

Annual Report 2010

FOCUS

Facts and figures

FACTS AND FIGURES	
Business	Aareon AG is Europe's leading consultancy and systems house to the property sector. Aareon's systems are employed by more than 50,000 users in Germany and abroad to manage over 9.5 million rental units.
ERP systems	Wodis with the new Wodis Sigma product generation, SAP®-based solutions such as Blue Eagle, the GES and WohnData systems, solutions of the international subsidiaries
Modes of operation	ASP (Application Service Providing), Cloud Computing, hosting, inhouse
Consulting	ERP, SAP®, process consulting and Integrated Services consulting
Integrated Services	Mareon service portal, Aareon DMS document management system, BauSecura insurance services, integrated banking etc.
Customer structure	Private-sector housing companies, cooperative housing societies, municipal and church-owned housing societies, property management companies and home owners' associations, insurance companies, property investment funds, companies managing large owner-occupied property portfolios (Corporate Real Estate), commercial property operators, financial investors
Number of customers	More than 2,500
Group affiliation	Wholly owned by the Aareal Bank Group, Wiesbaden. Aareon AG is part of the Consulting / Services business segment of Aareal Bank AG.
International presence	France, the Netherlands, United Kingdom
History	<ul style="list-style-type: none">• 1957: Start of development from the computer centre of Deutsche Bau- und Bodenbank AG to an IT services group• 1996: Spin-off of IT services into a newly-established, independent subsidiary, BauBoden Systemhaus GmbH• 1999: Incorporation of a Group, establishing a holding structure; followed by a company name change to DePfa IT Services AG. International business expansion• 2001: Market launch of the Mareon service portal• 2002: Development and sales cooperation with SAP AG, change of company name to Aareon AG• 2004: Market launch of the Blue Eagle ERP solution based on SAP®• 2006: Conclusion of a strategic partnership with energy services provider Techem resulting in the exchange of the Aareon Energy Management division for Techem IT Services (now Aareon Wodis GmbH). Introduction of an ERP multi-product strategy• 2007: 50th company anniversary• 2008: Market launch of the Aareon DMS document management system, enhancement of the market position in France by acquiring Sylogis.com• 2009: Start of marketing the new Wodis Sigma product generation, merger of Sylogis.com and Aareon France to form the 'new' Aareon France, move into the new Aareon head office in Mainz• 2010: 20th Aareon Congress, acquisition of all shares in Dutch company SG automatisering bv

Overview of the Aareon Group



Updated: January 2011

GERMANY

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

INTERNATIONAL

- **Aareon France SAS**, Meudon-la-Forêt/France (100%)
Other offices: Nantes, Orléans, Toulouse
- **Aareon UK Ltd.**, Coventry/United Kingdom (100%)
Other office: Swansea
- **SG|automatisering bv**, Emmen/the Netherlands (100%)
Other offices: Enschede, Leusden, Son en Breugel

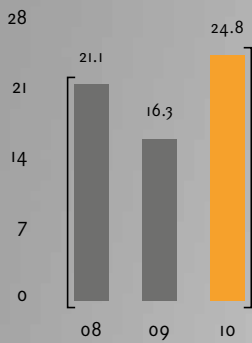
Indicators

Indicators IFRS (€ m)	2010	2009	CHANGE
Revenues	150.2	153.0	-1.8%
of which international	27.2	22.0	23.7%
Operating expenses	131.5	144.0	-8.7%
Profits from ordinary acitivities	25.1	16.4	53.0%
Consolidated net income	16.9	10.0	69.0%
Consolidated net income after minority interest	15.6	9.0	73.3%
EBIT	24.8	16.3	52.1%
Total assets	151.5	122.4	23.4%
Shareholder's equity	75.4	59.3	27.2%
Cashflow	25.3	16.8	50.6%
Number of staff* (average)	994	1,035	-4.0%
of which international	240	216	11.1%
Key ratios in %			
Return on Equity	37.3	26.7	
Cost/income ratio	84.1	89.8	

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

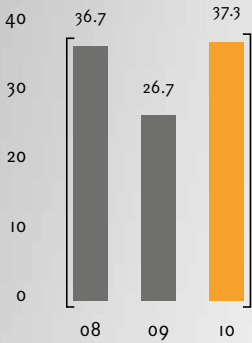
EBIT

(in € million)



Return on Equity

(in %)



Corporate mission

“Aareon AG focuses its activities on the property industry and related sectors. We set the standards for managing complex business processes in the property industry – today and in the future. Aareon provides first-class and forward-looking solutions comprising consultancy, software and services to its customers and manages their outsourced business processes. We want to create tangible **added value** for our customers and shareholders and be the preferred employer to our staff. In so doing, we will enhance our market position as a leading consultancy and systems house in the European property industry.”

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Focus

Aareon's business is customer-focused. The continued enhancement of our product and service portfolio is supported by regular dialogue with our customers, which enables us to further simplify their processes. Ultimately, this has a positive effect on a company's transparency and efficiency.



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The company

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The Management Board



Eberhard Villmow

Wodis Sigma, SAP® solutions, Integrated Services and Consulting Integrated Services Product Lines, IT Service Centre, Service Management, Aareon Immobilien Projekt Gesellschaft mbH, Aareon Software Handelsgesellschaft mbH shareholdings and Aareon Wodis GmbH

Dr. Manfred Alflen

(Chairman of the Management Board) Shared Services, International Product Management, International Business, Corporate Strategy

Jürgen Pfeiffer

GES and WohnData Product Lines, Software Services, BauSecura Versicherungsmakler GmbH shareholdings, associations and advisory boards

Dr. André Rasquin

Regional and centralised sales

(from left to right)

Letter from the Management Board

Ladies and Gentlemen,

Aareon's business performance in 2010 again was very positive. Earnings before interest and taxes (EBIT) of € 24.8 million comfortably exceeds that of 2008, our previous record year (€ 21.1 million). At € 150.2 million, revenues were slightly below the level of the previous year (€ 153.0 million). To satisfy the varied requirements of the housing industry, we have been pursuing a multi-product strategy for a number of years. We continued to implement this strategy in 2010 as well. The highly positive response from the market to the new Wodis Sigma product generation launched last year continued in 2010. Equally satisfying was the growth of our Integrated Services product line. We strengthened our international market position through the acquisition of a Dutch subsidiary. In France, Aareon France was successful in winning a number of important tenders.

The launch of Wodis Sigma is already considered to be the most successful ERP system launch in the German housing industry. Over 300 companies have since chosen Wodis Sigma and it is already in service with over 140 companies. At the Wodis Forum in Bochum in November 2010, we unveiled the new Release 2.0, which features active user support and facilitates entry into CRM (Customer Relationship Management).

Our SAP® solutions and Blue Eagle did very well in a very competitive market and we experienced a greater demand for SAP® consultancy solutions than we had anticipated. In addition, we succeeded in winning some important tenders for the deployment of Blue Eagle Individual – for example, from LEG Landesentwicklungsgesellschaft NRW GmbH, Düsseldorf, one of Germany's leading property companies.

Integrated Services – supplementary special solutions from Aareon that integrate with ERP systems – continued their positive development. Demand was focused mainly on the Mareon service portal, the Aareon document management system (DMS) and on insurance management with BauSe-cura. There are now 250 property companies and 8,500 trade business using the Mareon service portal, which offers valuable time savings and an improved tenant service.

Our international business continued to perform positively. The new product generation from Aareon France was very well received in its market. In line with our policy of expanding our international activities in markets with a relevant volume that offer attractive returns, we acquired the Dutch company SG|automatisering bv, Emmen. As a result, Aareon continued to consolidate its market leadership position in Europe.

Data privacy and data quality are extremely important issues to Aareon. In 2010, we received two significant certifications in this context. Firstly, in spring 2010, our modern IT Service Centre was fully certified according to IDW auditing standard PS 951, demonstrating the high level of IT security and quality we offer our customers. Secondly, we were awarded the DQS Data Protection Certificate, confirming the excellent standard of data privacy in force at Aareon AG.

A special highlight of 2010 was the anniversary celebration of our 20th Aareon Congress. Over the past two decades, the Congress in Garmisch-Partenkirchen has become the German property sector's annual industry get-together. We created a brand new theme to mark its anniversary. Under the motto "Dawn of a new era", the focus of the event was "Sustainability".

Continued growth of earnings

Wodis Sigma success story

European market position expanded

Corporate culture strategically important

We attach great strategic significance to Aareon's corporate culture. We are keen to provide our employees with a working environment that fosters satisfaction and motivation and we are proud of our personnel policy that takes into account the family. In 2010, we placed special emphasis on the harmonisation of work and home care.

We would like to thank our customers and partners for their trust and for the constructive dialogue that contributes to the continued development of our products. Thanks are due also to our employees, whose efforts played such an important part in the success we enjoyed in 2010. We also thank the Aareon Works Council for its trust-based and constructive cooperation.

On balance, we have succeeded in strengthening our position as market leader in the 2010 financial year. We intend to build on this in the year 2011. As part of the housing industry's efforts to become more efficient, the management of housing stocks is being increasingly "digitised". Moreover, outsourcing IT is becoming increasingly important as requirements grow more and more complex. We will therefore continue to enhance our products with a focus on users and further expand Aareon's IT Service Centre.

The steady growth of Wodis Sigma has continued into 2011. For example, we were able to ensure a simultaneous go-live for a total of 18 companies with nearly 120,000 rented units on a specific target date. The new Release 3.0 will be available in 2011.

The Mareon service portal, launched in 2001, will celebrate its tenth anniversary in 2011. It is a success story that validates the decision of our customers and one that we are proud of.

We expect our international business to remain on its positive trajectory. We will increase the successful exchange of know-how with our international specialists and continue to channel their insights into our products and services. Infomonitor from Wodis Sigma Release 2.0 is an excellent example of this: originally based on a concept developed by Aareon France. It now also offers our German customers added value in managing their companies.

We look forward to the next milestone – the completion of the third and final section of the new head office building in Mainz, which we moved into in 2009. The new IT Service Centre, designed to comply with the very latest technology and security standards, will also relocate here.

Yours sincerely,

Dr. Manfred Alflen

Jürgen Pfeiffer

Dr. André Rasquin

Eberhard Villmow

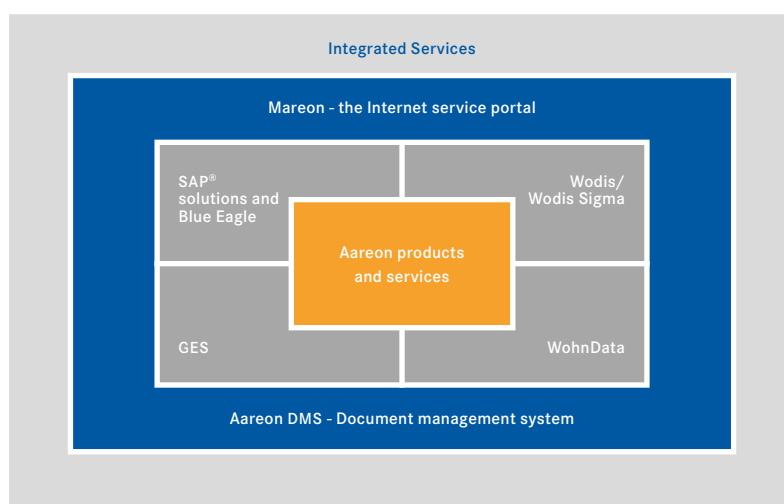
Aareon – consulting, software, services

Aareon AG is Europe's leading consultancy and systems house to the property sector. Our business activities focus on optimising the IT-supported business processes of property companies and their market environment. The company's range of products and services comprises software, services and consultancy. In addition, Aareon takes over its customers' outsourced business processes. Aareon has more than 50 years of market experience, specific sector expertise, IT competence and enjoys an excellent relationship with customers, associations and partners. More than 50,000 users throughout Europe use Aareon systems to manage over 9.5 million rental units.

Europe's leading consultancy and systems house to the property sector

Aareon is committed to pursuing a multiproduct strategy that addresses the needs of all of its customer groups. The ERP product portfolio (see p. 26), which supports efficient process design, in Germany comprises the Wodis solution and the new Wodis Sigma product generation, SAP®-based solutions such as Blue Eagle, as well as GES and WohnData. Aareon's international subsidiaries offer country-specific ERP solutions. The ongoing development of our systems takes account of current trends and industry and customer requirements, one example being the convenient support of the requirements of the 2011 census.

Combining the ERP systems with Aareon's Integrated Services to link property companies with their business partners offers yet another added benefit.



Aareon's ERP systems simplify the process of property companies. Linking to Integrated Services generates even greater added value.

20th Aareon Congress

Left: Roundtable discussion on sustainability.

Right: The exhibition area - a central information and communication space



Emphasis on user-friendly operating concept

ERP systems

- Wodis Sigma:** Aareon launched the new Wodis Sigma product generation in 2009 (see p. 27). The modern, user-friendly system with its extremely supportive GUI has since won over 300 customers. It is closely aligned to the newest Microsoft® Office standard. Product development consciously focused on user-friendliness and user security in order to increase the productivity of users and further boost the satisfaction of both employees and customers. The new operational concept encourages individual users to work in the way they want. It incorporates a flexible cockpit (displaying important figures, for example), a process assistant (for the rental process, for example), infograms that display business partner relationships, and an interface to Microsoft® Office Outlook®. At the Wodis Forum in November 2010, Aareon showed the new Release 2.0 with enhanced user support and optimised tenant and business partner management. It also includes Infomonitor, which is based on a concept originally developed by our French subsidiary. Infomonitor helps property management companies monitor definable key figures, and features fully automatic notification to system users. These are sent via email or SMS, which means they can be received by mobile devices such as smartphones. Not only does this reduce the amount of administrative effort required – it also improves transparency.
- SAP® solutions and Blue Eagle:** Aareon is the market leader in the SAP® real estate market. Its SAP® consultants and developers are a guarantee of the success of projects executed based on the company's sound SAP® expertise. Which SAP® solution is best for a particular property company depends on that company's business strategy. Every SAP® solution from Aareon integrates optimally into the corporate structure, maximises the customer's investment over the long term and provides the flexibility needed to meet the challenges of today and tomorrow. This gives customers a competitive advantage. Aareon offers its proprietary Blue Eagle Individual template, consultancy services and additional developments based on SAP® (see p. 27).
- GES and WohnData:** Development of these two systems continues in order to meet the needs of the market, with a strong emphasis on statutory compliance. GES has been multi-session capable since 2010 and offers users a wealth of other benefits. (see p. 28).

Integrated Services

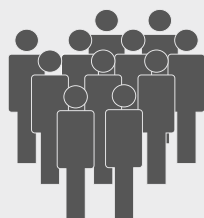
Integrated Services (see p. 28) link special applications – such as the Mareon service portal, for example, the Aareon DMS document management system or the BauSecura insurance solution – with the ERP system to support the implementation of property market processes. They automate and combine these processes beyond the scope of the ERP system – internally and across internal corporate boundaries. These contribute to further improving process coverage and efficiency, provide support for meeting compliance requirements, enable cost reductions and link business partners.

Integrated Services links
business partners

Mareon - Facts on the service portal

Number of customers:

250



Number of registered
tradesmen:

8,500



Number of tradesmen
software installations
with Mareon web
services interface:

49



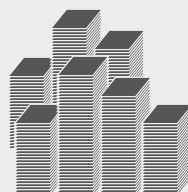
Number of tradesmen
contracts processed
through Maareon:

More than 8 million



Amount of paper saved
thanks to Mareon:

168,000
kilograms



Number of hours freed up
by Mareon for customer
service in housing
companies:

1.7 million



Updated: December 2010

International business

Aareon directs its international business activities (see p. 29) towards markets with relevant volumes that offer attractive returns. The Group has subsidiaries in France, the United Kingdom and the Netherlands. In each of these countries, Aareon has gained a leading market position by offering solutions carefully tailored to market needs. Cross-border cooperation within the Aareon Group enables synergies and technology transfers that are used to continually optimise our products and services.

DIALOGUE





DIALOGUE

“Creating meeting points to promote communication is of prime importance in the business world. During its twenty-year history, the Aareon Congress has established itself as an industry meeting point for the property sector. It provides attendants with an opportunity to get informed, communicate and build and expand their networks.”

INGEBORG ESSER | Managing Director,
GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V., Berlin



Group Management Report

Aareon AG's head office
in Mainz



Business and general conditions

Business activities and corporate structure

Aareon AG - consultancy and systems house to the property sector - offers consulting, software and services. The company is represented at 20 locations in Europe, including 10 in Germany; it has subsidiaries in France, the UK and the Netherlands.

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

The business of Aareon AG comprises ERP Products and Integrated Services. Aareon's ERP systems facilitate efficient process design and offer a range of evaluation options to support management decision-making. They make it possible for property companies to reduce their costs and to open up new areas of revenue. The multiproduct strategy of Aareon addresses the different needs of the property market. The company offers the ERP products Wodis/Wodis, SAP®-based solutions such as Blue Eagle, as well as the GES and WohnData systems (see p. 26). These systems offer outstanding benefits when used in conjunction with industry-specific consulting services (ERP, SAP®, process and IT consulting). The product portfolio is combined with Integrated Services, which can be linked to the ERP Products. This includes the Aareon service portal, the Aareon DMS document management system and BauSecura as an integrated insurance and risk management system. The Integrated Services help property companies and their business partners collaborate by means of efficient processes (see p. 28). The IT Service Centre rounds off the Aareon's portfolio (see p. 29). Aareon's subsidiaries in France, the United Kingdom and the Netherlands offer ERP products, services and consulting tailored to the given market in the International Business segment.

ERP systems, consulting and
services from a single source

According to the Lünendonk List – a well-established annual market survey – Aareon has been ranked among Germany's leading IT service companies for many years¹. Other players in the market are providers of proprietary products or SAP® partners. Aareon's unique selling proposition is its ERP multiproduct strategy combined with its Integrated Services.

Economic environment

The economic upturn in Germany that had already made itself felt in the second half of 2009 continued in 2010, generating estimated GDP growth of 3.7% (previous year: -4.7%)². For one this growth is being supported by the export sector and for another by domestic demand driven by both private consumption and capital spending. Germany's economic growth thus exceeds that of both the euro zone (1.6%) and the European Union (1.7%). The German Council of Economic Experts expects economic growth of 2.2% for Germany in 2011.

The employment situation in Germany also improved thanks to the positive economic news. Forecast to reach 6.8% for 2010 (previous year: 7.5%), Germany's unemployment rate is considerably lower than that of the euro zone (10.1%) and the European Union (9.8%). It is expected to decline further in 2011 (6.3%).

The property industry is one of Germany's largest economic sectors³. Compared to many other countries, in Germany private and public sector housing companies offer good-quality apartments for all classes. Hence the rental apartment market is an attractive alternative to owning one's own home. The economic recovery that became apparent this past year enhanced the positive development of rents in the German rental housing market. Rents for newly built apartments in Germany rose by up to 2.5% in 2010. At 5.3%, the increase for existing apartments in medium-sized cities with populations of 200,000 to 300,000 people was even higher. This development is rooted in rising demand for apartments sparked by the growing number of single households as well as signs of a reurbanisation trend in metropolitan areas, East and West. In more than three-fourths of cities with populations of more than 60,000 people, the growth of city centres is outpacing that of suburban areas.

But there continue to be regional differences. The vacancy rate in West Germany is roughly 3%, compared to 10% in East Germany. Growth regions continue to benefit from migration inflows that are linked to jobs whilst economically weak regions are confronted with migration outflows.

Housing companies' capital spending was stable despite an economic environment that remained a challenge. As in the previous year, these investments focused on building modernisation, repairs and maintenance. The housing companies continued to invest in energy-efficient modernisation in order to enhance the sustainability of their properties. Roughly 60% of the apartment stock of companies organised in the German Association of Housing and Property Companies (Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V.) have already undergone energy-related modernisation.

Positive development of the German economy

¹ See Lünendonk List 2010, Lünendonk GmbH, Kaufbeuren 2010, as of 20.05.2010

² See the Annual Report 2010/2011 of the German Council of Economic Experts for its analysis of macroeconomic developments, "Opportunities for a stable upturn", November 2010

³ See the report, Wohnungswirtschaftliche Daten und Trends 2009/2010 ("Figures and Trends in the Housing Sector"), GdW, November 2009

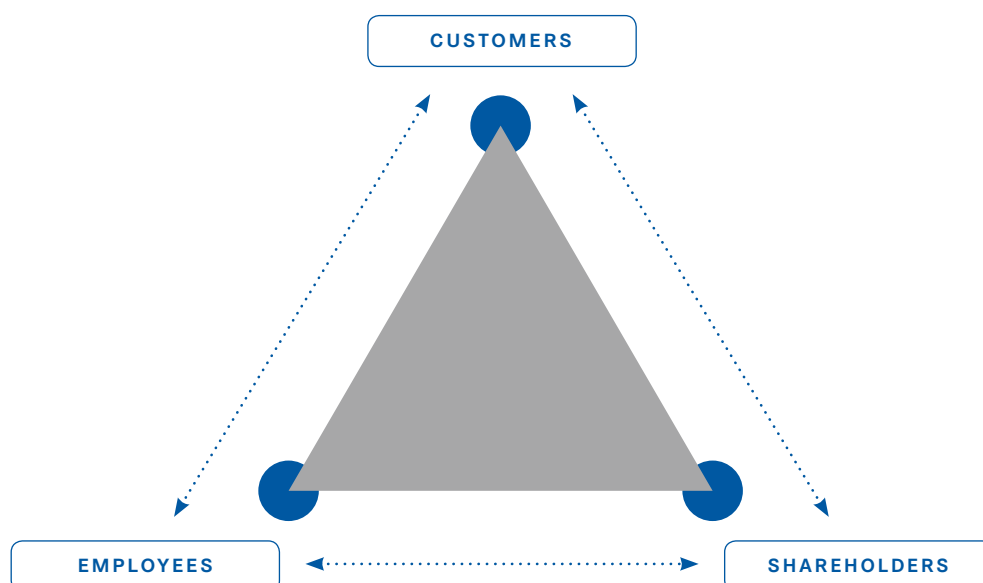
Yet capital-spending activities also focused on challenges arising from demographic changes. Among other things, this includes age-appropriate adjustments of residential properties such as remodelling measures aimed at improving access and maneuverability, the inclusion of technical aids and offerings of personal services.

The financial and economic crisis led to the rediscovery of residential properties as investments. Institutional investors' interest in residential properties which has been growing since 2009 continued to intensify in the reporting period. Low volatility and stable cash flows are the key investment criteria for these investors.

Modern technology platforms have become increasingly significant to the property-related software market. They make it possible to enhance systems' usability and implement new functionalities more rapidly. Options for integrating additional services are another point of focus. This market draws both providers of their own products as well as SAP partners.

Corporate strategy

Aareon AG pursues a growth strategy. The highly positive response from the market to the new Wodis Sigma product generation launched last year continued in 2010 (see p. 27). The acquisition of a Dutch company added the important Dutch market to Aareon's International Business (see p. 30). In France, Aareon France continued to strengthen its position by winning important tenders (see p. 20). Aareon's integrated services posted growth as well (see p. 18). Strategically speaking a corporate culture plays an important role. Family-conscious personnel policies that focused on balancing work and eldercare in 2010 are integral to Aareon's corporate culture. Internal and external communications further enhanced the Aareon brand.



Value generation and corporate success in balancing the conflicting interests of stakeholder groups, customers, employees and shareholders.

Aareon's strategy rests on four cornerstones:

- **A clear focus on markets and customers:** Ensuring customer benefit and customer satisfaction are Aareon's top priority. The company's goal is to be a reliable partner for its customers, helping them to achieve their corporate goals. Aareon measures customer satisfaction by means of an annual, anonymous survey, which helps it to improve its performance in a structured way. Customer satisfaction figures in recent years – including 2010 – have been high.
- **Customer-focused solutions:** Dialogue with customers plays a key role in ensuring that Aareon's solutions offer added value. Aareon therefore examines customer needs in committees such as its customer advisory boards as well as in regular dialogue with customers. The company monitors the trends that influence the property and IT sectors and integrates them into the ongoing development of its portfolio of products and services. In so doing, Aareon focuses on quality and innovation and assists property companies in their efforts to achieve their corporate goals.

High customer satisfaction

Partnerships and collaborations help Aareon to combine its various core competencies for the benefit of the customer. Aareon's strategic partners are:

- EASY SOFTWARE AG, Mülheim (product partnership in the development of an integrated document management system)
- ista Deutschland GmbH, Essen (collaboration on the development of an integrated settlement accounting system for service and maintenance charges)
- Microsoft Deutschland GmbH, Unterschleißheim (Aareon is a Microsoft Gold Certified Partner)
- SAP AG, Walldorf (sales partnership)
- talonec business solutions GmbH, Krailling near Munich (fund management sales partner)
- Techem AG, Eschborn (collaboration on the development of an integrated settlement accounting system for service and maintenance charges, strategic premium partnership)

Bundling core competencies through strategic partnerships

Further partnerships exist in the areas of systems and hardware, among others.

- **Motivated and achievement-oriented employees:** A company's workforce plays a key role in its success. Aareon sets great store by the hard work and enthusiasm of its workforce, its professionalism and motivation and, especially, its commitment to customer service. In view of this, it is of great strategic importance to Aareon to have a corporate culture that encourages these qualities and, together with a performance-based remuneration system, positively influences employee motivation and satisfaction. The capacity for open dialogue, fairness and the balancing of work and family are critical aspects of Aareon's corporate culture. Aareon employees combine in-depth expertise in the property market with excellent IT skills and great commitment and constantly enhance their training.
- **Customer-focused internal processes:** Aareon's products and services are customer-focused, as are its internal processes. They comply with quality management standards and are subject to continual improvement. As a project-oriented company, Aareon's work is based on setting goals and achieving results, as well as on ensuring transparency in carrying out its tasks.

Employees are the key to the company's success

Continual process improvements

Changes in the corporate structure

The project entailing the development and marketing of the new Wodis Sigma product generation was brought to a successful completion. All additional tasks were shifted to the Wodis Sigma product line.

Aareon AG regularly puts its own corporate processes to the test. It launched the "moveIT" programme in order to realise improvement potentials by boosting the efficiency of its processes.

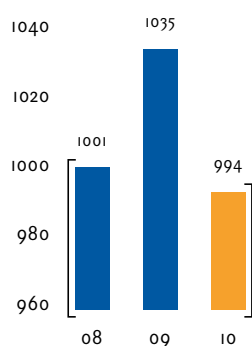
In 2010, Aareon AG analysed its network of offices in Germany. It found that it can serve its customers in a given region very well even if it consolidates its network in the larger offices. Subsequently, Aareon set regional focal points and merged the offices in both Hanover and Rostock with the Hamburg branch and the office in Dresden with the Leipzig branch.

In Dortmund Aareon moved into a new office building, and its offices in Hamburg were reconfigured.

In line with its policy of expanding its International Business in markets with a relevant volume that offer attractive returns, Aareon acquired all shares in the Dutch company SG|automatisering bv, Emmen effective 1 November 2010. The company is the second largest provider of property market IT solutions in the Netherlands. More than 60 % of its roughly 200 customers are engaged in the public housing sector. With this acquisition, Aareon's extended its International Business into the important Dutch market and further expanded its leading position on the European market. Aareon sold Aareon Italia S.r.l. in its entirety as at 30 September 2010 to eFM, Rome, as part of this realignment. In contrast to Aareon's other business, Aareon Italia focused exclusively on commercial property and there were few synergies with the company's other activities.

Successful employees

Number of employees
(average)



Balancing work and family –
additional actions completed

Employee satisfaction is key to Aareon's success. Groupwide, Aareon has been conducting an annual, anonymous employee survey for ten years already in order to gain objective view of this issue and foster it in targeted ways. The response rate in the Aareon Group rose in connection with the 2010 survey. Overall satisfaction with Aareon as an employer remains high.

The average annual headcount (including management, trainees, temporary staff, staff on parental leave working part-time) was 994 (previous year: 1,035). (The employees of SG|automatisering bv were considered on an annualised basis at the time staffing levels were determined.)

The ERP Products product group accounts for the largest share of employees (41.8 %, previous year: 42.4 %), followed by the International Business product group at 34.0 % (previous year: 20.9 %). The flexibilisation of work through part-time and telework are integral to Aareon's personnel policy that aims to improve the work-life balance. At the close of 2010, Aareon had 124 (16.2 %) part-time positions (previous year: 130, 13.0 %) and 92 (12.3 %) teleworking positions (previous year: 114, 14.32 %) in Germany.

Balancing work and the family are integral to Aareon's corporate culture. For one improving this balance leads to greater employee satisfaction, motivation and loyalty to the company. For another this aspect is becoming ever more central to Aareon's ability to recruit staff. A German non-profit organisation, berufundfamilie gemeinnützige GmbH has certified Aareon as a family-conscious company since 2008. Besides establishing additional parent-child offices at other sites, offering childcare slots and implementing a summer holiday programme at Aareon's Mainz head office, in 2010 social project activities focused on the issue of eldercare.

Aareon attaches high priority to personnel development. Developing perspectives on issues such as employee training and qualification is integral to employees' annual performance appraisal by a



Left: Opening of the coface kids daycare centre at which Aareon has reserved places. Two-year old Marla Rinck likes it very much here.
Right: The Aareon trainees during the "Trainee Programme 2010".

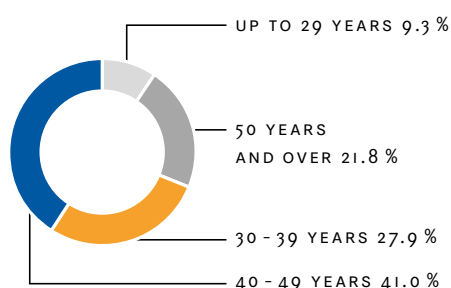
supervisor. Aside from offering individual training and seminars, Aareon focused in particular on enhancing trainers' qualifications and offering training related to the Wodis Sigma product line. Aareon continued the "Certified Housing Manager (HfWU)" training course at the Nürtingen-Geislingen University for Economics and the Environment, which has been carried out for Aareon since 2009. A total of 20 employees have already acquired this additional qualification.

Aareon's activities to foster young talent include a choice of vocational training options: office manager, IT applications development specialist/systems integration specialist as well as a property management degree course leading to a Bachelor of Arts. The company's trainees benefit from training courses and from taking on responsibility for handling project-oriented tasks at an early stage. At the close of 2010, Aareon had 20 trainees and two students from a university of cooperative education.

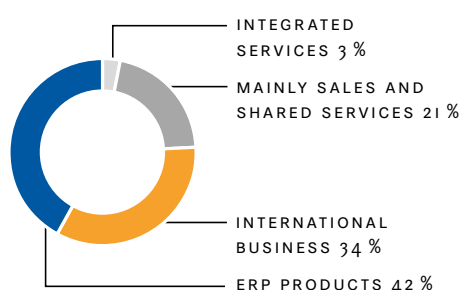
University graduates can either start right away in their new jobs or take part in junior consultant training. Aareon's university marketing activities also include internships and degree dissertations. The company cooperates closely with the following universities and universities of applied sciences in Germany: Technical University of Applied Sciences Berlin, Johannes Gutenberg University of Mainz, University of Applied Sciences Mainz, Nürtingen-Geislingen University, University of Cooperative Education Stuttgart, EBZ - European Training Centre of the Housing and Property Sector Bochum, University of Cooperative Education Leipzig.

The importance of fostering young talent

Employees by age structure



Employees by product group



Left: Presentation of the DW Innovation Award for the Property Sector.

Right: Handing over a donation to DESWOS. From left: Dr. Manfred Alflen, Aareon, Georg Potschka, DESWOS.



Social responsibility

Aareon AG is particularly interested in assuming social responsibilities above and beyond its business concerns. The organisations and initiatives that Aareon supports are clustered in three areas: competitions in the property sector, promoting young talent and social commitment. Making environmentally sustainable decisions is very important to Aareon. For instance, the company elected to use geothermal energy to power its head office.

Aareon supports “DW Innovation Award for the Property Sector”

As a property sector specialist, Aareon demonstrates its commitment to this sector by supporting the “DW Innovation Award for the Property Sector” and the “Property Manager of the Year” competitions. The DW Innovation Award for the Property Sector was awarded for the seventh time at the Aareon Congress in Garmisch-Partenkirchen in May 2010. Forty-four innovative essays had been submitted on the topic, “Sustainability: more than a buzz word and energy saving”.

Promoting young talent in the property sector is equally important to Aareon. The “Lerninsel” (islands of learning) programme – a joint initiative with the Association of Housing Companies in Northern Germany – has been fostering trainees in the property industry for years. Intensive summer training programmes serve to groom them as future high achievers in the property industry. Aareon supports the “Institute for Information Technology Related to the Property Market” at Nürtingen-Geislingen University that was newly established in 2010. This institute was conceived as an independent platform for research activities in information technology. Nürtingen-Geislingen University also awards the Aareon IT Sponsorship Award in Information Technology twice a year.

In the social arena, Aareon supports a number of organisations and initiatives especially at its Mainz headquarters – for instance the Christophorus hospice and the Pfarrer-Landvogt-Hilfe organisation for the homeless. For years Aareon has also been making donations to DESWOS – the German Development Aid Agency for Social Residential and Settlement Projects – in Cologne. By registering for the Aareon Congress, participants support this donation because a portion of the fees for the Congress are donated to DESWOS each year. In 2010, the € 10,000 donation was made to a project providing “aid for children and single mothers in Tanzania”.

Aareon integrates sustainable action into its entrepreneurial activities. Aareon therefore elected to use geothermal energy to heat the new building it moved into in 2009. Thirty-seven probes go 140 metres underground to exploit the earth's constant temperature by transferring heat to or from the earth via heat pumps – providing heating in winter and cooling in summer. The IT Service Centre is optimised along ecological lines on an ongoing basis. When replacing computers, Aareon always looks for systems or system components that have been refined and thus are more ecologically efficient. In 2011 the IT Service Centre will be moved to the new section of the building where the company's head office is located; it was still under construction in 2010. Aareon is currently undertaking additional important steps toward improved energy efficiency. This includes using the IT Service Centre's waste heat to support the building's heating system and replenish the store of geothermal energy in the summer.

Aareon uses geothermal energy

Aareon's management also expects its employees to engage in ecologically and energy-conscious conduct during their day-to-day routines. Telephone and video conferences as well as webinars are some of the steps that support this goal. Employees' IT workplaces are equipped in accordance with ecological guidelines. The systems used can generally be recycled, consume very little electricity and are low pollutant.

Even Aareon's product range serves to promote ecological and sustainable activity on the whole. Both ERP Systems and Integrated Services boost process efficiency, among other things by digitising both the data and the interfaces to the service systems. This promotes transparency in the company and lays the groundwork for sustainable decision making. It also helps to reduce the consumption of paper and necessary archiving space.

In Aareon's view, greater work-life balance also is an important social issue. Additional steps were taken to this end in 2010 (see p. 18).

SIMPLIFICATION





SIMPLIFICATION

“It is often the simple things that are special.
The Wodis Sigma ERP software is easy to
use and offers great benefits for our staff and
ultimately our tenants. We as a housing
company can improve our service and make
processes more transparent and efficient
with this solution.”

UWE EMMERLING | Commercial Director,
Gemeinnützige Wohnungsbaugenossenschaft “Stadt Cottbus” eG, Cottbus



Aareon products and services

Aareon's products and services are combined into product groups, which are also the basis for its reporting:

- ERP Products
- Integrated Services
- International Business
- Other Products

Aareon manages its product groups largely based on their contribution to net profit. The consulting services (ERP, SAP® consulting and integrated services consulting) are provided as part of each product group by specialised consulting teams.

Aareon offers ERP solutions in a variety of operating modes – ASP, hosting and in-house – depending on the product. The Aareon IT Service Centre ensures high product and service quality in its ASP and hosting operations, with IT security having the highest priority.

Quality and security standards

Certification of IT Service Centre and data protection

To further optimise security standards, the IT Service Centre's control system for essential IT processes underwent certification for compliance with the auditing standard PS 951 of the Institut der Wirtschaftsprüfer e.V. (IDW). Aareon AG and its subsidiaries in Germany were also awarded the DQS Data Protection Certificate. This is based on the findings of a voluntary data protection audit carried out by the DQS-UL Group in accordance with Section 9a of the German Federal Data Protection Act. It confirms that Aareon has designed data protection policies that comply with the law pursuant to the requirements of the German Data Protection Act. In so doing, Aareon focused not just on high quality standards in the IT Service Centre. The auditor was able to verify that Aareon AG implements data protection requirements at its head office as well as several of its branch offices. This certification also serves to manage and continuously develop data protection measures within the Aareon Group. In conjunction with software certified to audit standard IDW PS 880 – for instance for the Mareon service portal as well as Wodis Release 2.0 and Blue Eagle 6.0 – these certifications can mean less work for customers during their annual IT audits. Aareon's quality assurance system has already been certified under DIN ISO 9001:2008. The certification was confirmed for another three years in the financial year just ended.

ERP Products

Aareon's ERP product portfolio comprises the product lines Wodis/Wodis Sigma, SAP® solutions and Blue Eagle as well as GES and WohnData. The company places great value on ensuring that the ongoing development of its ERP systems considers current trends as well as industry and customer requirements and that the operating concepts are improved on a continuous basis. Integrated support for Census 2011, the integration of SCHUFA services as well as energy consumption certificates are but a few examples of this approach.



Left: Signing of the agreement with GWG for the district of Viersen and VAB, Viersen, on the introduction of Blue Eagle based on SAP®.

Right: Microsoft Deutschland GmbH presents the "Gold Certified Partner" Award to Aareon.

Wodis / Wodis Sigma

The new Wodis Sigma product generation which was launched the previous year was very successful in 2010 as well. Wodis Sigma is based on Microsoft® .NET™, one of the world's leading development platforms. The system was already in service at 142 customers at the end of 2010. Of these, 138 go-lives were carried out in 2010, including at Gemeinnützige Wohnungsbaugenossenschaft "Stadt Cottbus" eG in Cottbus, and the Vitus Group which is headquartered in Mönchengladbach but works throughout Germany. During the year just ended, an additional 115 customers (including SWW Oberallgäu Wohnungsbau GmbH, Sonthofen) decided to use Wodis Sigma. The total number of Wodis-Sigma customers thus is 321. Among other things Aareon presented the Wodis Sigma Release 2.0 that offers numerous additional features at the Wodis Forum in Bochum, its customer event in November of each year.

Highly positive market response to Wodis Sigma

SAP® solutions and Blue Eagle

Under this product line Aareon offers the SAP®-based Blue Eagle Individual solution, which was developed using the company's property expertise, as well as consulting and management services surrounding the SAP® Real Estate Management ERP system. Alternatively customers can commission Aareon separately to expand their own SAP® system and tailor it to their company's needs. Whilst tendering volumes related to property market solutions based on SAP® were down in 2010, the market remained intensely competitive regardless. This challenging environment notwithstanding, Aareon did succeed on the basis of SAP® consulting solutions. For instance, two Aareon customers - NEULAND Wohnungsgesellschaft mbH, Wolfsburg, and Nibelungen-Wohnbau-GmbH, Braunschweig - decided to have their existing Blue Eagle solutions customised to their specifications. LEG Landesentwicklungsgesellschaft NRW GmbH, Düsseldorf, one of Germany's leading property companies, closed a contract with Aareon for Blue Eagle Individual. Both GWG Gemeinnützige Wohnungsgesellschaft Viersen AG and VAB Viersener Aktien-Baugesellschaft AG had jointly carried out a tender for new ERP software. Aareon won the bid for launching and hosting Blue Eagle Individual. In addition IGG (an association representing the interests of key GES customers) and Aareon signed a letter of intent to introduce SAP®-based systems (Blue Eagle Individual). Blue Eagle Release 6.1 went live as planned.

The established GES and WohnData systems

Both of the established systems GES (ASP solution) and WohnData (in-house solution) are being continually developed to comply with market, and particularly legal, requirements, such as multi-session capability. Numerous functionalities were made available in the two GES versions released in 2010, offering among other things additional options for analysing duties to ensure safe premises and liquidity planning as well as the integration of bautecPlus. This means that Techem orders are sent to the Techem head office directly from GES via Mareon, thus enabling additional efficiency gains in the integrated settlement accounting system. Yet more efficiency gains are realised after analyses of potentials carried out in coordination with customers.

In 2009 WohnData's Customer Advisory Board and Aareon reached an agreement regarding WohnData's service life: WohnData customers should define their IT strategy, select their software and agree a migration project for 2010/2011. Many customers have already switched to another Aareon ERP product, and further conversions are planned.

Integrated Services

Aareon's Integrated Services product group comprises integrated services, integrated payment transaction services and IT outsourcing.

Integrated services

Integrated services continued to develop along a positive trajectory. Demand was focused mainly on the Mareon service portal, the Aareon document management system (Aareon DMS) and on insurance management with BauSecura. Aareon's integrated services support day-to-day work processes and link them to intragroup and external business partners via the ERP system – enhancing transparency, accelerating processes and reducing costs. Integrated services consulting is also offered through this product line.

Efficiency gains through integrated services

Mareon: The Mareon service portal links property companies, meter reading services and tradesmen. Around 250 property companies rely on Mareon to streamline their processes. Aareon gained 32 customers during the financial year just ended, for instance Berlin-based WBM Wohnungsbau-gesellschaft Mitte mbH. The new releases which include expansions of Aareon's accounting service were completed on schedule in May and November. Moreover Mareon can now also be integrated into third-party-provider systems. A total of 49 interfaces to software programs for tradesmen have already been certified, and there are now around 8,500 trade businesses working with the service portal. In 2010, the billing volume was € 530 million (previous year: € 475 million). Overall, 8.9 million orders have been transacted via Mareon to date.

Aareon DMS: Aareon's DMS document management system links all of a property company's correspondence, as well as lists, memos, notes and even e-mails and their attachments, in a dynamic knowledge repository. The system conforms to the legal requirements for archiving and data traceability (compliance regulations). It helps customers achieve lower costs, improved quality and a better service to tenants. Aareon DMS has more than 100 customers, with over 40 agreements having been signed in 2010 alone. The Aareon DMS Release 1.0 was completed on schedule in April.

BauSecura: Aareon AG holds a 51 % stake in BauSecura Versicherungsmakler GmbH, Hamburg. The remaining 49% are held by the Funk Group, an international Hamburg-based insurance service provider. BauSecura offers customers an integrated risk and insurance management system, which integrates into Aareon ERP systems and lowers the cost of risk, increases value and improves efficiency. BauSecura's services include consulting on any insurance-related issues, the analysis and assessment of individual risk situations, and the development of insurance concepts.

Aareon NetOffice product portfolio: Aareon's NetOffice products link data from other applications with the ERP system. The product portfolio includes Aareon BDA (Business Document Administration) for the individualised preparation of documents on site, Aareon Fax and Aareon Reporting. The annual Aareon NetOffice update was shipped as planned in August.

Integrated payment transaction services

The integrated payment transaction services which Aareon offers in partnership with its parent company, Aareal Bank, integrate seamlessly within Aareon ERP systems. Aareon offers the BK01® payment system for Wodis systems with the new product generation Wodis Sigma, GES and WohnData as well as the BKXL® system with integrated digital signature technology for SAP®-based Blue Eagle.

IT outsourcing

At its Mainz head office, Aareon operates both a primary and a back-up IT Service Centre, thus assuring that the services it provides to its customers are of the utmost quality. In 2010, PricewaterhouseCoopers certified them to audit standard IDW PS 951. Aareon's IT outsourcing service offers customer the benefits of a powerful IT system at attractive prices. Experienced specialists at Aareon manage mainframes, SAP®, Unix®/Linux® and Microsoft® Windows® systems. They also take care of ISDN, ATM, MPLS, leased lines, Internet VPN, web servers, databases, firewalls and other security systems – from a standalone server to a high availability cluster solution. Aareon IT experts install and maintain hardware and software, create backups, keep systems up-to-date and ensure the availability of applications. This provides a more transparent basis for planning and enables cost savings be made.

International Business

Aareon's international operations are focused on key strategic markets. The Group has subsidiaries in France, the United Kingdom and the Netherlands. Business outside Germany continued to perform well.

France: More than two million social housing units in France are managed with the systems of Aareon France SAS, Meudon-la-Forêt. Other market segments include property asset management, private housing companies and corporates. Business development was strong in 2010. Aareon gained additional customers, including Logement Français, one of the leading housing companies in France. Aareon France's customer conference, which took place in June 2010, met with a lot of interest. The focus was on new product generations, Prem'Habitat 2.0 and PortalImmo Habitat 2.0. Aareon France has 250 customers, more than 25,000 users and about 140 employees at four offices in France.

Intense interest in Paris customer conference

Left: Head office of Aareon France in Meudon-la-Forêt.
Right: Employees of Aareon France.



United Kingdom: Aareon UK Ltd. has about 50 employees at its offices in Coventry and Swansea (Wales). The company offers the ERP solution QL. The 95 customers in the UK are mainly registered social landlords and local authorities. Aareon UK succeeded in gaining numerous new customers despite aggressive price competition in the British market.

The Netherlands: Aareon AG took over SG|automatisering bv, Emmen, effective 1 November 2010. SG|automatisering bv in turn owns 51 % of SG|Facilitor B.V.; 70 % of SG|stravis B.V.; 100 % of SG|Professional Services B.V.; 50 % of SG2ALL B.V.; 51 % of SG|webbsolutions B.V. and an indirect stake of 51 % in SG|Detacheren B.V. via SG|Facilitor B.V. This leading provider of software specific to housing companies and property management was founded in 1979 under the name SG2000. In 1990, the company was renamed SG|automatisering. Roughly 170 employees work at its four business locations – Emmen, Enschede, Leusden and Son en Breugel – in the Netherlands. Both its business volume and its market share have climbed continuously. SG|automatisering bv currently is the second-largest provider of property market software in the Netherlands. Aside from the SG|tobias ERP solution, the company also offers companion products such as SG|treasury and SG|vastgoed. A new product generation, SG|tobias^{AX}, was developed from SG|tobias based on Microsoft® Dynamics® AX. It was successfully brought to market in 2010. SG|automatisering bv also offers services related to consulting, implementation and training. All IT Service Centre are offered by SG2ALL B.V. Software that supports facility management and is offered under either a licence or the software-as-a-service (saas) model is the main product of SG|Facilitor B.V. The business of SG|stravis B.V. consists of a software package for supporting maintenance planning. SG|Professional Services B.V. offers consulting services mainly in connection with the SG|treasury module. SG|automatisering bv has entered into an important partnership with Microsoft, becoming a Microsoft Gold Certified Partner.

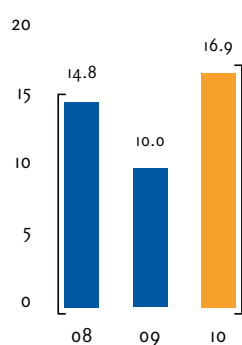
Business developments

Earnings

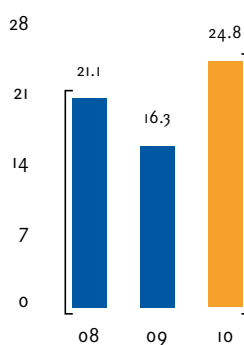
Compared to the previous year, consolidated earnings before interest and taxes (EBIT) rose by € 8.5 million to € 24.8 million – the Aareon Group's best result ever. The consolidated net income after taxes was € 16.9 million (previous year: € 10.0 million). Revenues dropped slightly by 1.8% to € 150.2 million (previous year: € 153.0 million) in the 2010 financial year. The cost/income ratio fell from 89.8% the previous year to 84.1% due to the decrease in total expense. The return on equity was 37.3%, up from 26.7% the previous year, thanks to the good result.

Consolidated EBIT of
€ 24.8 million

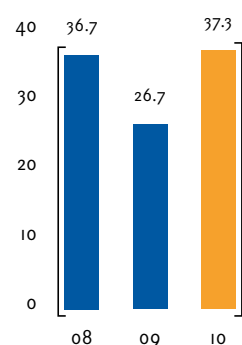
**Consolidated net income
after taxes in € million**



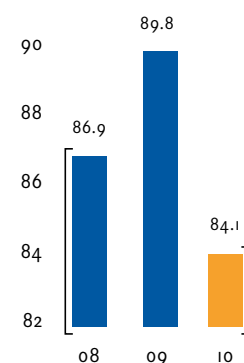
EBIT in € million



Return on Equity in %

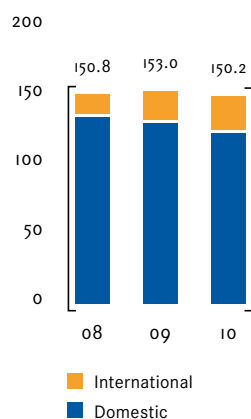


Cost Income Ratio in %

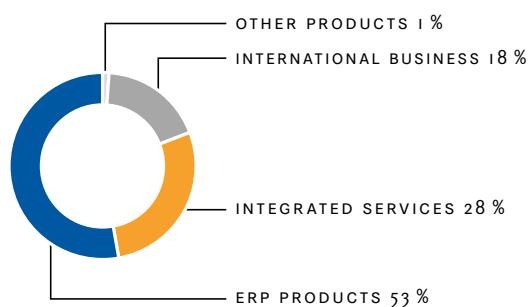


Falling revenues in Germany (€ -8.0 million) were largely offset by rising revenues in the International Business (€ 5.2 million), mainly owing to the acquisition of SG|automatisering bv. The decline in domestic revenues occurred both in ERP Products (€ -3.1 million) and Integrated Services (€ -5.0 million). The 2009 adjustment of consulting capacities/services for SAP®-based solutions were a major factor in the reduction of revenues from ERP Products. Both the termination by a major customer in the outsourcing segment and the discontinuation in 2009 of two lines of business (IT Consulting and Aareon Human Resources Management) contributed substantially to the decline in revenues from Integrated Services.

Revenue in € million



Revenue by product group



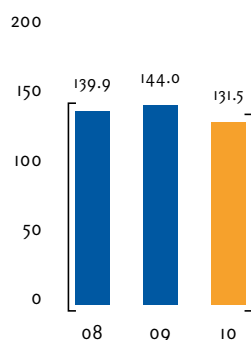
In 2010, Aareon's continued pursuit of process and cost optimisation led to further reductions in the cost of materials by 11.2 % to € 20.6 million (previous year: € 23.2 million). At € 131.5 million, total operating expenses were 8.7 % lower year on year (previous year: € 144.0 million) in particular due to the 11.0 % decline in staff costs to € 74.5 million (previous year: € 83.7 million). The decline is primarily due to the extraordinary restructuring expenses recognised in the previous year and a reduction in the number of employees. Depreciation and amortisation decreased by € 0.6 million compared to the previous year.

Research and development activities at Aareon again focused on the Wodis Sigma product generation. Expenses for research and development in 2010 were € 4.6 million (previous year: € 3.8 million), corresponding to 3.2 % of total operating expenses.

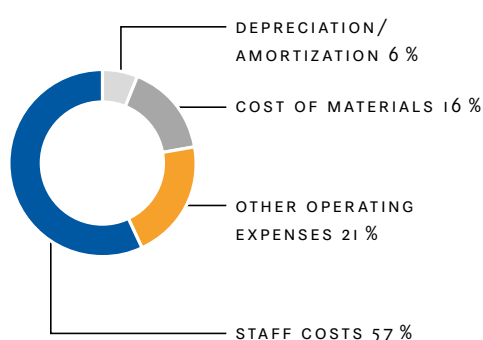
€4.6 million

for research and development

Expenditure in € million



Expenditure by cost group

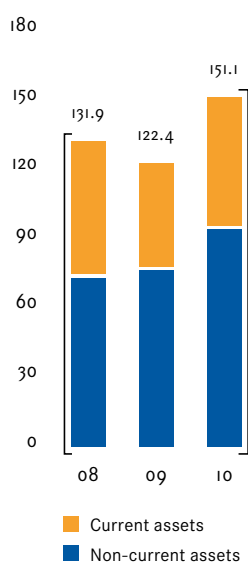


Assets, liabilities and cash flows

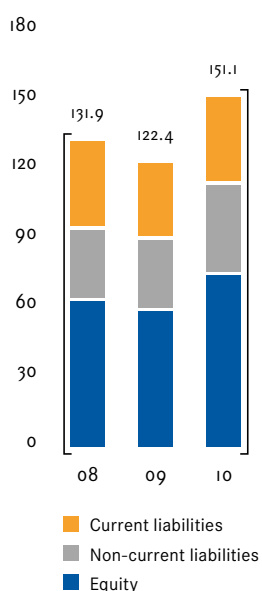
Total assets of the Aareon Group increased by 23.4% to € 151.1 million (previous year: € 122.4 million). Non-current assets rose 23.4% to € 94.9 million (previous year: € 76.9 million) due to the increases in intangible assets (€ 72.3 million; previous year: € 55.2 million), property, plant and equipment (€ 12.8 million; previous year: € 10.8 million) and financial assets (€ 5.3 million; previous year: € 5.1 million). The increase in intangible assets is mainly attributable to the acquisition of SG|automatisering bv. Current assets rose by 23.6% to € 56.1 million (previous year: € 45.4 million), owing to the 50.6% increase in cash and cash equivalents to € 25.3 million (previous year: € 16.8 million). While the cash flow from operating activities was up 44.8% to € 23.9 million (previous year: € 16.5 million), the cash flow from financing activities also improved to € -0.1 million (previous year: € -15.3 million) because there were no payments to shareholders in 2010. The cash flow from investing activities changed from € -10.1 million the previous year to € -14.6 million in 2010, mainly due to the acquisition of the Dutch company.

Aareon's equity climbed by 27.2% to € 75.4 million (previous year: € 59.3 million) largely on account of the increase in consolidated net income. Allocating the purchase price payment for Aareon's new subsidiary, SG|automatisering bv, over a longer term has had a major impact on non-current liabilities, which were € 38.4 million, up from € 30.8 million the previous year. Current liabilities (€ 37.3 million, previous year: € 32.3 million) rose primarily because the higher profit triggered higher current tax liabilities; other liabilities also increased.

Assets in € million
(asset structure)



Equity and liabilities in € million
(capital structure)



Events after the reporting period

Pursuant to the amended shareholder resolution at the Annual General Meeting of Aareon AG on 03 February 2011, the profit of € 9.4 million that was brought forward under the German Commercial Code was allocated in full to dividend payments.

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

Internal control system

Aareon AG's internal control system (ICS) consists of systematic organisational measures and controls for compliance with the company's directives and to avert potential losses caused by the Company's own staff or third parties. Accounting-related internal control systems are designed to ensure that a company's operations are duly executed and efficient. One of the principal aims is to ensure the conformity of internal and external accounting processes and compliance with the relevant legal provisions. Aareon's main core processes include the areas of liquidity, human resources, legal affairs, customers and products. Aareon AG has presented its main core processes in the form of a matrix, identified the relevant risks in each case and assigned control objectives and suitable control activities. The performance of the control activities and hence the effectiveness of the controls is documented using different forms of evidence.

Compliance with various guidelines at Aareon AG related to signatory powers, the use of company cars or travel expenses is regularly monitored. For the preparation of Aareon's annual financial statements, internal accounting guidance for the accounting process is set out in a group accounting manual in compliance with the legal requirements. This guidance is made available to all Aareon subsidiaries, reviewed on a regular basis and updated as required. When the financial statements are being prepared, plausibility checks are carried out in the accounting systems of subsidiaries primarily involving the analysis of individual items. In addition, a schedule governing the preparation of the annual financial statements provides a framework for the given process once all subsidiaries have completed their separate financial statements and submitted them to the corporate department for preparation of the consolidated financial statements. Aareon also reconciles balances with customers and suppliers for the annual financial statements. Appropriate control processes are implemented for automated and manual entries. The principal accounting procedures are double checked. An authorisation concept for the accounting and financial reporting systems is in place to protect against unauthorised access. Aareon also uses the services of external providers, for instance in connection with the measurement of pension obligations.

Aareon's risk management manual contains the key elements of the risk management system. In this context we also refer to our statements in the risk report.

Report on the company's probable development including significant opportunities and risks

Risk report

Aareon AG monitors and manages its business risks with a groupwide risk management system based on a standard software that includes an early warning function. The risk management system enables those responsible for the relevant product line, investments and projects to record and analyse risks on a regular basis as well as to develop measures aimed at proactive risk management. Risk assessment is carried out separately in terms of a risk's impact and probability of occurring. The resulting risk reports are consolidated by the risk management department and provide the basis for quarterly risk reporting. Quarterly risk reports are discussed in Management Board meetings and are also included in the quarterly reports to the Supervisory Board of Aareon AG. The risk reporting system sheds light on the company's risk situation, providing management with the tools it needs to make decisions with respect to actions to be taken in view of managing risks. The Legal & Risk Management function documents all of the risk officers' suggested actions regarding the ten most serious risks. In addition the Management Board of Aareon AG resolves measures in regards to risks that exceed a given threshold (in function of their impact and probability of occurring).

The company's internal auditing department verifies compliance with statutory requirements and uniform group-wide guidelines that are documented in the risk management manual.

Financial and market risks, management and organisational risks, risks from environmental and ambient conditions as well as production risks are among the risk types to which Aareon is exposed. Liquidity, cost and revenue risks are analysed as part of the financial risks. Market risks include customer risks, competition risks and risks relating to associations' and advisory boards' opinion leadership. The management and organisation category combines risks relating to personnel, communication, the corporate culture and corporate planning and individual processes. Legal risks, especially those arising from customer agreements, are allocated to the environmental and ambient conditions category. Production risks comprise product risks, project risks and risks relating to information security. There are interdependencies between the individual risk types. Overall, Aareon AG was not exposed to any risks in the reporting year that would have threatened it as a going concern or had a significant impact on its assets, liabilities, cash flows and earnings.

Financial risks: Business development at the subsidiaries also involves earnings risks. In order to absorb these risks, Aareon continued its restructuring and consolidation measures in 2010 and initiated and executed new measures. Aareon regularly reviews its strategy. The company deals with the risk that the number of successfully executed customer projects falls short of targets by monitoring the projects' costs, deadlines and quality as part of project management. Additional actions are taken in cooperation with the product line's consulting services in order to achieve the revenue target if contractual agreements on milestones for critical projects have not yet been fulfilled. Aareon AG deals with cost-related risks by implementing cost-conscious strategies supported by tight budget planning.

Customer survey minimises
qualitative risks

Market risks: Aareon AG's multiproduct strategy, which includes Integrated Services, is the Group's response to the property industry's increasingly heterogeneous challenges. Issues relevant to the future are deliberated, assessed and prioritised according to their strategic significance in order to identify suitable market potentials. Aareon has been counteracting the risk of being unable to enforce its list prices in the marketplace by analysing competitors' pricing. Using competitor analyses flanked by the activities of its regional sales departments, Aareon ensures that it knows competitors' products well enough to use that knowledge for its own marketing activities. Aareon AG also addresses general market risks, which include potential customer churn, pressure on achievable market prices, greater demands for the software systems and the market entry of new competitors. At Aareon AG, these risks are monitored by means of a monthly Management Board report on management of the customer base. The report also contains a detailed sales pipeline (i.e. a list of potential customers including an analysis of the probability of their becoming actual customers). Active participation in property national and regional associations and competitor analyses serve as further instruments for managing risk. Aareon AG regularly assesses the needs of its customers in order to minimise quality risks. Aareon's annual, anonymous and standardised customer survey is a key barometer of customer satisfaction with its products and the Aareon brand. It enables Aareon to recognise market requirements early on and take them into account in the development of products and in service management.

Management and organisational risks: Aareon implements major organisational changes, such as the merger of the Wodis/Wodis Sigma and WohnData product lines, in the form of integration projects. The integration and briefing of all participants, professional and transparent project planning as well as active labelling and management of the risks is of prime importance in such activities. Networking the individuals involved in the project with the goal of promoting the concept of "One Company" is achieved, for example, by establishing overarching meeting structures, processing orders jointly and exchanging detailed information. Aareon's targeted project management activities are rounded off by integrating staff from different areas in the Group in Germany, supporting integration projects with the aid of experts from the field of change management and using knowledge and procedures from past organisation projects. However, a separate committee responsible for Aareon's International Business will continue to monitor its foreign subsidiaries.

Two training series were initiated at the subsidiary, Aareon Wodis GmbH, to train staff from other product lines in processing order tickets as well as in providing on-site training in order to ensure that the necessary resources are made available at the given site in the desired quality at the right time.

Aareon launched its strategic moveIT project to optimise internal processes and support systems. Its main goals entail reducing the complexity of the systems for users, eliminating redundancies between systems as well as simplifying processes and making them more transparent.

Environmental and ambient conditions: Environmental and ambient conditions represent legal risks for Aareon AG. Software development generally entails the risk that new customer requirements based on service expectations or commitments included in customer contracts are not satisfied in full and hence that the company might be faced with warranty claims or claims for damages. In order to mitigate this risk, sales support ensures that Aareon's offerings contain solutions that can be delivered and that sufficient resources are available to allow compliance with Aareon's product management approach. Complaints management is another measure intended to minimise potential claims for damages arising from software implementation projects. The aim is to appease customers as rapidly as possible by processing their complaints in a timely and professional manner. Rapid responses to customer complaints help to remedy developments gone awry and avert any resulting damage.

Complaints management prevents undesirable developments

Production risks: Aareon AG consistently refines its ERP solutions and Integrated Services with an eye toward the future. The company focuses first and foremost on creating customer benefits. The risk inherent in software development is that the relevant activities can not be provided at the targeted costs, in the expected quality, and within the timeframe expected by the market. Hence software is always developed within the parameters of project management methods based on international standards with a focus on uniform and professional approaches to project work. The application of Aareon's project management thus reduces software development risks. Before starting work on custom projects, Aareon prepares a requirements specification with the customer. Product enhancements to standard software that have been introduced to meet customer requirements are deployed initially with pilot customers. The Management Board regularly checks the list of software development projects and their risk assessment.

Aareon project management for professional project work

The internal control system of Aareon's IT Service Centre has been audited and certified to IDW PS 951 Type A. The adequacy and efficacy of the service-related internal control system was certified for the period from 01 July 2009 through 31 December 2009. The audit mainly covers the IT Service Centre processes regarding availability, physical safety, network, database and system security, data security and job processing.

Aareon minimises the risk of serious disruption when operating customer software by implementing sensible, documented measures that are subject to regular tests to ensure that any periods of disruption that should occur are tolerable and do not cause appreciable damage to the customer or the supplier's business. With the exception of unavoidable issues and short-term interruptions, no disruptions have been experienced that have led to an extended period of loss of output. Generally speaking, the possibility of disruption or emergencies that could result in the breaching of contractual agreed standards (SLA) cannot be completely ruled out. In the event of this kind of outage, contractually protected backup locations are available to enable Aareon to temporarily resume its contractual obligations after a specified, short adjustment period.

The company has also installed comprehensive data security processes which allow it to reconstruct lost data in part or in whole in due time. Aareon has addressed the issue of liability risk by taking out property damage/liability insurance with limited scope and cover provided. This policy provides cover in the event that Aareon is judged liable to a third party for damage incurred as a result of its activities as an IT provider.

Comprehensive data backup processes are in place

Growth in revenues and consolidated net income expected

Ten-year anniversary of the Mareon service portal in 2011

Anticipated developments

Aareon expects to grow both its revenues and consolidated net income over the next two financial years.

Modern technology platforms have become increasingly significant to the property-related software market. They make it possible to enhance systems' usability and implement new functionalities more rapidly. Aareon is very well positioned thanks to its Wodis Sigma ERP product generation which will make a significant contribution to revenues in 2011/2012 as part of the ERP Products product group. The product is being refined as planned such that the new Release 3.0 will be available in 2011. We expect WohnData and Wodis customers to migrate to Wodis Sigma, in turn boosting revenues from consultancy.

Aareon expects to gain certain large-scale projects related to the SAP® solutions and Blue Eagle product line as well as market additional custom consulting solutions. Both should spark revenue growth.

As far as the existing GES system is concerned, Aareon believes that an increasing number of GES customers will migrate to another Aareon ERP solution. This will shift revenues to other product lines, as planned.

Aareon expects to increase revenues from its integrated services business, which are driven particularly by the Mareon service portal as well as the Aareon DMS document management system. Having been launched in 2001, Mareon will celebrate its ten-year anniversary in 2011. Aareon will use this occasion to generate positive publicity for itself. IT outsourcing will be able to compensate the drop in revenues from the termination of the contract with a major customer only in part. We expect BauSecura's revenues to grow in future as well.

Revenues from Aareon's International Business product group are likely to expand substantially. The SG|automatisering Group, which we acquired effective 1 November 2010, will account for a significant portion of that revenue growth. The SG|tobias^{AX} software is expected to establish itself in the marketplace. We also expect the ERP products – Prem'Habitat 2.0 and PortalImmo Habitat 2.0 – of Aareon France SAS (our French subsidiary) to remain successful in the marketplace. Revenues from the new customer business are likely to grow despite the intense price competition in the British market.

The Aareon Group's total expense is likely to grow – especially on account of greater staff costs. This is because the takeover of SG|automatisering added about 170 people to Aareon's workforce.

The third section of the Group's new head office in Mainz will be completed in the current financial year; it will house the IT Service Centre among other things. We occupied the first two sections of the building in 2009. The building's heating system, which is based on geothermal energy, will be able to use the IT Service Centre's waste heat to heat the entire complex and replenish the stores of geothermal energy. Moreover the new IT Service Centre will incorporate state-of-the-art technology and security standards.

Mainz, 07 February 2011
The Management Board



Dr. Manfred Alflen



Jürgen Pfeiffer



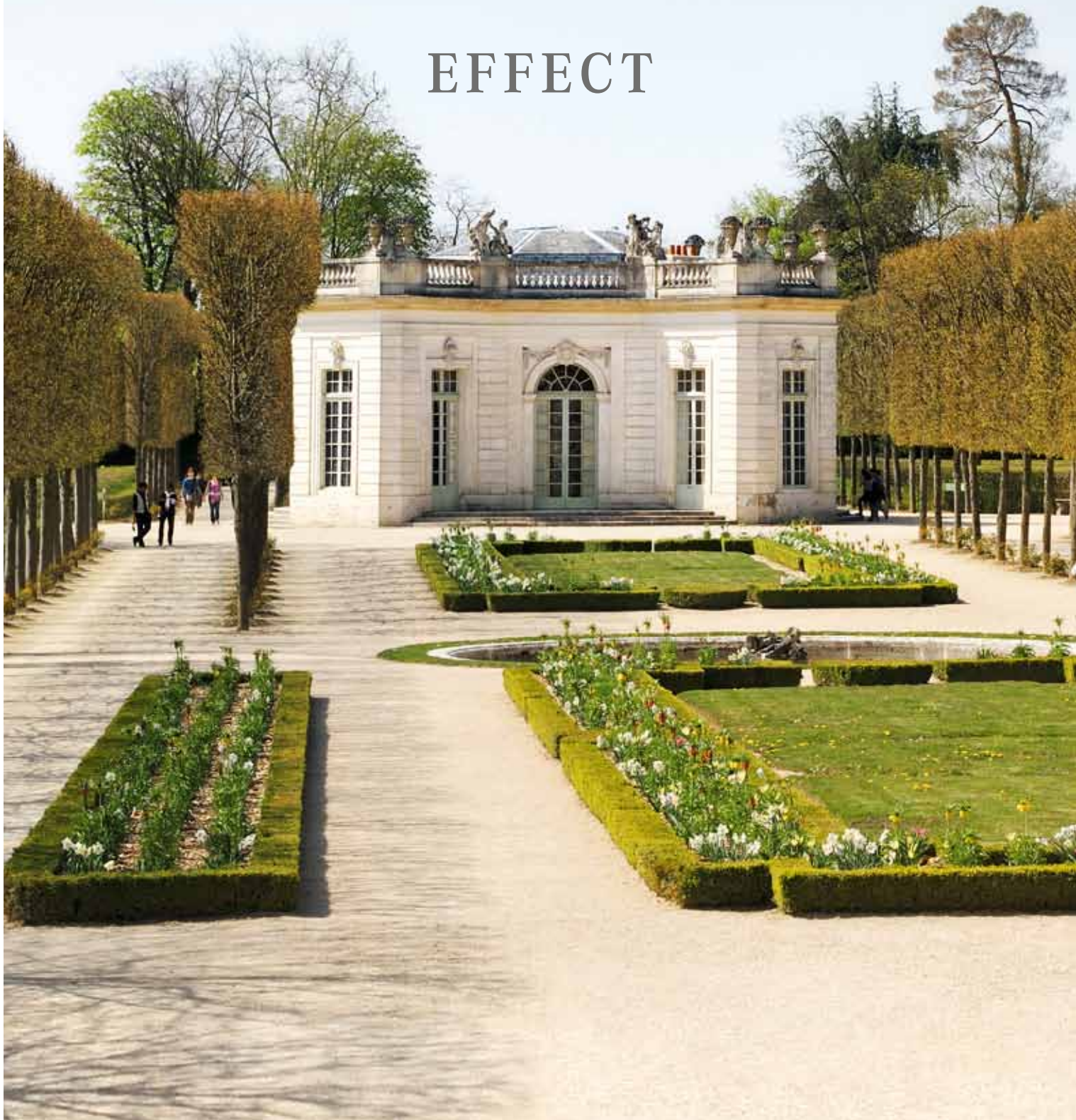
Dr. André Rasquin



Eberhard Villmow

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

EFFECT





EFFECT

“The perfect interplay of individual elements can create an impressive effect. Similarly, the international collaboration of experts within the Aareon Group enables us to leverage synergies to continually optimise the effects of our products and services, keeping a clear focus on our customers.”

CHANTAL PENELON | President,
Aareon France SAS, Meudon-la-Forêt



Consolidated financial statements

Consolidated statement of comprehensive income

for the period from 1 January to 31 December 2010

(€ 000's)	NOTES	2010	2009
Revenues	4.1	150,249	153,019
Other own work capitalised		1,810	1,597
Other operating income	4.2	4,211	5,394
Cost of materials	4.3	20,564	23,218
a) Expenses for raw materials and consumables		4,192	3,532
b) Cost of purchased services		16,372	19,686
Staff costs	4.4	74,526	83,663
a) Wages and salaries		61,914	70,539
b) Social security costs and expenses for pensions and support		12,612	13,124
Including for pensions: € 2,415k (previous year: € 2,703k)			
Depreciation and amortisation			
on intangible assets and on property, plant and equipment		8,444	9,064
Other operating expenses	4.5	27,475	27,396
Other interest and similar income	4.6	59	408
Including from affiliated companies: € 0k (previous year: € 48k)			
Write-downs on financial assets	4.6	11	301
Interest and similar expenses	4.6	176	331
Including from affiliated companies: € 0k (previous year: € 32k)			
Result from ordinary activities		25,133	16,445
Income taxes	4.7	7,782	6,114
Other taxes		482	325
Consolidated net income/loss		16,869	10,006
Of which attributable to:			
Shareholders of the parent company		15,616	9,019
Minority shareholders		1,253	987
Changes in value recognised directly in equity	5.12	0	0
Comprehensive income		16,869	10,006

Consolidated balance sheet

as at 31 December 2010

(€ 000's)	NOTES	2010	2009
Non-current assets			
Intangible assets	5.1	72,280	55,166
Property, plant and equipment	5.2	12,791	10,836
Financial assets	5.3	5,325	5,079
Trade receivables and other assets	5.6	0	313
Non-current tax assets	5.9	4,519	5,547
		94,915	76,941
Current assets			
Inventories	5.5	602	1,157
Trade receivables and other assets	5.6	27,763	24,744
Current tax assets	5.7	2,513	2,695
Cash on hand and balances held with banks	5.8	25,259	16,844
		56,137	45,440
		151,052	122,381

(€ 000's)	NOTES	2010	2009
Equity			
	5.10/5.11/		
Equity attributable to shareholders	5.12	73,443	57,978
Minority interest	5.13	1,953	1,312
		75,396	59,290
Non-current liabilities			
Provisions for pensions and similar obligations	5.14.1	20,156	19,960
Other non-current provisions	5.14.2	5,148	3,505
Deferred tax liabilities	5.9	3,925	4,408
Other liabilities	5.16	9,145	2,936
		38,374	30,809
Current liabilities			
Other current provisions	5.14.2	8,622	12,634
Current tax liabilities	5.15	11,760	6,964
Trade payables and other liabilities	5.16	16,900	12,684
		37,282	32,282
		151,052	122,381

Consolidated statement of changes in equity

for the period from 1 January to 31 December 2010

(€ 000's)	SUBSCRIBED CAPITAL	CAPITAL RESERVES	TRANSLATION DIFFERENCES	ACCUMULATED GROUP INCOME	TOTAL
Of which attributable to shareholders of the parent company					
01 January 2010	25,000	26,400	-639	7,217	57,978
Addition to reserves	0	0	0	0	0
Distribution	0	0	0	0	0
Group income	0	0	0	15,616	15,616
Other changes	0	0	64	-215	-151
31 December 2010	25,000	26,400	-575	22,618	73,443
Of which attributable to minority interest					
01 January 2010	79	0	0	1,233	1,312
Addition to reserves	0	0	0	0	0
Distribution	0	0	0	-773	-773
Group income	0	0	0	1,253	1,253
Other changes	0	0	0	161	161
31 December 2010	79	0	0	1,874	1,953

for the period from 1 January to 31 December 2009

(€ 000's)	SUBSCRIBED CAPITAL	CAPITAL RESERVES	TRANSLATION DIFFERENCES	ACCUMULATED GROUP INCOME	TOTAL
Of which attributable to shareholders of the parent company					
01 January 2009	25,000	26,400	-742	12,018	62,676
Addition to reserves	0	0	0	0	0
Distribution	0	0	0	-13,700	-13,700
Group income	0	0	0	9,019	9,019
Other changes	0	0	103	-120	-17
31 December 2009	25,000	26,400	-639	7,217	57,978
Of which attributable to minority interest					
01 January 2009	79	0	0	965	1,044
Addition to reserves	0	0	0	0	0
Distribution	0	0	0	-719	-719
Group income	0	0	0	987	987
Other changes	0	0	0	0	0
31 December 2009	79	0	0	1,233	1,312

Consolidated statement of cash flows (IFRS)

(€ 000's)	2010	2009
Net income for the period (including income/loss portion attributable to minority interest) before financial result and tax expense	24,780	16,344
Amortisation/depreciation of fixed assets	8,420	9,064
Income taxes paid	-6,343	-5,550
Interest paid	-176	-226
Interest received	59	89
Increase/decrease (-) in provisions	-1,464	-322
Increase (-)/decrease in inventories	555	1,893
Increase (-)/decrease in receivables and other assets	157	3,072
Increase (-)/decrease in other assets	374	-205
Increase/decrease (-) in liabilities	-2,231	-7,840
Increase/decrease (-) in other liabilities	334	467
Income (-) /loss from the sale/purchase of consolidated companies and other business units	-492	-284
Cash flow from operating activities	23,973	16,502
Payments for investments in fixed assets	-4,597	-9,779
Cash receipts from the sale of consolidated companies and other business units (less cash surrendered)	-24	-189
Cash payments for the purchase of consolidated companies and other business units (less cash acquired)	-9,973	0
Exchange rate-related changes in fixed assets	-40	-104
Cash flow from investing activities	-14,634	-10,072
Payments to minority shareholders	-773	-719
Payment to shareholders	0	-14,493
Other changes in capital	-215	-120
Cash flow from financing activities	-988	-15,332
Net change in cash and cash equivalents	8,351	-8,902
Exchange rate-related change in cash and cash equivalents	64	103
Total change in cash and cash equivalents	8,415	-8,799
Cash funds at the beginning of the year	16,844	25,643
Cash funds at the end of the year	25,259	16,844

Notes to the consolidated financial statements

[1]

General notes

[1.1]

Compliance with legal requirements

The consolidated financial statements of Aareon AG, Isaac-Fulda-Allee 6, 55124 Mainz, Germany, for the 2010 financial year were prepared according to International Financial Reporting Standards (IFRS) and the interpretations of the Standing Interpretations Committee (SIC/IFRIC as applicable in the EU as well as the applicable provisions of section 315a para 1 of the German Commercial Code (Handelsgesetzbuch – “HGB”). All of the compulsory International Financial Reporting Standards required for the consolidated financial statements as of 31 December 2010 were taken into account. The financial statements give a true and fair view of the assets, liabilities, cash flows and profit or loss 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's). Rounding differences of up to one unit in each direction may occur in tables for technical reasons. The statement of comprehensive income has been prepared using the total cost (nature of expense) method.

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

Aareon AG is a wholly-owned subsidiary of Aareal IT Beteiligungen GmbH, Paulinenstraße 15, 65189 Wiesbaden, Germany. It is included in the consolidated financial statements of its ultimate parent company, Aareal Bank AG, according to the provisions for full consolidation. In accordance with section 291 of the HGB, Aareon AG is therefore exempt from the obligation to prepare consolidated financial statements under German commercial law.

[1.2]

Operating activities

Aareon AG – consultancy and systems house to the property sector – offers consulting, software and services. Aareon has a presence at 20 sites (10 of which are in Germany) and operates in Germany, France, the United Kingdom and the Netherlands. The company currently has around 1,000 employees. Its head office is located in Mainz, Germany.

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

[2]

Information on accounting policies and consolidation methods

[2.1]

Basis of consolidation

The group of fully 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 the right to appoint the majority of the Supervisory Board members. Please see section 5 for a list of all subsidiaries included in the consolidated financial statements including information on the percentage of shares held, equity and net profit/loss for the year.

As of 1 November 2010, Aareon AG acquired 100% of the shares of der SG|automatisering bv, Emmen. The company is the second largest provider of property market IT solutions in the Netherlands. SG|automatisering bv in turn owns 51% of SG|Facilitor B.V., 70% of SG|stravis B.V., 100% of SG|Professional Services B.V., 50% of SG2ALL B.V., 51% of SG|webbsolutions B.V. and an indirect stake of 51% in SG|Detachering B.V. via SG|Facilitor B.V. SG2ALL B.V. is accounted for at equity because it is a jointly controlled entity. The carrying amount of the equity interest in SG2ALL B.V. is € 70k.

Pursuant to IFRS 3, all consideration transferred in connection with the business combination (including contingent consideration) must be measured at fair value as at the acquisition date and recognised accordingly. The purchase price for SG|automatisering bv comprises the fixed price of € 13,500k and contingent consideration. The contingent consideration in turn has two components, specifically, achievement of profit/loss performance targets for the period from 2010 to 2012 as well as the revenues for the period from 2010 to 2012. The fair value of the contingent consideration was recognised at € 4,500k. There has been no change since the acquisition date.

The pro rata fair value of the assets and liabilities acquired is € 5,079k. The assets and liabilities acquired were recognised in the following amounts:

(€ 000's)	CARRYING AMOUNT BEFORE COMBINATION	FAIR VALUE AS OF THE DATE OF INITIAL CONSOLIDATION
Fixed assets	10,585	10,238
of which intangible assets	5,376	5,976
Receivables	1,193	1,193
Other assets	617	617
Liabilities and accruals	4,100	4,243
Financial liabilities	2,726	2,726
Net assets acquired	5,569	5,079

This results in goodwill of € 12,921k. The resulting goodwill reflects the enhanced market position of the International Business segment owing to its expansion by the Dutch market and thus the expansion of Aareon's leading market position in Europe.

The share in the consolidated net income attributable to the acquired company since initial consolidation during the year was € 1,404k. If the acquisition had been recognised as of the beginning of the reporting period, revenues and net income for the year attributable to the acquired entity would have been € 18,329k and € 2,480k, respectively.

One subsidiary, Aareon Italia S.r.l., Rome, was deconsolidated as of 30 September 2010, resulting in a deconsolidation gain of € 586k.

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

[2.2]

Principles of consolidation

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

[2.3]

Currency translation

The international companies which belong to the Aareon Group are independent sub-units, whose financial statements are translated into euros using the functional currency concept. 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 using the closing rate on the balance sheet date. Differences which impact equity are disclosed directly in a separate equity item until the subsidiary is disposed of. This also applies to any deviations between the accumulated profit translated using the closing rate on the balance sheet date and the results shown in the consolidated income statement based on average exchange rates. The components of equity to be included in acquisition accounting are translated using historical exchange rates.

The following exchange rates were used for translation:

		BALANCE SHEET CLOSING RATE		INCOME STATEMENT AVERAGE EXCHANGE RATE	
1 € =		31.12.2010	31.12.2009	2010	2009
United Kingdom	GBP	0.8608	0.8881	0.8562	0.8909

[3]

Accounting policies

[3.1]

Intangible assets

Purchased intangible assets, primarily software, are capitalised at cost and subject to amortisation in line with their useful life. Goodwill essentially arises from the acquisition of software companies and is attributed mostly to the ERP Products and Integrated Services product groups and to the Group's international business. IFRS 3 offers a choice of measuring the goodwill using either the full goodwill or the partial goodwill method. The Aareon Group applies the partial goodwill method.

Goodwill is subject to an annual impairment test. Its value is determined based on the present value of future cash flows ("value in use") which are determined by using mid-term planning figures. This entails using the planned after-tax cash flows taken from the five-year planning approved by the Management Board of Aareon AG. The cash flows applicable beyond the planning period correspond to the figures for the fifth year of planning. The determination of the present value of future cash flows is based on a discount factor of 8.2% after tax which is adequate to the risks concerned.

Research costs are treated as ongoing expense in line with IAS 38. Development costs for software produced in-house were capitalised if the requirements for capitalisation according to IAS 38 are met. They are amortised in accordance with their useful life, which for property software is ten years and for other application software is three years on average.

Property, plant and equipment are measured at cost according to IAS 16 and, insofar as these are wasting assets, subject to straight-line depreciation in line with their expected useful life. Low-value assets are written down in full in the year of acquisition. Impairment within the meaning of IAS 36 is recognised if it is compulsory to carry the asset at a lower value, i.e. if the net selling price or the value in use of the affected asset is lower than its carrying amount. If the reasons for impairment losses recognised in previous years no longer exist, impairment is reversed in line with IAS 36.104 and recognised in profit or loss.

[3.2]
Property, plant and equipment

The requirements of IAS 17 are fulfilled for the use of leased assets if all of the major opportunities and risks associated with ownership are transferred to the lessee. In this case, the respective assets are capitalised at the present value of the minimum 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 payment obligations from future lease payments are discounted and carried as a liability.

[3.3]
Leases

After the lease period expires, as a rule the lessee has the opportunity to conclude a subsequent lease or purchase the asset at its respective residual value or transfer the asset to the lessee to have it scrapped. The discount factor equals the interest rate underlying the lease. If this rate is unknown, a borrowing rate of 4 % is taken into account.

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

[3.4]
Financial instruments

IAS 39 breaks down financial assets into the following categories:

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

Financial assets held by the Aareon Group are loans and receivables. As a rule, financial instruments are not treated as "held-to-maturity investments". No "financial assets held for trading" are acquired. Insofar as the Group acquires securities, these are generally treated as "available-for-sale financial assets". The financial instruments disclosed are not subject to any interest rate risk.

"Loans and receivables" and liabilities are measured at the lower of amortised cost and fair value. This category includes in particular:

- Long-term loans
- Trade payables and trade receivables
- Receivables from unbilled services
- Current other receivables and assets as well as liabilities

Valuation allowances for trade receivables are recognised to the extent required – as a rule using global allowances. Low-interest bearing receivables are carried at their discounted amount taking into account appropriate interest.

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

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

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

As a rule, “available-for-sale assets” are recognised at fair value. The fair value always is the stock market or market value. If this cannot be calculated, these assets are measured according to actuarial principles by discounting future cash flows using a risk-adjusted discount factor.

[3.5]

Inventories

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

[3.6]

Deferred taxes

Deferred taxes are recognised in line with IAS 12 for all temporary differences between the carrying amounts in the tax base and the consolidated balance sheet (temporary concept). In addition, deferred taxes must be recognised for losses carried forward. The so-called liability method is used to calculate deferred taxes. Deferrals are recognised in the amount of the assumed tax burden or relief in future financial years based on the tax rate which applies at the time of realisation. Deferred taxes are recognised at their nominal amount (IAS 12.54 et seq.). The carrying amounts are reviewed at each balance sheet date and adjusted if necessary. The carrying amount should be reduced accordingly to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit or part or all of that deferred tax asset to be realised (discount).

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

[3.7]

Pension provisions and similar obligations

Provisions for pension obligations are primarily recognised for commitments arising from pension plans, i.e. retirement pensions, disability pensions and benefits for surviving dependants. The actuarial measurement of pension provisions is based on the projected unit credit method prescribed by IAS 19 for pension commitments. As a rule, these are performance-oriented commitments, i.e. the company's pension commitment to the respective employees depends on the development of their salary and the number of years of service (defined benefit plan). During this process, future increases in salaries and pensions are taken into account as well as the pensions and commitments known on the balance sheet date.

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

[3.8]

Tax provisions

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

The other provisions account for all identifiable risks and uncertain liabilities at the reporting date. Provisions which do not already lead to an outflow of resources in the following year are recognised at their settlement value if no material impact on interest would result. The settlement value also comprises the cost increases to be taken into account on the balance sheet date. Provisions in foreign currencies were translated using the closing rate on the balance sheet date.

**[3.9]
Other provisions**

Stock option programmes (IFRS 2 “Share-based Payment”) granted in return for services rendered are recognised under staff costs. Claims to the phantom stocks of Aareal Bank AG are paid in cash. The payments are distributed over three calendar years.

Provisions for share-based payment are recognised in full from the date the options are granted/issued. The provisions are adjusted if the price changes.

Liabilities are recognised at their repayment or settlement value. Liabilities from finance leases are carried at the present value of the lease payments.

**[3.10]
Liabilities**

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

**[3.11]
Recognition of income
and expense**

The company essentially generates its sales through

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

Hosting/outsourcing services are billed and recorded as revenues on a monthly basis. Software revenue is recognised if there is a contract signed by both parties with no right to withdraw from the contract, the product has been delivered in full, the licence fee has been determined and collectibility is probable.

Maintenance services are realised proportionately over the contractual performance period. Consulting and training services are recognised in profit or loss when the service has been performed. Furthermore, the Group provides implementation services as part of its project work. In these cases, revenue is recognised according to the percentage of completion method. The percentage of completion of the projects is calculated based on a comparison of the costs already incurred with the total project costs. Provisions are recognised for contingent losses from this type of service in the period in which they are caused, insofar as there is no assets item.

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

[4]

Notes to the statement of comprehensive income of the Aareon Group

[4.1]

Revenues

(€ 000's)	REVENUES BY PRODUCT GROUP	
	2010	2009
ERP products	80,314	83,393
Integrated Services	41,577	46,527
International Business	27,190	21,973
Other products	1,168	1,126
Total	150,249	153,019

The revenues of the ERP Products product group fell by € 3,079k due to the decline in consulting services and special programming work in the SAP® solutions, Blue Eagle as well as WohnData product lines. In contrast, revenues from the Wodis/Wodis Sigma product line rose over the previous year thanks to increased consulting services.

Revenues in the Integrated Services product group decreased by € 4,950k. In particular this was due to lower revenues from the Outsourcing product – largely owing to the termination of a contract with a major customer – as well as the discontinuation and disposal of our IT Consulting and Aareon Human Resources Management businesses in the course of 2009. In contrast, the Mareon service portal as well as the Aareon DMS and BauSecura products generated higher revenues year on year. Revenues from the International Business product group rose € 5,217k compared to the previous year basically due to the acquisition of SG|automatisering bv.

[4.2]

Other operating income

(€ 000's)	2010	2009
Non-cash income	941	1,061
Income from the reversal of provisions	817	1,453
Income from deconsolidation	586	284
Income from the reversal and reduction of specific and global valuation allowances	344	172
Income from letting premises	14	180
Other income	1,509	2,244
Total	4,211	5,394

The other income contains € 350k in damages under a cooperation agreement that was terminated as well as € 439k in reversals of receivables outstanding from suppliers. The income from deconsolidation is solely related to the disposal of Aareon Italia S.r.l., Rome.

(€ 000's)	2010	2009
Expenses for raw materials, consumables and supplies and goods for resale	4,192	3,532
Cost of purchased services	16,372	19,686
Total	20,564	23,218

[4.3]
Cost of materials

The expenses for raw materials, consumables and supplies and goods for resale were up year on year due to increased materials input as a result of a redemption agreement with a major customer. Expenses for purchased services decreased compared to the previous year essentially as a result of a decrease in external consulting expenses for Blue Eagle and SAP® implementation projects as well as the Outsourcing product line. Network costs also decreased.

(€ 000's)	2010	2009
Salaries	61,914	70,539
Social security costs	12,612	13,124
of which retirement benefits	2,415	2,703
Total	74,526	83,663

[4.4]
Staff costs/employees

Staff costs decreased by € 9,137k compared to the previous year. This is essentially due to restructuring costs incurred in 2009 as defined by IAS 37.10 and a decrease in the average number of employees compared to the previous year.

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

Employees	2010	2009
Germany	731	790
International	247	208
Total	978	998

The employees of SG|automatisierung by, which was included as at 1 November 2010, were considered on an annualised basis at the time staffing levels were determined.

[4.5]

Other operating expenses

(€ 000's)	2010	2009
Occupancy expenses	7,719	7,965
Travel expenses	3,172	3,296
Advertising/marketing	2,904	2,547
Motor vehicle expenses	2,723	2,722
Legal, audit and consultancy expenses	2,368	2,355
Costs for repairs and maintenance	1,396	1,311
Costs of communication	1,003	1,088
Valuation allowances and write-downs on receivables	876	695
Further training	873	945
Other staff expenses	863	864
Insurance premiums	555	669
Leasing/rents	350	363
Emoluments for Supervisory Board and Advisory Council	279	327
Office supplies, printed matters, newspapers and magazines	212	246
Other operating expenses	2,182	2,003
Total	27,475	27,396

Other operating expenses essentially contain minor expenses for entertainment, contributions to associations and prior-period expenses. They comprise € 507k in additional expenditures from a ruling on a dispute with a former cooperation partner as well as € 332k in credits for prior years. Other operating expenses were comparable to the previous year.

[4.6]

Net interest income

(€ 000's)	2010	2009
Other interest and similar income	59	408
Write-downs on financial assets	11	301
Interest and similar expenses	176	331
Total	-128	-224

The write-downs on financial assets concern the impairment loss from the measurement of SG2ALL B.V. measured at equity. Aareon's share in the profit/loss of SG2ALL B.V. is 50%.

[4.7]		
		Income taxes
(€ 000's)	2010	2009
German income taxes	7,021	5,280
Foreign income taxes	1,282	704
Current tax expense	8,303	5,984
Deferred tax expense/income	- 521	130
Income taxes	7,782	6,114

The following table shows the reconciliation statement for the differences between income taxes based on the net income before taxes and the actual income tax reported. To determine the expected tax expense, the Group tax rate of 31.2% in effect in the 2010 financial year (previous year: 31.2%) is multiplied by the pre-tax earnings.

(€ 000's)	2010	2009
Earnings before taxes	24,651	16,120
Trade tax	3,796	2,482
Corporation tax	3,698	2,418
Solidarity surcharge	203	133
Anticipated tax expense/tax income	7,697	5,033
Reconciliation:		
Non-deductible expenses	166	197
Taxes for previous years	- 152	27
Change in tax rate for deferred taxes (Germany)	0	0
Other differences	71	857
Disclosed tax expense	7,782	6,114

[5] Notes to the consolidated balance sheet of the Aareon Group

Changes in fixed assets 2010 (Group)

(€ 000's)							COST	
	01.01.2010	CURRENCY TRANSLATION DIFFERENCE	CHANGE IN BASIS OF CONSOLIDA- TIONS	ADDITIONS	DISPOSALS	RECLASSI- FICATIONS	31.12.2010	
I. Intangible assets								
1. Goodwill	70,038	76	0	12,921	0	0	83,035	
2. Licenses, industrial property rights and similar rights and assets as well as licences to such rights and assets	46,036	19	5,610	3,102	-386	0	54,381	
	116,074	95	5,610	16,023	-386	0	137,416	
II. Property, plant and equipment								
1. Land, equivalent rights and buildings	4,178	10	3,481	1,512	-575	25	8,631	
2. Plant and machinery	1,931	8	0	43	-71	0	1,911	
3. Other equipment, and office furniture and equipment	25,396	0	421	1,571	-4,296	0	23,092	
4. Payments on account	97	0	0	3	0	-25	75	
	31,602	18	3,902	3,129	-4,942	0	33,709	
III. Financial assets								
1. Shareholdings	0	0	81	0	0	0	81	
2. Other loans	5,823	0	0	524	-348	0	5,999	
	5,823	0	81	524	-348	0	6,080	
	153,499	113	9,593	19,676	-5,676	0	177,205	

	ACCUMULATED DEPRECIATION				CARRYING AMOUNTS		
	01.01.2010	CURRENCY TRANSLATION DIFFERENCE	ADDITIONS	DISPOSALS	31.12.2010	31.12.2010	PREVIOUS YEAR
	33,648	36	0	0	33,684	49,351	36,390
	27,260	17	4,374	-199	31,452	22,929	18,776
	60,908	53	4,374	-199	65,136	72,280	55,166
	3,114	6	358	-529	2,949	5,682	1,064
	1,119	6	379	-71	1,433	478	812
	16,533	0	3,309	-3,306	16,536	6,556	8,863
	0	0	0	0	0	75	97
	20,766	12	4,046	-3,906	20,918	12,791	10,836
	0	0	11	0	11	70	0
	744	0	0	0	744	5,255	5,079
	744	0	11	0	755	5,325	5,079
	82,418	65	8,431	-4,105	86,809	90,396	71,081

[5.1]
Intangible assets

The additions to “Industrial rights and similar rights and assets” essentially relate to the capitalisation of internal and external costs for the development of the Wodis Sigma software in accordance with IFRS/IAS 38. The internal costs were capitalised in the amount reflecting development services rendered based on a standard per-diem rate and pro-rated project management costs.

The capitalised carrying amount for Blue Eagle as at 31 December 2010 reporting date totalled € 6,256k, with an average residual useful life of five years. The carrying amount of internally generated PortalImmo Habitat software and Prem'Habitat, both products of Aareon France, amounted to € 1,369k. The capitalized carrying amount for Wodis Sigma was € 1,995k. A total of € 1.081k in internal development costs for Wodis Sigma were capitalised. Development costs for research and development in the reporting period totalled € 4,555k.

The amortised goodwill by product group is as follows:

1. ERP Products:	€ 21,396k
2. Integrated Services:	€ 4,429k
3. International Business:	€ 23,353k
4. Other products:	€ 173k

[5.2]
Property, plant and equipment

In accordance with IAS 17, mainframe computers including peripheral devices that were acquired under finance leases are recognised under property, plant and equipment. The lease payments due to finance leases were as follows:

Finance lease in € 000's	2011	2012-2015	AFTER 2015
Lease payments	806	67	0
Discount amounts	-127	-12	0
Present values	679	55	0

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

Operating lease in € 000's	2011	2012-2015	AFTER 2015
Lease payments	7,618	23,457	34,921

[5.3]
Financial assets

The other loans include time deposits in the amount of € 2,660k at Landesbank Baden-Württemberg. These deposits are intended to secure a guaranty issued in connection with the membership in two supplementary pension funds. The financial assets also include a litigation guarantee amounting to € 2,112k.

[5.4]
Shareholdings

Name and registered office of company	INTEREST HELD %	EQUITY 2010 (€ 000's)	PROFIT/LOSS 2010 (€ 000's)
Aareon AG, Mainz			
Aareon Deutschland GmbH, Mainz	100	39,548	891
Aareon Immobilien Projekt Gesellschaft mbH, Oberhausen	51	1,153	341
Aareon Software Handelsgesellschaft mbH, Mainz	100	-914	195
Aareon Wodis GmbH, Dortmund	100	7,361	1,374
BauSecura Versicherungsmakler GmbH, Hamburg	51	2,534	2,404
Aareon France SAS, Meudon-la-Forêt (France)	100	3,759	1,287
Aareon UK Ltd., Coventry (United Kingdom)	100	2,099	169
SG automatisering bv, Emmen, the Netherlands	100	6,933	2,299
SG Detachering B.V., Emmen, the Netherlands	51	0*	0*
SG Facilitor B.V., Enschede, the Netherlands	51	726	201
SG Professional Services B.V., Emmen, the Netherlands	100	46	11
SG stravis B.V., Emmen, the Netherlands	70	48	-4
SG2ALL B.V., Huizen, the Netherlands	50	170	144
SG webbsolutions B.V., Enschede, the Netherlands	51	15	-3

*The company is currently not operational

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

[5.5]
Inventories

(€ 000's)	2010	2009
Receivables from unbilled services	2,205	2,157
of which: with a remaining term of more than one year	0	0
Trade receivables	20,597	19,570
of which: with a remaining term of more than one year	0	0
Receivables from affiliated companies	49	95
of which: with a remaining term of more than one year	0	0
Prepayments	2,236	2,477
of which: with a remaining term of more than one year	0	0
Other assets	2,676	758
of which: with a remaining term of more than one year	0	313
Total	27,763	25,057

[5.6]
**Receivables and
other assets**

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

Further details on the receivables from unbilled services can be found in chapter 3.11 “Recognition of income and expense”. Ownership and disposal are not restricted for the disclosed receivables. Write-downs were made to account for the risk of default. Bad debt allowances in the year under review totalled € 876k.

[5.7]

Current tax assets

(€ 000's)	2010	2009
Current tax receivables	851	1,161
Deferred tax assets	1,662	1,534
Current tax assets	2,513	2,695

[5.8]

Cash and cash equivalents

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

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

(€ 000's)	2010	2009
Cash reserve	9	16
Balances held with banks	25,250	16,828
of which affiliated companies	21,618	12,744
Funds with terms of up to three months	25,259	16,844

[5.9]

Deferred taxes

(€ 000's)	2010	2009
Pension provisions	1,238	1,138
Liabilities	316	825
Other provisions	288	357
Losses carried forward (domestic)	774	778
Other	1,662	1,533
Deferred tax assets	4,278	4,631
Intangible assets	3,628	3,607
Property, plant and equipment	297	802
Other	1,892	2,140
Deferred tax liabilities	5,817	6,549

Of the deferred tax assets, € 2,616k are included in non-current tax assets. In addition, tax assets totalling € 1,903k resulting from the capitalisation of tax claims from corporation tax credits under the German SEStEG law are allocated to non-current tax assets. Of the deferred tax liabilities, € 1,892k were allocated to current tax liabilities and € 3,925k were allocated to non-current deferred tax liabilities. Unused tax loss carryforwards, for which no deferred tax assets were recognised, amounted to € 2,099k in Germany.

The subscribed capital of Aareon AG as of 31 December 2010 shows the following breakdown:

[5.10]

Subscribed capital

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

Each share has a theoretical par value of 1 €.

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

[5.11]

Capital reserves

The accumulated Group income includes other revenue reserves within the meaning of the disclosures required under commercial law. They include additions from the results of the financial year or previous years and differences from currency translation directly recognised in equity from the financial statements of subsidiaries. Aareon AG's Memorandum and Articles of Association do not include any provisions for the recognition of reserves.

[5.12]

**Accumulated
Group income**

Minority interest is reported as a separate item under consolidated equity in line with IAS 27.33 and IAS 1.68. Minority interest exists with respect to BauSecura Versicherungsmakler GmbH, Hamburg, Aareon Immobilien Projekt Gesellschaft mbH, Oberhausen, SG|Facilitor B.V., Enschede, SG|stravis B.V., Emmen, as well as SG|webbsolutions B.V., Enschede.

[5.13]

Minority interest

Provisions developed as follows:

[5.14]

Provisions

(€ 000's)	01.01.2010	ADDITIONS	CHANGE IN BASIS OF CON- SOLIDATIONS	USE	REVERSAL	31.12.2010
Pension provisions	19,960	1,381	0	1,185	0	20,156
Tax provisions	1,119	2,417	736	556	26	3,690
Other provisions	16,139	8,191	-476	9,267	817	13,770
Total	37,218	11,989	260	11,008	843	37,616

[5.14.1]

Provisions for pensions
and similar obligations

Development of pension provisions::

(€ 000's)	2010	2009
Pension provision as of 01.01.		
1. Pension provision as of 31.12. of the previous year (accrued pension cost)	19,960	20,086
Expense for the financial year		
2. Expense for the financial year, net		
a) Service cost	198	175
b) PBO interest cost	1,091	1,098
c) Amortisation	0	0
- Gains (-)/Losses	0	0
- Prior service cost	0	0
- Initial net obligation	0	0
d) Other additions	92	55
	1,381	1,328
3. Actual utilisation	1,185	1,145
4. Other additions and transfers	0	-310
Pension provision as of 31.12.	20,156	19,960
Obligations as of 01.01.		
Projected Benefit Obligation (PBO) on 01.01.	20,804	21,150
Expense for the financial year		
1. Expense for the financial year, net		
a) Service cost	198	175
b) PBO interest cost	1,091	1,098
c) Amortisation	0	0
- Gains (-)/Losses	0	0
- Prior service cost	0	0
- Initial net obligation	0	0
d) Other additions	92	55
	1,381	1,328
2. Actual utilisation	1,185	1,145
3. Other additions and transfers	0	-310
4. Gains (-)/Losses	428	-219
Pension obligation as of 31.12.	21,428	20,804

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

In %	2010	2009
Interest rate	5.0	5.5
Development of salaries	2.25	2.25
Expected inflation rate	2.0	2.0
Fluctuation rate	3.2	3.2
Calculation based on	"Mortality Tables 2005 G"*	"Mortality Tables 2005 G"*

*Prof. Klaus Heubeck

The service and interest costs as well as actuarial gains and losses to be amortised in the financial year are shown under staff costs. The expense recognised for defined-contribution pension plans amounts to € 4,405k. They mainly include employer contributions to the statutory pension scheme.

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

[5.14.2]

Development in 2010 (2009)

Other provisions

(€ 000's) Previous year's figures in parentheses	01.01.	ADDITIONS	CHANGE IN BASIS OF CON- SOLIDATION	USE	REVERSAL	31.12.
Warranties	758 (1,127)	177 (0)	0 (0)	335 (0)	122 (369)	478 (758)
Salary components Employees	231 (258)	262 (396)	-68 (-13)	210 (407)	8 (3)	207 (231)
Long-service obligations	3,505 (3,761)	854 (527)	0 (-103)	367 (212)	126 (468)	3,866 (3,505)
Variable salary components	5,586 (4,421)	5,035 (5,457)	0 (-37)	5,025 (4,162)	323 (93)	5,273 (5,586)
Restructuring	765 (16)	17 (765)	0 (0)	690 (13)	75 (3)	17 (765)
Other provisions	5,294 (5,431)	1,846 (2,576)	-408 (-9)	2,640 (2,233)	163 (471)	3,929 (5,294)
Total 2010	16,139	8,191	-476	9,267	817	13,770
Total 2009	(15,014)	(9,721)	(-162)	(7,027)	(1,407)	(16,139)

Warranty provisions were recognised for any sales revenues associated with any such claims. In addition, specific provisions were recognised for individual risks. Provisions for obligations to employees essentially result from variable performance-linked remuneration to be paid after the balance sheet date. The other provisions were also recognised in line with IAS 37 for all recognisable risks and uncertain obligations in the amount of their probable occurrence. The provision for long-service obligations is shown under other non-current provisions.

Other provisions by term:

(€ 000's)	< 1 YEAR		> 1 YEAR	
	01.01.	31.12.	01.01.	31.12.
Previous year's figures in parentheses				
Warranties	758 (0)	478 (758)	0 (1,127)	0 (0)
Salary components Employees	231 (259)	207 (231)	0 (0)	0 (0)
Long-service obligations	0 (0)	0 (0)	3,505 (3,761)	3,866 (3,505)
Variable salary components	5,586 (4,421)	5,273 (5,586)	0 (0)	0 (0)
Restructuring	765 (16)	17 (765)	0 (0)	0 (0)
Other provisions	5,294 (5,431)	2,647 (5,294)	0 (0)	1,282 (0)
Total 2010	12,634	8,622	3,505	5,148
Total 2009	(10,127)	(12,634)	(4,888)	(3,505)

[5.15]

Current tax liabilities

(€ 000's)	2010	2009
Income tax liabilities	5,582	3,260
Other liabilities, taxes	6,178	3,705
Total	11,760	6,965

[5.16]

Liabilities

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

(€ 000's)	REMAINING TERM UP TO 1 YEAR	REMAINING TERM OVER 1 YEAR UP TO 5 YEARS	REMAINING TERM MORE THAN 5 YEARS	TOTAL
Previous year's figures in parentheses				
Prepayments received on account of orders	605 (61)	0 (0)	0 (0)	605 (61)
Trade payables	2,418 (2,855)	1,012 (2,672)	0 (0)	3,430 (5,527)
Other liabilities	10,652 (6,875)	8,133 (180)	0 (84)	18,785 (7,139)
Prepayments received	3,225 (2,893)	0 (0)	0 (0)	3,225 (2,893)
Total 2010	16,900	9,145	0	26,045
Total 2009	(12,684)	(2,852)	(84)	(15,620)

Of the trade payables with a residual term of more than one year, € 1,012k are liabilities from leasing arrangements. The other liabilities primarily include liabilities from outstanding supplier invoices and holiday obligations. The other non-current liabilities essentially result from the acquisition of SG|automatisering bv, Emmen. Prepayments received mainly include the deferral of future maintenance revenues.

Other explanatory notes

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

(€ 000's)	2011	2012-2015	AFTER 2015
Licence agreements	6,000	0	0
Lease agreements	8,424	23,524	34,921
Other contracts	831	511	0
Total	15,255	24,035	34,921

In addition to the subsidiaries included in consolidation, Aareon AG in conducting its ordinary activities has direct or indirect relations to subsidiaries of the Aareal Bank Group that are included in the consolidated financial statements of Aareal Bank AG. Many of the business relationships are with Aareal Bank AG.

[6]

[6.1]

Other financial liabilities

[6.2]

Related parties

This primarily relates to the following services rendered:

- Cooperation with Aareal Bank AG with regard to the fully automated and integrated accounting and payment services for property companies in Germany incorporated in the software systems “Wodis/Wodis Sigma”, “Blue Eagle”, “GES” and “WohnData”.
- Provision of computer centre services and related implementation consultancy services
- Sharing the costs of the Aareon Congress

The volume of the business relations with Aareal Bank AG comprises revenues of € 6,909k and other operating expenses of € 648k.

Related parties controlled by Aareon AG, or over which Aareon AG can exert a controlling influence, are included in the consolidated financial statements and included in the list of shareholdings with information on the equity interest held and net profit/loss for the year in section 5.4. All transactions with related parties were conducted based on international price comparison methods in line with IAS 24, as is also standard practice with non-Group third parties.

The members of the Management Board and the directors of Aareon AG, the managing directors of Aareon Deutschland GmbH and the members of the Supervisory Board were identified as being key management personnel as defined by IAS 24.9. Compensation for key management personnel totalled € 3,642k in the financial year, including € 1,364k for the members of the Management Board. Compensation for the members of the Supervisory Board in the financial year just ended amounted to € 34k. Furthermore, provisions totalling € 255k for 12,569 outstanding phantom stocks were recognised for share-based payment (SAR) of members of the Management Board. The total expenses for share-based payment amount to € 147k.

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

[6.3]
Auditors' fees

A total of € 310k and € 112k, respectively, was recognised for auditing services and other consulting services in the reporting period.

[7]

Consolidated statement of cash flows

All funds with terms of up to three months are deemed to be cash and cash equivalents. The statement of cash flows shows how the Aareon Group's cash and cash equivalents have changed during the year under review. To this end, the cash flows are annotated for financial year 2010 and for the previous year in line with IAS 7, with a distinction between cash inflows and cash outflows from operating, investing and financing activities. The effects of the consolidated group, exchange rates and other changes on the cash and cash equivalents are disclosed separately.

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

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

The “cash flow from operating activities” totalled € 23,973k. The “cash flow from investing activities” was € -14,634k, concerning essentially the acquisition of SG|automatisierung bv. The “cash flow from financing activities” was € -988k.

Corporate bodies**[8]**

Thomas Ortmanns, Chairman
Aareal Bank AG, Wiesbaden

Member of the Management Board

[8.1]**Supervisory Board**

Dr. Peter Lammerskitten, Deputy Chairman
Königstein

Consultant

Lutz Freitag
GdW Bundesverband deutscher Wohnungs-
und Immobilienunternehmen e. V., Berlin
(until 31.01.2011)

President

Axel Gedaschko (since 03.02.2011)
GdW Bundesverband deutscher Wohnungs-
und Immobilienunternehmen e. V., Berlin
(since 01.02.2011)

President

Dirk Große Wördemann (since 03.02.2011)
Aareal Bank AG, Wiesbaden

Member of the Management Board

Norbert Kickum (until 31.10.2010)
Aareal Bank AG, Wiesbaden

Member of the Management Board

Hermann J. Merkens
Aareal Bank AG, Wiesbaden

Member of the Management Board

Prof. Dr. Manfred Schlottke
Telekom Forum, Munich

Business Consultant

Dr. Wolf Schumacher
Aareal Bank AG, Wiesbaden

Vorstandsvorsitzender

[8.2]

Management Board

Dr. Manfred Alflen

Chairman of the Management Board
Shared Services, International Product
Management, International Business,
Corporate Strategy

Jürgen Pfeiffer

Member of the Management Board
GES and Wohndata, Wodis/Wodis Sigma
(until 31.12.2010) Product Lines, Software
Services, BauSecura Versicherungsmakler
GmbH shareholding, associations and
advisory boards

Dr. André Rasquin

Member of the Management Board
Sales

Eberhard Villmow

Member of the Management Board
Wodis/Wodis Sigma Product Lines (since
01.01.2011), Integrated Services, SAP®
solutions and Blue Eagle, as well as IT
Service Centre, Service Management,
Aareon Immobilien Projekt Gesellschaft
mbH and Aareon Software Handelsgesell-
schaft mbH shareholdings

[9]

Concluding remarks

The company's financial statements are included in the consolidated financial statements of Aareal Bank AG, Wiesbaden. As Aareon AG is included in the consolidated financial statements and in the Group management report of Aareal Bank AG, the requirements for the company's exemption from presenting consolidated financial statements and a Group management report pursuant to section 291 para. 2 of the HGB have been fulfilled. Aareal Bank AG also prepares its consolidated financial statements according to International Financial Reporting Standards (IFRS). These Consolidated Financial Statements are available from Aareal Bank AG in Wiesbaden, Germany.

Mainz, 07 February 2011

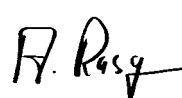
The Management Board



Dr. Manfred Alflen



Jürgen Pfeiffer



Dr. André Rasquin



Eberhard Villmow

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 cash flow statement and the notes as well as the Group management report for the financial year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and Group management report in accordance with IFRS as applicable in the EU and the supplementary provisions that are applicable under Section 315a para 1 German Commercial Code (HGB) are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB) and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used 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 the audit, the consolidated financial statements are in compliance with IFRS as applicable in the EU and with the supplementary provisions applicable under Section 315a para 1 German Commercial Code, and in accordance with these provisions give a true and fair view of the net assets, financial position and results of operations of the Group. The Group management report is consistent with the consolidated financial statements, provides a suitable understanding of the Group's situation and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 22 February 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Christian F. Rabeling
German Public Accountant

Marc Billeb
German Public Accountant

Report of the Supervisory Board

During the year under review, the Supervisory Board continually monitored the management of the company. The Supervisory Board was kept informed by the Management Board, both orally and in writing, especially through written quarterly reports, regarding the company's business development, its overall situation, the business policies contemplated 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 the year under review, of which two meetings took place during the first half of the year. One further resolution was adopted by circular memorandum in the 2010 financial year. During all meetings, the Supervisory Board was informed in detail by the Management Board with regard to the business policies, economic development, strategic orientation and sales activities of the company. The work and findings of the company's internal audit department were explained to the Supervisory Board.

The Supervisory Board was informed by the Management Board with regard to the company's products and their installation and introduction with customers, putting special emphasis on major customer and acquisition projects. The main focus in this context was the Wodis Sigma product and the strengthening of the Blue Eagle/SAP® business.

The key activities regarding the company's future strategy were combined in the "doIT", "moveIT" and "growIT" projects, about which there were regular reports. Other measures that were discussed repeatedly in this connection included the company's organisational restructuring and its international strategy. Particular attention was paid to the Wodis Sigma product line. The Supervisory Board was also regularly informed of the sale of Aareon Italia S.r.l. and the acquisition of the Dutch company SG|automatisering bv.

The Management Board kept the Supervisory Board informed of developments in the legal dispute with ITSC Sp. z o.o., formerly DomData Sp. z o.o., and the enforcement measures that were initiated against this company.

The business planning was discussed and approved by the Supervisory Board. The Management Board informed the Supervisory Board continually of the actual economic development versus the company's planning. The Supervisory Board established a Human Resources Committee and an Auditing Committee. The Human Resources Committee met twice and the Auditing Committee met three times during the 2010 financial year.

The company's financial statements as at 31 December 2010, together with the accounting records and the management report, were examined and issued an unqualified auditor's report by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which were appointed as auditors by the Supervisory Board. The report prepared by the auditors was made available to all members of the Supervisory Board. The results of the audit were fully endorsed by the Supervisory Board.



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

The Supervisory Board has examined the financial statements, the management report and the proposal of the Management Board for the appropriation of distributable profit. These were discussed by the Supervisory Board in the presence of the auditor. The auditor was always available to the Auditing Committee and other members of the Supervisory Board to answer questions. Having completed the examination, no objections were raised by the Supervisory Board. Within the scope of its duties of monitoring the management of the company, the Supervisory Board has not become aware of any risks that have not been appropriately accounted for in the financial statements. The Supervisory Board has endorsed the assessments made by the Management Board in preparing the management report. The Supervisory Board has approved the financial statements, which are thus final, and has endorsed the proposal for the appropriation of profits as submitted by the Management Board.

The Management Board has submitted its report on the company's relationships with affiliated companies pursuant to section 312 of the German Stock Corporation Act to the Supervisory Board, together with the corresponding report prepared by the external auditors. The dependent companies report was examined and issued with an unqualified auditor's report.

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

Mainz, March 2011

The Supervisory Board

Thomas Ortmanns
(Chairman)

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P. 14: Gerhard Hagen Fotografie, Bamberg
P. 19: Source Aareon
P. 27: Source GWG Gemeinnützige Wohnungsgesellschaft für den Kreis Viersen AG und VAB Viersener Aktien-Baugesellschaft AG (contract signing)
C5: Source Aareon (IT Service Centre), Stephan Höck Photographie, Munich (Aareon Congress)
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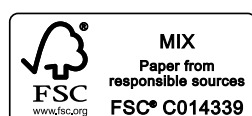
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Aareon AG was awarded the "berufundfamilie" certificate from berufundfamilie gemeinnützige GmbH in 2008 for its efforts in achieving better work-life balance for its employees.



Aareon customers

Germany (selection)

Wodis / Wodis Sigma

- DERAG Deutsche Realbesitz AG & Co. KG, Munich
- Eisenhüttenstädter Wohnungsbaugenossenschaft eG, Eisenhüttenstadt
- Gemeinnützige Wohnungsbaugenossenschaft “Stadt Cottbus” eG, Cottbus
- JOSEPH-STIFTUNG Kirchliches Wohnungsunternehmen, Bamberg
- Rheinwohnungsbau GmbH, Düsseldorf
- Stendaler Wohnungsbaugesellschaft mbH, Stendal
- Teltower Wohnungsbaugenossenschaft eG, Teltow
- WGS Wohnungsgesellschaft Sömmerda mbH, Sömmerda
- WIELANT HOFFMANN GmbH, Hamburg
- Wohnstätte Krefeld Wohnungs-Aktiengesellschaft, Krefeld
- Wohnungsbaugenossenschaft Gablonzer Siedlungswerk, Kaufbeuren
- Wohnungsgenossenschaft WARNOW Rostock-Warnemünde e.G., Rostock

SAP® solutions and Blue Eagle

- ABG Frankfurt Holding GmbH, Frankfurt am Main
- degewo AG, Berlin
- FORTUNA Wohnungsunternehmen e.G., Berlin
- GAG Immobilien AG, Cologne
- Gemeinnützige Wohnungsgenossenschaft Gartenstadt-Kolonie Reform eG, Magdeburg
- Sedlmayr Grund und Immobilien KGaA, Munich
- Wohnungsgenossenschaft “Glückauf” Süd Dresden e.G., Dresden

GES

- Aachener Siedlungs- und Wohnungsgesellschaft mbH, Cologne
- Grundstücks- und Gebäudewirtschafts-Gesellschaft mbH (GGG), Chemnitz
- HOWOGE Wohnungsbaugesellschaft mbH, Berlin
- SAGA Siedlungsaktiengesellschaft, Hamburg
- TREUREAL GmbH, Leipzig
- WIRO Wohnen in Rostock Wohnungsgesellschaft mbH, Rostock
- Wohnungs- und Siedlungsbau Bayern GmbH & Co. OHG, Munich

International (selection)

Aareon France, France

- Adoma, Paris
- Batigere, Metz
- Erilia, Marseille
- Groupe Hainaut Immobilier, Valenciennes
- Groupe Opievoy, Versailles
- Logement Français, Paris
- Pas de Calais Habitat, Lille

Aareon UK, United Kingdom

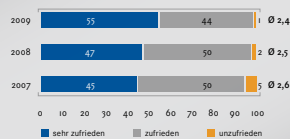
- Aster Group, Devizes, Wiltshire
- Bournville Village Trust, Birmingham
- City West Housing Trust, Manchester
- Fabrick Housing Group, Middlesbrough
- Link Group, Edinburgh
- North Lincolnshire Homes, Scunthorpe
- Richmond Housing Partnership, London

SGIautomatisering, the Netherlands

- de Alliantie, Huizen
- de Woonplaats, Enschede
- GroenWest, Woerden
- Lefier, Emmen
- Parteon, Wormerveer
- Trudo, Eindhoven
- WoonFriesland, Grou

Highlights of 2010

KUNDENZUFRIEDENHEIT IN %



JANUARY: High level of customer satisfaction

MAY: The Aareon Congress takes place for the 20th time.



JANUARY

FEBRUARY

MARCH

APRIL

MAY

JUNE

MARCH: Certified Aareon IT Service Centre - blade centre with a virtual tape library



JULY: Employees' children greatly enjoy the holiday programme.

JANUARY Our **customer survey** revealed the best result since it first began in 2002.

GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen, and GWH Gemeinnützige Wohnungsgesellschaft mbH Hessen, Frankfurt, go live on schedule with **SAP-based solutions**.

FEBRUARY Aareon ERP systems are well prepared for the EU's **2011 census**.

MARCH The **Aareon IT Service Centre** is fully certified to IDW auditing standard PS 951, confirming that it offers customers the highest standards of IT security and quality.

Aareon France exhibits at MPIM in Cannes.

APRIL As in previous years, Aareon holds **Girls' Day 2010** in Mainz, giving 30 school-girls between the ages of 10 and 16 the opportunity to take a look inside the company.

MAY The 20th **Aareon Congress** is held against an Alpine backdrop in Garmisch-Partenkirchen. In this anniversary year, a new concept was created for this long-standing event. With the motto "Dawn of a new era" and the theme of "Sustainability", the Congress continues to set trends in the property sector.

The seventh **DW Innovation Award for the Property Sector** is presented at the Aareon Congress. GdW President and patron Lutz Freitag honours the prize winners on the topic of "**Sustainability: more than a buzz word and energy saving**" during the gala evening attended by around 1,000 guests. This year, a record number of 44 entries were received.

JUNE The IGG (an association representing the interests of key GES customers) and Aareon AG renew their declaration of intent to introduce **SAP®-based systems** to manage housing stocks.

Mareon continues its successful track record as the 200th property company opts for Aareon's service portal.

The **Aareon France** customer congress is held in a historical location: 165 customers attend the event in the military museum in the Hôtel des Invalides.

JULY To promote harmonisation of **work and family**, Aareon offers a two-week holiday programme in Mainz for the children of its employees. It is organised in conjunction with the Mainz State Museum.

AUGUST: Aareon is awarded the DQS Data Protection Certificate



NOVEMBER: Signing of the agreement for the acquisition of Dutch company SG|automatisering bv



JULY AUGUST SEPTEMBER OCTOBER NOVEMBER DECEMBER



AUGUST The Logement Français Group, one of France's leading housing associations, chooses **Aareon France**.

Data security and data privacy are extremely important to Aareon. Aareon AG and its subsidiaries in Germany are awarded the **DQS Data Protection Certificate**. This is based on the findings of a voluntary data protection audit carried out by the DQS-UL Group in accordance with Section 9a of the German Federal Data Protection Act.

Aareal Bank and Aareon are sponsors of the **Berliner Einsichten** exhibition. This is the first such visual treatment of the diversity and unique history of homes and housing in Berlin, which have left their mark on Berlin over the past 20 years.

The **2010 Lerninseln** initiative for young talent in the property business starts on the island of Juist and in Berlin. Aareon sponsors the promotion of new talent in partnership with housing industry associations.

SEPTEMBER In partnership with BFW Landesverband Nord e.V and the Aareal Bank, Aareon stages the first **Norddeutsche Immobilien-Regatta** in which 85 yachtsmen participate.

The **topping out ceremony** is held for the second construction stage of the Aareon head office in Mainz.

OCTOBER Aareon exhibits at the **13th EXPO REAL** together with the Aareal Bank.

The final of the **Golf Trophy** for the Property Sector takes place in Düsseldorf. More than 300 managers participated in the Golf Trophy.

NOVEMBER Aareon expands its presence in the important Dutch market and acquires **SG|automatisering bv**, Emmen. The company is the second largest provider of property market IT solutions in the Netherlands.

Aareon launches the new Release 2.0 of its Wodis Sigma ERP system at the **Wodis Forum** in Bochum.

At the ERP System of the Year competition, Aareon's **Wodis Sigma** is placed in the top three in the Services category. The competition is organised by ERP Management magazine and the Center for Enterprise Research at the University of Potsdam.

DECEMBER: Signing of the agreement with LEG Landesentwicklungsgesellschaft NRW GmbH, Düsseldorf for the introduction of **Blue Eagle Individual**



DECEMBER Aareon wins the tender issued by the LEG Landesentwicklungsgesellschaft NRW GmbH, Düsseldorf for the introduction of **Blue Eagle Individual** based on SAP®. LEG NRW is one of Germany's leading property companies.

Following a joint tender, GWG Gemeinnützige Wohnungsgesellschaft für den Kreis Viersen AG and VAB Viersener Aktien-Baugesellschaft AG sign an agreement for the introduction of **Blue Eagle Individual** based on SAP® and for the hosting of the ERP solution.

The successful growth of **Wodis Sigma** is reflected in the more than 300 agreements signed since it was first launched in 2009.

Mareon is certified to the IDW auditing standard PS 880. This includes successful software testing of the web-based Mareon service portal for trade businesses, the Aareon invoicing service and the qualified digital signature.



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