

Aareon Annual Report 2016

Next level networking



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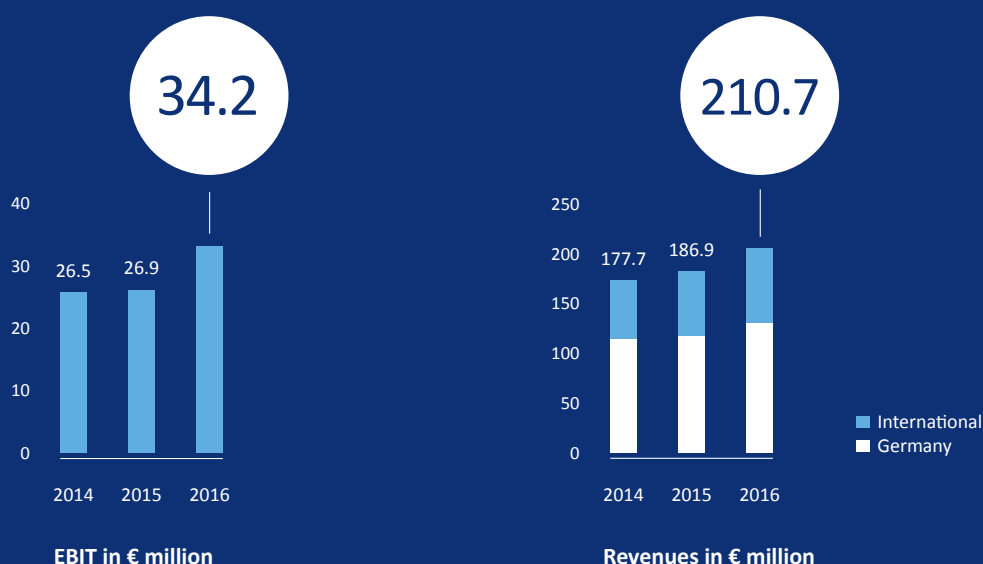
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The annual report is also available online
https://aareon_geschaeftsbericht_2016.com/

Making connections. Facilitating exchange. Rethinking together. If processes are to be rendered efficient and innovative solutions provided, all participants have to be networked at a higher level. Aareon Smart World implements this **next level networking**. It enables property companies to link up with their customers, employees and business partners and technical devices to be interconnected, both in individual apartments and entire buildings. This results in a digital ecosystem that creates added value and makes our lives much smarter.

Key performance indicators 2016



Key performance indicators IFRS (€ m)

	2016	2015	Change
Revenues	210.7	186.9	12.7 %
Of which international	76.5	66.6	14.9 %
EBIT	34.2	26.9	27.1 %
Consolidated net income after tax	24.1	20.7	16.4 %
Consolidated net income after non-controlling interests	22.6	19.2	17.7 %
Total assets	227.0	219.7	3.3 %
Shareholders' equity	123.8	121.0	2.3 %
Cash flow from operating activities	40.9	22.0	85.9 %
Number of employees (as at 31 December)	1,400	1,376	1.7 %
Of which international	602	576	4.5 %
Return on Equity in %	28.5	24.6	15.9 %

Fiscal 2016

- EBIT increased significantly to €34.2 million (previous year: €26.9 million)
- Much higher revenues of €210.7 million (previous year: €186.9 million)
- High capital expenditure on research and development at €9.6 million
- Digital ecosystem solution portfolio “Aareon Smart World” extended further
- “Aareon Flight Plan” strategy programme aims to position Aareon as a trailblazing partner for digitilisation in the property industry
- Certifications confirm high level of data protection

Aareon at a glance

With its IT solutions, Aareon provides efficient support for property industry processes in the digital age.

Cornerstones of strategy



Having a clear customer focus
Top priority is given to customer satisfaction and creating customer benefit.



Offering pioneering solutions
Aareon draws on the latest trends and industry requirements when developing and refining its products and services.



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

28

Locations

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

2,800

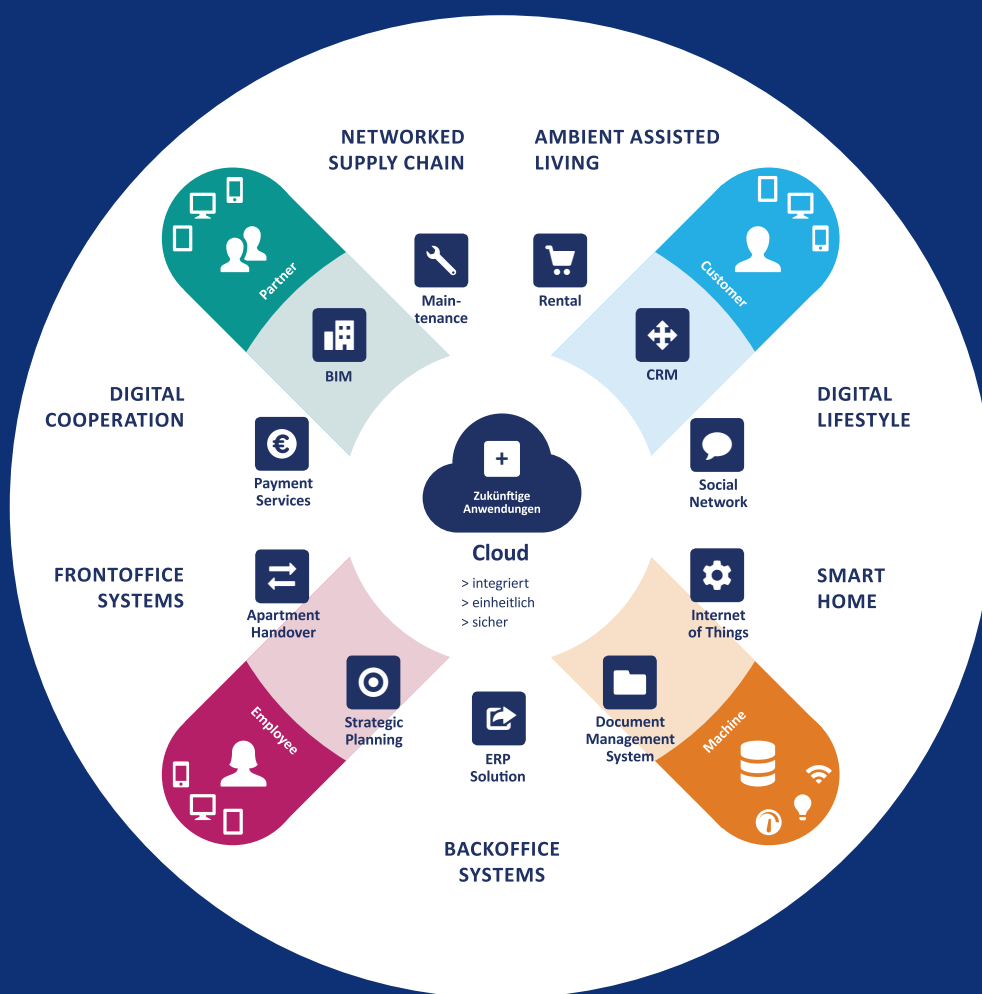
Clients

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

1,400

Employees

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

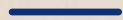


Aareon Smart World

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

Free thinking

Changing perspective and giving free rein to ideas: this ostensibly philosophical approach is highly effective for agile project management. That's because, when Aareon's employees and customers join forces to develop innovative digital solutions in the DesignLab, the user is always the focus of attention.



→ Have a look at our Aareon DesignLab in the [online journal](#).





Virtual World

Engaging in a dialogue with a building and its data still sounds futuristic. Building Information Modelling (BIM) is the name of this emerging data-based approach to constructing and maintaining buildings that is already established in Norway. It can provide tenants, as well as planners and property companies, with major benefits.

➔ What benefits? Find the answer from our Norwegian customer Helse Vest in the [online journal](#).

Smart Service

The key relationship in the housing sector is probably that between landlord and tenant. While tenants' main concern is to be able to live with peace of mind, landlords set store by efficient processes. This smart app from France spans both expectations effectively, providing a convenient all-round service that makes life so much easier.



→ For details, read what our French customer Groupe Valophis has to say in the [online journal](#).



Managing assets

Ready for new markets? Trace & Treasury is the SaaS asset management solution that can also be used to manage cash and draft business plans – and has been extremely successful in the Netherlands for some time. Indeed, its success has been such that Trace & Treasury is now transcending borders and looking to conquer the UK and Sweden.



→ Our Dutch customer Wonen Zuid provides a personal look at Trace & Treasury in the [online journal](#).





On the road

A tight schedule, many routes, and don't forget anything: field representatives of housing companies need to be well organised. It's nice to receive some support – like that provided by the 360° Field Worker solution. This digital solution gives staff a 360°, panoramic view of all their issues and tasks – mobile and effectively networked.

➔ In the [online journal](#), our colleagues provide insights into everyday housing situations in the UK.



Preface of the Management Board

Ladies and Gentlemen,

The company posted the best operating result in its history in fiscal 2016. EBIT grew by 27.1 % to reach € 34.2 million (2015: € 26.9 million), well above the previous year's level. Consolidated revenues also increased markedly, rising by 12.7 % to € 210.7 million (previous year: € 186.9 million). Thanks to its steady growth, the International Business segment accounted for 36.3 % (previous year: 35.6 %) of consolidated revenues.

Developing digital solutions has been a key focus of Aareon's R & D activities for many years now, and we have always striven to expand our digitilisation expertise on an ongoing basis. Our first innovative internet-based solution, the Mareon service portal, celebrated its 15th anniversary in 2016. This was followed by solutions supporting mobile handover of rental units, mobile inventory data management, digital archiving and digital invoicing, together with customer portals for tenants and owners, which were all combined in the Aareon Smart World digital ecosystem in 2015. This system enables property companies to link up with customers, employees and business partners and to interconnect technical devices, both in individual apartments and entire buildings. It also allows processes to be redesigned and optimised. The digital solutions help to reduce costs, while creating new business models and promoting more comfort and transparency in communication by interlinking all the main players. We have set the benchmark for digitilisation in the property industry and raised the bar in terms of stakeholder networking. As a company with international reach, we systematically promote the transfer of know-how between our experts at the various locations and can consequently benefit from each country's distinct focal points when it comes to digitilisation. Our international development teams can then re-engineer solutions that have already proved themselves in one country for use in other markets. We invested € 9.6 million in research and development in 2016. Aareon takes the design thinking approach when collaborating with property companies and their tenants. This user-centric, problem-solving concept is the methodical basis underpinning Aareon's DesignLab, which opened at the company's head office in Mainz in 2016. The DesignLab has met with a very positive response from those customers who have already had the opportunity to use it.

As digitilisation progresses, the trend towards using Aareon's solutions as a service from the exclusive Aareon Cloud continues unabated. Data is stored in the Aareon IT Service Centre in Germany and at a backup location. Data protection and data security are extremely important to us and are certified on a regular basis.

In order to add even more value for customers and to provide integrated solutions from a single source, we analyse and engage in dialogue with the PropTech start-up market. An outcome of these activities was the sales cooperation agreement we entered into with the Berlin-based start-up KIWI.KI in October 2016. It has enabled us to add the intelligent keyless door access system KIWI to our Aareon Smart World offering for smart home customers.

We have succeeded in further expanding business volumes for country-specific ERP solutions produced by the Aareon Group. By the end of 2016, some 840 customers had already opted for the Wodis Sigma ERP solution in Germany – including, as intended, many GES customers. As a result, Wodis Sigma has become the leading ERP solution in the German property industry. Licensing-fee business for SAP® solutions and Blue Eagle has also been flourishing thanks to renewals and the acquisition of new customers.

Business in digital solutions was also gratifying. In Germany, there was particular demand for the Mareon service portal, Aareon Archiv kompakt, Aareon CRM, Aareon ImmoBlue Plus and Mobile Services. Customers were particularly interested in Mobile Services, and some 150 of them have already signed up. In the Netherlands, Mareon, Aareon Archiv kompakt, Aareon CRM, the tenant app, call-centre functionality, and the Trace & Treasury solution were in high demand, while tenant portals, invoicing

services, solutions for mobile handover of rental units, and Mareon were most sought-after in France. In terms of digital transformation, the UK is already a very mature market, especially when it comes to mobile solutions. Our British subsidiary 1st Touch is paving the way with a host of new functions and innovative design concepts in its 360° Tenant Portal and 360° Field Worker solutions, which have attracted plenty of attention from customers.

What's more, the purchase by Aareon Nederland of the remaining 50 % stake in SG2ALL B.V. and its ICT Residenz brand has strengthened our presence in the Dutch market, providing further evidence of Aareon's expansion of its international outsourcing expertise.

Aareon regards digital transformation as an holistic process that extends to the working environment, too. Our focus here is on the employee as an individual. In recent years, we have taken account of this transformation by providing flexible working arrangements in the form of part-time and teleworking models, mobile end devices for employees, and the use of modern, digital forms of communication for meetings and presentations, all of which are now part and parcel of working life at Aareon. We also want to help our employees achieve a healthy work-life balance throughout their lives, taking an individual's personal performance potential into consideration. In order to manage this process systematically, Aareon was among the first 100 pilot companies to receive certification in the context of the INQA audit (INQA = Initiative Neue Qualität der Arbeit [New Quality of Work Initiative]). The "Aareon's got Talent" project was launched in 2015 with the aim of making greater use of employees' ideas in product and service development, and of harnessing the existing creativity pool. The initiative fell on very fertile ground and we have already been able to implement several innovations.

In order to pursue our growth strategy systematically and sustainably, we devised the "Aareon Flight Plan" strategy programme in 2016. The overarching aim here is to position Aareon as a trailblazing partner for digitilisation in the property industry. Key areas of growth include digital solutions, ERP systems, and the development of new markets connected to the property industry. We intend to expand and enhance Aareon Smart World by adding solutions such as Aareon Smart World Cockpit for the field staff of housing companies, and an app for owners and tenants in Germany. We will also be introducing a change management solution for power utilities. And we shall, of course, continue to invest heavily in R&D. In this context, we plan to appoint additional digitilisation specialists. In order to nurture growth in PropTech companies, we have been supporting the PropTech Accelerator initiative since January 2017.

In 2017, Aareon will be 60 years old. Over the decades, it has drawn on its innovation potential time and again and displayed the courage required for change. We have always appreciated the constructive dialogue we have enjoyed with our customers and would like to extend our special thanks to them. Our customers are at the heart of all we do: consulting, solutions and services are all designed to add value and support them during the digital transformation process.

Kind regards,



Dr. Manfred Alflen



Sabine Fischer



Dr. André Rasquin



Christian M. Schmah

Management Board

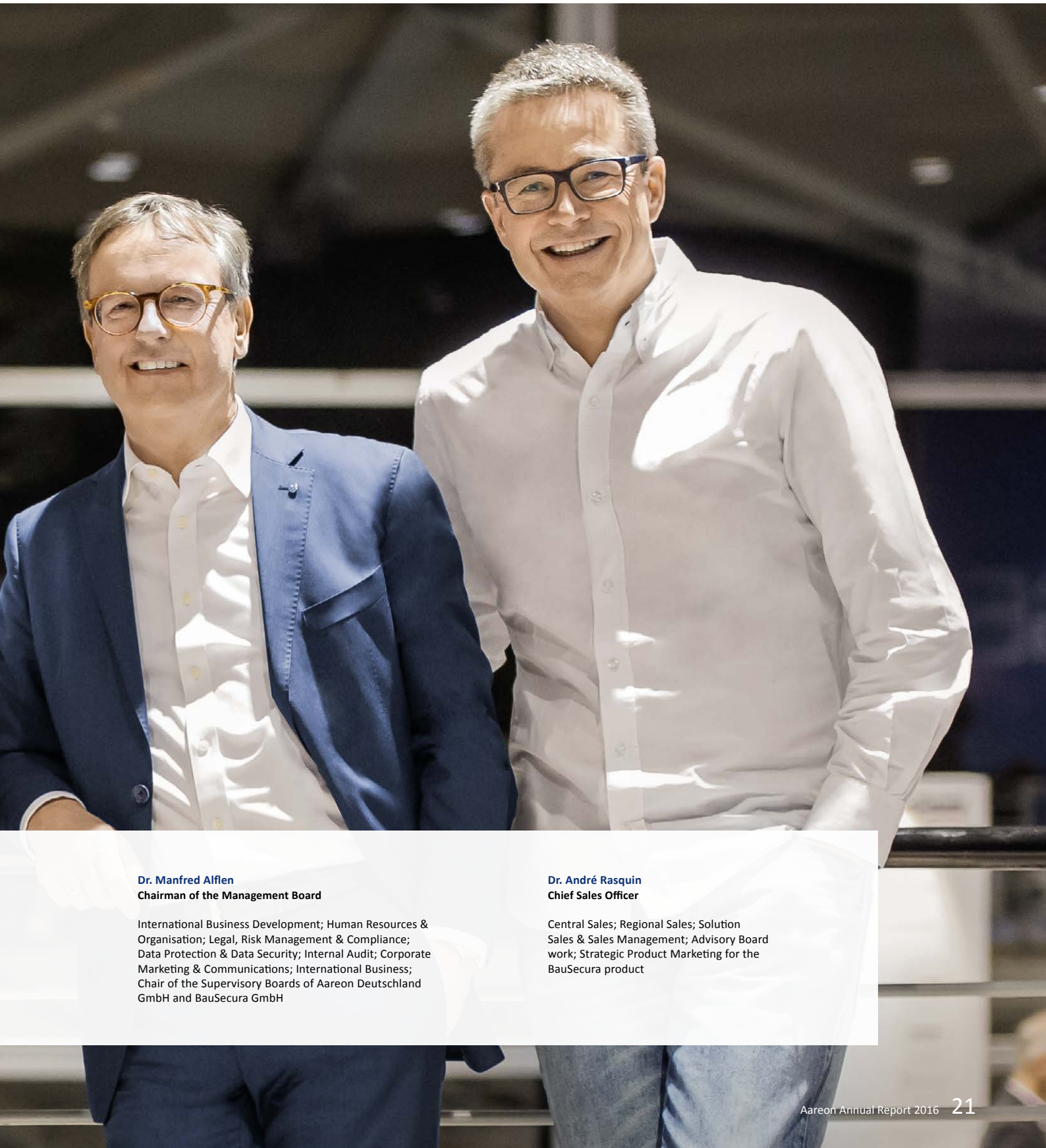


Christian M. Schmahl
Chief Financial Officer

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

Sabine Fischer
Chief Operating Officer

Aareon-ERP-systems (Wodis Sigma, SAP® Solutions
and Blue Eagle, GES) and Aareon Smart World Digital
Solutions; Data, Hosting and IT Services; Consulting
Organisation incl. phi-Consulting GmbH



Dr. Manfred Alfien
Chairman of the Management Board

International Business Development; Human Resources & Organisation; Legal, Risk Management & Compliance; Data Protection & Data Security; Internal Audit; Corporate Marketing & Communications; International Business; Chair of the Supervisory Boards of Aareon Deutschland GmbH and BauSecura GmbH

Dr. André Rasquin
Chief Sales Officer

Central Sales; Regional Sales; Solution Sales & Sales Management; Advisory Board work; Strategic Product Marketing for the BauSecura product

Overview of 2016

01

January

36 Wodis Sigma go-lives

The start of the year marks a first for Aareon, as 36 companies with 100,000 units go live with the Wodis Sigma ERP solution simultaneously.



“Fit for the Working World 4.0”

“Fit for the Working World 4.0” is the motto of Aareon’s numerous corporate health management activities in 2016. A personnel policy that focuses on people is becoming increasingly important in the context of digital transformation in particular, and this process extends to the working environment too. (photo above)

02

February

New Wodis Sigma customer:

WIRO Wohnen in Rostock Wohnungsgesellschaft mbH

WIRO Wohnen in Rostock Wohnungsgesellschaft mbH (with around 36,000 rental apartments) opts for Wodis Sigma as a service from the exclusive Aareon Cloud, having previously used the GES ERP solution.

Wodis Sigma Dialogues well attended in 2016

Great interest is shown in the Wodis Sigma Dialogues held throughout Germany and attended by several hundred participants in total.

03

March

JOBLINGE at Aareon

Aareon lends its support to the JOBLINGE initiative for socially disadvantaged young people with a joint project week on digitilisation in the context of home living arrangements. (photo below)



Vivawest Dienstleistungen Group uses the Aareon IT Service Centre

The Vivawest Dienstleistungen Group, the facility services provider of Vivawest, is now using the Aareon IT Service Centre, Vivawest Wohnen having already successfully transferred its SAP® systems to the Service Centre in 2015.

04

April

Erilia uses the Aareon France invoicing service

A major customer, Marseilles-based Erilia (89,000 units) goes live with the Aareon France invoicing service.

9th Girls' Day

Aareon holds a Girls' Day for the ninth year in succession as part of the company's activities to promote young talent. The event gives 21 female school students aged between 9 and 15 an insight into the wide variety of professions available in the IT field. (photo below)



05

May

Aareon France's client convention

Aareon France's annual client convention, which also addresses the subject of digitilisation and the associated opportunities, takes place in May. (photo below)



Joseph-Stiftung: Digital services for students.

The digital complete solution featuring an online rental contract that was realized by the Joseph-Stiftung, Bamberg in conjunction with Aareon will now begin live operation. The Aareon Immobilblue Plus, Aareon CRM-Portal and Mobile Services solutions and the ERP system Wodis Sigman will all be used together. With this step, the Joseph-Stiftung has become the first company in the German housing industry to offer fully digital customer service, from acquisition and support of potential tenants to the drafting of rental contracts, apartment handovers, and the entire management phase all the way to contract termination. Currently this offer is only available to student tenants.

Wodis Sigma at Hallesche Wohnungsgesellschaft

Hallesche Wohnungsgesellschaft mbH (around 21,000 units) goes live with Wodis Sigma.

United Kingdom: New Charter Group goes live with 360° tenant portal

A major British customer, New Charter Group (19,000 units), goes live with the digital solution 360° tenant portal.

Decision in favour of Wodis Sigma: Co-operative ›Wiederaufbau‹ eG

Many GES customers have already decided in favour of Wodis Sigma, and they have now been joined by one of the largest co-operatives in Lower Saxony: ›Wiederaufbau‹ eG (including its subsidiary ›Wiederaufbau‹ Immobilien GmbH) is transferring its portfolio of around 9,600 units to Wodis Sigma.

Mareon at de Alliantie

A major customer, de Alliantie, Huizen (64,000 units), opts to use the Mareon solution.



Cross-mentoring programme

The first concluding round of Aareon's cross-mentoring programme takes place. Mentoring has been an active component of personnel development and part of the forward-looking corporate culture at Aareon for over a year. (photo above)

06

June

26th Aareon Congress

The 26th Aareon Congress, a prominent annual event for the housing industry, is held in Garmisch-Partenkirchen under the motto “Time for change – change as a success factor”. It addresses the topic of change and the opportunities brought about by digitilisation, globalisation, demographic trends and migration. (photo below: DesignLab at Aareon Congress, brightly lit at night)



Wodis Sigma at Wohnbau Mainz

Wodis Sigma is now going live at Wohnbau Mainz GmbH, which consists of 10,500 own units and 1,500 units managed by third parties.

Aareon UK: customer event

Aareon UK holds its QL User Group National Meeting to discuss topics such as the tenant portal and social media, among others.

Mobile Services: 100th customer

Wohnring AG Neustadt becomes the 100th customer to opt for Aareon’s Mobile Services.



13th “DW Innovation Award for the Property Sector”

The motto for the 2016 “DW Innovation Award for the Property Sector” is “The housing industry in times of dynamic change – forward-looking strategies and concepts”. The winners are Hofheimer Wohnungsbau GmbH (Hofheim), Joseph-Stiftung Kirchliches Wohnungsunternehmen (Bamberg), and Wohnungsbau-Genossenschaft “Treptow Nord” eG (Berlin). (photo above)

Aareon Nederland: customer event

The Aareon Update customer event is held under the motto “get connected”. (photo below)



Aareon reaches the final of the “Success Factor Family” competition

The German Federal Ministry of Family Affairs nominates Aareon as a finalist from among 400 entrants in its “Success Factor Family” competition to find the country’s most family-friendly companies. In 2012, when the competition was last held, Aareon was awarded the title of Germany’s most family-friendly company (in the Medium-sized Companies category).



07

July



Audited data protection management
TÜV Rheinland confirms that Aareon is a “service provider with audited data protection management”.
(photo above)

The Aareon DesignLab opens
The Aareon DesignLab opens at the company’s head office in Mainz: design thinking is an agile process for the development of new digital and, in particular, user-oriented solutions that focuses strongly on customer involvement in the creative development approach. (photo below)



08

August

Aareon Nederland in the Microsoft Dynamics Inner Circle
Microsoft, the world’s leading software maker, has included Aareon Nederland B.V. in its Microsoft Dynamics Inner Circle 2016. This is celebrated at the Microsoft World Partner Conference in Toronto, Canada. (photo below)



Ideas competition “Aareon’s got Talent”: a wealth of outstanding ideas
The participating teams have developed concepts, mock-ups and even prototypes with the focus on adding value and providing opportunities for Aareon’s customers.

INDUSTRIA WOHNEN opts for Aareon’s SAP® solution
INDUSTRIA WOHNEN GmbH opts for SAP® S/4HANA and Aareon’s consultant solutions for SAP®. The project also involves a number of digital solutions from the Aareon Smart World portfolio.

09

September

Incit in Sweden: significant customer acquisition

Stena Fastigheter, one of Sweden's biggest property companies (around 24,000 units) opts for the Incit Xpand ERP solution from Swedish subsidiary Incit.

Aareon France: demand for digital solutions

Another major customer, OPAC d'Amiens (16,200 units), opts for the digital solutions tenant portal and mobile handover of rental units.

Energy-laden experiments at the Aareon Science Camps

How much power does my smartphone use? And what does a battery actually consist of? These and other questions relating to the storage and provision of energy are addressed by 64 children aged between 8 and 12 at the Aareon Science Camps. (photo below)



Aareon successfully concludes INQA audit

In the context of changing requirements in a digital working environment, Aareon is among the first 100 pilot companies to carry out the INQA audit (INQA = New Quality of Work Initiative). Andrea Nahles, Germany's minister of labour and social affairs, presents Aareon with the certificate testifying to its future-oriented corporate culture. (photo below)



10

October

Customer event in Sweden: Incit Days and 50th anniversary of Incit

The Swedish subsidiary's biggest customer event is held in Stockholm, where the company looks back at its history, but mainly ahead to the future on the occasion of its 50th anniversary. (photo below)



Aareon presents the first "WohnIT" award

The first Aareon "WohnIT" award is won by the "IntLight" (Indoor Location for Smart Homes) project entered by Schloss Hansenberg boarding school in Geisenheim-Johannisberg. (photo below)



11

November



Aareon Forum 2016

The focus is on "Innovation. Information. Interaction." at the Aareon Forum, Germany's biggest housing industry event for IT decision-makers and users, where digital innovations for the effective design of processes between interactors in the housing industry take centre stage. (photo above)

Cooperation between KIWI.KI and Aareon

The Berlin-based start-up KIWI.KI enters into a sales cooperation agreement with Aareon Deutschland, enabling the latter to add the intelligent keyless door access system KIWI to its Aareon Smart World portfolio for smart home customers.



SAGA GWG opts for Aareon's SAP® solution

The major Hamburg-based housing company SAGA GWG opts for Aareon's SAP® solution following an intensive tendering process. SAGA GWG previously used the GES ERP system. (photo below)



12

December

Mobile Services: 150th customer

Gemeinnützige Wohnungsgenossenschaft Dortmund eG becomes the 150th customer to opt for Aareon's Mobile Services.

Aareon further extends its international outsourcing expertise

Dutch subsidiary Aareon Nederland B.V. acquires the remaining shares (50 per cent) in its subsidiary SG2ALL B.V. from de Alliantie, Hilversum. SG2ALL B.V. offers its services on the Dutch market under the brand Residenz ICT.

Wodis Sigma: around 840 customers at the end of the year

The number of customers opting for Wodis Sigma now stands at around 840, making Wodis Sigma the leading ERP solution in the German property industry.

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Group business fundamentals

Group business model

Aareon – the leading European provider of consulting services and systems for the property industry – offers its customers secure, ground-breaking solutions in the areas of consulting, software and services, enabling them to optimise their IT-based business processes in the digital age. The Company has a presence at 28 locations in Europe's key property markets, including nine in Germany. It also has international subsidiaries in France, the UK, the Netherlands, Norway and Sweden. The Aareon Group benefits from local expertise by sharing know-how between its locations in Germany and abroad and, as part of the digital transformation process, leverages the digitalisation specialities in each specific country to enhance its product and service portfolio.

Aareon has been a market player for almost 60 years. Aareon AG is a wholly owned subsidiary of Aareal Bank AG, Wiesbaden, a leading international property specialist. Within the Aareal Bank Group, Aareon belongs to the Consulting/Services segment, which offers solutions and services for target groups such as the residential and commercial property industries, and the energy production and waste disposal sectors. The majority of Aareal Bank customers are also customers of Aareon.

Aareon's portfolio

In the countries in which Aareon operates, it secures its customer base by generating a stable, long-term volume of business with its local ERP (enterprise resource planning) systems. Its customer relationships are sustainable and have often been in place for decades. Aareon is expanding its new portfolio of digital solutions and marketing it internationally – especially to its existing customers. Aareon Smart World is a digital ecosystem that combines these solutions and enables property companies to network with their customers, employees and business partners as well as with technical appliances in buildings and individual apartments. That makes it possible to redesign and optimise processes. The digital solutions help to lower costs

and, by creating a network between all those involved, give rise to new business models. They also make for more convenient and transparent communication.

Both in Germany and abroad, Aareon provides software solutions that can be accessed in different modes: either via in-house operations, hosting or as software as a service (SaaS) from the exclusive Aareon Cloud. The Aareon Cloud hosts the data at Aareon's certified IT Service Centre in Mainz, ensuring a high level of data security and data protection (see p. 32). After completion of the consultation, implementation and training phases, the customer generally opts for a maintenance model that guarantees support services on a regular basis.

Aareon reports on two segments: Germany and International Business.

In Germany, Aareon markets the ERP products Wodis Sigma as well as SAP® solutions and Blue Eagle, both of which are based on cutting-edge IT standards. Aareon is gradually phasing out the ERP product GES, replacing it with Wodis Sigma as well as SAP® solutions and Blue Eagle. Until it is ultimately phased out, GES will continue to be updated and maintained. Aareon's customers were informed of the phase-out several years ago and the majority of them have already opted for one of the replacement ERP systems.

Aareon Smart World allows these ERP products to be linked to digital solutions such as Mareon, Aareon invoicing service, Aareon ImmoBlue Plus, Mobile Services, Aareon CRM (tenants portal) and Aareon Archiv kompakt. Aareon Smart World Cockpit is a new digital solution that had its début at the Aareon Congress in Germany. Aareon customers in the UK are already deploying this product, which is branded 360° Field Worker in their local market. It is a mobile integrated solution for housing company field staff. Aareon Deutschland and KIWI.KI, a Berlin-based start-up, concluded a marketing part-

nership agreement in October, thus expanding the Smart Home segment of Aareon Smart World to include the KIWI smart keyless entry system.

Over and above this, Aareon offers add-on products and services such as the BauSecura insurance management solution. After the full acquisition and integration of phi-Consulting GmbH, Bochum, a year earlier, Aareon expanded its utility-sector offerings in the reporting period. The utility sector is an important partner for property companies. Building on Aareon's portfolio, phi-Consulting provides consultation and development services based on SAP® IS-U, which it rounds off with Aareal Bank solutions. Customers in both the property and utility segments are now benefiting from this integrated portfolio of products and services.

In the International Business segment, Aareon's subsidiaries offer ERP solutions that are tailored to their particular national markets, supplementing them with integrated digital solutions from Aareon Smart World – some of which are identical across the entire group. In the Netherlands, Aareon Nederland markets the ERP product Tobias AX on the basis of Microsoft Dynamics® AX. The ERP products Prem'Habitat and PortalImmo Habitat are marketed by Aareon France, while Aareon UK offers the ERP product QL.net in its local market. Incit markets the ERP product Incit Xpand in Scandinavia. Owing to legal requirements in the local market, there is heightened interest in Scandinavia in the BIM (Building Information Modelling) system integrated in Xpand.

Internationally, Aareon markets the digital solution CRM (tenants portal, 360° Tenant Portal) in both portal and app versions in the UK, France and the Netherlands. Aareon Smart World products such as Mareon and Aareon Archiv kompakt are also sold outside Germany. In the British market, 1st Touch offers the digital solution 1st Touch Mobile as well as 360° Field Worker. Aareon Nederland deploys the Trace & Treasury

product in the Netherlands. Following the acquisition of Square DMS B.V. (formerly Square DMS Groep B.V.), Grathem, in the previous year, Aareon Smart World was expanded to include ShareWorX®, a case management solution that is offered in the Netherlands and the Flemish-speaking region of Belgium. Aareon Nederland successfully completed the integration of Square DMS B.V. in 2016. Positive synergistic effects of the integration included the fact that Square, a subsidiary of Aareon Nederland, was able to secure key customer contracts.

Within the International Business segment, Incit is the entity responsible for add-on products and provides its customers with fact books – reference works containing standard information on operating and maintenance costs.

Market position

Aareon pursues a strategy of profitable growth and continued to grow organically in fiscal 2016. Key focal points for growth were digital solutions, ERP systems and the tapping of new markets related to the property industry. A strategy programme entitled Aareon Flight Plan was developed in 2016 with the goal of systematically achieving sustainable growth. It focuses, in particular, on positioning Aareon as a leading partner for the digital transformation in the property industry. The programme breaks down the digital transformation process at Aareon to the business-unit level and also takes in the corporate culture. At the same time, the Company is continuing to optimise its internal processes in order to enhance efficiency and profitability. Within the Aareal Bank Group, Aareon Flight Plan forms part of the Aareal 2020 future programme.

According to the Lünendonk List, an established annual market survey, Aareon is one of the leading IT service providers in the German market.¹ In France, the UK, the Netherlands and Scandinavia, Aareon's subsidiaries rank among the leading

1—Vgl. Lünendonk®-Liste 2016, Lünendonk GmbH, Mindelheim 2016

providers of software and services to the property industry. Competitors in this sector include SAP® partners and providers of proprietary industry products.

The Company's market presence in the Netherlands was strengthened by the contract signed by Aareon Nederland on 27 December 2016 to acquire the remaining 50 percent of the shares in SG2ALL B.V. von de Alliantie, Hilversum. SG2ALL markets its services under the brand name Residenz ICT in the Netherlands. The takeover was a further step for Aareon in expanding its international outsourcing expertise.

Quality and security standards

Data protection and data security are of central importance to Aareon. Numerous clients in Germany and abroad make use of Aareon solutions as a service from the exclusive Aareon Cloud – meaning that the data is stored solely in the Aareon IT Service Centre and at a backup location. Aareon IT Service Centre operations are regularly examined for compliance with the PS 951 auditing standard of the Institute of Public Auditors in Germany (IDW). The TÜV Saarland technical inspection agency had already re-certified the Aareon IT Service Centre for a further two years in 2015, awarding it the status of a Certified Computer Centre – Level 3tekPlus. Since 2010, Aareon has voluntarily submitted to regular external data-protection audits in accordance with Section 9a of Germany's Federal Data Protection Act (BDSG). In 2016, the corresponding audits were carried out by the TÜV Rheinland technical inspection agency, which confirmed Aareon's status as a "service provider with audited data protection management". Aareon's system of information security management complies with the internationally recognised ISO/IEC 27001:2013 standard, a fact confirmed by the re-audit carried out in September 2016.

Research and development

Aareon's research and development (R & D) activities provide the foundation for its new digital solutions. By developing digital solutions, Aareon is helping the property industry and

related sectors grasp the opportunities thrown up by the digital transformation. The focus here is on customer benefit. Aareon's R & D profits from the different digitisation specialities in each country in which the Group operates, combining them to enhance Aareon Smart World as a whole. Aareon pursues an agile development approach so as to be able to carry out intensive testing at an early stage and take the step from idea to prototype as quickly as possible. The international development team takes social, political, economic and technical factors into account, integrating them into both new and existing digital solutions.

Aareon works hand in hand with property companies in line with the design thinking method. This user-centric approach to problem-solving provides the methodological underpinnings for the Aareon DesignLab, which was opened at the Company's head office in Mainz in 2016.

The information gained from the day-to-day business dialogue with customers also feeds into the Company's R & D activities. Aareon gauges the requirements of its customers by talking to them on a regular basis, e.g. by means of institutions such as customer advisory councils as well as through customer surveys.

As part of its constant efforts to hone its ERP systems and digital solutions, Aareon focused its capital expenditure in fiscal 2016 on the following: a digital platform for harmonising interfaces between ERP products and digital solutions as well as the creation of a shared technological base; the international refinement of CRM; and the enhancement of the ERP products QL.net, Tobias AX and Wodis Sigma (Release 8).

Capital expenditure on research and development in fiscal 2016 amounted to € 9.6 million (previous year: € 9.5 million). The capitalisation rate was 63 %. Amortisation of internally generated software amounted to € 2.4 million.

Economic report

General economic and industry environment

Economic growth

Low interest rates and moderate growth were the hallmarks of the economy in 2016. Above all else, however, the year was marked by political events that brought uncertainty and volatility to markets. In fiscal 2016, global economic output expanded by 2.2 %, a weaker rate of growth than in the previous year (2.7 %).

The eurozone posted stable, but not particularly dynamic, growth in the reporting period, with the full-year growth rate being slightly lower than in the prior year. At the start of the year, economic output was dampened by slowing demand in emerging markets, but propped up by strong private consumption. In the second half of the year, the economic situation remained robust despite all the uncertainty.

While the German economy was more dynamic in the first half of the year than in the second, it remained quite robust overall. From the middle of the year onwards, private consumption and the construction industry buoyed growth. By contrast, industrial production and exports weakened as the year progressed. At the end of the year, both consumer confidence and expectations in the manufacturing sector were high.

The French economy started 2016 with solid growth, but weakened, among other things, in the wake of strikes. Weak exports in the second half of the year were one factor that prevented the economy from growing faster. Overall, the rate of economic growth in 2016 was marginally higher than in the year before.

A number of countries outside the eurozone posted growth that was slightly higher than the eurozone, but lower than in the prior year. Sweden posted growth of 3.1 % (previous year: 3.8 %).

In a referendum on 23 June 2016, the majority of British electors voted to take their country out of the European Union. The vote triggered volatility in financial and capital markets, and created political uncertainty. That uncertainty also seeped into the property market, causing UK real-estate funds to temporarily suspend trading. Nonetheless, the vote had hardly any real negative effects on economic output in the further course of 2016; its effects were mainly on the relevant indicators of sentiment and were of a short-term nature. Although the economy grew at almost the same rate as in the previous year, second-half growth was buoyed by the services sector, with industrial production and the construction industry experiencing substantial declines. There was a slight decrease in capital expenditures, while private consumption remained robust despite the strong drop in the value of the British pound.

Though the eurozone unemployment rate declined slightly in the course of the year, it still remained relatively high. The unemployment rate also fell marginally across the EU as a whole.

Annual real growth in GDP in %

	2016	2015
Eurozone	1.7	1.9
Germany	1.8	1.5
France	1.1	1.2
Netherlands	2.1	2.0
United Kingdom	2.0	2.2
Norway	0.7	1.6
Sweden	3.1	3.8

Industry trend

In the countries in which the Aareon Group operates, the digital transformation of the property industry continued to gain momentum. However, the focus of digitisation is different in each country. On the whole, the networking of market players – such as property companies and their staff, customers, business partners and buildings – is gaining in importance. Digital solutions are benefiting people's private and working lives, enhancing the flexibility and convenience of everyday life. In this area especially, new providers and start-ups are entering the market. Aareon is tracking these developments and weighing up partnership options. In Germany, for instance, it entered into a marketing partnership with Berlin-based start-up KIWI.KI in 2016, enabling it to expand the Smart Home segment of its Aareon Smart World digital-solutions portfolio to include the KIWI smart keyless entry system.

Awareness of the digital transformation has increased noticeably across the property industry in Germany, with demand growing accordingly. Networking, integrability and the tapping of efficiency potential are key factors in this process. What is more, demand for affordable housing has increased as a result of immigration. All in all, the industry again posted solid growth in 2016, mainly due to long-term financing structures and to stable rental income from a more diverse tenant portfolio. Housing companies continue to rely on achieving sustainable portfolio growth and energy-efficiency gains. In 2016, the residential and commercial property companies organised in the German Federation of Housing and Property Companies (GdW) and its regional associations invested over € 14 billion in the future of their portfolios.

In the Netherlands, additional taxes are placing a burden on social-housing companies. The resulting cost pressure is raising interest in digital solutions, especially investments in new,

state-of-the-art means of communicating with tenants, including self-service offerings for the latter. Outsourcing services and software as a service enjoy high levels of acceptance in the Netherlands market. New data security legislation is raising the profile of those IT service partners that can provide high certified levels of data protection. Further mergers of smaller housing companies are expected in future. Aareon Nederland is mainly active in the social-housing industry, where it is one of the leading providers of software, consulting and services. Microsoft, the world's leading software maker, included Aareon Nederland in its Microsoft Dynamics Inner Circle 2016. What is more, the company was nominated for the Digital Award 2016. The Aareon Group is also represented in the Netherlands market with its Swedish product Xpand.

Political influence remains strong in the social-housing industry in France, where government is interested in raising satisfaction levels among tenants and in reducing portfolio management costs through the merger of public-sector companies. As a result, the number of social-housing companies is expected to decline further. In France, the digitisation of social-housing companies is already further advanced than elsewhere, and large companies have created positions for digitisation officers. That is why demand for digital solutions continues to rise. Aareon France is the market leader in the French social-housing industry alongside one other competitor of note.

A sea change has taken place in the British housing market, with housing associations having to reduce their social-housing rents by one percent a year in the period until 2020. As a consequence, the companies in question must enhance their efficiency – for example, by optimising their business processes. This creates potential for the marketing of ERP and digital solutions. In addition, the British government is pursuing plans to strengthen the rights of tenants to purchase the premises they

rent. This should lend additional momentum to the trend toward mergers and takeovers of housing companies. As a result of consolidation in the housing market, new providers of IT for the sector are springing up and making competition more intense. Aareon profits from the strong position in the market of both Aareon UK and 1st Touch, the UK market leader for mobile applications, with demand focusing on tenant portals, self-service and 360° portals. The business trend remains stable in the UK, even in the wake of the Brexit vote.

In Sweden, internet-based service portals are a matter of course for housing companies and much used by their tenants. The scope of services is even broader here, for instance, with tenants also able to rent household appliances such as washing machines and refrigerators. Incit AB is the leader in the Swedish housing market.

Incit AS occupies a strong position in the Norwegian market, too. Although it does have one major competitor there, it is the only company that is able to satisfy all the latest trends and market requirements, including the BIM (Building Information Modelling) digital solution that is mandatory for all buildings owned by the public sector.

Key performance indicators

Revenue and EBIT are the key financial performance indicators used by Aareon to control and manage its business segments. EBIT is defined as earnings from operating activities before interest income/expense and taxes.

The main non-financial indicators that Aareon regularly monitors Group-wide are customer satisfaction and employee satisfaction (see p. 39). These indicators are not used for the purposes of internal control and management.

Business performance

Germany segment

Aareon's ERP business performed well in Germany. At the beginning of the year, Wodis Sigma went live simultaneously at 36 companies managing around 100,000 units. In addition, many GES customers opted to switch to Wodis Sigma in the course of 2016 under our migration campaign. The migration projects are running according to plan. As had been expected, customers prefer to use Wodis Sigma as a service from the exclusive Aareon Cloud. The some 840 customers that have already decided in favour of Wodis Sigma have made this ERP solution the leader in the German housing industry. In line with expectations, Aareon continued to post a decline in GES revenues due to ongoing migrations. Licensing-fee business for SAP® solutions and Blue Eagle performed very well, especially owing to the purchase of licences by major customers and to the acquisition of new business. Maintenance business grew in the reporting period, largely due to the number of systems that went live in the previous year.

The trend with digital-solutions business was also positive. There was particular demand for the Mareon service portal, Aareon Archiv kompakt, Aareon CRM, Aareon ImmoBlue Plus and Mobile Services. Digital solutions also benefited from migration business with ERP products, given that further process optimisation potential is analysed when software is replaced. Customers showed a keen interest in Mobile Services, with around 150 companies already being won over to the idea.

Aareon also posted good performance for add-on products. Business volume for the BauSecura insurance management solution grew. IT business outsourcing increased significantly due to high-volume contracts. Aareon also concluded its first full year of utility business with phi-Consulting.

International Business segment

In the Netherlands, further customers opted for the ERP solution Tobias AX, several of them going live with it. The large number of new customers, coupled with enhanced organisational efficiency, resulted in substantially higher revenues. In France, Aareon again enjoyed success in the reporting period with platinum maintenance contracts for the ERP products Portallmmo Habitat and Prem'Habitat. In the Britain, Aareon UK took part in numerous tenders with its ERP solution QL.net, winning the majority of them and consequently growing its new business. The new ERP product generation QL.net premièred in the market and was very well received. In Sweden, Incit Group won over further new customers for its ERP solution Incit Xpand, including a major Scandinavian hotel chain. A new-customer campaign for the Incit Xpand Smart Start solution, a preconfigured template, was particularly successful with small and medium-sized clients, and implementation processes are already under way. This new solution makes it easier for customers to migrate data to Incit Xpand. Consulting business also grew. Finally, the digital signature function for rental contracts was rolled out.

There was much demand for digital solutions in international markets. In the Netherlands, such solutions included, in particular, Mareon, Aareon Archiv kompakt, Aareon CRM, the tenant app, the call-centre functionality and the Treasury solution. For example, de Alliantie, Huizen – a major customer managing 64,000 units – opted for Mareon. The integration of Square DMS B.V. (formerly Square DMS Groep B.V.) – the Netherlands-based company that was acquired on 1 October 2015 and added a case management solution (including corresponding process consulting) to Aareon Smart World – was successfully completed, strengthening the Company's position in the market. Aareon France is helping several customers in its market to implement Aareon Smart World digital solutions. In particular, there is demand for tenants portals, invoicing services, the mobile handover process and Mareon. Erilia,

Marseilles, which manages 89,000 units, was one major customer that went live with Aareon France's invoicing service. In terms of the digital transformation, the UK is already a very mature market, especially when it comes to mobile solutions. Aareon's subsidiary 1st Touch is setting the trend in functions and design here with its 360° Tenant Portal and 360° Field Worker. These solutions have aroused a lot of interest with customers, landing the company additional contracts.

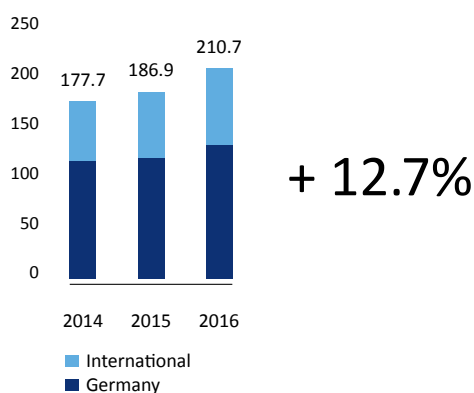
Economic situation

Earnings

At € 34.2 million, Aareon's EBIT for 2016 was significantly higher (+ 27.1 %) than in the prior year (€ 26.9 million). Consolidated revenues increased by 12.7 % to € 210.7 million (previous year: € 186.9 million), exceeding the forecast figure. Aareon put in a strong final quarter, posting high consulting income and additional licensing income. As a result of steady growth, the International Business segment accounted for 36.3 % of consolidated revenues (previous year: 35.6 %).

At € 5.7 million, internally generated assets were also higher than in the previous year (€ 4.4 million). They arose mainly in connection with expansion of the digital-solutions portfolio, the evolution of ERP products and the international development of a digital platform (see p. 5). Other operating income amounted to € 6.6 million (previous year: € 8.4 million), and was influenced in both 2016 and 2015 by remeasurements made in the course of acquisitions. The Group's total expenses rose by 9.2 %, from € 172.8 million in the previous year to € 188.7 million. The cost of materials rose substantially, to € 32.6 million (previous year: € 22.7 million), an increase that essentially correlates with higher sales revenues (especially third-party licences) and higher capital expenditure on R & D. The increase of 4.5 % in personnel expenses to € 111.0 million (previous year: € 106.2 million) was predominantly due to the higher personnel numbers brought about by the acquisitions of phi-Consulting and Square in the previous year as

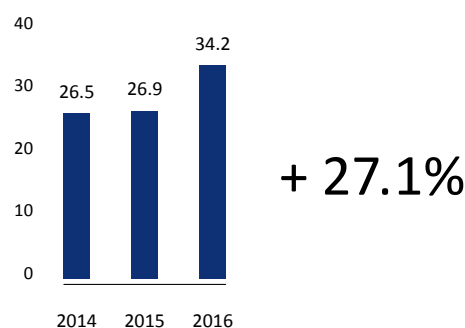
Revenues in € million



well to higher business volume, mainly in the International Business segment. At € 34.1 million, other operating expenses were up 2.1 % year on year (previous year: € 33.4 million).

The Germany segment exceeded our forecast for 2016, with revenues rising by a substantial 11.5 % to € 134.2 million (previous year: € 120.4 million). Owing to the higher number of migration projects, ERP-product revenues surged, especially for consulting business. Overall, the focus of business volume shifted as planned from GES to Wodis Sigma. New projects triggered a significant rise in licensing income for the ERP product SAP® solutions and Blue Eagle, while maintenance revenues and fees also increased strongly. Migration business also lifted digital-solutions revenues substantially, as they are marketed in combination with the ERP product. As for add-on products, revenues were buoyed, in particular, by new acquisitions, the first-time inclusion of phi-Consulting GmbH in the full-year accounts and an increase in outsourcing business.

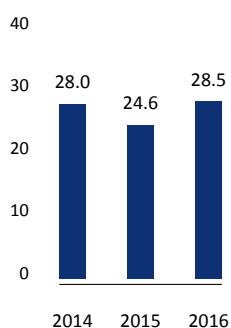
EBIT in € million



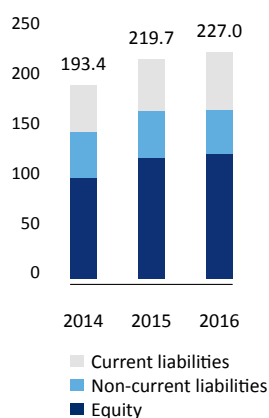
EBIT for the Germany segment came to € 21.6 million, up 43.0 % on the prior year (€ 15.1 million).

The International Business segment again posted robust growth, with revenues rising by a considerable 14.9 % to € 76.5 million (previous year: € 66.6 million) in line with expectations. ERP-product revenues grew strongly in France, the Netherlands and Sweden. The French sales model, which is based on platinum contracts for software maintenance, continued to be a big success. A large number of contracts were concluded with new customers in the Netherlands and Sweden, which in turn boosted consulting revenues in particular. Fiscal 2016 saw the market launch of the British ERP solution QL.net. Despite intense competition, we managed to win the majority of the tenders we took part in. Digital-solutions business grew strongly in all our international markets, resulting in a substantial 33.8 % increase in EBIT, which reached € 10.7 million (previous year: € 8.0 million).

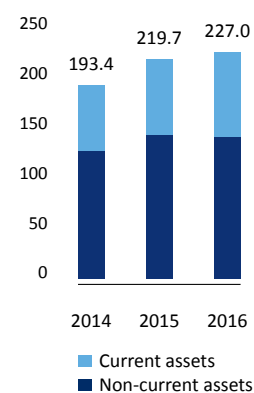
Return on equity in %



Total equity and liabilities in € million (capital structure)



Assets in € million (asset structure)



The main positive non-recurring effects outside the business segments (€ 1.9 million) were remeasurement of the Company's shares in SG2ALL following the complete takeover of that company (€ 1.3 million) and adjustment of the purchase price liabilities of the Incit Group (€ 0.6 million). In the previous year, effects of this kind had amounted to € 3.8 million and also resulted from the remeasurement of the purchase price liabilities of the Incit Group and from acquisition costs.

Financial situation Capital structure

Compared with the previous year, equity climbed by 2.3 %, from € 121.0 million to € 123.8 million. Alongside the addition of comprehensive income, a total dividend of € 31.5 million

from Aareon AG's unappropriated surplus was distributed in accordance with the resolution of the annual general meeting of 24 February 2016. In addition, Aareal Bank AG made a payment of € 15.5 million to the Company's share premium on 1 July 2016. Exchange rate fluctuations reduced the currency reserve by € 3.6 million. As a result of these factors, the return on equity rose to 28.5 % (previous year: 24.6 %).

At € 45.4 million, non-current liabilities were roughly on a par with the previous year (€ 46.6 million). Current liabilities were 10.7 % higher at € 57.7 million (previous year: € 52.1 million). A strong final quarter caused trade payables to rise.

Our staff

Liquidity

The statement of cash flows is the key to analysing Group liquidity. At € 40.9 million, cash flow from operating activities was up substantially on the prior year (€ 22.0 million), mainly due to the higher level of comprehensive income. Cash flow from investing activities amounted to € - 14.8 million (previous year: € - 22.0 million). In addition to capital expenditure of € 8.9 million on non-current assets, the Company paid € 1.2 million to acquire the remaining shares in SG2ALL and a further € 1.6 million in connection with the acquisitions of phi-Consulting and Square. Cash flow from financing activities amounted to € - 22.2 million (previous year: € 0.8 million). Major cash flows were triggered by the dividend payment of € 31.5 million to Aareal Bank AG and the proceeds of the capital increase (€ 15.5 million).

Net assets

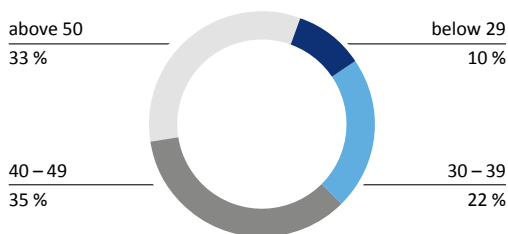
Aareon's total assets amounted to € 227.0 million in 2016, up 3.3 % compared with the previous year (€ 219.7 million). Non-current assets declined by 1.0 % to € 142.2 million (previous year: € 143.6 million), chiefly due to depreciation/amortisation of non-current assets. Goodwill and customer relations increased due to the acquisition of SG2ALL, as did the carrying amount of internally generated software, which mainly comprised development work on the digital platform and the refinement of ERP products and digital solutions. Current assets increased by 11.4 % year on year to € 84.8 million (previous year: € 76.1 million), predominantly due to the higher trade receivables in the amount of € 47.5 million (previous year: € 39.7 million) triggered by the strong final quarter.

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

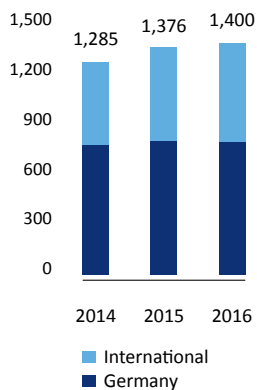
For over ten years now, Aareon has been carrying out anonymised Group-wide employee surveys. They serve as a tool for measuring the mood among employees and provide insights into how specific improvement measures can be put into practice. The Group-wide response rate of 67 % for the employee survey shows that both rank-and-file employees and management consider it important to contribute towards the future success of the Company. General levels of employee satisfaction remain high.

As at 31 December 2016, Aareon had a total of 1,400 employees (previous year: 1,376). The average period of service with the Company was 11.6 years (previous year: 11.5 years). The international subsidiaries account for 43.0 % of the workforce (previous year: 41.9 %). Aareon promotes flexible working time models: at the end of 2016, Aareon in Germany had 159 part-time positions (corresponding to 19.9 % of the workforce) (previous year: 136; 17.0 %) and 89 teleworking positions (11.2 % of the workforce) (previous year: 87; 10.9 %). The proportion of women in the workforce was 32.6 % (previous year: 32.5 %), while the share of women in management positions was 21.8 % (previous year: 18.8 %).

Age structure of workforce



Number of employees (as at 31 Dec.)



Qualification and further training

One of the aspects on which Aareon again focused its attention in fiscal 2016 was the development of its management staff. In the course of the Professional Individual Management Development programme (ProFI), managers were offered training sessions (e.g. labour law for managers, leadership at Aareon), diagnostics (including a development centre for new managers)

and consultation (e.g. personalised coaching sessions and leadership groups). Another focal point was supporting the internationalisation of Aareon, especially by means of language courses. The Certified Housing Manager (HfWU) training course at the Nürtingen-Geislingen University for Economics and the Environment in Germany was held once again in 2016.

The Company's first cross-mentoring programme was completed in 2016. Cross-mentoring is a personnel development tool aimed at encouraging knowledge transfer and involves the targeted exchange of ideas and experience between employees at different companies. Aareon's partners in this programme were Aareal Bank and SOKA-Bau in Wiesbaden.

Initial training and the promotion of young talent

In addition to trainee programmes, Aareon offers candidates a variety of vocational training courses in office management and IT (the latter as either an application development or systems integration specialist). The dual work-study programmes offered are: Property Business Administration, offered jointly with the Leipzig University of Co-operative Education; and Business Administration for Trade Fair, Congress and Event Management (Software Engineering) and Business IT (Application Management), both offered together with the Baden-Württemberg Cooperative State University (DHBW) in Mannheim. At the close of 2016, Aareon employed 16 trainees as well as three students (at the University of Cooperative Education).

As part of its efforts to promote young talent, Aareon organised a Girls' Day and Aareon Science Camps in 2016. The Company also supported the JOBLINGE initiative for socially disadvantaged young people. In March, a joint project week took place on digital transformation of the residential environment and was attended by members of the JOBLINGE initiative and Aareon trainees.

In 2016, Aareon presented its first WohnIT Award to school students in order to raise interest in IT and in the future of housing.

To encourage young talent and promote education, Aareon and the EBZ Business School in Bochum entered into an agreement to endow a professorship in Business IT. Since 2015, the Mainz University of Applied Sciences and Aareon have had a practical-experience partnership in the facility management field.

Forward-looking corporate culture

Aareon is an innovative company that is driving the digital transformation in all areas. In view of the changing demands of a digital work environment, Aareon was among the first 100 pilot companies to carry out the INQA audit (INQA = Initiative Neue Qualität der Arbeit [New Quality of Work Initiative]). In September, Andrea Nahles, Germany's minister of labour and social affairs, honoured Aareon for its forward-looking corporate culture, presenting it with the INQA audit certificate, which confirms that the Company has developed and put in place numerous measures in relation to personnel management, equal opportunities and diversity, health, knowledge and skills. The certificate also underscored that the Company is continuing the life-phase-oriented personnel policy it introduced the previous year. The INQA audit is sponsored by the Federal Ministry of Labour and Social Affairs.

Work-life balance

Over the last nine years, Aareon has repeatedly been certified as a family-oriented company by berufundfamilie gGmbH, a non-profit organisation. The Company's numerous personnel-related services include, for example, more flexible working hours in the form part-time and teleworking models. Over and above that, Aareon works hand in hand with a family service company, which provides employees with advice on childcare, long-term care for dependants as well as assistance with psychosocial issues. Several Aareon locations have parent-child offices. In Mainz, Aareon collaborates with other companies to offer gratis crèche and nursery-school spots to the children of employees. For the first time since 2012, when Aareon was winner in the Mid-Sized Companies category, the Success Factor Family Competition was organised in the reporting period. Aareon again made it to the finals of the competition.

Equal opportunities and diversity

Equal opportunities form an integral part of Aareon's personnel policy. Women are represented in various management roles as well as on the Management Board and Supervisory Board. Many women also exercise responsibility in projects and sub-projects or play a role as specialists. Aareon's goal is to achieve even more balance in this area, and that involved setting targets in the previous year for the representation of women at Aareon Deutschland GmbH in accordance with the statutory requirements.

The Diversity project represents an opportunity to consciously recognise diversity and harness it for the Company – after all, we live in a diverse society. Diversity is already part and parcel of working life at Aareon – indeed, it has become a matter of course.

Health management

In 2016, Aareon's health management activities revolved around the slogan "Fit for Working World 4.0". Employee surveys and participation in the INQA audit had revealed that this was a topic of particular interest. The activities covered aspects like recharging one's batteries, healthy leadership, deceleration, time management and an e-learning tool on mental health.

Compensation principles

With their transparency and sustainability, Aareon's compensation systems are aligned with the Company's strategic goals. The objective is to provide employees with compensation that is attractive and motivating, and not only matches the position they occupy, but is also in line with market benchmarks and personal performance. Equal pay for men and women performing the same duties is part of that as well. This is a policy that can help Aareon to attract and retain highly qualified, dedicated employees with high potential. It is up to each individual company within the Group to design its own compensation system in line with these principles, and ultimate responsibility for this rests with local management, who must

also take into account the co-determination rights of any bodies representing the employees in each company as well as local statutory regulations. Aareon makes its principles for compensation systems known at every Group company.

Internal control system

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

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

The Management Board of Aareon AG is responsible for designing, establishing, applying, refining and reviewing an appropriate system of internal control over financial accounting. At Aareon AG, the processes for (Group) financial accounting are managed by the International Finance unit, which is also responsible for Group reporting. All of the Company's subsidiaries are included in its consolidated financial statements.

Finance and Internal Services handles financial accounting (including preparation of the annual financial statements) for Aareon AG and its subsidiaries Aareon Deutschland and Aareon Immobilien Projekt Gesellschaft. The unit also supports phi-Consulting's independent financial accounting systems. The financial accounts of BauSecura are handled by the Funk Group. Aareon UK, Aareon France, Aareon Nederland and Incit each have their own independent financial accounting systems, while 1st Touch receives support in financial-accounting matters from its sister company Aareon UK. With the exception of Incit, all companies enter their financial data independently in the Group's SAP® software programme. In fiscal 2016, the financial data reported by these companies was entered in the Group's software programme by members of the Aareon Group's International Finance unit. The data is consolidated at Group level.

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

Risk report

who have the requisite knowledge and experience for their areas of responsibility. Aareon also makes use of external service providers, for instance to assist in measuring pension obligations.

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

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

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

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

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

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

Aareon AG monitors and manages its business risks by means of a Group-wide risk management system that is based on the R2C_risk standard software and includes an early warning function. The risk management system enables those responsible for the relevant divisions, investments and projects to regularly record and analyse their respective risks – but not the associated opportunities – as well as to develop proactive risk management measures. Risks are assessed in two separate dimensions, namely in terms of their impact and their probability of occurrence. Only residual risk is assessed and reported, i.e. any risk minimisation measures in place are taken into account. The resulting risk reports, which are consolidated by the Group's Legal, Risk Management and Compliance unit, provide the basis for quarterly risk reporting. This topic is dealt with regularly at board meetings and also forms part of the quarterly reports submitted to the Supervisory Board of Aareon AG. Aareon uses the risk reporting system to shed light on its risk situation and provide the Company's management with a basis for deciding what action to take. For each of the ten risks assessed in each quarter as having the highest expectancy (i.e. the product of impact and probability of occurrence), the corresponding measures specified by the risk owners are documented in the risk reports, to the extent that the risk expectancy exceeds a defined threshold. The threshold is currently set at € 100,000. At the applicable reporting date in the fourth quarter, six risks met the criteria for special individual reporting. In addition to documentation of the measures taken in the fourth quarter, the measures taken against risks whose expectancy ranked among the top ten in any of the preceding three quarters are also documented. This juxtaposition of risks and measures serves two purposes: firstly, to aid comprehension of the risk assessments and, secondly, to assess the effectiveness of the measures taken. Over and above this, the International Board (IB) of Aareon AG and the management of Aareon Deutschland decide on the measures to be taken against risks whose expectancy exceeds a further defined threshold.

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

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

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

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

Viewed on average across the quarterly risk assessments, the risks faced by the Company in 2016 were deemed to be somewhat higher than in the previous year. Overall, Aareon was not exposed to any risks that would have threatened its status as a going concern or that had a significant impact on its net assets, financial situation or earnings. The following is a description of risks of material interest to the readers of the financial statements.

Financial risks

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

As Aareon is integrated in the financing processes of the Aareal Bank Group, its funding is judged to be secure. Therefore, the funding is risk not taken into account. Exchange rate risks may be posed by transactions carried out in foreign currencies. Such transactions are monitored on an ongoing basis and reported to the CFO of Aareon AG. Exchange rate risks are managed centrally. Where necessary, currency risks are hedged Group-wide using hedging instruments. Aareon AG counters expense-related risks, which include market price risks, by promoting cost-awareness enforced by tight budgeting.

Financial risks were assessed as being higher relative to the previous year. The increase in financial risks was mainly due to the fact that revenues were considered to pose a greater risk. The focus is on reaching our target revenues in accordance with our plan or forecast.

Incidental and ambient conditions

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

The measures taken by Aareon to raise awareness of the importance of compliance include sensitising, training and advising staff. The Company has also updated its guidelines, in particular the General Guidelines for the Prevention of Corruption in the Aareon Group and the Principles governing the signing of documents in the Aareon Group. In addition to this, the Compliance Officer carries out audits after approval of the corresponding audit plan by the Management Board. Compliance-relevant processes are honed and adapted so as to continuously improve the compliance management system.

Market risks

Aareon counteracts the risk of being unable to enforce its list prices in the marketplace by regularly monitoring the agreed terms and conditions. The results of these monitoring activities are presented once a month at a meeting of executive management. Aareon also deals with general market risks, which include customer churn, greater demands on software systems and the entry of new competitors into the market. Risks of this kind are monitored and the findings provided to the Management Board in a monthly sales report.

Production risks

Like any other project, software development harbours the risk that the final product cannot be provided at the targeted cost, in the expected quality, or within the time frame required by the market. That is why such work is carried out using development and management methods based on internationally recognised standards. A uniform and professional approach is central to product development. Risks are rendered transparent and tracked in the course of development and customer projects with the aid of various methods and tools. Responsibilities for the systematic improvement of software quality have been assigned in the organizational structure.

Dealing with information security risks is an integral part of Aareon's risk management activities. Realistic, documented countermeasures are taken to minimise the risk of any serious disruptions during the operation of customer software. Thus far, we have not experienced any disruptions leading to a prolonged loss of service. In order to minimise the risk of the application being disrupted as a result of unauthorised access or an attack, technical and organisational measures have been taken that are anchored in the internal control system in accordance with German auditing standard PS 951 n.F. Appropriate fire-protection, loss-protection and disaster-prevention measures have also been put in place. Internal redundancies are in place to counter the failure of individual systems or components. Aareon's data centres were built in 2011 and have been checked by the TÜV technical inspection agency. An important aspect in their construction was the use of state-of-the-art technologies and the deployment of cutting-edge encryption technology in the fibre-optic-based mirroring of data between the two data centres. The Company has also installed comprehensive data backup processes that allow it to reconstruct lost data in whole or in part in due course. Aareon also takes out insurance to cover risks arising out of its operations.

Opportunities

Identifying, creating and utilising opportunities is central to Aareon's corporate strategy. Aareon's own research and development activities play a crucial role here, as do its ongoing observation and analysis of developments in the property and IT industries, the competitive environment and society as a whole. The diverse opportunities this results in, some of which are correlated with each other, are categorised below. They were largely unchanged compared with the prior year:

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

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

Opportunities from customer focus

Customer focus is pivotal at Aareon. In many cases, our relationships with our customers and with the property industry have grown over many years. The Company is a member of several property industry associations, including the German Federation of Housing and Property Companies (GdW). Over and above this, Aareon systematically maintains a dialogue with its customers – through the Aareon customer advisory councils, at numerous customer events and in individual discussions with them. This proximity to the industry and customers presents opportunities to identify customer trends, needs and requirements as they arise and to factor them into the ongoing development and expansion of Aareon's portfolio of products and services. These customer-related activities enable the Company to maintain its high levels of customer satisfaction and customer loyalty in the long term. High levels of customer satisfaction heighten Aareon's chances of growing its business.

Opportunities from pioneering solutions

Digitilisation is proceeding apace. Aareon integrates the opportunities offered by the digital transformation into its product strategy: the digital ecosystem Aareon Smart World, with its pioneering digital and mobile solutions, is constantly being expanded. Aareon Smart World links up the partners in the property industry. Customers can work in a convenient, process-efficient manner using a single database and can leverage potential for new business models. Their data is stored in the exclusive Aareon Cloud, which is located in a certified Aareon data centre. Aareon offers professional consulting services for all its products and services. Aareon consultants assist their customers in selecting the right products and solutions to optimise their business processes and provide them with ongoing support throughout their implementation projects. Ideally, companies want to be able to source their IT services from a single provider owing to the high degree of complexity involved. Compared with its competitors, Aareon has opportunities because of its ability to offer consulting, software and services from a single source. This sits well with Aareon's corporate strategy of consolidating and building on its leading position in the market. When refining and enhancing existing products and services or developing entirely new ones, the Company harnesses the growth potential arising out of the new trends and requirements of both customers and the market. Aareon's R & D plays a central role in this process (see p. 4). When carrying out R & D, Aareon also collaborates with property companies in line with the design thinking method. In recent years, the Company has launched cloud computing from the exclusive Aareon Cloud and established the topic of property-industry digitilisation with new digital and mobile solutions. Aareon developed these issues to create Aareon Smart World in 2015 and has been constantly expanding and building on this platform since then.

Opportunities from active brand management and quality

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

Opportunities from being an international corporate group

In recent years, Aareon has grown to become an international group. Digitilisation of the property industry has different points of focus in each of the countries in which Aareon operates. This creates opportunities not only for the transfer of knowledge between the Group's international and domestic entities, but also for research and development (see p. 4). Aareon makes use of these opportunities to expand Aareon Smart World and thus generate additional growth potential. The acquisition by Aareon Nederland of the remaining 50 percent of the shares in Netherlands-based subsidiary SG2ALL (see p. 32) offers further opportunities for growth.

Opportunities from being a preferred employer

The demographic trend is making competition for qualified workers more intense. In addition, it is necessary to set the course for "Working World 4.0". One success factor is to constantly hone our profile as a preferred employer that is

capable of attracting new employees (see p. 39). Aareon has implemented many measures in recent years and will continue to build on them. These include services to enable employees to achieve a healthy work-life balance, a life-phase-oriented personnel policy, equal opportunities, diversity, knowledge sharing and corporate health management. With an eye to the digital working world, Aareon carried out an INQA audit (INQA = New Quality of Work Initiative) in 2016. Binding leadership guidelines and a systematic dialogue between line managers and staff are additional components of our employer profile. This creates opportunities for enhancing employee satisfaction and loyalty, and for facilitating the recruitment of qualified employees. In the race to recruit new, highly qualified workers, Aareon relies on employer branding activities that help to establish a link with potential employees at a very early stage.

Opportunities from a sustainable business model

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

Outlook

In 2017, Aareon will continue to pursue its growth strategy on the basis of the Aareon Flight Plan, which forms part of the Aareal 2020 future programme. We expect to see a slight increase in Group revenues, while EBIT should be roughly on a par with last year. The decisive factors in growth will be:

- Further expansion of the Aareon Smart World portfolio of digital solutions
- Stronger ERP business, especially through further successful migrations and enhanced competitiveness
- More outsourcing business thanks to the acquisition of SG2ALL

In 2017, Aareon will expend capital to optimise its system landscape and internal processes (SAP® S/4 HANA, IT service management). Investments will also be made to extend Aareon Smart World, to tap new fields of enterprise (e.g. with the change management product in the utility sector) and to enhance performance and efficiency. No major non-recurring effects of a positive nature are expected in 2017.

Germany segment

We expect both revenues and EBIT in Germany to be slightly higher in 2017, rising to € 135.0–137.0 million and € 23.0 – 24.0 million respectively. At the same time, personnel costs will be higher, as will the revenue-driven cost of materials, and capital will be expended on strategic initiatives and on measures to enhance performance and efficiency.

As more GES customers migrate as planned to the ERP solution Wodis Sigma, we expect consulting business (especially the use of external consultants) to grow.

We expect the share in revenues accounted for by SAP® solutions/Blue Eagle to rise, in particular as consulting business expands, more licences are purchased by existing customers and more external consultants are deployed.

We also assume that the revenues generated with the digital solutions of Aareon Smart World will continue to grow in 2017, given that the importance of this topic for the property industry, and customer interest in it, have grown substantially. We assume that there will be greater demand, in particular, for Aareon ImmoBlue Plus, Aareon CRM and Mobile Services.

International Business segment

We expect both revenues and EBIT in the International Business segment to increase significantly in 2017, rising to € 82.0 – 84.0 million and to € 11.0 – 12.0 million respectively. Ongoing penetration of the market with digital solutions and expansion of the Aareon Smart World portfolio will be central factors in this trend. The EBIT of Netherlands-based SG2ALL, with its portfolio of outsourcing services, will be included in the business segment in full for the first time in 2017.

ERP-product revenues in the International Business segment are expected to be slightly higher than last year. In the UK, we expect to see a strong rise in consulting and licensing business for the ERP solution QL and further market penetration of the new ERP product generation QL.net. This software will be evolved for full web-compatibility. In Sweden, we expect the Incit Group to grow its revenues from Incit Xpand, especially through the acquisition of new customers in the Scandinavian markets and the boost to consulting business that will bring. Revenues in France and the Netherlands are expected to de-

cline marginally. The positive trend for maintenance business at Aareon France should continue, while licensing business should decrease owing to the planned release cycle. In the Netherlands, we expect to largely complete migration to the Tobias AX product in 2017. Thanks to ongoing penetration in all markets, digital solutions will be the main revenue driver in the International Business segment. In the Netherlands, maintenance revenues for Aareon CRM are expected to increase, as are Facilitor revenues (owing to greater market penetration) and new business for Trace & Treasury. Demand for digital solutions should continue to grow in the UK as well. Such solutions include 1st Touch Mobile, 360° Field Worker and the tenants portal.

Summary

In view of the information provided above, Aareon expects overall to post a slight increase in revenues, which will rise to € 217.0 – 221.0 million. At around € 34.0 – 35.0 million, EBIT will be roughly on a par with the last year.

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

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Consolidated statement of comprehensive income

for the period 1 January to 31 December 2016

€ '000	Note	2016	2015
Revenues	4.1	210,654	186,911
Germany		134,150	120,354
International Business		76,504	66,557
Other own work capitalised	5.1	5,692	4,396
Other operating income	4.2	6,567	8,388
Cost of materials	4.3	32,570	22,658
Staff costs	4.4	111,015	106,239
Depreciation/amortisation		10,223	9,940
Other operating expenses	4.5	34,142	33,409
Other taxes		719	592
EBIT (earnings before interest and taxes)		34,244	26,857
Net financial income/expense	4.6	- 35	- 173
EBT (Earnings before taxes)		34,209	26,684
Income taxes	4.7	10,111	6,016
Consolidated net profit		24,098	20,668
Of which attributable to:			
Shareholders of the parent company		22,613	19,194
Non-controlling interests		1,485	1,474
Other comprehensive income (OCI)		- 228	- 508
Items not recycled to profit and loss		- 228	- 508
Actuarial losses from defined benefit plans		- 328	- 737
Income tax on actuarial losses from defined benefit plans		100	229
Comprehensive income		23,870	20,160
Of which attributable to:			
Shareholders of the parent company		22,385	18,686
Non-controlling interests		1,485	1,474

Consolidated balance sheet

as at 31 December 2016

Assets – € '000

	Note	31 Dec. 2016	31 Dec. 2015
Non-current assets			
Intangible assets	5.1	118,432	119,018
Property, plant and equipment	5.2	11,882	12,578
Financial assets ¹	5.3	5,909	5,935
Non-current income tax receivables	5.5	0	321
Deferred tax assets	5.6	5,899	5,790
		142,122	143,642
Current assets			
Inventories		368	326
Trade receivables	5.7	47,452	39,670
Other current assets	5.8	3,918	3,787
Current income tax receivables	5.5	4,301	7,015
Securities		0	297
Cash and cash equivalents	5.9	28,792	24,971
		84,831	76,066
		226,953	219,708

Equity and liabilities – € '000

	Note	31 Dec. 2016	31 Dec. 2015
Equity			
Equity attributable to shareholders			119,473
Non-controlling interests	5.13	1,563	1,552
		123,836	121,025
Non-current liabilities			
Provisions for pensions and similar obligations	5.14	33,858	33,841
Other non-current provisions	5.15	2,000	1,974
Deferred tax liabilities	5.6	7,892	7,573
Non-current purchase price liabilities	5.16	1,620	3,187
Other financial liabilities	5.18	0	51
		45,370	46,626
Current liabilities			
Liabilities to banks		0	955
Other current provisions	5.15	13,123	12,093
Current income tax liabilities		2,535	1,554
Trade payables	5.17	10,140	6,735
Current purchase price liabilities	5.16	980	2,167
Other liabilities	5.18	30,969	28,553
		57,747	52,057
		226,953	219,708

1—Prior-year figures adjusted

Consolidated statement of changes in equity

for the period 1 January 2015 to 31 December 2016

€ '000

	Equity attributable to shareholders				Total before non-controlling interests	Non-controlling interests		Total
	Subscribed capital	Share premium	Currency translation differences	Accumulated group earnings and profits		Subscribed capital	Accumulated group earnings and profits	
1 January 2015	25,000	26,400	- 1,305	49,109	99,204	79	1,751	101,034
Dividend	0	0	0	0	0	0	- 1,399	- 1,399
Consolidated net profit	0	0	0	19,194	19,194	0	1,474	20,668
Other comprehensive income (OCI)	0	0	0	- 508	- 508	0	0	- 508
Acquisition of non-controlling interests	0	0	0	- 148	- 148	- 15	- 338	- 501
Other changes	0	0	1,729	2	1,731	0	0	1,731
31 December 2015	25,000	26,400	424	67,649	119,473	64	1,488	121,025
1 January 2016	25,000	26,400	424	67,649	119,473	64	1,488	121,025
Dividend	0	0	0	- 31,500	- 31,500	0	- 1,474	- 32,974
Consolidated net profit	0	0	0	22,613	22,613	0	1,485	24,098
Other comprehensive income (OCI)	0	0	0	- 228	- 228	0	0	- 228
Capital increase	0	15,500	0	0	15,500	0	0	15,500
Other changes	0	0	- 3,585	0	- 3,585	0	0	- 3,585
31 December 2016	25,000	41,900	- 3,161	58,534	122,273	64	1,499	123,836

Consolidated statement of cash flows

for fiscal 2016

€ '000

	2016	2015
EBIT (earnings before interest and taxes)	34,244	26,857
Depreciation and amortisation	10,223	9,940
Write-up from the measurement of financial assets	- 1,352	0
Income taxes paid and income tax refunds received	- 8,712	- 10,950
Interest received	216	261
Interest paid	- 157	- 55
Increase (-)/decrease (+) from changes in assets	1,538	- 7,007
Increase (+)/decrease (-) from changes in liabilities	4,893	2,987
Cash flow from operating activities	40,893	22,033
Net payments for investments in non-current assets	- 8,861	- 11,860
Payments for the purchase of consolidated companies and other business units (less cash in hand acquired)	- 2,790	- 11,511
Exchange-rate-related changes in non-current assets	- 3,179	1,400
Cash flow from investing activities	- 14,830	- 21,971
Payments made/received for working capital loan	- 955	955
Dividend distribution	- 31,500	0
Capital increase	15,500	0
Payments to non-controlling interests	- 1,474	- 1,399
Other changes in capital	- 3,813	1,221
Cash flow from financing activities	- 22,242	777
Cash change in cash and cash equivalents	4,590	577
Exchange-rate-related changes in cash and cash equivalents	- 769	262
Total change in cash and cash equivalents	3,821	839
Cash funds at the beginning of the period	24,971	24,132
Cash funds at the end of the period	28,792	24,971

Notes to the consolidated financial statements

01 General disclosures

01.1 Compliance with legal requirements

The consolidated financial statements of Aareon AG, Isaac-Fulda-Allee 6, 55124 Mainz, Germany, for fiscal 2016 were prepared voluntarily in accordance with International Financial Reporting Standards (IFRS), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), the interpretations of the former Standing Interpretations Committee (SIC) as applicable in the EU, as well as with the applicable provisions of Section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB). All of the International Financial Reporting Standards that must be applied for the consolidated financial statements as at 31 December 2016 were taken into account. The financial statements give a true and fair view of the net assets, financial situation and earnings of the Aareon Group. The consolidated financial statements have been prepared in euros. Unless indicated otherwise, all amounts are shown in thousands of euros (€ '000 or € k).

For the sake of enhanced clarity and transparency, all information on individual items in the balance sheet/statement of comprehensive income that is provided in accordance with statutory provisions and that may be shown either in the balance sheet/statement of comprehensive income or in the Notes section is given in the Notes. Where individual items are summarised in the balance sheet and the statement of comprehensive income, they are broken down in the Notes. Aareon AG is a wholly owned subsidiary of Aareal Bank AG, Paulinenstraße 15, 65189 Wiesbaden, Germany. It is included in the consolidated financial statements of Aareal Bank AG pursuant to the provisions concerning consolidation.

01.2 Disclosures on operating activities

Aareon is a European provider of consulting, software and services for the property industry. The Company has a presence at 28 locations: nine of these are in Germany, while the rest are spread across France, the UK, the Netherlands, Norway and

Sweden. As at 31 December 2016, Aareon had 1,400 employees (previous year: 1,376). Its head office is located in Mainz, Germany.

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

02 Information on accounting policies and consolidation methods

02.1 Accounting principles

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

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

The presentation of the consolidated financial statements is subject both to the recognition and measurement methods used to prepare those statements and to the uncertainty of the assumptions and estimates made in respect of future events. Where assumptions and estimates are required for accounting and measurement purposes, they are made in accordance with the relevant accounting standards. The estimates and assumptions are based on historical experience and other metrics such as planning figures. The estimates and assessments used, as well as the underlying assessment factors and estimation methods, are regularly reviewed and compared with the events that actually occur. In our opinion, the parameters used are both suitable and reasonable.

The main assumptions concerning the future and other sources of estimation uncertainty giving rise to a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year concern, in particular, the calculation of pension obligations and of provisions, and the measurement of intangible assets and of tax assets and liabilities.

02.2 Consolidation principles

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

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

02.3 Currency translation

The international companies belonging to the Aareon Group are independent sub-units, whose financial statements are translated into euros using the functional currency method. The items in the statement of comprehensive income are translated using the average exchange rate; all monetary and non-monetary assets and liabilities are translated into euros using the European Central Bank's reference rate on the reporting date. Differences affecting equity are disclosed directly in a separate equity item until disposal of the subsidiary. This also applies to any deviations between the unappropriated surplus, which is converted using the closing rate at the reporting

date, and the results shown in the consolidated statement of comprehensive income, which are based on average exchange rates. The components of equity to be consolidated as capital are translated using historical exchange rates.

The following rates were used for currency translation:

		Balance sheet		Statement of comprehensive income	
		Closing rate		Average exchange rate	
		2016	2015	2016	2015
United Kingdom	GBP	0.8562	0.7340	0.8195	0.7258
Sweden	SEK	9.5525	9.1895	9.4689	9.3535
Norway	NOK	9.0863	9.6030	9.2906	8.9496

02.4 Scope of consolidation

The group of consolidated companies includes Aareon AG as well as all subsidiaries in which Aareon AG either directly or indirectly holds the majority of voting rights or has the right to appoint the majority of the Supervisory Board members. Please see Note 5.4 for a list of all subsidiaries included in the consolidated financial statements.

As at 27 December 2016, Aareon AG acquired 50 % of the shares in SG2ALL B.V., Huizen, for a cash payment of € 1,780 k and is now the company's sole owner. This company was previously accounted for as a joint venture using the equity method.

IFRS 3 requires that the value calculated using the equity method be completely reversed and that the entire equity interest in the company be remeasured at fair value on initial consolidation. The difference of € 1,500 k between the value of the former equity interest (calculated using the equity method) and its fair value is recognised in profit and loss. The pro rata fair value of the assets and liabilities is € 1,581 k.

The acquired assets and liabilities were recognised in the following amounts:

SG2ALL B.V. in € '000	Carrying amount prior to takeover	Fair value on initial consolidation
Customer relations	0	1,370
Receivables	144	144
Cash and cash equivalents	583	583
Other assets	78	78
Non-financial liabilities	246	246
Deferred tax liabilities	0	349
Net assets acquired	559	1,580

The takeover resulted in goodwill in the amount of € 1,700 k, which includes significant potential benefit from the strengthening of Aareon's international outsourcing expertise. The business combination also offers opportunities to widen the Company's target customer group. No goodwill exists that could be expected to qualify as a tax deduction.

On the assumption that the acquisition had taken place on 1 January 2016, SG2ALL's revenues and net profit for the year would have amounted to € 1,511 k and € 190 k respectively. As at 21 July 2016, Aareon International Solutions GmbH was established in Mainz, Germany, with share capital of € 25 k.

02.5 Changes in accounting policies

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

— IAS 19, Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify the recognition of contributions made by the employees themselves for units of benefit entitlement under defined benefit plans. Contributions made by employees or third parties reduce the ultimate cost of a pension commitment and are therefore accounted for in accordance with the accounting principles for pension commitments.

— Annual Improvements Cycle 2010–2012

Clarifications and minor amendments to existing standards were made as part of the IASB's Annual Improvements Cycle 2010–2012. In this context, the main amendment made to IFRS 2 concerns clarification of the term "vesting condition" through the introduction of additional definitions for the terms "service condition" and "performance condition" in Appendix A. IFRS 3 was adapted such that the classification of a contingent consideration as debt or equity in accordance with IFRS 3.40 now relates only to contingent considerations in connection with a business combination and that meet the definition of a financial instrument. Further, the reference to "other applicable IFRSs" was deleted. If the contingent consideration is a financial liability, it must be recognised at fair value and all resulting effects must be posted in profit and loss. Clarifications were made to IFRS 8 concerning the aggregation of operating segments and the reconciliation of the reportable segments' assets to the entity's assets. A further clarification stated that the issuing of IFRS 13 and the amendment of IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial. Another amendment clarified how accumulated depreciation is to be calculated at the measurement

date when the revaluation method is applied in accordance with IAS 16 and IAS 38. The amendment to IAS 24 extends the definition of “related parties” to include entities providing, either directly or via a group company, key management personnel services to the reporting entity or to the parent of the reporting entity without there being any other sort of relationship between the two entities within the meaning of IAS 24 (management entities).

— IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments provide guidance for determining an acceptable method of depreciation/amortisation. It was clarified that a depreciation method for property, plant and equipment based on revenue that is generated by an activity that includes the use of an asset is not appropriate. In addition, guidance was introduced into both standards to explain that expected future reductions in selling prices for goods and services could be indicative of the latter’s economic obsolescence and of a higher rate of consumption of the future economic benefits embodied in an asset.

— Annual Improvements Cycle 2012–2014

— Clarifications and minor amendments to existing standards were made as part of the IASB’s Annual Improvements Cycle 2012–2014. Specific guidance has been added to IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution. A direct reclassification does not mean that the recognition and measurement requirements of IFRS 5 no longer apply. A further amendment concerns IFRS 7. It clarifies whether a servicing contract in which the entity selling the receivables retains a share in the opportunities and risks attached to those receivables represents continuing involvement in a transferred asset within the meaning of IFRS 7. Another clarification states that the additional disclosure on offsetting financial assets and financial liabilities required by amendments to IFRS 7 is not

required in condensed interim financial statements. The amendment made to IAS 19 concerns the interest rate used to discount defined benefit obligations. It clarifies that the depth of the market for high-quality corporate bonds must be assessed on a “currency basis”. In the case of the eurozone, for example, this means that corporate bonds from across the entire currency area must be taken into account. The clarification of IAS 34 concerns disclosures made “elsewhere in the interim financial report”. Such disclosures may be made either at another point in the interim financial report itself or in other documents referenced by it.

— Amendments to IAS 1, Disclosure Initiative

The amendments concern clarifications as regards materiality in the presentation of line items in the balance sheet, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity as well as in the notes to the financial statements. No information should be provided that is considered immaterial. This applies even if other standards explicitly require the provision of such information. Further, the amendments clarify existing requirements in IAS 1 and introduce new requirements concerning the presentation of subtotals in the financial statements, the structure of the notes, and the information disclosed in the accounting policies.

— Amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities: Applying the Consolidation Exception

The amendments clarify various issues. Firstly, the exemption as per IFRS 10.4(a) from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity. Secondly, a parent investment entity with a subsidiary that itself meets the requirements of an investment entity must recognise that subsidiary at fair value even if the subsidiary provides investment-related services.

Under the Disclosure Initiative for IAS 1, Presentation of Financial Statements, line items in the balance sheet, the statement of comprehensive income and the statement of cash flows were aggregated and corresponding disclosures made solely in the notes to the financial statements. It was decided that no immaterial information should be provided. The other changes to the accounting and reporting standards have no effect on the consolidated financial statements of Aareon AG.

Up until 31 December 2016, the following accounting and reporting standards (IAS/IFRS) and interpretations (IFRIC), which are to be applied in future financial years, had been issued by the International Accounting Standards Board (IASB) and endorsed by the European Union:

New standards/interpretations	Issued	Endorsed	Effective date
IFRS 16, Leases	January 2016		Accounting periods beginning on or after 1 January 2019
IFRS 15, Revenue from Contracts with Customers	May 2014	September 2015	Accounting periods beginning on or after 1 January 2019
Effective Date of IFRS 15	September 2015		
IFRS 9, Financial Instruments	July 2014	November 2016	Accounting periods beginning on or after 1 January 2018
Revised standards	Issued	Endorsed	Effective date
IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4	September 2016		Dependent on date of first-time application of IFRS 9
IFRS 2, Classification and Measurement of Share-based Payment Transactions	June 2016		Accounting periods beginning on or after 1 January 2018
IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 2014		Date of first-time application postponed indefinitely
Effective date of amendments to IFRS 10 and IAS 28	December 2015		
IAS 12, Recognition of Deferred Tax Assets for Unrealized Losses	January 2016		Accounting periods beginning on or after 1 January 2017
IAS 7, Disclosure Initiative	January 2016		Accounting periods beginning on or after 1 January 2017
IFRS 15, Revenue from Contracts with Customers	April 2016		Accounting periods beginning on or after 1 January 2018

- IFRS 15, Revenue from Contracts with Customers
IFRS 15 provides a single model to be applied to all contracts with customers. It replaces the current provisions on revenue recognition in IAS 11, IAS 18 and the associated interpretations. IFRS 15 is to be applied by all companies that conclude contracts with customers for the delivery of goods or the provision of services, unless those contracts fall within the scope of other standards. For instance, financial instruments and other contractual rights or obligations falling within the scope of IAS 39 or IFRS 9 are excluded from IFRS 15. The core principle of the new standard is that an entity will recognise revenue once or as it satisfies the performance obligations it has assumed, i.e. when control of the goods or services has passed to the customer. The amount of revenue recognised corresponds to the consideration that the entity is likely to receive in exchange for these goods or services. IFRS 15 contains a five-step model that is used to determine in what amount and at what point in time or over what period of time the revenue is recognised. The standard requires additional disclosures, e.g. on a breakdown of the total revenues, on performance obligations, on the reconciliation of the opening and closing balances of the contract assets and liabilities as well as on key discretionary decisions and estimates made. With the publication of Effective Date of IFRS 15 in September 2015, the IASB postponed the first-time application of IFRS 15 to accounting periods beginning on or after 1 January 2018. In July 2015, additional amendments and clarifications to the standard were proposed, which were the result of discussions within the Transition Resource Group (TRG). The TRG is a joint advisory body set up by the IASB and FASB to deal with matters related to the implementation of IFRS 15. Aareon is currently examining the effects of the new standard on its consolidated financial statements. It has analysed its existing standard contracts and largely identified the possible consequences. On the basis of this analysis, it does not expect the standard to have any major impact on the Group as a whole.
- IFRS 9, Financial Instruments
IFRS 9 revises the recognition of financial instruments in the financial statements and completely replaces IAS 39, Financial Instruments: Recognition and Measurement. The development of IFRS 9 was divided into three phases: classification and measurement, impairment, and hedge accounting. The definitive provisions of IFRS 9 were published in July 2014 and must be applied for the first time as of 1 January 2018. After finalisation of the standard, the European Financial Reporting Advisory Group (EFRAG) began the endorsement process in September 2014, publishing its final endorsement advice for the European Commission on 15 September 2015. Endorsement was expected in the fourth quarter of 2016.
- IFRS 16, Leases
The new IFRS 16 standard covering the accounting of leases will replace IAS 17 and the associated interpretations IFRIC 4, SIC 15 and SIC 7. It introduces a single accounting model for lessees. As a result, lessees are obliged to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The lessee recognises an asset representing its right of use of the underlying leased object. It also recognises a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The classifications in IFRS 16 use the same criteria as in IAS 17. IFRS 16 also includes a number of other provisions on recognition, disclosures in the notes and sale-and-lease-back transactions.
- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses
The IASB's amendments to IAS 12 clarify that unrealised losses (arising from changes in market interest rates) on debt instruments measured at fair value give rise to deductible temporary differences. The IASB also clarified that an entity must carry out a combined assessment of all its deductible

temporary differences when determining whether there are likely to be sufficient taxable profits in future to utilise, and thus recognise, the temporary differences. The entity may make individual assessments only insofar as, and to the extent that, the applicable tax law distinguishes between different types of taxable profit. What is more, rules and examples were added to IAS 12 to clarify how to determine future taxable profits when recognising deferred tax assets.

— Amendments to IAS 7, Disclosure Initiative

As part of the disclosure initiative, amendments to IAS 7, Statement of Cash Flows were published. The aim of these amendments is to improve the disclosures made on changes in liabilities arising from financing activities. In future, an entity must disclose changes in those liabilities for which cash flows were or will be classified in the statement of cash flows as cash flows from financing activities. The corresponding financial assets (e.g. assets from hedging transactions) must also be included in the disclosures. The IASB proposes that the disclosures be made in the form of a reconciliation between the opening and closing balances in the balance sheet, but allows alternative forms of presentation.

— Clarifications to IFRS 15, Revenue from Contracts with Customers

In April 2016, the IASB published its final clarifications to IFRS 15. The amendments include both clarifications of the provisions of IFRS 15 and simplifications as regards transition to the new standard. The clarifications concern identifying contract performance obligations, assessing whether an entity is the principal or agent in a business transaction, and assessing whether income from a licence granted is to be recognised at a point in time or over time. One simplification concerns options as regards the restatement of contracts that are either completed at the beginning of the earliest period presented or were changed before the beginning of the earliest period presented. The intention here is to reduce the complexity and cost of transitioning to the new standard.

— Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions

In June 2016, the IASB published amendments to IFRS 2 that clarify the classification and measurement of share-based payment transactions. The amendments concern the following areas: (i) the accounting for cash-settled share-based payment transactions that include a performance condition; (ii) the classification of share-based payment transactions with net settlement features; and (iii) the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

In fiscal 2016, Aareon did not make use of the option of the early application of standards applicable in future accounting periods. Aareon is currently assessing the effects of the implementation of the new and amended accounting and reporting standards on its consolidated financial statements.

03 Accounting principles

03.1 Intangible assets

As a rule, goodwill is tested for impairment in the fourth quarter of each year. Its value is measured on the basis of the present value of future cash flows (value in use), which are determined using medium-term planning figures. This entails using the projected pre-tax cash flows from the three-year plan adopted by the Management Board of Aareon AG and approved by the Supervisory Board. Thus, the revenue and expense items are planned individually over this three-year period. The values assigned to the main assumptions are based on internal and external factors as well as on past experience. The previous year's planning figures also play a central role. Revenue planning is based mainly on assumptions regarding migration projects and new business as well as renewals of contracts and additional business with existing customers. These assumptions also represent the main sources of estimation uncertainty. Regular revenues from existing customers, such as fees from licensing and maintenance contracts, are not generally subject to any major estimation uncertainty. The cost of materials is planned on the basis of planned revenues. Personnel numbers and salary growth are the main factors determining the personnel budget. Other costs are generally projected on the basis of prior-year figures, taking into account known non-recurring effects. On the expenses side, estimation uncertainty arises as a result of unplanned price increases and unpredictable non-recurring effects. The more forward-looking the assumptions, the higher the estimation uncertainty. Cash flows after the three-year time horizon are measured taking the perpetual annuity into account. The present value of future cash flows is determined on the basis of a Group-wide risk-adjusted discount rate of 5.16 % before tax. The discount rate is calculated as the sum of a risk-free base interest rate of 0.77 % plus a company-specific risk loading of 6 % multiplied by a beta factor of 0.73. Owing to the uncertain nature of planning beyond three years, we take a

cautious view of the market environment and assume constant values, i.e. no further growth. As the recoverable amounts are well in excess of the carrying amounts, we do not consider a shortfall to be a possibility, even if there were to be a serious change in the assumptions described above. Consequently, even an increase of 1.0 % in the risk-adjusted discount rate or a reduction of 5.0 % in the EBIT included in cash flow, both of which are potentially possible, would not lead to an impairment charge. There was no need for any impairment charges in the reporting period.

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

Useful lives of intangible assets

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

Research costs are treated as current expense in accordance with IAS 38. Development costs for internally generated software are capitalised if the prerequisites for capitalisation in accordance with IAS 38 are met.

03.2 Property, plant and equipment

Items of property, plant and equipment are measured at cost, including restoration obligations that are required to be capitalised in accordance with IAS 16. Insofar as the items are wasting assets, they are subject to straight-line depreciation in accordance with the expected useful lives of the components.

The depreciation methods and useful lives are reviewed annually. Any adjustments are made in accordance with IAS 8. The useful lives of the principal components are presented below:

Useful lives of property, plant and equipment

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

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

03.3 Leases

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

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

03.4 Financial assets and financial liabilities

IAS 39 divides financial assets into the following categories:

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

The financial assets held by Aareon are recognised as loans and receivables. Financial assets are not treated as held-to-maturity investments. Aareon does not acquire financial assets held for trading. The "available-for-sale financial assets" category comprises financial assets that are not assigned to any of the other categories and that are held for an indefinite period or can be sold if liquidity is required or there is a change in market conditions. Insofar as the Group acquires securities, they are generally treated as available-for-sale financial assets. The financial instruments disclosed are not subject to any interest rate risk.

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

Loans and receivables are measured at amortised cost or fair value, whichever is lower. This category includes in particular:

- Non-current loans
- Trade payables and trade receivables
- Receivables from unbilled services
- Other current receivables and assets as well as liabilities.

Owing to the predominantly short maturities of these financial instruments, their fair value is assumed to equal their carrying amount.

Impairments of trade receivables are recognised to the extent required – as a rule by means of individual fixed percentages that take account of the maturity structure. Low-interest-bearing receivables are carried at their discounted amount, taking into account appropriate interest.

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

Receivables from service contracts that have not been completed at the reporting date are recognised using the percentage-of-completion (PoC) method. The percentage of completion is calculated based on a comparison of the order costs already incurred with the expected total order costs. Other unfinished customer orders are recognised in the amount of the order costs incurred, insofar as it is probable that these will be covered by income.

03.5 Inventories

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

03.6 Deferred taxes

Deferred taxes are recognised in line with IAS 12 for all temporary differences between the carrying amounts in the tax base and those in the consolidated balance sheet (temporary difference approach). Deferred taxes also have to be recognised for losses carried forward. The liability method is used to calculate deferred taxes. The deferrals are recognised in the amount of the assumed tax burden or relief in future fiscal years based on the applicable tax rate at the time of realisation. Deferred taxes are determined using country-specific tax rates

that are either already in effect or have been announced at the reporting date. Deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which the temporary differences and unused tax loss carryforwards can be offset. The carrying amounts are reviewed at each reporting date and adjusted where necessary. They are reduced accordingly if it is no longer probable that sufficient taxable profit will be available for offset.

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

03.7 Provisions for pensions and similar obligations

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

03.8 Income tax liabilities

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

03.9 Other provisions

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

03.10 Liabilities

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

03.11 Recognition of income and expenses

Revenues and other operating income are not recognised until the service has been performed or the goods or products have been delivered, i.e. the risk has been transferred to the customer.

The Company generates its revenues mainly through

- Licensing and maintenance contracts
- Consulting and training projects
- Hosting solutions (SaaS and ASP) from the exclusive Aareon Cloud
- Digital solutions such as Mareon, Aareon invoicing service, Aareon ImmoBlue Plus, Mobile Services, Aareon CRM (tenants portal) and Aareon Archiv kompakt.
- Add-on products such as the BauSecura insurance management solution and add-on services for IT outsourcing, services for the utility sector and integrated payment transactions

Software licence revenue is recognised if a contract has been signed by both parties with no rights of withdrawal, the product has been delivered in full, the licence fee has been determined and payment is probable.

Maintenance services are realised proportionately over the contractual performance period.

Consulting and training services are recognised in profit and loss when the service has been performed. The Group also provides implementation services as part of its project work. In such cases, revenue is recognised according to the percentage-of-completion method. The percentage of completion of a project is calculated based on a comparison of the order costs already incurred with the total order costs expected. Provisions are recognised for impending losses from this type of service in the period in which the losses were caused, insofar as no asset item exists.

Hosting solutions (SaaS and ASP) are billed monthly and recognised as revenues.

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

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

04.1 Revenues

Revenues by business segment in € '000

	2016	2015
Germany	134,150	120,354
International Business	76,504	66,557
Total	210,654	186,911

Revenues by product group in € '000

	2016	2015
ERP products	150,836	135,676
Digital solutions and services	31,348	25,320
Add-on products and services	28,470	25,915
Total	210,654	186,911

Revenues from the **Germany** segment increased compared with the previous year, rising by € 13,796 k. Revenues for ERP products grew substantially, especially due to the increasing migration from GES to Wodis Sigma and to high licensing-fee income for SAP® solutions/Blue Eagle. Revenues from digital solutions rose significantly, too, underscoring their importance as a growth driver. Similarly, the acquisition of phi-Consulting boosted sales of add-on products and services for the utility sector.

Revenues from the **International Business** segment rose by € 9,947 k compared with the previous year. Sales of ERP products grew strongly in the International Business segment, particularly in the Netherlands. Digital-solutions business performed very well in all markets – especially thanks to the acquisition of Square DMS B.V., Grathem, with its case management solution ShareWorX®. The International Business segment accounted for 36.3 % of consolidated revenues (previous year: 35.6 %).

04.2 Other operating income

Other operating income in € '000

	2016	2015
Non-cash income	1,412	1,389
Income from write-ups	1,352	0
Measurement of purchase price liabilities	1,269	4,300
Income from trade fairs	1,147	1,174
Services for affiliated companies outside the Aareon Group	876	842
Other income	396	587
Income from the reversal or reduction of individual fixed-percentage impairments	115	96
Total	6,567	8,388

Income from write-ups was attributable to the remeasurement of the shares in SG2ALL B.V. conducted during transitional consolidation. The growth in income from the adjustment of purchase price liabilities is explained in Note 5.16.

04.3 Cost of materials

Cost of materials in € '000		
	2016	2015
Software and hardware costs	6,330	2,414
Cost of services purchased	26,240	20,244
Total	32,570	22,658

The cost of materials rose in particular due to the increased use of third-party licences and higher expenses for external consultants in connection with consulting and development services.

04.4 Staff costs/employees

Staff costs in € '000		
	2016	2015
Salaries	90,912	87,034
Social security costs	20,103	19,205
of which: for post-employment benefits	4,457	4,457
Total	111,015	106,239

Staff costs increased by € 4,776 k compared with the previous year. One of the reasons for this increase was consolidation of the subsidiaries Square DMS and phi-Consulting, which had been acquired in the previous year.

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

Employees (year-end figures)		
	2016	2015
Employees	1,292	1,268
Executive managers	78	76
Total	1,370	1,344
of which: part-time employees	247	225

Employees (annual average figures)		
	2016	2015
Employees	1,283	1,209
Executive managers	76	74
Total	1,359	1,283
of which: part-time employees	239	208

Employees – annual average by business segment		
	2016	2015
Germany	767	753
International	592	530
Total	1,359	1,283

04.5 Other operating expenses

Other operating expenses in € '000		
	2016	2015
Occupancy expenses	8,624	8,464
Travel expenses	4,817	4,057
Motor vehicle expenses	4,685	4,739
Advertising/marketing/entertainment	3,911	3,961
Legal and consultation expenses/auditing costs	3,276	4,046
Software maintenance	2,147	1,989
Other staff costs	1,582	1,549
Further training	949	746
Communication costs	924	905
Insurance costs	419	429
Credits for invoices from prior years	364	389
Impairments of receivables	304	442
Compensation for Supervisory Board and Advisory Board	300	327
Leasing/technology	279	210
Office material	248	245
Miscellaneous other operating expenses	1,313	911
Total	34,142	33,409

Other operating expenses grew by € 733 k year on year, a relatively slight increase that was mainly due to the effect of consulting expenses incurred in 2015 for acquisitions and internal projects.

04.6 Net financial income/expense

Net financial income/expense in € '000		
	2016	2015
Other interest and similar income	121	65
of which: affiliated companies	45	35
Net income from equity-method accounting	95	100
Interest and similar expenses	- 251	- 338
Total	- 35	- 173

04.7 Income taxes

Income taxes in € '000		
	2016	2015
German income taxes	7,012	3,704
Foreign income taxes	2,773	2,613
Actual tax expense	9,785	6,317
Deferred tax expense/income	326	- 301
Total	10,111	6,016

The following table shows the reconciliation statement for the differences between income taxes based on the net income before taxes and the actual income tax reported. In order to calculate the expected tax expense, the Group tax rate of 31.7 % valid in fiscal 2016 (previous year: 31.4 %) was multiplied by earnings before taxes. The increase in the Group tax rate is due to the higher rate of assessment used to calculate trade tax in Germany.

Reconciliation of tax expenses in € '000		
	2016	2015
Earnings before income taxes	34,209	26,684
Trade tax	5,431	4,155
Corporation tax	5,131	4,003
Solidarity surcharge	282	220
Expected tax expense/income	10,844	8,378
Reconciliation:		
Non-deductible expenses	328	269
Taxes for prior years	- 43	227
Differences in tax rates of international subsidiaries	- 697	- 424
Other differences	- 321	- 2,434
Tax expense reported	10,111	6,016

The other differences mainly concern a tax-free contribution made by Aareal Bank and higher reversals of earn-out liabilities in the previous year.

05 Notes to the consolidated balance sheet of the Aareon Group

05.1 Intangible assets

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

The amortised goodwill by business segment is as follows:

Carrying amounts in € '000				
	31 Dec. 2015	Additions	Exchange-rate effects	31 Dec. 2016
Germany	28,326	0	0	28,326
International Business	47,061	1,700	- 1,249	47,512
Total	75,387	1,700	- 1,249	75,838

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

Carrying amounts in € '000		
	31 Dec. 2016	31 Dec. 2015
Aareon France (mainly Portallmmo, Prem'Habitat)	2,346	2,136
Aareon UK (QL.net)	4,375	5,126
Aareon Nederland (various software products)	3,972	3,337
Wodis Sigma	2,383	2,394
Aareon CRM	2,952	2,592
Digital platform	1,919	0
Miscellaneous	2,269	1,974
Total	20,216	17,559

Internally generated software in the amount of € 13,483 k has already been completed, while internally generated software worth € 6,733 k is still under development. R & D costs totalled € 9,559 k in the reporting period. Internally generated assets amounted to € 5,692 k in the year under review.

05.2 Property, plant and equipment

In accordance with IAS 17, € 36 k was recognised in the reporting year under property, plant and equipment for mainframe computers and associated peripheral devices acquired under finance leases. The payments in connection with finance leases were as follows:

Finance leases in € '000			
	2017	2018 – 2021	After 2021
Lease payments	40	0	0
Discount amounts	- 40	0	0
Present values	0	0	0

Operating leases primarily concern rent, motor vehicles, office furniture and equipment, and telecommunications equipment. In 2016, € 8,692 k was recognised in profit and loss for lease payments. The minimum lease payments due to operating leases are as follows:

Operating leases in € '000			
	2017	2018 – 2021	After 2021
Lease payments as lessee	9,139	25,916	14,237
Lease receivables as lessor	588	2,226	1,978

05.3 Financial assets

Other loans include time deposits in the amount of € 3,260 k with Landesbank Baden-Württemberg. These deposits relate to the guarantee issued to cover existing and future obligations in connection with membership in two supplementary pension funds. This item also includes rent deposits. Guarantees in the amount of € 1,120 k that were recognised under other non-current assets in the previous year were reclassified as financial assets in the reporting period.

05.4 Shareholdings

Name and registered office of company

	Interest held in %
Aareon AG, Mainz	
Aareon Deutschland GmbH, Mainz, Germany	100
Aareon Immobilien Projekt Gesellschaft mbH, Dortmund, Germany	100
BauSecura Versicherungsmakler GmbH, Hamburg, Germany	51
phi-Consulting GmbH, Bochum, Germany	100
Aareon France SAS, Meudon-la-Forêt, France	100
Aareon Nederland B.V., Emmen, Netherlands	100
Aareon UK Ltd., Coventry, UK	100
1st Touch Ltd., Southampton, UK	100
Facilitor B.V., Enschede, Netherlands	100
Incit AB, Mölndal, Sweden	100
Incit AS, Oslo, Norway	100
Incit Nederland B.V., Gorinchem, Netherlands	100
SG2ALL B.V., Huizen, Netherlands	100
Square DMS B.V., Grathem, Netherlands	100
Aareon International Solutions GmbH, Mainz, Germany	100

05.5 Income tax receivables

Income tax receivables in € '000		
	31 Dec. 2016	31 Dec. 2015
Current income tax receivables	4,301	7,015
Non-current income tax receivables	0	321
Total	4,301	7,336

05.6 Deferred taxes

Deferred taxes in € '000		
	31 Dec. 2016	31 Dec. 2015
Pension provisions	5,292	5,125
Liabilities	171	177
Other provisions	229	295
Loss carryforwards	101	110
Miscellaneous	106	83
Total deferred income tax assets	5,899	5,790
Measurement of assets under construction	616	205
Miscellaneous	0	0
Current deferred income tax liabilities	616	205
Intangible assets	6,254	6,902
Miscellaneous	1,022	466
Non-current deferred income tax liabilities	7,276	7,368
Total deferred income tax liabilities	7,892	7,573

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

05.7 Trade receivables

Trade receivables in € '000		
	31 Dec. 2016	31 Dec. 2015
Receivables from unbilled services	16,308	11,401
Trade receivables	30,484	27,759
Receivables from affiliated companies	660	510
Total	47,452	39,670

Receivables from unbilled services comprise advance payments received of € 3,844 k, contract revenues from the reporting period in the amount of € 7,733 k, profits (less recognised losses) of € 3,029 k as well as total expenses incurred in the amount of € 5,531 k.

There are no restrictions on ownership or disposal of the disclosed receivables. Impairments are made to account for the risk of default. Trade receivables were impaired as follows:

Impairments of trade receivables in € '000		
	31 Dec. 2016	31 Dec. 2015
Impaired trade receivables	3,575	2,051
Impairments as at 1 January	1,299	1,276
Additions	548	765
Reversals	331	399
Utilisation	337	343
Total as at 31 December	1,179	1,299

Overdue but not impaired receivables relate solely to receivables that are overdue by up to 90 days.

05.8 Other assets

Other assets in € '000		
	31 Dec. 2016	31 Dec. 2015
Other current financial assets	873	706
Other current non-financial assets	3,045	3,081
Total	3,918	3,787

Other non-financial assets mainly comprise deferred advance payments of € 2,949 k for subsequent periods.

05.9 Cash and cash equivalents

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

Cash and cash equivalents in € '000		
	31 Dec. 2016	31 Dec. 2015
Cash in hand	11	14
Balances held with banks	28,781	24,957
of which: with affiliated companies	16,089	12,729
Funds with maturities of up to three months	28,792	24,971

05.10 Subscribed capital

The subscribed capital of Aareon AG is fully paid up and at 31 December 2016 was as follows:

Number and class of shares in € '000	
25,000,000 no-par value ordinary shares	25,000

Each share has a theoretical par value of € 1.00.

05.11 Share premium

In fiscal 2016, € 15,500 k was added to the share premium by way of the capital increase by Aareal Bank AG, Wiesbaden.

05.12 Accumulated group earnings and profits

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

05.13 Non-controlling interests

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

05.14 Provisions for pensions and similar obligations

Pension obligation trend:

Pension obligation in € '000		
	2016	2015
1. Pension provisions as at 1 January (accrued pension cost)	33,841	33,398
2. Net expense for the period		
a) Service cost	450	382
b) Interest cost	754	669
3. Experience-based adjustments recognised in OCI	1,463	1,940
4. Actuarial adjustments recognised in OCI	- 1,142	- 1,192
5. Actual utilisation	1,508	1,356
Pension provisions as at 31 December	33,858	33,841

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

Assumptions in %		
	31 Dec. 2016	31 Dec. 2015
Interest rate	1.81	2.28
Expected inflation rate	2.00	2.00
Income trend	2.00	2.25
Pension trend	2.00	2.00
Fluctuation rate	3.00	3.00

Changes in these assumptions would have the following consequences:

Sensitivity analysis 2016		
	Sensitivity	Obligation adjusted due to sensitivities, in € '000
Interest rate (1.81 %)	1.00 %	29,616
Interest rate (1.81 %)	- 1.00 %	39,185
Pension trend (2.00 %)	0.25 %	34,810
Pension trend (2.00 %)	- 0.25 %	32,953
Income trend (2.00 %)	0.50 %	35,348
Income trend (2.00 %)	- 0.50 %	32,568
Life expectancy (Heubeck 2005G)	+ 1 Jahr	35,872
Life expectancy (Heubeck 2005G)	- 1 Jahr	31,844

Sensitivity analysis 2015		
	Sensitivity	Obligation adjusted due to sensitivities, in € '000
Interest rate (2.28 %)	1.00 %	29,544
Interest rate (2.28 %)	- 1.00 %	39,133
Pension trend (2.00 %)	0.25 %	35,726
Pension trend (2.00 %)	- 0.25 %	32,026
Income trend (2.25 %)	0.50 %	35,383
Income trend (2.25 %)	- 0.50 %	32,414
Life expectancy (Heubeck 2005G)	+ 1 Jahr	35,669
Life expectancy (Heubeck 2005G)	- 1 Jahr	31,903

The sensitivity analysis is based on changes in a single assumption, with all other assumptions remaining constant. It is unlikely that this would occur in reality, and there could indeed be a correlation between changes in certain assumptions. For this reason, the same method was employed to calculate the sensitivity of the defined benefit obligation to changes in actuarial assumptions as is used to determine the pension provisions in the balance sheet (see Note 3.7). The types and methods of the assumptions used when preparing sensitivity analyses did not change compared with the previous period. No sensitivity analysis was carried out that factored in changes in the fluctuation rate or expected inflation rate because these rates do not represent material actuarial assumptions. The defined benefit obligation can be broken down by plan participant into the following categories of plan participants:

Plan participant categories in € '000	
	31 Dec. 2016
Active employees	264
Former employees with vested benefits	27
Pensioners	133
Total	424

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

Maturities of the defined benefit obligation (DBO) in € '000	
2017	1,459
2018	1,500
2019	1,532
2020	1,534
2021	1,532
2022 – 2026	8,039

Service and interest costs are recognised under staff costs. The expense recognised for defined contribution pension plans amounted to € 6,894 k. These plans mainly include employer contributions to the statutory pension scheme. For reasons of materiality, pension provisions are not presented by maturity. Aareon has pension plans in place in Germany and France. The pension plans in Germany have been closed and no further employees are now able to join. All of these plans are defined benefit plans within the meaning of IAS 19. This means that, subject to certain conditions, Aareon guarantees that the beneficiaries will receive a particular benefit amount. Depending on the plan type, the amount of employee benefits varies according to different factors such as eligible salary, period of service, amount of the statutory pension, and benefits paid under individual direct insurance plans.

05.15 Other provisions

Other provisions in € '000						
	Amount at 1 Jan. 2016	Additions	Reclassifications	Utilisation	Reversals	Amount at 31 Dec. 2016
Variable salary components (previous year)	9,606 (9,131)	10,646 (8,933)	0 (0)	8,301 (7,761)	100 (697)	11,851 (9,606)
Other provisions (previous year)	4,460 (3,836)	1,398 (2,914)	0 (0)	2,381 (2,277)	205 (13)	3,272 (4,460)
Total (previous year)	14,066 (12,967)	12,044 (11,847)	0 (0)	10,682 (10,038)	305 (710)	15,123 (14,066)

Development in 2016 (prior-year figures in parentheses)

Aareon AG makes payments to the members of its Management Board that qualify as cash-settled share-based payments within the meaning of IFRS 2. The obligations arising out of these **share-based payments** are recognised as staff costs and via corresponding provisions. Claims to the phantom stocks of Aareal Bank AG are paid in cash. The payments are distributed over three or four calendar years from the grant date. Provisions for share-based payment are recognised in full from the commitment date. The provisions are recognised in the amount of the fair value of the obligation in question at the reporting date and adjusted if the share price changes. Provisions for share-based payment (SAR) amounted to € 669 k. At the end of the period under review, 13,668 shares were outstanding at an average price per share of € 29.93 (previous year: 14,934 shares; € 27.69). Of these outstanding shares, 8,209 (previous year: 10,804) were exercisable and 6,540 (previous year: 3,779) were granted. The exercise prices of the outstanding shares range between € 16.41 and € 27.53.

Other provisions are also recognised in accordance with IAS 37 for all identifiable risks and uncertain obligations in the amount of their probable occurrence. The interest cost for non-current provisions amounted to € 51 k in the reporting period.

Other provisions by maturity:

Other provisions in € '000				
	1 Jan. 2016	31 Dec. 2016	1 Jan. 2016	31 Dec. 2016
	< 1 year		> 1 year	
Variable salary components (previous year)	9,122 (8,499)	11,292 (9,122)	485 (633)	559 (485)
Other provisions (previous year)	2,971 (2,458)	1,831 (2,971)	1,489 (1,378)	1,441 (1,489)
Total (previous year)	12,093 (10,957)	13,123 (12,093)	1,974 (2,011)	2,000 (1,974)

05.16 Purchase price liabilities

Purchase price liabilities in € '000		
	31 Dec. 2016	31 Dec. 2015
Non-current purchase price liabilities		
Square DMS	963	1,899
phi-Consulting	657	1,288
Total	1,620	3,187
Current purchase price liabilities		
Incit AB	0	574
Square DMS	600	550
phi-Consulting	380	1,043
Total	980	2,167
Grand total	2,600	5,354

The interest cost on the non-current purchase price liabilities from the previous year arising out of the acquisition of phi-Consulting amounted to € 44 k. These liabilities were reclassified as current € 675 k in accordance with their maturities.

Of the current purchase price liabilities recognised for phi-Consulting, € 1,043 k was disbursed and € 295 k reversed.

The interest cost on the non-current purchase price liabilities arising out of the acquisition of Square DMS in the previous year amounted to € 64 k. These liabilities were reclassified as current € 1,000 k in accordance with their maturities. Of the current purchase price liabilities recognised for Square DMS, € 550 k was disbursed and € 400 k reversed.

The current purchase price liabilities for Incit AB (€ 574 k) were also reversed.

05.17 Trade payables

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

05.18 Other liabilities

Other liabilities in € '000		
	31 Dec. 2016	31 Dec. 2015
Non-current other financial liabilities		
Lease liabilities	0	40
Miscellaneous current other financial liabilities	0	11
	0	51
Current other financial liabilities		
Paid-leave liabilities	2,954	3,067
Miscellaneous current other financial liabilities	4,361	4,140
	7,315	7,207
Current other non-financial liabilities		
Advance payments received from customers	14,887	13,903
Other tax liabilities	8,326	7,141
Miscellaneous	441	302
	23,654	21,346
Total	30,969	28,604

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

Consolidated statement of changes in fixed assets 2016
as at 31 December 2016

€ '000	Historical cost						31 Dec. 2016
	1 Jan. 2016	Currency translation differences	Changes in scope of consolidation	Additions	Disposals	Reclassifications	
I. Intangible assets							
1. Goodwill	109,296	- 1,475	1,700	0	0	0	109,521
2. Acquired intangible assets	47,934	- 1,686	0	488	698	- 178	45,860
3. Internally generated intangible assets	37,701	- 732	0	5,817	29	0	42,757
4. Customer relations	9,813	- 166	1,370	0	0	0	11,017
5. Brands	1,358	- 37	0	0	0	0	1,321
6. Advance payments made	0	0	0	49	0	178	227
	206,102	- 4,096	3,070	6,354	727	0	210,703
II. Property, plant and equipment							
1. Land, leasehold rights and buildings	8,823	- 67	0	265	302	1	8,720
2. Plant and machinery	10,021	- 106	0	940	133	0	10,722
3. Other equipment, and office furniture / equipment	9,199	- 3	0	1,534	1,264	0	9,466
4. Advance payments made and assets under construction	1	0	0	0	0	- 1	0
	28,044	- 176	0	2,739	1,699	0	28,908
III. Financial assets							
1. Equity investments	64	0	0	95	148	0	11
2. Other loans	6,363	0	0	71	44	0	6,390
	6,427	0	0	166	192	0	6,401
	240,573	- 4,272	3,070	9,259	2,618	0	246,012

1 Jan. 2016	Accumulated depreciation and amortisation				Carrying amounts		
	Currency translation differences	Additions	Disposals	Reclassifications	31 Dec. 2016	31 Dec. 2016	31 Dec. 2015
33,909	- 226	0	0	0	33,683	75,838	75,387
32,243	- 694	3,660	698	0	34,511	11,349	15,691
20,142	- 2	2,401	0	0	22,541	20,216	17,559
665	- 23	707	0	0	1,349	9,668	9,148
125	- 5	67	0	0	187	1,134	1,233
0	0	0	0	0	0	227	0
87,084	- 950	6,835	698	0	92,271	118,432	119,018
3,201	- 59	458	198	0	3,402	5,318	5,622
6,278	- 83	1,201	133	0	7,263	3,459	3,743
5,987	0	1,565	1,191	0	6,361	3,105	3,212
0	0	0	0	0	0	0	1
15,466	- 142	3,224	1,522	0	17,026	11,882	12,578
11	0	0	0	0	11	0	53
481	0	0	0	0	481	5,909	5,882
492	0	0	0	0	492	5,909	5,935
103,042	- 1,092	10,059	2,220	0	109,789	136,223	137,531

06 Other explanatory notes

06.1 Other financial obligations

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

Other financial obligations in € '000			
	2017	2018 – 2021	After 2021
Lease agreements	8,514	23,450	13,774
Purchase commitments	12,808	6,070	105
Total	21,322	29,520	13,879

06.2 Related-party transactions

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

- Collaboration with Aareal Bank AG and with regard to the fully automated and integrated accounting and payment services for property companies in Germany as implemented in the Wodis Sigma, SAP® solutions and Blue Eagle as well as GES software systems
- Data centre services and related implementation consulting services
- Co-financing of the Aareon Congress

The business transactions with Aareal Bank AG comprised revenues and other operating income in the amount of € 9,036 k as well as cost of materials and other operating expenses in the amount of € 486 k.

Related parties controlled by Aareon AG, or over which Aareon AG can exert a controlling influence, are included in the consolidated financial statements. They also appear in the list of shareholdings in Note 5.4, with information on the equity interest held and the net profit/loss for the year.

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

In the Aareon Group, members of the Management Board and the Supervisory Board as well as members of first- and second-tier management (directors, division managers), regional directors (sales) and members of strategic purchasing are defined as "members of management in key positions".

In the year under review, the total compensation paid to members of management in key positions amounted to € 16,709 k, of which € 16,409 k comprised benefits falling due in the short term, € 76 k concerned compensation paid after termination of employment, and € 224 k concerned benefits paid on termination of employment. The total compensation paid to members of the Management Board amounted to € 2,112 k, and included contributions to defined contribution plans in the amount of € 100 k. The total expenses for share-based payment amounted to € 295 k.

06.3 Auditors' fees

In the reporting period, € 399 k was recognised for auditing of the financial statements, € 50 k for other attestation services, € 16 k for tax consultancy services and € 3 k for other services.

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

Aareon Deutschland GmbH, Mainz, as well as Aareon Immobilien Projekt Gesellschaft mbH, Dortmund, which are included in the consolidated financial statements of Aareon AG, has, with the approval of the General Meeting of Shareholders granted in accordance with Section 264 (3) of the German Commercial Code (HGB), been exempted from the obligation of preparing annual financial statements and a management report in compliance with the corresponding provisions for corporations.

06.5 Events after the reporting date

Aareon Nederland B.V. acquired 100 % of the shares in Incit Nederland B.V. with retroactive effect from 1 January 2017. No other events or business transactions have occurred since the close of the fiscal year that could have an effect on Aareon's net assets, financial situation or earnings as presented in this report.

07 Corporate bodies

07.1 Supervisory Board

Thomas Ortmanns, Chairman
Member of the Management Board
Aareal Bank AG, Wiesbaden

Hermann J. Merkens, Deputy Chairman
Chairman
Aareal Bank AG, Wiesbaden

Lutz Freitag
Consultant
Hamburg

Dagmar Knopek
Member of the Management Board
Aareal Bank AG, Wiesbaden

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

07.2 Management Board

Dr. Manfred Alflen

Chairman of the Management Board

International Business Development; Human Resources & Organisation; Legal, Risk Management & Compliance; Data Protection & Data Security; Internal Audit; Corporate Marketing & Communications; International Business; Chair of the Supervisory Boards of Aareon Deutschland GmbH and BauSecura GmbH

Sabine Fischer

Member of Management Board

Aareon-ERP-systems (Wodis Sigma, SAP® Solutions and Blue Eagle, GES) and Aareon Smart World Digital Solutions; Data, Hosting and IT Services; Consulting Organisation incl. phi-Consulting GmbH

Dr. André Rasquin

Member of Management Board

Central Sales; Regional Sales; Solution Sales & Sales Management; Advisory Board work; Strategic Product Marketing for the BauSecura product

Christian M. Schmahl

Member of Management Board

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

08 Concluding remarks

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

Aareal Bank AG also prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements have been deposited with the Local Court (Amtsgericht) of Wiesbaden.

Mainz, 7 March 2017

The Management Board



Dr. Manfred Alflen



Sabine Fischer



Dr. André Rasquin



Christian M. Schmahl

Auditors' report

We have audited the consolidated financial statements of Aareon AG, Mainz – comprising the balance sheet, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes – as well as the Group management report for the fiscal year 1 January to 31 December 2016. It is the responsibility of the company's Management Board to prepare the consolidated financial statements and the Group management report in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU, and the additional accounting provisions pursuant to Section 315a (1) of the German Commercial Code (HGB). Our responsibility is to express an opinion on the consolidated financial statements and the Group management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB), taking into account the accounting principles for the audit of financial statements formulated by the Institute of Public Auditors in Germany (IDW). These require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial situation and earnings in the consolidated financial statements in accordance with the applicable financial reporting principles and in the Group management report are detected with reasonable assurance. Knowledge of the Group's business activities and of its economic and legal environment as well as expectations as to possible misstatements are taken into account when determining the content of the audit. During the audit, the effectiveness of the accounting-related internal control system and the evidence supporting the disclosures made in the consolidated financial statements and Group management report are examined primarily on the basis of random samples. The

audit entails assessing the separate financial statements of the companies included in the consolidated financial statements, the scope of consolidation, the accounting and consolidation principles applied and significant estimates made by the Management Board, 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, which is based on the findings of our audit, the consolidated financial statements comply with IFRS as applicable in the EU and with the supplementary applicable provisions of Section 315a (1) of the German Commercial Code and, in accordance with these provisions, give a true and fair view of the net assets, financial situation and earnings of the Group. The Group management report is consistent with the consolidated financial statements, provides a true picture of the Group's situation and correctly portrays the opportunities and risks associated with its future development.

Frankfurt am Main, 7 March 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Stefan Palm
German Public Accountant

ppa. Thomas Körner
German Public Accountant

Report of the Supervisory Board

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

The Supervisory Board met on four occasions during 2016, twice in the first half of the year and twice in the second, with resolutions also being adopted by circular memorandum in some cases. At all of these meetings, the Management Board informed the Supervisory Board in detail of the business policies, economic progress, strategic orientation and sales activities of both the Company and the Group. The content and findings of the audits carried out of the Group companies were explained to the Supervisory Board. The risk reporting and internal control systems were also presented to it on a regular basis.

The Supervisory Board was kept informed by the Management Board of the Group companies' products and their customer-side implementation and launch, with emphasis being placed on major customer and acquisition projects. These included, in particular, the ERP product Wodis Sigma, consolidation of the SAP® solution/Blue Eagle business portfolio, further expansion of Aareon Smart World, and the Company's range of consulting services. The Supervisory Board was kept apprised of the progress of migration from GES to Aareon's other ERP solutions.

The Management Board explained its international strategy to the Supervisory Board as well as the measures adopted to optimise the organisation. The market environment, competitive situation, products, expected developments and growth

potential of the Group companies were also discussed. The content and goals of the Aareon Flight Plan – the strategy programme developed by the Management Board, which also incorporates the strategy initiatives and the Striving for Excellence programme – were explained in depth as well. The Management Board reported to the Supervisory Board more intensively on development of the International Business segment and the activities of Aareon AG's international subsidiaries. It also discussed with the Supervisory Board the acquisition by Aareon Nederland B.V. of the remaining shares in Netherlands-based SG2ALL B.V. The Aareon International Governance Model was also presented.

The Supervisory Board discussed and approved the business plan. The Management Board regularly informed the Supervisory Board of the Company's actual business performance compared with what had been forecast in the business plan. The Supervisory Board has a Human Resources Committee and an Auditing Committee. Each of these committees met twice during 2016.

The Supervisory Board appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the Company's auditors. PricewaterhouseCoopers examined the annual financial statements and management report of Aareon AG as of 31 December 2016 (prepared in accordance with the German Commercial Code – HGB) as well as the consolidated financial statements and group management report as of 31 December 2016 (prepared in accordance with IFRS). Based on the results of its audit, PricewaterhouseCoopers issued an unqualified auditor's report for both the annual and consolidated financial statements. On the basis of the annual financial statements prepared in accordance with the German Commercial Code, Aareon closed the fiscal year with an unappropriated surplus of € 26,203,808.80, of which € 0 will be distributed to shareholders and € 26,203,808.80 will be carried forward. No allocations will be made to retained earnings.

On 27 March 2016, the Supervisory Board examined and discussed the Company's annual financial statements and management report, the consolidated financial statements compiled in accordance with IFRS and the Group management report for fiscal 2016 – all of which received an unqualified auditor's report – as well as the Management Board's proposal for the appropriation of profit. In preparation for their deliberations, the members of the Supervisory Board were provided in advance with comprehensive documentation, which they dealt with in depth.

Representatives of PricewaterhouseCoopers were available to the Supervisory Board to answer questions and provide information. On the basis of the final results of its own review, the Supervisory Board agreed with the findings of the auditors. The Supervisory Board confirmed that it had no objections to raise and endorsed the respective financial statements and management reports of Aareon AG and the Aareon Group as prepared by the Management Board. The 2016 annual financial statements of Aareon AG were thus adopted and the consolidated financial statements of the Aareon Group approved.

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

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

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

1. the actual disclosures made in the report are accurate and
2. the consideration paid by the Company for the transactions mentioned in the report was not inappropriately high."

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

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

Mainz, March 2017

The Supervisory Board



Thomas Ortmanns
(Chair)

Aareon customers

More than 2,800 customers have opted for consulting, software and services from Aareon.

Germany (selection)

- Aachener Siedlungs- und Wohnungsgesellschaft mbH, Cologne
- ABG FRANKFURT HOLDING GmbH, Frankfurt am Main
- Baugesellschaft dhu eG, Hamburg
- Baugesellschaft München-Land GmbH, Haar
- degewo AG, Berlin
- DERAG Deutsche Realbesitz AG & Co. KG, Munich
- eG Wohnen 1902, Cottbus
- Eisenhüttenstädter Wohnungsbaugenossenschaft eG, Eisenhüttenstadt
- FONCIA DEUTSCHLAND GmbH & Co. KG, Frankfurt am Main
- FORTUNA Wohnungsunternehmen e.G., Berlin
- GAG Immobilien AG, Cologne
- GSW Gemeinnütziges Siedlungswerk GmbH, Frankfurt am Main
- GSW Gesellschaft für Siedlungs- und Wohnungsbau Baden-Württemberg mbH, Sigmaringen
- Joseph-Stiftung, kirchliches Wohnungsunternehmen, Bamberg
- NEULAND Wohnungsgesellschaft mbH, Wolfsburg
- Rheinwohnungsbau GmbH, Düsseldorf
- Sächsische Wohnungsgenossenschaft Chemnitz eG, Chemnitz
- SAGA GWG, Hamburg
- Sedlmayr Grund und Immobilien KGaA, Munich
- Stendaler Wohnungsbaugesellschaft mbH, Stendal
- TREUREAL GmbH, Leipzig
- WBM Wohnungsbaugesellschaft Mitte mbH, Berlin
- WIELANT HOFFMANN GmbH, Hamburg
- WIRO Wohnen in Rostock Wohnungsgesellschaft mbH, Rostock
- Wohnungsbaugenossenschaft Gablonzer Siedlungswerk, Kaufbeuren
- Wohnungsgenossenschaft „Glückauf“ Süd Dresden e.G., Dresden
- Wohnungsgenossenschaft WARNOW Rostock-Warnemünde e.G., Rostock

International (selection)

France

- Adoma, Paris
- Batigère, Metz
- Cus Habitat, Strasbourg
- Dyar Al Madina, Casablanca / Morocco
- Eriila, Marseille
- Foyer Rémois, Reims
- Groupe SA du Hainaut, Valenciennes
- Groupe Opievoy, Versailles
- Groupe Valophis, Créteil

- Logement Français, Paris
- Neolia, Montbéliard
- Pas de Calais Habitat, Lille

United Kingdom

- Andium Homes, St Helier, Jersey
- Bromsgrove DHT, Bromsgrove
- County Durham Housing Group, Seaham, County Durham
- Halton Housing Trust, Runcorn
- Knowes HA, Failfey, Scotland
- Luminous Group, Huntingdon
- Northwards / Manchester City Council, Manchester
- NPT Homes, Neath, Port Talbot, Wales
- Ocean Housing Group, St Austell, Cornwall
- One Manchester, Manchester
- Paragon, Falkirk, Scotland
- Soha, Didcot, Oxon
- Together Housing Group, Halifax
- Torus, St Helens, Merseyside
- West Dunbartonshire Council, Dumbarton, Scotland

The Netherlands

- de Alliantie, Hilversum
- GroenWest, Woerden
- Parteon, Wormerveer

- Stadlander, Bergen op Zoom
- Stichting Intermaris, Hoorn
- Trudo, Eindhoven
- WoonFriesland, Grou
- Woonmensen, Apeldoorn
- Woonstede, Ede
- Woningstichting Den Helder, Den Helder

Norway

- Forsvarets forskningsinstitutt, Oslo
- Forvaltningspartner, Kristiansand
- Forsvarsbygg, Oslo
- Kongsberg kommunale eindom KF, Kongsberg
- Maya Eindom, Oslo
- NorgesGruppen, Oslo
- Olav Thon Gruppen, Oslo
- Oslo kommune, Oslo
- Universitetet i Oslo, Oslo

Sweden

- AB Gavlegårdarna, Gävle
- Akelius Lägenheter AB, Stockholm
- Bostads AB Mimer, Västerås
- D. Carnegie AB, Stockholm
- Göteborgs Stad, Gothenburg
- Malmö Stad, Malmö
- Riksbyggen, Stockholm
- SBC, Stockholm
- Stena Fastigheter, Göteborg
- Stockholms Stad, Stockholm
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In 2012, the German Federal Ministry of Family Affairs recognised Aareon as the most family-friendly company in Germany in the “Medium-sized Companies” category of the Success Factor Family 2012 competition.



In 2008, Aareon AG was certified by berufundfamilie gGmbH for its family-friendly personnel policy. The company was re-certified in 2011 and 2014.



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