupwide employee survey started at the end of September 2007. Sixty-six percent of those surveyed participated - two percent more than a year ago. The overall level of employee satisfaction has significantly improved relative to the previous year, both at home and abroad.

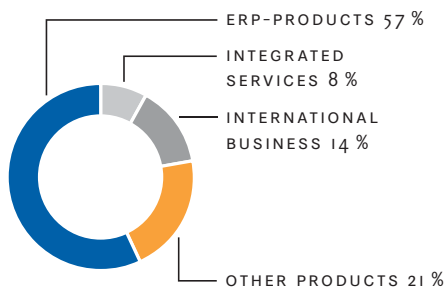
In the financial year just ended, key personnel management projects included revising the E² performance review system (where E stands for "Entfalten und Entwickeln", German for developing and expanding one's abilities). The aim was to simplify the system and make the evaluation more just. Another project entailed the familieundberuf (family and work) audit, which is intended to make work and family life more compatible and thus create added value for both the employees and the company. Following the successful initial audit by the Hertie Foundation, specific measures for improving the work-life balance will be launched in a follow-up project.

In 2006, we began adjusting our staffing levels in connection with our strategic realignment. This adjustment was completed in 2007. We were able to achieve over two thirds of the personnel cuts through semi-retirement, cancellation of contracts and transfers. The average headcount (including the managing directors, trainees, temporary staff and those on parental leave) was 6.3% lower than in the previous year (from 1,082 to 1,014).

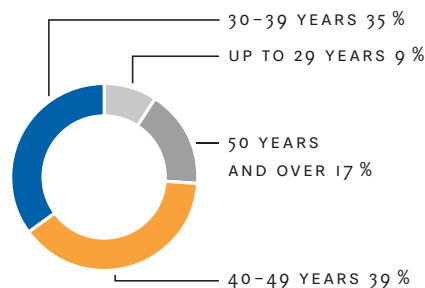
But we did hire new staff, notwithstanding the aforementioned actions, for the Blue Eagle and SAP® product line in order to further enhance our SAP® expertise, among other things.

Project "familieundberuf"
(family and work)

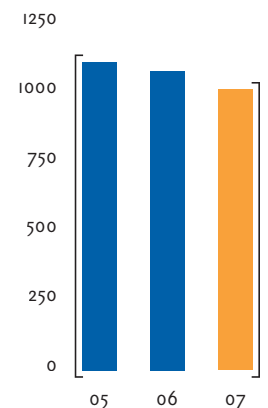
Employees by product group



Employees by age structure



Number of employees (average)



We offered the following training in 2007:

- Labour law for executives
- Mandatory training for all employees with respect to the anti-discrimination law
- SAP® training
- Microsoft Office training
- Project management training

Aareon had 16 trainees at the close of 2007. Collaborating with universities enables the company to establish contacts to highly qualified junior staff early on. We work with the following universities and universities of applied sciences in Germany:

Technical University of Applied Sciences Berlin, University of Mainz, University of Applied Sciences Mainz, Nürtingen-Geislingen College, University of Cooperative Education Stuttgart, University of Cooperative Education Leipzig.

Left: The DW Innovation Award for the Property Sector was presented for the fourth time at the Aareon Congress.

Right: Almost 60 trainees from the property sector participated in the “Lerninsel” programme in 2007.



Corporate social responsibility

Aareon AG is committed to its socio-political and corporate social responsibilities. The company sees itself not just as a partner to other economic players but also as an active member of society. We support organisations and initiatives in the following three areas:

- Competitions in the property sector
- Promotion of young talent
- Social commitment

Aareon supports competitions in the property sector in order to foster innovation and expand the depth of special expertise in the industry. We support two awards: the “DW Innovation Award for the Property Sector” and “Property Manager of the Year”.

Promoting young talent is an investment in the future. This means that we support trainees and students in the property sector. This includes the “Lerninsel” (islands of learning) model in a joint initiative with the Association of Housing Companies in Northern Germany and other entities belonging to this association. The initiative is designed to make future high achievers in the property sector aware of the industry’s exciting fields and foster their innovative potentials. We are involved in the course of studies related to the property sector at the College for the Economy and the Environment in Nürtingen-Geislingen, specifically, by funding the professorship for data processing-based information systems via a foundation. Aareon’s specialists make presentations, imparting their practical knowledge to the students.

In social terms, Aareon has committed itself to a variety of initiatives. For instance, we presented Deutsche Entwicklungshilfe für soziales Wohn- und Siedlungswesen (DESWOS - German Development Assistance for Social Housing), Cologne, with a donation of € 10,000 at the June 2007 Aareon Congress in Garmisch-Partenkirchen. These funds will be used to support a potable water project in Tanzania. Additional donations have benefited Christopherus, a hospice in Mainz, and Heilpädagogikum Schillerhain, Kirchheimbolanden.

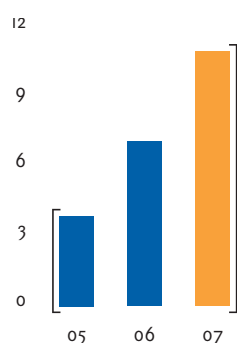
Aareon is attaching great importance to the implementation of an innovative energy concept for its new Mainz head office that is aimed at long-term climate protection based on geothermal energy.

Business developments

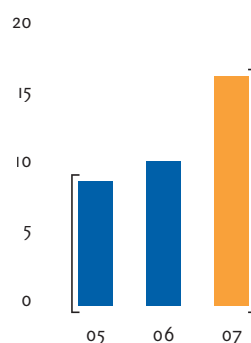
Earnings

The company's positive earnings trajectory in the past two years clearly continued in 2007, substantially lifting the earnings of the Aareon Group. Consolidated net income after taxes rose by 54.9% to € 11.0 million (previous year: € 7.1 million) due to the Aareon Group's improved profitability in the wake of the strategic WoWi+ programme, which enabled us to cut costs. The lower cost/income ratio, which fell from 94.1% to 89.9%, also underscores the efficiency gains that were achieved within the Aareon Group. EBIT rose by 59.6% to € 16.6 million (previous year: € 10.4 million), boosting the year-on-year return on equity from 19.9% to 31.0%.

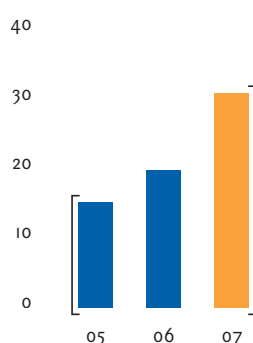
Consolidated net income in € million



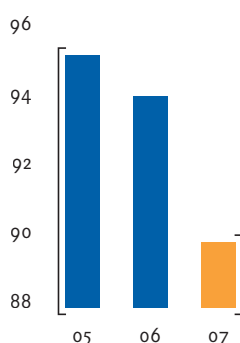
EBIT in € million



Return on Equity in %



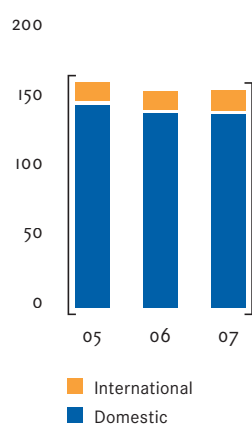
Cost Income Ratio in %



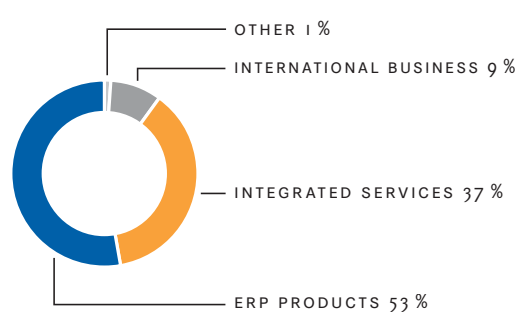
Revenues rose slightly by 0.8% to € 157.3 million (previous year: € 156.1 million). While domestic revenues of € 141.1 million roughly corresponded to the previous year's level of € 141.5 million, foreign revenues gained 11.7%, rising to € 16.2 million¹ (previous year: € 14.5 million). International revenues account for 10.3% of total sales. At € 82.6 million, the ERP products made the largest contribution to total revenues, followed by Integrated Services at € 58.1 million. The remaining revenues essentially arose from our international business (€ 14.6 million¹) and other products (€ 2.0 million).

¹ The differences between international revenue and the International Business product group are due to the international revenue generated by Integrated Services, which is not attributed to the International Business product group but to Integrated Services.

Revenue in € million



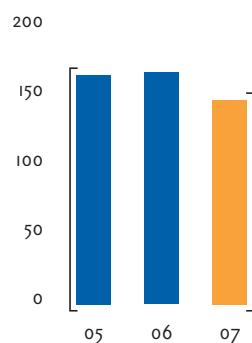
Revenue 2007



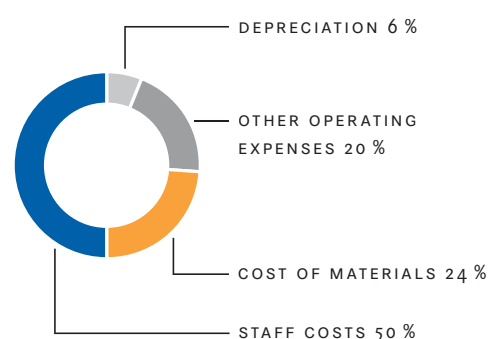
Operating expenses declined substantially by -11.8% to € 147.6 million (previous year: € 167.4 million) as a result of the cost-cutting measures that were put in place in connection with the WoWi+ programme. The cost of materials was significantly lowered yet again by -19.6% to € 34.9 million (previous year: € 43.4 million). Staff costs fell by -11.4% to € 74.2 million (previous year: € 83.7 million) following the adjustment of personnel capacities in both 2006 and 2007. Other operating expenses declined slightly by -5.2% to € 29.4 million (previous year: € 31.0 million).

We take trends in both IT and the property sector into account when developing and enhancing our products. Hence research and development are pivotal to Aareon. As in the previous year, the company's activities essentially focused on Blue Eagle. Expenditure for research and development in 2007 was € 3.6 million (previous year: € 6.7 million). This represents 2.4% of total operating expenses. The decline is due to the degree of completion of the Blue Eagle product.

Expenditure in € million



Expenditure by cost group



Assets and financial position

Total assets rose by 5.0% to € 132.9 million (previous year: € 126.6 million), due especially to the fact that cash and cash equivalents just about doubled to € 31.8 million (previous year: € 16.0 million). While non-current assets declined by -7.9% to € 71.9 million (previous year: € 78.1 million), current assets rose by 26.0% to € 61.1 million (previous year: € 48.5 million). The decline in non-current assets arises from the decline in intangible assets (to € 47.8 million, from € 51.0 million the previous year), property, plant and equipment (to € 14.2 million, from € 15.7 million the previous year) as well as non-current tax assets (to € 6.5 million, from € 7.8 million the previous year). In terms of current assets, the substantial increase in cash and cash equivalents more than compensated for lower inventories.

The equity attributable to the shareholders of Aareon AG increased by 3.2% to € 54.6 million (previous year: € 52.9 million). This is due to consolidated net income of € 3.7 million after total distributions of € 8.5 million to the shareholder (previous year: € 1.9 million). The minority interest declined slightly by -9.5% to € 0.67 million (previous year: € 0.74 million). It is held by BauSecura Versicherungsmakler GmbH.

Cash and cash equivalents rose by 98.8% to € 31.8 million (previous year: € 16.0 million) during the year. While the cash flow from operating activities fell by -9.2% to € 20.8 million (previous year: € 22.9 million), the cash used for investing and financing activities declined dramatically to € -4.2 million (previous year: € -15.4 million). Cash used for financing activities was € -0.7 million, a decline of 95% compared to the previous year (€ -14.7 million).

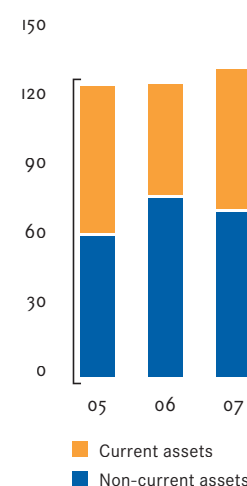
Events after the balance sheet date

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

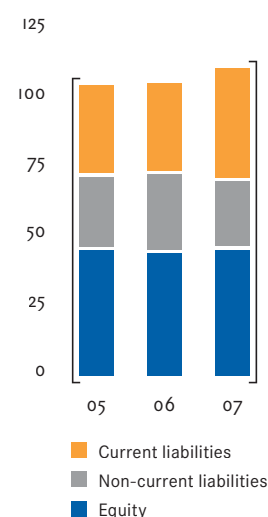
Risk report

We utilise a groupwide risk management system with an early warning function for monitoring and managing the business risks of Aareon AG. This system, which has been tried and tested through the years, is based on the "Aareon Risk Analysis" software and is adjusted to new requirements on an ongoing basis. Our risk management system enables those responsible for the relevant product line, investments and projects to record and analyse risks on a regular basis as well as to develop measures aimed at proactive risk management. The resulting risk reports are consolidated by the risk management department and provide the basis for monthly risk reporting. Monthly risk reports are discussed in Management Board meetings and are also included in the quarterly reports to the Supervisory Board of Aareon AG. Our risk reporting system sheds light on the company's risk situation, providing management with the tools it needs to make decisions with respect to actions to be taken in view of eliminating and/or reducing risk. The centralised risk management department documents all measures the management initiates.

Assets in € million
(asset structure)



Equity and liabilities in € million
(capital structure)



The company's internal auditing department verifies compliance with statutory requirements and uniform groupwide guidelines that are documented in the risk management manual by conducting targeted audits and recommends corresponding actions as needed, which the company's management then carries out if necessary. While software development and organisational risks constitute Aareon's two material risk categories, market, financial and technical risks also play a significant role. In the majority of cases, these risks are linked to each other.

Overall, Aareon AG was not exposed to any risks in the reporting year that would have threatened it as a going concern or that would have had a significant impact on its assets, liabilities, financial position and profit or loss.

Market risks

The property sector continued to change in 2007. We already responded to our customers' increasingly heterogeneous requirements and rising demands for tailor-made solutions in the 2006 financial year by launching our new multiproduct strategy. Aareon offers a variety of ERP solutions to its different customer groups, each of which is the market leader in its segment: Blue Eagle based on SAP® ERP 6.0, GES, WohnData and Wodis. Market response to this product strategy was positive.

Aareon AG regularly assesses the needs of its customers in order to minimise quality risks. In addition, extensive quality assurance precedes the implementation of new releases. Our annual, anonymous and standardised customer survey is a key barometer of customer satisfaction with our products. It enables Aareon to identify market requirements early on and incorporate them into the development of its products.

Software development risks

Aareon AG develops its ERP solutions and Integrated Services with an eye toward the future, focusing especially on creating customer benefits. The risk inherent in software development is that the relevant activities can not be provided at the targeted costs, in the expected quality, and within the timeframe expected by the market. Software thus is always developed in conjunction with Aareon's project management based on international standards that serve to ensure uniform and professional project work. The application of Aareon's project management thus reduces software development risks. Previously established monitoring and control committees were kept in place in order to avert any residual risks from the enhancement of Blue Eagle; members of the Management Board are directly involved in these committees. The range of services offered is also continuously reviewed and adjusted to market-specific requirements.

Yet another risk arising from software development is that not all customer demands can be incorporated in the subsequent release. In future, the industry's customary approach to reducing this risk – specifically, by implementing customer requirements in connection with customer projects, to the extent possible – will help to satisfy a great number of individual customer demands.

The risk of possible claims for damages from software implementation projects is minimised by means of a complaint management system that was recently initiated with the aim of appeasing customers as quickly as possible by processing their complaints in a timely and professional manner. Rapid responses to customer complaints help to remedy developments gone awry and avert any resulting damage. Appropriate provisions have been recognised as a precaution.

Organisational risks

The strategic changes that were undertaken in 2006 carried the risk that the corporate structure would no longer harmonise with the new alignment. Aareon countered this risk by introducing a new structural organisation based on product lines (which also applies for the first time to the reporting for the 2007 financial year). Aareon has been countering the risks arising from employees in the aftermath of the restructuring since mid-2006 through an intensive internal communication campaign that serves to win employees over to the company's strategic realignment. Sufficient provisions have been recognised for uncertain liabilities arising from personnel measures related to the WoWi+ project.

Internal organisational requirements were identified and implemented in projects. We use an extensive prioritisation process in cooperation with the executive management to counter the risk that some internal requirements might not be fulfilled.

The risk that internationalisation will not be successful is ever present. Our investments in foreign entities were subject to an extensive review in the reporting year in connection with WoWi+; as a result, the Blue Eagle and SAP® business will be differentiated and in part discontinued in individual countries. However, a separate committee responsible for our foreign business will continue to monitor our foreign subsidiaries in the UK, Italy, France and Switzerland.

Financial risks

We are confident that the introduction of our new multiproduct strategy in 2006 has minimised potential risks to revenue and earnings. We deal with cost-related risks by implementing cost-conscious strategies supported by tight budget planning. Our profitability has already been strengthened through targeted measures as part of the WoWi+ programme. It is our goal to improve profitability further. An example of a revenue risk would be when we do not win all the orders we expect. This is quite possible in an environment where customers tend to extend the service life of their existing systems. We are responding to this by increasing the penetration of existing products with our regular customers.

Technical risks

We minimize the risk of serious disruption by implementing sensible, documented measures that are subject to regular exercises to ensure that any periods of disruption that should occur are tolerable and do not cause appreciable damage to the customer or the supplier's business. With the exception of unavoidable issues and short-term interruptions, we have so far experienced no disruptions that have

led to an extended period of loss of output. Generally speaking, however, we cannot completely rule out the possibility of disruption that could result in the breaching of contractual agreed standards (SLA). In the event of this kind of disruption, we have contractually protected backup locations available to enable us to temporarily resume our contractual obligations after a specified, short adjustment period.

We have also installed comprehensive data security processes which allow us to reconstruct lost data in part or in whole in due time. 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 that Aareon is judged liable to a third party for damage incurred as a result of its activities as an IT provider.

Anticipated developments

Our industry - i.e. the property sector - is stable. It has faced the challenges that have arisen in recent years from changing market conditions, forging new paths in the process. There is still a pressing need to optimise processes in order to reduce costs and improve returns, particularly in light of ongoing cost pressures. Aareon - an experienced and stable partner - is suitably positioned in this environment. The market welcomed the multiproduct strategy that we launched in 2006. Given the property sector's heterogeneous requirements and objectives, our differentiated products properly position us for the future. We will be able to enhance our market leadership and continue to expand on this basis.

The ongoing development of our products is focused first and foremost on customer benefits. Blue Eagle Release 5.0 and 5.1 are planned for 2008. The Blue Eagle and SAP® solutions will enable us to tap into additional growth potential, for example, among customer groups external to the property sector as such. In our view, Blue Eagle is a target system suitable especially for Aareon's larger customers and customers with more complex requirements. The Blue Eagle investment phase has been completed, and we expect Blue Eagle and SAP® to make a positive net profit contribution in 2008. Our forecasts call for a substantial increase in the number of units that are managed through Blue Eagle in 2008 and 2009 and, as a result, a substantial increase in consulting revenues. We are already expanding our consulting capacity to this end with the help of the consultants of Aareon Immobilien Projekt Gesellschaft mbH.

We will essentially maintain our market share in connection with our established products, GES and WohnData. The net profit contribution from GES is expected to decline somewhat in 2008 because a few customers will shift to Blue Eagle. This trend will continue in subsequent years. WohnData is even expected to generate slight revenue growth in 2008 due to the adjustment of service contracts. Wodis - for which we plan to acquire numerous new customers in 2008 - will continue to grow. The integration of Wodis into the Aareon Group and the resulting increase in the availability of Integrated Services have made the product even more attractive for the market.

Our Integrated Services offer customers a level of added value that clearly sets us apart from the competition. Here, our focus will be on expanding business with existing customers. We expect the net profit contribution from our products to rise substantially, with Mareon generating the bulk of it.

The net profit contribution from the outsourcing product group is also developing along a positive trajectory.

We anticipate the termination of our cooperation with WRW Wohnungswirtschaftliche Treuhand Rheinland-Westfalen GmbH, Düsseldorf, and the establishment of the western sales region in 2007 to make positive contributions to earnings.

Our international subsidiaries are expected to continue following a positive trajectory. We aim to achieve or further expand market leadership in these markets, also by developing new target groups. The international companies will focus mainly on their existing products. Our focus is on markets that offer good growth potential.

A substantial improvement in consolidated EBIT - essentially from revenues growth - is expected for 2008.

Mainz, 29 January 2008

The Management Board



Dr. Manfred Alfien



Gereon Neuhaus



Jürgen Pfeiffer



Eberhard Villmow

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 differing risks and levels of uncertainty. As a result, the actual figures may deviate from expectations. The forward-looking statements reflect the prevailing opinion at the time that they were made. The photos and captions in the management report are not part of the audited report.

Consolidated Financial Statements

Consolidated Income Statement

for the period from 1 January to 31 December 2007

(€ 000's)	NOTES	2007	2006
Revenues	4.1	157,311	156,071
Other own work capitalised		1,226	3,860
Other operating income	4.2	5,609	17,913
Cost of materials	4.3	34,873	43,447
a) Expenses for raw materials and consumables		8,574	4,679
b) Costs for services used		26,299	38,768
Staff costs	4.4	74,189	83,747
a) Wages and salaries		62,317	70,831
b) Social security costs and expenses for pensions and support		11,872	12,916
including for pensions: 2,566,000 € (2006: 2,811,000 €)			
Depreciation and amortisation			
on intangible assets and on property, plant and equipment		8,998	8,964
Other operating expenses	4.5	29,366	31,041
Other interest and similar income	4.6	594	654
Including from affiliated companies: 270,000 € (2006: 176,000 €)			
Interest and similar expenses	4.6	427	466
Result from ordinary activities		16,887	10,833
Income taxes	4.7	5,706	3,465
Other taxes		169	232
Consolidated net income/loss		11,012	7,136
Of which attributable to:			
Shareholders of the parent company		10,405	6,473
Minority shareholders		607	663

Consolidated Balance Sheet

as at 31 December 2007

(€ 000's)	NOTES	2007	2006
Non-current assets			
Intangible assets	5.1	47,822	51,010
Property, plant and equipment	5.2	14,217	15,717
Financial assets	5.3	3,365	3,503
Trade receivables and other assets	5.6	11	62
Deferred tax assets	5.9	6,450	7,764
		71,865	78,056
Current assets			
Inventories	5.5	4,559	8,456
Trade receivables and other assets	5.6	23,195	22,790
Current tax assets	5.7	1,568	1,295
Cash on hand and balances held with banks	5.8	31,756	15,976
		61,078	48,517
		132,943	126,573

(€ 000's)	NOTES	2007	2006
Equity			
Equity attributable to shareholders	5.10/5.11/ 5.12	54,579	52,935
Minority interest	5.13	670	743
		55,249	53,678
Non-current liabilities			
Provisions for pensions and similar obligations	5.14.1	19,539	19,217
Other non-current provisions	5.14.2	4,785	5,010
Deferred tax liabilities	5.9	3,482	5,709
Other liabilities	5.16	1,712	4,470
		29,518	34,406
Current liabilities			
Other current provisions	5.14.2	16,104	17,066
Current tax liabilities	5.15	8,521	4,076
Trade payables and other liabilities	5.16	23,551	17,347
		48,176	38,489
		132,943	126,573

Consolidated Statement of Changes in Shareholders' Equity

for the period from 1 January to 31 December 2007

(€ 000's)	SUBSCRIBED CAPITAL	CAPITAL RESERVES	TRANSLATION DIFFERENCE	ACCUMULATED GROUP EARNINGS	TOTAL
Of which attributable to shareholders of the parent company					
01 January 2007	25,000	26,400	-360	1,895	52,935
Addition to reserves	0	0	0	0	0
Distribution	0	0	0	-8,564	-8,564
Group earnings	0	0	0	10,405	10,405
Other changes	0	0	-197	0	-197
31 December 2007	25,000	26,400	-557	3,736	54,579
Of which attributable to minority interest					
01 January 2007	79	0	0	664	743
Addition to reserves	0	0	0	0	0
Distribution	0	0	0	-680	-680
Group earnings	0	0	0	607	607
Other changes	0	0	0	0	0
31 December 2007	79	0	0	591	670

for the period from 1 January to 31 December 2006

(€ 000's)	SUBSCRIBED CAPITAL	CAPITAL RESERVES	TRANSLATION DIFFERENCE	ACCUMULATED GROUP EARNINGS	TOTAL
Of which attributable to shareholders of the parent company					
01 January 2006	25,000	26,400	-344	3,453	54,509
Addition to reserves	0	0	0	0	0
Distribution	0	0	0	-8,000	-8,000
Group earnings	0	0	0	6,473	6,473
Other changes	0	0	-16	-31	-47
31 December 2006	25,000	26,400	-360	1,895	52,935
Of which attributable to minority interest					
01 January 2006	79	0	0	650	729
Addition to reserves	0	0	0	0	0
Distribution	0	0	0	-720	-720
Group earnings	0	0	0	663	663
Other changes	0	0	0	71	71
31 December 2006	79	0	0	644	743

Consolidated Statement of Cash Flows

of the Aareon Group (IFRS)

(€ 000's)	2007	2006
Net income for the period (including income/loss portion attributable to minority interest) before net interest income and tax expense	16,550	10,413
Amortisation/depreciation of fixed assets	8,998	8,964
Write-up on fixed assets	0	-53
Income taxes paid	-3,421	-4,554
Interest paid	-426	-465
Interest received	594	654
Increase/decrease (-) in provisions	-1,323	7,254
Increase (-)/decrease in inventories	3,896	2,266
Increase (-)/decrease in receivables and other assets	-445	3,820
Increase (-)/decrease in other assets	159	99
Increase/decrease (-) in liabilities	-3,979	6,234
Increase/decrease (-) in other liabilities	226	-48
Income/loss from the transfer of assets to fixed assets	0	-11,716
Cash flow from operating activities	20,828	22,868
Payments for investments in fixed assets	-4,171	-17,688
Payments received for the sale of consolidated companies and other business units	0	1,496
Income from the disposal of fixed assets	0	795
Exchange rate-related changes in fixed assets	0	-19
Cash flow from investing activities	-4,171	-15,416
Change in minority interest	0	0
Payments to minority shareholders	-680	-720
Payment to shareholders	0	-14,000
Cash flow from financing activities	-680	-14,720
Net change in cash and cash equivalents	15,977	-7,268
Exchange rate-related change in cash and cash equivalents	-197	-16
Total change in cash and cash equivalents	15,780	-7,284
Cash funds at the beginning of the year	15,976	23,260
Cash funds at the end of the year	31,756	15,976

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, for the 2007 financial year were prepared according to International Financial Reporting Standards (IFRS) and the interpretations of the Standing Interpretations Committee (SIC/IFRIC). All of the compulsory International Financial Reporting Standards required for the consolidated financial statements as of 31 December 2007 were taken into account. The financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Aareon Group. 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.

Aareon AG is a wholly-owned subsidiary of Aareal IT Beteiligungen GmbH, Paulinenstraße 15, 65189 Wiesbaden, Germany.

Aareon AG is included in the consolidated financial statements of its ultimate parent company, Aareal Bank AG, according to the provisions for full consolidation. In accordance with section 291 German Commercial Code (Handelsgesetzbuch - "HGB"), Aareon AG is therefore exempt from the obligation to prepare consolidated financial statements under German commercial law. Aareon AG therefore prepared its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) endorsed by the EU and in accordance with the applicable provisions of section 315a para 1 of the HGB.

[1.2]

Operating activities

Aareon AG is Europe's leading consultancy and systems house for the property sector. The company's offering covers all of the sector's key requirements: consultancy services, software solutions, support and other services as well as training.

Around 55,000 Aareon users across Europe manage some 9 million rental units. The company has around 1,000 employees at its head office in Mainz and numerous other offices in Germany and abroad.

Its customers include private-sector housing companies, cooperative housing societies, church-owned housing societies, property management companies, home owners' associations, insurance companies, property investment funds, companies managing property portfolios (Corporate Real Estate), commercial property operators and financial investors.

Information on accounting, measurement and consolidation methods

[2]

The group of fully consolidated companies includes Aareon AG as well as all significant 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. Two subsidiaries, which had not been included in the consolidated financial statements, were liquidated.

[2.1]

Basis of consolidation

One subsidiary, Aareon Immobilien Projekt Gesellschaft mbH, was founded in the current financial year. Initial consolidation is carried out according to the provisions of IFRS 3.

In accordance with IFRS, 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 recognised 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 recognised in profit or loss.

The international companies which form part of the Aareon Group are independent sub-units, whose financial statements are translated into euros using the functional currency concept. 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.

[2.3]

Currency translation

The following exchange rates were used for translation:

1 € =	BALANCE SHEET CLOSING RATE		INCOME STATEMENT AVERAGE EXCHANGE RATE	
	31.12.2007	31.12.2006	2007	2006
United Kingdom GBP	0.73335	0.6715	0.6871	0.6821
Switzerland CHF	1.6547	1.6069	1.6455	1.5764

[3] Accounting and measurement principles

[3.1] Intangible assets

Purchased intangible assets, primarily software, are capitalised at cost and subject to amortisation in line with their useful life. Goodwill mainly arises from the acquisition of software companies and is attributed mostly to the ERP products Blue Eagle, GES, Wodis and Integrated Services. This reflects the multi-product strategy which was introduced at the end of 2006.

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. The determination of the cash value of future cash flows is based on a discount factor of 15% after 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 were capitalised, as the requirements for capitalisation according to IAS 38 were met. They are amortised in accordance with their useful life, which for property software is ten years and for other application software is three years on average.

[3.2] Property, plant and equipment

Property, plant and equipment are measured at cost according to IAS 16 and, insofar as these are wasting assets, subject to straight-line depreciation in line with their expected useful life. Low-value assets are written down in full in the year of acquisition. Impairment within the meaning of IAS 36 is recognized 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 carrying amount. If the reasons for impairment losses recognised in previous years no longer exist, impairment is reversed in line with IAS 36.104 and recognised in profit or loss.

Investment property as defined by IAS 40 is property which is held by its owner for the purpose of generating income from leases. Since the letting of property that was previously used by Aareon is not significant, it is not recognised under IAS 40.

[3.3] Leases

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 present value of the minimum leasing payments and depreciated using the straight-line method over the asset's useful life or the duration of the lease, whichever is shorter. The payment commitments from future leasing payments are discounted and carried as a liability.

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)	2008	2009-2012	AFTER 2012
Leasing payments	1,348	310	0
Discount amounts	256	67	0
Present values	1,092	243	0

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)	2008	2009-2012	AFTER 2012
Leasing payments	5,228	15,830	12,232

Financial instruments are agreements that result in a financial asset at one company and a financial liability or an equity instrument at another company.

IAS 39 breaks financial assets down into the following categories:

- “Financial assets held for trading”
- “Held-to-maturity investments”
- “Loans and receivables”
- “Available-for-sale financial assets”

Financial assets held by Aareon Group are primarily loans and receivables originated by the enterprise. As a rule, financial instruments are not treated as “held-to-maturity investments”. No “financial assets held for trading” are 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 the lower of amortised cost and fair value. This category includes in particular:

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

Valuation allowances for trade receivables are recognised 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.

[3.4]

Financial instruments

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 orders 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 recognised at fair value. As a rule, the fair value is the stock market or market value. If this cannot be calculated, these are measured according to financial mathematical principles by discounting future cash flows using a risk-adjusted discount factor.

**[3.5]
Inventories**

Inventories are recognised at cost. Financing costs are not included. Measurement on the balance sheet date is the lower of cost and the net selling price that can be realised. In so doing, this is generally based on the net selling price of the finished product.

**[3.6]
Deferred taxes**

Deferred taxes are recognised in line with IAS 12 for all temporary differences between the carrying amounts in the tax base and the consolidated balance sheet (temporary concept). In addition, deferred taxes must be recognised for losses carried forward. 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 recognised at their nominal amount (IAS 12.54 et seq.). The carrying amounts 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 (discount). The deferred tax rates in foreign countries are between 28% and 39%.

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.

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

Provisions for pension commitments are primarily recognised for commitments arising from pension plans, i.e. retirement pensions, disability pensions and benefits for surviving dependants. The actuarial measurement 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 gains and 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.

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

[3.8]
Tax 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 fulfillment amount discounted to the balance sheet date in line with IAS 37.45 as no material impact on interest would result. The fulfillment 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.

[3.9]
Other provisions

Stock option plans (IFRS 2 “Share-based payment”) are accounted for retroactively as at the time the options are granted. The payment of “phantom stock” 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.

Liabilities are recognised at their repayment or fulfillment amount. Liabilities from finance leases are carried at the present value of the leasing payments.

[3.10]
Liabilities

Revenues or other operating income are only recognised when the service has been performed or the goods or products have been delivered, I. e. risk has been transferred to the customer.

[3.11]
Realisation of income and expense

The company primarily generates its sales through:

- consulting projects and training
- licensing and maintenance contracts
- ASP and hosting services
- integrated banking services
- the Mareon service portal
- insurance brokerage services for the property industry (BauSecura)

ASP and hosting services are billed and recorded as revenues on a monthly basis.

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 profit or loss 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 recognised 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 profit or loss when the service is taken up or when these are incurred economically. Interest income and expense are recognised on an accrual basis.

[4] Notes to the Consolidated Income Statement of the Aareon Group

[4.1]

Revenues

(€ 000's)	REVENUES BY PRODUCT	
	2007	2006
ERP Products	82,564	56,794
Integrated Services	58,093	75,715
International Business	14,613	14,528
Other products	2,041	1,565
Not attributable		7,469
Total	157,311	156,071

During the financial year, Aareon AG converted its reporting from business segment reporting to reporting that is based on product groups. Some the previous year's revenues could not be allocated to specific products. This primarily concerns consultancy revenues. Revenues generated by ERP products increased compared to the previous year. This is due both to the increase in licensing revenues and ERP consultancy revenues in connection with the Blue Eagle product line and SAP® and the increase in revenues generated by the Wodis product line. Aareon Wodis GmbH was not included in the basis of consolidation until the fourth quarter of 2006. Revenues from Integrated Services decreased by € 17,622k, primarily as a result of the sale of BauTec Energiemanagement GmbH in 2006.

In addition to its German presence, Aareon AG maintained offices in France, Italy, Switzerland and the UK in 2007.

(€ 000's)	REVENUES BY REGION	
	2007	2006
Germany	141,119	141,543
International	16,192	14,528
Total	157,311	156,071

[4.2]

Other operating income

(€ 000's)	2007	2006
Income from the reversal of provisions	2,762	1,348
Non-cash income	1,166	1,108
Income from letting premises	223	219
Income from the reversal and reduction of specific and general loss provisions	242	124
Other income	1,216	15,114
Total	5,609	17,913

The decrease in other operating income is essentially due to the deconsolidation gain of € 11,802 k related to BauTec Energiemanagement in 2006.

(€ 000's)	2007	2006
Expenses for raw materials, consumables and supplies and goods for resale	8,574	4,679
Costs for services used	26,299	38,768
Total	34,873	43,447

[4.3]
Cost of materials

Expenses for raw materials, consumables and supplies and goods for resale increased by € 3,895 k as a result of increased costs for purchasing SAP® licences.

Costs of services used decreased due to the sale of the BauTec Energiemanagement division in 2006.

(€ 000's)	2007	2006
Salaries	62,317	70,831
Social security costs	11,872	12,916
of which: Retirement benefits	2,566	2,811
Total	74,189	83,747

[4.4]
Staff costs / employees

Staff costs decreased by € 9,558 compared to the previous year. This is essentially due to restructuring measures carried out in 2006 as defined in IAS 37.10 and a lower average number of employees in 2007.

Average number of staff excluding Managing Directors, temporary staff and vocational trainees (quarterly average):

	2007	2006
Germany	847	877
Rest of Europe	140	163
Total	987	1,040

[4.5]

Other operating expenses

(€ 000's)	2007	2006
Occupancy expenses	6,716	6,887
Leasing/rents	233	325
Legal, audit and consultancy expenses	1,792	4,635
Advertising/marketing	2,724	2,664
Travel expenses	2,995	2,981
Other staff expenses	816	728
Further training	657	793
Motor vehicle expenses	2,714	2,580
Costs of communication	910	1,038
Write-ups/write-downs for receivables	800	844
Costs for repairs and maintenance	909	963
Insurance premiums	520	525
Office supplies, printed matters, newspapers and magazines	259	264
Subcontracted work	46	401
Emoluments for Supervisory Board and Advisory Council	342	318
Other operating expenses	6,933	5,095
Total	29,366	31,041

Other operating expenses decreased by € 1,675k. This is essentially due to lower consultancy expenses.

[4.6]

Net interest income

(€ 000's)	2007	2006
Other interest and similar income	594	654
Interest and similar expenses	427	466
Total	167	188

[4.7]

Income taxes

(€ 000's)	2007	2006
German income taxes	5,607	2,127
Foreign income taxes	247	-102
Actual tax expenses	5,854	2,025
Deferred tax expenses /income	-148	1,440
Income taxes	5,706	3,465

The following table shows the reconciliation statement for the differences between income taxes based on the net income before taxes and the actual income tax reported. To determine the expected tax expense, the Group tax rate of 39.75 % in effect in the 2007 financial year is multiplied by the pre-tax earnings.

(€ 000's)	2007	2006
Earnings before taxes	16,718	10,601
Trade tax	3,037	1,926
Corporation tax	3,420	2,169
Solidarity surcharge	188	119
Anticipated tax expense / tax income	6,645	4,214
Reconciliation:		
Non-deductible expenses	64	728
Taxes for previous years	-128	-2,755
Change in tax rate for deferred taxes (Germany)	-469	52
Other differences	-406	1,226
Disclosed tax expense	5,706	3,465

The reconciliation amount is essentially due to the change in the tax rate applicable for calculating deferred taxes, from 39.75 % to 31.2 %.

[5] Notes to the Consolidated Balance Sheet of the Aareon Group

Changes in fixed assets 2007 (Group)

						COST
	01.01.2007	CURRENCY TRANSLATION DIFFERENCE	ADDITIONS	DISPOSALS	RECLASSIFI- CATIONS	31.12.2007
(€ 000's)						
I. Intangible assets						
1. Goodwill	61,138	-267	0	0	0	60,871
2. Licenses, industrial property rights and similar rights and assets as well as licences to such rights and assets	39,712	-70	2,924	-1,015	557	42,108
3. Payments on account for intangible assets	2,257	0	0	-1,700	-557	0
	103,107	-337	2,924	-2,715	0	102,979
II. Property, plant and equipment						
1. Land, equivalent rights and buildings	10,238	-25	147	-1,076	0	9,284
2. Plant and machinery	1,824	-17	84	-131	0	1,760
3. Other equipment, and office furniture and equipment	28,583	11	3,318	-3,755	0	28,157
4. Payments on account	17	0	0	-16	0	1
	40,662	-31	3,549	-4,978	0	39,202
III. Financial assets						
1. Shareholdings	37	0	0	-37	0	0
2. Investment securities	19	-1	0	-18	0	0
3. Other loans	3,890	0	0	-82	0	3,808
	3,946	-1	0	-137	0	3,808
	147,715	-369	6,473	-7,830	0	145,989

	ACCUMULATED DEPRECIATION				CARRYING AMOUNTS		
	01.01.2007	CURRENCY TRANSLATION- DIFFERENCE	ADDITIONS	DISPOSALS	31.12.2007	31.12.2007	PREVIOUS YEAR
	33,604	-127	0	0	33,477	27,394	27,534
	18,493	-42	4,181	-952	21,680	20,428	21,219
	0	0	0	0	0	0	2,257
	52,097	-169	4,181	-952	55,157	47,822	51,010
	5,655	-14	365	-1,073	4,933	4,351	4,583
	626	-16	182	-131	661	1,099	1,198
	18,664	12	4,270	-3,555	19,391	8,766	9,919
	0	0	0	0	0	1	17
	24,945	-18	4,817	-4,759	24,985	14,217	15,717
	0	0	0	0	0	0	37
	0	0	0	0	0	0	19
	443	0	0	0	443	3,365	3,447
	443	0	0	0	443	3,365	3,503
	77,485	-187	8,998	-5,711	80,585	65,404	70,230

[5.1]
Intangible assets

The additions to “Industrial rights and similar rights and assets” primarily relate to the purchase of SAP® licences and capitalisation of development costs for Blue Eagle Release 4.0.1/4.1 according to IFRS/IAS 38. Capitalisation was made in the amount reflecting development services rendered based on a standard per-diem rate and pro-rated project management costs. The capitalised carrying amount for Blue Eagle in the reporting period totalled € 10,415 k, with an average residual useful life of eight years. Development costs of € 1,226 k were also capitalised in connection with Blue Eagle. Research and development expenses in the reporting period totalled € 3,633 k.

The amortised goodwill concerning the products is as follows:

1. ERP Products:	€ 21,396 k
2. Integrated Services:	€ 4,429 k
3. International Business:	€ 1.396 k
4. Other products:	€ 173 k

[5.2]
Property, plant and equipment

See fixed assets movement schedule.

[5.3]
Financial assets

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

[5.4]
Shareholdings

Name and registered office of company	INTEREST HELD IN %	SHAREHOLDERS' EQUITY 2007 (€ 000's)	PROFIT 2007 (€ 000's)
Aareon AG, Mainz			
Aareon Deutschland GmbH, Mainz	100	40,482	900
Aareon DSK GmbH, Berlin	70	185	155
Aareon Immobilien Projekt Gesellschaft mbH, Oberhausen	51	-154	-179
Aareon Wodis GmbH, Dortmund	100	4,879	1,738
BauSecura Versicherungsmakler GmbH, Hamburg	51	1,368	1,238
Aareon France SAS, Orléans (France)	100	672	213
Aareon Italia S.r.l., Rome (Italy)	100	108	-504
Aareon Schweiz AG, Otelfingen (Switzerland)	100	-482	139
Aareon UK Ltd., Coventry (United Kingdom)	100	1,189	481

[5.5]
Inventories

The inventories mainly comprise payments on account. The payments on account made primarily relate to a payment on account made to SAP AG. Ownership and disposal are not restricted for the disclosed inventories.

(€ 000's)	2007	2006	[5.6] Receivables and other assets
Receivables from unbilled services	2,150	1,250	
of which: with a remaining term of more than one year	0	0	
Trade receivables	17,758	14,132	
of which: with a remaining term of more than one year	11	62	
Receivables from affiliated companies	185	1,244	
of which: with a remaining term of more than one year	0	0	
Receivables from shareholders	0	0	
of which: with a remaining term of more than one year	0	0	
Prepayments	2,483	2,791	
of which: with a remaining term of more than one year	0	0	
Other assets	630	3,435	
of which: with a remaining term of more than one year	0	0	

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

The “receivables from unbilled services” are broken down as follows:

(€ 000's)	2007	2006
Income from orders received as at the balance sheet date	5,828	1,761
Order costs booked as expenses as at the balance sheet date	6,329	1,101
Impairment losses recognised in profit or loss as at the balance sheet date	0	0
Accumulated disclosed profits less losses	-501	660
Receivables from unbilled services	4,690	1,561
Payments received on account of orders	2,540	311
Balance of production contracts	2,150	1,250
The balance comprises:		
Positive balance of production orders, for which the costs including profit or loss shares exceed the payments on account received	2,150	1,250
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 € 4,304 k 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 € 800k.

[5.7]

Current tax assets

(€ 000's)	2007	2006
Current tax receivables	935	1,295
Deferred tax assets	633	0
Current tax assets	1,568	1,295

[5.8]

Cash and cash equivalents

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

The following table provides a breakdown of cash and cash equivalents according to maturity:

(€ 000's)	2007	2006
Cash reserve	8	13
Balances held with banks	31,748	15,963
Funds with terms of up to three months	31,756	15,976

[5.9]

Deferred taxes

(€ 000's)	2007	2006
Provision for pensions	1,006	1,311
Liabilities	534	1,303
Other provisions	1,719	1,336
Losses carried forward (domestic)	381	788
Losses carried forward (abroad)	0	15
Other	485	194
Deferred tax assets	4,125	4,947
Intangible assets	3,869	4,704
Property, plant and equipment	475	1,257
Other	829	183
Deferred tax liabilities	5,173	6,144

Of the deferred tax assets, € 3,492 k are included in non-current tax assets. In addition, tax assets totalling € 2,958 k resulting from the capitalisation of tax claims from corporation tax credits under the German SEStEG law are allocated to non-current tax assets. Of the deferred tax liabilities, € 1,691 k were allocated to current tax liabilities and € 3,482 k were allocated to non-current deferred tax liabilities.

Unused tax loss carryforwards, for which no deferred tax assets were recognised, amounted to € 2,099 k in Germany and € 6,743 k abroad.

The subscribed capital of Aareon AG as of 31 December 2007 shows the following breakdown:

[5.10]

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

Subscribed capital

Each share has a theoretical par value of 1 €.

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

[5.11]

Capital reserves

The accumulated Group income includes other revenue reserves within the meaning of the disclosures required under commercial law. 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 not recognised in profit or loss. Aareon AG's Memorandum and Articles of Association do not include any provisions for the recognition of reserves.

[5.12]

Accumulated
Group income

Minority interest is reported as a separate item under consolidated equity in line with IAS 27.33 and IAS 1.68. Minority interest exists with respect to BauSecura Versicherungsmakler GmbH, Hamburg, and Aareon Immobilien Projekt Gesellschaft mbH, Oberhausen.

[5.13]

Minority interest

Provisions developed as follows:

[5.14]

Provisions

(€ 000's)	01.01.2007	ADDITIONS	CHARGE-OFFS	REVERSAL	31.12.2007
Provision for pensions	19,217	1,391	1,069	0	19,539
Provision for taxes	1,910	2,433	542	0	3,801
Other provisions	22,076	12,223	10,648	2,762	20,889
Total	43,203	16,047	12,259	2,762	44,229

[5.14.1]

Provisions for
pensions and
similar obligations

Development of pension provisions:

(€ 000's)	2007	2006
Pension provision as of 01.01.		
1. Pension provision as of 31.12. of the previous year (accrued pension cost)	19,217	18,622
Expense for the financial year		
2. Expense for the financial year, net		
a) Service Cost	246	313
b) PBO Interest Cost	1,023	1,020
c) Amortisation	122	243
- Gains (-)/Losses	0	0
- Prior Service Cost	0	0
- Initial net Obligation	0	0
	1,391	1,576
3. Actual utilisation	1,069	1,005
4. Other additions and transfers	0	24
Pension provision as of 31.12.	19,539	19,217
Commitments as of 01.01.		
Projected Benefit Obligation (PBO) on 01.01.	23,238	24,453
Expense for the financial year		
5. Expense for the financial year, net		
a) Service Cost	246	313
b) PBO Interest Cost	1,023	1,020
c) Amortisation	122	243
- Gains (-)/Losses	0	0
- Prior Service Cost	0	0
- Initial net Obligation	0	0
	1,391	1,576
6. Actual utilisation	1,069	1,005
7. Other additions and transfers	0	0
8. Actuarial gain (-)/loss	-2,458	-1,786
Pension commitment as of 31.12.	21,102	23,238

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

In %	2007	2006
Interest rate	5.5	4.5
Development of salaries	2.25	2.25
Expected inflation rate	2.0	2.0
Fluctuation rate	3.2	3.2
Calculation based on	“Mortality Tables 2005 G”*	“Mortality Tables 2005 G”*

*Prof. Klaus Heubeck

The service and interest costs as well as actuarial gains and losses to be amortised in the financial year are shown under staff costs.

Valuation for the first time took account of the German RVAGAnpG 2007 act, which provides for a gradual increase of the statutory retirement age from 65 to 67 years. The company views the effects of the new law as a change of the actuarial assumptions and recognises them accordingly under actuarial gains/losses.

Aareon AG currently maintains six different retirement benefit plans, all of which are closed, preventing further employees from being added to them. All plans are defined-benefit plans as defined by IAS 19. This means that Aareon AG guarantees specific employee benefits depending on certain conditions. Depending on the type of benefit, the amount of employee benefits is contingent on different factors such as salary eligible for pension, length of employment, amount of the statutory pension, and benefits paid under individual pension plans.

Development in 2007 (2006)

[5.14.2]

Other provisions

(€ 000's) Previous year's figures in parentheses	01.01.	ADDITIONS	CHARGE-OFFS	REVERSAL	31.12.
Warranties	1,127 (1,173)	0 (0)	0 (0)	0 (46)	1,127 (1,127)
Staff salary components	787 (2,242)	335 (516)	794 (1,748)	30 (223)	298 (787)
Long-service commitment	3,883 (4,070)	236 (520)	224 (374)	237 (333)	3,658 (3,883)
Bonus payments	4,379 (3,688)	6,168 (4,291)	4,216 (3,331)	98 (269)	6,233 (4,379)
Restructuring	4,856 (0)	730 (4,856)	3,220 (0)	1,473 (0)	893 (4,856)
Other provisions	7,044 (5,756)	4,754 (4,700)	2,194 (2,954)	924 (458)	8,680 (7,044)
Total 2007	22,076	12,223	10,648	2,762	20,889
Total 2006	(16,929)	(14,883)	(8,407)	(1,329)	(22,076)

Warranty provisions were recognised for any sales revenues associated with any such claims. The recognition of these provisions is based on an average contractual life of three years. The con-current portion and provisions for long-service commitments are shown under non-current provisions.

In addition, specific provisions were recognised for individual risks.

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

The restructuring provisions were recognised in accordance with IAS 37.70 ff. based on an announced restructuring plan and essentially comprise termination benefits made to the affected employees.

The other provisions were also recognised in line with IAS 37 for all recognisable risks and uncertain commitments in the amount of their probable occurrence.

Other provisions by term:

(€ 000's)	< 1 YEAR		> 1 YEAR	
	01.01.	31.12.	01.01.	31.12.
Previous year's figures in parentheses				
Warranties	0 (455)	0 (0)	1,127 (718)	1,127 (1,127)
Staff salary components	787 (2,242)	298 (787)	0 (0)	0 (0)
Long-service commitments	0 (0)	0 (0)	3,883 (4,070)	3,658 (3,883)
Bonus payments	4,379 (3,688)	6,233 (4,379)	0 (0)	0 (0)
Restructuring	4,856 (0)	893 (4,856)	0 (0)	0 (0)
Early retirement provisions	0 (0)	0 (0)	0 (0)	0 (0)
Other provisions	7,044 (5,756)	8,681 (7,044)	0 (0)	0 (0)
Total 2007	17,066	16,104	5,010	4,785
Total 2006	(12,141)	(17,066)	(4,788)	(5,010)

[5.15]

Current tax liabilities

(€ 000's)	2007	2006
Income tax liabilities	5,492	2,346
Other liabilities, taxes	3,029	1,730
	8,521	4,076

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]
Liabilities

(€ 000's)	REMAINING TERM UP TO 1 YEAR	REMAINING TERM OVER 1 YEAR UP TO 5 YEARS	REMAINING TERM MORE THAN 5 YEARS	TOTAL
Previous year's figures in parentheses				
Advances received from customers	1,178 (152)	0 (0)	0 (0)	1,178 (152)
Trade payables	4,351 (4,836)	1,712 (4,470)	0 (0)	6,063 (9,306)
Liabilities to affiliated companies	6,872 (12)	0 (0)	0 (0)	6,872 (12)
Other liabilities	11,167 (9,560)	0 (0)	0 (0)	11,167 (9,560)
Prepayments received	3,011 (2,787)	0 (0)	0 (0)	3,011 (2,787)
Total 2007	26,579	1,712	0	28,291
Total 2006	(17,347)	(4,470)	(0)	(21,817)

Of the trade payables with a residual term of more than one year, € 1,712k are liabilities from leasing arrangements.

The other liabilities primarily include provisions from other supplier invoices, holiday commitments and other tax liabilities.

The liabilities to affiliated companies essentially concern liabilities due to the distribution of profits for 2006.

Prepayments received mainly include the deferral of future maintenance revenues.

Other explanatory notes

[6]

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

[6.1]

Other financial commitments

(€ 000's)	2008	2009-2012	AFTER 2012
Licence agreements	2,000	12,000	0
Rental agreements	3,614	13,510	11,898
Leasing agreements	2,945	2,630	334
Other contracts	1,712	1,977	0
Total	10,271	30,117	12,232

[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 rendered:

- Cooperation with Aareal Bank AG with regard to the fully automated and integrated accounting and payment services for property companies in Germany (Integrated Banking) incorporated in the software systems “Blue Eagle”, “WohnData” “GES” and “Wodis”
- Provision of computer centre services and related implementation consultancy 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 44 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 and the directors 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. Compensation for key management personnel totalled € 4,483k in the financial year, including € 1,296k for the members of the Management Board.

Furthermore, provisions totalling € 68 k were recognised for share-based payment (SAR) of members of the Management Board.

The members of the Supervisory and Management Boards are listed individually on pages 53 and 54.

[7]**Consolidated Cash Flow Statement**

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 2007 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 liabilities. The “cash flow from operating activities” totalled € 20,828k. This figure was impacted by the higher net income for the period and also by restructuring costs.

The “cash flow from investing activities” was to € -4,171k. The “cash flow from financing activities” in the amount of € -680k is due to payments to minority shareholders.

Corporate bodies of Aareon AG

[8]

Thomas Ortmanns, Chairman Aareal Bank AG, Wiesbaden	Member of the Management Board	[8.1] Supervisory Board
Dr. Peter Lammerskitten, Deputy Chairman Königstein	Consultant	
Prof. Dr. Björn Dreher University of Applied Sciences Wiesbaden	Lecturer for Information Technology	
Prof. Dr. Wilhelm Haarmann Haarmann Partnerschaftsgesellschaft, Frankfurt	Solicitor and Wirtschaftsprüfer (German Chartered Accountant)	
Norbert Kickum (since 03.09.2007) Aareal Bank AG, Wiesbaden	Member of the Management Board	
Hermann J. Merkens Aareal Bank AG, Wiesbaden	Member of the Management Board	
Dr. Wolf Schumacher Aareal Bank AG, Wiesbaden	Member of the Management Board	
Dr. Manfred Schlottke Telekom Forum, Munich	Business Consultant	
Christof Schörnig (until 07.08.2007) Aareal Bank AG, Wiesbaden	Member of the Management Board until 07.08.2007	
Lutz Freitag GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e. V., Berlin	Consultant	

[8.2]
Management Board

Dr. Manfred Alflen	Chairman of the Management Board Shared Services, International Product Management, International Operations
Gereon Neuhaus	Member of the Management Board Blue Eagle and SAP® Product Line, Regional and Central Sales, Aareon Immobilien Projekt Gesellschaft mbH Shareholding
Jürgen Pfeiffer	Member of the Management Board GES and WohnData Product Lines, BauSecura Shareholding
Eberhard Villmow	Member of the Management Board Products & Services, Wodis Product Line, Integrated Services, Aareon DSK GmbH and Aareon Wodis GmbH Shareholdings

[9]

Concluding remarks

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 para. 2 of the HGB 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, 29 January 2008

The Management Board



Dr. Manfred Alflen



Gereon Neuhaus



Jürgen Pfeiffer



Eberhard Villmow

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 2007. 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.

Frankfurt/Main, 30 January 2008

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Rabeling)	(ppa. ¹ Billeb)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

¹ ppa. denotes a "Prokurist", i.e. an executive who holds a general commercial power of attorney.

Report of the Supervisory Board



Thomas Ortmanns, chairman of the Supervisory Board of Aareon AG and member of the Management Board of Aareal Bank AG

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. No 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 work and findings of the company's internal audit department were explained to the Supervisory Board.

The Supervisory Board was informed by the Management Board with regard to the cooperation with important partners and the development of the company's products and their installation and introduction with customers, putting special emphasis on major customer projects. Measures aimed at reviewing the company's international strategy were also discussed again. Discussions were particularly comprehensive in connection with the company's strategic alignment, the restructuring of its product portfolio and the new development Blue Eagle. Significant projects with an effect outside the company were also discussed in detail, including the takeover of all customer contracts from a former cooperation partner in North Rhine-Westphalia.

The business planning was discussed and approved by the Supervisory Board. The Management Board 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 2007, together with the accounting records and the management report, have been examined and certified without qualification by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which were appointed as auditors by the Supervisory Board. The report 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 final, and has endorsed the proposal for the appropriation of profits 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.

Mr. Christof M. Schörnig retired from his office as a member of the Supervisory Board effective 08.08.2007. The Supervisory Board and the Management Board thank Mr. Schörnig for the constructive execution of his duties.

The shareholders' meeting voted Mr. Norbert Kickum to the Supervisory Board on 03.09.2007.

Mainz, March 2008

The Supervisory Board



Thomas Ortmanns
(Chairman)

„Success has two letters: DO.“

JOHANN WOLFGANG VON GOETHE,
GERMAN CLASSICAL AUTHOR, SCIENTIST AND STATESMAN

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Highlights of 2007



"The future is built on experience" is the slogan for Aareon's 50th anniversary.

Aareon and the SAP consulting firm HABeCON agree a strategic alliance at the Aareon Congress



JANUARY

FEBRUARY

MARCH

APRIL

MAY

JUNE

Aareon is the only SAP partner from the property sector to be present at the SAP partner stand during CeBIT.



Aareon will rent a new office building from Wohnbau Mainz. The contract was signed on 6 July 2007, and construction will start in November.

JANUARY Aareon AG celebrates its **50th anniversary in 2007** with the slogan – "The future is built on experience". The company can trace its origins back to 6 December 1957, when Deutsche Bau- und Bodenbank AG (DBB) became the first bank to set up a computer centre, thereby laying the groundstone for the success of the company we now know as Aareon AG.

Development of the new **western sales region** is going well. An information campaign begins directed at customers of the former sales partner WRW.

FEBRUARY The number of orders transacted via the **Mareon** service portal passes the three million mark.

MARCH Aareon is the only property sector company present on the SAP partner stand at **CeBIT 2007** in Hanover, the world's largest IT trade fair.

Dienst Vastgoed Defensie (DVD), a company operated by the Dutch Ministry of Defence takes delivery of the **Blue Eagle and SAP® individual** project.

APRIL The TREUREAL Group, one of the property sector's fastest growing service companies, goes live with **Blue Eagle**.

MAY The **17th Aareon Congress** is held in Garmisch-Partenkirchen under the anniversary slogan "The future is built on experience".

The **DW Innovation Award for the Property Sector** on the topic of "Changing Housing for the Better" is presented to three companies by Lutz Freitag, president of the GdW, the German association of property companies, and the competition's patron.

Aareon agrees a **strategic alliance** with SAP consulting firm HABeCON in Berlin.

Aareon Italy exhibits at Expo Italia Real Estate in Milan.

JUNE AGB Frankfurt Holding GmbH chooses **Blue Eagle**.

Aareon presents the Blue Eagle and SAP products at the **SAP Congress for the property industry** in Duisburg.

Thomas Ortmanns, member of the Aareal Bank Management Board, cuts the symbolic ribbon for the new Berlin office.



JULY

AUGUST

SEPTEMBER

OCTOBER

NOVEMBER

DECEMBER



Groundbreaking ceremony for Aareon's new office building in Mainz on 14 November.



JULY New Aareon building in Mainz. Aareon signs the contracts for the construction of its new head office in Mainz. The building will be built by Wohnbau Mainz to the specification of Aareon AG. It will allow all of the employees from the various offices in Mainz to work together in a single building. The move will further enhance internal networking and communication.

AUGUST 2007 Lerninsel initiative. The 2007 Lerninsel ("island of learning") education initiative, introduced to **assist new recruits** in the property sector, is held. Once again, this year's locations for the August event are Berlin Schwanenwerder and the North Sea island of Juist. The October Lerninsel will be held for the first time in Homersdorf in the Erzgebirge.

SEPTEMBER Celebration of 25 years of WohnData at the **WohnData Change** event in Hamburg.

Norbert Kickum, member of the Aareal Bank Management Board, becomes the newest member of the Aareon **Supervisory Board**.

There are now over 200 property management customers in the new **western sales region** working with Aareon.

The **Mareon** service portal passes the billion euro mark for invoices issued.

Aareon has a stand at the International SAP Real Estate Management Conference in Barcelona. The main exhibits are the different variants of **Blue Eagle** based on SAP® ERP 6.0.

OCTOBER The "**berufundfamilie**" (family and work) project begins. This project is intended to encourage the compatibility of career and family for the benefit of Aareon and its employees.

The offices of the Aareal Bank Group are consolidated under one roof in **Berlin**.

NOVEMBER Groundbreaking ceremony for the **new Aareon head office** in the presence of Jens Beutel, Lord Mayor of the city of Mainz, the executive management of Wohnbau Mainz, and Aareon Management Board Chairman Dr. Manfred Alfien.

"Cloister retreat" – to mark our 50th anniversary, Aareon invites its **customer advisory boards** to attend a joint advisory board meeting. This unusual advisory board meeting takes place during the evening within the historic walls of the Eberbach Monastery.

The second **Wodis forum** within the Aareon Group takes place in Bochum.

DECEMBER All staff in Germany are invited to a special **Christmas celebration** to mark the end of our anniversary year.

This year, our **Christmas donations** go to the following charities: the Mainzer Pfarrer Landvogt Hilfe e. V. organization for the homeless, the Mainzer Hospiz Gesellschaft hospice and the Heilpädagogium Schillerhain institution for the care of disturbed and maltreated children.

Aareon customers

Germany (selection)

Blue Eagle

- ABG Immobilien-Management Gesellschaft mbH & Co. KG, Frankfurt am Main
- Chemnitzer Siedlungsgemeinschaft eG, Chemnitz
- DEGEWO Deutsche Gesellschaft zur Förderung des Wohnungsbaues, gemeinnützige AG, Berlin
- Franconofurt AG, Frankfurt am Main
- Gemeinnützige Wohnungsgenossenschaft Gartenstadt-Kolonie-Reform eG, Magdeburg
- HANSAINVEST Hanseatische Investment GmbH, Hamburg
- Neuland Wohnungsgesellschaft mbH, Wolfsburg
- Sächsische Wohnungsgenossenschaft Chemnitz, Chemnitz
- TAG Tegernsee Immobilien- und Beteiligungs-AG, Hamburg
- TREUREAL Gruppe, Leipzig
- Wankendorfer Baugenossenschaft für Schleswig-Holstein eG, Kiel
- Wohnungsgenossenschaft „Glückauf“ Süd Dresden e.G., Dresden

GES

- Barg Holding GmbH, Berlin
- GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen
- Grundstücks- und Gebäudewirtschafts-Gesellschaft mbH (GGG), Chemnitz
- GWH Gemeinnützige Wohnungsgesellschaft mbH Hessen, Frankfurt am Main
- HOWOGE Wohnungsbaugesellschaft mbH, Berlin
- SAGA Siedlungsaktiengesellschaft, Hamburg
- WIRO Wohnen in Rostock Wohnungsgesellschaft mbH, Rostock

WohnData

- Becker & Kries Immobilien Management GmbH & Co. KG, Berlin
- FROHE ZUKUNFT Wohnungsgenossenschaft eG, Halle
- LEG Landesentwicklungsgesellschaft NRW GmbH, Düsseldorf
- LWB Leipziger Wohnungs- und Baugesellschaft mbH, Leipzig
- TLG IMMOBILIEN GmbH, Berlin
- wbg Nürnberg GmbH, Nürnberg

Wodis

- DERAG Deutsche Realbesitz AG + Co. KG, Munich
- Gemeinnütziges Siedlungswerk GmbH, Frankfurt am Main
- GHG Wohnen Service GmbH, Berlin
- GWG Gemeinnützige Wohnungsbaugesellschaft der Stadt Kassel mbH, Kassel
- Joseph-Stiftung, Bamberg
- swb Service-, Wohnungsvermietungs- und -baugesellschaft mbH, Mülheim an der Ruhr
- Wohnbau Gießen GmbH, Gießen
- WTS Wohnungswirtschaftliche Treuhand in Sachsen GmbH, Dresden

International (selection)

Great Britain

- Bournville Village Trust, Birmingham
- Erimus Housing, Middlesbrough
- Richmond Housing Partnership, London

France

- Groupe Hainaut Immobilier, Valenciennes
- Groupe SNI, Paris
- Port Autonome de Paris, Paris

Italy

- Beni Stabili, Rome
- Ferservizi Gruppo F. S., Rome
- Icade Italia, Milan

Switzerland

- Sulzer Immobilien, Winterthur
- Swiss Re, Zurich
- graf.riedi ag, Bern



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