Consolidated financial statements

Consolidated statement of comprehensive income

for the period 1 January to 31 December 2019

€ '000	Note	2019	2018
Revenues	04.1	**251,877**	236,613
Germany		**159,183**	148,893
International Business		**92,694**	87,720
Other own work capitalised	05.1	**6,645**	7,758
Other operating income	04.2	**4,392**	5,351
Cost of materials	04.3	**43,798**	40,078
Staff costs	04.4	**128,575**	122,019
Depreciation/amortisation		**22,324**	12,809
Other operating expenses	04.5	**28,806**	38,048
Other taxes		**600**	827
EBIT (earnings before interest and taxes)		**38,811**	**35,941**
Net financial income/expense	04.6	**-1,424**	-296
Net income from equity-accounted investments	05.3	**-217**	0
EBT (Earnings before taxes)		**37,170**	**35,645**
Income taxes	04.7	**11,270**	9,927
Consolidated net profit		**25,900**	**25,718**
Of which attributable to:			
Shareholders of the parent company		**23,971**	24,064
Non-controlling interests		**1,929**	1,654
Other comprehensive income (OCI)		**-1,836**	**-590**
Items not recycled to profit and loss		**-1,836**	**-590**
Actuarial losses from defined benefit plans		**-2,675**	-948
Income tax on actuarial losses from defined benefit plans		**839**	358
Comprehensive income		**24,064**	**25,128**
Of which attributable to:			
Shareholders of the parent company		**22,135**	23,474
Non-controlling interests		**1,929**	1,654

Consolidated balance sheet

as at 31 December 2019

Assets – € ’000

	Note	31 Dec. 2019	31 Dec. 2018
Non-current assets			
Intangible assets	05.1	**143,176**	142,153
Property, plant and equipment		**15,102**	15,060
Right-of-use assets	05.2	**56,139**	-
Financial assets	05.3	**10,718**	7,188
Other non-current assets	05.2	**2,438**	-
Deferred tax assets	05.5	**8,514**	6,457
		236,087	170,858
Current assets			
Inventories		**420**	262
Contract assets and receivables from customers	05.6	**58,025**	57,134
Other current assets	05.7	**6,351**	4,927
Current income tax receivables		**1,420**	162
Securities	05.8	**0**	344
Cash and cash equivalents	05.9	**51,918**	40,552
		118,134	103,381
		354,221	274,239

Equity and liabilities – € ’000

	Note	31 Dec. 2019	31 Dec. 2018
Equity			
Equity attributable to shareholders	05.10/05.11/05.12	**184,934**	165,726
Non-controlling interests	05.13	**2,125**	1,887
		187,059	167,613
Non-current liabilities			
Provisions for pensions and similar obligations	05.14	**35,898**	33,944
Other non-current provisions	05.15	**1,412**	1,411
Non-current lease liabilities	05.2	**56,120**	-
Deferred tax liabilities	05.5	**9,592**	10,276
		103,022	45,631
Current liabilities			
Other current provisions	05.15	**13,388**	13,192
Current income tax liabilities		**1,784**	3,405
Current purchase price liabilities	05.16	**1,961**	5,079
Trade payables	05.17	**8,931**	8,856
Contract liabilities	05.18	**14,721**	14,077
Current lease liabilities	05.2	**7,482**	-
Other liabilities	05.19	**15,873**	16,386
		64,140	60,995
		354,221	274,239

Consolidated statement of changes in equity

for the period 1 January 2018 to 31 December 2019

€ '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 2018	**25,000**	**41,900**	**-4,512**	**81,072**	**143,460**	**84**	**1,752**	**145,296**
Dividend	0	0	0	0	0	0	-1,603	-1,603
Consolidated net profit	0	0	0	24,064	24,064	0	1,654	25,718
Other comprehensive income (OCI)	0	0	0	-590	-590	0	0	-590
Changes in scope of consolidation	0	0	0	0	0	0	0	0
Other changes	0	0	-861	-347	-1,208	0	0	-1,208
31 December 2018	**25,000**	**41,900**	**-5,373**	**104,199**	**165,726**	**84**	**1,803**	**167,613**
1 January 2019	**25,000**	**41,900**	**-5,373**	**104,199**	**165,726**	**84**	**1,803**	**167,613**
Dividend	0	0	0	0	0	0	-1,691	-1,691
Consolidated net profit	0	0	0	23,971	23,971	0	1,929	25,900
Other comprehensive income (OCI)	0	0	0	-1,836	-1,836	0	0	-1,836
First-time application of IFRS 16	0	0	0	-3,296	-3,296	0	0	-3,296
Other changes	0	0	369	0	369	0	0	369
31 December 2019	**25,000**	**41,900**	**-5,004**	**123,038**	**184,934**	**84**	**2,041**	**187,059**

Consolidated statement of cash flows

for fiscal 2019

€ '000	2019	2018
EBIT (earnings before interest and taxes)	**38,811**	**35,941**
Write-up from the measurement of financial assets	**22,324**	12,809
Income taxes paid and income tax refunds received	**-14,531**	-13,295
Interest received	**45**	41
Interest paid	**-126**	-145
Increase (-)/decrease (+) from changes in assets	**-2,077**	-267
Increase (+)/decrease (-) from changes in liabilities	**-682**	-5,618
Cash flow from operating activities	**43,764**	**29,466**
Net payments for investments in non-current assets	**-18,867**	-15,370
Payments for the purchase of consolidated companies and other business units (less cash in hand acquired)	**-2,864**	-2,360
Exchange-rate-related changes in non-current assets	**-269**	1,044
Cash flow from investing activities	**-22,000**	**-16,686**
Payments made/received for working capital loan	**0**	-1,112
Payments from lease receivables	**472**	0
Repayment and interest components of lease payments	**-9,548**	0
Payments to non-controlling interests	**-1,691**	-1,603
Other changes in capital	**369**	-1,798
Cash flow from financing activities	**-10,398**	**-4,513**
Cash change in cash and cash equivalents	**11,268**	8,320
Exchange-rate-related changes in cash and cash equivalents	**98**	-53
Total change in cash and cash equivalents	**11,366**	**8,267**
Cash funds at the beginning of the period	**40,552**	32,285
Cash funds at the end of the period	**51,918**	**40,552**

Notes to the consolidated financial statements

01 General disclosures

The consolidated financial statements of Aareon AG, Isaac-Fulda-Allee 6, 55124 Mainz, Germany, for 2019 were prepared 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 2019 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).

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 discretion exercised by management differs in each case. 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, the measurement of intangible assets and the fair value of certain financial instruments, and the assessment of lease extension and termination options and of tax assets and liabilities. Discretionary decisions, and the estimation uncertainties associated with them, also arise in connection with the recognition of revenues (apportionment of transaction prices, application of input methods).

02.2 Consolidation principles

In accordance with IFRSs, 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 consolidated subsidiaries' historical cost, calculated in accordance with the purchase method, is offset against their proportionate equity, measured at fair value, on their respective dates of acquisition. 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. Non-controlling interests are affected by any consolidation measures recognised in profit and loss and assigned a portion of the net income.

Associates are included in Aareon's consolidated financial statements in accordance with the equity method.

02.3 Currency translation

The international companies belonging to the Aareon Group are independent sub-units, 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 on the reporting date. Both the average and reporting-date rates are calculated using the European Central Bank's reference rate. 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	
		2019	2018	2019	2018
United Kingdom	GBP	**0.8508**	0.8945	**0.8778**	0.8847
Sweden	SEK	**10.4468**	10.2548	**10.5891**	10.2583
Norway	NOK	**9.8638**	9.9483	**9.8511**	9.5975

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, or which it has gained control over in some other way (see Section 5.4).

Three companies were merged and two founded in the reporting year. In order to streamline Aareon's corporate structures in the UK, Aareon UK Ltd. was sold in 2018 by Aareon AG to its sister company 1st Touch Ltd. 1st Touch's operating activities were transferred in full to Aareon UK. As part of an international upstream merger, 1st Touch was merged into its parent company, Aareon AG, leaving Aareon UK Ltd. as the Group's sole company in the UK. In addition, Facilitor B.V and Square DMS B.V. were merged into their parent company, Aareon Nederland B.V., with retroactive effect from 1 January 2019; the merger was registered with the Netherlands Chamber of Commerce on 5 January 2019. OFI Group GmbH, Frankfurt – in which Aareon Deutschland GmbH initially held a stake of 19.96 % – was established on 1 February 2019. Under a contract dated 3 July 2019, the company's capital was increased, causing that stake to rise to 35.84 %. As part of its Venture Programme, Aareon is part-owner of OFI Group, together with the start-up's founders, and accounts for this company using the equity method.

Further, Aareon Planungs- und Bestandsentwicklungs GmbH, Mainz – a wholly owned subsidiary of Aareon AG – was established on 30 October 2019 (date of entry in the commercial register). The company is the result of the acquisition on 1 January 2020 of the business operations of CalCon Holding GmbH, Munich, and its subsidiaries by way of an asset deal. The subsidiaries in Germany and Austria are being acquired in full, while the stake acquired in the Romanian subsidiary amounts to 83.3 %. The purchase price comprises a fixed amount of € 20,000 k, which was paid in cash in February 2020, and a contingent purchase price. The contingent purchase price depends on a comparison of planned and actual EBIT in both 2020 and 2021. The fair value of the contingent purchase price amounted to € 3,799 k as at the acquisition date and was based on an assumed target achievement value of 100 %. The maximum contingent purchase price is € 6,000 k. In addition, an estimated payment of € 827 k was agreed for the company's net cash. The provisional pro rata fair value of the assets and liabilities is € 11,433 k. The following amounts were recognised as provisional acquired assets and liabilities:

Acquisition of CalCon Holding GmbH and its subsidiaries, in € k	**Carrying amount prior to acquisition**	**Fair value on initial consolidation**
Purchased software and other assets	1	6,367
Customer relations	0	6,018
Brands	0	1,158
Right-of-use assets	3,937	3,937
Receivables	1,479	1,479
Other assets	589	589
Cash and cash equivalents	406	406
Trade payables	36	36
Lease liabilities	3,937	3,937
Other liabilities	953	953
Deferred tax liabilities	0	3,595
Net assets acquired	**1,486**	**11,433**

The acquisition resulted in goodwill in the amount of € 13,194 k. The goodwill includes market and synergy potential, and complements the Aareon Smart World product portfolio. CalCon's solutions make it possible to obtain an efficient, cost-effective and objective assessment of an existing property's technical condition and energy efficiency characteristics, and to draw up a detailed maintenance plan and budget. The acquisition allows Aareon to leverage further business potential, in both the public sector and the commercial-property markets in Germany and Austria. It also supports Aareon's growth strategy. No goodwill exists that could be expected to qualify as a tax deduction.

02.5 Changes in accounting policies

IFRS 16, Leases, was applied by Aareon for the first time on 1 January 2019. The new standard replaces 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 is of low value (under € 4,000). 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. In order to calculate their present value, the lease payments are discounted at the rate determined on the basis of the marginal borrowing rate for the corresponding maturity band in the corresponding currency. The terms of the leases are determined based on the underlying non-cancellable term, taking into account the lessee's extension and termination options, provided it is sufficiently certain they will be exercised. For lessors, the accounting approach is essentially unchanged versus IAS 17, with leases continuing to be classified as either operating or finance. 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. Subsequent recognition of leases is at amortised cost. The right-of-use assets are amortised on a straight-line basis for the duration of each lease. Aareon does not apply the provisions of IFRS 16 in cases where it is the lessee of intangible assets. Where contracts contain both non-lease and lease components, Aareon elects, in line with the practical expedient granted under IFRS 16.15, not to separate these components.

The standard was initially applied in accordance with the modified retrospective method, i.e. the effect of initial application was recognised directly in equity under retained earnings. On initial application on 1 January 2019, Aareon recognised € 58.7 million in right-of-use assets and € 66.3 million in corresponding lease liabilities These figures resulted mainly from the recognition of right-of-use assets from long-term leases of office buildings and from the vehicle fleet for employees. As another consequence of the application of IFRS 16, a sublease was qualified as a finance lease, with Aareon acting as the lessor. As at 1 January 2019, € 2.9 million was recognised as the present value of the lease liability. Deferred taxes in the amount € 1.5 million were recognised on initial application, so that € 3.3 million was posted to retained earnings. The statement of comprehensive income for 2019 included transfers from the items other operating income (decrease of € 0.5 million) and other operating expenses (decrease of € 9.5 million) to the items depreciation and amortisation (increase of € 8.0 million) and interest expense (increase of € 1.2 million). The prior-year figures were adjusted in neither the consolidated balance sheet nor in the statement of comprehensive income.

The right-of-use assets were tested for impairment. This method used is fundamentally the same as that applied when testing goodwill for impairment (Note 3.1). No impairment was required here either in the reporting period.

The operating lease liabilities as at 31 December 2018 were reconciled with the lease liabilities in the opening balance sheet as at 1 January 2019 as follows:

€ '000	
Reconciliation	
Off-balance-sheet operating lease obligations as at 31 Dec. 2018	**43,260**
Adjustment due to differing treatment of extension options	37,719
Effects of discounting	-14,686
Miscellaneous	37
Lease liabilities as at 1 Jan. 2019	**66,330**

The weighted average marginal borrowing rate used by Aareon on 1 January 2019 for initial discounting of the lease liabilities was 2.0 %.

The other amendments made to the IFRSs had no effect on Aareon's accounting practices. These amendments include:

- Amendments to IFRS 9 – early repayment rules with negative compensation amounts and application of the IBOR reference interest rate for hedge accounting
- Amendments to IAS 28, Non-current Investments in Associates and Joint Ventures
- Annual Improvements to IFRSs (2015–2017 cycle)
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement
- IFRIC 23, Uncertainty over Income Tax Treatments

Aareon also opted for early adoption of the amended definition of materiality in line with IAS 1 and IAS 8; this did not have any effect on the company's financial statements. Initial application is mandatory for accounting periods beginning on or after 1 January 2020.

A number of new accounting standards and interpretations were also published. However, these are not mandatory for reporting periods beginning on or after 31 December 2019 and were not adopted early by Aareon. The effects of these new rules on the current and future reporting periods as well as on foreseeable future transactions are not deemed to be material.

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 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. As a rule, cash flows after the four-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 6.67 % after tax. The discount rate is calculated as the sum of a risk-free base interest rate of 0.07 % plus a company-specific risk loading of 7.50 % multiplied by a beta factor of 0.88. In view of the uncertain nature of planning beyond three years, we take a cautious view of the market environment and assume a growth rate of 2 %, which corresponds to the expected inflation rate. The recoverable amounts exceed the carrying amounts. If there is a significant change in one of the main assumptions described above – such as an increase of 1 % in the risk-adjusted discount rate, a reduction of 5 % in the EBIT included in cash flow or a drop in the growth rate to 1 % – no individual impairment is recognised. There was no need to recognise any impairment losses 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	3 – 10 years
Acquired intangible assets	3 – 10 years
Customer relations	5 – 25 years
Brands	20 – 25 years

Research costs are treated as current expense in accordance with IAS 38. Development costs for internally generated software are recognised as assets if the prerequisites for recognition 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

An impairment loss 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

As described in Note 2.5, as at 1 January 2019 Aareon amended the way in which it accounts for leases in which it is the lessee in accordance with IFRS 16. Until 31 December 2018, the company applied the rules of IAS 17 and IFRIC 4. 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 recognised as a liability.

03.4 Financial assets and financial liabilities

Under IFRS 9, the classification of financial assets and liabilities depends on the respective business model. The following business models are possible with debt instruments (e.g. receivables or fixed-income securities):

- Held-to-collect
- Held-to-collect and for sale
- Other business models (those that cannot be assigned to either of the above models)

With equity instruments, IFRS 9 distinguishes between business models in which the instrument is held with or without the intention to trade.

It also makes a distinction between whether the financial assets are subject to contractual cash flows or whether the cash flows are solely payments of principal and interest (SPPI) for the asset.

Aareon classifies trade receivables, contract assets, other financial assets as well as financial liabilities as held-to-collect. They are thus recognised at amortised cost. Aareon does not exercise its option to recognise them at fair value. With equity instruments, Aareon decides on a case-by-case basis whether to exercise its option to recognise an instrument through other comprehensive income. Otherwise the instruments are measured at fair value through profit or loss. Derivatives are also recognised at fair value through profit or loss.

Adequate loss allowances are recognised for trade receivables, as fixed percentages and by means of an individual approach that takes account of the customer situation and 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.

Contract assets in connection with service contracts not yet satisfied as of the reporting date are recognised based on their percentage of completion (input 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.

We refer to the risk report, which forms part of the management report, for information regarding the Group-wide system in place at Aareon 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.

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 deferred amounts recognised reflect 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 recognised when the performance obligation is satisfied or when the customer obtains control of the goods or services.

Aareon generates its revenues mainly through

— Licensing agreements
— Consulting and training projects
— Maintenance contracts
— SaaS/ASP and hosting fees

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 (e.g. through provision of the licence key), the licence fee has been determined and payment is probable. This means the customer has obtained control of the right to use the product. Payment is generally made after conclusion of the licence agreement or after successful implementation of the software; the deadline for payment can be up to 45 days.

Maintenance, SaaS/ASP and hosting services are realised pro rata over the contractual performance period. This type of revenue from contracts with customers is not recognised until the product goes live. The majority of customers pay their maintenance and hosting fees in advance for a certain period (at most one year) and have differing deadlines for payment (up to 45 days). That portion of the advance payment covering the performance obligation not yet satisfied is recognised as a contract liability and reversed in profit or loss in proportion to future performance. The customer derives benefit from the service and, at the same time, makes use of the service as it is being provided.

Consulting and training services are recognised through profit or loss when the service has been performed. The Group also provides implementation services as part of its project work. In these cases, assets are created or improved over which the customer obtains control. Revenue and contract assets are recognised in accordance with the percentage of completion, which is generally based on an input method. A project's percentage of completion is calculated based on a comparison of the order costs already incurred with the total order costs expected. Application of an input method would incur excessively high costs. Customers make advance payments for services Aareon provides over a long period. These are netted under the corresponding contract assets or recognized under contract liabilities to the extent that the advance payment received exceeds the contract asset. Provisions are recognised for impending losses from this type of service in the period in which the losses were caused.

Operating expenses are recognised through profit or 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.

In addition to country-specific ERP business for the property and energy supply industries, Aareon offers digital solutions – some of them internationally. These solutions include Mareon, Aareon Archiv kompakt, mobile services, Aareon CRM (tenants portal), Aareon Immoblue Pro, ShareWorX®, Facilitor and Trace & Treasury. Aareon also has other products and services in its portfolio, such as the BauSecura insurance management solution, IT outsourcing and Integrated Payment Transactions.

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

04.1 Revenues

Revenues by business segment in € '000

	2019	2018
DACH	**159,183**	148,893
International Business	**92,694**	87,720
Total	**251,877**	**236,613**

Revenues by product group in € '000

	2019	2018
ERP products	**200,948**	194,204
Digital solutions and services	**50,929**	42,409
Total	**251,877**	**236,613**

Revenues by category in € '000

	2019	2018
Licensing revenues	**21,853**	25,663
Consulting revenues	**68,222**	60,746
Recurring revenues	**161,802**	150,205
Total	**251,877**	**236,613**

Revenues were higher year on year in both the **DACH** and **International Business** segments, up € 10,290 k and € 4,974 k respectively. The International Business segment accounted for 36.8 % of consolidated revenues (previous year: 37.1 %).

All revenue was from contracts with customers and reflects that portion of the total transaction price for which the performance obligation has been satisfied. In the reporting period, revenues in the amount of € 766 k were recognised for performance obligations from earlier periods.

04.2 Other operating income

Other operating income in € '000

	2019	2018
Non-cash income	**1,708**	1,518
Income from trade fairs and congresses	**957**	993
Income from affiliated companies outside the Aareon Group	**476**	879
Research grants	**371**	0
Measurement of purchase price liabilities	**289**	832
Income from the reversal or reduction of individual impairment losses	**73**	590
Other income	**518**	539
Total	**4,392**	**5,351**

The growth in income from the adjustment of purchase price liabilities is explained in Note 5.16.

04.3 Cost of materials

Cost of materials in € '000

	2019	2018
Software and hardware costs	**4,048**	5,040
Cost of services purchased	**39,750**	35,038
Total	**43,798**	**40,078**

In 2019, the cost of materials was € 3,720 k higher than in the previous year.

04.4 Staff costs/employees

Staff costs in € '000

	2019	2018
Salaries	**105,327**	99,598
Social security costs	**23,248**	22,421
of which: for post-employment benefits	**4,269**	4,946
Total	**128,575**	**122,019**

Staff costs increased by € 6,556 k year on year, mainly due to increased recruitment and higher provisions for variable compensation and overtime/vacation.

As at 31 December 2019, the number of employees of Aareon – excluding temporary staff, trainees and interns – was as follows:

Employees (excluding temporary staff, trainees and interns) – at year end

	2019	2018
Employees	**1,484**	1,453
Executive managers	**87**	74
Total	**1,571**	**1,527**
of which: part-time employees	**330**	346

Employees (excluding temporary staff, trainees and interns) – annual average

	2019	2018
Employees	**1,460**	1,445
Executive managers	**83**	76
Total	**1,543**	**1,521**
of which: part-time employees	**338**	345

Employees (excluding temporary staff, trainees and interns) – annual average by business segment

	2019	2018
DACH	**869**	854
International	**674**	667
Total	**1,543**	**1,521**

04.5 Other operating expenses

Other operating expenses in € ’000

	2019	2018
Travel expenses	**5,144**	5,011
Legal and consultation expenses / auditing costs	**4,662**	4,516
Advertising/marketing/entertainment	**3,816**	3,742
Occupancy expenses	**2,944**	9,279
Other staff costs and temporary staff	**2,575**	2,578
Motor vehicle expenses	**2,364**	5,109
Software maintenance	**1,986**	1,972
Further training	**890**	815
Communication costs	**867**	942
Impairments of receivables	**768**	172
Technology costs	**583**	726
Insurance costs	**492**	480
Fees and contributions	**363**	321
Compensation for Supervisory Board and Advisory Board	**325**	334
Office material	**284**	203
Measurement of purchase price liabilities	**93**	144
Payment in connection with a major project	**0**	990
Miscellaneous other operating expenses	**650**	714
Total	**28,806**	**38,048**

Other operating expenses fell by € 9,242 k year on year, chiefly due to initial application of IFRS 16, which resulted in lower reported amounts for rental expenses, especially for real estate and motor vehicles. In Norway, a major project had been cancelled prematurely in the prior year against a payment of € 990 k and the waiver of all outstanding receivables. The total non-recurring effect (including legal expenses) came to € 1,630 k in the prior year. All impairment losses stem from contracts with customers.

04.6 Net financial income/expense

Net financial income/expense in € ’000

	2019	2018
Other interest and similar income	**35**	30
of which: with affiliated companies	**-86**	0
Interest and similar expenses	**1,459**	-326
of which: with affiliated companies	**60**	-68
Total	**-1,424**	**-296**

Compared with the previous year, interest expense was considerably higher due to the application of IFRS 16. Interest and similar expenses included interest cost of € 1,292 k for lease liabilities. Other interest and similar income contains negative interest on balances held with Aareal Bank.

04.7 Income taxes

Income taxes in € ’000

	2019	2018
German income taxes	**7,926**	9,078
Foreign income taxes	**3,749**	3,440
Actual tax expense	**11,675**	**12,518**
Deferred tax expense/income	**-405**	-2,590
Total	**11,270**	**9,927**

The decline in deferred taxes was primarily due to the change in deferred taxes on loss carryforwards and to the even stronger decrease in deferred taxes on work in progress in the prior year.

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 2019 (previous year: 31.7 %) was multiplied by earnings before taxes.

Reconciliation of tax expenses in € ’000

	2019	2018
Earnings before income taxes	**37,170**	**35,645**
Trade tax	**5,575**	5,347
Corporation tax	**5,901**	5,658
Solidarity surcharge	**307**	294
Expected tax expense	**11,783**	**11,299**
Reconciliation:		
Non-deductible expenses	**563**	582
Tax-free income	**-995**	**-1,215**
Taxes for prior years	**-170**	-121
Differences in tax rates of international subsidiaries	**-99**	-515
Other differences	**188**	-103
Tax expense reported	**11,270**	**9,927**

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. 2018	Disposals	Exchange-rate effects	31 Dec. 2019
DACH	35,182	-57	0	**35,125**
International Business	49,664	0	44	**49,708**
Total	**84,846**	**-57**	**44**	**84,833**

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 per-diem rate. The capitalised carrying amounts are as follows:

Carrying amounts in € ’000

	31 Dec. 2019	31 Dec. 2018
ERP solutions	**21,115**	**17,794**
DACH	**4,694**	3,563
International Business	**16,420**	14,231
Digital solutions	**9,279**	**8,129**
Aareon CRM	**3,667**	3,071
Aareon Smart Platform/Partner	**1,662**	1,700
Aareon BRM	**889**	585
Aareon SRM	**705**	752
Aareon Vacancy Management	**588**	662
Trace & Treasury	**904**	556
Miscellaneous	**864**	803
Total	**30,394**	**25,924**

Internally generated software in the amount of € 18,053 k was completed in the reporting period, while internally generated software worth € 12,341 k was still under development. Research and development costs for the update and maintenance of existing functions, and to create new functions and products totalled € 37,971 k in the year under review. Internally generated assets amounted to € 6,645 k. Externally sourced services in the amount of € 2,476 k were also capitalised.

Consolidated statement of changes in fixed assets 2019

as at 31 December 2019

	Historical cost						
€ '000	**1 Jan. 2019**	**Currency translation differences**	**First-time application of IFRS 16**	**Additions**	**Disposals**	**Reclassi-fications**	**31 Dec. 2019**
I. Intangible assets							
1. Goodwill	118,472	45	0	-58	0	0	**118,459**
2. Acquired intangible assets	50,208	364	0	1,658	336	0	**51,894**
3. Internally generated intangible assets	55,530	281	0	9,121	849	0	**64,083**
4. Customer relations	21,570	-72	0	0	0	0	**21,498**
5. Brands	2,718	-16	0	0	0	0	**2,702**
6. Prepayments made	0	0	0	0	0	0	**0**
	248,498	**602**	**0**	**10,721**	**1,185**	**0**	**258,636**
II. Property, plant and equipment							
1. Land, leasehold rights and buildings	9,176	1	0	226	738	28	**8,693**
2. Plant and machinery	8,175	0	0	5	139	0	**8,041**
3. Other equipment, and office furniture/equipment	13,194	38	0	4,349	923	0	**16,658**
4. Prepayments made	40	0	0	20	0	-28	**32**
	30,585	**39**	**0**	**4,600**	**1,800**	**0**	**33,424**
III. Right-of-use assets							
1. Rights of use to land, leasehold rights and buildings	0	136	54,349	2,399	827	0	**56,057**
2. Rights of use to other equipment, and office furniture/equipment	0	6	4,315	3,847	74	0	**8,094**
	0	**142**	**58,664**	**6,246**	**901**	**0**	**64,151**
IV. Financial assets							
1. Investments in associates	0	0	0	993	217	0	**776**
2. Other shares in associates	1,743	0	0	1,823	0	0	**3,566**
3. Other loans	5,937	0	0	965	34	0	**6,868**
	7,680	0	0	3,781	251	0	**11,210**
	286,763	**783**	**58,664**	**25,348**	**4,137**	**0**	**367,421**

	Accumulated depreciation and amortisation						Carrying amounts	
	1 Jan. 2020	Currency translation differences	Additions	Disposals	Reclassi-fications	31 Dec. 2019	31 Dec. 2019	31 Dec. 2018
	33,626	0	0	0	0	**33,626**	**84,833**	84,846
	39,304	301	3,785	335	0	**43,055**	**8,839**	10,904
	29,606	61	4,830	808	0	**33,689**	**30,394**	25,924
	3,426	-17	1,182	0	0	**4,591**	**16,907**	18,144
	383	-4	120	0	0	**499**	**2,203**	2,335
	0	0	0	0	0	**0**	**0**	0
	106,345	**341**	**9,917**	**1,143**	**0**	**115,460**	**143,176**	**142,153**
	4,171	-3	462	737	0	**3,893**	**4,800**	5,005
	7,260	0	240	139	0	**7,361**	**680**	915
	4,094	34	3,705	765	0	**7,068**	**9,590**	9,100
	0	0	0	0	0	**0**	**32**	40
	15,525	**31**	**4,407**	**1,641**	**0**	**18,322**	**15,102**	**15,060**
	0	0	4,983	22	**0**	**4,961**	**51,096**	0
	0	0	3,069	18	**0**	**3,051**	**5,043**	0
	0	**0**	**8,052**	**40**	**0**	**8,012**	**56,139**	**0**
	0	0	0	0	0	**0**	**776**	0
	11	0	0	0	0	**11**	**3,555**	1,732
	481	0	0	0	0	**481**	**6,387**	5,456
	492	0	**0**	**0**	**0**	**492**	**10,718**	**7,188**
	122,362	**372**	**22,376**	**2,824**	**0**	**142,286**	**225,135**	**164,401**

05.2 Property, plant and equipment, right-of-use assets, and lease liabilities

Aareon leases, in particular, real estate, and operating and office equipment. Some of these leases are long term and have sufficiently certain extension options of up to ten years. No material residual-value guarantees were given for these leases.

Right-of-use assets by asset class in € ’000

	2019	2018
Carrying amounts		
Real estate (rental of office space, parking spots)	**51,095**	0
Operating and business equipment (vehicle fleet, servers, etc.)	**5,043**	0
Depreciation		
Real estate (rental of office space, parking spots)	**4,983**	0
Operating and business equipment (vehicle fleet, servers, etc.)	**3,069**	0

Interest expense from lease liabilities came to € 1,292 k. Total cash outflows for leases in the period under review amounted to € 9,534 k as at the reporting date.

Leases recognized in profit or loss in € ’000

	2019	2018
Carrying amounts		
Current leases	**462**	0
Low-value leases	**138**	0
Variable leases	**0**	0

Leases that can be assigned to more than one of the above categories are assigned to the higher category in each case.

The following table shows the maturities of the lease liabilities.

Lease liabilities in € ’000

	2020	2021–2024	After 2024
Maturities of lease liabilities	7,482	22,785	33,335
Total	**7,482**	**22,785**	**33,335**

Aareon acts as lessor when renting out real estate. The company has one material rental agreement in place, which is classified as a finance lease. In the reporting period, the financial income from the net investment in the rental agreement came to € 59 k. Variable rents on office and business equipment in the amount of € 143 k were not included in the measurement of finance leases where Aareon is the lessor. The minimum lease payments amounted to € 471 k in each of the first five years and to € 235 k for the total years remaining.

05.3 Financial assets

Financial assets comprise other loans and investments that are accounted for either at fair value or using the equity method. Some of these investments are recognised as equity instruments through other comprehensive income in accordance with IFRS 9.

Financial assets in € '000	Interest held (%) 31 Dec. 2019	31 Dec. 2019	31 Dec. 2018
Time deposits		**4,210**	3,260
Guarantee for a lawsuit		**1,100**	1,100
Rent deposits		**1,004**	990
Other		**73**	106
Other loans (recognised through profit or loss)		**6,387**	**5,456**
OFI Group GmbH	35.84	**776**	**0**
Investments in associates (equity-accounted)		**776**	0
blackprint Booster Fonds GmbH & Co. KG*	12.49	**250**	250
blackprint Booster Fonds International GmbH & Co. KG	49.88	**420**	0
Investments – debt instruments (recognised through profit or loss)		**670**	**250**
OSRE B.V.	18.70	**1,403**	**0**
Immomio GmbH	14.54	**1,295**	**1,295**
MPC Best Select Company Plan GmbH & Co. KG, Germany	<20	**187**	**187**
Investments – equity instruments (recognised through other comprehensive income)		**2,885**	**1,482**
Financial assets		**10,718**	**7,188**

*Prior-year classification amended

These deposits relate to the guarantee issued to cover existing and future obligations in connection with membership in two supplementary pension funds. They increased by € 950 k in the year under review.

Along with another investor, Aareon acquired shares in the newly created fund blackprint Booster Fonds International GmbH & Co. KG in 2019. As a result, Aareon theoretically holds a large stake of 49.88 % in the fund at the present time. As the fund has not yet been closed and further investors are being sought, the size of Aareon's stake will decrease once other investors are found. That is why the shares were recognised under investments.

The following table provides financial figures on the associate OFI Group GmbH, which was established on 1 February 2019:

OFI Group GmbH in € '000	31 Dec. 2019
Non-current assets	29
Receivables and other assets	17
Cash and cash equivalents	372
Liabilities	21
Net assets/equity	**397**
Capital contributions by Aareon	993
Aareon's share in net profit for the year	- 217
Carrying amount of investment in Aareon's consolidated financial statements (equity-accounted)	**776**
Income	20
Operating expenses	618
Net financial income/expense	- 8
Net profit/loss for the year	**- 606**
Aareon's share in net loss for the year (35.84 %)	**- 217**

05.4 Shareholdings

Name and registered office of company

	Interest held %
Aareon AG, Mainz	
Consolidated subsidiaries – DACH segment:	
Aareon Deutschland GmbH, Mainz, Germany	100
Aareon Planungs- und Bestandsentwicklungs GmbH, Mainz, Germany	100
Aareon RELion GmbH, Augsburg, Germany (formerly mse RELion GmbH)	100
Aareon RELion Nord GmbH, Hamburg, Germany (formerly mse Immobiliensoftware GmbH)	100
Aareon RELion Süd GmbH, Augsburg, Germany (formerly mse Augsburg GmbH)	100
AV Management GmbH, Mainz, Germany	100
BauSecura Versicherungsmakler GmbH, Hamburg, Germany	51
phi-Consulting GmbH, Bochum, Germany	100
Consolidated subsidiaries – International Business segment:	
Aareon Finland OY, Helsinki, Finland	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., Kenilworth, United Kingdom	100
FIRE B.V., Utrecht, Netherlands	60
Kalshoven Automation B.V., Amsterdam, Netherlands	100
Associates:	
OFI Group GmbH, Frankfurt am Main, Germany	35.84

05.5 Deferred taxes

Deferred taxes in € ’000

	31 Dec. 2019	31 Dec. 2018
Pension provisions	**5,542**	5,241
Leases (right-of-use assets less lease liabilities)	**1,538**	0
Other provisions	**944**	368
Loss carryforwards	**580**	790
Miscellaneous	**-90**	57
Total deferred income tax assets	**8,514**	**6,457**
Measurement of assets under construction	**-405**	6
Current deferred income tax liabilities	**-405**	**6**
Intangible assets	**9,918**	10,258
Miscellaneous	**79**	12
Non-current deferred income tax liabilities	**9,997**	**10,270**
Total deferred income tax liabilities	**9,592**	**10,276**

In Germany, unused tax loss carryforwards for which no deferred tax assets were recognised amounted to € 5,044 k.

05.6 Contract assets and receivables due from customers

Contract assets and receivables due from customers € ’000

	31 Dec. 2019	31 Dec. 2018
Contract assets	**25,015**	24,123
Trade receivables	**31,870**	31,064
Receivables from affiliated companies	**3,072**	3,649
Receivables from associates	**179**	0
Impairment losses on contract assets and receivables from customers	**-2,111**	-1,702
Total	**58,025**	**57,134**

The portion of project performance obligations not yet satisfied amounts to € 8,977 k, of which € 8,853 k is likely to be realised in 2020 and € 124 k in 2021 or thereafter. Aareon does not recognise the unsatisfied portion of performance obligations in connection with maintenance and SaaS contracts, as the customer's consideration corresponds to the performance delivered by Aareon.

Receivables from affiliated companies include reimbursements by Aareal Bank for Aareon's activities in the start-up scene in relation to the property industry. 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:

Impairment losses on contract assets and receivables from customers in € '000

	2019	2018
Impaired contract assets and receivables from customers	**8,235**	5,280
Impairments as of 1 January	**1,702**	**1,650**
Addition from the first-time application of IFRS 9	**0**	347
Additions	**929**	843
Reversals	**186**	713
Utilisation	**334**	425
Total as of 31 December	**2,111**	**1,702**

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. 2019	31 Dec. 2018
Other current financial assets	**1,279**	1,106
Other current non-financial assets	**5,072**	3,821
Total	**6,351**	**4,927**

Other current non-financial assets mainly comprise deferred advance payments of € 4,980 k for subsequent periods.

05.8 Securities

The securities held in the portfolio in the prior year were sold in the year under review.

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. 2019	31 Dec. 2018
Cash in hand	**15**	16
Balances held with banks	**51,903**	40,536
of which: with affiliated companies	**35,283**	25,803
Funds with maturities of up to three months	**51,918**	**40,552**

No loan liabilities existed as of 31 December 2019.

05.10 Subscribed capital

The subscribed capital of Aareon AG is fully paid up and was as follows at 31 December 2019:

Number and class of shares in € '000

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

Each share has a theoretical par value of € 1.

05.11 Share premium

The share premium was unchanged compared with the previous year.

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 the other shareholders of BauSecura Versicherungsmakler GmbH, Hamburg, and FIRE B.V., Utrecht.

05.14 Provisions for pensions and similar obligations

Pension obligation trend:

Pension obligation in € '000

	2019	2018
1. Pension provisions as of 1 January (accrued pension cost)	**33,944**	33,457
2. Net expense for the period		
a) Service cost	**350**	373
b) Interest cost	**559**	601
3. Experience-based adjustments recognised through OCI	**-536**	-345
4. Actuarial adjustments recognised through OCI	**3,179**	1,310
5. Actual utilisation	**1,598**	1,452
Pension provisions as of 31 December	**35,898**	**33,944**

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

Assumptions in %

	31 Dec. 2019	31 Dec. 2018
Interest rate	**0.93**	1.67
Expected inflation rate	**1.75**	1.75
Income trend	**2.00**	2.00
Pension trend	**1.75**	1.75
Fluctuation rate	**3.00**	3.00

Pension obligations were calculated in the reporting period using the Heubeck-Richttafeln 2018 G © biometric tables.

Changes in these assumptions would have the following consequences:

Sensitivity analysis 2019

	Sensitivity	Obligation adjusted due to sensitivities, in € '000
Interest rate (0.93 %)	1.00 %	31,337
Interest rate (0.93 %)	-1.00 %	41,629
Pension trend (1.75 %)	0.25 %	36,961
Pension trend (1.75 %)	-0.25 %	34,860
Income trend (2.00 %)	0.50 %	37,167
Income trend (2.00 %)	-0.50 %	34,708
Life expectancy (Heubeck 2018 G)	+1 year	38,376
Life expectancy (Heubeck 2018 G)	-1 year	33,430

Sensitivity analysis 2018

	Sensitivity	Obligation adjusted due to sensitivities, in € ’000
Interest rate (1.67 %)	1.00 %	29,791
Interest rate (1.67 %)	- 1.00 %	39,126
Pension trend (1.75 %)	0.25 %	34,903
Pension trend (1.75 %)	- 0.25 %	33,001
Income trend (2.00 %)	0.50 %	35,157
Income trend (2.00 %)	- 0.50 %	32,826
Life expectancy (Heubeck 2018 G)	+1 year	36,149
Life expectancy (Heubeck 2018 G)	- 1 year	31,718

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 3.7). 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 into the following plan participant categories:

Plan participants by category

	31 Dec. 2019
Active employees	269
Former employees with vested benefits	29
Pensioners	139
Total	**437**

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

Maturities of the defined benefit obligation (DBO) in € ’000

2020	1,584
2021	1,565
2022	1,568
2023	1,566
2024	1,550
2025 – 2029	7,864

Service and interest costs are recognised under staff costs. The expense recognised for defined contribution pension plans amounted to € 8,702 k. It mainly comprised 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

	Balance as at 1 Jan. 2019	Change in scope of consolidation	Additions	Reclassifications	Utilisation	Reversals	Balance as at 31 Dec. 2019
Variable salary components	10,569	0	9,604	0	8,508	148	11,517
(previous year)	(11,716)	(0)	(9,800)	(25)	(9,594)	(1,378)	(10,569)
Other provisions	4,034	0	1,364	0	1,886	249	3,283
(previous year)	(6,114)	(0)	(1,390)	(- 25)	(2,991)	(454)	(4,034)
Total	**14,603**	**0**	**10,968**	**0**	**10,374**	**397**	**14,800**
(previous year)	**(17,830)**	**(0)**	**(11,190)**	**(0)**	**(12,585)**	**(1,832)**	**(14,603)**

Development in 2019 (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 payments (SAR) amounted to € 638 k. At the end of the period under review, 12,494 shares were outstanding at an average price per share of € 33.14 (previous year: 12,138 shares; € 35.51). Of these outstanding shares, 8,282 (previous year: 8,370) were exercisable and 5,674 (previous year: 4,734) were granted. The exercise prices of the outstanding shares range between € 27.53 and € 39.10.

Other provisions are also recognised in accordance with IAS 37 for all identifiable risks and uncertain obligations in the amount of their probable occurrence. The interest cost for non-current provisions amounted to € 36 k in the reporting period.

Other provisions by maturity:

Other provisions € '000

	1 Jan. 2019	31 Dec. 2019	1 Jan. 2019	31 Dec. 2019
	< 1 year		> 1 year	
Variable salary components	10,085	10,971	484	546
(previous year)	(11,148)	(10,085)	(568)	(484)
Other provisions	3,107	2,417	927	866
(previous year)	(4,999)	(3,107)	(1,115)	(927)
Total	**13,192**	**13,388**	**1,411**	**1,412**
(previous year)	**(16,147)**	**(13,192)**	**(1,683)**	**(1,411)**

05.16 Purchase price liabilities

Purchase price liabilities in € '000

	31 Dec. 2019	31 Dec. 2018
Current purchase price liabilities		
Kalshoven Automation	**0**	1,285
Aareon-RELion companies	**1,961**	3,794
Total	**1,961**	**5,079**

Purchase price liabilities developed as follows:

Purchase price liabilities in € ’000

	1 Jan. 2019	Payment	Carrying amount	Miscella-neous	31 Dec. 2019
Current purchase price liabilities					
Kalshoven Auto-mation	**1,285**	- 1,342	57	0	**0**
Aareon-RELion companies	**3,794**	- 1,522	- 253	- 58	**1,961**
Total	**5,079**	2,864	- 196	- 58	**1,961**

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 Contract liabilities

Contract liabilities relate to deferred revenues and to projects in which the advance payments received exceed the value of the contract assets. As of 1 January 2019, contract liabilities amounted to € 14,077 k, of which € 10,077 k was recognised though profit or loss in the year under review.

05.19 Other liabilities

Other liabilities in € ’000

	31 Dec. 2019	31. Dec 2018
Current other financial liabilities		
Paid-leave liabilities	**3,152**	3,522
Miscellaneous current other financial liabilities	**4,152**	4,447
	7,304	**7,969**
Current other non-financial liabilities		
Tax liabilities	**8,070**	8,077
Miscellaneous non-current other non-financial liabilities	**499**	340
	8,569	**8,417**
Total	**15,873**	**16,386**

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 payroll 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

	2020	2021 – 2024	After 2024
Obligations from the assumption of CalCon Holding GmbH’s business operations	21,400	4,000	0
Purchase commitments	16,741	6,122	0
Future leases	137	212	0
Total	**38,278**	**10,334**	**0**

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. A large part of Aareon AG’s business relationships are with Aareal Bank.

These primarily relate to service provision and comprise the following:

— 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/Blue Eagle and GES
— Provision of data centre services and related implementation services
— Purchase of IT equipment such as mobile phones and workstations

- Compensation of expenses incurred to implement measures relating to the start-up scene and corporate ventures
- Co-financing of the Aareon Congress

In the reporting period, the business transactions with Aareal Bank and its subsidiaries (excluding those belonging to the Aareon Group) comprised revenues and other operating income in the amount of € 18,570 k as well as cost of materials and other operating expenses in the amount of € 464 k. The compensation of € 2,207 k paid by Aareal Bank for measures relating to the start-up scene and corporate ventures was netted against the costs incurred.

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 5.4, 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.

The total compensation paid to members of the Management Board amounted to € 2,351 k, and included contributions to defined contribution plans in the amount of € 95 k. The total expenses for share-based payments amounted to € 291 k. All compensation is current, except for share-based payments in the amount of € 278 k.

06.3 Auditors' fees

In the reporting period, € 439 k was recognised for auditing of the financial statements, € 3 k for tax consultancy services and € 140 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, which is included in the consolidated financial statements of Aareon AG, has, with the approval of the 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

Apart from the acquisition of CalCon, no material events occurred after the reporting date.

07 Corporate bodies

07.1 Supervisory Board

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

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

Lutz Freitag
Consultant
Hamburg

Marc Heß
Member of the Management Board
Aareal Bank AG, Wiesbaden

The compensation paid to members of the Supervisory Board in the reporting year amounted to € 12 k.

07.2 Management Board

Dr. Manfred Alflen
Chairman of the Management Board
Human Resources & Organisation; Board Office; Legal, Risk Management & Compliance; Data Protection & Data Security; Corporate Marketing & Communications; Strategy; Internal Audit

Dr. Imad Abdallah
Member of the Management Board
Digital Solutions; Ampolon Ventures; Group Enterprise Architecture; Digital Platform & Innovations Lab; Digital Product Strategy

Sabine Fischer
Member of the Management Board
Consulting and Sales; Commercial Real Estate; BauSecura

Dr. André Rasquin
Member of the Management Board
ERP Systems; Outsourcing; Group IT Services; Group Service Management

Christian M. Schmahl
Member of the Management Board
Corporate Finance; Accounting & Contract Management; Controlling; Procurement; Facility Management & Fleet Management

Mainz, 6 March 2020

The Management Board

Dr. Manfred Alflen

Dr. Imad Abdallah

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 statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2019, and 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 2019.

In our opinion, on the basis of the knowledge obtained 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 § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and

— the accompanying group management report as a whole provides an appropriate view of 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 appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to 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 in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the 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 Abs. 1 HGB and 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. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable 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 executive directors 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 cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions 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 Responsibilities 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 knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (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 could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
— Obtain an understanding of internal control 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 effectiveness of these systems.
— Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
— Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, 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. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

— Evaluate 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 a manner that the consolidated financial statements give a true and fair view 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 § 315e Abs. 1 HGB.
— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
— Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
— Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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, 9 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Christian F. Rabeling	ppa. Thomas Körner
German Public Accountant	German Public Accountant