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

€ '000	Historical cost						
	1 Jan. 2017	Currency translation differences	Changes in scope of consolidation	Additions	Disposals	Reclassifications	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