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Group business fundamentals

Group business model

Aareon – a European provider of consulting services and systems for the property industry – offers its customers consulting, software and services, enabling them to optimise their IT-based business processes and expand their business models. Aareon sees itself as a provider of support to the property industry and its partners for the digital transformation process. The Aareon Group has a presence at 37 locations in Europe's key property markets, including 14 in Germany. The company's international subsidiaries are located in Finland, France, the Netherlands, Norway, Sweden and the UK. Aareon also has a presence in Austria through a branch office of its subsidiary Aareon RELion Süd GmbH. 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 AG is a wholly owned subsidiary of Aareal Bank AG, Wiesbaden, an 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.

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. Aareon uses these systems to secure its customer base and generate a stable long-term business volume. In many cases, Aareon's customer relationships have been in place for decades. Its ERP

systems are integrated with digital solutions, which are constantly being expanded. New and existing customers make use of these integrated digital solutions not only to connect with their stakeholders – such as their customers, employees and business partners – but also to link up to technical appliances in apartments and buildings. That makes it possible to redesign and optimise processes. By interconnecting all parties, digital solutions help to reduce costs as well as create new business models and enhance convenience and transparency in communication.

The Aareon Group reports on two business segments: DACH (formerly Germany) and International Business. The DACH segment comprises the Group's operations in Germany, Austria and Switzerland. The change from Germany to DACH was made because of the company's growth in the Austrian and Swiss markets, where business activities in the previous year were not yet material.

In both the DACH and International Business segments, 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. When Aareon's customers opt for data hosting and SaaS, their data is stored in Aareon's certified IT Service Centre in Mainz, which ensures high levels of data security and data protection. After completion of the consultation, implementation and training phases, the customer generally opts for a maintenance model that guarantees support for the deployed software on a regular basis.

In the DACH segment, Aareon markets ERP products and services for the housing industry and commercial-property sector. Products of this kind targeting the housing industry include, in particular, Wodis Sigma and SAP® solutions / Blue

Eagle. The legacy system GES will remain available to customers until 31 December 2020 and will be maintained and upgraded until that time. The affected customers were informed about the discontinuation of GES several years ago. The vast majority of them have opted to switch to state-of-the-art ERP systems like Wodis Sigma, SAP® Solutions / Blue Eagle, and RELion (based on Microsoft® Dynamics 365 Business Central®) and many have already completed system migration. In the commercial-property sector, and with customers who manage both commercial-property and residential-housing assets, Aareon has a particular presence with its RELion product. The utility sector is an important partner for property companies, and Aareon offers consulting services for ERP products in this market. On top of this, Aareon in Germany offers outsourcing services and the BauSecura insurance management solution.

Aareon Smart World connects the ERP products offered in the DACH segment to digital solutions such as Mareon (integration of tradespeople), Aareon invoicing service (integration of invoice issuers), Aareon ImmoBlue Pro (tenant acquisition solution), Mobile Services, Aareon CRM (portal and app for tenants/owners) and Aareon Archiv kompakt (digital archiving solution). What is more, customers can benefit from the solutions provided by our PropTech partners. These include, for instance, the intelligent keyless entry system KIWI (which can be integrated into Mareon), the digital rental platform Immomio, and the Simplifa solution for digital lift maintenance. Aareon offers the energy sector Aareon Vacancy Management, a cross-industry solution that digitalises the handover process for tenants and landlords, as well as further digital solutions (Mareon, Aareon Invoicing Service). Customers in both the property and energy industries can profit from this integrated portfolio.

In the International Business segment, each Aareon subsidiary offers ERP solutions that are tailored to its particular national market, supplementing them with integrated digital solutions from Aareon Smart World – some of which are identical across the entire group. In the Netherlands, Aareon Nederland markets Tobias, an ERP product based on Microsoft® Dynamics® that targets the social-housing industry, while Kalshoven Automation sells REMS, an ERP solution for the commercial-property market. The ERP products Prem'-Habitat and Portallmmo Habitat are marketed by Aareon France, while Aareon UK offers Aareon QL, another ERP product, in its local market. In Scandinavia, Aareon Sverige and its subsidiaries Aareon Norge and Aareon Finland market the ERP product Incit Xpand with an integrated BIM solution. Aareon Sverige also provides its customers with fact books – reference works containing standard information on operating and maintenance costs.

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, Aareon UK offers digital solutions like 1st Touch Mobile and 360° Field Worker as well as products of partner companies. In France, the product range also includes e-documents (digital dispatch) and Group Ware (digital exchange of files). In the Netherlands, Aareon Nederland deploys the Trace & Treasury product. Aareon Nederland also offers the Facilitor solution for facility management applications in the commercial-property sector and markets the case management solution ShareWorX® in the Netherlands and the Flemish-speaking part of Belgium. Beyond that, it provides outsourcing services to customers in its home market.

Aareon considers itself to be well positioned with its portfolio of ERP products, integrated digital solutions, and outsourcing/consulting services. Competitors in this sector include providers of proprietary industry products, SAP® partners and, increasingly, PropTech companies offering individual digital solutions. In 2018, Aareon decided to make additional strategic investments over the following years in order to further enhance the company's market penetration and promote the digital transformation (see following section).

Goals and strategies

Aareon continued to grow in 2019 in line with its strategy of profitable growth. This strategy is based on the Aareon Flight Plan, which is evolved annually to meet the latest requirements. Aareon's goal is to be 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.

Key strategic areas of the Aareon Flight Plan in 2019 were:

- Adding even more value for customers
- Growing digital solutions
- Strengthening ERP systems further
- Tapping relevant new markets and related sectors
- Enhancing organisational performance and profitability

Adding even more value for customers

Aareon wants to use its solutions and services to add value for its customers – as well as for their business partners and clients. To achieve this, Aareon can draw on its existing customer relationships, its work in customer advisory councils, specific customer events, its participation in associations and the application of user-centric approaches – like design thinking – during the development process.

Growing digital solutions

The European property industry is in the throes of a digital transformation process. This promises Aareon Smart World's current and future digital solutions significant growth potential – especially when it comes to cross-selling to ERP customers. That is why we launched a strategic capital spending program to invest heavily in digital solutions and solutions based on innovative technologies. Proprietary R&D teams are building on and expanding these solutions, ensuring the transfer of knowledge across the Group. In this context, Aareon has also launched a user-centric form of collaboration with its customers and partners. In 2019, the Aareon Smart Platform was set up in Germany, France and the Netherlands. Aareon Smart Platform is an open, integrated platform for customers and partners, providing them with an easy means of developing their own solutions and integrating them (along with third-party ones) into Aareon Smart World. Preparations for the 2020 market launch of the virtual assistant Neela began in 2019. Other product developments designed to implement the company's international growth strategy are in the validation phase. As is the case with predictive maintenance, these developments are targeting new technologies and customer groups.

Aareon has gained a foothold in the start-up scene through a variety of different channels. The company acquired direct stakes in the PropTech Immomio (a digital rental platform) in Germany and in OSRE (a digital platform for real estate transactions) in the Netherlands. Aareon also holds shares in its strategic partners blackprint Booster and blackprint Booster International, which support future-oriented start-ups in the real-estate environment. It is also using Ampolon Ventures (AV Management GmbH) to establish start-ups together with company founders. 2019 saw the establishment of its first venture, OFI GROUP GmbH, Frankfurt am Main, which offers

Ophigo, a digital platform for office rentals. Aareon also partners with PropTechs:

- Germany: KIWI.KI (digital access systems), Simplifa (digital lift management)
- France: DPM Technologies (predictive maintenance), Activinnov (digital solutions for the social-housing industry), Connective (digital signatures)
- Netherlands: ValidSign (solution for validating digital signatures), Mail2Pay (platform for more efficient communication between those owing rent and those extending credit), EntrD (data anonymisation) and SmartLockr (e-mail encryption)
- Northern Europe: Metry (smart energy services)

By way of an asset deal, Aareon signed a contract in November 2019 to take over the business operations of CalCon Holding GmbH, Munich, and to acquire the company's subsidiaries with effect from 1 January 2020. The transaction closed on 20 February 2020. The acquisition is in line with Aareon's growth strategy. CalCon's epiqr product (for assessing the technical condition of buildings) and its new-generation AIBATROS product will supplement Aareon Smart World.

Strengthening ERP systems further

Aareon invests in the ongoing technological refinement of its ERP software solutions. Future ERP product generations in all countries in which Aareon is active are to be rendered cloud-ready and compatible with new technologies. To this end, the company has been pressing ahead with developments such as Aareon QL.web in the UK, Incit Xpand Allweb in Sweden and Tobias 365 in the Netherlands, as well as providing regular new releases for existing product generations in all countries.

Tapping relevant new markets and related sectors

Aareon's goal is to leverage the market potential for B2C and B2B2C business. To this end, the company has analysed a multitude of business ideas to identify a small number of what it calls "new growth cases" and to set these in motion.

Since entering the utility market in 2015, Aareon has striven to grow its market share. This entails offering solutions that optimise processes for real-estate companies and utilities alike, thus providing a comprehensive portfolio of services and solutions for the energy supply industry. These include the Aareon invoicing service, Mareon and Aareon Vacancy Management – a digital solution for energy suppliers, housing companies and providers of metering services that streamlines processes when units change hands.

Aareon intends to enhance its market penetration in the commercial-property market, too, garnering new customers in particular with its RELion product, which is integrated in the Aareon Smart World digital ecosystem.

Aareon made its début in the Swiss market by winning over a major customer for the RELion ERP solution. What is more, the company strengthened its presence in Finland with the establishment of Aareon Finland (a subsidiary of Aareon Sverige) on 1 January 2019.

Enhancing organisational performance and profitability

Aareon intends to further enhance its profitability thanks to an efficient, market- and customer-centric organisational structure that has clearly defined processes and that harnesses synergies to grow revenues and keep costs firmly in check. In 2019, the company continued its efforts to optimise and enhance its organisational performance and profitability, and

to make its organisational structure for operations more market- and customer-centric by creating three international divisions: Market (consulting and sales), Operations (ERP solutions and outsourcing business) and Digital Solutions and Ventures. The first phase in implementing the new structure began on 1 April 2019. At the board level, the Market Division is headed by Chief Market Officer Sabine Fischer, the ERP Systems and Outsourcing Division by Chief Operations Officer André Rasquin and the Digital Solutions Division by Chief Digital and Ventures Officer Imad Abdallah. As part of the organisational adjustments and the plan to tap additional market potential in Austria and Switzerland, Aareon's management in Germany also assumed responsibility for business in the Austrian and Swiss markets.

To make the Aareon Group even more efficient, the Netherlands-based companies Square DMS and Facilitor were merged into Aareon Nederland on 1 January 2019. Over and above this, the following key projects were the main drivers of enhanced organisational performance:

- work4future – to make the digital working world an integral part Aareon's corporate culture. A digital collaboration tool was rolled out across the Group to make internal communication transparent, fast and uncomplicated.
- ITSM (IT service management) – to optimise support processes. Owing to its complexity, this project will run for several years.
- Work continued on expanding the genesisWorld customer relationship management solution to include our international subsidiaries.

Quality and security standards

Data privacy and data security are of crucial importance to Aareon. Numerous clients in Germany and abroad make use of Aareon solutions as a service from the exclusive Aareon

Cloud – meaning that their data is stored solely in the Aareon IT Service Centre and at a backup location in Germany. 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 2017, the TÜV Saarland Group, a technical inspection agency, re-certified the Aareon IT Service Centre for a further two years ("Certified Computer Centre Network – Fail-Safe Level 4"). 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 2019, the corresponding re-certification process was performed by the technical inspection agency TÜV Rheinland i-sec GmbH; the certificate it issued is valid until 2022. TÜV Rheinland i-sec GmbH recognised Aareon 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. Following a re-audit in 2017, the certification was extended until 2020.

Research and development (R&D)

Collaborative R&D activities form the foundation for the ongoing expansion and technological evolution of the Aareon Smart World digital ecosystem. These activities are designed to be user-centric and focus on adding value for customers and business partners alike. Given Aareon's international reach, its R&D benefits from specific points of focus for digitalisation in different countries and from the associated expertise of its subsidiaries in these areas. Aareon adopts an agile approach to development in order to carry out intensive testing at an early stage and take the step from idea to prototype as quickly as possible. Its international development teams take social, legal, economic and technical factors into consideration, integrating them into new and existing digital solutions.

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

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 repeated Group-wide customer surveys.

Researchers take new technologies and their integratability into account where such technologies could be of benefit to the property industry. One result of the company's R&D activities in 2019 was the market launch in Germany, France and the Netherlands of the Aareon Smart Platform and Aareon Smart Partner Programme. The Aareon Smart Platform enables customers to develop software solutions for apartment and property management and to integrate them into Aareon Smart World. Partners can also develop their own solutions and make them available in Aareon Smart World. This creates an open, more diverse marketplace for housing-industry- and real-estate-management systems. Preparations for the 2020 market launch of our virtual assistant Neela got under way in 2019. Utilising cutting-edge AI and voice recognition technology, Neela can be used by property companies to manage their customer relationships more quickly and easily.

R&D expenses can be broken down into the development of updates, the maintenance and upkeep of existing functions as well as the ongoing development of new functions and the creation of new products. Total expenditure of the R&D

teams came to € 38.0 million in 2019 (previous year: € 34.9 million). Some of the capital spent on developing new functions and products for our customers had to be recognized in the balance sheet. The capitalisation rate as a percentage of total expenditure was 24%. Amortisation of internally generated software amounted to € 4.8 million.

Economic report

General economic and industry environment

Economic growth

The eurozone economy slowed in 2019, with real GDP growing 1.2%, after 1.9% in the prior year. The slowdown was attributable in particular to a weak industrial sector, which mainly impacted Germany.

The UK economy grew by 1.2% (previous year: 1.4%). Exports there declined by 1.1% year on year, in part due to a worldwide decline in demand, but also to the uncertainty surrounding the country's exit from the EU. On the whole, this uncertainty was a negative factor for all economic players.

Employment markets remained positive in 2019 in almost all regions. The Eurozone unemployment rate fell by a total of 0.6 percentage points to 7.6%. In the UK, by contrast, the unemployment rate rose by 0.7 percentage points to 3.2%.

Annual real growth in GDP in %

	2019 ¹⁾	2018 ²⁾
Eurozone	1.2	1.9
Germany	0.6	1.5
Finland	1.3	1.7
France	1.3	1.7
Netherlands	1.7	2.6
Austria	1.5	2.3
United Kingdom	1.2	1.4
Norway	1.1	1.3
Sweden	1.4	2.4
Switzerland	0.8	2.8

(Source: OECD)

1) Preliminary figures; 2) Adjusted to reflect final figures

Industry trend

The digital transformation process continues in the property industry – but with different country-specific points of focus. Digital ecosystems are increasingly gaining in importance for companies. More and more, the focus is shifting from connecting real-estate companies with their business partners, to the integration of buildings and technical equipment. New technologies such as artificial intelligence (AI) and Big Data are opening up further potential in this area.

In addition to established “old economy” companies, numerous PropTech companies have entered the market in recent years. They tend to offer individual digital solutions for the property industry.

The digital transformation of the property industry is continuing in the DACH segment, too. Awareness of the digital transformation has increased noticeably across the industry, with demand growing accordingly. Networking, integrability and the tapping of efficiency potential are key factors in this process. Over and above this, there is a growing focus on the prospects for new business models.

In the Netherlands property industry, digitalisation is even more advanced, thanks in part to the country's excellent IT infrastructure and to growing cost pressure on real-estate companies.

As a consequence of the ELAN legislation adopted in France in October 2018, which was conceived as a comprehensive response to changing conditions in the French housing market, the market is in the throes of a restructuring process. The number of housing-company mergers continues to rise. At the same time, the government is promoting digitalisation.

A new law in the UK states that social-housing rents have to be reduced by one percent a year until 2020. While this legal obligation is forcing companies to rationalise (and, in particular, to digitalise their processes), it is also putting pressure on providers of housing-industry IT to cut their prices. Since 2018, the industry's overall financial strength has improved – also thanks to financial commitments made by the government. That should create more scope for IT spending.

In Scandinavia, the digitalisation of society is already well advanced – with consequences for the property industry, too. Digital signatures for (rental) contracts are already a matter of course and readily accepted by tenants. What is more, the integration of start-ups – to feed digital data from related processes and systems into the housing industry's processes (e.g. for invoices or information for tenants) – is not simply encouraged, but demanded.

Key performance indicators

Revenue and EBIT are the key financial performance indicators used by Aareon to measure and manage its business segments.

Owing to Aareon's increased importance within the Aareal Bank Group, the latter will provide the capital markets with a separate report on Aareon's performance going forward. As a result of this change, Aareon will no longer report EBIT as of 2020, but adjusted EBITDA (earnings before interest, taxes, depreciation and amortisation), which is the KPI more generally used in the software industry. Adjusted EBITDA factors out items of an exceptional or non-recurring nature, which usually means acquisition-related expenses, such as due diligence costs or the cost of legal disputes, for example. The Outlook section of the present annual report will use adjusted EBITDA for the first time.

Business performance

DACH segment

Aareon succeeded in winning over a large number of new customers – some of them major accounts – for its ERP solution Wodis Sigma. Many new Wodis Sigma customers are former GES customers. The majority of these have opted for state-of-the-art ERP systems like Wodis Sigma, RELion or SAP® Solutions / Blue Eagle, and many have already completed system migration. 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 total number of Wodis Sigma customers has risen to 1,048. The volume of business from Wodis Sigma and SAP® solutions / Blue Eagle grew year on year. This growth, in combination with regular price adjustments, led to higher income from maintenance and SaaS fees. Aareon also grew its consulting sales, expanding its range of such services with the market launch of strategic consulting modules for the digital transformation. In the commercial-property sector, Aareon won further customers for the RELion ERP solution, boosting the corresponding licensing and consulting income. The mse subsidiaries were renamed Aareon RELion in November.

Growth in revenues from outsourcing business continued apace. BauSecura's insurance business grew slightly year on year.

A particular focus of digital solutions business was the coordinated development of Aareon CRM at different locations in Germany and abroad, with the goal of simplifying the management of relationships with tenants and property owners. Marketing of the CRM app continued in Germany and it is already in productive operation with numerous customers. The Aareon Smart Platform was rolled out in Germany, the

Netherlands and France. This open platform enables customers and partners to develop their own solutions and integrate them securely into Aareon Smart World.

The company posted another strong year-on-year increase in business volume for digital solutions. There was particular demand in Germany for the following solutions: Mareon Service Portal, Aareon Archiv kompakt, Aareon CRM (portal and app for tenants/owners) and Aareon ImmoBlue Pro (tenant acquisition solution). More and more customers are enhancing their ERP systems with integrated digital solutions and thus developing their own digital ecosystems.

Ophigo, the first venture of AV Management GmbH, which operates under the brand name Ampolon Ventures, was represented at the MIPIM in Cannes and Expo Real in Munich. Ophigo offers a digital search platform for office space.

The process of marketing the Aareon Vacancy Management solution to utilities continues.

International Business segment

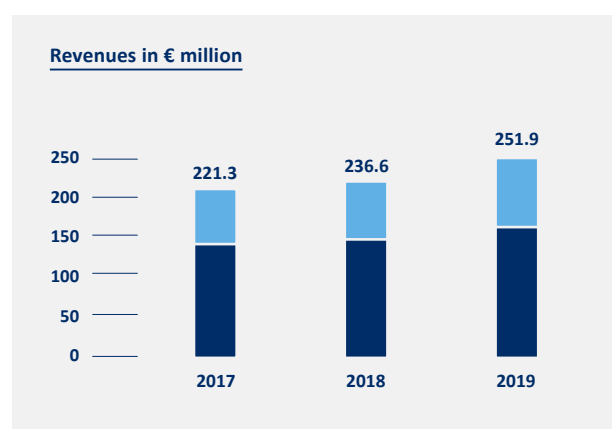
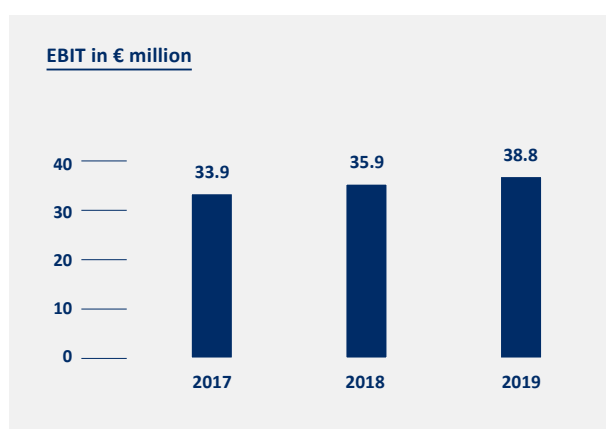
The trend in the International Business segment was for the most part positive. Overall, the segment posted growth, particularly thanks to the markets in France, the Nordics and the Netherlands.

In the Netherlands, several major customers entered into long-term contracts for the Tobias ERP solution, while a number of other major customers went live with the product. The company did not lose any major customers. Rollout of the new generation of the Tobias 365 ERP product, which is based on Microsoft Dynamics 365®, commenced in the second quarter. The sales trend for the Netherlands ERP solution REMS for CRE management was positive. In France, ERP business was characterised by mergers between social-housing companies in the wake of the ELAN legislation passed in October 2018. As a result, Aareon was able to acquire several

new customers. Recurring revenues continued to grow thanks to regular price adjustments and the growing number of customers opting for Platinum maintenance contracts. In the UK, Aareon garnered new customers, including an important major one. What is more, demand for ERP products focused on software adjustments and add-on modules. In the highly competitive UK market, the company was not able to match its high level of licensing income of the prior year. Aareon Sverige won important tenders with its InCit Xpand ERP solution – for instance with several local governments in Sweden. In Norway, Aareon came out on top in a key tender launched by OBOS, a housing company that manages some 220,000 units. Aareon's performance with consulting services was much more robust in the year under review. The previous year's earnings had been dampened by costs for a complex major project in Norway. After multiple successes in the Finnish market, Aareon Sverige set up a subsidiary there (Aareon Finland OY) at the start of the year.

The volume trend for digital-solutions business remained positive in the International Business segment. Several customers opted for digital solutions in the Netherlands. ShareWorX (a case management solution) and Aareon CRM proved particularly popular there, and numerous customers also went live with these products. In France, around 50 contracts for new digital-solutions projects were signed – some of them for major customers – and demand for Aareon CRM was one point of focus. A number of major customers also completed go-lives. Five French customers have already opted for the newly launched Aareon Smart Platform. uportal, which provides self-service offerings for tenants, was in strong demand in Scandinavia.

In the Netherlands, a non-controlling interest in local Prop-Tech OSRE B.V. was acquired. OSRE's digital solution platform makes transactions related to the sale and rental of properties more efficient.



■ International
■ DACH

Economic situation

Earnings

At € 38.8 million, Aareon's EBIT in 2019 was 8.1% higher than in the prior year (€ 35.9 million). The company thus exceeded its EBIT guidance of € 35.0–36.0 million. Consolidated revenues rose by 6.5% to € 251.9 million (previous year: € 236.6 million), slightly higher than the forecast range of € 247.0–250.0 million. The volume of digital-solutions business continued to grow strongly and was up by around 20%. Operating EBIT – adjusted for non-recurring effects – increased by 10.6% to € 41.6 million (previous year: € 37.6 million). In addition to its operating business, Aareon launched strategic initiatives in 2019 to accelerate growth. As the start of these initiatives was delayed, the costs incurred of € 2.4 million were lower than the expected range of € 6.0–7.0 million. Non-recurring factors included acquisition-related

expenses of € 0.4 million in 2019; in 2018, they related mainly to costs of € 1.6 million for a major project in Norway.

Despite a substantial increase in capital expenditure in 2019, internally generated assets were lower at € 6.6 million (previous year: € 7.8 million). Aareon relied to a certain degree on the support of external consultants to expand its digital-solutions portfolio and evolve its ERP products; the corresponding costs were capitalised. Other operating income amounted to € 4.4 million (previous year: € 5.4 million) and was influenced in both 2018 and 2019 by remeasurements of purchase price liabilities from acquisitions. The Group's total expenses rose by 4.8%, from € 213.8 million to € 224.1 million. The cost of materials rose by 9.2% to € 43.8 million (previous year: € 40.1 million), mainly due to increased expenses for the external consultants required to handle the large number of migration projects. The increase of 5.4%

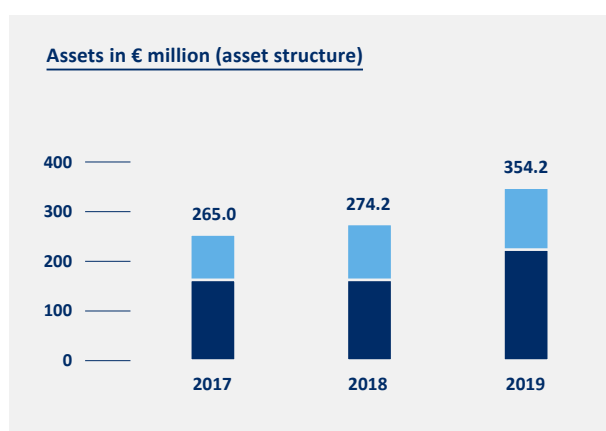
in personnel expenses to € 128.6 million (previous year: € 122.0 million) was predominantly due to a growth-induced increase in personnel numbers and to salary increases. Application of the new accounting standard IFRS 16 (Leases) impacted other operating expenses, which came to € 28.8 million in 2019. Adjusted for the effects of IFRS 16, other operating expenses amounted to € 38.3 million and were thus roughly equivalent to the 2018 figure of € 38.0 million (though the prior-year figure had included a payment to terminate a contract with a major customer in Norway).

Revenues in the DACH segment increased by 6.9 % to € 159.2 million (previous year: € 148.9 million), exceeding the guidance of € 152.0–154.0 million. Revenues from ERP products grew robustly thanks to performance enhancements in consulting business, higher maintenance and SaaS fees, and growth in outsourcing business. Insurance commission income from BauSecura also climbed. Growth was even stronger for digital solutions. Higher penetration rates – especially for CRM products, Aareon Archiv kompakt and mobile solutions – caused recurring revenues in particular to rise. Coupled with moderate costs, this extremely positive revenue trend meant EBIT in the DACH segment was higher, at € 28.7 million, than the forecast figure of € 26–27 million. In addition, the application of IFRS 16 had a positive effect of € 0.9 million on EBIT. Consequently, the DACH segment's operating EBIT was on a par with the prior year (€ 28.3 million).

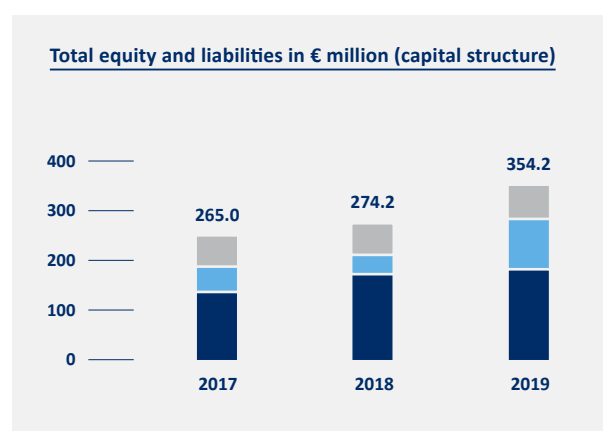
Adjusted for non-recurring effects, revenues in the International Business segment were up by 5.1 % to € 92.7 million (previous year: € 88.2 million). As far as ERP products are concerned, substantial increases in recurring revenues were achieved in both France and the Netherlands, though the forecast figure of € 94–96 million was not reached. In the UK in particular, efforts to stimulate licensing business with new and existing customers fell short of the mark, causing licensing revenues to contract. On the whole, ERP-product reve-

nues were comparable with the prior year. Digital-solutions business, on the other hand, grew significantly, with CRM products in France, Scandinavia and the Netherlands making a major contribution. The substantial increase in revenues, however, was hardly evident in overall costs – largely due to performance enhancements in Scandinavia and France. After a complex major project in Norway was terminated in 2018, ERP business in Scandinavia became much more profitable. In France, the volume of high-margin maintenance business continued to grow. As a result, EBIT (adjusted for non-recurring effects) rose by 40.2 % to € 12.9 million (previous year: € 9.2 million). Low revenue growth in the UK meant Aareon did not quite achieve its forecast figure of € 15.0–16.0 million.

As part of the strategic measures launched in 2019 to accelerate growth (see p. 28), various product ideas were validated. One product arising from this process was the Aareon Smart Platform (including the Smart Partner Programme), which had its market launch in Germany, France and the Netherlands in November. Preparations also began for the market launch announcement of another new product, the Aareon virtual assistant. The costs of validation and development services (after capitalisation) amounted to € -2.4 million in the year under review.



■ Current assets
■ Non-current assets



■ Current liabilities
■ Non-current liabilities
■ Equity

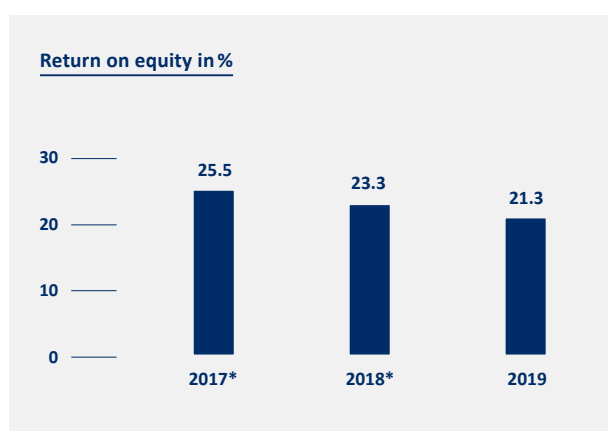
Net assets

Aareon's total assets amounted to € 354.2 million in 2019, up 29.2% compared with the previous year (€ 274.2 million). At € 236.1 million, non-current assets rose by 38.2% on the previous year (€ 170.9 million). This increase was attributable to the recognition of right-of-use assets in accordance with IFRS 16. In this context, a sublease in which Aareon acts as the lessor was classified as a finance lease and the resulting receivable was also capitalised. Financial assets rose mainly due to additions to investments. Additions to intangible assets and to property, plant and equipment were roughly equivalent to depreciation, amortization and impairments. Current assets increased by 14.2% year on year to € 118.1 million (previous year: € 103.4 million), mainly due to an increase in cash and cash equivalents (see statement of cash flows).

Financial situation

Capital structure

Equity rose by 11.6% year on year, from € 167.6 million to € 187.1 million. This was chiefly due to retention of the net profit for the year of € 25.9 million (previous year: € 25.7 million). Owing to the leverage effect, the amount recognised in lease liabilities on initial application of IFRS 16 was higher than the corresponding rights of use. The same applies to the receivable recognised for the finance lease in which Aareon is the lessor. Overall, this had a negative impact on equity of € -3.3 million. In addition, a reduction in the interest rate used to measure pension liabilities had a negative impact of € -1.8 million on equity. As a result of these factors, the return on equity declined to 21.3% (previous year: 23.3%). Non-current liabilities increased to € 103.0 million (previous year:



*2017/2018 figures revised

€ 45.6 million). At € 64.1 million, current liabilities were up 5.1% (previous year: € 61.0 million). The increase in these last two items was mainly the result of the accounting of lease liabilities in line with IFRS 16.

Liquidity

The statement of cash flows is the key to analysing Group liquidity. Cash and cash equivalents amounted to € 51.9 million in 2019, compared with € 40.6 million in the prior year. At € 43.8 million, cash flow from operating activities was substantially higher than in the previous year (€ 29.5 million). This increase was due in particular to the IFRS 16 accounting rules, in accordance with which payments of € -9.1 million by Aareon for rents and leases were classified as principal and interest payments for leases. They were thus reallocated from cash flow from operating activities to cash flow from investing activities. At € -22.0 million, cash flow from investing activities increase year on year (€ -16.7 million). Major cash outflows related to capital expenditure on non-current assets totalling € -18.9 million (previous year: € -15.4 million) and to maturities of purchase price liabilities in the amount of

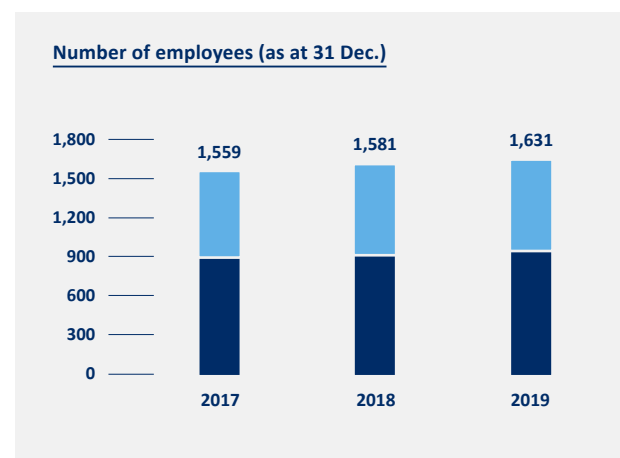
€ -2.9 million (previous year: € -2.4 million) from earlier corporate acquisitions. The higher cash outflows for non-current assets resulted from additions to investments and to increased capital expenditure on internally generated intangible assets. Cash flow from financing activities amounted to € -10.4 million (previous year: € -4.5 million). The capital outflows arose mainly in connection with payments of principal and interest for leases and payments to non-controlling interests.

Our staff

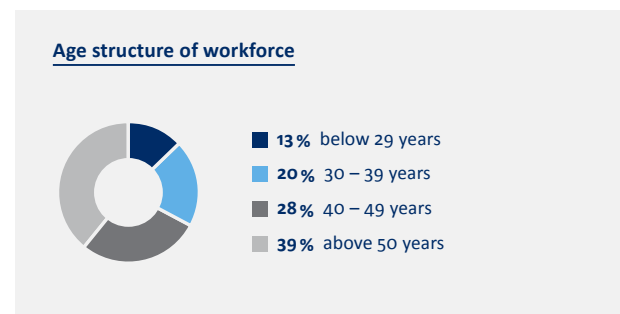
With their ideas, talents, enthusiasm and ability to inspire, Aareon's employees – in collaboration with the company's customers and partners – are what drives innovation at the company. Especially in the digital working world – and in the wake of the digital transformation – it is important to have a human resources policy that focuses on employees as people. Aareon has been pursuing a sustainable, life-phase-oriented personnel policy of this kind for several years now. The policy takes account not only of the employees' work-life balance – which also encompasses flexibility as regards when and where they perform their work – but also what level of performance can be expected of individuals in the particular phase of life in which they find themselves. Factors such as knowledge and expertise, health, equal opportunities, diversity and each employee's professional development are an important part of this policy and reflect the changes taking place in society – changes that include the digital transformation, demographic change, higher retirement ages and immigration. Given the ever faster pace of change and 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 annual anonymised Group-wide employee surveys. They are a tool for gauging the employees' mood and provide insights into how specific improvement measures can be put into practice. The Group-wide response rate of 70 % 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. From Aareon's point of view, general levels of employee satisfaction remain high.

As at 31 December 2019, Aareon had a total of 1,631 employees (previous year: 1,581). The average period of service with the company was 10.5 years (previous year: 11.9 years). The international subsidiaries account for 44.0 % of the workforce (previous year: 42.8 %). Aareon promotes flexible working



■ International
■ DACH



time models and, in this context, rolled out a company-wide agreement on off-site working options in 2019. The agreement grants employees the flexibility to perform some of their work outside the office, including from home. The proportion of women in the workforce was 33.1 % (previous year: 31.0 %), while the share of women in management positions was 24.1 % (previous year: 21.6 %).

Qualification and further training

One of the aspects on which Aareon once again focused its attention in fiscal 2019 was the development of its management staff. In the course of the Professional Individual Management Development programme, 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). Courses were also offered on traditional project management (e.g. Project Management Specialist Training Level D) and on the use of agile methods in project management. Other focal points of training included digitalisation (e.g. Digital Leadership and Digital Coaching) and long-term support for internationalisation at Aareon, especially by means of online language courses. The Certified Housing and Real Estate Specialist (EBZ Business School in Bochum) training course was conducted in this form for the first time in 2019.

Aareon also launched its fourth cross-mentoring programme in 2019. Cross-mentoring is a personnel development tool aimed at encouraging knowledge transfer. It involves the systematic sharing of ideas and experiences between employees at different companies.

Initial training and the promotion of young talent

In addition to trainee programmes, Aareon offers dual-study degrees in Business IT and in Media, IT and Management, as well as a variety of vocational training courses in office management and IT (the latter with a specialisation in either application development or systems integration). At year-end 2019, the Aareon Group employed 16 trainees and three dual-study students in Germany.

As part of its programme to promote young talent, Aareon organised a Girls' Day and supported JOBLINGE, an initiative for young people who have had a hard start in life. Three

former participants of the JOBLINGE initiative are now completing their vocational training at Aareon. Four Aareon employees are supporting the JOBLINGE initiative as volunteer mentors.

In order to foster young talent and promote education, Aareon works together with several universities and supports a number of students from Johannes Gutenberg University Mainz who are holders of a German National Scholarship (Deutschlandstipendium).

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 its existing life-phase-oriented personnel policy, Aareon is focusing on flexible working time models, smart and effective collaboration between employees, and the digital workplace. In 2019, a company-wide agreement on off-site working options was put in place that further enhances flexibility for employees in terms of where they perform their work. A digital collaboration tool was rolled out for internal communications. Office space concepts are constantly being refined by means of internal programmes. In corporate health management, numerous measures were taken in 2019 to support staff in the digital working world.

The company's personnel-related services to help employees achieve a healthy work-life balance include making working hours more flexible, partnering a family service company, and providing 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 and on the Management Board. Many women also exercise responsibility in projects and sub-projects or play a role as specialists. Aareon's goal is to achieve even greater

Internal control system

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 with the German Act on the Equal Participation of Women and Men in Leadership Positions in the Private and the Public Sector.

Compensation principles

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 policy 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.

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 (compliance management). In this connection, Aareon has opted for a risk-based approach.

The purpose of the accounting-related internal control system is to guarantee that Aareon's operations are properly executed in both legal and business terms. One of the principal aims is to ensure the conformity of internal and external accounting processes and compliance with the relevant statutory provisions.

In addition to customers and products, which constitute the company'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 Corporate Finance unit, which also takes charge of Group financial reporting. All of the company's subsidiaries are included in its consolidated financial statements. Accounting and Contract Management handles financial accounting, including preparation of the annual financial statements, for Aareon AG and its subsidiaries Aareon Deutschland, AV Management phi-Consulting and the Aareon-RELion companies. The exception is the outgoing invoices of the Aareon-RELion companies, which are handled by the companies themselves. The financial accounts of BauSecura are handled by the Funk Group. Aareon UK, Aareon France, Aareon Nederland and the Scandinavian companies of the Group each have their own autonomous financial accounting systems. With the exception of Kalshoven Automation, all companies enter their financial data independently in the Group's SAP® software system. In 2019, the employees of the Finance unit in the Netherlands entered the financial data reported for this company in the Group's software system. The reported 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. 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 each subsidiary completes its separate financial statements and submits 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 also makes use of external service providers, for instance to assist in measuring pension obligations.

Under the compliance management system, the units responsible at Aareon regularly monitor compliance with the company's internal guidelines and work instructions.

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.

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.

Risk report

Aareon AG monitors and manages its business risks by means of a Group-wide risk management system that is based on R2C_risk to chance 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. In addition to general corporate risks, special emphasis is placed on information security risks, which are recorded and assessed in a separate information security inventory. Whereas general corporate risks flow directly into the risk management system, information security risks are accounted for in aggregate form.

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 k. At the applicable reporting date in the fourth quarter, ten 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 the DACH segment decide on the measures to be taken against risks whose expectancy exceeds a further defined threshold (€ 500 k or € 150 k).

Aareon's Internal Auditing unit carries out reviews of the risk management system. These include checking for compliance with statutory 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 IDW PS 951 nF to ascertain whether the internal risk management controls in place are effective.

The categories of risk to which Aareon is exposed comprise financial and market risks, management and organisational risks, risks from incidental and ambient conditions, and production risks. Financial risks are considered to encompass 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 risks 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.

Having categories and subcategories enables Aareon to draft a harmonised risk atlas and achieve 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 2019 were deemed to be only marginally higher than in the previous year. On the whole, 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. The default risk of financial instruments is taken into account in accordance with IFRS 7.

As Aareon AG is integrated in the financing processes of the Aareal Bank Group, its funding is judged to be secure at all times and the funding risk of subordinate importance. That is why no funding risk is recorded. 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.

To ensure that the revenue target is achieved as planned despite the large number of implementation projects in progress, Aareon deploys a resource management planning tool to assign the available consulting resources (and their corresponding expertise) to the projects still to be completed. On top of that, projects are closely monitored so as to detect any deviations from the plan/forecast in good time.

Tax risks were assessed as being unchanged compared with the previous year. The main concern was potential claims arising from company audits or from losses that do not qualify as loss carryforwards.

Financial risks were assessed as being unchanged in terms of content and no higher than in the previous year.

Market risks

Regular reports to the Management Board on the market situation help Aareon counteract the risk of being unable to achieve its planned prices in the marketplace. The Aareon Group also has to deal 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 management in a quarterly sales report. Aareon counters the risk of any deterioration in customer relationships by regularly checking levels of customer satisfaction.

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. The increasing shortage of qualified staff, especially in the IT field, is making it difficult for the

organisation to achieve significant growth as planned. Aareon is countering this with approaches to recruitment that are new for the company, e.g. employer branding activities on social media. The company is also testing, or already deploying, substitutes to traditional employment models, e.g. greater use of nearshoring, offshoring and outsourcing.

Given the current spread of the coronavirus, the company's pandemic manual was reviewed. The precautionary measures in place were deemed adequate.

Owing to the inclusion of new risks such as unauthorised temporary employment and bogus self-employment, the risk assessment in the leadership and organisational risks category was higher compared with the previous year.

Risks from incidental and ambient conditions

At Aareon, the term "incidental and ambient conditions" is used to cover legal, political, regulatory and compliance risks. As an IT service provider, Aareon is particularly exposed to risks from breaches of IT-relevant regulations. These risks can affect the Information Security, Data Protection and Compliance units. That is why these units cooperate closely with each other to counter the risks both effectively and efficiently and to avoid divergences in how they assess IT-relevant threats. This helps to bring compliance measures into alignment with information security measures.

In order to manage the risks arising from contractual compliance, Aareon uses standard contracts that are refined and adapted on an ongoing basis to reflect changes in products and laws as well as the latest court rulings. In addition, the managing directors make use of an established complaint management system to monitor – and thus avoid as far as possible – any potential claims for damages. This helps to reinforce Aareon's reputation as a reliable contractual partner.

Aareon raises its employees' awareness of compliant behaviour by sensitising them to the issue and providing them with pertinent training and advice. The year under review saw the rollout of courses for the Compliance, Data Protection and Information Security units of our international subsidiaries. In addition to this, the Compliance Officer carries out checks after approval of the corresponding control 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 (GDPR) and, in particular, of the risk-based approach that underpins it, were taken into account in a Group-wide programme launched to implement the GDPR requirements. The project to implement the GDPR was completed on schedule. The tasks arising out of this project, namely to preserve and maintain the data protection management system, are being constantly monitored and evolved as well.

Owing to the inclusion of new risks, risks from incidental and ambient conditions were deemed to be higher than in the previous year.

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 protection, and takes account of both agile and traditional development methods. Development and customer projects are increasingly being implemented using agile methods, enabling

risks to be identified early and monitored. Responsibilities for continuous improvement processes for software quality have been assigned within the organizational structure. A particular focal point in this context is capital expenditure on security and the automation of testing with a view to achieving consistently high standards of quality at reduced cost.

The information security management system is based on the internationally recognised ISO 27001 standard and is subject to a continuous, risk-oriented improvement process. In this context, technical and organisational checks were established in order to ensure an appropriate level of protection as regards information processing. This relates not only to the area exposed to attack in public networks per se, but also the appropriate, proactive response to information security threats as regards the protection goals of confidentiality, integrity and availability. As part of the continuous improvement process, a uniform international method of determining the maturity of IT security was introduced on the basis of Aareon's security strategy. In addition, processes, guidelines and controls were honed in a risk-oriented manner.

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 IDW PS 951 nF. Appropriate fire-protection and loss- 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 Service Centres

were built in 2011, audited by the TÜV technical inspection agency and certified as compliant with High-Availability Level 4. Key factors in this certification were the utilisation of state-of-the-art technologies, such as building infrastructure with heat-recovery technology, the mirroring of data between the two data centres, and fibre-optic cabling with cutting-edge encryption technology. Aareon has also established 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.

Opportunities

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 digital 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. The goal is to use Aareon's portfolio of products and services to add value for customers. In many cases, Aareon's relationships with its customers, the property industry and their partners have grown over many years. The company is a member of several property industry associations, including the German Fed-

eration 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 also makes use of agile development methods like design thinking and collaborates with customers and partners in pilot projects. These approaches can help enhance utility for the customer.

Opportunities from digital solutions

The digital transformation process in society and the economy is proceeding apace and is characterised by technological innovations. Aareon integrates the opportunities offered by the digital transformation into its product strategy. It is constantly expanding the digital ecosystem Aareon Smart World, with its digital and mobile solutions, and also enhancing it with solutions from its PropTech partners. Aareon Smart World connects the partners in the property industry. Our customers can use it to work in a convenient, process-efficient manner using a single database, to expand their own customer service capabilities and to leverage potential for new business models. Their data is stored in the exclusive Aareon Cloud, which is located in the certified Aareon IT Service Centre. Aareon offers professional consulting services for all its products and services. Aareon consultants help their customers to set a digital agenda and focus on the right products and solutions to optimise their business processes. They also provide them with ongoing support throughout their implementation projects. Companies often want to be able to

source their IT services from a single provider because of 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. When conducting R&D, Aareon also collaborates with property companies in line with the above-mentioned design thinking method. It also works together with PropTech companies and is a strategic partner of blackprint PropTech Booster.

Opportunities from active brand management

Aareon takes an active approach to brand management, honing its corporate identity and setting itself off from the competition. As this influences customers' purchasing decisions, it is of central importance to Aareon's growth strategy. Aareon aspires to offer every customer the right solution or solution package. By resolutely pursuing this goal, 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. 32). Aareon makes use of these opportunities to expand Aareon Smart World and thus generate additional growth potential. These international connections were further strengthened by the introduction in 2019 of the new organizational structure.

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. 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. Binding leadership guidelines and a systematic dialogue between line managers and staff are additional components of our employer profile. This creates opportunities for enhancing employee satisfaction and

Outlook

loyalty, and for facilitating the recruitment of new, highly qualified employees. In the race to recruit new workers, Aareon relies, among other things, 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 ISS-ESG, a well-known rating agency. Key aspects of sustainability at Aareon include: a sustainable, forward-looking 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 that exploits the opportunities provided by the digital working world; and systematic resource management. The Aareal Bank Group's annual Sustainability Report also describes the sustainability measures adopted by Aareon.

In 2020, Aareon will continue to pursue the growth strategy developed on the basis of its own strategy programme, which forms part of Aareal Bank's Aareal future programme. On the whole, consolidated revenues are expected to grow significantly. Adjusted EBITDA (see key financial performance indicators) will remain on a par with last year for the reasons given below. Key factors include:

- Accelerating organic growth through strategic capital expenditure
 - Creating and refining new digital solutions
 - Tapping new business fields
 - Solutions utilising innovative technologies
 - Using corporate venturing activities to play a role in the start-up scene
- Achieving greater market penetration for digital solutions, both with existing products and, inorganically, through the acquisition of CalCon
- Strengthening ERP business, especially through further successful migrations, additional capital expenditure and enhanced competitiveness
- Expanding activities in the utilities and commercial-property markets

DACH segment

We expect revenues in the DACH segment to rise substantially in 2020, to between € 173.0 million and € 176.0 million. Adjusted EBITDA is also expected to be considerably higher than last year (around € 40.0 million), at between € 45.0 million and € 46.0 million.

Aareon expects ERP revenues to rise slightly in 2020. By 31 December 2020, all former GES customers will have been migrated (predominantly to either Wodis Sigma or SAP®-solutions / Blue Eagle). This will bring about a shift in balance

from migration business to in-force business. Owing to expansion of the existing-customer portfolio (e.g. due to the customer launch of SAP® S/4HANA), revenues from SAP® solutions / Blue Eagle are anticipated to continue growing. Additional capacities are to be built up for both utilities and commercial-property business so as to be able to handle the large number of customer projects. As for outsourcing services, robust customer demand will lead to a further increase in revenues. The volume of insurance management business with BauSecura should be on a par with last year. On the cost side, capacity growth will have an impact on personnel costs. Other costs are expected to remain unchanged year on year. Once the fixed costs for the IT landscape for GES customers in the Aareon IT Service Centre have been eliminated and all GES customers have been migrated, we expect to earn higher margins.

Digital solutions will make a decisive contribution to realising Aareon's growth potential in the DACH segment. The acquisition of CalCon, which was included in the consolidated financial statements on 1 January 2020, will be of key importance for growth in 2020. It will affect all revenue categories – namely licensing income, consulting income and recurring revenues. On top of that, organic growth of digital-solutions business is expected to continue at a high rate. In particular, the Aareon CRM digital solution (portal and app for tenants and owners) and Mobile Services are anticipated to grow substantially thanks to further go-lives. These products have already demonstrated their high potential: demand for them has been so high that, in some cases, it could not be satisfied immediately.

International Business segment

In the International Business segment, we expect revenues to increase significantly in 2020, rising to € 98.0–100.0 million, while adjusted EBITDA will grow from around € 23.0 million in 2019 to € 24.0–25.0 million.

ERP product revenues in the International Business segment are expected to be slightly higher than last year. Recurring revenues will grow in all regions thanks to customer go-lives. The changeover from the current product generation Tobias AX to Tobias 365, which commenced in 2019 with a pilot customer in the Netherlands, will accelerate considerably in 2020. The new product generation will be available to customers solely as a SaaS solution. This will lead to a decline in licensing revenues for this product, which growth in recurring revenues will not be able to offset for a few years. This effect will be evened out again by 2022. In the UK and Scandinavian markets, licensing revenues from both new and existing customers are expected to increase. In the commercial-property sector in the Netherlands, revenues are also expected to grow substantially due to new customers.

Revenue from digital solutions in the International Business segment will be substantially higher than last year. Revenues are expected to grow for licensing and consulting business as well as for recurring services. In Scandinavia and the Netherlands, Aareon CRM products have the potential to generate strong revenue growth. 1st Touch Mobile will be the growth driver in the UK. In France, capacity growth to serve rising demand should also result in higher digital-solutions revenue.

On the cost side, personnel costs will rise due to workforce growth. The cost of materials is expected to be roughly the same as last year, given that Aareon's own employees are to cover the increase in resources.

Strategic capital expenditure

In addition to pursuing the operating activities in its two business segments, Aareon made strategic investments in 2019, developing products that will be rolled out in Germany, France and the UK in 2020. The expected revenues from these products should be below € 1.0 million. Aareon expects to post further strategic capital spending in and after 2020. In 2020, the adjusted EBITDA effect is expected to amount to between € -7.0 million and € -8.0 million. It will comprise expenses for the ongoing development of digital solutions, including in connection with new technologies, and for tapping new business through start-up ventures with the aim of accelerating organic growth. This strategic capital spending should be beneficial for the entire Aareal Bank Group in the medium term and, in some cases, is being supported by Aareal Bank.

Summary

In view of the information provided above, Aareon expects to post a substantial overall increase in revenues in 2020, which will rise to € 272.0–276.0 million. At € 68.0–71.0 million, adjusted EBITDA before strategic capital spending will be much higher than last year (€ 63.9 million).

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.