

Group management report

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Group business fundamentals

Group business model

Aareon – the leading European provider of consulting services and systems for the property industry – offers its customers secure, ground-breaking solutions in the areas of consulting, software and services, enabling them to optimise their IT-based business processes 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 Portallmmo 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 market¹. 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 a 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,

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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.

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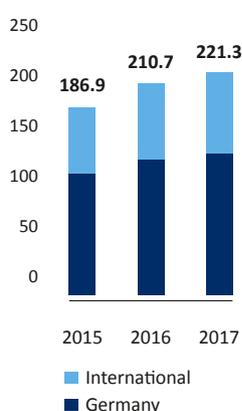
Earnings

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.

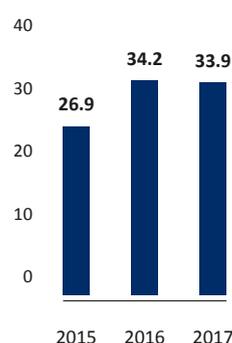
Internally generated assets declined to € 4.5 million (previous year: € 5.7 million). In both 2017 and the prior year, the Company invested to expand its digital solutions portfolio and refine its ERP products. The prior year had been strongly marked by

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

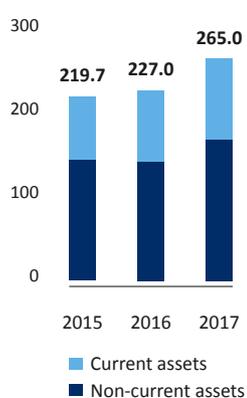


The Germany segment exceeded our forecast for 2017 by a substantial margin, with revenues rising by 5.1% to € 141.0 million (previous year: € 134.2 million). ERP product revenues surged – in particular due to acquisition of the mse companies and the higher number of migration projects. Overall, the focus 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

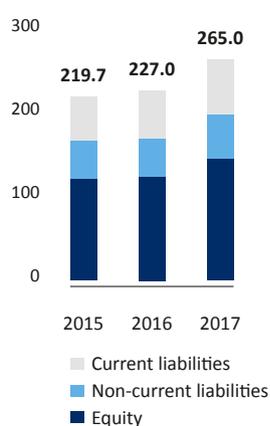
to € 26.7 million, up a substantial 23.6% on the prior year (€ 21.6 million).

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

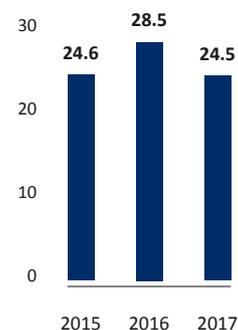
Assets in € million (asset structure)



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.

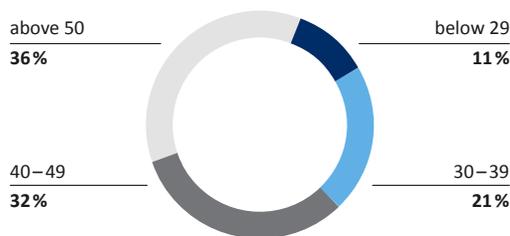
For over ten years now, Aareon has been carrying out anonymised Group-wide employee surveys. They are a tool for measuring the mood among employees and provide insights into how specific improvement measures can be put into practice. The Group-wide response rate of 69% for the employee survey shows that 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 sub-projects 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 inter-

est 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.