

Annual Report 2006



Living environments

CONSULTANCY AND SYSTEMS HOUSE
FOR THE PROPERTY SECTOR

Corporate Mission

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

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

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

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

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

Indicators, facts and figures

Indicators (IFRS) (€ m)	2006	2005	CHANGE
Revenues	156.1	162.6	-4.0%
of which international	14.5	14.8	-2.0%
Operating expenses	167.4	165.4	1.2%
Profits from ordinary activities	10.8	8.6	25.6%
Consolidated net income	7.1	3.9	82.1%
Consolidated net income after minority interest	6.5	3.1	109.7%
EBIT	10.4	8.2	26.8%
Total assets	126.6	125.6	0.8%
Shareholder's equity	53.7	55.2	-2.7%
Cashflow	16.0	23.3	-31.3%
Number of staff* (average)	1,082	1,113	-2.8%

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

Facts and figures

Business:	International consultancy and systems house to the property sector. Aareon's systems are employed by about 55,000 users in Germany and abroad to manage some 9 million homes and commercial premises. Aareon is the German market leader in its business.
ERP-systems	Blue Eagle based on SAP, GES, WohnData, systems of the international subsidiaries
Consulting	ERP and IT consulting
Integrated services	Mareon service portal, integrated banking, payroll services, BauSecura insurance services etc.
Modes of operation	ASP (Application Service Providing)/outsourcing, hosting, inhouse
Customer structure	Private-sector property companies, cooperative housing societies, church-owned housing societies, municipal housing enterprises, property management companies and home owners' associations, insurance companies, property investment funds, companies associated with industrial companies, commercial property operators, financial investors
Number of customers	Approximately 2,700
Group affiliation	Wholly owned by Aareal Bank Group, Wiesbaden. Aareon AG is part of the Consulting and Services business segment of Aareal Bank AG.
International presence	France, Italy, Switzerland, United Kingdom
History	<ul style="list-style-type: none"> • 1957: Start of development from the computer centre of Deutsche Bau- und Bodenbank AG to an IT services group • 1996: Spin-off of IT services into a newly-established independent subsidiary, BauBoden Systemhaus GmbH • 1999: Incorporation of a Group, establishing a holding structure; followed by a company name change to DePfa IT Services AG. International business expansion. • 2001: Market launch of the Mareon service portal • 2002: Cooperation with SAP AG to develop Blue Eagle, a new generation of software; change of company name to Aareon AG • 2004: Market launch of Blue Eagle • 2006: First Blue Eagle launch with a major customer (DEGEWO Group, Berlin, with approx. 90,000 residential units). Conclusion of a strategic partnership with energy services provider Techem resulting in the exchange of the Aareon Energy Management division for Techem IT Services (now Aareon Wodis GmbH). Introduction of a multi-product strategy

Overview of the Aareon Group



GERMANY

- **Aareon AG**, Mainz
- **Aareon Deutschland GmbH**, Mainz (100%)
Other offices: Berlin, Dortmund, Dresden, Erfurt, Hamburg, Hanover, Leipzig, Munich, Rostock, Stuttgart
- **Aareon DSK GmbH**, Berlin (70%)
- **Aareon Immobilien Projekt Gesellschaft mbH**, (currently being set up) Essen (100%)
- **Aareon Wodis GmbH**, Dortmund (100%)
- **BauSecura Versicherungsmakler GmbH**, Hamburg (51%)

INTERNATIONAL

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

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Our housing industry customers seek to provide their customers with a **living environment**. Their job is to provide a solution that suits the potential tenant's aspirations, the stage in life they have reached, and their particular circumstances.

Aareon AG is also responsive to its customers' different structures and needs. Thanks to its multiproduct strategy, Aareon is able to offer the right IT solution to ensure that housing stocks are managed as efficiently as possible.

Highlights 2006



Image advertising campaign



Aareon presents Blue Eagle at CeBIT



Winners of the Innovation Award for Property Sector

January

Blue-Eagle-Release 3.0 is launched on schedule.

More than ten customers go operational with **Blue Eagle** at the start of the year. These include the first key account, the DEGEWO Group, Berlin, with 90,000 rental units.

February

The annual appraisal and performance review within the E² (Evolve and Develop) personnel development programme made its initial impact on the new **remuneration system**. It provides for a variable, performance-oriented component in addition to the fixed pay element.

March

Aareon exhibits on the SAP partners' stand at **CeBIT 2006** in Hanover, the world's biggest IT trade fair. Blue Eagle was the featured product.

New customer DAL Deutsche Anlagen-Leasing GmbH, based in Wiesbaden, takes advantage of Aareon's **IT outsourcing service** and goes live with its outsourced SAP system right on schedule on 1 March.

April

The **Mareon** service portal passes the two million mark for trade orders. The Internet-based platform is an integrated solution that brings together property companies, tradesmen and other business partners.

May

Announcement of the **WoWi+ four-point programme**, with the strategic objective of improving operating efficiency of the Aareon Group. The programme has four key targets:

1. Improved profitability
2. Development of a product portfolio that is in line with the business strategy
3. Adjustment of the corporate structure
4. Continued development of a modern corporate culture

Aareon Italy presents the Blue Eagle, Esse-RE and SGAP2000 solutions at the Expo Italia Real Estate in Milan.

June

"Pursuing strategies – achieving goals" is the motto of the **16th Aareon Congress** in Garmisch-Partenkirchen – the forum for the property sector.

At the conference, Aareon announces its **new multiproduct strategy** and its partnership with the Techem Group, Eschborn. The strategic alliance intends to exchange the Aareon Energy Management division for Techem IT Services.

The third **Innovation Award for the Property Sector** on the theme of "Changing Housing for the Better" is awarded at the Aareon Congress.

2006



Sailing instruction is one item on the agenda at "Lerninsel" in Berlin



Dr. André Rasquin, today managing director Aareon Deutschland GmbH, at the Wodis Forum



Aareon Wodis GmbH is integrated into the Aareon Group



Handing over of the certificate from SAP to Aareon for the Customer Competence Center

July

Lutz Freitag, President of the GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V., is elected to the **Supervisory Board** of Aareon AG.

The first **Lerninsel 2006** – an Aareon-backed education initiative designed to promote young talent in the property sector – takes place in Berlin. The second Lerninsel 2006 follows in August on the North Sea island of Juist.

August

More housing companies, including Wankendorfer Baugenossenschaft (15,000 residential units) are now deploying **Blue Eagle**.

Aareon Switzerland relocates its head office from Bülach to Otelfingen.

September

The **WohnData Change** customer event – featuring the latest developments related to WohnData Release 9.2 – takes place in Hamburg.

Aareon is present as a partner at the **9th SAP Conference** in Dresden.

Eberhard Villmow, managing director of Aareon Deutschland GmbH, is appointed to the Aareon AG **Management Board**.

Thomas Ortmanns, member of the Management Board of Aareal Bank AG, becomes the new **chairman of the Supervisory Board**.

The **Aareon Switzerland Congress** is held.

October

Techem IT Services becomes **Aareon Wodis GmbH**, Dortmund. Wodis software is being used by 350 property companies. Approximately 1.1 million residential units are managed using Wodis.

Dienst Vastgoed Defensie (DVD), the enterprise of the Dutch Ministry of Defence, signs an agreement for a **Blue-Eagle/SAP custom project**. Operational start-up is the beginning of 2007.

Aareon demonstrates **Blue Eagle** at the international SAP Real Estate Management Conference in Rome.

November

The alliance with WRW Wohnungswirtschaftliche Treuhand Rheinland-Westfalen GmbH, Düsseldorf ends by mutual agreement. Aareon establishes its own **sales and consulting organisation in North Rhine-Westphalia**.

Over 400 customers visit the **Wodis Forum 2006** in Bochum.

Gereon Neuhaus joins the Aareon AG **Management Board** with responsibility for the Blue Eagle/SAP business.

Implementation of the new **corporate structure** organised along product lines.

December

Aareon founds the consulting firm **Aareon Immobilien Projekt Gesellschaft mbH**. The new company (currently being set up) will be based in Essen and, with over 20 experienced consultants, will offer a comprehensive range of services in support of SAP property sector solutions.

The **Mareon** service portal celebrates its fifth birthday.

Aareal Bank and Aareon are certified by SAP as **Customer Competence Centers (CCC)**. To receive this certification, companies must demonstrate competence on all aspects of the support desk, contract and licence management, coordination and development requests, SAP information management and service planning.

The Management Board



Dr. Manfred Alflen Chairman of the Board

Responsible for international product management, staff units and international business.

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

Jürgen Pfeiffer

Responsible for the product lines GES and WohnData, and the cooperation with advisory committees & associations and for setting up the Western region.

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

Gereon Neuhaus

Responsible for the product line Blue Eagle/SAP and regional and strategic sales.

Gereon Neuhaus joined Aareon in November 2006. Prior to that he was a member of the board of management of the Siemens subsidiary SBI Ruhr GmbH (formerly RAG Informatik GmbH). Mr. Neuhaus has many years of experience in sales and SAP consulting/outsourcing. He was also responsible for establishing the business segment property management at SBI over the past few years.

Eberhard Villmow

Responsible for Products and Services (Operation), the product line Wodis (Aareon Wodis GmbH), the product line Integrated Services, Aareon DSK GmbH and IT consulting.

Eberhard Villmow joined the Aareon Group in 2004 as a member of the board of management of Aareon Deutschland GmbH. He was appointed to the Management Board of Aareon AG in September 2006. He was previously responsible for European customer service and support at BT Global Services.

Letter from the Management Board

Ladies and Gentlemen,

2006 was a particularly eventful year for us. The strategic realignment we implemented at Aareon AG put mechanisms in place to ensure our future success. The property sector is undergoing a process of structural change, and as a result, our customers' needs are becoming more diverse and more complex. To improve customer benefits while further expanding our Group's market leadership and increasing our profitability, we undertook a detailed situation analysis that looked in particular at the positioning of our product strategy. This forward-looking analysis concluded that we should replace our single product strategy, focussed on Blue Eagle, with a multiproduct strategy. We will therefore continue to make available our existing, well-proven GES ERP System and WohnData System products.

Strategic realignment for improved profitability

Also, under the terms of the strategic partnership with the Techem Group, Eschborn, announced in June, we exchanged the Aareon Energy Management division for Techem IT Services (now Aareon Wodis GmbH) in order to strengthen the core businesses of both companies. Aareon's software product portfolio has now been enhanced by Wodis, a solution for medium-sized companies.

The implementation of our strategic realignment was undertaken as part of our WoWi+ strategy project (see p. 11). WoWi+ is a four-point programme with the following objectives:

1. Improved profitability
2. Development of a product portfolio that conforms with the business strategy
3. Adjustment of the corporate structure
4. Continued development of a modern corporate culture

We have already implemented numerous measures since we first announced WoWi+ in 2006. With the new organisational structure oriented along product lines and our Management Board strengthened by the arrival of Gereon Neuhaus and Eberhard Villmow, we are now seeing the benefits of an infrastructure that is both effective and results-oriented. From now on, the consulting division will be integrated into the various product line organisations. We have brought our sales structure and control systems into line with market requirements. In addition, we have strengthened our management team and optimised our personnel resources, particularly at the level of central services (see pp. 11, 20). As a result, staff numbers have been reduced by approximately 100. In September, we signed an agreement on the reconciliation of interests and the redundancy scheme. We have used a variety of communication channels to inform our employees of the changes in an open and timely fashion.

Organisation structured along product lines

We also considered it important to keep our customers informed about the strategic changes at Aareon and their background, which we did using events, face to face discussions and written communications. The Aareon Congress in Garmisch-Partenkirchen marked the beginning of this information programme.

Another change that came about as a result of the strategic realignment was the ending of our alliance with WRW Wohnungswirtschaftliche Treuhand Rheinland-Westfalen GmbH in Düsseldorf. We kept customers fully informed by announcing that Aareon AG was about to set up its own sales and consulting organisation in North Rhine-Westphalia. Regional support for the western region is being expanded at Aareon's office in Dortmund. In December, we founded the Aareon Immobilien Projekt GmbH consulting firm in the western region, which will concentrate on providing support for our Blue Eagle/SAP business with key accounts.

EBIT increased

We substantially increased our consolidated net income by 82.1% to € 7.1 million. This is related in particular to the increase in other operating income due to the exchange of businesses described above. EBIT amounts to € 10.4 million (previous year: € 8.2 million). Group revenue fell by 4.0% to € 156.1 million. This decline should be viewed against the context of the sale of the Energy Management division together with the slowdown in investment spending in Germany. We were able to significantly cut the costs of materials by 11.4% to € 43.4 million. However, staff costs rose by 7.2% to € 83.7 million as a result of the personnel restructuring programme.

Customer focus and the creation of customer benefit remains a top priority for Aareon. Our products and services, our corporate processes and organisation are focussed on the needs of our customers. We regularly analyse the effectiveness of our customer-focussed approach as indicated by the level of satisfaction of our customers. Indeed, the annual customer survey has become a permanent feature of Aareon's quality management programme. In 2006, we nearly matched the previous year's very high level of 98% with a figure of 96% satisfied to very satisfied customers. We aim to exploit whatever potential for improvement our survey highlights by introducing appropriate remedial measures as quickly as possible.

As a company, we take our responsibilities to society as seriously as our commercial responsibilities. At Aareon, these include family-friendly working models such as part-time work and teleworking. We are supporting innovation in the property sector with the Innovation Award for the Property Sector, and our "Lerninsel" initiative is helping new recruits to the property industry gain qualifications. We also support a number of social initiatives.

Thanks to staff, works council, customers and partners

We wish to thank our staff, the works council, our customers and our partners. Particular thanks are due to our staff for their tireless efforts in the face of the structural upheaval of 2006. We thank the works council for its constructive and trusting cooperation, particularly with regard to the restructuring measures. We also wish to thank our customers for the exchange of views that are so important for the continued development of our products and services, and our partners for the positive contributions they have made towards reaching our common objectives.

2007 is a special year for us, for it marks Aareon's 50th anniversary as a company - the computer centre which ultimately developed into the Aareon of today was established in 1957. "The future is built on experience" is the motto of our jubilee, which we plan to celebrate with a variety of internal and external events.

Our commercial activities will build on the foundation established by WoWi+ in 2006, and further increase the profitability of our Group in 2007. Our new sales control and key-account management systems have further strengthened the Group's results and customer orientation. We will continue to increase our sales and earnings and to expand our market share, both by maximising the potential of our existing business and by winning new customers.



Dr. Manfred Alflen



Gereon Neuhaus



Jürgen Pfeiffer



Eberhard Villmow

SATISFIED

Satisfied customers are the top priority at Aareon. Our multi-product strategy offers the right solution for each and every customer.



Group Management Report

Aareon is market leader in Germany



One of Aareon's headquarters in Mainz

Integrated services from a single source

Business and economic environment

Business activities

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

We offer an integrated portfolio of consulting services, other services, software, support and training. For the 2006 financial year, this report has been divided into three business segments for the last time:

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

As of the beginning of the 2007 financial year, reporting will be following a product-oriented approach.

In Europe, Aareon has subsidiaries in France, the UK, Italy and Switzerland in addition to its presence in Germany. Aareon AG is part of the Aareal Bank Group, Wiesbaden. 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 and Services business segment.

Aareon offers a number of premium software solutions for a variety of target groups in the property sector, together with computer centre services and a wide range of consulting services. Alongside our knowledge and experience of the sector, integrated services are a significant and unique selling point of the company, and they include the Mareon Internet service portal and integrated payment transaction services. According to the 2006 Lünendonk list - a well-established annual market survey - Aareon is ranked among Germany's 25 leading IT service companies¹. Aareon's main competitors in the property software market are a number of small vendors. These include ESS EDV-Software-Services AG in Preußisch Oldendorf and GAP Gesellschaft für Anwenderprogramme und Organisationsberatung mbH in Bremen. Our competitors also provide computer centre services, although not as comprehensively as Aareon. Although 'Mareon' is the

¹ Cf. Lünendonk List 2006, Lünendonk GmbH, Bad Wörishofen 2006, as of 24 May 2006

market leader in the property portal market, there are many other niche products catering to this sector. Consulting firms which may be considered competitors of Aareon specialise primarily in SAP, e-business and IT consulting. These would include Promos Consult GmbH & Co. KG in Berlin, DKB IT-Services GmbH in Potsdam, Services for Business IT Ruhr GmbH (SBI Ruhr) in Gelsenkirchen, and Wiscore GmbH in Bochum.

Macroeconomic and property market developments

There has been an improvement in both the domestic and international business environment. Following a period in which GDP growth in Germany remained close to one percent (1.2% and 0.9% respectively in 2004 and 2005), the German Council of Economic Experts in its 2006/2007 annual report is now forecasting growth of 2.4% for 2006, with 2.7% for the euro zone as a whole (previous year 1.4%)². This positive economic development has mainly been brought about by three factors: exports, investment in construction and consumer spending. While exports have traditionally been one of the German economy's principle growth drivers, this is the first time since 1999 that construction investment has made a positive contribution to the economy. There are a number of special factors at work here. Many people committed to buying property in 2005 to avoid missing out on the home owner allowance before it was discontinued at the beginning of 2006. Investment in construction was also boosted by incentive programmes aimed at improving the energy efficiency of buildings. The prospect of an increase in the rate of VAT at the beginning of 2007 led to a surge in economic activity towards the end of 2006. This was particularly noticeable in the consumer sector. The upturn in the labour market also had a positive affect on consumer spending.

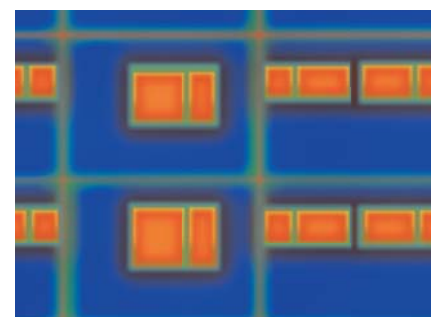
Although the unemployment rate in Germany fell – the forecast for 2006 is 8.2% compared with 9.5% for the previous year – it is still at a relatively high level compared with the 7.9% of the euro zone as a whole.

For 2007, a slight slowdown in economic growth in Germany (1.8%) is expected. This is related to reduced purchasing power as a consequence of higher VAT and early purchases made in 2006.

The German property sector continued to experience structural changes in 2006 and the housing stock continued to change hands, with foreign investors being particularly active³. This has led to increased internationalisation of the supplier structure in the German housing market.

The high level of ancillary costs remains a pressing challenge for property companies. While net rents in Germany rose by just 7% between 2000 and 2005, heating and operating costs increased by 53%⁴.

Economic upturn



Rising energy costs impact ancillary costs

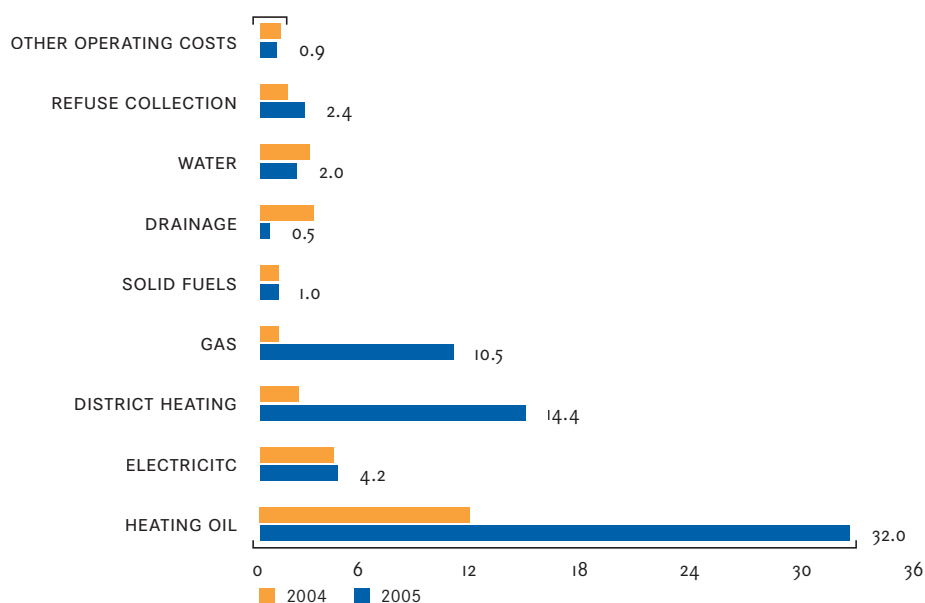
Challenges in the property market remain

² Cf. the 2006/2007 annual report from the German Council of Economic Experts – “Conflicting Interests – Missed Opportunities”, November 2006

³ Cf. Wohnungs- und Immobilienwirtschaft in Deutschland – wirtschaftlicher Erfolg durch Innovationen (“The German Housing and Property Sector – Economic Success through Innovation”), GdW German Association of Housing and Property Companies, Berlin, 2006, p. 18

⁴ Cf. Daten und Trends der Wohnungs- und Immobilienwirtschaft (“Figures and Trends in the Housing and Property Sector”), GdW Annual Press Conference on 5 July 2006, GdW German Association of Housing and Property Companies, Berlin, Presentation, p. 10

The cost of running a home in 2005 compared with 2004 in % and comparative figures for 2004



The issue of vacancy levels continues to occupy the sector in many parts of Germany. Vacancy rates in the states of the former Western Germany have remained relatively steady during the past three years (from 3.1% to the 3.4% forecast for 2006). In the former East German states, however, they have decreased. For 2006, they are forecast to be just under 12%, compared with 16% three years ago⁵. This reduction may simply be a result of demolition measures undertaken (mostly of slab blocks).

Faced with all of these challenges in the property sector, property companies are having to adopt more innovative strategies. As a result of the pressure on costs, an effective structural organisation and efficient processes are becoming more critical than ever. After all, property companies must organise their processes in a cost-effective manner while at the same time maintaining an optimum level of service to tenants. Aareon AG supports property companies who are pursuing innovative strategies. Last June at the Aareon Congress in Garmisch-Partenkirchen, in partnership with specialist magazine DW Die Wohnungswirtschaft, we awarded the third Innovation Award for the Property Sector on the topic "Changing Housing for the Better". We selected a number of innovative concepts including, for example, marketing concepts for rented accommodation and service solutions designed to fully meet the needs of specific target groups.

Innovation Award for the Property Sector „Changing Housing for the Better“

⁵ Cf. Daten und Trends der Wohnungs- und Immobilienwirtschaft ("Figures and Trends in the Housing and Property Sector"), GdW Annual Press Conference on 5 July 2006, GdW German Association of Housing and Property Companies, Berlin, Presentation, p. 27

Corporate strategy

Due to the changed operating conditions within the property industry, the dominant feature of the 2006 financial year for Aareon AG was the strategic realignment, undertaken to increase efficiency and so improve the profitability of the Group. This realignment was explicitly formulated in the “WoWi+” project, a forward-looking four-point programme subscribing to the following objectives:

1. Improved profitability

Not only do we expect to increase sales by improving penetration with existing customers and acquiring additional customers, we also plan to introduce a variety of measures to reduce costs. These include harnessing the synergies available within the Group, streamlining the product portfolio, optimising the sales structure and the production costs of Blue Eagle property software, as well as adjusting personnel levels in the Group divisions.

2. Development of a product portfolio in line with our business strategy

As a result of the changes that have been taking place in the property sector, customers are now making increasingly diverse demands of their IT systems. A differentiated product strategy is Aareon’s response to this state of affairs. Our new multiple product strategy meets the needs of customers by offering them a wider variety of software solutions. Aareon customers now have a choice of four main software products; Blue Eagle, our SAP-based premium product; our tried and tested GES ERP System; WohnData, our in-house solution; and Wodis, our new solution for medium-sized companies. The service life of our long-established products GES ERP System and WohnData System has been extended as part of this new strategy. Blue Eagle – our premium solution – is particularly suitable for companies with complex IT system requirements who value transparency and extensive operational functionality (see p. 16). In addition, Blue Eagle is now available in standard and custom versions. Blue Eagle Individual is aimed at companies who have special internal requirements that are not covered by the standard product. The Integrated Services product line also supplements the Aareon software portfolio.

In June, Aareon formed a strategic partnership with the Techem Group based in Eschborn. As a direct result of this partnership, the companies exchanged the Aareon Energy Management and Techem IT Services GmbH businesses. The former Techem IT Services GmbH was integrated into the Aareon Group as Aareon Wodis GmbH in October. Aareon AG incorporated the Wodis software solution into its product portfolio and gained 350 new customers.

3. Adjustment of the corporate structure

To accommodate the changed product strategy, we organised our organisational structure along product lines in November (see p. 13). A further goal of this reorganisation was to optimise the management structure (spans of control). Corporate restructuring resulted in a reduction in staff numbers of around 100, which was achieved in a socially acceptable manner mainly by cancelling contracts (with severance pay), semi-retirement and natural turnover (see p. 20). We aimed to avoid terminations for operational reasons as far as possible.

Strategic realignment



Techem and Aareon sign a cooperation agreement

4. Continued development of a modern corporate culture

We introduced the E² (Evolve and Develop) personnel development concept in 2004 to help us achieve our corporate goals. In 2006, the new remuneration system, which includes a performance-related component, was introduced throughout the Group. We intend to promote the use of the remuneration system as a management tool. In addition, internal communications were stepped up thanks to the WoWi+ project.

Aareon continues to uphold the basic pillars of its strategy, which were in place even before the strategic realignment. These are:

- **A clear focus on markets and customers.** It is Aareon's goal to be a stable partner to our customers over the long term. Customer satisfaction is our top priority. Every year, we carry out a customer survey and incorporate the results into our continued efforts to improve customer satisfaction. In 2006, customer satisfaction was at a high level. A total of 96% of customers surveyed stated that they were satisfied, very satisfied or completely satisfied with Aareon (previous year: 98%).

Aareon is an international company with its base in the German market, where we will continue to expand our market leadership position. In those countries where Aareon AG is present, our goal is to become the market leader. The gradual introduction of our new Blue Eagle property software plays a key role in this context. In 2006, further progress was made. (cf. p. 17). Product development is geared to marketing our products internationally.

- **Customer-focused solutions:** Our integrated portfolio of services is focused on the needs of customers and our new multiproduct strategy enables us to provide an even more customised service. Aareon is setting innovative and high-quality standards with its products. As a result of changes in the property market, it is becoming increasingly important to optimise processes and develop new areas of business. At Aareon AG, we analyse the trends and incorporate our findings into our products and services. In order to provide the best solutions possible, Aareon maintains a close dialogue with customers and partners. Customer requirements are discussed in committees such as the customer advisory board and addressed during product development.

Partnerships enable us to combine the core competencies of a number of companies and so help our customers benefit from a wider range of products and services. Aareon partners include SAP AG, Walldorf (development and sales partner), CSC Deutschland Solutions GmbH, Wiesbaden (joint project to implement Blue Eagle with property sector customers), Immobilien Scout GmbH, Berlin (partner in the Mareon service portal), TTW Erfurt Treuhandgesellschaft für die Thüringer Wohnungswirtschaft mbH, Erfurt, and ista Deutschland GmbH, Essen (sales partners). In 2006, Aareon formed a strategic partnership with the Techem Group, based in Eschborn. The exchange of the Aareon Energy Management division of Aareon Deutschland GmbH for Techem IT Services GmbH has strengthened the core competencies of both partners (see p. 11). Moreover, Aareon and Techem plan to jointly develop and market new products and services.



Aareon is a long-term and stable partner of its customers

Combining core competencies through partnerships

- **Motivated and achievement-oriented employees.** Aareon fosters a corporate culture that has made us a preferred employer. Our management believes strongly in open dialogue and fair-mindedness. Management training and technical training of our staff have a high priority. Aareon employees combine in-depth expertise in the property market with excellent IT skills and a commitment to service. The importance of achievement is reflected in Aareon's salary system, which contains performance-based components. There has been greater emphasis on internal communications since the introduction of our WoWi+ programme in 2006.
- **Customer-focused internal processes.** The internal processes at Aareon are designed to serve our customers' needs. They comply with quality management standards and are subject to continual improvement. The Quality Management department is responsible for Aareon's quality standard strategy. This includes the implementation of DIN EN ISO 9001:2000, which ensures ongoing optimisation of Aareon processes. Furthermore, the Quality Management department is responsible for implementing the quality management standards. 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. Our centralised functions cooperate closely with our project teams. Project management is continually enhanced, for instance by offering continued education options.

Aareon is quality leader

Modifications of the corporate structure

Thanks to the strategic realignment and the associated WoWi+ programme, we managed to carry out several adjustments to our organisational structure in 2006. The most important changes involved remodelling our organisational structure along product lines, which meant creating a separate organisational unit for our Blue Eagle and SAP business and integrating the former Techem IT Services GmbH. This reorganisation also led to changes on the Management Board of Aareon AG. In June, Lothar Gebhard left the company and at the same time stood down from the Executive Management of Aareon Deutschland GmbH. In September, Eberhard Villmow joined the Management Board of Aareon AG with responsibility for products and services. He had previously worked for the Aareon Group as managing director of Aareon Deutschland GmbH, and will continue in this capacity. In November, Gereon Neuhaus joined the Aareon Group as managing director of Aareon Deutschland GmbH and member of the Management Board of Aareon AG, bringing with him many years experience of SAP and of the property sector. He is responsible for our Blue Eagle and SAP business. We introduced the new Aareon organisational structure on 15 November. There are now separate organisations for each of our product lines:

New product line-based structural organisation

1. Blue Eagle/SAP
2. GES ERP System
3. WohnData System
4. Wodis
5. Integrated Services and IT Consulting

To ensure that our consultancy services remain efficient and product-oriented, we split the previous Consulting division into IT consulting and product-based consulting units and integrated the latter into the ERP product lines. This new structure simplifies the deployment of our new multi-product strategy, enables performance monitoring by product, improves our SAP expertise, supports our sales and marketing efforts, and creates greater transparency for customers.

We also paid a good deal of attention to optimising our sales structure and its management. In 2006, we upgraded our sales control system, restructuring our sales organisation into regional sales and centralised sales (strategic sales). While the regional sales organisation looks after the vast majority of Aareon customers, the strategic sales organisation focuses on major national customers with particular business potential. The regional sales organisation is divided into six regions - north, east, south, southwest, west, and central. The borders of these regions follow those of the property market associations. In the past, our partner for the western region had been WRW (Wohnungswirtschaftliche Treuhand Rheinland-Westfalen GmbH) in Düsseldorf. In the course of implementing our strategic realignment, the long-standing alliance between Aareon and WRW was ended. The contract for the WohnData and Blue Eagle solutions expired at the end of 2006; the contract for GES runs until the end of 2007. Aareon is offering to continue extend customers' contracts for these products on the same terms. We will continue to expand our sales organisation for the western region. With our new subsidiaries, Aareon Wodis GmbH in Dortmund and the upcoming Aareon Immobilien Projekt GmbH, Essen (currently being set up), Aareon has already established a presence in the western region of Germany.

In May, we completed the outsourcing of our printing and shipping department to DS Document Services GmbH in Trebur, a print services specialist and part of the Xerox Group. Aareon employees affected will be taken on by DS Document Services GmbH.

Aareon Wodis GmbH is the company which emerged from the exchange of Aareon Energy Management and Techem IT Services GmbH. On 8 August 2006, BauTec Energiemanagement GmbH was registered as a company. On 10 August 2006, the company changed its name to Techem Energy Services GmbH. Since October, Dortmund-based Techem IT Services GmbH, with its 86 staff, has been operating under its new name of Aareon Wodis as part of the Aareon Group. Its parent company is Aareon Deutschland GmbH.

In December, Aareon AG initiated the start up of the consulting company Aareon Immobilien Projekt GmbH. The new company will be based in Essen. With over 20 experienced consultants, it offers in-depth advisory services on SAP solutions for the property sector. Aareon Immobilien Projekt GmbH will concentrate its activities in the geographical area covered by the VdW (Verband der Wohnungswirtschaft Rheinland Westfalen e.V.) and will add to the expertise available for Blue Eagle Individual.



Adjustments to the corporate structure of Aareon

New subsidiary - Aareon Wodis GmbH

With effect from 1 December, Aareon Deutschland GmbH transferred the shares in Mareon Polska SP. Z O. O. to the company's employees, who have since been the sole shareholders. At the same time, the company changed its name to Elysio SP. Z O. O. Mareon Polska has been supporting the development team in Mainz with the Mareon service portal since 2001. Future development of Mareon will be carried out exclusively in Germany. The service portal will be developed for a transitional period under a project contract with Elysio SP. Z O. O in Poland.

We plan to carry out further structural changes affecting the IT Consulting product line, a service provided by Aareon Deutschland GmbH, Mainz and Aareon DSK GmbH, Berlin. These companies will be amalgamated under one roof as Aareon DSK GmbH. Preparations for the transfer of the product line including employees began in 2006 and will be completed in 2007. As part of these changes, the former head of the IT Consulting division, Ralph Hollmann, was appointed managing director of Aareon DSK GmbH. Also, Frank Stüwe joined the Executive Management in November. He has many years of experience in the IT solutions consulting business and will be a major asset to our sales operation.

Business segments

For Aareon AG, the dominant feature of the 2006 financial year was our strategic realignment and the accompanying changes to our product strategy. The ongoing development and launch of new product releases, particularly Blue Eagle releases, proceeded as planned.

Consulting

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

In 2006, Aareon conducted a large number of Blue Eagle consulting projects. As of 1 January 2006, the year's largest Blue Eagle launch took place at DEGEWO Deutsche Gesellschaft zur Förderung des Wohnungsbaues, gemeinnützige AG, Berlin. Managing some 90,000 rental units, the DEGEWO Group is one of Germany's largest and most potent housing companies. Further Blue Eagle launches involved, among others, Wankendorfer Baugenossenschaft für Schleswig-Holstein eG, Kiel, (15,000 units), the former WohnData customer, Nibelungen-Wohnbau GmbH, Braunschweig, (10,000 units), and Wohnungsbaugenossenschaft "Glück auf" Olbernhau eG., Olbernhau (1,000 units/1,500 members).

A cross-border project carried out by Aareon Deutschland GmbH, began in October 2006. Dienst Vastgoed Defensie in Zwolle, the Netherlands, is responsible for managing the properties of the Dutch ministry of defence. After a comprehensive consulting project, the management opted for Blue Eagle. Further consulting projects concerned mergers and acquisitions of housing companies, reflecting the structural changes in the property market. In one such project, Aareon helped manage the merger of WoBau Flensburg eG and SBV Flensburg eG in connection with the GES ERP System.

consulting



Consulting expertise revolving around processes, ERP systems and IT



Dr. Alfien, chairman of the Management Board, informs the audience about the multi-product strategy at the Aareon Congress

We also carried out an important organisational consulting project supporting the introduction of the Mareon service portal (tradesmen collaboration including digital signature and electronic business files) for Krüger Immobilien GmbH, Berlin (Barg Holding Group, Berlin). The company manages 50,000 residential units, mainly for international investors. Throughout Germany, in addition to the publicly owned enterprise more than 160 tradesmen working for Krüger manage contracts and invoices via the service portal.

The IT Consulting product line realised several hardware consulting projects, among others. Its customers include Wohnungsbaugesellschaft mit beschränkter Haftung Salzgitter and Goal Service GmbH, Berlin.

The new product strategy has already had a positive effect on the consulting business, as can be evidenced by the rise in the number of consulting projects, especially in connection with GES and WohnData. Optimising existing systems is a priority in this context.

Aareon places great emphasis on the expertise of its consultants. In 2006, more consultants were trained as Certificated Project Management Practitioners. They enhanced their Blue Eagle knowledge primarily through practical project work. Further education measures were carried out in the SAP environment.

Our Training unit organises training for customers at six centres throughout Germany and also runs in-house seminars for customers. In 2006, we added new Blue Eagle training courses and additional seminars to our training portfolio. A total of 5,934 people have now attended Aareon training courses (2005: 3,950).

IT-Solutions

The focus in the IT Solutions business segment was on Aareon's new multiproduct strategy (see p. 11). In addition to Blue Eagle as our premium product, we continue to offer the well established GES and WohnData systems. Wodis, the former Techem product, is now the fourth software solution in our product portfolio. Our realignment was accompanied by vigorous communication efforts on behalf of the company, which began in June at the Aareon Congress. We informed our customers at numerous events, sent out frequent mailings and talked personally to as many customers as we could.

The Blue Eagle premium product is being developed using the latest SAP technology by Aareon Deutschland GmbH in partnership with SAP AG. The partnership has been in existence since 2002. Blue Eagle is aimed primarily at companies with complex IT system requirements for whom a personalised, multi-layered software application is business-critical. Blue Eagle meets particularly high standards of transparency and functionality. At the beginning of the year, the market launch of Blue Eagle Release 3.0 took place on schedule, with all Blue Eagle customers converting to the new release. Because of the changes that have taken place in the property sector and the varied and complex expectations that users now have of their IT systems, Blue Eagle will increasingly be offered as a customised solution in future. Compared with Blue Eagle Standard, Blue Eagle Individual offers greater flexibility in accommodating individual needs. Blue Eagle can be used by customers in 'in-house' or 'outsourcing' modes.

blue eagle

Approximately 50 customers have now deployed Blue Eagle. On 1 January 2006 alone, over ten customers went operational with Blue Eagle, including the DEGEWO Group in Berlin, the first key account with approximately 90,000 housing units.

Blue Eagle 4.0 was completed on schedule in 2006. Important new features in release 4.0 included the management of external assets and real estate management.

The GES System, which is designed on modular principles, is aimed at customers whose main interest is in automated property processes rather than customised software. Our new product strategy further extended the guaranteed service life of this system, and that of WohnData, the in-house solution. The Wodis software adds a solution for medium-sized companies to the Aareon AG product portfolio. There are currently around 350 medium-sized companies using Wodis to manage over one million housing units. Wodis users also have access to the Aareon Group's integrated services.

Aareon support services have been enhanced by the creation of several new and product-specific hotline teams providing fast support and advice for users.

The key areas of interest for Aareon in foreign markets were the launch, ongoing development and marketing of Blue Eagle, together with the continued development of existing local systems. Aareon conducted a presentation of Blue Eagle at the international SAP Real Estate Management Conference in Rome in October. As part of the initiative to standardise the international corporate image of Aareon AG, the websites of the international subsidiaries were brought into line with corporate design guidelines in 2006.

In addition to its head office in Orléans, our French subsidiary Aareon France has offices in three other locations: Lyon, Nantes and Paris. Aareon France is an SAP preferred partner for the implementation of RE-FX solutions. In 2006, Aareon France carried out projects for customers including the Galeries Lafayette department store chain, Bouygues Télécom (mobile phones) and the Natexis Banque Populaire bank. Aareon France also offers the ERP Prem' system for housing companies and commercial property management companies. Its customers include SCIC Habitat, Boulogne Bilancourt, Pas de Calais Habitat, Arras, and the Hainaut Group, Valenciennes.

The localisation of Blue Eagle is at an advanced stage in Italy and consultants from Aareon Italia S.r.l., Rome have already been trained in the software. Our Italian subsidiary, like our French one, enjoys SAP preferred partner status for the implementation of property market software. Their first customer projects are now operational, including one for shoe manufacturer Geox in Milan. Aareon Italia S.r.l also offers SGAP2000 and Esse-RE ERP systems. Important customers of Aareon Italia S.r.l include Ferservizi S.p.A., the Italian railway company, and Sogei S.p.A.

wodis

Software solutions from the
international subsidiaries



Aareon Switzerland moves its headquarters from Bülach to Otelfingen

Aareon Schweiz AG completed the localisation of Blue Eagle for the Swiss market. Blue Eagle Individual and SAP projects are marketed jointly by the Swiss partner companies. We introduced a number of enhancements to our Rimo R4 software solution, particularly to the GUI. The ASP solution is becoming increasingly popular in Switzerland – it is currently the software of choice of three out of every four new customers. The Swiss subsidiary was successful in gaining a major new customer in Swisscanto, the pension fund arm of the Swiss cantonal banks (28,000 units). Further customers of Aareon Schweiz include Swiss Re, Zurich, Sulzer Immobilien AG, Winterthur and T. Graf Immobilien in Bern. In August, Aareon Schweiz AG moved its headquarters from Bülach to Otelfingen. The Swiss Aareon Congress took place in September in Zurich.

Customers of our Coventry-based subsidiary Aareon UK Ltd. are mainly social housing companies that use the ERP solution QL Housing. Among the customers are Housing 21, Bournville Village Trust and Sandwell Metropolitan Borough Council. Another major new customer gained in 2006 was Erimus Housing in Middlesbrough. QL Mobile, the latest module for QL Housing, was launched. It allows users to record data on a handheld device on-site and to transfer it to a PC at a later time. Aareon UK gained certified partner status in the Microsoft Partner Programme. Staff moved into new office accommodation in Swansea.

Integrated services are Aareon's central USP. These include the Mareon service portal, the activities of the insurance broker BauSecura, the Aareon NetOffice products, remote data transmission/extranet and integrated payment transaction services.

Mareon service portal is market leader



Mareon is the Internet-based service portal of Aareon Deutschland GmbH, providing a networking facility for participating businesses. With its project management, inventory management, tradesmen collaboration, insurance company collaboration and property documentation modules, the portal supports all phases of the property lifecycle. With a share of over 60 percent, the Mareon portal is market leader in Germany. The number of property companies using Mareon is currently around 130, or about the same as last year. Approximately 6,000 skilled trade businesses worked with Mareon – 1,000 more than in the previous year. In 2006, the number of certified interfaces to trade software programmes rose yet again to 47, compared with 42 the previous year. Some 2.8 million orders were already processed via Mareon and the volume of invoices issued amounted to € 336 million. Mareon has an interface to Blue Eagle and to other service portals such as ImmobilienScout24. In line with our new product strategy, we also created interfaces to the GES ERP and WohnData systems. In a survey of Mareon users in November, 81% of skilled trade businesses surveyed said that they would recommend Mareon to others.

BauSecura – the insurance specialist for the property sector

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

Aareon NetOffice products include applications for the rental sector such as Aareon Business Document Administration (BDA), which offers assistance with tasks such as drawing up rental agreements, right up to AARMIS Portfolio Management, which supports highly complex management information analyses.

As far as integrated payment systems are concerned, Aareon offers the BKO1® payment system for GES ERP and WohnData and the BKXL® system for the Blue Eagle premium application.

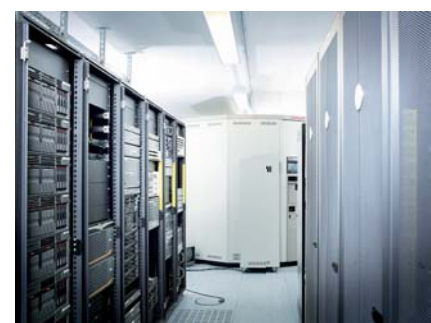
The Aareon Energy Management business, previously part of the IT Solutions business division, was spun off from Aareon Deutschland GmbH as part of the strategic realignment and our partnership with the Techem Group (see p. 14).

IT-Services

The IT Services segment comprises the IT Service Centre and the Networks unit. They are responsible for ensuring the high standards of ASP (Application Service Providing), ERP systems hosting and IT outsourcing. The security of our IT Service Centre is a top priority of Aareon. To maintain the highest standards of security in the future, we initiated the "IT Service Centre Infrastructure" project in August 2005, which was completed at the start of 2006. The security of our break-in protection, access control, fire protection, air conditioning and electric power supply continues to be state-of-the-art. What is more, at the beginning of the year we replaced the mainframe computer used for the GES ERP system and the integrated banking system with the very latest model. The server lines for the new Blue Eagle releases were completed and we created a server line for ASP operation of the new Wodis solution.

Aareon's IT outsourcing services are available to companies within the property sector as well as to companies from other sectors. These services provide the customer with the benefits of a powerful and failsafe IT system. Our services include mainframe, Unix, Linux, Windows and SAP systems, databases, LAN and WAN management including the latest firewall technologies. Customers using our IT services include DEPPFA BANK plc, Dublin, Aareal Bank AG, Wiesbaden, as well as DAL Deutsche Anlagen Leasing GmbH & Co. KG, Wiesbaden. In 2005, DAL carried out a selection process to determine potential computer centre providers, which resulted in our gaining the business. The company went operational with SAP R3 on schedule on 1 March 2006. In 2006, the contract with DEPPFA BANK plc was revised and extended. The aim of this revision was to maximise flexibility and transparency whilst simultaneously satisfying the requirements of the banking supervisory authorities at national and international level. Aareon has worldwide responsibility for the servers and PCs belonging to DEPPFA BANK plc. We also installed and commissioned the IT hardware in the new DEPPFA BANK offices in Amsterdam and Eschborn. IT outsourcing customer Aareal Bank is using our new high availability servers for its trading system.

State of the art IT Service Centre



A glimpse at Aareon's IT Service Centre

The IT Service Centre operates approximately 260 server systems, ranging from simple DNS servers to mainframe computers. While the continued miniaturisation of computer hardware enabled us to accommodate a greater number of machines in the existing space, electricity consumption per square metre rose, and as a result, the air conditioning systems had to remove more heat from the building. However, because the power supply and air conditioning systems were renovated and upgraded as part of the infrastructure modernisation programme undertaken over the past few years, no bottlenecks will occur through the addition of more Blue Eagle systems or systems operated on behalf of our hosting and outsourcing customers.

The Networks business unit is responsible for the wide area network (WAN) connection between the local and international locations of ASP customers and the Aareon IT Service Centre in Mainz. There are approximately 1,500 live network connections. The networks and all required components are continually administered, optimised and kept up-to-date. Performance, security and availability are permanently monitored.

Our employees - a key success factor

Aware of the need to adjust personnel capacities in line with the WoWi+ programme, we reached agreement on the reconciliation of interests and the redundancy scheme in September. We are also pleased to report that we were able to achieve over two thirds of the personnel cuts through semi-retirement, cancellation of contracts and transfers. The average headcount (including the managing directors, trainees, temporary staff and those on parental leave) was 2.8 % lower than in the previous year (from 1,113 to 1,082).

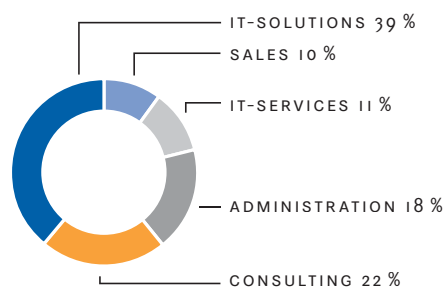
The reduction in personnel and the changes in the organisational structure are a particular challenge for the workforce. In order to avoid uncertainty, we gave high priority to a policy of proactive internal communication. Our objective was to use a variety of communication channels (works meetings, employee newsletters, an intranet forum, publication of management interviews on the implementation of the WoWi+ programme, in-depth information on the intranet) to inform employees of the changes as openly and timely as possible and to explain the background to these necessary measures.

The overall reduction in personnel capacity notwithstanding, we also took on new staff to assist in re-organizing the Blue Eagle/SAP product line.

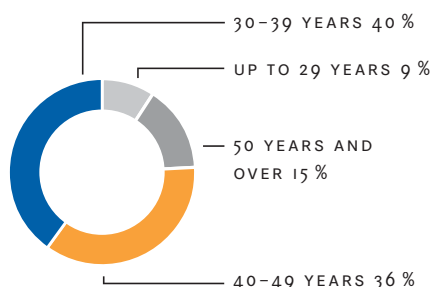


Information and a Q&A list surrounding WoWi+ on the Aareon intranet

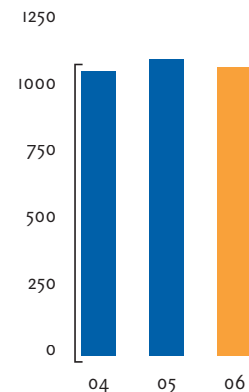
Employees by business segments



Employees by age structure



Employees (average)



The E² (Entfalten und Entwicklung, or ‚Evolve and Develop‘) personnel development plan, which Aareon AG introduced in 2004, has led to greater transparency in projects, objectives and prospects. In a second step, the Management and the Works Council reached agreement on the E² compensation system in 2005. This model provides for a compensation structure that is more in line with staff performance: For all employees, the variable salary component becomes more important relative to the fixed component. Also, the previous commission systems in the Consulting business segment and in Sales were superseded by the new compensation model. Following comprehensive information of the staff, the new compensation system was implemented in 2006.

New compensation system

E² ensures individual and effective staff training programmes, which focused primarily on SAP, MS Office and general property sector topics. The Certificated Project Management Practitioners training courses were also continued. We have now trained some 100 employees as Certificated Project Management Practitioners (IPMA Level D), with 10 employees qualifying in 2006.

Aareon employed 16 trainees at end of 2006. The company enjoys excellent relationships with universities and offers students traineeships and support in completing degree dissertations. As a result, Aareon is able to meet highly qualified, potential new recruits at an early stage.

As part of our quality management system, we carry out an annual employee survey, which provides a meaningful indicator of the climate within the company and of the quality of leadership provided by senior management. The sixth groupwide survey was undertaken in November. The overall level of employee satisfaction was impacted by the restructuring measures. Initiatives to improve employee satisfaction have been initiated.

AMBITIOUS

For property companies with high and complex demands on IT systems, Aareon offers different versions of its SAP-based property software Blue Eagle.

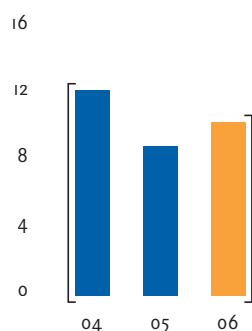


Business developments

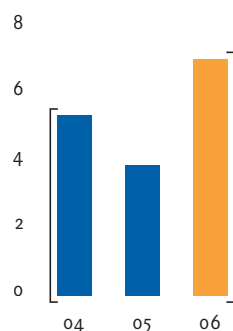
Earnings

Aareon managed to boost its consolidated net income by 82.1% to € 7.1 million (previous year: € 3.9 million) in 2006. This is primarily due to an increase in other operating income to € 17.9 million (previous year: € 6.9 million), which was essentially the result of the deconsolidation gain of the Aareon Energy Management business (€ 11.8 million). At € 10.4 million, earnings before interest and taxes (EBIT) were up 26.8% (previous year: € 8.2 million).

EBIT € million

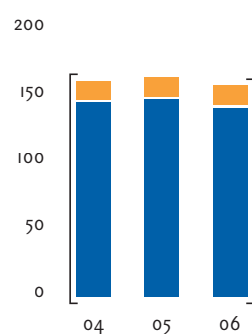


Consolidated net income in € million



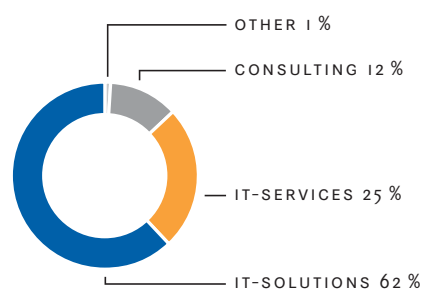
Revenue fell slightly by 4.0% to € 156.1 million (previous year: € 162.6 million). With foreign revenue of € 14.5 million coming in only slightly below the previous year's figure (€ 14.8 million), the decline in revenue was essentially caused by domestic revenue, which totaled € 141.5 million compared to € 147.8 million in 2005. The foreign share in revenue was 9.3%, the domestic share was 90.7%. The decline in domestic revenue was primarily due to the sale of the Aareon Energy Management business. The decrease of Group revenue thus is mainly attributable to the IT Solutions segment, which, at € 94.7 million, was down 6.3%. Consulting revenue showed a slight decline of 2.0% to € 19.3 million. Revenue recorded by the IT Services segment rose by 0.3% to € 40.6 million (previous year: € 40.5 million)

Revenue in € million



International
Domestic

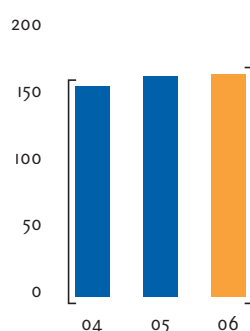
Revenue by business segment



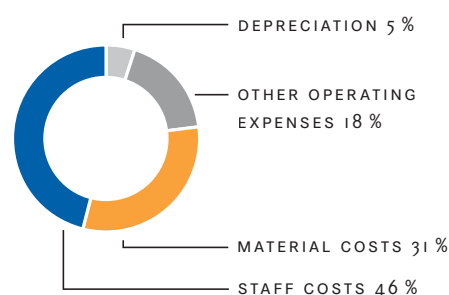
Despite the realisation of cost reduction potentials as part of the WoWi+ strategic programme, operating expenses increased slightly by 1.2% to € 167.4 million (previous year: € 165.4 million). The significant reduction in material costs by 11.4% to € 43.4 million (previous year: € 49.0 million) was compensated by the increase in staff costs by 7.2% to € 83.7 million (previous year: € 78.1 million). The higher staff costs are the result of restructuring costs in connection with the WoWi+ programme. The other operating expenses rose by 4.4% and totaled € 31.0 million (previous year: € 29.7 million). This was due to one-off expenses incurred in connection with the repositioning.

Aareon attaches high priority to research and development. Activities in this field essentially focus on the Blue Eagle software. Expenditure for research and development in 2006 was € 6.7 million (previous year: € 12.0 million). This represents 4.0% of total operating expenses. The decline is due to the degree of completion of the Blue Eagle product.

Expenditure in € million



Expenditure by cost group



Assets and financial position

Total assets increased by 0.8% to € 126.6 million (previous year: € 125.6 million). While non-current assets showed an increase of 27.2% to € 78.1 million (previous year: € 61.4 million), current assets decreased by 24.6% to € 48.5 million (previous year: € 64.3 million). The increase in non-current assets is essentially attributable to intangible assets, which rose by 53.6% to € 51.0 million (previous year: € 33.2 million). On the one hand, „industrial rights and similar rights and assets“ increased as a result of capitalising the development costs for Blue Eagle Release 4.0 and 4.0.1 and for enhancing the international Aareon systems. On the other hand, „goodwill“ rose due to the inclusion of the new subsidiary, Aareon Wodis GmbH. The decrease in current assets was caused by reduced inventories (-35.1%) and less „cash on hand/balances held with banks“ (-31.3%).

At € 52.9 million, the equity attributable to the shareholders of Aareon AG decreased by 2.9% (previous year: € 54.5 million). This decrease was caused by a payment of € 8.0 million to the parent company, which was in excess of the consolidated net income. The minority interest in equity rose by 1.9% to € 0.743 million (previous year: € 0.729 million). These shares are held by BauSecura Vermittlungsmakler.

Cash and cash equivalents declined by 31.3% to € 16.0 million (previous year: € 23.3 million). Although the cash flow from operating activities was boosted by 209.5% to € 22.9 million (previous year: € 7.4 million), this was not enough to compensate for the cash outflow from investing and financing activities. The cash flow from investing activities was € -15.4 million (previous year: € -10.0 million), and the cash flow from financing activities was € -14.7 million (previous year: € -0.9 million). The cash outflow from financing activities includes payments to shareholders totaling € 14.0 for 2004 and 2005.

Supplementary report

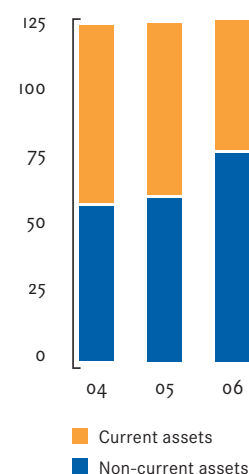
There were no events or business transactions which occurred after the close of the financial year and which could have an effect on the results of operations, financial position and net assets presented in this report.

Risk report

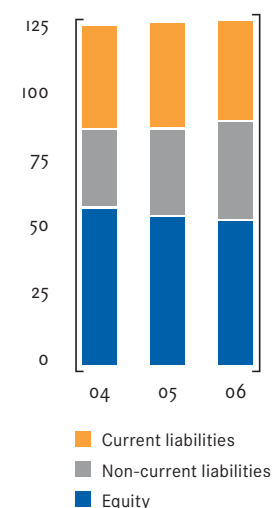
One of the characteristics of management at Aareon AG is that it has a prudent approach to risk. In order to monitor and control business risks, we have implemented a risk management system with an early warning function which operates throughout the Group. The „Aareon Risk Analysis“ software developed in-house is used for this purpose. The risk management system determines individual risks and compiles a monthly risk report. Measuring and assessing all corporate risks at specified intervals is an integral part of risk reporting. Moreover, the system establishes and manages the procedures necessary for risk management. When organisational changes occur, the risk management system is modified accordingly.

Strategic, administrative and operational risks are established, observed and evaluated at the location at which they occur. The process is supported by the executives in charge of the business divisions, subsidiary companies and projects, who are also responsible for proposing and implementing measures necessary to deal with risks. These risk managers report to the risk management department at regular intervals. They, in turn, consolidate the submitted risk reports and present them to the Management Board, which then decides whether or not to take further measures to deal with risks. Risk assessment is controlled by the Management Board and is a regular item on the agenda of Management Board meetings.

Total assets in € million
(asset structure)



Equity and liabilities in € million
(capital structure)





Aareon takes into account developments in the property sector

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

Market risks

A dominant feature of the property industry is its propensity for structural change (see p. 9). Aareon AG has made provision for this risk in its strategic realignment and associated multi-product strategy. The internal implementation is taking place as part of the WoWi+ project. The company markets its long-running GES ERP System and WohnData System alongside its Blue Eagle premium product. Through the acquisition of Aareon Wodis GmbH, formerly Techem IT Services GmbH, we have also incorporated the mature software application Wodis into our product portfolio. We are thus in a position to offer suitable and enduring software solutions to potential customers of all sizes and to reduce the risks of being reliant on a single software application. We handle the risk of internal competition between our various products by means of carefully controlled sales efforts and a management structure that is organised along product lines.

We are confident that the introduction of our new multiproduct strategy has minimised potential risks to revenue and earnings. The new strategy has made our revenue and our earnings less dependent on a single product that is subject to ongoing development. The customer trend towards extending existing systems endorses the new strategy.

Project risks

Individual customer projects are a key part of our business operations, but the possibility of not fully meeting customer expectations means that there are risks to time, cost and quality with every project. The company reduces these risks by applying Aareon Project Management Standards, which allow us to also tackle larger and more complex customer projects than would otherwise be the case. Moreover, risks can occur from involvement in an excessively large number of projects, particularly when you consider that there are currently many customers wanting to start working with Blue Eagle software. Multi-project management is one way of reducing this kind of risk. Also, our development team has developed a simple migration method (the Blue Eagle Migration Tool) that has already minimised the risk involved in the many orders we have delivered so far and plan to deliver in the future.

Software development risk

One focus of Aareon AG is enhancing its existing IT-based solutions. Blue Eagle is the company's latest new software development. Software development entails the risk of being unable to carry out the development work within budget, with the required quality and within the time frame expected by the market. Development is therefore carried out under a company-wide process model for uniform and professional project work (Aareon Project Management), which is based on international standards. The application of this process model reduces the software development risks. To avert the remaining risks related to enhancing Blue Eagle, the existing monitoring and control committees are kept in place. Members of the Management Board are directly involved in these committees.

To minimise quality risks, we regularly assess the needs of our customers and carry out extensive quality assurance measures before we implement new releases. A key barometer of customer satisfaction with our products is the annual, anonymous and standardised customer survey. Further input is provided by intensive customer communication and cooperation with customer advisory boards and industry associations. This enables the Group to identify market needs early on and to incorporate them in the development of its products.

The risk of asking our employees to acquire additional specialist knowledge to deal with the introduction of Blue Eagle is considerably less as a result of the experience that our employees have already gained in previous projects. Ongoing training and the dissemination of knowledge and skills reduce the risk still further.

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

Process and organisational risks

The strategic changes discussed earlier carry the inherent risk of the corporate structure not remaining in harmony with the new orientation. However, Aareon has counteracted this risk by introducing a new structural organisation organised along product lines. By instituting an intensive internal communication campaign, we are also counteracting the risks that employees could represent in the aftermath of the restructuring measures.

The integration of the new Aareon Wodis GmbH subsidiary into the Aareon Group also involves risks to process efficiency, to corporate culture and to employee motivation. To minimise these risks, we have specifically put into place a project designed to integrate the new subsidiaries. All of these measures are intended to help us serve our customers as well as possible.

Technical risk

We minimise the risk of serious disruption by implementing sensible, documented and regularly tested measures 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. We have so far experienced no disruptions that have led to an extended period of loss of output. Generally speaking, however, we cannot completely rule out the possibility of disruption that could result in the breaching of contractual agreements (SLA). In the event of this kind of disruption, we have contractually protected backup locations available to enable us to temporarily resume our contractual obligations after a specified, short recovery period.

We have also installed comprehensive data security processes which allow us to reconstruct lost data in part or in whole in due time. To reduce our liability risk, we have taken out a property damage liability insurance policy. This policy provides cover in the event of Aareon being judged liable to a third party for damage incurred as a result of its activities as an IT provider.



Comprehensive and secure data back-up processes at Aareon

Financial risks

We are confident that the introduction of our new multiproduct strategy has minimised potential risks to revenue and earnings. We deal with cost-related risks by implementing cost-conscious strategies supported by tight budget planning. Not only that, but we have implemented a package of carefully selected measures to maximise the profit contribution of both the cost and the revenue sides of our business. An example of a revenue risk would be when we do not win all the orders we expect. This is quite possible in an environment where customers tend to extend the service life of their existing systems. We are responding to this by increasing the penetration of existing products with our regular customers.

We are also minimizing potential personnel cost risks through careful planning of our manpower requirements. Business development with the international subsidiaries also involves earnings risks. In order to absorb these risks, we continued our restructuring and consolidation measures in 2006, and we will constantly review the strategy we have adopted.

Outlook

The strategic realignment undertaken in 2006 has put measures in place to ensure our continued success in the future. Thanks to our differentiated multiproduct strategy, we are now better able to serve the various sections of the property market - from the smaller customers with less complex needs right through to major customers with individual, multi-layered requirements.

The new product line-oriented organisational structure implemented in November 2006 has given greater clout to our business activities. We can now utilise synergies within the Group much more effectively. Extending the service life of our long-running GES and WohnData systems has safeguarded a major part of our revenue in Germany. We expect to see a slight downturn in the sales of the GES product, since customers are about to migrate to other products within the Group's portfolio, particularly Blue Eagle. Both GES and WohnData make a substantial contribution to the Group's rising earnings. Adding the Wodis application to our product range has improved our access to medium-sized companies and we expect revenue of Wodis to increase. It is making a stable contribution to our overall result.

The Blue Eagle premium product is a unique SAP-based solution for major customers and property investment companies. Blue Eagle customers will convert from release 3.0 to release 4.0 during the course of 2007. The Blue Eagle service pack 4.0.1 scheduled for April 2007 will also provide an interface to the insurance claim processing software from BauSecura Versicherungsmakler GmbH. We will be stepping up our efforts to acquire new customers in this field with a carefully tailored marketing campaign promoting our Blue Eagle and SAP business. We expect to see a significant increase in sales of this product the following years. Although its net profit contribution will remain depressed next year as a result of expenditure incurred on development, we are forecasting a positive profit contribution from 2008 on, which will make a substantial contribution to Group earnings. In the expectation of achieving market margins for consulting, we aim to increase our revenue from Blue Eagle and SAP consulting services from 2008 on. Since consulting in SAP-related sectors tends to be ongoing and often extremely extensive, we are forecasting a rise in income for Aareon IT Consulting and thus a positive contribution to Group earnings.

Integrated Services includes the products Aareon NetOffice, Mareon, Outsourcing, Integrated Banking and Remote Data Transmission/Extranet. We are forecasting stable revenue in future years. These products will continue to make a steady contribution to Group earnings. We plan to implement a major enhancement of our Mareon product next year by providing an interface to our Wodis application. We expect this also to have a positive impact on revenue.



A vision for the future

The earnings generated from our established systems abroad will increase mainly as a result of expected future Blue Eagle and SAP business currently in development.

Group earnings in 2007 will still be affected by the restructuring measures initiated this year. In 2008, their influence will essentially no longer be felt.

The focus on earnings of the Aareon Group will be strengthened considerably by the introduction of new control systems for sales and by a key account management system. Customer support will be efficient, more controllable and more profitable. We expect this to lead to increased product penetration, particularly with major customers.

Once customer requirements have been incorporated into Blue Eagle, the original task of the customer committee will be complete. We will therefore be replacing the customer technical committee with a quality circle and changing its task.



The coming 2007 financial year will be a very special one for us. 50 years ago, in 1957, the keystone was laid for Aareon when Deutsche Bau- und Bodenbank AG set up its own computer centre. We are proud to be able to look back on 50 years of experience of IT-assisted solutions for the property sector. With the motto "The future is built on experience", we will be celebrating this jubilee year with a variety of internal and external customer relations promotions.

Mainz, 29 January 2007

The Management Board

A handwritten signature in blue ink, appearing to read 'M. Alflen'.

Dr. Manfred Alflen

A handwritten signature in blue ink, appearing to read 'G. Neuhaus'.

Gereon Neuhaus

A handwritten signature in blue ink, appearing to read 'J. Pfeiffer'.

Jürgen Pfeiffer

A handwritten signature in blue ink, appearing to read 'E. Villmow'.

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 margin of the management report are not part of the audited report.



EXPERIENCED

The future is built on experience. In 2007, Aareon celebrates its 50th anniversary as an expert for the IT-supported optimisation of processes in the property sector. This experience is also reflected in the products.

Consolidated Income Statement

for the period from 1 January to 31 December 2006

(€ 000's)	NOTES	2006	2005
Revenues	4.1	156,071	162,603
Other own work capitalised		3,860	4,150
Other operating income	4.2	17,913	6,861
Cost of materials	4.3	43,447	48,972
Staff costs	4.4	83,747	78,053
Depreciation and amortisation			
on intangible assets and on property, plant and equipment		8,964	8,464
Other operating expenses	4.5	31,041	29,708
Other interest and similar income	4.6	654	557
Including from affiliated companies: € 176,000 (2005: € 302,000)			
Interest and similar expenses	4.6	466	361
Including paid to affiliated companies: € 0 (2005: € 0)			
Result from ordinary activities		10,833	8,613
Income taxes	4.7	3,465	4,562
Other taxes		232	196
Consolidated net income/loss		7,136	3,855
Of which attributable to:			
Shareholders of the parent company		6,473	3,126
Minority shareholders		663	729

Consolidated Balance Sheet

as at 31 December 2006

Assets (€ 000's)	NOTES	2006	2005
Non-current assets			
Intangible assets	5.1	51,010	33,209
Property, plant and equipment	5.2	15,717	16,168
Financial assets	5.3	3,503	3,684
Trade receivables and other assets	5.6	62	2,052
Deferred tax assets	5.9	7,764	6,239
		78,056	61,352
Current assets			
Inventories	5.5	8,456	13,103
Trade receivables and other assets	5.6	22,790	22,747
Current tax assets	5.7	1,295	5,171
Cash on hand and balances held with banks	5.8	15,976	23,260
		48,517	64,281
		126,573	125,633

Shareholders' Equity and Liabilities (€ 000's)	NOTES	2006	2005
Equity			
	5.10/5.11/		
Equity attributable to shareholders	5.12	52,935	54,509
Minority interest	5.13	743	729
		53,678	55,238
Non-current liabilities			
Provisions for pensions and similar obligations	5.14.1	19,217	18,622
Other non-current provisions	5.14.2	5,010	4,788
Deferred tax liabilities	5.9	5,709	5,374
Other liabilities	5.16	4,470	2,840
		34,406	31,624
Current liabilities			
Other current provisions	5.14.2	17,066	12,141
Current tax liabilities	5.15	4,076	4,077
Trade payables and other liabilities	5.16	17,347	22,553
		38,489	38,771
		126,573	125,633

Consolidated Statement of Changes in Shareholders' Equity

for the period from 1 January to 31 December 2005

(€ 000's)	SUBSCRIBED CAPITAL	CAPITAL RESERVES	TRANSLATION DIFFERENCE	ACCUMULATED GROUP EARNINGS	TOTAL
Of which attributable to shareholders of the parent company					
01 January 2005	25,000	26,400	-406	6,327	57,321
Addition to reserves	0	0	0	0	0
Distribution	0	0	0	-6,000	-6,000
Group earnings	0	0	0	3,126	3,126
Other changes	0	0	62	0	62
31 December 2005	25,000	26,400	-344	3,453	54,509
Of which attributable to minority interest					
01 January 2005	79	0	0	825	904
Addition to reserves	0	0	0	0	0
Distribution	0	0	0	-904	-904
Group earnings	0	0	0	729	729
Other changes	0	0	0	0	0
31 December 2005	79	0	0	650	729

for the period from 1 January to 31 December 2006

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

Consolidated Statement of Cash Flows

of the Aareon Group (IFRS)

(€ 000's)	2006	2005
Net income for the period (including income/loss portion attributable to minority interest) before net interest income and tax expense	10,413	6,738
Amortisation/depreciation of fixed assets	8,964	8,464
Write-up on fixed assets	-53	-37
Income taxes paid	-4,554	-1,595
Interest paid	-465	-361
Interest received	654	557
Increase/decrease (-) in provisions	7,254	1,877
Increase (-)/decrease in inventories	2,266	2,659
Increase (-)/decrease in receivables and other assets	3,820	-5,495
Increase (-)/decrease in other assets	99	-1,082
Increase/decrease (-) in liabilities	6,234	-4,278
Increase/decrease (-) in other liabilities	-48	-54
Income/loss from the transfer of assets to fixed assets	-11,716	0
Cash flow from operating activities	22,868	7,393
Payments for investments in fixed assets	-17,688	-10,529
Payments received for the sale of consolidated companies and other business units	1,496	0
Income from the disposal of fixed assets	795	566
Exchange rate-related changes in fixed assets	-19	-54
Cash flow from investing activities	-15,416	-10,017
Change in minority interest	0	0
Payments to minority shareholders	-720	-904
Payment to shareholders	-14,000	0
Cash flow from financing activities	-14,720	-904
Net change in cash and cash equivalents	-7,268	-3,528
Exchange rate-related change in cash and cash equivalents	-16	62
Total change in cash and cash equivalents	-7,284	-3,466
Cash funds at the beginning of the year	23,260	26,726
Cash funds at the end of the year	15,976	23,260

Notes to the Consolidated Financial Statements

[1]

General notes

[1.1]

Compliance with legal requirements

The consolidated financial statements of Aareon AG, Im Münchfeld 1-5, 55122 Mainz, Germany, were prepared according to International Financial Reporting Standards (IFRS) and the interpretations of the Standing Interpretations Committee (SIC/IFRIC) for the 2006 financial year. All of the compulsory International Financial Reporting Standards required for the consolidated financial statements as of 31 December 2006 were taken into account. The financial statements give a true and fair view of the financial position of the Aareon Group and the results of its operations. The consolidated financial statements are prepared in euros. Unless indicated otherwise, all amounts are shown in thousands of euros (€ 000's). The income statement is prepared using the total cost (nature of expense) method.

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

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

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

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

IAS 1.51 requires current and non-current assets and liabilities to be shown separately in the balance sheet.

[1.2]

Operating activities

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

The company has around 1,000 employees at its head office in Mainz and numerous other offices in Germany and abroad.

Its customer groups include private and municipal housing companies, property management companies, home owners' associations, insurance companies, property investment funds, enterprises associated with industrial companies, commercial property operators and cooperative societies.

Information on accounting, valuation and consolidation methods

[2]

The group of fully consolidated companies includes Aareon AG as well as all significant subsidiaries in which Aareon AG either directly or indirectly holds the majority of voting rights or the right to appoint the majority of the Supervisory Board members. Two subsidiaries who are in the process of being liquidated are not included in the consolidated financial statements. Participations in such enterprises are valued at cost, less any necessary depreciation and amortisation.

[2.1]

Scope of consolidation

In the financial year just ended, one subsidiary, Aareon Wodis GmbH in Dortmund, Germany (previously Techem IT Services GmbH) was acquired by means of a share swap. Initial consolidation is carried out according to the provisions of IFRS 3. At the same time, the stake in BauTec Energiemanagement GmbH was acquired by means of a spin-off and subsequently sold as part of the share swap. The acquisition cost was € 2,810k.

The acquisition of the 100% share in Aareon Wodis GmbH from Techem Energy Services GmbH, Eschborn, Germany, as of October 1, 2006, was made by means of a share swap plus cash compensation for Aareon. The acquisition cost for Aareon Wodis GmbH was € 8,587k. The pro-rated fair value of the assets and liabilities was € 2,412k. This results in goodwill of € 6,175k. Goodwill is the result of purchase price allocation. The share in the consolidated annual result attributable to the acquired company since initial consolidation during the year was € -227k.

The assets and liabilities of the companies at the time of initial consolidation and deconsolidation, respectively, are as follows:

Aareon Wodis GmbH	(€ 000's)		(€ 000's)
Software	4,611	Equity	2,412
Receivables	1,682	Provisions	1,073
Other	214	Liabilities	2,143
		Other	879
Total	6,507	Total	6,507

BauTec Energiemanagement GmbH	(€ 000's)		(€ 000's)
Software	946	Equity	4,625
Inventories	2,381	Provisions	2,718
Receivables	4,817	Liabilities	6,261
Cash on hand and balances held with banks	4,858	Other	251
Other	853		
Total	13,855	Total	13,855

If the acquisition had been recognized as of the beginning of the reporting period, revenues and net income for the year attributable to the acquired entity would have been € 9,281k and € -343k, respectively.

BauTec Energiemanagement was deconsolidated as of August 9, 2006, as a result of the share swap. The deconsolidation gain was € 11,802k. Mareon Polska SP. Z O. O. was deconsolidated as of November 30, 2006. The deconsolidation gain was € -86.

[2.2]
Principles of consolidation

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.

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

[2.3]
Currency translation

The foreign companies which form part of the Aareon Group are independent sub-units, whose financial statements are translated into euros using the functional currency concept. The items in the income statement are translated using the average exchange rate, all monetary and non-monetary assets and liabilities are translated using the closing rate on the balance sheet date. Differences which impact equity are disclosed directly in a separate equity item until the subsidiary is disposed of. This also applies to any deviations between the accumulated profit translated using the closing rate on the balance sheet date and the results shown in the consolidated income statement based on average exchange rates. The components of shareholders' equity to be included in capital consolidation are translated using historical exchange rates.

The following exchange rates were used for translation:

€ 1 =		BALANCE SHEET CLOSING RATE		INCOME STATEMENT AVERAGE EXCHANGE RATE	
		31.12.2006	31.12.2005	2006	2005
United Kingdom	GBP	0.6715	0.6853	0.6821	0.6841
Poland	PLN	3.831	3.86	3.8969	4.0215
Switzerland	CHF	1.6069	1.5551	1.5764	1.5489

Accounting and valuation principles

[3]

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

[3.1]
Intangible assets

Goodwill is subject to an annual impairment test. Its value is determined based on the cash value of future cash flows ("value in use") which are determined by using mid-term planning figures. A stable growth factor of 0 is assumed. The determination of the cash value of future cash flows is based on a discount factor of 15% before tax which is adequate to the risks concerned.

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

Property, plant and equipment are measured at cost according to IAS 16 and, insofar as these are wasting assets, subject to straight-line depreciation in line with their expected useful life. Low-value assets are written down in full in the year of acquisition. Impairment within the meaning of IAS 36 is recognized if it is compulsory to carry the asset at a lower value, i.e. if the net selling price or the value in use of the affected asset is lower than its carrying amount. If the reasons for impairment made 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

Investment property as defined by IAS 40 is property which is held by its owner for the purpose of generating income from leases. The letting of property that was previously used by Aareon, which became necessary in connection with the deconsolidation of the Aareon Energy Management business, is not material and is thus not recognised under IAS 40.

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

[3.3] Leasing

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

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

(€ 000's)	2007	2008-2011	AFTER 2011
Leasing payments	1,910	1,511	
Discount amounts	241	298	
Present values	1,669	1,213	

Revenues from future, non-terminable sub-leasing agreements amounted to € 1,655k.

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

(€ 000's)	2007	2008-2011	AFTER 2010
Leasing payments	5,186	8,501	842

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

[3.4]

Financial instruments

IAS 39 breaks financial assets down into the following categories:

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

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

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

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

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

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

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

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

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

**[3.5]
Inventories**

Inventories are recognised at cost. Financing costs are not included. They are measured at the lower of cost and the finished product’s net realisable selling price as of the balance sheet.

**[3.6]
Deferred taxes**

Deferred taxes are recognised in line with IAS 12 for all temporary differences between the carrying amounts in the tax base and the consolidated balance sheet (temporary concept). In addition, deferred taxes must be recognised for losses carried forward. The so-called liability method is used to calculate deferred taxes. Deferrals are made in the amount of the assumed tax burden or relief in coming financial years based on the tax rate which applies at the time of realisation. Deferred taxes are carried at their nominal amount (IAS 12.54 et seq.). The book values are reviewed at each balance sheet date and adjusted if necessary. The carrying amount should be reduced accordingly to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit or part or all of that deferred tax asset to be realised (discount). The deferred tax rates in foreign countries are between 26% and 40%.

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]
Provisions for pensions and similar obligations**

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

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

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

[3.8]
Tax provisions

The other provisions account for all identifiable risks and uncertain liabilities at the reporting date. Provisions which do not already lead to an outflow of resources in the following year are not carried at their fulfillment amount discounted to the balance sheet date in line with IAS 37.45 as no material impact on interest would result. The fulfillment amount also comprises the cost increases to be taken into account on the balance sheet date. Provisions in foreign currencies were translated using the closing rate on the balance sheet date.

[3.9]
Other provisions

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

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

[3.10]
Liabilities

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

[3.11]
Realisation of income and expense

The company primarily generates its sales through:

- consulting projects and training;
- software sales and software maintenance contracts;
- ASP services;
- integrated banking services;
- the Mareon service portal;
- Aareon Energy Management (including the billing of heating and ancillary operating costs) - until 09.08.2006; and
- insurance brokerage services for the property industry.

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

As IFRS do not include any clear rule for the realisation of software revenue, the US GAAP rule (SOP 97-2) is applied. According to SOP 97-2, software revenue is considered to have been realised if there is a contract signed by both parties with no right to withdraw from the contract, the product has been supplied in full, the license fee has been determined and it is probable that this will be paid. If license contracts include agreements on future deliveries and performance, part of the software income is allocated to the deliveries and performance based on the underlying calculations, and is only collected when the services have been performed.

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

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

[4]

Notes to the Consolidated Income Statements of the Aareon Group

[4.1]
Revenues

(€ 000's)	REVENUES BY BUSINESS SEGMENT	
	2006	2005
IT Solutions	94,706	101,074
IT Services	40,563	40,514
Consulting	19,330	19,698
Other revenues	1,472	1,317
Total	156,071	162,603

Compared to the previous year, revenues in the IT Solutions business segment declined by € 6,368k. This is primarily due to the sale of BauTec Energiemanagement GmbH and a concurrent increase in Blue Eagle sales as well as additional sales of the acquired subsidiary.

In addition to its German presence, Aareon AG maintained offices in France, Italy, Poland, Switzerland and the UK in 2006.

(€ 000's)	REVENUES BY REGION	
	2006	2005
Germany	141,543	147,838
International	14,528	14,765
Total	156,071	162,603

(€ 000's)	2006	2005
Income from the release of provisions	1,348	2,072
Non-cash income	1,108	900
Income from letting premises	219	112
Income from the writing back/reduction of specific and general loss provisions	124	554
Other income	15,114	3,223
Total	17,913	6,861

[4.2]
Other operating income

The increase in other operating income is essentially due to the deconsolidation gain of € 11,802k related to BauTec Energiemanagement and a payment of damages in the amount of € 900k.

(€ 000's)	2006	2005
Expenses for raw materials, consumables and supplies and goods for resale	4,679	6,383
Costs for services used	38,768	42,589
Total	43,447	48,972

[4.3]
Cost of materials

The cost of materials decreased in 2006 as a result of reduced external consultancy services and the pro-rated cost of materials of the Aareon Energy Management division.

(€ 000's)	2006	2005
Salaries	70,831	65,042
Social security costs	12,916	13,011
of which: Retirement benefits	2,811	2,645
Total	83,747	78,053

[4.4]
Staff costs/employees

Staff costs rose by € 5,694k compared to the previous year. This is essentially due to restructuring measures as defined in IAS 37.10. Restructuring costs in the 2006 financial year totalled € 6,580k. The measures resolved under the „WoWi +“ program for the strategic realignment of the Aareon Group have a significant impact on the Aareon product portfolio, future business segments and the organisational structure. Under the program, the company has adopted an organisational structure that is focused on product lines; it has also optimised the spans of control. This also involved making employees redundant, especially in central services and in the Consulting division.

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

	2006	2005
Germany	877	885
Rest of Europe	163	176
Total	1,040	1,061

[4.5]

Other operating expenses

(€ 000's)	2006	2005
Occupancy expenses	6,887	6,906
Leasing / rents	325	406
Legal, audit and advisory expenses	4,635	4,300
Advertising / marketing	2,664	2,884
Travel expenses	2,981	3,512
Other staff expenses	728	938
Further training	793	1,301
Motor vehicle expenses	2,580	2,529
Costs of communication	1,038	1,176
Write-ups / write-downs of receivables	844	280
Costs for repairs and maintenance	963	1,001
Insurance premiums	525	603
Office supplies, stationery printing, newspapers and magazines	264	339
Subcontracted work	401	467
Emoluments for Supervisory Board and Advisory Council	318	377
Other operating expenses	5,095	2,689
Total	31,041	29,708

Other operating expenses increased by € 1,333k. This is essentially due to one-off expenses in connection with the sale of a subsidiary.

(€ 000's)	2006	2005
Other interest and similar income	654	557
Interest and similar expenses	466	361
Total	188	196

[4.6]
Net interest income

(€ 000's)	2006	2005
German income taxes	2,127	2,789
Foreign income taxes	-102	289
Actual tax expenses	2,025	3,078
Deferred tax expenses / income	1,440	1,484
Income taxes	3,465	4,562

[4.7]
Income taxes

The following table shows the reconciliation statement for the differences between income taxes based on the net income and the actual income tax reported. To determine the expected tax expense, the Group tax rate of 39.8% in effect in the 2006 financial year is multiplied by the pre-tax earnings.

Taxes related to previous years essentially concern tax credits determined in accordance with section 37 para. 2 sentence 3 German Corporation Tax Law (KStG) which, as a result of an amendment to section 37 para. 5 KStG, will be distributed in ten equal amounts to the company from 2008 onwards.

(€ 000's)	2006	2005
Earnings before taxes	10,601	8,418
Trade tax	1,926	1,529
Corporation tax	2,169	1,722
Solidarity surcharge	119	95
Anticipated tax expense/tax income	4,214	3,346
Reconciliation:		
Non-deductible expenses	728	570
Taxes for previous years	-2,755	214
Change in tax rate for deferred taxes (Germany)	52	-33
Other differences	1,226	465
Disclosed tax expense	3,465	4,562

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

Fixed assets movement schedule according to IFRS as of 31 December 2006

(€ 000's) (previous year's figures in parentheses)							COST	
	01.01.2006 (01.01.2005)	CURRENCY TRANSLATION DIFFERENCE	CHANGE IN SCOPE OF CONSOLI- DATION	ADDITIONS	DISPOSALS	RECLASSIFI- CATIONS	31.12.2006 (31.12.2005)	
5.1. Intangible assets								
1. Goodwill	51,958 (51,961)	64 (16)	- (-)	9,116 (91)	- (-110)	- (-)	61,138 (51,958)	
2. Concessions, industrial property rights and similar rights and assets, as well as licences to such rights and assets	29,720 (24,248)	-14 (3)	3,108 (-)	6,650 (5,646)	-289 (-328)	537 (151)	39,712 (29,720)	
3. Payments on account for intangible assets	573 (449)	- (-)	- (-)	2,257 (275)	-36 (-)	-537 (-151)	2,257 (573)	
	82,251 (76,658)	50 (19)	3,108 (-)	18,023 (6,012)	-325 (-438)	- (-)	103,107 (82,251)	
5.2. Property, plant and equipment								
1. Land, equivalent rights and buildings	10,341 (14,424)	3 (3)	-146 (-)	269 (45)	-237 (-4,199)	8 (68)	10,238 (10,341)	
2. Plant and machinery	2,724 (2,740)	6 (27)	-1,576 (-)	397 (469)	-179 (-700)	452 (188)	1,824 (2,724)	
3. Other equipment, and office furniture and equipment	29,617 (30,264)	5 (-7)	-508 (-)	5,122 (2,959)	-6,182 (-3,536)	529 (-63)	28,583 (29,617)	
<i>Thereof: leased assets</i>	<i>26,898 (26,894)</i>	<i>- (-)</i>	<i>- (-)</i>	<i>2,532 (822)</i>	<i>-4,499 (-818)</i>	<i>- (-)</i>	<i>24,931 (26,898)</i>	
4. Payments on account	989 (26)	- (-)	- (-)	34 (1,156)	-17 (-)	-989 (-193)	17 (989)	
	43,671 (47,454)	14 (23)	-2,230 (-)	5,822 (4,629)	-6,615 (-8,435)	- (-)	40,662 (43,671)	
5.3. Financial assets								
1. Shareholding	25 (25)	- (-)	37 (-)	- (-)	-25 (-)	- (-)	37 (25)	
2. Investment securities	- (2)	- (-)	- (-)	19 (-)	- (-2)	- (-)	19 (-)	
3. Other loans	4,155 (4,287)	- (-)	- (-)	- (-)	-265 (-132)	- (-)	3,890 (4,155)	
	4,180 (4,314)	- (-)	37 (-)	19 (-)	-290 (-134)	- (-)	3,946 (4,180)	
	130,102 (128,426)	64 (42)	915 (-)	23,864 (10,641)	-7,230 (-9,007)	- (-)	147,715 (130,102)	

	ACCUMULATED DEPRECIATION						CARRYING AMOUNTS		
	01.01.2006 (01.01.2005)	CURRENCY TRANSLATION DIFFERENCE	CHANGE IN SCOPE OF CONSOLI- DATION	WRITE-UP	ADDITIONS	DISPOSALS	01.01.2006 (01.01.2005)	01.01.2006 (01.01.2005)	PREVIOUS YEAR
	33,575 (33,534)	29 (41)	- (-)	- (-)	- (-)	- (-)	33,604 (33,575)	27,534 (18,383)	18,383 (18,427)
	15,467 (12,871)	1 (6)	-556 (-)	- (-)	3,781 (2,828)	-200 (-238)	18,493 (15,467)	21,219 (14,253)	14,253 (11,377)
	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	2,257 (573)	573 (449)
	49,042 (46,405)	30 (47)	-556 (-)	- (-)	3,781 (2,828)	-200 (-238)	52,097 (49,042)	51,010 (33,209)	33,209 (30,253)
	5,395 (9,028)	2 (1)	-105 (-)	- (-)	601 (565)	-238 (-4,199)	5,655 (5,395)	4,583 (4,946)	4,946 (5,396)
	1,469 (1,758)	5 (16)	-994 (-)	- (-)	301 (363)	-155 (-668)	626 (1,469)	1,198 (1,255)	1,255 (982)
	20,639 (19,268)	8 (-1)	-424 (-)	- (-)	4,291 (4,710)	-5,850 (-3,338)	18,664 (20,639)	9,919 (8,978)	8,978 (10,996)
	24,143 (22,515)	- (-)	- (-)	- (-)	1,941 (2,446)	-4,315 (-818)	21,769 (24,143)	- (-)	- (-)
	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	17 (989)	989 (26)
	27,503 (30,054)	15 (16)	-1,523 (-)	- (-)	5,193 (5,638)	-6,243 (-8,205)	24,945 (27,503)	15,717 (16,168)	16,168 (17,400)
	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	37 (25)	25 (25)
	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	19 (-)	- (2)
	496 (496)	- (-)	- (-)	-53 (-)	- (-)	- (-)	443 (496)	3,447 (3,659)	3,659 (3,791)
	496 (496)	- (-)	- (-)	-53 (-)	- (-)	- (-)	443 (496)	3,503 (3,684)	3,684 (3,818)
	77,041 (76,955)	45 (63)	-2,079 (-)	-53 (-)	8,974 (8,466)	-6,443 (-8,443)	77,485 (77,041)	70,230 (53,061)	53,061 (51,471)

[5.1]
Intangible assets

The additions to "Industrial rights and similar rights and assets" primarily relate to the purchase of SAP licences and capitalisation of development costs for Blue Eagle Release 4.0/4.0.1 according to IFRS/IAS 38. Capitalisation was made in the amount reflecting development services rendered based on a standard per-diem rate and pro-rated project management costs. The capitalised carrying amount for Blue Eagle in the reporting period totalled € 7,025k, with an average residual useful life of eight years. Development costs of € 3,542k were also capitalised in connection with Blue Eagle. Research and development expenses in the reporting period totalled € 6,658k, of which € 3,860k were capitalised. The additions under „Goodwill“ primarily result from the addition of a subsidiary.

The amortised goodwill concerning the products is as follows:

1. Blue Eagle:	€	3,107 k
2. GES ERP System:	€	12,114 k
3. Integrated Services:	€	4,429 k
4. Wodis:	€	6,175 k
5. Other:	€	1,709 k

[5.2]
Property, plant and equipment

See fixed assets movement schedule.

[5.3]
Financial assets

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

[5.4]
Shareholdings

Name and registered office of company	INTEREST HELD IN %	SHAREHOLDERS' EQUITY 2006 (€ 000's)	PROFIT 2006 (€ 000's)
Aareon AG, Mainz		60,050	1,537
Aareon Deutschland GmbH, Mainz	100	32,311	1,176
Aareon DSK GmbH, Berlin	70	30	- 92
Aareon Wodis GmbH, Dortmund	100	3,141	- 553
BauSecura Versicherungsmakler GmbH, Hamburg	51	1,517	1,387
Aareon France SAS, Orléans (France)	100	459	-75
Aareon Italia S.r.l., Rome (Italy)	100	271	- 1,172
Aareon Schweiz AG, Otelfingen (Switzerland)	100	-638	3
Aareon UK Ltd., Coventry (UK)	100	806	-306
RUSKOM BauConsult GmbH, Moscow (Russia)	50	no information provided	no information provided
RusBauTec GmbH, Moscow (Russia)	80	no information provided	no information provided

The inventories mainly comprise payments on account. The payments on account made primarily relate to a payment on account made to SAP AG. There are no restraints to ownership or disposal for the inventories disclosed.

**[5.5]
Inventories**

(€ 000's)	2006	2005
Receivables from unbilled services	1,250	1,458
of which: with a remaining term of more than one year	0	0
Trade receivables	14,132	19,375
of which: with a remaining term of more than one year	62	2,052
Receivables from affiliated companies	1,244	268
of which: with a remaining term of more than one year	0	0
Receivables from shareholders	0	220
of which: with a remaining term of more than one year	0	0
Prepayments	2,791	2,861
of which: with a remaining term of more than one year	0	0
Other assets	3,435	617
of which: with a remaining term of more than one year	0	0

**[5.6]
Receivables and other
assets**

Prepayments mainly relate to the deferral of rents and leases as well as maintenance expenses and licence fees. The other assets essentially concern receivables from the loss compensation for the acquired subsidiary and reclamations from the acquisition of the subsidiary.

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

(€ 000's)	2006	2005
Income from orders received by the balance sheet date	1,761	3,624
Order costs booked as expenses by the balance sheet date	1,101	-2,908
Impairment losses recognised in profit or loss by the balance sheet date	0	-273
Accumulated disclosed profits less losses	660	443
Receivables from unbilled services	1,561	3,624
Payments received on account of orders	311	-2,166
Balance of production contracts	1,250	1,458
The balance comprises:		
Positive balance of production contracts, for which the costs including profit or loss shares exceed the payments on account received	1,250	1,458
Negative balance of production contracts, for which the payments received on account exceed the costs including profit or loss shares	0	0

Further details on the receivables from unbilled services can be found in the section 3.11 "Realisation of income and expense". Income from orders received was € 1,637k in the reporting year. Ownership and disposal are not restricted for the disclosed receivables. Write-downs were made to account for the risk of default.

Bad debt allowances in the year under review totalled € 844k.

[5.7]
Current tax assets

(€ 000's)	2006	2005
Current tax receivables	1,295	4,953
Deferred tax assets	0	218
Current tax assets	1,295	5,171

[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)	2006	2005
Cash reserve	13	40
Balances held with banks	15,963	23,220
Funds with terms of up to three months	15,976	23,260

[5.9]
Deferred taxes

(€ 000's)	2006	2005
Provision for pensions	1,311	1,204
Liabilities	1,303	1,211
Other provisions	1,336	1,497
Losses carried forward (domestic)	788	1,110
Losses carried forward (abroad)	15	389
Other	194	1,046
Deferred tax assets	4,947	6,457
Intangible assets	4,704	3,798
Property, plant and equipment	1,257	1,096
Other	183	861
Deferred tax liabilities	6,144	5,755

All deferred tax assets are included in non-current tax assets. In addition, tax assets totalling € 2,817 k resulting from the capitalisation of tax claims from corporation tax credits under the German SEStEG law are allocated to non-current tax assets. Of the deferred tax liabilities, € 435 k were allocated to current tax liabilities and € 5,709 k were allocated to non-current deferred tax liabilities.

Unused tax loss carryforwards, for which no deferred tax assets were recognised, amounted to € 2,099 k in Germany and € 6,846 k abroad.

The subscribed capital of Aareon AG as of 31 December 2006 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 € 1.00.

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

[5.11]
Capital reserves

The accumulated Group income includes other revenue reserves within the meaning of the disclosures required under commercial law. They include additions from the results of the financial year or previous years and differences from currency translation directly recognised in equity from the financial statements of subsidiaries. In addition, adjustments from the initial application of new IAS that were recognised directly in equity are added to or offset against retained earnings. In the case of the previous year's figures, the unchanged application of the accounting and valuation regulations did not require any adjustment not recognised in profit or loss. Aareon AG's Memorandum and Articles of Association do not include any provisions for the recognition of reserves.

[5.12]
Accumulated Group income

Minority interest is reported as a separate item under consolidated equity in line with IAS 27.33 and IAS 1.68. Minority interest exists with respect to BauSecura Versicherungsmakler GmbH in Hamburg.

[5.13]
Minority interest

Provisions developed as follows:

[5.14]
Provisions

(€ 000's)	01.01.2006	ADDITIONS	CHARGE-OFFS	AMOUNTS RELEASED	31.12.2006
Provision for pensions	18,622	1,626	1,012	19	19,217
Provision for taxes	1,672	2,043	1,789	16	1,910
Other provisions	16,929	14,883	8,407	1,329	22,076
Total	37,223	18,552	11,208	1,364	43,203

[5.14.1]
Provisions for pensions and
similar obligations

Development of pension provisions:

(€ 000's)	2006	2005
Pension provision as of 01.01.		
1. Pension provision as of 31.12. of the previous year (accrued pension cost)	18,622	18,098
Expense for the financial year		
2. Expense for the financial year, net		
a) Service cost	313	308
b) PBO interest cost	1,020	1,027
c) Amortisation	243	126
- Gains (-) /Losses		
- Prior service cost		
- Initial net obligation		
	1,576	1,461
3. Actual utilisation	1,005	910
4. Other additions and transfers	24	-27
Pension provision as of 31.12	19,217	18,622
Commitments as of 01.01		
Projected Benefit Obligation (PBO) on 01.01	24,453	19,109
Expense for the financial year, net		
5. Expense for the financial year, net		
a) Service cost	313	308
b) PBO interest cost	1,020	1,027
c) Amortisation	243	126
- Gains (-) /Losses		
- Prior service cost		
- Initial net obligation		
	1,576	1,461
6. Actual utilisation	1,005	910
7. Other additions and transfers	0	-27
8. Actuarial gain (-) /loss	-1,786	4,820
Pension commitment as of 31.12	23,238	24,453

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

In %	2006	2005
Interest rate	4.5	4.25
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.

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

Development in 2005

[5.14.2]

Other provisions

(€ 000's)	01.01.2005	ADDITIONS	CHARGE-OFFS	AMOUNTS RELEASED	31.12.2005
Warranties	1,619	10	0	456	1,173
Staff salary components	1,941	1,218	767	150	2,242
Long-service commitments	2,927	1,394	147	104	4,070
Bonus payments	4,084	3,529	3,705	220	3,688
Early retirement commitments	70	0	62	8	0
Other provisions	4,830	4,700	2,640	1,134	5,756
Total 2005	15,471	10,851	7,321	2,072	16,929

Development in 2006

(€ 000's)	01.01.2006	ADDITIONS	CHARGE-OFFS	AMOUNTS RELEASED	31.12.2006
Warranties	1,173	0	0	46	1,127
Staff salary components	2,242	516	1,748	223	787
Long-service commitments	4,070	520	374	333	3,883
Bonus payments	3,688	4,291	3,331	269	4,379
Restructuring	0	4,856	0	0	4,856
Other provisions	5,756	4,700	2,954	458	7,044
Total 2006	16,929	14,883	8,407	1,329	22,076

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

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

In addition, specific provisions were recognised for individual risks.

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

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

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

Other provisions by term

(€ 000's) (previous year's figures in parentheses)	< 1 YEAR		> 1 YEAR	
	01.01	31.12.	01.01	31.12.
Warranties	455 (579)	0 (455)	718 (1,040)	1,127 (718)
Staff salary components	2,242 (1,941)	787 (2,242)	0 (0)	0 (0)
Long-service commitments	0 (0)	0 (0)	4,070 (2,927)	3,883 (4,070)
Bonus payments	3,688 (4,084)	4,379 (3,688)	0 (0)	0 (0)
Restructuring	0 (0)	4,856 (0)	0 (0)	0 (0)
Early retirement provisions	0 (0)	0 (0)	0 (70)	0 (0)
Other provisions	5,756 (4,830)	7,044 (5,756)	0 (0)	0 (0)
Total 2006	12,141	17,066	4,788	5,010
Total 2005	(11,434)	(12,141)	(4,037)	(4,788)

(€ 000's)	2006	2005
Income tax liabilities	2,346	2,053
Other liabilities, taxes	1,730	2,024
	4,076	4,077

[5.15]

Current tax liabilities

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

[5.16]

Liabilities

(€ 000's) (previous year's figures in parentheses)	REMAINING TERM UP TO 1 YEAR	REMAINING TERM OVER 1 YEAR UP TO 5 YEARS	REMAINING TERM MORE THAN 5 YEARS	TOTAL
Advances received from customers	152 (333)	0 (0)	0 (0)	152 (333)
Trade payables	4,836 (5,317)	4,470 (2,840)	0 (0)	9,306 (8,157)
Liabilities to affiliated companies	12 (4,759)	0 (0)	0 (0)	12 (4,759)
Other liabilities	9,560 (9,484)	0 (0)	0 (0)	9,560 (9,484)
Prepayments received	2,787 (2,660)	0 (0)	0 (0)	2,787 (2,660)
Total 2006	17,347	4,470	0	21,817
Total 2005	22,553	2,840	(0)	(25,393)

Of the trade payables with a residual term of more than one year, € 1,610k are liabilities from leasing arrangements.

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

Prepayments received mainly include the deferral of future maintenance revenues.

[6]**Other explanatory notes****[6.1]****Other financial commitments**

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

(€ 000's)	2007	2008-2011	AFTER 2011
Licence agreements	2,000	11,000	3,000
Rental agreements	3,675	6,623	389
Leasing agreements	1,510	1,875	452
Other contracts	897	0	0
Total	8,082	19,498	3,841

[6.2]**Related parties**

In addition to the subsidiaries included in consolidation, Aareon AG has direct or indirect links to a large number of related, non-consolidated parties in conducting its ordinary activities. These are subsidiaries of the Aareal Bank Group, which are included in the consolidated financial statements of Aareal Bank AG. Many of the business relationships are with Aareal Bank AG.

This primarily relates to the following services:

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

Related parties controlled by Aareon AG, or over which Aareon AG can exert a controlling influence, are included in the consolidated financial statements and included in the list of shareholdings with information on the equity interest held and annual earnings on page 50 et seq. All transactions with related parties were conducted based on international price comparison methods in line with IAS 24, as is also standard practice with non-Group third parties.

The members of the Management Board and the directors of Aareon AG, the managing directors of Aareon Deutschland GmbH and the members of the Supervisory Board were identified as being key management personnel as defined by IAS 24.9. Compensation for key management personnel totalled € 5,121k in the financial year, including € 2,404k for the members of the Management Board.

Furthermore, provisions totalling € 112 were recognised for share-based payment (SAR) of members of the Management Board.

The members of the Supervisory and Management Boards are listed individually on pages 60 and 61.

Consolidated Cash Flow Statement

[7]

All means of payment with terms of up to three months are deemed to be cash and cash equivalents. The cash flow statement shows how the Aareon Group's cash and cash equivalents have changed during the year under review. To this end, the cash flows are annotated for financial year 2006 and for the previous year in line with IAS 7, with a distinction between cash inflows and cash outflows from operating, investing and financing activities. The effects of the consolidated group, exchange rates and other changes on the cash and cash equivalents are disclosed separately.

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

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

The "cash flow from investing activities" amounts to € -15,416k. Among others, this results from the capitalisation of software that was produced in-house, especially Blue Eagle Release 4.0/4.0.1. The "cash flow from financing activities" in the amount of € -14,720k is due to payments to the parent company for 2004 and 2005 and to minority shareholders.

[8]

Corporate Bodies of Aareon AG

[8.1]

Supervisory Board

Dr. Wolf Schumacher (until 04.09.2006), Chairman Aareal Bank AG, Wiesbaden	Chairman of the Management Board
Dr. Peter Lammerskitten, Deputy Chairman	Consultant
Prof. Dr. Björn Dreher University of Applied Sciences Wiesbaden	Lecturer for Information Technology
Prof. Dr. Wilhelm Haarmann Haarmann Partnerschaftsgesellschaft, Frankfurt	Solicitor and Wirtschaftsprüfer (German Chartered Accountant)
Hermann J. Merkens Aareal Bank AG, Wiesbaden	Member of the Management Board
Thomas Ortmanns (since 04.09.2006), Chairman Aareal Bank AG, Wiesbaden	Member of the Management Board
Dr. Manfred Schlottke Telekom Forum, Munich	Business Consultant
Christof Schörnig Aareal Bank AG, Wiesbaden	Member of the Management Board
Lutz Freitag (since 11.07.2006) GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V, Berlin	Supervisory Board

Dr. Manfred Alflen	Chairman of the Management Board Central Services, International Product Management, International Operations	[8.2] Management Board
Lothar Gebhard (until 06.06.2006)	Member of the Management Board Sales	
Gereon Neuhaus (since 15.11.2006)	Member of the Management Board Blue Eagle Product Line/SAP, Regional and Central Sales	
Jürgen Pfeiffer	Member of the Management Board GES and WohnData Product Lines	
Eberhard Villmow (since 04.09.2006)	Member of the Management Board Products & Services, Wodis Product Line, Integrierte Services Product Line, IT Consulting	

Concluding remarks

[9]

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

Mainz, 29 January 2007


The Management Board



Dr. Manfred Alflen



Gereon Neuhaus



Jürgen Pfeiffer



Eberhard Villmow

Auditor's Report

We have audited the consolidated financial statements prepared by Aareon AG, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. (paragraph) 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

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

Our audit has not led to any reservations.

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

Dusseldorf and Frankfurt, 30 January 2007

Deutsche Baurevision Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Consoir)	(Künemann)	(Rabeling)	(Billeb)
Wirtschaftsprüfer	Wirtschaftsprüfer	Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)	(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

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

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

The Supervisory Board was informed by the Management Board with regard to the cooperation with important partners and the development of the company's products and their installation and introduction with customers, putting special emphasis on major customer projects. Measures aimed at reviewing the company's international strategy were also discussed. Discussions regarding the new development Blue Eagle and related projects concerning the installation and commissioning of the product at customer sites were especially detailed. The strategic reorientation of the company and its products, which was connected to the exchange of two enterprises between a subsidiary of the company and Techem Energy Services GmbH, Eschborn, was discussed with particular intensity.

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

The company's financial statements as at 31 December 2006, together with the accounting records and the management report, have been examined and certified without qualification by Deutsche Baurevision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, and PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which were appointed as joint auditors by the Supervisory Board. The corresponding reports prepared by the auditors were made available to all members of the Supervisory Board. The results of the audit were fully endorsed by the Supervisory Board.

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

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

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

Mr. Lothar Gebhard resigned from his office as a member of the Management Board effective 21 July 2006 with the Supervisory Board's approval to devote himself to new tasks. The Supervisory Board would like to thank Mr. Gebhard for his stimulating and open cooperation.

Mr. Eberhard Villmow was appointed to the Management Board at the meeting on 4 September 2006.

Mr. Gereon Neuhaus was appointed to the Management Board at the meeting on 11 October 2006.

Dr. Wolf Schumacher resigned from his office as chairman of the Supervisory Board effective 4 September 2006. The Supervisory Board would like to thank Dr. Schumacher for his trusting and constructive work as chairman. Dr. Schumacher remains on the Supervisory Board as a regular member.

Mr. Thomas Ortmanns was voted chairman of the Supervisory Board at the meeting on 4 September 2006.

Mr. Lutz Freitag was voted to the Supervisory Board at the shareholders' meeting on 11 July 2006.

Mainz, March 2007

The Supervisory Board



Thomas Ortmanns
(Chairman)

References

Germany (selection)

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

International (selection)

Great Britain

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

France

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

Italy

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

Switzerland

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

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