Aareon

Aareon Annual Report 2017

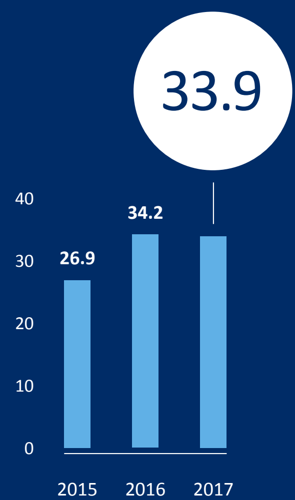
Next level evolution

Contents

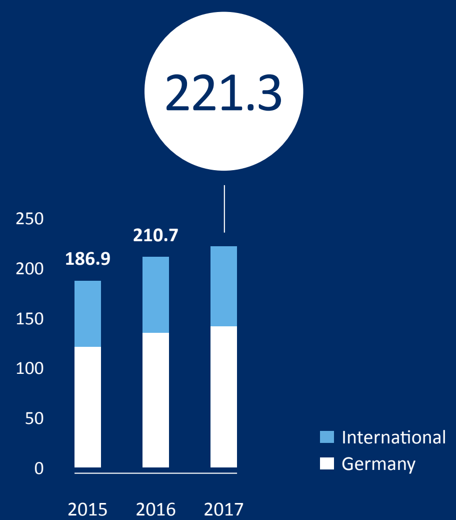
The annual report is also available online
https://ar2017.aareon.com

Our world is changing. We are in the middle of a rapid digital transformation. This **next level evolution** harbours enormous potential and is changing our working world. It is enabling relevant stakeholders and industries to be linked up, and giving rise to profitable partnerships. New, creative ideas are evolving into user-oriented innovations that add value and enhance our Aareon Smart World.

Key performance indicators 2017



EBIT in € million



Revenues in € million

IFRS key indicators (in € million)	2017	2016	Change
Revenues	221.3	210.7	5.0 %
Of which international	80.3	76.5	5.0 %
EBIT	33.9	34.2	- 0.9 %
Consolidated net income after tax	23.4	24.1	- 2.9 %
Consolidated net income after non-controlling interests	21.8	22.6	- 3.5 %
Total assets	265.0	227.0	16.7 %
Equity	145.3	123.8	17.4 %
Cash flow from operating activities [1]	26.8	34.5	- 22.3 %
Number of employees (as at 31 December)	1,559	1,400	11.4 %
Of which international	678	602	12.6 %
Return on Equity in %	24.5	28.5	- 14.0 %

1—Prior-year figures adjusted

Fiscal 2017

— EBIT remains high at € 33.9 million (previous year: € 34.2 million)

— Earnings climb to € 221.3 million (previous year: € 210.7 million)

— High capital expenditure on research and development at € 9.3 million

— Continuing strong demand for digital ecosystem solution portfolio Aareon Smart World

— New partnerships with PropTech companies

— Acquisitions bolster Aareon’s position in the commercial property market

— Aareon is ready for the EU’s General Data Protection Regulation, and has informed its customers and made them aware of the issue

Aareon at a glance

Aareon is the leading provider of systems and consulting services for the European property industry and its partners in the digital age.

Cornerstones of strategy

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

Offering pioneering solutions
The latest trends and new demands from the industry and users flow into the further development of our products and services.

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

36
Locations

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

3,000
Clients

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

1,559
Employees

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

60
years of success

Aareon has developed steadily ever since the data centre was first founded in 1957. Today, for good reason, it has become the leading provider of systems and consulting services to the European property industry.

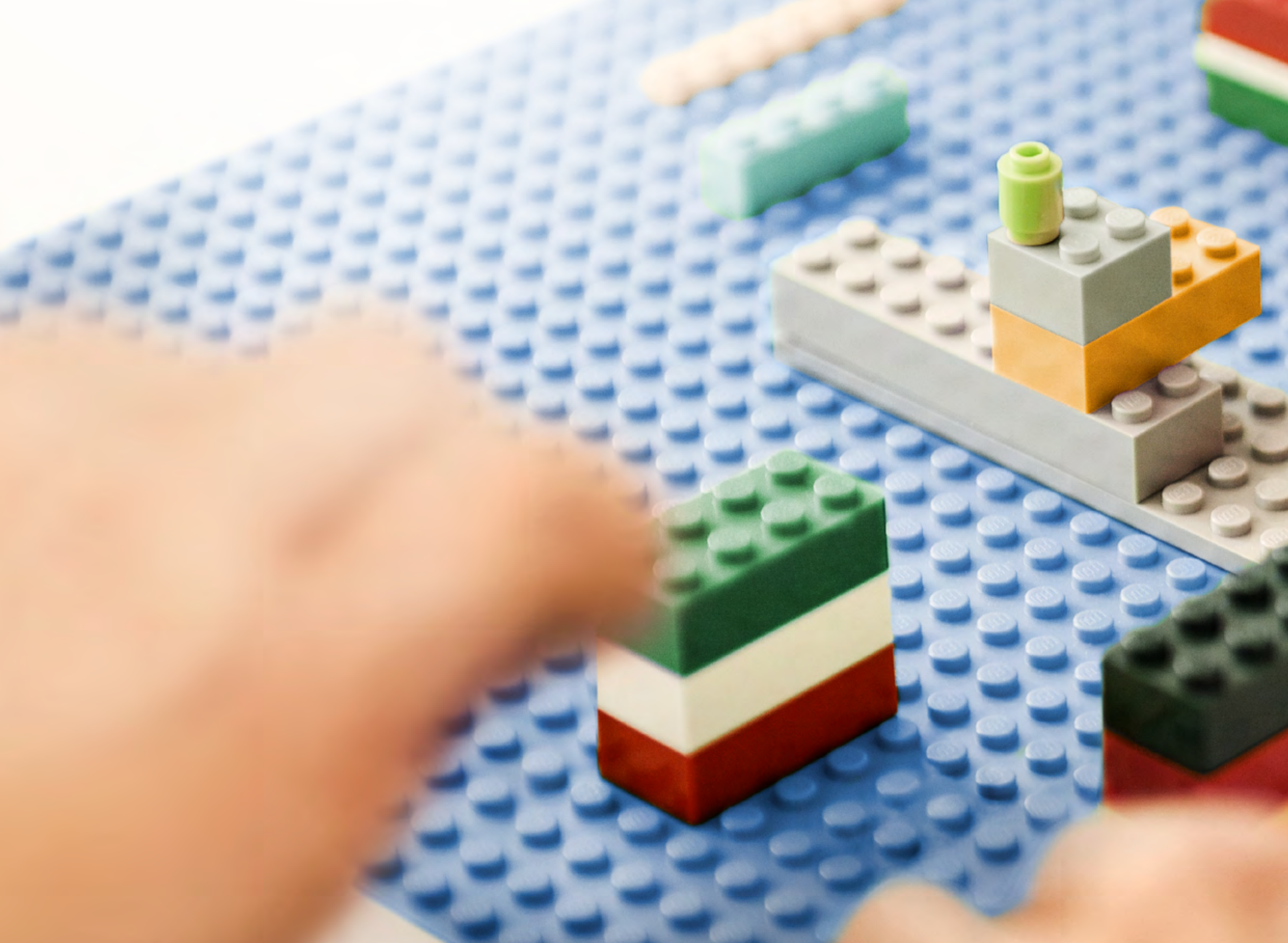
Aareon Smart World

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

Innovation!

Trendsetters with great potential: how Aareon is exploiting digitalisation trends in its core European markets and expanding Aareon Smart World via partnerships with PropTechs.

Five spotlights in the online journal illustrate the added value of partnerships with founders.



Cross industries

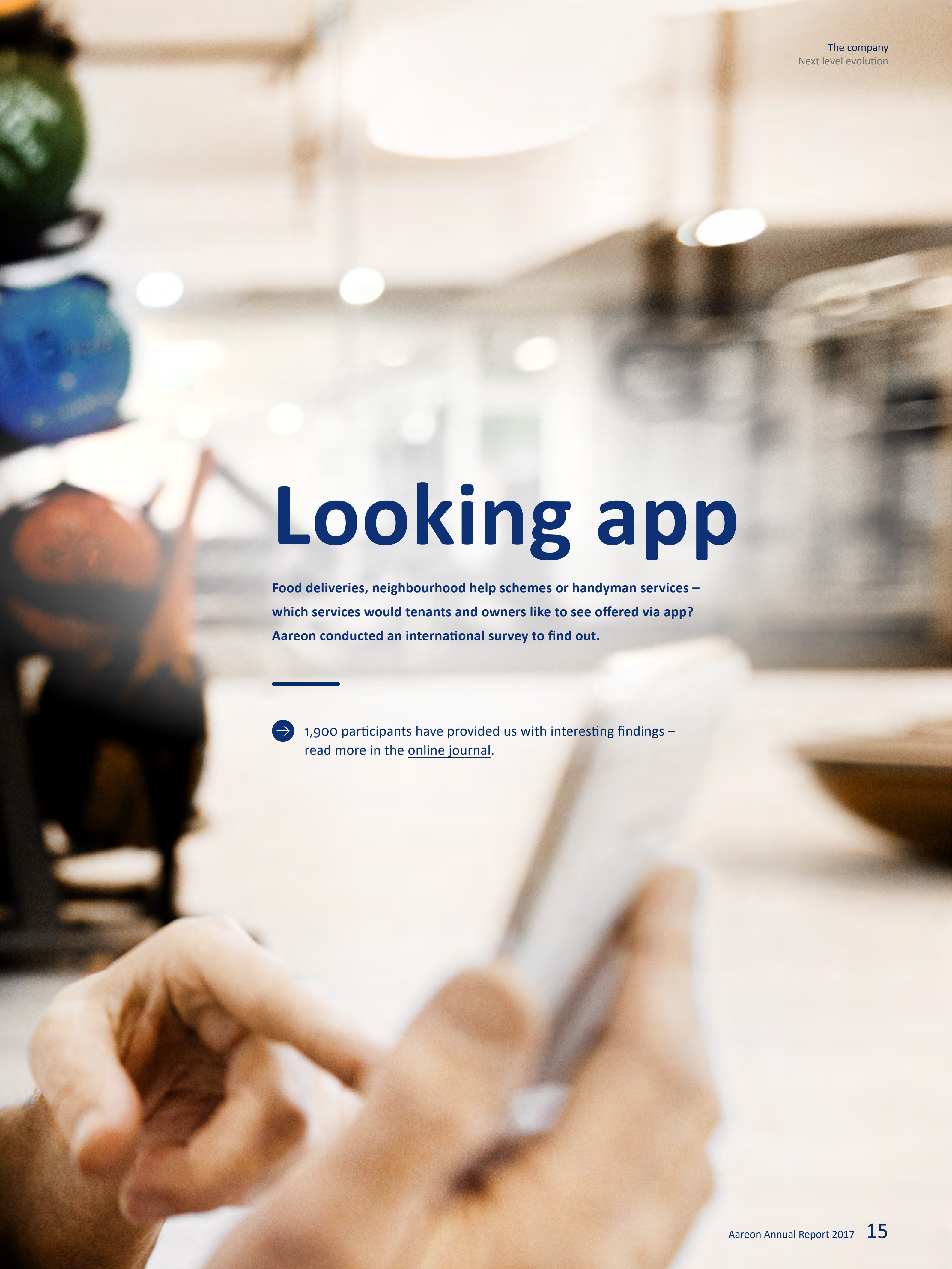
Aareon has a long tradition of operating across sectors. The latest example of this approach adds value for housing companies, utilities companies and meter reading companies – and has potential for expansion too.

Where and how are different sectors connected? Read more in our online journal.

At the centre

It’s very dark, empty and quiet on the top floor of Aareon AG’s registered office in Mainz, yet we’re at the beating heart of the Company. A visit to Aareon’s Data Centre.

Welcome! In our online journal, we take you on a tour of our high-security area.



Looking app

Food deliveries, neighbourhood help schemes or handyman services – which services would tenants and owners like to see offered via app? Aareon conducted an international survey to find out.

1,900 participants have provided us with interesting findings – read more in the online journal.

Working world 4.0

Open-mindedness and flexibility are called for when designing the software solutions of the future. Two Aareon experts outline the path to be followed.

Changing corporate culture: We present our “work4future” in the online journal.

Preface of the Management Board

Ladies and Gentlemen,

In 2017, we strengthened our market position in line with our strategy of international growth. Our overarching aim is to position Aareon as a trailblazing partner for digitalisation in the property sector and related industries. Key areas of growth include digital solutions, ERP systems and the tapping of new markets connected to the property industry.

Ongoing expansion of Aareon Smart World

We continued driving the digitalisation of the property industry last year, adding new solutions to the Aareon Smart World digital ecosystem, including the CRM app launched in Germany. All told, some 200 customers in Germany have already opted for mobile solutions from Aareon. Another point of focus last year was on harnessing the potential to move into related industries. That includes the new Aareon vacancy management solution, which links up housing companies, utilities companies and heat metering services. Aareon Smart World allows our customers and partners to benefit from an integrated portfolio of solutions, in which new digital solutions – including those of our prop-tech partners – have been seamlessly integrated alongside our ERP systems. In this way, we have created a network via which property companies can connect not only with their employees, customers and business partners, but also with the technical devices and appliances in their buildings.

We have a long tradition of thinking across sectors. Find out more in the online journal: Cross industries.

When developing our solutions, we take a customer-centric approach. In this context, we conducted an international tenants survey in 2017 in order to gain an even better understanding of the wishes and requirements of the people in our various national markets. The design thinking approach we introduced in 2016 for the development of new solutions continues to meet with positive feedback from our customers, and our design thinking experts organised numerous customer workshops in the year under review.

What do tenants want? You can find answers to this question at Looking app in the online journal.

Adding value through prop-tech partnerships

In order to add even more value for our customers, we have forged new partnerships with prop-tech companies. These include the partnership with Immomio – which offers a web-based tenant acquisition management solution and in which we have also acquired a 12.94 % stake – and the Group-wide alliance with Intent Technologies, a French company. The ability to integrate the Intent platform will support further networking of Aareon Smart World solutions with software from service providers of Aareon customers. In January 2018, Aareon France launched a partnership with YesPark, a prop-tech company that offers a national network of underground car parks owned by housing companies. Aareon France is integrating its customers’ ERP solution in the YesPark platform. As part of our partnership with KIWI.KI that started in

Five spotlights in the online journal demonstrate how our national markets collaborate with PropTechs: Innovation!

2016, we realised the technical integration of its solution in the Mareon service portal. As a strategic partner of blackprint PropTech Booster, we are in a constant dialogue with the prop-tech scene, an ideal environment in which both start-ups and established enterprises can profit from one another.

ERP solutions – the core of Aareon Smart World

ERP systems form the linchpin of Aareon Smart World, where they are linked to digital solutions and are constantly being evolved. In 2017, the main focus was on Wodis Sigma and SAP® solutions and Blue Eagle in Germany and on Tobias AX in the Netherlands. In addition, the Scandinavian ERP solution Incit Xpand was equipped with additional functionalities for use in the commercial real estate sector, while the British ERP solution QL was migrated to QL.net. Our colleagues in France are working hard on development of a new version of their PortalImmo Habitat ERP solution. Demand for ERP solutions was strong, particularly in Germany, France and the Netherlands. Since the launch of the Wodis Sigma ERP solution, a total of some 950 customers in Germany have opted for this product. Business with SAP® solutions and Blue Eagle remains stable.

Acquisitions strengthen presence in the commercial real estate market

Over and above this, we strengthened our presence in the international commercial real estate market with key acquisitions. On 1 April 2017, Aareon Nederland B.V. acquired 100 % of the shares in Kalshoven Groep B.V., Amsterdam. In 2017, Aareon used acquisitions to consolidate its footprint in this market segment in Germany and also gain access to the Austrian market: On 1 October 2017, Aareon acquired all of the shares in the sales companies of mse Augsburg GmbH (Augsburg) and mse Immobiliensoftware GmbH (Hamburg) as well as the development company mse RELion GmbH (Augsburg). mse's certified ERP software RELion, an industry solution based on Microsoft Dynamics® NAV, is used by more than 130 clients to manage over 900,000 units.

Revenues up; earnings maintained at high level of previous year

The Aareon Group's revenues rose 5.0 % to € 221.3 million (previous year: € 210.7 million)(see p. 36). As in the prior year, the International Business segment accounted for 36.3 % of consolidated revenues. At € 33.9 million, EBIT was on a par with the high level of 2016 (€ 34.2 million) and in line with our expectations. Capital expenditure on research and development amounted to € 9.3 million and focused on the refinement and evolution of ERP systems and the development of new digital solutions (see p. 31).

Digital working environment – work4future project launched

These paths lead to the Working world 4.0 – a double interview in the online journal.

We take a holistic approach to the digital transformation. Many years ago, we began gearing our working environment and corporate culture to the transformation, building on our life-phase-oriented personnel policy. Although digitalisation is to a large degree technology-driven, ultimately it will only be a success if people participate in it. This was the premise on which we launched our work4future project in 2017. We will deploy new digital tools to continue promoting Group-wide networking and collaboration. Even though our working models are already flexible, we want to continue enhancing them with the digital and mobile options available.

Outlook for 2018

At the centre: Participate in a tour of the Aareon IT Service Centre in the online journal.

The transition period for implementation of the EU's General Data Protection Regulation (EU-GDPR) ends on 25 May 2018. Aareon ensured early on that its German data centre, which has received multiple certifications, meets the EU-GDPR requirements. A certificate issued by TÜV Rheinland i-sec GmbH, a technical inspection agency, verifies that, especially in the area of order processing, Aareon has effectively put in place technical and organisational measures aimed at protecting personal data and data that could be related to individuals. In addition, we have actively informed our customers, making them fully aware of the consequences of the EU-GDPR.

In Germany, we will begin marketing the new Aareon vacancy management solution, which links up housing companies, utilities companies and heat metering services. Beyond that, we will continue ramping up our activities in the commercial real estate industry. Another goal will be the ongoing expansion of Aareon Smart World, which will include the integration of our prop-tech partners' solutions.

In December 2017, Aareon celebrated its 60th anniversary. The Company's roots stretch back to 1957, when the data centre of Deutsche Bau- und Bodenbank AG commenced operations. Since then, the Company's hallmarks have been to pursue innovation, make the most of the opportunities technology has to offer and develop ground-breaking solutions for the industry in order to add value. Today, we find ourselves in the midst of an exciting digital transformation process, one that offers us new opportunities, but must also be proactively and professionally managed. Together with our customers, partners and employees, we have already achieved a great deal – and we wish to express our gratitude for that. In 2018, we intend to write the next chapter in our success story, and look forward to making the most of the new opportunities that the digital transformation holds.

Kind regards,

Dr. Manfred Alflen | Sabine Fischer | Dr. André Rasquin | Christian M. Schmahl

Management Board

Dr. Manfred Alflen
Chairman of the Management Board

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

Sabine Fischer
Chief Operating Officer

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

Dr. André Rasquin
Chief Sales Officer

Central Sales; Regional Sales; Solution Sales & Sales Management; Advisory Board work; Strategic Product Marketing for the BauSecura product; mse companies (RELion product)

Christian M. Schmahl
Chief Financial Officer

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

Overview of 2017

01
January

Wodis Sigma: 26 go-lives
Simultaneous go-lives on January 1, 2017 at 26 companies, which manage nearly 129,000 licensed units.

SG2ALL B.V. becomes a wholly owned subsidiary of Aareon Nederland B.V.
Aareon Nederland B.V. acquires all remaining shares (50 %) in the Dutch subsidiary SG2ALL B.V. from de Alliantie, Hilversum.

blackprint PropTech Booster
As a strategic partner, Aareon supports blackprint PropTech Booster, Germany's first PropTech accelerator, which promotes promising start-ups in the real estate industry. (Photo below)

02
February

Wodis Sigma Dialogues 2017
340 participants from more than 180 companies attend the Wodis Sigma Dialogues 2017 on topical issues, which are held throughout Germany.

03
March

Wodis Sigma Verwalterfabrik (Administrator Factory)
A new template is added to Wodis Sigma, giving property managers access to an ERP system that is optimised for their needs. (Photo below)

04
April

Acquisition of Kalshoven Groep
Aareon Nederland B.V. acquires all shares in Kalshoven Groep, the Netherlands' leading software specialist for the commercial property market. (Photo above)

Girls' Day 2017
Aareon welcomes 20 schoolgirls aged 11 to 16 with the slogan “Women and Technology – Show What You Can Do!” (Photo above)

05 May

Cooperation with PropTech Intent Technologies

Aareon France and Intent Technologies in France enter into a partnership agreement for the Aareon Group. The ability to integrate the Intent platform supports further networking of Aareon Smart World solutions with software from service providers used by Aareon customers.

Wodis Sigma computer-telephony integration (CTI)

Thanks to the Wodis Sigma CTI module, calls can now be accepted directly from within the ERP system. (Photo above)

06 June

Aareon Congress 2017: Pitching in for a successful future

The 27th Aareon Congress demonstrates a future-proof digital offering for the property industry, backed up by practical examples.

14th DW Innovation Award for the Property Sector

“More innovative construction – sustainable, effective and efficient”, is the slogan for the DW Innovation Award for the Property Sector, which is presented at the Aareon Congress. (Photo above)

Aareon France’s client convention

Aareon France’s annual client convention addresses the opportunities that digitalisation is bringing to the industry. Aareon France celebrated its 35th anniversary at this event.

Cooperation with the PropTech Immomio

Cooperation between Aareon and the PropTech company Immomio on digital management of interests. (Photo above)

German PropTech Meetup at Aareon in Berlin

More than 30 representatives of the German PropTech scene come together at Aareon’s Berlin location for the German PropTech Meetup.

“JOBLINGE”: Aareon organises project week for young refugees

Young refugees and Aareon trainees take part in the “Aareon meets Joblinge” project week. The topics covered are digitalisation, aspects of IT, constructive communication and working independently.

Work-life balance

Aareon receives the seal of approval as a family-friendly company for the fourth time since its initial certification in 2008. Work-life balance is a firm element in the company’s pioneering corporate culture. (Photo above)

07
July

Aareon extends business in Scandinavia
Espoon Asunot opts for a solution from Incit AS, Norway. Espoon Asunot is the second-largest public-sector housing company in Finland with more than 15,000 residential units.

Learning islands to promote young talent
Aareon supports learning islands organised on the island of Juist and in Berlin for trainees in the housing industry. Here too, the focus is on digitalisation and PropTechs. (Photo below)

08
August

Solutions implemented at INDUSTRIA WOHNEN GmbH in Frankfurt
Successful customized implementation of SAP® solutions, Blue Eagle and other digital solutions at Industria Wohnen (around 18,000 units).

09
September

Wankendorfer Baugenossenschaft für Schleswig-Holstein eG opts for Aareon
Signature of a contract for SAP® solutions and Blue Eagle (approx. 200,000 units).

Claims reports via the Alexa voice-based digital assistant
Developers at Aareon France test Alexa's capabilities for use with digital solutions from Aareon.

Aareon Science Camps
71 children aged between 8 and 12 conduct experiments on everyday scientific and technical phenomena.
(Photo below)

Housing & Care 21, Birmingham, opts for Aareon
Signature of a contract for Aareon QL re and digital solutions from Aareon.

10
October

Incit becomes Aareon
Our Scandinavian companies Incit AB in Sweden and Incit AS in Norway now operate under the Aareon brand as Aareon Sverige AB and Aareon Norge AS. The companies present their new branding for the first time at the Aareon Nordic Forum, the largest customer event in Scandinavia. (Photo below)

Acquisition of mse's property-industry IT division
Aareon acquires the mse group's property-industry division, gaining access to new markets such as the commercial property sector and the Austrian market. (Photo below)

RELion®

11
November

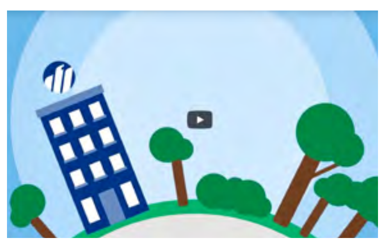
Aareon Forum 2017: digital property management
At Germany's biggest event for IT decision-makers and users in the German housing sector, the focus is on innovative digital trends, IT solutions, data protection, networking and PropTechs. (Photo below)

KIWI integrated into Mareon
As part of the established cooperation between Aareon and KIWI.KI, the KIWI digital solution is integrated into the Mareon service portal as a digital interface. This further simplifies processing claims at housing companies.

Aareon gains Spar- und Bauverein eG Dortmund as a customer
This major provider of rented housing in Dortmund opts for Wodis Sigma for in-house operations – supplemented by digital products from Aareon. (Photo above)

12
December

Aareon – 60 years of innovation
Aareon has been actively shaping the future and improving processes in the property industry for six decades. (Video below)



200th customer for mobile solutions
WIS Wohnungsbaugesellschaft im Spreewald mbH becomes the 200th customer to opt for Aareon's mobile solutions.

New all-time record for Aareon
In Germany, up to 100 ERP migration projects are completed in parallel in 2017, along with more than 100 go-lives in Germany.

Stake in Immomio
Aareon takes a 12.94 % stake in the start-up Immomio.

Majority stake in FIRE B.V.
Aareon Nederland acquires 60 % of the shares in FIRE B.V. in the Netherlands. This company offers an integrated solution that simplifies the valuation and financial management of real estate from a single environment.

Aareon CRM app
Aareon's new app for the German market gives housing companies' customers access to all information about their apartments and their neighbourhood – anytime, anywhere. (Photo above)

Group management report

Group business fundamentals

Group business model

Aareon – the leading European provider of consulting services and systems for the property industry – offers its customers secure, ground-breaking solutions in the areas of consulting, software and services, enabling them to optimise their IT-based business processes and expand their business models. That makes Aareon the service provider supporting the industry's digital transformation. Aareon Group has a presence at 36 locations in Europe's key property markets, including 14 in Germany. Its international subsidiaries are located in France, the UK, the Netherlands, Norway and Sweden. Aareon also has a presence in Austria in the shape of a subsidiary of mse Augsburg GmbH, a company it acquired in 2017. The Aareon Group's research and development activities benefit from the individual expertise of its different locations and the sharing of know-how between them. In the context of the digital transformation, the Group harnesses each country's points of focus for the ongoing expansion of the Aareon Smart World portfolio.

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

Aareon's portfolio

The enterprise resource planning (ERP) systems marketed in each of its footprint countries form the linchpin of Aareon's digital ecosystem, Aareon Smart World. These systems enable Aareon to deliver the stable, long-term business volume that secures its customer base. Aareon's customer relationships are sustainable and have often been in place for decades. The ERP systems can be integrated with digital solutions, which are constantly being expanded. New and existing customers make use of these integrated digital solutions not only to link up with their stakeholders – such as customers, employees and business partners – but also to interconnect with technical appliances in apartments and buildings. That makes it possible to redesign and optimise processes. By interlinking all the main players, digital solutions help to reduce costs, while creating new business models and promoting greater convenience and transparency in communication.

Both in Germany and abroad, Aareon provides software solutions that can be accessed in different modes: either via in-house operations, hosting or as software as a service (SaaS) from the exclusive Aareon Cloud. The Aareon Cloud hosts the data at Aareon's certified Data Centre in Mainz, ensuring a high level of data security and data protection (see p. 31). After completion of the consultation, implementation and training phases, the customer generally opts for a maintenance model that guarantees support services on a regular basis.

Aareon reports on two segments: Germany and International Business.

In Germany, Aareon markets the ERP products Wodis Sigma and SAP® solutions and Blue Eagle, both of which are based on cutting-edge IT standards. The purchase of mse's property-industry IT business will add the RELion product to our suite of ERP solutions (see p. 30). Aareon is gradually phasing out the ERP product GES, replacing it with Wodis Sigma and SAP® solutions and Blue Eagle. However, we will continue to update and maintain GES for some time to come. Aareon's customers were informed of the phase-out several years ago and the majority of them have already opted for one of the replacement ERP systems.

In Aareon Smart World, the ERP products offered in Germany are being linked to digital solutions such as Mareon, Aareon invoicing service, Aareon Immoblue Pro, Mobile Services, Aareon CRM (tenants/owners portal) and Aareon Archiv kompakt. What is more, customers can benefit from the solutions of our cooperation partners, including the intelligent keyless entry system KIWI, which can be integrated in Mareon, and the tenant matching system from Immomio.

Over and above this, Aareon offers add-on products and services such as the BauSecura insurance management solution. Aareon is expanding its business activities in the energy industry via phi-Consulting GmbH, Bochum, Germany. The utility sector is an important partner for property companies. In addition to solutions already on the market, Aareon has joined forces with phi-Consulting and Aareal Bank to develop a cross-industry solution for changes of residence that targets tenants and owners; it is already being deployed with pilot customers. Customers in both the property and energy industries can benefit from this integrated portfolio.

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

Aareon markets the digital solution Aareon CRM (tenants portal, 360° Tenant Portal) in both portal and app versions in the UK, France and the Netherlands. Aareon Smart World products such as Mareon and Aareon Archiv kompakt are also sold outside Germany. In the British market, 1st Touch offers the digital solution 1st Touch Mobile as well as 360° Field Worker. In the Netherlands, Aareon Nederland is deploying the Trace & Treasury product, which has been offered in the UK market since 2017. Beyond that, Aareon Nederland provides the Facilitor solution for commercial facility management – which was launched in the Scandinavian market in 2017. Square DMS, a subsidiary of Aareon Nederland, markets ShareWorX®, a case management solution, in both the Netherlands and the Flemish-speaking region of Belgium.

Within the International Business segment, Aareon Sverige is the entity responsible for add-on products. It provides its customers with fact books – reference works containing standard information on operating and maintenance costs. In addition, Aareon Nederland offers outsourcing services to its customers in the Netherlands.

According to the Lünendonk List, an established annual market survey, Aareon is one of the leading IT service providers in the German market[1]. In France, the UK, the Netherlands and Scandinavia, Aareon subsidiaries rank among the leading providers of software and services to the property industry. Competitors in this sector include providers of proprietary industry products and SAP® partners.

Goals and strategies

Aareon continued to grow in fiscal 2017 in line with its strategy of profitable growth. The strategy is based on the Aareon Flight Plan, which was formulated in 2016. Aareon's goal is to become the leading international partner for the property industry and related markets. Within the Aareal Bank Group, the Aareon Flight Plan forms part of the Aareal 2020 future programme.

1 — cf. Lünendonk®-Liste 2017, Lünendonk GmbH, Mindelheim 2017

Key strategic areas of the Aareon Flight Plan are:

— Growth of digital solutions
— Further strengthening of ERP systems
— Entry into relevant new markets
— Further increase in profitability
— Enhanced organisational performance

Growth of digital solutions
The digital solutions of Aareon Smart World are being expanded Group-wide (see p. 31) in two ways: firstly, by our own R & D team and through knowledge transfer between the locations; secondly, by means of partnerships with prop-tech companies that have developed solutions to add value for Aareon Smart World stakeholders (see p. 35).

After Aareon and Immomio entered into a partnership in June 2017, the Company acquired a 12.94 % stake in Immomio in December. The huge potential of Immomio's software lies in the wide variety of options for further refinement and development it offers – in particular, its potential to become the leading platform for rental processes.

In addition, since January 2017, Aareon has been a strategic partner of blackprint PropTech Booster, a promising start-up in the property industry.

By acquiring 60 % of the shares in FIRE B.V. (see p. 36), Aareon reinforced its position in the market for digital products in the Netherlands.

Further strengthening of ERP systems
Aareon is likewise investing in the continuing evolution of ERP systems. In 2017, the main focus was on Wodis Sigma/Blue Eagle in Germany as well as on Tobias AX in the Netherlands. In addition, the Scandinavian ERP solution Incit Xpand was equipped with additional functionalities for use in the commercial property sector, while the British ERP solution QL was migrated to QL.net.

In Germany, the migration of GES to Wodis Sigma or to SAP® Solutions/Blue Eagle is going according to plan (see p. 34).

Entry into relevant new markets
The utility sector and the commercial property market constitute relevant new target markets for Aareon. With utilities, housing companies and metering service providers in mind, Aareon is currently developing a solution for digitalising processes when residences change hands and has stepped up its marketing activities in this area. The new solution is currently in the pilot phase (see p. 29).

With an eye to the commercial real estate market, Aareon Nederland B.V. acquired all the shares in Kalshoven Groep B.V., Amsterdam, on 1 April 2017. In 2017, Aareon used acquisitions to strengthen its presence in this market segment in Germany and also gain access to the Austrian market: On 1 October 2017, Aareon acquired all of the shares in the sales companies of mse Augsburg GmbH (Augsburg) and mse Immobiliensoftware GmbH (Hamburg) as well as the development company mse RELion GmbH (Augsburg). mse's certified ERP software RELion, an industry solution based on Microsoft Dynamics® NAV, is used by more than 130 clients to manage over 900,000 units. The mse companies will continue to serve their customers under their separate brand name. Going forward, mse customers will benefit from the digital solutions of Aareon Smart World.

Further increase in profitability
Aareon will further enhance its profitability thanks to an efficient organisational structure that has clearly defined processes and that harnesses synergies to grow revenues and keep costs firmly in check.

Enhanced organisational performance

The following key projects will be the main drivers of enhanced organisational performance:

— work4future for the digital working environment that forms part of Aareon's company culture (see p. 41)
— The introduction of SAP® S/4HANA as a state-of-the-art, group-wide system for homogeneous processes in the area of finance and for measuring performance
— ITSM (IT service management) for the optimisation of support processes; owing to its complexity, the project is scheduled to run for several years
— The launch of genesisWorld for customer relationship management

In order to optimise the Group structure, Aareon Nederland B.V. acquired all of the shares in Incit Nederland B.V. from Aareon Sverige of Sweden with effect from 1 January 2017 and absorbed the company. This bundling of activities has created a single entity with responsibility for the sale of products in the Netherlands under the Aareon Nederland umbrella.

In order to sharpen the focus of the Aareon Group's international market presence, the Scandinavian Group companies Incit AB in Sweden and Incit AS in Norway were renamed Aareon Sverige AB and Aareon Norge AS, respectively, in October 2017. This means that the companies, which were originally taken over by Aareon in 2013 as part of the Group's internationalisation process, are now fully integrated in the Aareon Group brand.

Quality and security standards

Data privacy and data security are extremely important to Aareon. Numerous clients in Germany and abroad make use of Aareon solutions as a service from the exclusive Aareon Cloud – meaning that the data is stored solely in the Aareon Data Centre and at a backup location. Aareon IT Service Centre operations are regularly audited for compliance with the PS 951 nF auditing standard of the Institute of Public Auditors in Germany (IDW). In 2015, the TÜV Saarland technical inspection agency re-certified the Aareon Data Centre for a further two years (Certified Computer Centre – Level 3tekPlus). Since 2010, Aareon has voluntarily submitted to regular external data-protection audits in accordance with Section 9a of Germany's Federal Data Protection Act (BDSG). In 2016, the corresponding audits were carried out by the TÜV Rheinland technical inspection agency, which confirmed Aareon's status as a "service provider with audited data protection management". Aareon's system of information security management complies with the internationally recognised ISO/IEC 27001:2013 standard, and a supervisory audit was performed for this purpose in September 2017.

The EU's General Data Protection Regulation (EU-GDPR) has been in force since 25 May 2016, with the transition period for implementation lasting until 25 May 2018. As a company domiciled in the EU and with an data centre in Germany, Aareon AG began working on implementation of the EU-GDPR requirements at an early date. A certificate issued by TÜV Rheinland i-sec GmbH, a technical inspection agency, verifies that, especially in the area of order processing, Aareon has already effectively put in place technical and organisational measures aimed at protecting personal data and data that could be related to individuals.

Research and development

Aareon's R & D activities, which focus on unlocking value for its clients, form the foundation for its new digital solutions. In its research and development activities, Aareon profits from the different digitalisation specialities in each country in which the Group operates, combining them to enhance Aareon Smart World as a whole. Aareon pursues an agile development approach so as to be able to carry out intensive testing at an early stage and take the step from idea to prototype as quickly as possible. Its international development team takes social,

Economic report

legal, economic and technical factors into consideration and integrates them into new and existing digital solutions.

Aareon works hand in hand with property companies in line with the design thinking method. This user-centric approach to problem-solving also provides the methodological underpinnings for the Aareon DesignLab. More and more customers are making the most of the design thinking workshops offered by specialists on the Aareon DesignLab premises.

What is more, information gained from the day-to-day dialogue with customers is fed back into the company's R & D activities. Aareon gauges the requirements of its customers by talking to them on a regular basis – e. g. by means of institutions such as customer advisory councils as well as through annual Group-wide customer surveys.

In fiscal 2017, Aareon expended capital on the ongoing refinement of its software solutions. In terms of ERP products, the focal points included enhancing the Scandinavian product Xpand with new functionalities for use in the commercial real estate sector and refining of Tobias AX and Wodis Sigma (Release 9). With digital solutions, the focus was on the further development of Aareon CRM through the interaction of different locations. The existing digital solutions were integrated in the digital platform that will in future serve the Aareon Group companies as a development tool kit with uniform technology. Aareon customers also have the option of acquiring the digital platform under the Platform-as-a-Service (PaaS) business model, enabling them to make use of individual components from it. The Company also invested in the development of a cross-industry solution for changes of residence.

Capital expenditure on research and development amounted to € 9.3 million in fiscal 2017 (previous year: € 9.6 million). The capitalisation rate was 52 %. Amortisation of internally generated software amounted to € 3.4 million.

General economic and industry environment

Economic growth

Global economic output grew solidly in 2017, with synchronous growth observable in the industrialised nations. International trade picked up noticeably, and indicators of business sentiment reached high levels.

Annual real growth in GDP in %

	2017	2016
Eurozone	**2.4**	1.8
Germany	**2.5**	1.9
France	**1.9**	1.1
Netherlands	**3.3**	2.1
Austria	**3.1**	1.4
United Kingdom	**1.9**	1.8
Norway	**2.3**	1.0
Sweden	**2.7**	3.0

(Source: Oxford Economics)

The eurozone posted robust growth in all four quarters of the reporting year due to increased trade, higher capital expenditures and strong private consumption. The numerous elections in Europe had no negative impact on the economy. In Germany, the ifo Business Climate Index reached an all-time high in November, which was also reflected in strong economic growth. Growth in Germany in 2017 was slightly higher than in the eurozone as a whole. Economic output in France rose substantially year on year.

Growth was mixed in the EU Member States that do not belong to the eurozone. In Sweden, it was on a par with the high level of the previous year.

In the United Kingdom, the formal application to leave the EU submitted on 29 March 2017 and the early elections for the House of Commons on 8 June 2017 continued to have repercussions for politics and the economy alike. Several terrorist attacks provided an additional source of uncertainty. Contrary to the government's expectations, the election in June did not result in a strong mandate for the Brexit negotiations that were just beginning with the EU. Instead, it only added to the uncertainty surrounding the UK's planned departure from the EU, even though both sides eventually reached an initial understanding in their negotiations at the end of the year. Weak private consumption, a sluggish construction industry and only minor growth in the service sector retarded overall economic growth in the course of the year. As a result, Moody's rating agency lowered the UK's credit rating from Aa1 to Aa2 in September.

In the year under review, the unemployment rate in both the eurozone and the EU sank noticeably, to 7.6 % and 9.1 % respectively. The comparable national figures were either lower or stable in most countries. At 2.3 %, the unemployment rate in the UK was very low.

Industry trend

In the Aareon Group's footprint countries, digitalisation of the property industry continued to gather pace – though the focal points differed from country to country. On the whole, the networking of market players – such as property companies and their staff, customers, business partners and buildings – is gaining in importance, and enhancing interest in integrated solution packages. Digital solutions are benefiting people's private and working lives, and enhancing flexibility and convenience. Many new start-ups have appeared on the scene, targeting precisely these new digital solutions. Aareon is monitoring developments and making use of options to form partnerships that add value for customers. Beyond that, Aareon is a strategic partner of blackprint PropTech Booster (see p. 30).

In order to analyse the needs of tenants and owners as regards additional services, Aareon commissioned an international survey of 1,900 tenants and owners in 2017. Overall, there is great interest in additional services that can be organised via apps. The services that are most in demand include information on utilities, handyman services, home care services, food deliveries, household help and neighbourhood assistance.

Research needs to factor in technologies such as virtual reality, drones and chatbots, as well as services like Alexa, in terms of their benefit for the property industry and the possibility of their technical integratability.

The EU's General Data Protection Regulation (EU-GDPR), which comes into force on 25 May 2018, presents new challenges for all EU Member States. All housing companies are called upon to make thorough preparations and to examine their processes. For instance, every company must designate a data protection officer and compile seamless documentation of its data processing procedures. Companies violating the new regulations face severe penalties. These more stringent standards of data privacy and data security are putting greater pressure on the topic of cloud computing.

Awareness of the digital transformation has increased noticeably across the property industry in Germany, with demand growing accordingly. Networking, integratability and the tapping of efficiency potential are key factors in this process. Over and above that, there is a growing focus on the potential for new business models.

In the Netherlands, additional taxes continue to place a burden on social-housing companies. The resulting cost pressure has raised interest in digital solutions, especially investments in new, state-of-the-art means of communicating with tenants, including self-service offerings for the latter. Outsourcing services and software as a service enjoy high levels of acceptance in the Netherlands. One challenge is to establish a standard for the digital exchange of information with the authorities responsible for social housing.

Political influence remains strong in the social-housing industry in France, where the government is interested in raising satisfaction levels among tenants and in reducing portfolio management costs through the merger of public-sector companies. As a result, the number of social-housing companies has been gradually declining. In France, the digitalisation of social-housing companies is already further advanced than elsewhere. By 2020, the creation and dispatch of invoices are to be entirely electronic at public-sector companies. To this end, all invoices in the B2G (business to government) and G2G (government to government) field have been centralised on a single platform (Chorus Pro), via which they can be exchanged between public-sector companies in future.

The UK housing market is still characterised by the requirement that housing associations reduce their social housing rents by 1% a year by 2020. As a consequence, the companies in question must enhance their efficiency – for example, by optimising their business processes. In addition, the British government is still pursuing plans to strengthen the rights of tenants to purchase the premises they rent. This should lend additional momentum to the trend toward mergers and takeovers of housing companies. As a result of consolidation in the housing market, new providers of IT for the sector are springing up and making competition more intense.

In Sweden, internet-based service portals are a matter of course for housing companies and often used by their tenants. The scope of services is even broader here, for instance, with tenants also able to rent household appliances such as washing machines and refrigerators. In Norway, building information modelling (BIM) is mandatory in all new public-sector buildings.

Key performance indicators

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

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

Business performance

Germany segment

Business performance was very positive in Germany in 2017. In line with expectations, many more customers opted to switch to Wodis Sigma in the course of the year, bringing the total number to 945. Among these new customers were once again many former GES users that changed over as a result of Aareon's migration offensive. As anticipated, customers prefer to use Wodis Sigma as a service from the exclusive Aareon Cloud. We are still implementing a large number of migration projects, all of which are going according to plan. The number of customers going live in 2017 was 109. Utilisation of Aareon's consulting services thus remained at a high level.

The business volume for SAP® solutions and Blue Eagle is developing as planned, and one major customer went live in 2017 as scheduled.

The digital transformation is increasingly catching on in the German property sector. In this context, the digital solutions from Aareon Smart World that link up the relevant stakeholders continue to generate great interest. Business volume in this segment developed as planned. In particular, there was demand for the following digital solutions: the Mareon service portal, Aareon Archiv kompakt, Aareon CRM (tenant portal) and Aareon Immoblue Pro (tenant acquisition management). This demand was stimulated in part by ERP solution migration business. Already in use in France for quite a while now, the Aareon CRM app went live with a pilot customer in Germany in 2017.

Aareon is also partnering prop-tech companies in order to expand the integrated portfolio of Aareon Smart World for its customers. One such company is KIWI.KI GmbH, which offers the keyless entry system KIWI that has been integrated in the Mareon service portal via an interface. What is more, Aareon has entered into a partnership with Immomio GmbH and acquired a stake of 12.94 % in the company. Immomio offers a web-based tenant acquisition management solution, which is set to become an end-to-end service platform for digitalised rentals. An interface has been created to link the Immomio platform to Aareon Immoblue Pro, another tenant acquisition management solution.

In the area of add-on products in Germany, we succeeded in particular in increasing the volume of our outsourcing business. BauSecura's insurance business grew slightly compared with the previous year. Aareon has stepped up its marketing activities with a view to expanding its business with utilities, developing and piloting (on schedule) a solution for digitalising change-of-residence processes for this target group.

Despite high capital expenditure, we exceeded our expectations for Germany in fiscal 2017 owing to the good business trend across all product areas and to significant costs savings.

International Business segment

Business trends differed in Aareon's international markets, where it offers country-specific ERP products. On the whole, the segment posted growth, particularly thanks to the French and Netherlands markets.

In the Netherlands, the high number of go-lives enhanced maintenance revenues and more new customers signed up for the ERP solution Tobias AX. The Netherlands-based Kalshoven Groep B.V., which was acquired on 1 April 2017, played a role in the expansion of our business with ERP products (see p. 30). Similarly, Aareon in France generated sustainable growth by expanding its maintenance business, especially by securing new customers for extended maintenance services. Despite stiff competition in the UK market, we succeeded there in acquiring further new customers for QL.net. In Sweden, a major company opted for the Incit Xpand ERP solution, including a digital customer portal. A major customer in Norway went live with Incit Xpand. Over-all, growth remained below expectations owing to intense competition in the UK market and delays in implementing projects in Sweden.

Revenues from digital solutions in the International Business segment continued to grow, mainly due to sales in France and the Netherlands. Several customers of Aareon Nederland went live with a customer portal for tenants and owners as well as with Mareon. In France, customers signed contracts for Aareon's digital solutions and the Aareon CRM system, while several customers went live with digital solutions, especially the mobile property inspection system. In France, in particular, regulatory requirements for Aareon customers led to an increase in digital revenue. What is more, the first customers signed up for the digital platform on the basis of the new platform-as-a-service (PaaS) business model. With this digital development platform, Aareon enables its customers to develop their own digital solutions from ready-made components. In the United Kingdom, further customers opted for Aareon's 360° solutions and mobile solutions, though the revenue growth rates of the previous year could not quite be matched.

On 1 December 2017, Aareon Nederland acquired 60 % of the shares in FIRE B.V., Utrecht. The latter's FIRE (Finance Ideas Real Estate) product is currently being incorporated in Aareon Nederland's Trace & Treasury system, enabling Aareon Nederland to offer its clients an integrated solution that will not only simplify the valuation and financial management of real estate, but also provide the corresponding features from a single environment. The Facilitator solution, which has already proven its worth in the Netherlands, was prepared for launch in the Swedish market. Aareon Sverige has already won its first customer for the product.

Sales of add-on products rose due to the outsourcing business of Netherlands-based SG2ALL B.V. (which was acquired in full on 31 December 2016) and to growth in business with third-party products in the UK.

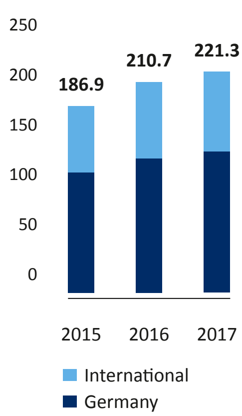
Economic situation

Earnings

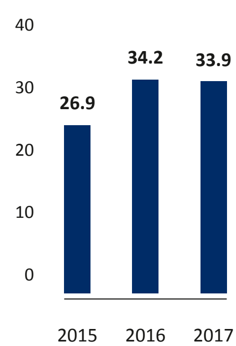
At € 33.9 million, Aareon's EBIT for 2017 was roughly the same as in the prior year (2016: € 34.2 million). The prior-year figure included € 1.9 million in major positive non-recurring effects outside of the business segments, among them remeasurement of the shares in SG2ALL (€ 1.3 million) following the complete takeover of that company and adjustment of the purchase price liabilities of the Incit Group (€ 0.6 million). Adjusted for these non-recurring effects, earnings in 2017 were € 1.6 million or 5.0 % higher year on year. Substantial efficiency gains and non-recurring operational effects in Germany and France were key contributors to this growth. Aareon grew its consolidated revenues by 5.0 % to € 221.3 million (previous year: € 210.7 million), thus reaching its revenue target. As in the previous year, the International Business segment accounted for 36.3 % of consolidated revenues.

Internally generated assets declined to € 4.5 million (previous year: € 5.7 million). In both 2017 and the prior year, the Company invested to expand its digital solutions portfolio and refine its ERP products. The prior year had been strongly marked by development of the digital platform (see p. 32). Other operating income amounted to € 5.9 million (previous year: € 6.6 million), and was influenced in both 2017 and 2016 by remeasurements made in the course of acquisitions. The Group's total expenses rose by 4.8 %, from € 188.7 million to € 197.8 million. The cost of materials was unchanged at € 32.6 million. Whereas the previous year was characterised by expenses for third-party licenses, expenses for external consultants dominated in the year under review due to the large number of migration projects. The increase of 5.3 % in personnel expenses to € 116.9 million (previous year: € 111.0 million) was predominantly due to the higher personnel numbers brought about by the acquisitions made in 2017 as well to business growth, mainly in the International Business segment. At € 36.8 million, other operating expenses were up 7.9 % year on year (previous year: € 34.1 million). This increase was chiefly due to the effects of acquisitions and of capital expenditure to optimise the system landscape and internal processes (SAP® S/4HANA). In the year under review, efficiency measures were implemented in consultation with Aareal Bank as part of the latter's Organisational Excellence programme, especially in the area of personnel costs. Aareon was reimbursed for the corresponding costs it incurred, and net expenses of € 4.5 million were recognised.

Revenues in € million



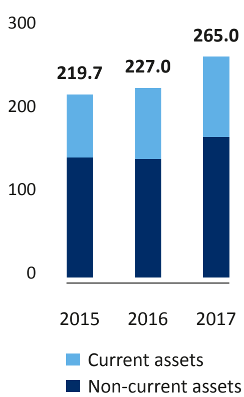
EBIT in € million



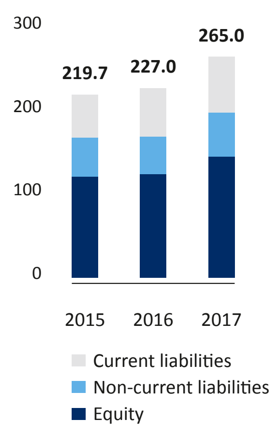
The Germany segment exceeded our forecast for 2017 by a substantial margin, with revenues rising by 5.1 % to € 141.0 million (previous year: € 134.2 million). ERP product revenues surged – in particular due to acquisition of the mse companies and the higher number of migration projects. Overall, the focus of business volume shifted as planned from GES to Wodis Sigma. Revenues from SAP® solutions and Blue Eagle were approximately the same as in the previous year. Aareon had posted high licensing-fee income in the previous year owing to several new projects, leading to a further increase in maintenance revenues and fees in the year under review. Migration business also brought about a substantial increase in revenue from digital solutions, as they are marketed in combination with ERP products. Outsourcing business and phi-Consulting were the main drivers of revenue growth for add-on products. Costs rose only moderately: despite revenue growth Aareon achieved huge cost savings, the only exception being the project costs incurred for capital expenditure on internal processes and systems (SAP® S/4HANA). EBIT for the Germany segment came to € 26.7 million, up a substantial 23.6 % on the prior year (€ 21.6 million).

Revenues in the International Business segment were up 5.0 % to € 80.3 million (previous year: € 76.5 million). Adjusted for currency-translation effects, segment revenue would have been € 0.9 million higher and only marginally below expectations. Growth in ERP products was driven, among other things, by our Netherlands subsidiary's acquisition of kalshoven and its REMS product. Maintenance revenues were also markedly higher in the Netherlands thanks to further customer go-lives. Maintenance business expanded in line with expectations in France due to the growing number of customers concluding platinum contracts. Our hopes of repeating the successes of the previous year – when we posted very high numbers of new contracts and consequent growth in licensing income, mainly in the UK and Sweden – were disappointed in 2017. Consulting revenues were also lower than expected due to costly implementation projects in Sweden and intense competition in the

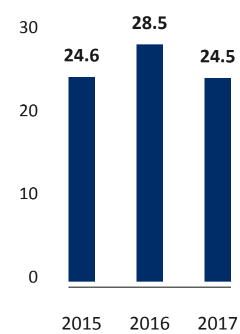
**Assets in € million
(asset structure)**



**Total equity and liabilities
in € million (capital structure)**



Return on equity in %



UK. We posted growth in digital-solutions business in our International Business segment as a whole. This was especially the case in France, where regulatory requirements for digital invoicing buoyed revenues. In the UK, we did not succeed as hoped in stimulating demand for digital solutions. In response to weaker revenue growth, we had planned to reduce growth in costs and in the personnel numbers required to implement projects, but managed to do so to a limited extent only. Consequently, EBIT declined to € 7.2 million (previous year: € 10.7 million).

Net assets

Aareon's total balance sheet amounted to € 265.0 million in 2017, up 16.7 % compared with the previous year (€ 227.0 million). Non-current assets rose by 18.6 % to € 168.6 million (previous year: € 142.1 million), mainly due to corporate acquisitions. Other additions roughly equalled depreciation/amortisation of non-current assets. Current assets increased by 13.7 % year on year to € 96.4 million (previous year: € 84.8 million), predominantly due to higher trade receivables in the amount of € 56.7 million (previous year: € 47.5 million). This increase was attributable both to higher business volume and to a refund claim in the amount of € 4.5 million against Aareal Bank, chiefly for personnel measures carried out by Aareon as part of the Aareal Group's Organizational Excellence programme.

Financial situation

Capital structure

Compared with the previous year, equity climbed by 17.4 %, from € 123.8 million to € 145.3 million. Net profit for the year of € 23.4 million (previous year: € 24.1 million) was added, while exchange-rate fluctuations reduced the currency reserve by € 1.4 million. As a result of these factors, the return on equity declined to 24.5 % (previous year: 28.5 %).

Non-current liabilities increased by 15.6 % to € 52.5 million (previous year: € 45.4 million) due to higher non-current

Our staff

purchase price liabilities and deferred tax liabilities in connection with the corporate acquisitions made. At € 67.2 million, current liabilities were up 16.3 % (previous year: € 57.8 million). Here, too, the Aareon Group's corporate acquisitions led to an increase in current purchase price liabilities and the utilisation of a loan in the Netherlands. Other current provisions were also higher as a result of personnel measures that were in turn compensated for by Aareal Bank.

Liquidity

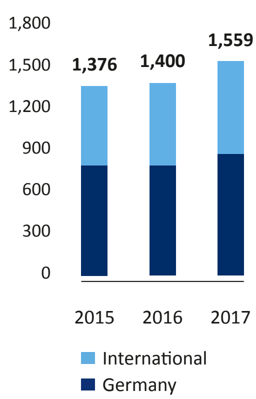
The statement of cash flows is the key to analysing Group liquidity. At € 26.8 million, cash flow from operating activities was lower year on year (previous year: € 34.5 million), predominantly due to a decrease in other liabilities. Whereas liabilities had been built up in the previous year, they were reduced in the year under review – after adjustment for the additions from corporate acquisitions. The majority of the outstanding liabilities were settled at the end of the fiscal year so as to reduce the volume of data involved in migration to the SAP® S/4HANA system. Cash flow from investing activities amounted to € -22.3 million (previous year: € -8.5 million). In addition to capital expenditure of € 11.8 million on non-current assets, the Company paid a total of € 15.4 million to acquire the shares in Kalshoven, the mse Group and FIRE. The cash in hand of the acquired companies amounted to € 4.7 million. Payments totalling € 0.8 million were made for contingent purchase price liabilities in connection with the earlier acquisitions of phi-Consulting and Square DMS. Cash flow from financing activities amounted to € -1.0 million (previous year: € -22.2 million). Cash flows were triggered mainly by the dividend payment of € 31.5 million to Aareal Bank AG and by the proceeds of the capital increase (€ 15.5 million).

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

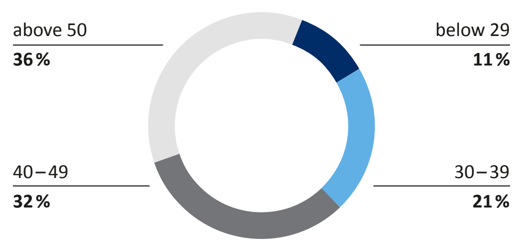
For over ten years now, Aareon has been carrying out anonymised Group-wide employee surveys. They are a tool for measuring the mood among employees and provide insights into how specific improvement measures can be put into practice. The Group-wide response rate of 69 % for the employee survey shows that both rank-and-file employees and management consider it important to participate in the future success of the Company. General levels of employee satisfaction remain high.

As at 31 December 2017, Aareon had a total of 1,559 employees (previous year: 1,400). The average period of service with the company was 11.8 years (previous year: 11.6 years). The international subsidiaries account for 43.5 % of the workforce (previous year: 43.0 %). Aareon promotes flexible working time models: at the end of 2017, Aareon in Germany had 195 part-time positions (corresponding to 22.1 % of the workforce) (previous year: 159; 19.9 %) and 90 teleworking positions (10.2 % of the workforce) (previous year: 89; 11.2 %). The proportion of women in the workforce was 31.3 % (previous year: 32.6 %), while the share of women in management positions was 20.7 % (previous year: 21.8 %).

Number of employees (as at 31 Dec.)



Age structure of workforce



Qualification and further training

One of the aspects on which Aareon again focused its attention in fiscal 2017 was the development of its management staff. In the course of the Professional Individual Management Development programme (ProFI), managers were offered training sessions (e. g. leadership at Aareon), diagnostics (including a development centre for new managers) and consultation (e. g. personalised coaching sessions and leadership groups). Another focal point was supporting the internationalisation of Aareon, especially by means of English language courses. The Certified Housing Manager (HfWU) training course at the Nürtingen-Geislingen University for Economics and the Environment in Germany was held once again in 2017.

The second cross-mentoring programme was successfully completed in 2017. Cross-mentoring is a personnel development tool aimed at encouraging knowledge transfer and involves the targeted exchange of ideas and experience between employees at different companies.

Initial training and the promotion of young talent

In addition to trainee programmes, Aareon offers candidates a dual-study degree in Business IT and a variety of vocational training courses in office management and IT (the latter as either an application development or systems integration specialist). At the close of 2017, Aareon employed 21 trainees in Germany as well as one student (at the University of Cooperative Education).

As part of its programme to promote young talent, Aareon organised a Girls’ Day and the Aareon Science Camps, and took part in the Franco-German Discovery Day. The Company also supported the JOBLINGE initiative for socially disadvantaged young people.

Aareon works together with a number of universities in order to foster young talent and promote education.

Forward-looking corporate culture

As an innovative company that is driving the digital transformation in all areas and managing the associated change process for its staff, Aareon launched the work4future project in 2017. Building on the Company's existing life-phase-oriented personnel policy, the project focuses on the evolution of working time models – especially against the backdrop of increasing mobility – on smart and effective collaboration between employees, and on the digital workplace. Corporate health management activities, too, were guided by the slogan "fit4work4future" in 2017, with numerous measures taken to support staff in the digital working world.

For the fourth time since its initial certification in 2008, Aareon was again honoured in 2017 with berufundfamilie gGmbH's seal of approval as a family-oriented enterprise.

The Company's numerous personnel-related services include, for example, more flexible working hours in the shape of part-time and teleworking models, a partnership with a family service company, parent-child offices as well as crèche and kindergarten places in cooperation with a company based in Mainz.

Equal opportunities form an integral part of Aareon's personnel policy. Women are represented in various management roles as well as on the Management Board and Supervisory Board. Many women also exercise responsibility in projects and subprojects or play a role as specialists. Aareon's goal is to achieve even more balance in this area. In this context, targets for the representation of women were set at the subsidiary Aareon Deutschland GmbH in the previous year in accordance on the German Act on the Equal Participation of Women and Men in Leadership Positions in the Private and the Public Sector.

Compensation principles

With their transparency and sustainability, Aareon's compensation systems are aligned with its strategic goals. The objective is to provide employees with compensation that is attractive and motivating as well as in line with market benchmarks and personal performance. Equal pay for men and women performing the same duties is part of that as well. This is a policy that can help Aareon to attract and retain highly qualified, dedicated employees with high potential. It is up to each individual company within the Group to design its own compensation system in line with these principles. The ultimate responsibility for this rests with local management, who must also take into account the co-determination rights of the bodies representing the employees in each company as well as local statutory regulations. Aareon makes its principles for compensation systems known at every Group company.

Internal control system

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

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

The Management Board of Aareon AG is responsible for designing, establishing, applying, refining and reviewing an appropriate system of internal control over financial accounting. At Aareon AG, the processes for (Group) financial accounting are managed by the International Finance unit, which also takes charge of Group financial reporting. All of the Company's subsidiaries are included in its consolidated financial statements. Finance and Internal Services handles financial accounting, including preparation of the annual financial statements, for Aareon AG and its subsidiaries Aareon Deutschland and Aareon Immobilien Projekt Gesellschaft. The unit also supports phi-Consulting's independent financial accounting systems. The financial accounts of BauSecura are handled by the Funk Group. Aareon UK, Aareon France, the Netherlands-based companies, the Scandinavian companies and the mse companies have independent financial accounting systems, while 1st Touch receives financial accounting support from its sister company Aareon UK. With the exception of the Scandinavian companies, kalshoven and the mse companies, all the companies enter their financial data independently in the Group's SAP® software programme. In fiscal 2017, the financial data reported by the three companies in question was entered in the Group's software programme by Finance unit employees. The data is consolidated at Group level.

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

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

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

Risk report

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

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

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

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

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

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

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

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

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

Viewed on average across the quarterly risk assessments, the risks faced by the company in 2017 were not deemed to be essentially higher than in the previous year. Overall, Aareon was not exposed to any risks that threatened its status as a going concern or had a significant impact on its net assets, financial situation or earnings. The following is a description of risks of material interest to the readers of the financial statements.

Financial risks

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

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

Financial risks were assessed as being unchanged in terms of content, but higher than in the previous year.

Market risks

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

Management and organisational risks

In order to meet changing customer requirements, the Company must ensure that the requisite personnel resources with the corresponding qualifications are made available in the right place at the right time. To achieve this, individual tasks have to be outsourced. Beyond that, Aareon has launched its work4future project, the purpose of which is to establish a future-oriented working culture with the right equipment. The overriding goal is to enhance Aareon's position as an attractive employer and to guide the employees through the technological transformation.

Relative to the previous year, leadership and organisational risks were assessed as being higher, especially due to the assessment of risks related to personnel resources.

Risks from incidental and ambient conditions

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

The measures taken by Aareon to raise awareness of the importance of compliance include sensitising, training and advising staff. In addition, Aareon has updated its policies to reflect the current situation, in particular the Policy on Responding to Searches or Seizure. A Policy on the Organisation of Customer Events was drawn up to ensure compliance with the applicable rules and regulations in this area. In addition to this, the Compliance Officer carries out audits after approval of the corresponding audit plan by the Management Board. Compliance-relevant processes are honed and adapted so as to continuously improve the compliance management system.

The consequences for Aareon's established risk management system of the EU's General Data Protection Regulation (EU-GDPR) and, in particular, of the risk-based approach on which it is based, are being taken into account in a Group-wide programme launched to implement the EU-GDPR requirements.

Production risks

Like any other project, software development harbours the risk that the final product cannot be provided at the targeted cost, in the expected quality, or within the time frame required by the market. That is why such work is carried out using development and management methods based on internationally recognised standards. Procedures and standards are set down in a uniform international development policy that places particular emphasis on security and data privacy, and takes account of both agile and traditional development methods. Agile methods are increasingly being used to identify and monitor risks in development and customer projects. Responsibilities for continuous improvement processes for software

Opportunities

quality have been assigned within the organizational structure. A particular focal point in this context is capital expenditure on the automation of testing with a view to achieving consistently high standards of quality at reduced cost.

Realistic, documented countermeasures are taken to minimise the risk of any serious disruptions during the operation of customer software. Thus far, we have not experienced any disruptions leading to a prolonged loss of service. In order to minimise the risk of an application being disrupted as a result of unauthorised access or an attack, technical and organisational measures have been taken that are anchored in the internal control system in accordance with German auditing standard PS 951 nF. Appropriate fire-protection, loss-protection and disaster-prevention measures have also been put in place. Internal redundancies are in place to counter the failure of individual systems or components. Aareon's IT data centres were built in 2011 and have been checked by the TÜV technical inspection agency. In the year under review, one IT service centre was certified to high-availability level 4. An important aspect in the construction of the centres was the use of state-of-the-art technologies – from building infrastructure with heat recovery technology to the deployment of cutting-edge encryption technology in the fibre-optic-based mirroring of data between the two data centres. Aareon has also installed comprehensive data backup processes that allow it to reconstruct lost data in whole or in part within corresponding time frames. Aareon has addressed the issue of liability risk by taking out financial liability insurance for a limited scope and amount. The insurance policy provides cover in the event that Aareon is found liable to a third party for financial losses incurred as a result of its activities as an IT provider.

Identifying, creating and utilising opportunities is central to Aareon's corporate strategy of managing the digital transformation process in a purposeful manner. Aareon's own research and development activities play a crucial role here, as do its constant observation and analysis of developments in the property and IT industries, the competitive environment and society as a whole. The insights gained are incorporated into its strategic programme, the Aareon Flight Plan. The opportunities this gives rise to, some of which are correlated with each other, are categorised below. They were largely unchanged compared with the prior year:

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

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

Opportunities from customer focus

Customer focus is pivotal at Aareon. In many cases, our relationships with our customers and with the property industry have grown over many years. The company is a member of several property industry associations, including the German Federation of Housing and Property Companies (GdW). Beyond that, Aareon systematically maintains a dialogue with its customers – through the Aareon customer advisory councils, at numerous customer events and in individual discussions with them. This proximity to the industry and customers presents opportunities to identify customer trends, needs and requirements as they arise and to factor them into the ongoing development and expansion of Aareon's portfolio of products and services. In this context, Aareon utilises agile development methods such as design thinking to create solutions that unlock value for its clients.

Opportunities from pioneering solutions

Digitalisation is proceeding apace. Aareon integrates the opportunities offered by the digital transformation into its product strategy: the digital ecosystem Aareon Smart World, with its pioneering digital and mobile solutions, is constantly being expanded. Aareon Smart World links up the partners in the property industry. Customers can work in a convenient, process-efficient manner using a single database and can leverage potential for new business models. Their data is stored in the exclusive Aareon Cloud, which is located in the certified Aareon IT Data Centre. Aareon offers professional consulting services for all its products and services. Aareon consultants assist their customers in selecting the right products and solutions to optimise their business processes and provide them with ongoing support throughout their implementation projects. Ideally, companies want to be able to source their IT services from a single provider owing to the high degree of complexity involved. Compared with its competitors, Aareon has opportunities because of its ability to offer consulting, software and services from a single source. This sits well with Aareon's corporate strategy of building on its leading position in the market. When refining and enhancing existing products and services or developing entirely new ones, Aareon harnesses the growth potential arising out of the new trends and requirements of both customers and the market. Aareon's R & D plays a central role in this process (see p. 31). When conducting R & D, Aareon also collaborates with property companies in line with the above-mentioned design thinking method (see p. 32). It also works together with prop-tech companies and is a strategic partner of blackprint PropTech Booster (see p. 30).

Opportunities from active brand management

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

Opportunities from being an international corporate group

In recent years, Aareon has grown to become an international group. Digitalisation of the property industry has different points of focus in each of the countries in which Aareon operates. This creates opportunities not only for the transfer of knowledge between the Group's international and domestic entities, but also for research and development (see p. 31). Aareon makes use of these opportunities to expand Aareon Smart World and thus generate additional growth potential.

Opportunities from being a preferred employer

The demographic trend is making competition for qualified workers more intense. It is also essential to manage the transformation to a digital working world and make sure all employees are on board. That is why constantly honing our profile as a preferred employer, one that is capable of attracting new employees, is crucial to success. Our work4future project is addressing this issue (see p. 41). Aareon has implemented many measures in recent years and will continue to build on them. These include services to enable employees to achieve a healthy work-life balance, a life-phase-oriented personnel policy, equal opportunities, diversity, knowledge sharing and corporate health management. With an eye to the digital working world, Aareon carried out an INQA audit (INQA = New Quality of Work Initiative) in 2016. Binding leadership guidelines and a systematic dialogue between line managers and staff are additional components of our employer profile. This

Outlook

creates opportunities for enhancing employee satisfaction and loyalty, and for facilitating the recruitment of new, highly qualified employees. In the race to recruit new workers, Aareon relies on employer branding activities that help to establish links to potential employees at a very early stage.

Opportunities from a sustainable business model

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

In 2018, Aareon will continue to pursue its growth strategy based on the Aareon Flight Plan, which forms part of the Aareal 2020 programme for the future. Both consolidated revenues and EBIT are expected to increase substantially. key success factors are:

— Further expansion of the Aareon Smart World portfolio of digital solutions
— Stronger ERP business, especially through further successful migrations and enhanced competitiveness
— Expansion and integration of the commercial property market segment in the Netherlands and Germany
— Earnings growth in the UK and Sweden through an optimised process organisation and stronger leveraging of the potential in the existing portfolio

Germany segment

We expect revenues in Germany to rise substantially in 2018, to between € 148.0 million and € 150.0 million. Thanks to strict cost management, we expect EBIT to be in the region of € 26.0 million – € 27.0 million, roughly on a par with the previous year.

The acquisition of the mse companies – which were included in the 2017 consolidated financial statements from October to December only – will be the main driver of revenue growth in ERP business. In addition, the migration of GES customers to Wodis Sigma will reach its peak in 2018 and 2019, generating higher consulting revenues. By the same token, that will lead to higher personnel costs and an increase in consulting expenses. Revenues from SAP® solutions and Blue Eagle are expected to decline slightly. No further sales of licences to major customers are expected in 2018.

Digital solutions will remain a key factor in Aareon's growth strategy in Germany, given the increasingly high profile these products enjoy in the property industry and the growing interest in them from customers. We expect to see higher demand for products, especially Aareon Immoblue Pro, Aareon CRM in combination with the tenant app, and mobile services.

As for add-on products, revenue from BauSecura insurance business is anticipated to rise slightly.

International Business segment

We expect both revenues and EBIT in the International Business segment to increase significantly in 2018, rising to € 89.0 – 91.0 million and to € 12.0–13.0 million respectively. The growing market penetration of digital solutions, and increased earnings in the UK and Sweden from the reorganisation and expansion of the existing customer portfolio, will be key factors in this growth.

ERP product revenues in the International Business segment are expected to be slightly higher than last year. In France, the Netherlands and the UK, revenues are likely to remain constant in 2018. The Scandinavian solution Incit Xpand is a growth driver and expected to garner more new customers and revive consulting business. We assume that our Swedish subsidiary Aareon Sverige will post earnings in 2018 similar to those in 2016. In the Netherlands, the 2018 financial statements will include kalshoven (and its REMS product) for a full 12 months. The company, which was acquired in April 2017, will generate revenue growth this year. Revenue from digital solutions in the International Business segment will be substantially higher than last year. In the UK, a new release of the 1st Touch mobile solution should spur additional demand. Marketing of the CRM solution 360° Tenant Portal is to be stepped up. The UK companies should enhance their profitability, especially thanks to the success of digital solutions. Aareon expects the broad range of digital solutions in the Netherlands, which has been enhanced by the acquisition of FIRE B.V., to deliver competitive advantages. These should manifest themselves in the growth of local digital solutions such as Facilitor (for facility management), Trace & Treasury (for the management of assets) and ShareWorX (for case management) as well as in the growth of Aareon CRM. The main growth opportunities that Aareon sees in France concern the digital solutions Building Relationship Management (BRM) and Supplier Relationship Management (SRM), both of which were developed in 2017.

Summary

In view of the information provided above, Aareon expects to post a substantial overall increase in revenues in 2018, which will rise to € 237.0–240.0 million. At around € 40.0 million, EBIT should also be significantly higher than last year.

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

Consolidated financial statements

Consolidated statement of comprehensive income

for the period 1 January to 31 December 2017

€ '000	Note	2017	2016
Revenues	4.1	**221,316**	210,654
Germany		**141,054**	134,150
International Business		**80,262**	76,504
Other own work capitalised	5.1	**4,461**	5,692
Other operating income	4.2	**5,902**	6,567
Cost of materials	4.3	**32,638**	32,570
Staff costs	4.4	**116,861**	111,015
Depreciation/amortisation		**10,724**	10,223
Other operating expenses	4.5	**36,830**	34,142
Other taxes		**717**	719
EBIT (earnings before interest and taxes)		**33,909**	**34,244**
Net financial income/expense	4.6	**-287**	-35
EBT (Earnings before taxes)		**33,622**	**34,209**
Income taxes	4.7	**10,263**	10,111
Consolidated net profit		**23,359**	**24,098**
Of which attributable to:			
Shareholders of the parent company		**21,757**	22,613
Non-controlling interests		**1,602**	1,485
Other comprehensive income (OCI)		**781**	**-228**
Items not recycled to profit and loss		**781**	**-228**
Actuarial losses from defined benefit plans		**1,128**	-328
Income tax on actuarial losses from defined benefit plans		**-347**	100
Comprehensive income		**24,140**	**23,870**
Of which attributable to:			
Shareholders of the parent company		**22,538**	22,385
Non-controlling interests		**1,602**	1,485

Consolidated balance sheet

as at 31 December 2016

Assets – **€ '000**

	Note	31 Dec. 2017	31 Dec. 2016
Non-current assets			
Intangible assets	5.1	**142,781**	118,432
Property, plant and equipment	5.2	**13,667**	11,882
Financial assets	5.3	**6,413**	5,909
Deferred tax assets	5.5	**5,737**	5,899
		168,598	142,122
Current assets			
Inventories		**236**	368
Trade receivables	5.6	**56,716**	47,452
Other current assets	5.7	**5,109**	3,918
Current income tax receivables		**1,712**	4,301
Securities	5.8	**362**	0
Cash and cash equivalents	5.9	**32,285**	28,792
		96,420	84,831
		265,018	226,953

Equity and liabilities – **€ '000**

	Note	31 Dec. 2017	31 Dec. 2016
Equity			
Equity attributable to shareholders	5.10/5.11/5.12	**143,460**	122,273
Non-controlling interests	5.13	**1,836**	1,563
		145,296	123,836
Non-current liabilities			
Provisions for pensions and similar obligations	5.14	**33,457**	33,858
Other non-current provisions	5.15	**1,682**	2,000
Deferred tax liabilities	5.5	**12,102**	7,892
Non-current purchase price liabilities	5.16	**5,274**	1,620
		52,515	45,370
Current liabilities			
Liabilities to banks		**1,112**	0
Other current provisions	5.15	**16,148**	13,123
Current income tax liabilities		**5,777**	2,535
Trade payables	5.17	**7,741**	10,140
Current purchase price liabilities	5.16	**2,779**	980
Other liabilities	5.18	**33,650**	30,969
		67,207	57,747
		265,018	226,953

Consolidated statement of changes in equity

for the period 1 January 2016 to 31 December 2017

€ '000	Equity attributable to shareholders				Total before non-controlling interests	Non-controlling interests		Total
	Subscribed capital	Share premium	Currency translation differences	Accumulated group earnings and profits		Subscribed capital	Accumulated group earnings and profits	
1 January 2016	**25,000**	**26,400**	**424**	**67,649**	**119,473**	**64**	**1,488**	**121,025**
Dividend	0	0	0	- 31,500	- 31,500	0	- 1,474	- 32,974
Consolidated net profit	0	0	0	22,613	22,613	0	1,485	24,098
Other comprehensive income (OCI)	0	0	0	- 228	- 228	0	0	- 228
Capital increase	0	15,500	0	0	15,500	0	0	15,500
Other changes	0	0	- 3,585	0	- 3,585	0	0	- 3,585
31 December 2016	**25,000**	**41,900**	**- 3,161**	**58,534**	**122,273**	**64**	**1,499**	**123,836**
1 January 2017	**25,000**	**41,900**	**-3,161**	**58,534**	**122,273**	**64**	**1,499**	**123,836**
Dividend	0	0	0	0	0	0	- 1,499	- 1,499
Consolidated net profit	0	0	0	21,757	21,757	0	1,602	23,359
Other comprehensive income (OCI)	0	0	0	781	781	0	0	781
Changes in scope of consolidation	0	0	0	0	0	20	150	170
Other changes	0	0	- 1,351	0	- 1,351	0	0	- 1,351
31 December 2017	**25,000**	**41,900**	**- 4,512**	**81,072**	**143,460**	**84**	**1,752**	**145,296**

Consolidated statement of cash flows

for fiscal 2017

€ '000	2017	2016
EBIT (earnings before interest and taxes)	**33,909**	**34,244**
Depreciation and amortisation	**10,724**	10,223
Write-up from the measurement of financial assets	**0**	- 1,352
Income taxes paid and income tax refunds received	**- 4,705**	- 8,712
Interest received	**16**	216
Interest paid	**- 264**	- 157
Increase (-)/decrease (+) from changes in assets [1]	**- 7,147**	- 4,820
Increase (+)/decrease (-) from changes in liabilities	**- 5,774**	4,893
Cash flow from operating activities	**26,759**	**34,535**
Net payments for investments in non-current assets	**- 11,755**	- 8,861
Payments for the purchase of consolidated companies and other business units (less cash in hand acquired)	**- 11,576**	- 2,790
Exchange-rate-related changes in non-current assets	**1,022**	3,179
Cash flow from investing activities[1]	**- 22,309**	**- 8,472**
Payments made/received for working capital loan	**1,112**	- 955
Dividend distribution	**0**	- 31,500
Capital increase	**0**	15,500
Payments to non-controlling interests	**- 1,499**	- 1,474
Other changes in capital	**- 570**	- 3,813
Cash flow from financing activities	**- 957**	**- 22,242**
Cash change in cash and cash equivalents	**3,655**	4,590
Exchange-rate-related changes in cash and cash equivalents	**- 162**	- 769
Total change in cash and cash equivalents	**3,493**	**3,821**
Cash funds at the beginning of the period	**28,792**	24,971
Cash funds at the end of the period	**32,285**	**28,792**

1—Prior-year figures adjusted

Notes to the consolidated financial statements

01 General disclosures

01.1 Compliance with legal requirements

The consolidated financial statements of Aareon AG, Isaac-Fulda-Allee 6, 55124 Mainz, Germany, for fiscal 2017 were prepared voluntarily in accordance with International Financial Reporting Standards (IFRS), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), the interpretations of the former Standing Interpretations Committee (SIC) as applicable in the EU, as well as with the applicable provisions of Section 315e (1) of the German Commercial Code (Handelsgesetzbuch – HGB). All of the International Financial Reporting Standards that must be applied for the consolidated financial statements as at 31 December 2017 were taken into account. The financial statements give a true and fair view of the net assets, financial situation and earnings of the Aareon Group. The consolidated financial statements have been prepared in euros. Unless indicated otherwise, all amounts are shown in thousands of euros (€ ’000 or € k). For the sake of enhanced clarity and transparency, all information on individual items in the balance sheet or statement of comprehensive income that is provided in accordance with statutory provisions and that may be shown in either the balance sheet or statement of comprehensive income or in the Notes section is given in the Notes. Where individual items are summarised in the balance sheet and the statement of comprehensive income, they are broken down in the Notes. Aareon AG is a wholly owned subsidiary of Aareal Bank AG, Paulinenstraße 15, 65189 Wiesbaden, Germany, which prepares its consolidated financial statements for the lowest and highest consolidation levels. Aareon AG is included in the consolidated financial statements of Aareal Bank AG pursuant to the pertinent provisions concerning consolidation. The financial statements are published in Germany’s Federal Gazette (Bundesanzeiger).

01.2 Disclosures on operating activities

Aareon is the leading European provider of consulting services and systems for the property industry and the industry’s partner for digitalisation. The Aareon Group has a presence at 36 locations in Europe’s key property markets, including 14 in Germany. Its international subsidiaries are located in France, the UK, the Netherlands, Norway and Sweden. Since the acquisition of mse Augsburg GmbH on 1 October 2017, Aareon has also had a presence in Austria via the new subsidiary’s office there. As at 31 December 2017, Aareon had 1,559 employees (previous year: 1,400). Its head office is located in Mainz, Germany.
Aareon’s customers include private housing companies, cooperatives, municipal and church-run housing organisations, property management companies, home owners’ associations, insurance companies, property investment funds, companies with property holdings (corporate real estate), commercial property operators as well as utilities and providers of heat-metering services.

02 Information on accounting policies and consolidation methods

02.1 Accounting principles

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

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

The presentation of the consolidated financial statements is subject both to the recognition and measurement methods used to prepare those statements and to the uncertainty of the assumptions and estimates made in respect of future events. Where assumptions and estimates are required for accounting and measurement purposes, they are made in accordance with the relevant accounting standards. The estimates and assumptions are based on historical experience and other metrics such as planning figures. The estimates and assessments used, as well as the underlying assessment factors and estimation methods, are regularly reviewed and compared with the events that actually occur. In our opinion, the parameters used are both suitable and reasonable. The main assumptions concerning the future and other sources of estimation uncertainty giving rise to a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year concern, in particular, the calculation of pension obligations and of provisions, and the measurement of intangible assets and of tax assets and liabilities.

02.2 Consolidation principles

In accordance with IFRS, the separate financial statements of the individual subsidiaries are included in the consolidated financial statements by uniformly applying the accounting policies defined by Aareon AG. The historical cost of the consolidated subsidiaries is offset against their proportionate equity on their respective dates of acquisition in accordance with the purchase method. Any goodwill remaining is recognised under intangible assets.
All receivables and liabilities as well as revenues, income or expenses resulting from transactions between the consolidated companies have been eliminated. Balancing items for non-controlling interests were created for any shares in consolidated subsidiaries not held by the parent company. These non-controlling interests are affected by any consolidation measures recognised in profit and loss.

02.3 Currency translation

The international companies belonging to the Aareon Group are independent subunits, whose financial statements are translated into euros using the functional currency method. The items in the statement of comprehensive income are translated using the average exchange rate; all monetary and non-monetary assets and liabilities are translated into euros using the European Central Bank's reference rate on the reporting date. Differences affecting equity are disclosed directly in a separate equity item until disposal of the subsidiary. This also applies to any deviations between the unappropriated surplus, which is converted using the closing rate at the reporting date, and the results shown in the consolidated statement of comprehensive income, which are based on average exchange rates. The components of equity to be consolidated as capital are translated using historical exchange rates.
The following rates were used for currency translation:

1 € =

		Balance sheet Closing rate		Statement of comprehensive income Average exchange rate	
		2017	**2016**	**2017**	**2016**
United kingdom	GBP	**0.8872**	0.8562	**0.8767**	0.8195
Sweden	SEK	**9.8438**	9.5525	**9.6351**	9.4689
Norway	NOK	**9.8403**	9.0863	**9.3270**	9.2906

02.4 Scope of consolidation

The group of consolidated companies includes Aareon AG as well as all subsidiaries in which Aareon AG either directly or indirectly holds the majority of voting rights or has the right to appoint the majority of the Supervisory Board members. Please see Note 05.4 for a list of all subsidiaries included in the consolidated financial statements.
On 1 April 2017, Aareon Nederland B.V. acquired a 100 % stake in Kalshoven Groep B.V., Amsterdam, for € 6,704 k.
Pursuant to IFRS 3, all consideration transferred in connection with the business combination (including contingent consideration) must be measured and recognised at fair value as at the acquisition date. The purchase price paid for Kalshoven Groep B.V. comprised a fixed amount of € 4,450 k, which was paid in cash in the period under review, compensation in the amount of € 78 k for the working capital (assets and receivables) as at 1 April 2017, and a contingent purchase price. The contingent purchase price is payable in 2018 and 2019, and will be calculated by comparing actual EBIT with planned EBIT for 2017 and again for 2018. The fair value of the contingent purchase price amounted to € 2,176 k at the acquisition date and was based on an assumed target achievement of 100 %. The

maximum contingent purchase price is € 3,375 k (target achievement of 150 %). The pro rata fair value of the assets and liabilities is € 4,305 k.
The acquired assets and liabilities were recognised in the following amounts:

Kalshoven Groep B.V.
in € '000

	Carrying amount prior to takeover	Fair value on initial consolidation
Internally generated intangible assets	0	800
Customer relations	0	3,878
Brands	0	409
Property, plant and equipment	145	145
Receivables and other assets	964	1,314
Cash and cash equivalents	4,278	4,278
Provisions	131	131
Non-financial liabilities	5,115	5,115
Deferred tax liabilities	0	1,272
Net assets acquired	**140**	**4,305**

The takeover resulted in goodwill in the amount of € 2,399 k, which includes significant potential benefit owing to the diversification of Aareon's product and service portfolio in the commercial property market. The business combination thus presents the opportunity to offer other Aareon products to a broader target group of customers. No goodwill exists that could be expected to qualify as a tax deduction.
The acquired corporate group comprises a total of four companies, which were combined in the course of the reporting year and renamed Kalshoven Automation B.V. Since it was acquired, the corporate group has contributed revenues of € 3,345 k and a net profit of € 384 k to the Aareon Group. On the assumption that the acquisition had taken place on 1 January 2017, the revenues and net profit for the year would have amounted to € 4,425 k and € 463 k respectively.
On 1 October 2017, Aareon AG acquired 100 % of the shares in mse Immobiliensoftware GmbH, Hamburg, and mse Augsburg GmbH, Augsburg, for a total purchase price of € 14,031 k. The purchase price paid for the two companies comprised a fixed amount of € 10,165 k, which was paid in cash in the period under review, and a contingent purchase price. The contingent purchase price is payable in 2017, 2018 and 2019, and will be calculated by comparing actual EBIT with planned EBIT and recurring revenues for 2017, 2018 and 2019. The fair value of the contingent purchase price amounted to € 3,866 k at the acquisition date and was based on an assumed target achievement of 100 %. The maximum contingent purchase price is € 6,000 k (target achievement of 150 %). The pro rata fair value of the assets and liabilities is € 7,450 k.

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

mse companies
in € '000

	Carrying amount prior to takeover	Fair value on initial consolidation
Internally generated intangible assets	611	2,848
Acquired intangible assets	3	3
Customer relations	0	6,964
Brands	0	1,051
Property, plant and equipment	110	110
Financial assets	231	231
Receivables and other assets	1,931	1,931
Securities	362	362
Cash and cash equivalents	369	369
Provisions	1,618	1,618
Non-financial liabilities	1,551	1,551
Deferred tax liabilities	0	3,250
Net assets acquired	**448**	**7,450**

The takeover resulted in goodwill in the amount of € 6,582 k. In addition to expanding business activities in the commercial property market in Germany, the business combination also offers Aareon access to the Austrian market, where the Company sees prospects for future growth. No goodwill exists that could be expected to qualify as a tax deduction.
Since they were acquired, the mse companies have contributed revenues of € 2,338 k and a net profit of € 166 k to the Aareon Group. On the assumption that the acquisition had taken place on 1 January 2017, the mse companies' revenues and net profit for the year would have amounted to € 10,835 k and € 450 k respectively.

On 1 December 2017, Aareon Nederland B.V. acquired a 60 % stake in FIRE B.V., Utrecht, for € 900 k. The purchase price comprised a fixed amount of € 750 k, which was paid in cash in the period under review, and a contingent purchase price of € 150 k. The contingent purchase price is payable in 2018. The fair value of the acquired company's assets and liabilities amounts to € 425 k, € 255 k of which is attributable to Aareon.
The acquired assets and liabilities were recognised in the following amounts:

FIRE B.V.
in € '000

	Carrying amount prior to takeover	Fair value on initial consolidation
Internally generated intangible assets	0	500
Receivables and other assets	35	35
Cash and cash equivalents	50	50
Non-financial liabilities	35	35
Deferred tax liabilities	0	125
Net assets acquired	**50**	**425**

The takeover resulted in goodwill in the amount of € 645 k, which is recognised in accordance with the partial goodwill method. With the takeover of this company, Aareon is now in the unique position to provide its housing industry customers with all the services they require from a single source. No goodwill exists that could be expected to qualify as a tax deduction.

For the sake of simplicity, the company was not included in Aareon's consolidated financial statements until 31 December 2017. On the assumption that the acquisition had taken place on 1 January 2017, FIRE B.V.'s revenues and net profit for the year would have amounted to € 0 k and € -7 k respectively.

02.5 Changes in accounting policies

— IAS 12, Recognition of Deferred Tax Assets for Unrealized Losses
  The amendments to IAS 12 comprise clarification on when a deferred tax asset should be recognised for unrealised losses on assets measured at fair value. According to the amendments, unrealised losses on assets measured at fair value, whose value for tax purposes is based on their historical cost, give rise to deductible temporary differences. It has also been clarified that an entity must carry out a combined assessment of all its deductible temporary differences when determining whether there are likely to be sufficient taxable profits in future to utilise, and thus recognise, the temporary differences. The entity may make individual assessments only insofar as, and to the extent that, the applicable tax law distinguishes between different types of taxable profit.
— IAS 7, Disclosure Initiative
  The amendments to IAS 7 have improved the disclosures made on an entity's financing activities. In the future, entities must make additional disclosures during the reporting period on those debt capital items of the balance sheet for which corresponding payments were or will be made under cash flow from financing activities in the statement of cash flows (liabilities from financing activities). In addition, corresponding additional disclosures are required on changes in the carrying amounts of financial assets for which corresponding payments must also be recognised under cash flow from financing activities (e.g. financial assets used to hedge liabilities from financing activities). The IASB proposes that the disclosures be made in the form of a reconciliation between the opening and closing balances in the balance sheet, but allows alternative forms of presentation.
  The following must be disclosed:
  • Cash changes from changes in cash flow from financing activities
  • Changes from the takeover or loss of control of subsidiaries or other business operations
  • Effects of changes in exchange rates
  • Changes arising from changes in fair value
  • Other changes
— Annual Improvements Cycle 2014–2016
  Clarifications and minor amendments to existing standards were made as part of the IASB's Annual Improvements Cycle 2014–2016. The short-term exemptions in paragraphs E3-E7 of IFRS 1 are to be deleted. A further amendment concerns IFRS 12. Its purpose is to clarify the scope of the standard by specifying that the disclosure requirements in the standard – except for those in paragraphs B10-B16 – apply to an entity's interests falling within the scope of IFRS 5. A further change concerns IAS 28. It clarifies that election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

These amendments to the accounting and reporting standards have no effect on Aareon AG's consolidated financial statements.

Up until 31 December 2017, the following accounting and reporting standards (IAS/IFRS) and interpretations (IFRIC), which are to be applied in future accounting periods, had been issued by the International Accounting Standards Board (IASB) and endorsed by the European Union:

New standards/interpretations	**Issued**	**Endorsed**	**Effective date**
IFRS 17, Insurance Contracts	May 2017		Accounting periods beginning on or after 1 January 2021
IFRIC 23, Uncertainty over Income Tax Treatments	June 2017		Accounting periods beginning on or after 1 January 2019
IFRIC 22, Foreign Currency Transactions and Advanced Consideration	December 2016		Accounting periods beginning on or after 1 January 2018
IFRS 16, Leases	January 2016	October 2017	Accounting periods beginning on or after 1 January 2019
IFRS 15, Revenue from Contracts with Customers	May 2014	September 2015	Accounting periods beginning on or after 1 January 2018
Effective Date of IFRS 15	September 2015		
IFRS 9, Financial Instruments	July 2014	November 2016	Accounting periods beginning on or after 1 January 2018

New standards/interpretations	**Issued**	**Endorsed**	**Effective date**
IAS 28 (2011), Investments in Associates and Joint Ventures	October 2017		Accounting periods beginning on or after 1 January 2019
IAS 40, Investment Property	December 2016		Accounting periods beginning on or after 1 January 2018
IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4	September 2016	November 2017	Accounting periods beginning on or after 1 January 2018
IFRS 2, Classification and Measurement of Share-based Payment Transactions	June 2016		Accounting periods beginning on or after 1 January 2018
IFRS 10 and IAS 28, Sales or Contribution of Assets between an Investor and its Associate of Joint Venture	September 2014		Date of first-time application post-poned indefinitely
Effective date of amendments to IFRS 10 and IAS 28	December 2015		
IFRS 15, Revenue from Contracts with Customers	April 2016		Accounting periods beginning on or after 1 January 2018

- IFRS 15, Revenue from Contracts with Customers IFRS 15 provides a single model to be applied to all contracts with customers. It replaces the current provisions on revenue recognition in IAS 11, IAS 18 and the associated interpretations. IFRS 15 is to be applied by all companies that conclude contracts with customers for the delivery of goods or the provision of services, unless those contracts fall within the scope of other standards. For instance, financial instruments and other contractual rights or obligations falling within the scope of IAS 39 or IFRS 9 are excluded from IFRS 15. The core principle of the new standard is that an entity will recognise revenue once or as it satisfies the performance obligations it has assumed, i. e. when control of the goods or services has passed to the customer. The amount of revenue recognised corresponds to the consideration that the entity is likely to receive in exchange for these goods or services. IFRS 15 contains a five-step model that is used to determine in what amount and at what point in time or over what period of time the revenue is recognised. The standard requires additional disclosures, e. g. on a breakdown of the total revenues, on performance obligations, on the reconciliation of the opening and closing balances of the contract assets and liabilities as well as on key discretionary decisions and estimates made. With the publication of Effective Date of IFRS 15 in September 2015, the IASB postponed the first-time application of IFRS 15 to accounting periods beginning on or after 1 January 2018. In July 2015, additional amendments and clarifications to the standard were proposed, which were the result of discussions within the Transition Resource Group (TRG). The TRG is a joint advisory body set up by the IASB and FASB to deal with matters related to the implementation of IFRS 15. Aareon examined the effects of the new standard on its consolidated financial statements and, in the process, analysed the standard contracts used in different countries. The overwhelming majority of agreements concluded with customers are standard contracts. Aareon's business model does not provide for any contract initiation costs that would need to be capitalised. Nor is any material variable compensation payable for services provided by Aareon. Customers are not granted any material financing components. Aareon has not identified any material effects on its existing practice of accounting revenues. In future, Aareon will present its performance obligations using five revenue categories (Licenses, Consulting, Maintenance, SaaS and fees, and Other).
- IFRS 9, Financial Instruments
  IFRS 9 revises the recognition of financial instruments in the financial statements and completely replaces IAS 39, Financial Instruments: Recognition and Measurement. The development of IFRS 9 was divided into three phases: classification and measurement, impairment, and hedge accounting. The definitive provisions of IFRS 9 were published in July 2014 and must be applied for the first time as of 1 January 2018. After finalisation of the standard, the European Financial Reporting Advisory Group (EFRAG) began the endorsement process in September 2014, publishing its final endorsement advice for the European Commission on 15 September 2015. The new classification of financial instruments to be applied as of 1 January 2018 in accordance with IFRS 9 will have no effect on the consolidated financial statements. Loans and receivables will continue to be recognised at cost. Available-for-sale financial instruments will continue to be recognised at fair value on initial and subsequent measurement. The new rules concerning impairments will also have no significant impact on Aareon.
- IFRS 16, Leases
  The new IFRS 16 standard covering the accounting of leases will replace IAS 17 and the associated interpretations IFRIC 4, SIC 15 and SIC 7. It introduces a single accounting model for lessees. As a result, lessees are obliged to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The lessee recognises an asset representing its right of use of the underlying leased object. It also recognises a lease liability representing its obligation to make lease payments. Lessors

continue to classify leases as operating or finance, with the approach to lessor accounting substantially unchanged compared with IAS 17. The classifications in IFRS 16 use the same criteria as in IAS 17. IFRS 16 also includes a number of other provisions on recognition, disclosures in the notes and sale-and-lease-back transactions.

— Clarifications to IFRS 15, Revenue from Contracts with Customers
  In April 2016, the IASB published its final clarifications to IFRS 15. The amendments include both clarifications of the provisions of IFRS 15 and simplifications as regards transition to the new standard. The clarifications concern identifying contract performance obligations, assessing whether an entity is the principal or agent in a business transaction, and assessing whether income from a licence granted is to be recognised at a point in time or over time. One simplification concerns options as regards the restatement of contracts that are either completed at the beginning of the earliest period presented or were changed before the beginning of the earliest period presented. The intention here is to reduce the complexity and cost of transitioning to the new standard.
— Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions
  In June 2016, the IASB published amendments to IFRS 2 that clarify the classification and measurement of share-based payment transactions. The amendments concern the following areas: (i) the accounting for cash-settled share-based payment transactions that include a performance condition; (ii) the classification of share-based payment transactions with net settlement features; and (iii) the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.
— IAS 28 (revised 2011), Investments in Associates and Joint Ventures
  The amendments to IAS 28 clarify that IFRS 9 is to be applied to non-current investments in joint ventures and associates that are not accounted for using the equity method.
— IFRIC 23, Uncertainty over Income Tax Treatments
  The tax treatment of certain items and transactions may depend on their future recognition by tax authorities or fiscal courts. IAS 12, Income Taxes defines how actual and deferred taxes are to be recognised. IFRIC 23 supplements the rules in IAS 12 to take account of uncertainties regarding the tax treatment of items and transactions.
— IFRIC 22, Foreign Currency Transactions and Advanced Consideration
  IFRIC 22 addresses a question of application regarding IAS 21 , The Effects of Changes in Foreign Exchange Rates. It clarifies the time at which the exchange rate used for translating transactions into foreign currencies is to be determined in cases where the transactions contain the payment or receipt of advance consideration. The exchange rate for the underlying asset, income or expense must be the one prevailing when the asset or liability resulting from the advance consideration is recognised.

In fiscal 2017, Aareon did not make use of the option of the early application of standards applicable in future accounting periods. Aareon is currently assessing the effects of the implementation of the new and amended accounting and reporting standards on its consolidated financial statements.

03 Accounting principles

03.1 Intangible assets

As a rule, goodwill is tested for impairment in the fourth quarter of each year. Its value is measured on the basis of the present value of future cash flows (value in use), which are determined using medium-term planning figures. This entails using the projected pre-tax cash flows from the three-year plan adopted by the Management Board of Aareon AG and approved by the Supervisory Board. Thus, the revenue and expense items are planned individually over this three-year period. The values assigned to the main assumptions are based on internal and external factors as well as on past experience. The previous year's planning figures also play a central role. Revenue planning is based mainly on assumptions regarding migration projects and new business as well as renewals of contracts and additional business with existing customers. These assumptions also represent the main sources of estimation uncertainty. Regular revenues from existing customers, such as fees from licensing and maintenance contracts, are not generally subject to any major estimation uncertainty. The cost of materials is planned on the basis of planned revenues. Personnel numbers and salary growth are the main factors determining the personnel budget. Other costs are generally projected on the basis of prior-year figures, taking into account known non-recurring effects. On the expenses side, estimation uncertainty arises as a result of unplanned price increases and unpredictable non-recurring effects. The more forward-looking the assumptions, the higher the estimation uncertainty. Cash flows after the three-year time horizon are measured taking the perpetual annuity into account. The present value of future cash flows is determined on the basis of a Group-wide risk-adjusted discount rate of 6.09 % before tax. The discount rate is calculated as the sum of a risk-free base interest rate of 1.29 % plus a company-specific risk loading of 6 % multiplied by a beta factor of 0.80. In view of the uncertain nature of planning beyond three years, we take a cautious view of the market environment and assume constant values, i. e. no further growth. As the recoverable amounts are well in excess of the carrying amounts, we do not consider a shortfall to be a possibility, even if there were to be a serious change in the assumptions described above. Consequently, even an increase of 1.0 % in the risk-adjusted discount rate or a reduction of 5.0 % in the EBIT included in cash flow, both of which are potentially possible, would not lead to an impairment charge. There was no need for any impairment charges in the reporting period.

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

Useful lives of intangible assets

Internally generated intangible assets	10 years
Acquired intangible assets	3 – 10 years
Customer relations	5 – 20 years
Brands	20 – 25 years

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

03.2 Property, plant and equipment

Items of property, plant and equipment are measured at cost, including restoration obligations that are required to be capitalised under IAS 16. Insofar as the items are wasting assets, they are subject to straight-line depreciation in accordance with the expected useful lives of the components. The depreciation methods and useful lives are reviewed annually. Any adjustments are made in accordance with IAS 8. The useful lives of the principal components are presented below:

Useful lives of property, plant and equipment

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

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

03.3 Leases

The finance lease requirements of IAS 17 are fulfilled for the use of leased property, plant or equipment if all of the major opportunities and risks associated with ownership are transferred to the lessee. In this case, the respective assets are capitalised at the present value of the minimum lease payments and depreciated using the straight-line method over the asset’s useful life or the duration of the lease, whichever is shorter. The obligations from future lease payments are discounted and carried as a liability. The provisions of IFRIC 4 were observed when applying IAS 17.
After expiry of the lease period, the lessee generally has the option of concluding a follow-on lease, purchasing the asset at its respective residual value or having it transferred to the lessee so that it can be scrapped. The discount factor equals the assumed interest rate underlying the lease.

03.4 Financial assets and financial liabilities

IAS 39 divides financial assets into the following categories:
— Financial assets held for trading
— Held-to-maturity investments
— Loans and receivables
— Available-for-sale financial assets
The financial assets held by Aareon are recognised as loans and receivables. Financial assets are not treated as held-to-maturity investments. Aareon does not acquire financial assets held for trading. The “available-for-sale financial assets” category comprises financial assets that are not assigned to any of the other categories and that are held for an indefinite period or can be sold if liquidity is required or there is a change in market conditions. Insofar as the Group acquires securities, they are generally treated as available-for-sale financial assets. The financial instruments disclosed are not subject to any interest rate risk.
We refer to the risk report, which forms part of the management report, for information regarding the Group-wide system in place at Aareon AG to measure, limit and control risks as well as for information provided in accordance with IFRS 7 concerning the description and scope of the risks arising out of financial instruments.
Loans and receivables are measured at amortised cost or fair value, whichever is lower. This category includes in particular:
— Non-current loans
— Trade payables and trade receivables
— Receivables from unbilled services
— Other current receivables and assets as well as liabilities
Owing to the predominantly short maturities of these financial instruments, their fair value is assumed to equal their carrying amount.

Impairments of trade receivables are recognised to the extent required – as a rule by means of individual fixed percentages that take account of the maturity structure. Low-interest-bearing receivables are carried at their discounted amount, taking into account appropriate interest.
Foreign-currency receivables are converted into euros using the closing rate at the reporting date.
Receivables from service contracts that have not been completed at the reporting date are recognised using the percentage-of-completion (PoC) method. The percentage of completion is calculated based on a comparison of the order costs already incurred with the expected total order costs. Other unfinished customer orders are recognised in the amount of the order costs incurred, insofar as it is probable that these will be covered by income.

03.5 Inventories

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

03.6 Deferred taxes

Deferred taxes are recognised in line with IAS 12 for all temporary differences between the carrying amounts in the tax base and those in the consolidated balance sheet (temporary difference approach). Deferred taxes also have to be recognised for losses carried forward. The liability method is used to calculate deferred taxes. The deferrals are recognised in the amount of the assumed tax burden or relief in future accounting periods based on the applicable tax rate at the time of realisation. Deferred taxes are determined using country-specific tax rates that are either already in effect or have been announced at the reporting date. Deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which the temporary differences and unused tax loss carryforwards can be offset. The carrying amounts are reviewed at each reporting date and adjusted where necessary. They are reduced accordingly if it is no longer probable that sufficient taxable profit will be available for offset.

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

03.7 Provisions for pensions and similar obligations

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

03.8 Income tax liabilities

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

03.9 Other provisions

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

Provisions in foreign currencies are translated using the closing rate at the reporting date.

03.10 Liabilities

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

03.11 Recognition of income and expenses

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

Aareon generates its revenues mainly through
- Licensing agreements
- Maintenance contracts
- Consulting and training projects
- Hosting solutions (SaaS and ASP) from the exclusive Aareon Cloud

In addition to country-specific ERP business for the property industry, Aareon offers digital solutions – some of them internationally – such as Mareon, Aareon Archiv kompakt, mobile services, Aareon CRM (tenants portal), Aareon Immoblue Pro, ShareWorX®, Facilitor and Trace & Treasury. Aareon's portfolio also includes add-on products and services such as the BauSecura insurance management solution, IT outsourcing, solutions for the energy sector, and integrated payment transactions.
Software licence revenue is recognised if a contract has been signed by both parties with no rights of withdrawal, the product has been delivered in full, the licence fee has been determined and payment is probable.
Maintenance services are realised proportionately over the contractual performance period.
Consulting and training services are recognised in profit and loss when the service has been performed. The Group also provides implementation services as part of its project work. In such cases, revenue is recognised according to the percentage-of-completion method. The percentage of completion of a project is calculated based on a comparison of the order costs already incurred with the total order costs expected. Provisions are recognised for impending losses from this type of service in the period in which the losses were caused, insofar as no asset item exists.
Hosting solutions (SaaS and ASP) are billed monthly and recognised as revenues.
Operating expenses are recognised in profit and loss when the service is utilised or when the expenses are incurred in economic terms. Interest income and expense are recognised on an accrual basis.

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

04.1 Revenues

Revenues by business segment in € ’000

	2017	2016
Germany	**141,054**	134,150
International Business	**80,262**	76,504
Total	**221,316**	**210,654**

Revenues by product group in € ’000

	2017	2016
ERP products	**155,204**	152,501
Digital solutions and services	**36,500**	32,448
Add-on products and services	**29,612**	25,705
Total*	**221,316**	**210,654**

*Prior-year figure adjusted

Revenues from the **Germany** segment increased by € 6,904 k year on year. ERP product revenues were higher, especially due to acquisition of the mse companies. Consulting revenues continued to grow thanks to the increasing number of projects for the migration from GES to Wodis Sigma. Reduced licensing revenues caused revenue from the ERP product SAP® solutions and Blue Eagle to decline. Revenues from digital solutions rose significantly, underscoring their importance as a growth driver. Business with add-on products and services grew thanks to increasing outsourcing business and higher revenues from phi-Consulting.
Revenues from the **International Business** segment rose by € 3,758 k year on year. The ERP products in this segment recorded slight growth, driven mainly by the acquisition of kalshoven. Adjusted for currency translation effects, ERP product revenues were on a par with the previous year in the Netherlands, France and the UK. In Sweden, project delays meant the revenue level of the prior year could not be matched. Slight growth was posted for digital products. Revenue growth was particularly strong in France due to regulatory requirements for the local housing industry, whereas revenues decreased in the UK as a result of intense competition. Growth in add-on products and services was down to the acquisition of SG2ALL in the previous year. As in the previous year, the International Business segment accounted for 36.3 % of consolidated revenues.

04.2 Other operating income

Other operating income in € ’000

	2017	2016
Measurement of purchase price liabilities	**1,339**	1,269
Non-cash income	**1,440**	1,412
Income from affiliated companies outside the Aareon Group	**1,230**	876
Income from trade fairs and congresses	**1,046**	1,147
Income from the reversal or reduction of individual fixed-percentage impairments	**140**	115
Income from write-ups	**0**	1,352
Other income	**707**	396
Total	**5,902**	**6,567**

The growth in income from the adjustment of purchase price liabilities is explained in Note 05.16. In addition to the revenues from affiliated companies outside the Aareon Group, Aareal Bank also granted the Group a subsidy, which was recognised net of the associated costs (see Note 06.2). The income from write-ups in the previous year was attributable to the remeasurement of the shares in SG2ALL conducted during transitional consolidation.

04.3 Cost of materials

Cost of materials in € '000

	2017	2016
Software and hardware costs	**3,708**	6,330
Cost of services purchased	**28,930**	26,240
Total	**32,638**	**32,570**

The cost of materials was on a par with that of 2016. The previous year was influenced by increased use of third-party licences. The large number of migration projects in 2017 meant Aareon relied more on the services of external consultants.

04.4 Staff costs/employees

Staff costs in € '000

	2017	2016
Salaries	**95,371**	90,912
Social security costs	**21,490**	20,103
of which: for post-employment benefits	**4,803**	4,457
Total	**116,861**	**111,015**

Staff costs increased by € 5,846 k compared with the previous year. This was mainly due to inclusion of the newly acquired subsidiaries kalshoven and the mse companies in the group of consolidated companies and to the recruitment of personnel in the International Business segment.

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

Employees – year-end figures

	2017	2016
Employees	**1,427**	1,292
Executive managers	**82**	78
Total	**1,509**	**1,370**
of which: part-time employees	**353**	247

Employees – annual average figures

	2017	2016
Employees	**1,360**	1,283
Executive managers	**82**	76
Total	**1,442**	**1,359**
of which: part-time employees	**289**	239

Employees – annual average by business segment

	2017	2016
Germany	**792**	767
International	**650**	592
Total	**1,442**	**1,359**

04.5 Other operating expenses

Other operating expenses in € '000

	2017	2016
Occupancy expenses	**8,800**	8,624
Legal and consultation expenses / auditing costs	**5,291**	3,276
Travel expenses	**5,105**	4,817
Motor vehicle expenses	**4,891**	4,685
Advertising/marketing/entertainment	**3,834**	3,911
Software maintenance	**2,378**	2,147
Other staff costs	**1,945**	1,582
Communication costs	**851**	924
Further training	**829**	949
Insurance costs	**470**	419
Leasing/technology	**362**	279
Office material	**330**	248
Credits for invoices from prior years	**329**	364
Compensation for Supervisory Board and Advisory Board	**303**	300
Impairments of receivables	**269**	304
Miscellaneous other operating expenses	**843**	1,313
Total	**36,830**	**34,142**

Other operating expenses grew by € 2,688 k year on year, primarily due to higher consultation expenses for internal projects to upgrade the corporate IT landscape.

04.6 Net financial income/expense

Net financial income/expense in € '000

	2017	2016
Other interest and similar income	**15**	121
of which: with affiliated companies	**0**	45
Net income from equity-method accounting	**0**	95
Interest and similar expenses	**- 302**	- 251
of which: with affiliated companies	**- 85**	0
Total	**- 287**	**- 35**

04.7 Income taxes

Income taxes in € '000

	2017	2016
German income taxes	**7,905**	7,012
Foreign income taxes	**2,762**	2,773
Actual tax expense	**10,667**	**9,785**
Deferred income tax assets/liabilities	**-404**	326
Total	**10,263**	**10,111**

The following table shows the reconciliation statement for the differences between income taxes based on the net income before taxes and the actual income tax reported. In order to calculate the expected tax expense, the Group tax rate of 31.7 % valid in fiscal 2017 (previous year: 31.7 %) was multiplied by earnings before taxes.

Reconciliation of tax expenses in € '000

	2017	2016
Earnings before income taxes	**33,622**	**34,209**
Trade tax	**5,338**	5,431
Corporation tax	**5,043**	5,131
Solidarity surcharge	**277**	282
Expected tax expense	**10,658**	**10,844**
Reconciliation:		
Non-deductible expenses	**535**	328
Tax-free income	**- 1,178**	**- 474**
Taxes for prior years	**217**	- 43
Differences in tax rates of international subsidiaries	**91**	- 404
Other differences	**- 60**	- 140
Tax expense reported	**10,263**	**10,111**

The other differences mainly concern currency translation effects and deferred taxes at the Group level.

05 Notes to the consolidated balance sheet of the Aareon Group

05.1 Intangible assets

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

Carrying amounts in € '000	31 Dec. 2016	Additions	Exchange-rate effects	31 Dec. 2017
Germany	28,326	6,582	0	**34,908**
International Business	47,512	3,131	- 503	**50,140**
Total	**75,838**	**9,713**	**- 503**	**85,048**

The item "Internally generated intangible assets" relates to internal and external development costs capitalised in accordance with IAS 38. The development costs in each country were capitalised using a standard perdiem rate.

The capitalised carrying amounts are as follows:

Carrying amounts in € '000	31 Dec. 2017	31 Dec. 2016
ERP solutions	**14,334**	**13,477**
Germany	**2,570**	2,765
International Business	**11,764**	10,712
Digital solutions	**7,137**	**6,513**
Customer Relationship Management (CRM)	**3,466**	3,108
Digital platform	**1,921**	1,919
Supplier Relationship Management (SRM)	**789**	748
Trace & Treasury	**582**	458
Miscellaneous	**379**	280
Add-on products	**793**	**226**
Total	**22,264**	**20,216**

Internally generated software in the amount of € 17,866 k was completed in the reporting period, while internally generated software worth € 4,398 k was still under development. R & D costs to-talled € 9,339 k in the reporting period. Internally generated assets amounted to € 4,461 k.

05.2 Property, plant and equipment

The contracts for mainframes and associated peripheral devices – classified as finance leases under IAS 17 – expired as planned in the year under review.
Operating leases primarily concern the rental of business premises, motor vehicles, office furniture and equipment, and telecommunications equipment. In 2017, € 7,019 k in lease payments was recognised in profit and loss.

The minimum lease payments due to operating leases were as follows:

Operating leases in € '000

	2018	2019 – 2022	After 2022
Lease payments as lessee	9,008	25,692	10,113
Lease receivables as lessor	598	2,179	1,417

05.3 Financial assets

Other loans include time deposits in the amount of € 3,260 k with Landesbank Baden-Württemberg. These deposits relate to the guarantee issued to cover existing and future obligations in connection with membership in two supplementary pension funds. This item also includes rent deposits. In the year under review, Aareon also acquired minority stakes in blackprint Booster Fonds GmbH & Co. KG and in Immomio GmbH. In connection with acquisition of the mse companies, Aareon received minority shares in MPC Best Select Company Plan GmbH & Co. KG; these shares were recognised under financial assets.

05.4 Shareholdings

Name and registered office of company	Interest held in %
Aareon AG, Mainz	
Aareon Deutschland GmbH, Mainz, Germany	100
Aareon Immobilien Projekt Gesellschaft mbH, Dortmund, Germany	100
Aareon International Solutions GmbH, Mainz, Germany	100
BauSecura Versicherungsmakler GmbH, Hamburg, Germany	51
mse Augsburg GmbH, Augsburg, Germany	100
mse Immobiliensoftware GmbH, Hamburg, Germany	100
mse RELion GmbH, Augsburg, Germany	100
phi-Consulting GmbH, Bochum, Germany	100
1st Touch Ltd., Southampton, UK	100
Aareon France SAS, Meudon-la-Forêt, France	100
Aareon Nederland B.V., Emmen, Netherlands	100
Aareon Norge AS, Oslo, Norway	100
Aareon Sverige AB, Mölndal, Sweden	100
Aareon UK Ltd., Coventry, UK	100
Facilitor B.V., Enschede, Netherlands	100
FIRE B.V., Utrecht, Netherlands	60
Kalshoven Automation B.V., Amsterdam, Netherlands	100
SG2ALL B.V., Huizen, Netherlands	100
Square DMS B.V., Grathem, Netherlands	100
blackprint Booster Fonds GmbH & Co. KG, Frankfurt am Main, Germany	*
Immomio GmbH, Hamburg, Germany	*
MPC Best Select Company Plan GmbH & Co. KG, Germany	*

* Stake < 20 %

05.5 Deferred taxes

Deferred taxes in € '000

	31 Dec. 2017	31 Dec. 2016
Pension provisions	**4,964**	5,292
Liabilities	**373**	171
Other provisions	**119**	229
Loss carryforwards	**102**	101
Miscellaneous	**179**	106
Total deferred income tax assets	**5,737**	**5,899**
Measurement of assets under construction	**711**	616
Current deferred income tax liabilities	**711**	**616**
Intangible assets	**11,194**	6,254
Miscellaneous	**197**	1,022
Non-current deferred income tax liabilities	**11,391**	**7,276**
Total deferred income tax liabilities	**12,102**	**7,892**

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

05.6 Trade receivables

Trade receivables in € '000

	31 Dec. 2017	31 Dec. 2016
Receivables from unbilled services	**16,448**	16,308
Trade receivables	**35,288**	30,484
Receivables from affiliated companies	**4,980**	660
Total	**56,716**	**47,452**

Receivables from unbilled services comprise advance payments received of € 5,330 k, contract revenues from the reporting period in the amount of € 8,482 k, profits (less recognised losses) of € 1,599 k as well as total expenses incurred in the amount of € 10,792 k. Receivables from affiliated companies include a claim of € 4,450 k against Aareal Bank essentially as compensation for implementing personnel measures (see Note 06.2). There are no restrictions on ownership or disposal of the disclosed receivables. Write-downs were made to account for the risk of default. Trade receivables were impaired as follows:

Impairments of trade receivables in € '000

	31 Dec. 2017	31 Dec. 2016
Impaired trade receivables	**3,620**	3,575
Impairments as at 1 January	**1,179**	**1,299**
First-time consolidation	**468**	0
Additions	**746**	548
Reversals	**446**	331
Utilisation	**297**	337
Total as at 31 December	**1,650**	**1,179**

In Germany, overdue but not impaired receivables relate solely to receivables that are overdue by up to 90 days.

05.7 Other assets

Other assets in € '000

	31 Dec. 2017	31 Dec. 2016
Other current financial assets	**1,190**	873
Other current non-financial assets	**3,919**	3,045
Total	**5,109**	**3,918**

Other non-financial assets mainly comprise deferred advance payments of € 3,918 k for subsequent periods.

05.8 Securities

During acquisition of the mse companies, Aareon received listed securities that were classified as available-for-sale financial assets. As the trading volumes for these securities enable reliable inputs to be determined, the securities were assigned to Level 1 of the fair value hierarchy.

05.9 Cash and cash equivalents

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

Cash and cash equivalents in € ’000

	31 Dec. 2017	31 Dec. 2016
Cash in hand	**123**	11
Balances held with banks	**32,162**	28,781
of which: with affiliated companies	**18,523**	16,089
Funds with maturities of up to three months	**32,285**	**28,792**

As at 31 December 2017, Aareon Nederland had utilised € 1,112 k of its temporary € 2,500 k line of credit with Coöperatieve Rabobank Emmen-Coevorden U.A., which runs until 31 January 2018.

05.10 Subscribed capital

The subscribed capital of Aareon AG is fully paid up and at 31 December 2017 was as follows:

Number and class of shares

25,000,000 no-par value ordinary shares	25,000

Each share has a theoretical par value of € 1.00.

05.11 Share premium

The share premium was unchanged compared with the previous year. In fiscal 2016, Aareal Bank added € 15,500 k to the share premium by way of the capital increase.

05.12 Accumulated group earnings and profits

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

05.13 Non-controlling interests

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

05.14 Provisions for pensions and similar obligations

Pension obligation trend:

Pension obligation in € ’000

	2017	2016
1. Pension provisions as at 1 January (accrued pension cost)	**33,858**	33,841
2. Changes in the group of consolidated companies	**1,233**	0
3. Net expense for the period		
a) Service cost	**417**	450
b) Interest cost	**607**	754
4. Experience-based adjustments recognised in OCI	**-166**	1,463
5. Actuarial adjustments recognised in OCI	**-945**	-1,142
6. Actual utilisation	**1,547**	1,508
Pension provisions as at 31 December	**33,457**	**33,858**

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

Assumptions in %

	31 Dec. 2017	31 Dec. 2016
Interest rate	**1.84**	1.81
Expected inflation rate	**1.75**	2.00
Income trend	**2.00**	2.00
Pension trend	**1.75**	2.00
Fluctuation rate	**3.00**	3.00

Changes in these assumptions would have the following consequences:

Sensitivity analysis 2017

	Sensitivity	Obligation adjusted due to sensitivities, in € '000
Interest rate (1.84 %)	1.00 %	29,374
Interest rate (1.84 %)	- 1.00 %	38,562
Pension trend (1.75 %)	0.25 %	34,365
Pension trend (1.75 %)	- 0.25 %	32,519
Income trend (2.00 %)	0.50 %	34,866
Income trend (2.00 %)	- 0.50 %	32,230
Life expectancy (Heubeck 2005G)	+ 1 year	35,516
Life expectancy (Heubeck 2005G)	- 1 year	31,388

Sensitivity analysis 2016

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

The sensitivity analysis is based on changes in a single assumption, with all other assumptions remaining constant. It is unlikely that this would occur in reality, and there could indeed be a correlation between changes in certain assumptions. For this reason, the same method was employed to calculate the sensitivity of the defined benefit obligation to changes in actuarial assumptions as is used to determine the pension provisions in the balance sheet (see Note 03.7). The types and methods of the assumptions used when preparing sensitivity analyses did not change compared with the previous period. No sensitivity analysis was carried out that factored in changes in the fluctuation rate or expected inflation rate because these rates do not represent material actuarial assumptions. The defined benefit obligation can be broken down by plan participant into the following categories:

Plan participant categories in € '000

	31 Dec. 2017
Active employees	**270**
Former employees with vested benefits	**27**
Pensioners	**134**
Total	**431**

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

Maturities of the defined benefit obligation (DBO) in € '000	
2018	1,559
2019	1,581
2020	1,576
2021	1,570
2022	1,405
2023 – 2027	8,052

Service and interest costs are recognised under staff costs. The expense recognised for defined contribution pension plans amounted to € 7,477 k. These plans mainly include employer contributions to the statutory pension scheme. For reasons of materiality, pension provisions are not presented by maturity.

Aareon has pension plans in place in Germany and France. The pension plans of Aareon AG and Aareon GmbH have been closed to new members. All of these plans are defined benefit plans within the meaning of IAS 19. This means that, subject to certain conditions, Aareon guarantees that the beneficiaries will receive a particular benefit amount. Depending on the plan type, the amount of employee benefits varies according to different factors such as eligible salary, period of service, amount of the statutory pension, and benefits paid under individual direct insurance plans.

05.15 Other provisions

Other provisions in € '000

	Amount at 1 Jan. 2017	Change in group of consolidated companies	Additions	Reclassi-fications	Utilisation	Reversals	Amount at 31 Dec. 2017
Variable salary components	11,851	0	10,619	0	9,784	970	11,716
(previous year)	(9,606)	(0)	(10,646)	(0)	(8,301)	(100)	(11,851)
Übrige Rückstellungen	3,272	223	4,547	0	1,758	170	6,114
(previous year)	(4,460)	(0)	(1,398)	(0)	(2,381)	(205)	(3,272)
Total	**15,123**	**223**	**15,166**	**0**	**11,542**	**1,140**	**17,830**
(previous year)	**(14,066)**	**(0)**	**(12,044)**	**(0)**	**(10,682)**	**(305)**	**(15,123)**

Development in 2017 (prior-year figures in parentheses)

Aareon AG makes payments to the members of its Management Board that qualify as cash-settled **share-based payments** within the meaning of IFRS 2. The obligations arising out of these share-based payments are recognised as staff costs and via corresponding provisions. Claims to the phantom stocks of Aareal Bank are paid in cash. The payments are distributed over three or four calendar years from the grant date. Provisions for share-based payment are recognised in full from the commitment date. The provisions are recognised in the amount of the fair value of the obligation in question at the reporting date and adjusted if the share price changes. Provisions for share-based payment (SAR) amounted to € 677 k. At the end of the period under review, 13,046 shares were outstanding at an average price per share of € 31.37 (previous year: 13,668 shares; € 29.93). Of these outstanding shares, 9,171 (previous year: 8,209) were exercisable and 5,180 (previous year: 6,540) were granted. The exercise prices of the outstanding shares range between € 27.53 and € 35.63.

Other provisions are also recognised in accordance with IAS 37 for all identifiable risks and uncertain obligations in the amount of their probable occurrence. They include termination payments and paid leave totalling € 3,120 k in connection with personnel measures. The interest cost for non-current provisions amounted to € 74 k in the reporting period.

Other provisions by maturity:

Other provisions
€ ’000

	31 Jan. 2017	31 Dec. 2017	31 Jan. 2017	31 Dec. 2017
	< 1 year		> 1 year	
Variable salary components	11,292	11,148	559	568
(previous year)	(9,122)	(11,292)	(485)	(559)
Übrige Rückstellungen	1,831	4,999	1,441	1,115
(previous year)	(2,971)	(1,831)	(1,489)	(1,441)
Total	**13,123**	**16,147**	**2,000**	**1,683**
(previous year)	**(12,093)**	**(13,123)**	**(1,974)**	**(2,000)**

05.16 Purchase price liabilities

Purchase price liabilities in € ’000

	31 Dec. 2017	31 Dec. 2016
Non-current purchase price liabilities		
Kalshoven	**1,238**	0
mse companies	**4,036**	0
Square	**0**	963
phi-Consulting	**0**	657
Total	**5,274**	**1,620**
Current purchase price liabilities		
Kalshoven	**794**	0
mse companies	**1,080**	0
FIRE	**150**	0
Square	**0**	600
phi-Consulting	**755**	380
Total	**2,779**	**980**
Total	**8,053**	**2,600**

The interest cost on the non-current purchase price liabilities from the previous year in connection with the acquisition of phi-Consulting amounted to € 18 k. These liabilities were reclassified as current (€ 675 k) in accordance with their maturities. Owing to good business performance, the remaining purchase price liability was increased by € 80 k and recognised as an expense. Of the current purchase price liabilities recognised for phi-Consulting, € 56 k was disbursed and € 324 k reversed.

The interest cost on the non-current purchase price liabilities arising out of the acquisition of Square DMS in the previous year amounted to € 37 k. These liabilities were reclassified as current (€ 1,000 k) in accordance with their maturities. Of the remaining purchase price liabilities recognised for Square DMS, € 773 k was disbursed and € 828 k reversed. Further, purchase price liabilities for Kalshoven Automation in the amount of € 188 k were reversed in the reporting period.

Consolidated statement of changes in fixed assets 2017

as at 31 December 2016

	Historical cost						
€ '000	1 Jan. 2017	Currency translation differences	Changes in scope of consolidation	Additions	Disposals	Reclassi-fications	31 Dec. 2017
I. Intangible assets							
1. Goodwill	109,521	- 550	9,626	87	0	0	**118,684**
2. Acquired intangible assets	45,860	- 459	3,540	1,466	1,464	- 129	**48,814**
3. Internally generated intangible assets	42,757	- 162	611	4,769	0	225	**48,200**
4. Customer relations	11,017	- 125	10,842	0	0	0	**21,734**
5. Brands	1,321	- 27	1,460	0	0	0	**2,754**
6. Advance payments made	227	0	0	550	0	- 96	**681**
	210,703	**- 1,323**	**26,079**	**6,872**	**1,464**	**0**	**240,867**
II. Property, plant and equipment							
1. Land, leasehold rights and buildings	8,720	- 16	0	503	213	0	**8,994**
2. Plant and machinery	10,722	- 21	0	2,855	1,557	0	**11,999**
3. Other equipment, and office furniture/equipment	9,466	- 5	255	1,508	2,572	0	**8,652**
	28,908	**- 42**	**255**	**4,866**	**4,342**	**0**	**29,645**
III. Financial assets							
1. Equity investments	11	0	231	255	0	0	**497**
2. Other loans	6,390	0	30	21	33	0	**6,408**
	6,401	**0**	**261**	**276**	**33**	**0**	**6,905**
	246,012	**- 1,365**	**26,595**	**12,014**	**5,839**	**0**	**277,417**

Accumulated depreciation and amortisation						Carrying amounts	
1 Jan. 2017	Currency translation differences	Additions	Disposals	Reclassi-fications	31 Dec. 2017	31 Dec. 2017	31 Dec. 2016
33,683	- 47	0	0	0	**33,636**	**85,048**	75,838
34,511	- 223	3,139	1,458	0	**35,969**	**12,845**	11,349
22,541	- 10	3,405	0	0	**25,936**	**22,264**	20,216
1,349	- 26	952	0	0	**2,275**	**19,459**	9,668
187	- 5	88	0	0	**270**	**2,484**	1,134
0	0	0	0	0	**0**	**681**	227
92,271	**- 311**	**7,584**	**1,458**	**0**	**98,086**	**142,781**	**118,432**
3,402	- 12	530	213	0	**3,707**	**5,287**	5,318
7,263	- 18	1,323	1,539	0	**7,029**	**4,970**	3,459
6,361	- 2	1,253	2,370	0	**5,242**	**3,410**	3,105
17,026	**- 32**	**3,106**	**4,122**	**0**	**15,978**	**13,667**	**11,882**
11	0	0	0	0	**11**	**486**	0
481	0	0	0	0	**481**	**5,927**	5,909
492	**0**	**0**	**0**	**0**	**492**	**6,413**	**5,909**
109,789	**- 343**	**10,690**	**5,580**	**0**	**114,556**	**162,861**	**136,223**

05.17 Trade payables

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

05.18 Other liabilities

Other liabilities in € '000

	31 Dec. 2017	31 Dec. 2016
Current other financial liabilities		
Paid-leave liabilities	**3,191**	2,954
Miscellaneous current other financial liabilities	**4,270**	4,361
	7,461	**7,315**
Current other non-financial liabilities		
Advance payments received from customers	**16,317**	14,887
Other tax liabilities	**9,411**	8,326
Miscellaneous	**461**	441
	26,189	**23,654**
Total	**33,650**	**30,969**

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

06 Other explanatory notes

06.1 Other financial obligations

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

Other financial obligations in € '000

	2018	2019 – 2022	After 2022
Lease agreements	9,610	24,591	9,474
Purchase commitments	11,666	3,357	88
Total	**21,276**	**27,948**	**9,562**

06.2 Related-party transactions

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

These primarily relate to provision of the following services:

- Collaboration with Aareal Bank with regard to the fully automated and integrated accounting and payment services for property companies in Germany as implemented in the software systems Wodis Sigma, SAP® solutions and Blue Eagle, and GES
- Provision of data centre services and related implementation consultancy services
- Compensation of expenses incurred to implement measures to optimise processes and structures as part of the Aareal 2020 programme
- Co-financing of the Aareon Congress

In the reporting period, the business transactions with Aareal Bank comprised revenues and other operating income in the amount of € 14,164 k as well as cost of materials and other operating expenses in the amount of € 535 k. Other operating income comprised the compensation of € 4,450 k from Aareal Bank for the abovementioned measures. This other operating income was netted against the corresponding staff costs and other operating expenses.
Related parties controlled by Aareon AG, or over which Aareon AG can exert a controlling influence, are included in the consolidated financial statements. They also appear in the list of shareholdings in Note 05.4, with information on the equity interest held and the net profit/loss for the year.
All transactions with related parties were conducted on the basis of international price comparison methods as per IAS 24, on the same conditions that are customary with non-Group third parties (arm's-length transactions).
In the Aareon Group, members of the Management Board and the Supervisory Board are defined as members of management in key positions. In the previous year, this group had also included members of first- and second-tier management (directors, division managers), regional directors (sales) and members of strategic purchasing. Owing to the altered definition, the reporting-year figure for compensation and that of the previous year are comparable to a limited extent only.
The total compensation paid to members of the Management Board amounted to € 2,112 k, and included contributions to defined contribution plans in the amount of € 100 k. The total expenses for share-based payment amounted to € 232 k.

06.3 Auditors' fees

In the reporting period, € 645 k was recognised for auditing of the financial statements, € 4 k for other attestation services, € 5 k for tax consultancy services and € 108 k for other services.

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

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

06.5 Events after the reporting date

On 1 January 2018, SG2ALL B.V. was merged into its immediate parent company, Aareon Nederland B.V. No other events or business transactions have occurred since the close of the fiscal year that could have an effect on Aareon's net assets, financial situation or earnings as presented in this report.

07 Corporate bodies

07.1 Supervisory Board

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

Hermann J. Merkens, Deputy Chairman
Chairman of the Management Board
Aareal Bank AG, Wiesbaden

Lutz Freitag
Consultant
Hamburg

Dagmar Knopek
Member of Management Board
Aareal Bank AG, Wiesbaden

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

07.2 Management Board

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

Sabine Fischer
Member of Management Board
Aareon ERP systems (Wodis Sigma, SAP® Solutions and Blue Eagle, GES) and Aareon Smart World Digital Solutions; Data, Hosting and IT Services; Consulting Organisation including phi-Consulting GmbH

Dr. André Rasquin
Member of Management Board
Central Sales; Regional Sales; Solution Sales & Sales Management; Advisory Board work; Strategic Product Marketing for the BauSecura product; mse companies (RELion product)

Christian M. Schmahl
Member of Management Board
International Finance; Controlling; Accounting; Contract & Receivables Management; Central Purchasing; Facility Management

08 Concluding remarks

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

Aareal Bank also prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). These financial statements are published in Germany's Federal Gazette (Bundesanzeiger).

Mainz, 6 March 2018

The Management Board

Dr. Manfred Alflen

Sabine Fischer

Dr. André Rasquin

Christian M. Schmahl

Independent Auditor's Report

To Aareon AG, Mainz

Audit Opinions

We have audited the consolidated financial statements of Aareon AG, Mainz and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year from 1 January to 31 December 2017, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Aareon AG for the financial year from 1 January to 31 December 2017.

In our opinion, on the basis of the findings made in the audit,

— the accompanying consolidated financial statements comply in all material respects with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, are a true and fair reflection of the assets, liabilities, and financial position of the Group as at 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017, and

— the accompanying group management report as a whole accurately reflects the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and is a true reflection of the opportunities and risks associated with future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit did not give rise to any reservations concerning the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB, taking into account the accounting principles for the auditing of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Our responsibilities under those requirements and principles are described in greater detail in the section entitled "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" in our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law and have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is an adequate and appropriate basis for our audit opinions on the consolidated financial statements and on the group management report.

Responsibility of the Company's Legal Representatives and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The company's legal representatives are responsible for preparing consolidated financial statements that comply in all material respects with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) HGB, and for ensuring that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. Furthermore, the legal representatives are responsible for the internal controls they have deemed necessary to facilitate the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to discontinue operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for preparing a group management report that, as a whole, accurately reflects the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and is a true reflection of the opportunities and risks associated with future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) they deem necessary to facilitate the preparation of a group management report that complies with German legal requirements and to provide adequate appropriate evidence for the assertions made in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the findings made in the audit, complies with German legal requirements and is a true reflection of the opportunities and risks associated with future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

While reasonable assurance constitutes a high degree of certainty, it does not guarantee that an audit conducted in accordance with § 317 HGB and taking into account the accounting principles for the auditing of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) will always detect a material misstatement Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they might reasonably be expected to influence the economic decisions of stakeholders made on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain a degree of professional scepticism throughout the audit. We also

- identify and appraise the risks of material misstatement – whether due to fraud or error – of the consolidated financial statements and of the group management report, design and execute audit procedures in response to those risks, and gather audit evidence that is adequate and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement arising from fraud is greater than that resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the overriding of internal controls.
- obtain an understanding of the internal control system relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the efficacy of these systems.
- assess the appropriateness of the accounting policies applied by the legal representatives and the rationality of estimates made by the legal representatives and related disclosures.
- draw conclusions on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists related to events or conditions

that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. Future events or conditions may, however, result in the Group no longer being able to continue as a going concern.
— assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in such a manner that they constitute a true and fair reflection of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
— obtain adequate appropriate audit evidence on the financial information of the entities or business activities within the Group that enable us to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for directing, supervising and executing the group audit. We remain solely responsible for our audit opinions.
— verify the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the picture of the Group's position it provides.
— perform audit procedures on the forward-looking statements promulgated by the company's legal representatives in the group management report. On the basis of adequate appropriate audit evidence, we verify, in particular, the significant assumptions used by the legal representatives as the basis for their forward-looking statements, and examine whether the forward-looking statements were derived correctly from these assumptions. We do not express a separate audit opinion on the forward-looking statements and on the underlying assumptions. There is a substantial unavoidable risk that future events will differ substantially from the forward-looking statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Frankfurt am Main, 7 March 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Stefan Palm	ppa. Thomas Körner
German Public Accountant	German Public Accountant

Report of the Supervisory Board

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

The Supervisory Board met on four occasions during 2017, once in the first half of the year and three times in the second, with resolutions also being adopted by circular memorandum in some cases. At all of these meetings, the Management Board informed the Supervisory Board in detail of the business policies, economic development, strategic orientation and sales activities of both the Company and the Group. The content and findings of the audits carried out of the Group companies were explained to the Supervisory Board. The risk reporting and internal control systems were also presented to it on a regular basis.

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

The Management Board explained to the Supervisory Board its international strategy as well as the measures taken to optimise the organisation. The market environment, competitive situation, products, expected developments and growth potential of the Group companies were also discussed. The Supervisory Board was provided with detailed information on the status of the Company's strategy programme Aareon Flight Plan, on the roll-out of SAP® S/4HANA across the Aareon Group and on the project launched to ensure compliance with the General Data Protection Regulation (GDPR).

The Management Board provided the Supervisory Board with regular reports on the process of the purchase of mse Augsburg GmbH and mse Immobiliensoftware GmbH. The Supervisory Board was also given detailed information on the 12.94-percent stake in Immomio GmbH. The Supervisory Board gave its approval to these projects. The Management Board reported to the Supervisory Board more closely on development of the International Business segment and the activities of Aareon AG's international subsidiaries. It also discussed with the Supervisory Board the acquisition by Aareon Nederland B.V. of Kalshoven Groep B.V. in the Netherlands, a transaction that was approved by the Supervisory Board.

The Supervisory Board discussed and approved the business plan. The Management Board regularly informed the Supervisory Board of the Company's actual business performance compared with business-plan forecasts. The Supervisory Board has a Human Resources Committee and an Auditing Committee. The Human Resources Committee met once, and the Auditing Committee twice, during 2017.

The Supervisory Board appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the Company's auditors. PricewaterhouseCoopers examined the annual financial statements and management report of Aareon AG as of 31 December 2017 (prepared in accordance with the German Commercial Code – HGB) as well as the consolidated financial statements and group management report as of 31 December 2016 (prepared in accordance with IFRS). Based on the results of its audit, PricewaterhouseCoopers GmbH issued an unqualified auditor's report for both the annual and consolidated financial statements. On the basis of the annual financial statements prepared in accordance with the German Commercial Code, Aareon closed the fiscal year with an unappropriated surplus of € 43,400,394.67, of which € 0 will be distributed to the shareholders and € 43,400,394.67 will be carried forward. No allocations will be made to retained earnings.

On 19 March 2018, the Supervisory Board examined and discussed the Company's annual financial statements and management report, the consolidated financial statements compiled in accordance with IFRS and the Group management report for fiscal 2017 – all of which received an unqualified auditor's report – as well as the Management Board's proposal for the appropriation of profit. In preparation for their deliberations, the members of the Supervisory Board were provided in advance with comprehensive documentation, which they dealt with in depth.

Representatives of PricewaterhouseCoopers GmbH were available to the Supervisory Board to answer questions and provide information. On the basis of the final results of its own review, the Supervisory Board agreed with the findings of the auditors. The Supervisory Board confirmed that it had no objections to raise and endorsed the respective financial statements and management reports of Aareon AG and the Aareon Group as prepared by the Management Board. The 2017 annual financial statements of Aareon AG were thus adopted and the consolidated financial statements of the Aareon Group approved.

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

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

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

1. the actual disclosures made in the report are accurate,

2. the consideration paid by the Company for the transactions mentioned in the report was not inappropriately high or any disadvantages were compensated."

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

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

Mainz, March 2018

The Supervisory Board

Thomas Ortmanns
(Chair)

Aareon customers

Around 3,000 customers have opted for consulting, software and services from Aareon.

Germany (selection)

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

International (selection)

Finland
- Espoon Asonnut, Espoo

France
- Adoma, Paris
- Batigère, Metz
- Cus Habitat, Strasbourg
- Dyar Al Madina, Casablanca/Morocco
- Erilia, Marseille
- Foyer Rémois, Reims
- Groupe Valophis, Créteil
- Les résidences Yvelines Essonne, Versailles
- Logement Français, Paris
- Neolia, Montbéliard
- Pas de Calais Habitat, Arras
- Société Immobilière du Grand Hainaut, Valenciennes

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

The Netherlands
- de Alliantie, Hilversum
- GroenWest, Woerden
- Parteon, Wormerveer
- Stadlander, Bergen op Zoom
- Stichting Intermaris, Hoorn
- Trudo, Eindhoven
- Woningstichting Den Helder, Den Helder
- WoonFriesland, Grou
- Woonmensen, Apeldoorn
- Woonstede, Ede

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

Sweden
- AB Gavlegårdarna, Gävle
- Akelius Lägenheter AB, Stockholm
- Bostads AB Mimer, Västerås
- D. Carnegie AB, Stockholm
- Göteborgs Stad, Gothenburg
- Malmö Stad, Malmö
- SBC, Stockholm
- Stena Fastigheter, Gothenburg
- Stockholms Stad, Stockholm
- Uppsalahem AB, Uppsala
- Willhem AB, Gothenburg

Publishing information

Published by
Aareon AG
Marketing and Communications

Press officer
Aareon AG
Marketing and Communications
Karin Veyhle
Isaac-Fulda-Allee 6
55124 Mainz, Germany
Karin.Veyhle@Aareon.com

Design
3st kommunikation GmbH, Mainz, Germany

Photography
Title: Thinkstock/Getty Images
S. 8 – 9: Angelika Stehle, Wiesbaden, Germany
S. 10 – 11: Thinkstock/Getty Images
S. 12 – 13: Klaus Helbig, Frankfurt am Main, Germany; Thinkstock/Getty Images
S. 14 – 15: Thinkstock/Getty Images
S. 16 – 17: Thinkstock/Getty Images
S. 21: Angelika Stehle, Wiesbaden, Germany
S. 22 January: Angelika Stehle, Wiesbaden, Germany
S. 22 March: Thinkstock, David Fairfield
S. 22 April: Aareon AG, Mainz, Germany
S. 23 May: Aareon AG, Mainz, Germany
S. 23 June: Christian Klant, Berlin; Aareon AG, Mainz, Germany; berufundfamilie, Thomas Ruddies/Christoph Petras
S. 24 July: Tina Merkau, Berlin, Germany
S. 24 September: Aareon AG, Mainz, Germany
S. 24 October: Aareon Sverige AB, Sweden
S. 25 November: Christian Klant, Berlin, Germany
S. 25 December: Aareon AG, Mainz, Germany

Das familienfreundlichste Unternehmen Deutschlands 2012 Sieger Kategorie mittlere Unternehmen

In 2012, the German Federal Ministry of Family Affairs recognised Aareon as the most family-friendly company in Germany in the “Medium-sized Companies” category of the Success Factor Family 2012 competition.

Zertifikat seit 2008 audit berufundfamilie

In 2008, Aareon AG was certified by berufundfamilie gGmbH for its family-friendly personnel policy. The company was recertified in 2011, 2014 and 2017.

Subsidiaries

Aareon Deutschland GmbH
Isaac-Fulda-Allee 6
55124 Mainz
Germany
Phone: +49 6131 301-0

Aareon Immobilien Projekt GmbH
Rheinlanddamm 199
44139 Dortmund
Germany
Phone: +49 231 7751-0

BauSecura
Versicherungsmakler GmbH
Valentinskamp 20
20354 Hamburg
Germany
Phone: +49 40 35914-393

mse Augsburg GmbH
Kurzes Geländ 12
86156 Augsburg
Germany
Phone: +49 821 71004-0

mse Immobiliensoftware GmbH
Jarrestraße 2
22303 Hamburg
Germany
Phone: +49 40 534351-50

phi-Consulting GmbH
Lise-Meitner-Allee 2
44801 Bochum
Germany
Phone: +49 234 43897-0

German operations

Berlin
Spreepalais
Anna-Louisa-Karsch-Straße 2
10178 Berlin
Phone: +49 30 88099-701

Dortmund
Rheinlanddamm 199
44139 Dortmund
Phone: +49 231 7751-0

Hamburg
Tangstedter Landstraße 83
22415 Hamburg
Phone: +49 40 27833-0

Hückelhoven
Gut Gansbroich 1–2
41836 Hückelhoven
Phone: +49 2433 951809-0

Leipzig
Neumarkt 2–4
04109 Leipzig
Phone: +49 341 9985-300

München
Kaflerstraße 2
(Pasinger Hofgärten)
81241 München-Pasing
Phone: +49 89 211219-0

Stuttgart
Büchsenstraße 26
70174 Stuttgart
Phone: +49 711 222909-0

International operations

France
Aareon France SAS
9 rue Jeanne Braconnier
92360 Meudon-la-Forêt
Phone: +33 145 379230

United Kingdom
Aareon UK Ltd.
Building 500, Abbey Park
Stareton
CV8 2LY Coventry
Phone: +44 2476 323723

1st Touch Ltd.
Aareon UK Ltd.
5 Benham Road
Southampton Science Park
SO16 7QJ Chilworth Southampton
Phone: +44 871 7163060

Netherlands
Aareon Nederland B.V.
Cornelis Houtmanstraat 36
7825 VG Emmen
Phone: +31 591 630-111

Kalshoven Automation B.V.
Kabelweg 37
1014 BA Amsterdam
Phone: +31 20 6068606

Square DMS B.V.
Brugstraat 15
6096 AA Grathem
Phone: +31 475 473-500

Austria
mse Augsburg GmbH
Austrian office IZ NÖ Süd
Straße 2, Objekt M6+7
2355 Wiener Neudorf
Phone: +43 (1)877-9577

Sweden / Norway
Aareon Sverige AB
Flöjelbergsgatan 10
43137 Mölndal
Phone: +46 31 725 43 00

Aareon Norge AS
Karl Johans Gate 5
0154 Oslo
Phone: +47 915 41299

Group head office

Aareon AG • Isaac-Fulda-Allee 6 • 55124 Mainz • Germany
Phone: +49 6131 301-0 • www.aareon.com

An Aareal Bank Group company

Aareal Bank AG • Paulinenstraße 15 • 65189 Wiesbaden • Germany
Phone: +49 611 348-0 • www.aareal-bank.com