

# Group management report

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# Group business fundamentals

Aareon – a provider of ERP software and digital solutions for the property industry and its partners – offers its customers software, consulting and services, enabling them to optimise their digitalised 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 39 locations in Europe’s key property markets. 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 of digitalisation for the ongoing expansion of the Aareon Smart World portfolio – its connected ecosystem that offers a comprehensive portfolio of solutions for the property industry.

Aareon AG is a subsidiary of Aareal Bank AG, Wiesbaden, an international property specialist. In the year under review, Aareal Bank AG, which previously held 100% of the shares in Aareon AG, sold part of its stake to AI Houses (Luxembourg) S.à r.l., Luxembourg, a company owned by financial investor Advent International Corporation, Boston, MA, USA. As a result, Aareal Bank AG now holds 70% of the shares in Aareon AG and AI Houses (Luxembourg) S.à r.l. the remaining 30%. The minority stake was acquired on 1 November 2020 and one of Advent International’s partners has had a seat on Aareon AG’s Supervisory Board since 3 November 2020. Aareon has been a separate segment within the Aareal Bank Group since the Group restructured its business segments in 2020.

## 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. Our ERP systems provide support for the business processes of our property

industry customers, e.g. by enhancing process efficiency and quality, business management and risk management. These systems enable customers to organise not only their core processes, but all their key customer relationship and inventory management processes, e.g. contract and receivables management as well as reporting solutions for providers of commercial property. Aareon aims with its ERP systems to safeguard its customer base and to generate a stable, long-term business volume, resulting in recurring revenues. In many cases, Aareon’s customer relationships have been in place for decades. The ERP systems, which are subject to continuous technological enhancement, can be integrated with digital solutions, which are constantly being expanded. New and existing customers utilise these integrated digital solutions to connect stakeholders and employees (WRM – workforce relationship management), customers (CRM – customer relationship management) and suppliers (SRM – supplier relationship management) as well as technical devices in apartments and buildings (BRM – building relationship management). That makes it possible to redesign and optimise processes. By connecting all those involved, the digital solutions help to unlock new business models and thus new sources of revenue, and to realise potential cost savings.

The Aareon Group reports on two segments: DACH and International Business. The DACH segment comprises the Group’s operations in Germany, Austria and Switzerland.

In both the DACH and International Business segments, Aareon provides software solutions that can be accessed in different modes: software as a service (SaaS) and hosting from the exclusive Aareon Cloud or via in-house operations. When Aareon’s customers opt for data hosting and SaaS, their data is stored in Aareon’s certified Data Centre in Mainz, which can ensure high levels of data security and data protection (see p. 30). After a consultation, the customer is granted a licence to use the software. Implementation and

training are generally provided on the basis of a maintenance model, which also covers ongoing support for the deployed software and generates revenues over the contract term.

In the DACH segment, Aareon markets ERP products for the housing industry and commercial-property sector. Products of this kind targeting the housing industry include, in particular, Wodis Sigma, the new Wodis Yuneo product generation and SAP® solutions/Blue Eagle. The legacy system GES was maintained for customers in the Aareon Data Centre until 31 December 2020. The final migrations from GES to other ERP products took place on 1 July 2020. The overwhelming majority of former GES customers opted to switch to state-of-the-art ERP systems like Wodis Sigma/Yuneo, SAP® Solutions/Blue Eagle, and RELion (based on Microsoft® Dynamics 365 Business Central®). In the commercial-property sector, and with customers who manage both commercial-property and residential-housing assets, Aareon has a particular presence with its ERP product RELion. In addition, the company offers Aareon Cloud Services and the BauSecura insurance management solution in the DACH region.

In the International Business segment, Aareon's subsidiaries each offer their own country-specific ERP products. In the Netherlands, Aareon Nederland offers social-housing industry customers Tobias AX, a product based on Microsoft® Dynamics®, and had already launched the new ERP product generation Tobias 365 (based on Microsoft® Dynamics® 365) in the previous year. Aareon Nederland sells the ERP solution REMS in the commercial-property market and also offers its customers Aareon Cloud Services. 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 (building

information modelling) solution. Aareon Sverige also provides its customers with fact books – reference works containing standard information on operating and maintenance costs.

In Aareon Smart World, the ERP products on offer in the DACH and International Business segments are linked to the digital solutions either directly or via the digital platform. The offerings include WRM (workforce relationship management), CRM (customer relationship management), SRM (supplier relationship management) and BRM (building relationship management).

WRM products offer property companies greater process efficiency and help simplify their day-to-day operations. Mobile solutions make it easier for field staff to handle commissioning, safety checks, apartment handovers, inventory data maintenance and the processing of customer transactions. Digital document management helps to reduce complexity by providing access to contracts and related archives from mobile devices any time and anywhere. Digital files save time and effort, as up-to-date information relating to a transaction is always available in full.

CRM solutions support and simplify processes between tenants or property owners on the one hand and property companies on the other – from searching for a place to live and moving in through to service enquiries and changes of residence. Aareon's CRM solutions enable property companies to offer their customers self-service options, so that they can access documents such as rental agreements, applications to keep pets and service charge statements as well as view contract data and print out tenant certificates for the registration authorities. Furthermore, tenants are able to submit damage reports, check the status of tickets and find out to what extent their issue has already been processed.

SRM products make for seamless collaboration between service partners. With the help of these digital solutions, employees tasked with commissioning tradespeople can, for example, coordinate their work efficiently and provide them, via mobile devices, with all the information they need to do their jobs. Service-partner orders, documents and invoices can be organised online – in a quick, transparent and paperless manner. Moreover, thanks to the integrated use of data from CRM and ERP solutions, property companies are able to generate orders for partner companies on the basis of their digital contact with the customer. The status of repair orders, for example, can then be reported back to the owners via the portal. Communication, administration and maintenance thus dovetail seamlessly on a digital basis. Customers from both the property and energy industries can profit from this integrated portfolio.

The purpose of BRM products is to professionalise building management. These solutions enable property companies to record and analyse all their property-related data in a uniform manner and leverage it in order to optimise their processes. That data can help them to manage their portfolios more easily and to plan for the future. A further advantage of digital applications is that employees on site at a property can access all the data they require via a tablet or smartphone and therefore have precise information about the property's equipment, features, condition and maintenance cycles at their fingertips. They can also update the inventory data in real time.

Aareon UK also markets the digital products of its partners in the British market. In the Netherlands, Aareon Nederland deploys the Trace & Treasury product, which can be used to manage cash and draft business plans when managing assets.

At Aareon, development is focused not only in the individual business segments, but also on new products. The rollout of Neela – an AI-based virtual assistant that enables property

companies to make their customer relationship management processes faster and more convenient – has begun in Germany, the UK, the Netherlands and Sweden. What is more, customers can benefit from the solutions provided by our PropTech partners. These include, for instance, the intelligent keyless entry system KIWI (Germany), which can be integrated into the Mareon service portal (coordination of tradespeople), the digital rental platform Immomio (Germany), and OSRE, the digital sale and rental platform (Netherlands).

Aareon's competitors include providers of proprietary industry products, SAP® partners and, increasingly, PropTech companies offering individual digital solutions. As early as 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 p. 27 f.).

Aareon considers itself to be well positioned with its portfolio of ERP products, integrated digital solutions, Aareon Cloud Services and consulting services. In addition to growing its portfolio organically, Aareon's goal is also to expand through non-organic growth. In 2020, the company performed a thorough analysis of the business environment, identifying potential takeover targets. These opportunities were taken up in the new Value Creation Program and will also be pursued beyond the current reporting period (see Outlook section). The acquisition of Arthur Online Ltd., London, which became part of Aareon's portfolio in February 2021, marks the first successful acquisition in this process – and simultaneously the first under Aareon's new ownership structure.

## Goals and strategies

Aareon pursues a strategy of profitable growth on the basis of the Aareon Flight Plan, which is evolved annually to meet the latest requirements. Aareon's goal is to be the leading

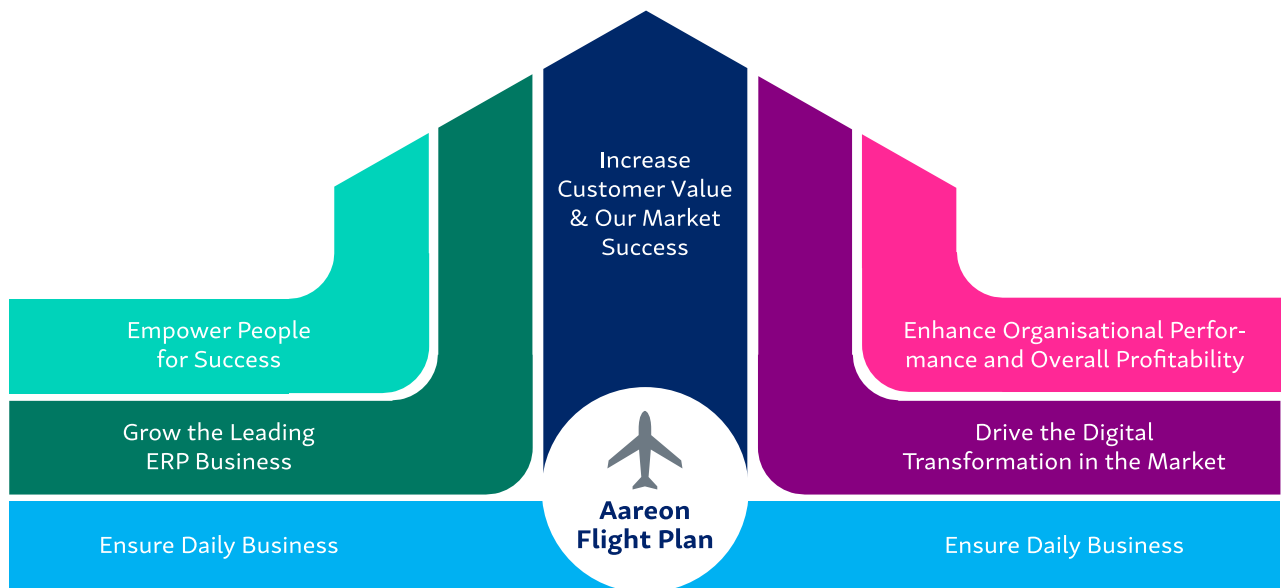
international partner for the property industry and related markets. Within the Aareal Bank Group, the Aareon Flight Plan forms part of Aareal Next Level, the Group’s programme for the future. With the help of the Value Creation Program (which forms part of the Flight Plan), the company aims to achieve its full operating potential by 2025 and beyond.

In the course of the programme, the Rule of 40 was introduced. Commonly used within the software industry, this metric measures the performance of technology companies and assesses the quality of their business models. Once a certain level of quality is reached, it is reflected in a higher rating.

The metric is calculated as the sum of revenue growth and EBITDA margin; this figure should be 40% to reflect a compromise between growth and profitability.

Key strategic areas of the Aareon Flight Plan are:

- Increase customer value & our market success
- Grow the leading ERP business
- Drive the digital transformation in the market
- Empower employees for success
- Enhance organisational performance and overall profitability



**Increase customer value & our market success**

Aareon's solutions and services are user-oriented and add value for the company's customers and their partners. That is why customer requirements are factored into product development right from the word go. During the development process, 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. To entrench its market success in the long term, Aareon pursues a growth strategy based on a combination of organic and non-organic growth. The non-controlling interest acquired by Advent International will lend Aareon additional impetus to build on its market position. As a financial investor with a long-term horizon, Advent International can contribute its broad expertise in the technology sector as well as its experience with M&As to accelerate the growth in Aareon's value and make it a Rule-of-40 company.

As regards potential non-organic growth, Aareon's management has already completed a thorough analysis of potential acquisition targets and identified opportunities. These are now being pursued systematically so as to be able to add more value for customers through an expanded product portfolio. In this context, the company has optimised its organisational structure and set up the Transaction Corporate Development unit. In addition, corresponding capacities have been added in the Finance and Legal units.

Aareon signed a contract to take over the business operations of CalCon Holding GmbH, Munich, by way of an asset deal and to acquire the company's subsidiaries with effect from 1 January 2020. The transaction closed on 20 February 2020. This acquisition was in line with Aareon's growth strategy and supported the expansion of its portfolio of digital solutions. *epiqr*®, a product that assesses the condition of property, and CalCon's new AiBATROS® product generation were integrated into Aareon Smart World, namely in the digital

BRM (building relationship management) solution, which comprises digitalised building management. The project to integrate the CalCon Group was completed in the year under review and progress made to incorporate its products into Aareon Smart World.

**Grow the leading ERP business**

ERP solutions are central to Aareon's portfolio of products and services and offer significant cross-selling potential. After all, customers tend to supplement their ERP systems with further digital solutions step by step, thus building up their own proprietary digital ecosystems. Aareon invests in the ongoing technological refinement of its ERP software solutions. The Aareon Group wants its future ERP product generations to be cloud-capable, compatible with cutting-edge technologies (business intelligence, AI, machine learning, robotics) and user-oriented, and also to offer new – e.g. self-learning – functionalities. To this end, a Group-wide project (ERP 2025) was set up. After the new-generation ERP product Tobias 365 was rolled out in the Netherlands in 2019, the new-generation Wodis Yuneo was announced in Germany in September 2020 (see p. 33 f.) and almost 300 contracts for the product have already been signed. Further ERP product generations are already under development and new releases for existing product generations are being rolled out regularly in all countries.

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 debut in the Swiss market in 2019 by acquiring a major customer for the RELion ERP solution. It then opened a branch office there in October 2020.

**Drive the digital transformation in the market**

Aareon is driving the digital transformation of the property industry. Especially in the wake of the Covid-19 pandemic,

Aareon has seen solutions to digitalise working life gain substantially in significance. During the pandemic, Aareon has supported its customers with Green Consulting (online consultations) and solutions for working from home, and by adjusting its systems to comply with the new statutory requirements. The company is investing to broaden its portfolio of digital solutions in order to fully exploit the potential offered by the digital transformation. 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. Further products to implement the company's digital growth strategy are either in the validation phase or about to be launched in the market (e.g. predictive maintenance).

Collaboration with start-ups is another relevant factor in growing the company's digital portfolio. The following forms of collaboration are possible:

**Establishing joint ventures:** Through its subsidiary Ampolon Ventures (AV Management GmbH), Aareon is active in the start-up scene and a partner in joint ventures. In 2019, Ampolon Ventures established its first venture, OFI Group GmbH, Frankfurt am Main, which offers Ophigo, a digital platform for office rentals. 2020 saw the founding of Refurbio GmbH, Berlin, which developed foxxbee, a digital interior design consultancy, and of Ecaria GmbH, Berlin. The latter's eponymous product is a digital solution that helps family carers plan and organise care services digitally.

**Investments in start-ups and accelerators:** 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 property environment.

### **Empower employees for success**

Aareon remains on a growth trajectory. That is why its corporate strategy covers both the recruitment and retention of qualified employees (see p. 39 f.). With a view to recruiting new staff, social media activities were coordinated and strengthened within the Aareon Group. Campaigns featuring videos and testimonials were launched in the various national markets. Since June 2020, Aareon has complemented its conventional recruitment process with an active-sourcing policy in order to build up talent pools. Active sourcing means directly addressing potential candidates who are already, or will be, a good fit for Aareon and who have skills to contribute. With the Group becoming ever more international, the OneAareon idea has increasingly gained traction within the corporate culture. In this context, the digital tool for internal collaboration has enhanced transparency considerably and strengthened the feeling of togetherness and belonging. The entire Group has benefited from this – especially during the Covid-19 pandemic.

### **Enhance organisational performance and overall profitability**

Since April 2019, the company has gradually implemented an efficient, market- and customer-centric organisational structure. The organisational structure for operations – comprising the three international divisions Market (consulting and sales), Operations (ERP solutions and Aareon Cloud Services) and Digital Solutions and Ventures – has proven its worth.

In an effort to streamline the company's structure, Aareon RELion Nord GmbH and Aareon RELion Süd GmbH were merged to create Aareon RELion GmbH in the course of 2020. In addition, CalCon Deutschland AG and epiqr Software GmbH were merged into CalCon Ingenieurgesellschaft GmbH. The name of the company was changed to CalCon Deutschland GmbH. In the Netherlands, Kalshoven Automation B.V. was merged into Aareon Nederland B.V.



Over and above this, the following key projects were the main drivers of enhanced organisational performance:

- 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.
- Harmonisation in the SAP® environment; the O2C (order-to-cash) process has already been rolled out in the UK and the Netherlands, and the Nordic companies are set to follow suit in 2021.
- Deployment of robotic process automation (RPA) to automate internal processes previously performed manually.
- Implementation of the Group approval matrix to harmonise the cross-border procurement process.

The purpose of these projects to rationalise operations is to achieve the medium-term goals required by the Rule of 40.

## 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 data centre and at a backup location in Germany. Aareon data centre operations are regularly audited for compliance with the PS 951 nF auditing standard of the Institute of Public Auditors in Germany (IDW). The TÜV Saarland Group, a technical inspection agency, re-certified the Aareon data centre until the end of 2021 (“Certified Computer Centre Network – Fail-Safe Level 4”). Since 2010, Aareon has volun-

tarily 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 December 2023.

## 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 have been making the most of the design thinking

workshops offered by specialists at the DesignLab. Since the start of the pandemic, the courses have also been offered online.

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 regular 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 in 2020 was the market launch of the virtual assistant Neela. Based on cutting-edge AI and voice recognition technology, Neela was initially offered as a chatbot. Neela can be used by property companies to manage their customer relationships more quickly and easily. The new-generation ERP product Aareon Wodis Yuneo – successor to the market-leading Wodis Sigma system – was rolled out in Germany in September. Wodis Yuneo enables customers to make use of state-of-the-art technologies like business intelligence, AI, big data and robotics. The new product generation also boasts an optimised user interface. With just a few operating patterns, the system is intuitive to use. It is barrier-free and can be controlled via a mouse, keyboard, touchscreen or voice commands. What is more, Wodis Yuneo's web-based technology offers a high degree of flexibility. Users can access data at any time in the office, at home or on the go. The Wodis Yuneo ERP system can be operated either as an in-house solution or as an SaaS solution via the exclusive Aareon Cloud from the company's multi-certified data centre.

R&D expenses can be broken down into the development of updates, the maintenance and upkeep of existing functions,

the ongoing development of new functions and the creation of new products. Total expenditure of the R&D teams came to € 41.9 million in 2020 (2019: € 38.0 million). Some of the capital spent on developing new functions and products for our customers had to be recognised in the balance sheet. The capitalisation rate as a percentage of total expenditure was 31%. Amortisation of internally generated software came to € 4.9 million.

# Economic report

## General economic and industry environment

### Economic growth

Within a short space of time, the Covid-19 pandemic that began spreading across the globe in the first quarter of 2020 triggered a dramatic slump in economic output. In the first half of the year many economies had to contend with problems of a magnitude that, in some cases, they had not encountered since the end of the Second World War. The action taken to contain infections brought public life to a standstill in numerous countries and intermittently banned the provision of a variety of services. As a consequence of this, and of the collapse of numerous supply chains, the global economy plunged into a deep recession in March. The second half of the year saw a pronounced recovery, which slowed over time and ceased entirely in many countries at the end of the year when lockdowns were re-imposed. Government aid packages and highly accommodative monetary policy mitigated some of the negative effects of the recession on economic operators.

In the eurozone, the Covid-19 pandemic caused economic output to shrink by 7.1% year on year. In the first six months of 2020, the decline was 15.0% year on year. Economic growth in Q3 was up 12.5% compared with the second quarter. Renewed lockdowns in the fourth quarter caused the economy to contract again in some eurozone countries. The service sector was hardest hit, while industrial production was more resilient. To lessen the economic impact of the pandemic, some countries provided a variety of support measures, ranging from moratoriums on payments to direct aid payments. The measures differed from country to country. Overall, support measures were equivalent to 4.5% of eurozone GDP.

The recession was somewhat less severe in some countries outside the eurozone. In Sweden, in particular, the drop in economic output was not as pronounced as in the rest of the EU.

The UK economy had to contend not only with the pandemic, but also with the ongoing repercussions of Brexit. The end of the year marked the end of the transition period that followed the UK's official departure from the EU on 31 January 2020. A trade agreement with the EU was concluded at the end of December, thus avoiding a hard Brexit and many barriers to trade. The agreement guarantees, among other things, duty-free trade and no limits on the volume of goods traded, but at the cost of a lot of extra red tape. The UK, too, ended the year in strict lockdown, which further dampened the economy. Overall, British GDP contracted by 10.3% year on year.

The recession triggered significant job losses worldwide. In many advanced economies, however, the increase in unemployment was curbed by furlough programmes and other forms of state aid.

### Annual change in real GDP in %

	2020 <sup>1)</sup>	2019 <sup>2)</sup>
Eurozone	-7.5	1.3
Germany	-5.5	0.6
Finland	-4.0	1.1
France	-9.1	1.5
Netherlands	-4.6	1.6
Austria	-8.0	1.5
United Kingdom	-11.3	1.3
Norway	-1.2	0.9
Sweden	-3.2	1.4
Switzerland	-4.7	1.1

(Source: OECD)

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

### Industry trend

In the markets of relevance to Aareon, the digital transformation process in the property industry continues unabated. The Covid-19 pandemic has been a key factor in accelerating digitalisation of the working world, and the property industry is no exception in this regard. More and more companies are setting up their own digital ecosystems. The trend towards sourcing software as a service from the cloud continues. More and more, the focus is shifting from connecting property companies with their business partners, to the integration of buildings and technical equipment. New technologies such as artificial intelligence (AI) and big data are tapping further potential in this area, especially when it comes to predictive maintenance.

In addition to established “old economy” companies offering IT solutions for property management, numerous PropTech companies have entered the market in recent years. They tend to offer individual digital solutions for the property industry. Aareon has moved into the start-up scene via Ampolon Ventures (AV Management GmbH) and already entered into three ventures. Beyond that, Aareon is a strategic partner of blackprint PropTech Booster (see p. 29) and has investments in, or is partnering with, PropTech companies.

### Key performance indicators

The key financial performance indicators used by Aareon to measure and manage business performance are revenue and, as of the year under review, adjusted EBITDA. The latter is a very common metric across the software industry and now replaces EBIT (earnings before interest and taxes) in Aareon’s external communications. 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. It also excludes capital investments in the Value Creation Program, for new products and for Aareon’s venture activities.

### Business performance

The major influencing factor in 2020 – especially in the second quarter – was the Covid-19 pandemic. At times, almost all of Aareon’s employees, more than 1,700 in total, worked from home, keeping the company’s business operations going. The number of what we term “Green Consulting” days, i.e. person-days for consulting not performed on the customers’ premises, came to well over 31,000 in 2020 (2019: 17,000 days).

Thanks to high levels of digitalisation and flexible working time models, management considers this switchover to have gone off without a hitch. Aareon supported its customers throughout the crisis – including with dedicated products and services as well as numerous webinars – helping them to uphold their business operations in digital form. Customers whose business was already highly digitalised had an edge here. Wherever possible, customer events were conducted online, while large-scale events, like the industry-wide Aareon Congress in Germany, were cancelled. In September, the company organised Aareon Live, an online industry event held in Germany with more than 1,600 registered participants. On the whole, the Covid-19 pandemic has been a catalyst for the further digitalisation of the property industry.

### DACH segment

In the DACH region, the company succeeded in winning over further customers for the Wodis Sigma ERP solution as well as for the new-generation Aareon Wodis Yuneo launched in September. As anticipated, customers continued to prefer sourcing Wodis Sigma and Wodis Yuneo as a service from

the exclusive Aareon Cloud. Migration projects continued throughout the pandemic, but were managed remotely. The final migrations from GES to other ERP solutions were completed on 1 July 2020. On 31 December 2020, as planned, Aareon discontinued GES operations in the Aareon IT Service Centre. The volume of business for Wodis Sigma/Wodis Yuneo, as well as for SAP® solutions and Blue Eagle, increased, partly due to the migrations away from GES. In addition, Aareon began the customer changeover to the SAP®-S/4HANA database. Revenues from consulting, on the other hand, were lower year on year due to the Covid-19 pandemic, even though demand for Green Consulting was higher. In the commercial-property sector, Aareon won further customers for the RELion ERP solution, boosting the corresponding licensing and consulting income. The positive trend for Aareon Cloud Services continued unabated. BauSecura's insurance business grew year on year.

As more and more customers are enhancing their ERP systems with integrated digital solutions and thus developing their own digital ecosystems, Aareon was again able to grow its business volume for digital solutions in 2020. Demand for WRM, CRM and SRM solutions remains robust in the DACH segment. Marketing of the Aareon Smart Platform, which made its market debut in the fourth quarter of 2019, continued throughout 2020. In Q2 2020, Aareon announced the rollout in Germany of Neela, an AI-based virtual assistant (CRM solution), and kicked off the marketing process (see p. 31). In the German utilities market, further customers opted for solutions from the SRM product portfolio. The project to integrate the CalCon Group was completed in the fiscal year and progress made in incorporating its solutions (especially the new product generation AiBATROS®) into Aareon Smart World.

OFI Group, the first venture entered into by Aareon's subsidiary Ampolon Ventures, made its initial transactions on the

Ophigo platform. In addition, Ampolon Ventures established further joint ventures in 2020 in the shape of Refurbio, with its foxxbee platform – a digital interior design consultancy – and Ecaria, whose eponymous platform is a digital solution for organising care services in your own home.

What is more, in the second quarter Aareon became a consortium partner in the ForeSight project. Sponsored by the German Federal Ministry for Economic Affairs and Energy, this R&D project aims to develop a platform for context-sensitive, intelligent and predictive smart living services. Aareon also became a member of DigiWoh in the fiscal year. The DigiWoh Centre of Competence for Digitalisation is an association set up by housing companies with the goal of promoting digitalisation in the housing and property industries.

#### **International Business segment**

Aareon achieved a slight year-on-year increase in business volume in its International Business segment. The effects of the Covid-19 pandemic differed from country to country.

With more customers going live with ERP products, the company grew its recurring revenues, such as maintenance and SaaS fees, for international business. This was especially evident in the Netherlands, where the transition of the business model to SaaS operations gathered pace. Marketing of the new ERP product generation Tobias 365 (based on Microsoft® Dynamics® 365) continued, and two pilot customers went live with the product. In the Netherlands, revenues from the ERP solution REMS for the commercial-property market were robust and an important new customer went live with the product as planned. In France, too, a major customer opted for a platinum maintenance contract for the new release of Prem'Habitat. Aareon UK notched up sales successes for the ERP product QL with both new and existing customers – one of them a crucial major customer. Sales activities were stepped up in the Nordic countries to win

over new customers. From our point of view, no important customers were lost.

The volume trend for digital-solutions business remained positive in the International Business segment. Revenues rose in the Netherlands, the UK and the Nordics. Only in France were revenues lower year on year because of the Covid-19 pandemic. In the current phase, many French customers have focused more on their ERP solutions. Aareon Nederland launched an app for digitalised apartment handovers (WRM solution) in its home market, which met with interest from customers. Also in the Netherlands, the SRM product portfolio became firmly established, with the one-millionth order being handled. In France, marketing continued of both existing digital solutions and new products like Aareon Smart Platform as a service from the cloud. Within the digital solutions portfolio in the UK, demand was especially strong for mobile WRM product solutions. What is more, Aareon UK sold its first SRM product. In the Nordic countries, demand was robust for both existing and new digital solutions. In particular, new pilot customers were signed up for the Aareon Smart Platform cloud service and for the virtual assistant Neela from the CRM product portfolio.

## Economic situation

### Earnings

As of 2020, Aareon is adding adjusted EBITDA as a main KPI alongside revenue (see p. 33).

Consolidated revenues increased by 2.4% to € 258.1 million (2019: € 251.9 million). The volume of digital-solutions business continued to grow strongly and was up by around 19.0%. At € 62.1 million, adjusted EBITDA was down slightly (-2.8%) year on year (2019: € 63.9 million). Owing to the Covid-19 pandemic, Aareon did not achieve its original forecasts for

consolidated revenues (€ 272.0–276.0 million) or for adjusted EBITDA (€ 68.0–71.0 million). Nonetheless, the impact of Covid-19 on adjusted EBITDA was considerably less than estimated at the start of the pandemic: instead of the € 10.0 million originally assumed, the financial impact of the pandemic was about € 7.0 million.

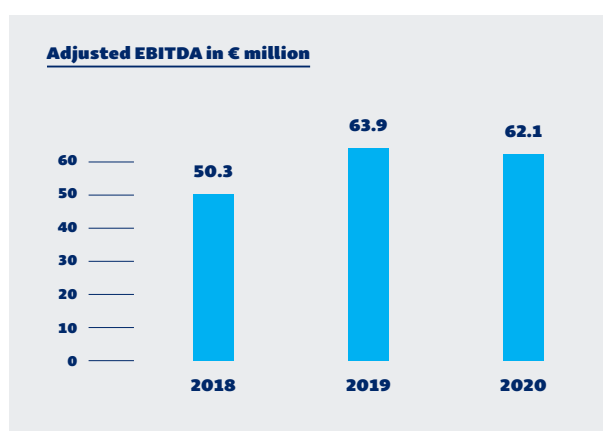
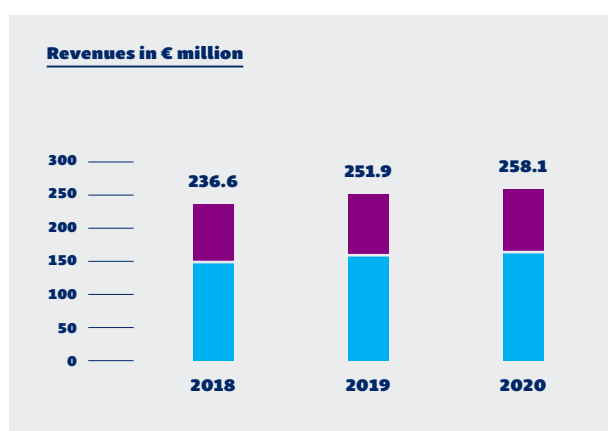
In addition to capital investments in product development in the DACH and International Business segments, the company also pushed ahead with strategic investments – which are broken down into new products and non-organic growth. At € -8.0 million, adjusted EBITDA in these growth areas was in line with expectations. Since fiscal 2020, Aareon has borne the costs of the venturing activities of its subsidiary Ampolon Ventures (AV Management GmbH). Whereas Aareal Bank previously provided support in this area, Aareon now covers these costs in full.

Non-recurring effects in the amount of € 1.5 million arose in 2020, especially in connection with the newly launched Value Creation Program and with a charge for a project in Finland (2019: acquisition-related expenses of € 0.4 million).

The significant increase in capital investments in 2020 was due to an increase in own work capitalised, which rose to € 8.2 million (2019: € 6.6 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 for this were capitalised. Other income amounted to € 4.8 million (2019: € 4.4 million). Derecognitions of purchase price liabilities were higher in 2020. By contrast, revenues from in-person events were lower due to pandemic-related cancellations.

The Group's total expenses rose by 8.0%, from € 224.1 million in the previous year to € 242.0 million. The cost of materials



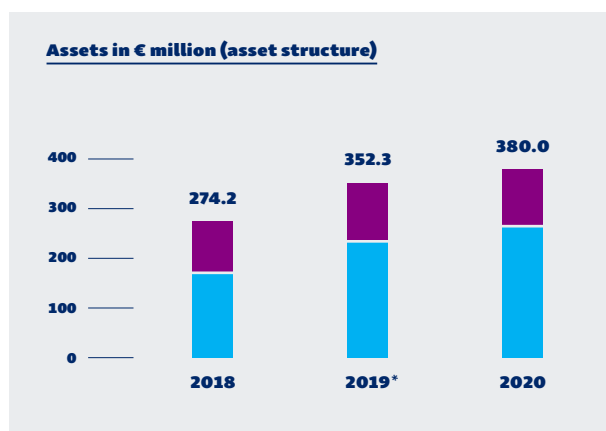
■ International  
■ DACH

rose by 3.4% to € 45.3 million (2019: € 43.8 million) due to revenue growth. The increase of 11.1% in personnel expenses to € 142.7 million (2019: € 128.6 million) was chiefly due to the higher personnel numbers attributable to organic growth and to the integration of CalCon employees in the year under review.

In the DACH segment, revenues rose by 3.0% to € 163.9 million (2019: € 159.2 million). The original forecast figure of € 173.0–176.0 million could not be reached because of the Covid-19 pandemic. The decline in consulting revenue (-7.6%) was the main reason for this. Rising demand for Green Consulting (online consulting) could only partly make up for this decline.

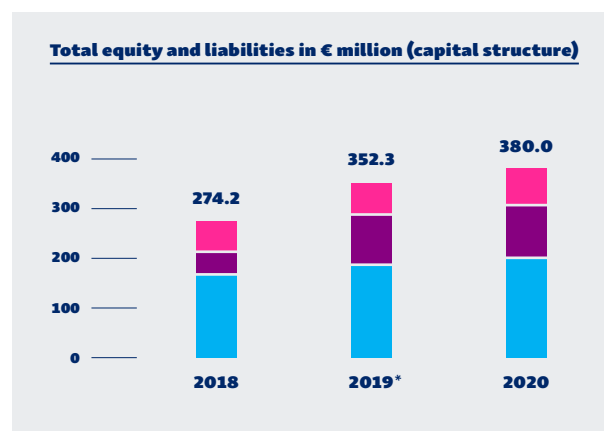
The growth in revenue for ERP products was due in particular to an increase in maintenance and SaaS fees, and in out-

sourcing business. Despite growth in SaaS business, Aareon succeeded in boosting its software licence revenue thanks to the acquisition of several new customers, to renewals and to purchases of modules. The new product generation Wodis Yuneo was a major factor in this trend. Insurance commission income from BauSecura also climbed. Growth was significantly stronger for digital solutions. Growth in recurring revenues was particularly strong amid the integration of CalCon and higher penetration rates, especially for CRM and WRM products (Aareon Archiv kompakt and mobile solutions). Despite the pandemic, revenue was higher, as were costs on aggregate – with travel and marketing expenses lower, but personnel expenses up due to the company’s growth strategy, and to the integration of CalCon and an increase in own work capitalised. As a result, adjusted EBITDA in the DACH segment was on a par with the prior year at € 40.7 million (2019: € 40.5 million).



■ Current assets  
■ Non-current assets

\* Restated



■ Current liabilities  
■ Non-current liabilities  
■ Equity

\* Restated

Revenues in the International Business segment were up 1.6% to € 94.2 million (2019: € 92.7 million). Here, again, Aareon was unable to achieve its original forecast of € 98–100 million because of the Covid-19 pandemic and its marked impact on consulting revenues. Overall, ERP product revenues were nevertheless on a par with the prior year. Increases in recurring revenues were achieved in both France and the Netherlands. In the Netherlands, this growth was due chiefly to the transition to the SaaS business model, with declining licensing business resulting, as expected, in a temporary dip in revenues. Growth was strong for digital solutions, with WRM products in the UK and CRM products in the Netherlands the major drivers. In France, the volume of high-margin maintenance business continued to grow for digital products as well. Due to the pandemic and to transformation of the business model in the Netherlands, adjusted EBITDA fell 9.3% to € 21.4 million (2019: € 23.6 million).

### Net assets

Aareon's total assets amounted to € 380.0 million in 2020, up 7.9% year on year (2019: € 352.3 million). At € 264.7 million, non-current assets were 13% higher year on year (2019: € 234.2 million), chiefly due to additions from the initial consolidation of CalCon and to a rise in internally generated intangible assets brought about by increased development activities.

Current assets decreased by 2.3% year on year to € 115.4 million (2019: € 118.1 million). As the number of uncompleted projects was lower compared with the previous year, contract assets declined accordingly. Receivables decreased as a result of stricter receivables management. The increase in income tax receivables was due to higher advance payments. The underlying net tax result was substantially lower in 2020 due to higher capital investments.



## Financial situation

### Capital structure

Compared with the previous year, equity rose by 7.4%, from € 187.1 million to € 201.0 million, mainly due to retention of the net profit for the year of € 17.9 million (2019: € 25.9 million).

Non-current liabilities increased to € 106.1 million (2019: € 101.1 million). This rise of 4.9% was driven particularly by an increase in pension provisions and non-current purchase price liabilities as well as in deferred tax liabilities in connection with the initial consolidation of CalCon.

At € 73.0 million, current liabilities were up 13.8% (2019: € 64.1 million), primarily due to higher contract liabilities in the Netherlands. More recurring revenues (maintenance and SaaS) were invoiced in December 2020 than a year earlier.

In order to fund further acquisitions, Aareon plans to conclude a financing agreement, expected in 2021.

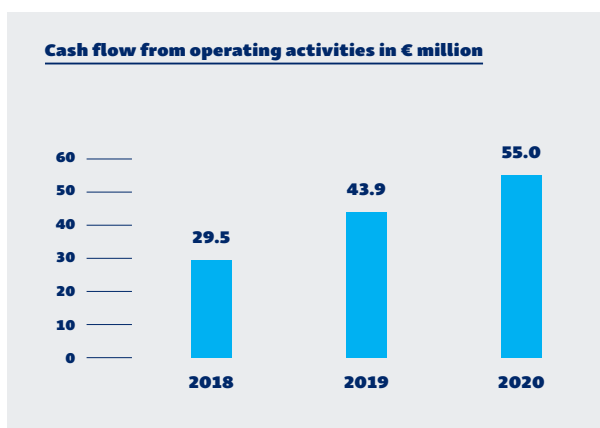
### Liquidity

The statement of cash flows is the key to analysing Group liquidity. Cash and cash equivalents amounted to € 50.4 million in 2020, compared with € 51.9 million in the prior year.

At € 55.0 million, cash flow from operating activities was substantially higher year on year (2019: € 43.9 million). The increase in cash flow from operating activities was driven by the business trend in the Netherlands. On the one hand, outstanding receivables were realised and a higher volume of recurring revenues invoiced than at the end of the prior year. On the other, fewer implementation projects were ongoing at the end of the fiscal year than a year earlier.

At € -45.1 million, cash flow from investing activities increased year on year (2019: € -22.2 million). The main cash outflows concerned payments of € -22.2 million to acquire consolidated companies (2019: € -2.9 million).

Cash flow from operating activities in € million



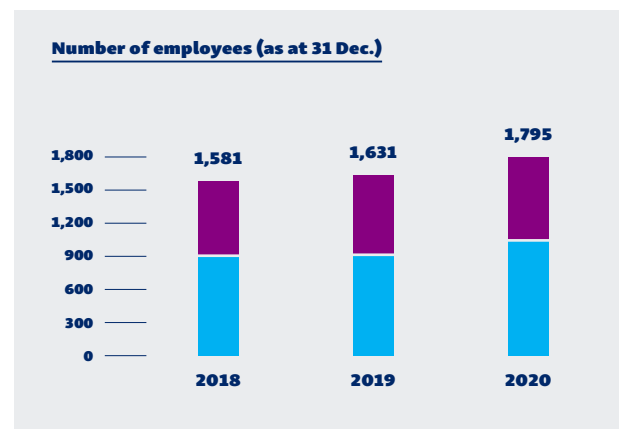
Cash flow from financing activities came to € -11.4 million (2019: € -10.4 million) and was chiefly due to the recognition of lease payments in accordance with IFRS 16.

# Our staff

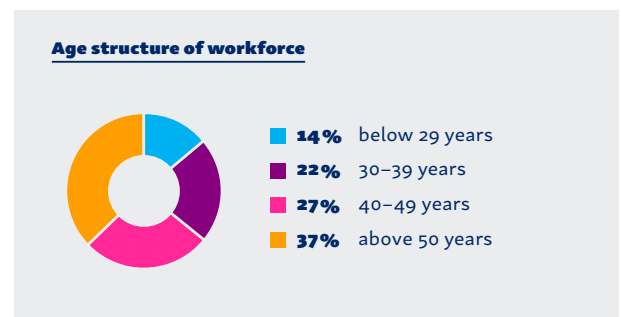
With their ideas, talents, enthusiasm and ability to inspire, Aareon's employees – in collaboration with the company's customers and partners – are responsible for the company's pioneering spirit and drive its innovation. Especially in the digital working world – which the pandemic has made substantially more significant – 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 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, agility is becoming ever more important. Flexibility and life-long learning are critical success factors, which are encouraged under Aareon's personnel policy.

For over 15 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 are put into practice. The Group-wide response rate of 75% 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 standpoint, general employee satisfaction levels are high. Indeed, the corresponding figure from the 2020 survey was the highest ever recorded.

During the Covid-19 pandemic, employees were able to work from home. At times, sites were either shut down altogether, or the maximum number employees allowed to be present in



■ International  
■ DACH



the office was capped at 25% of the workforce. Working from home remained an option for employees at all times. They were also provided with protective masks and made aware of hygiene and protective measures.

As at 31 December 2020, Aareon had a total of 1,795 employees (2019: 1,631) (see p. 29). The average period of service with

the company was 9.9 years (2019: 10.5 years). The international subsidiaries accounted for 42% of the workforce (2019: 44.0%). Aareon promotes flexible working time models and 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. At times during the pandemic, almost all employees worked from home. The proportion of women in the workforce was 34.4% (2019: 33.1%), while the share of women in management positions was 25.5% (2019: 24.1%).

## Qualification and further training

During the pandemic, personnel development measures were conducted online. The Cornerstone Learning Management System was rolled out, offering training courses on housing industry topics from the EBZ Business School Bochum and on leadership, agile project management, soft skills, communication and health from Pink University. Further training courses included an IT security boot camp, special consulting courses, a digital coaching programme lasting several months, and online language courses.

Aareon also completed its fourth cross-mentoring programme. 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 2020, the Aareon Group employed 16 trainees and four dual-study students in Germany.

As part of its programme to promote young talent, Aareon 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. Three Aareon employees contribute to the JOBLINGE initiative as volunteer mentors. Aareon also organised two job applicant training sessions for participants in the JOBLINGE initiative.

In order to foster young talent and promote education, Aareon works together with several universities, offers internships 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 had already adopted a range of measures in connection with the work4future project, which was concluded in 2020. In 2019, a company-wide agreement on off-site working options was put in place, further enhancing flexibility for employees in terms of where they perform their work. A digital collaboration tool was rolled out for internal communications. This proved its worth during the Covid-19 pandemic, with employees being able to cooperate closely despite physical distancing. This was supported by various campaigns and regular posts by the Management Board. In 2020, especially against the backdrop of the pandemic, numerous corporate health management measures were taken to support employees in their digital working world. Office space concepts were evolved to meet the requirements of daily working life.

# Internal control system

For the fifth time, Aareon was awarded the “berufundfamilie” certificate for its work-life balance initiatives. The company’s personnel-related services in this context include making working hours more flexible, partnering with 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 balance in this area. In this context, targets for the representation of women were set at the subsidiary Aareon Deutschland GmbH in 2018 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 dedicated, highly qualified 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 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. The Accounting and Contract Management unit handles some aspects of financial accounting, including preparation of the annual financial statements, for Aareon AG and its subsidiaries Aareon Deutschland GmbH, phi-Consulting GmbH, Aareon RELion GmbH, AV Management GmbH and CalCon Deutschland GmbH. 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 CalCon, all companies enter their financial data independently in the Group’s SAP® software programme. In fiscal 2020, the

financial data reported by the CalCon companies was entered in the Group's software programme by Corporate Finance unit employees in Germany. 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, are 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

The Covid-19 pandemic was by far the biggest influencing factor in 2020. That is why several scenarios were developed in the course of the year to assess its effects on the Aareon Group. As the year progressed, these scenarios enabled management to gain a more precise picture, on the one hand, of the drop in consulting revenues and, on the other, of the cost savings made (fewer external consultants, the postponement of recruitments to the third and fourth quarters, reduced travel expenses). Our Green Consulting offering was one way of showing it was possible for our employees to work from home and still be there for our customers. In addition to these measures to shore up revenues, a pandemic crisis team was set up to develop and implement measures to protect our staff.

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 € 100k. At the applicable Q4 reporting date, 12 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 region decide on the measures to be taken against risks whose expectancy exceeds a further defined threshold.

Aareon's Internal Auditing unit carries out reviews of the risk management system. 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 2020 were deemed to be moderately 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 separate weekly and monthly 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.

Capital requirements are rising constantly at Aareon AG due to the company's strong growth. Close cooperation with the Aareal Bank Group ensures these needs are met. In addition, resolutions were taken in the previous two years to carry forward profits. 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 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.

The tax risk is rising as a result of non-organic growth through acquisitions and of the rising complexity of business transactions. Examples of this risk include potential claims arising from company audits and losses that do not qualify as loss carryforwards. A tax compliance system was established to counter these rising risks.

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. These include indicators such as customer churn and the entry of new competitors into the market. Aareon counters the risk of any deterioration in customer relationships by regularly checking levels of customer satisfaction.

Under the new governance structure, which was definitively implemented on 1 January 2020, new risk owners for each Aareon Management Board position were integrated into the risk management process. These risk owners deemed market risks to be higher than in the previous year, when the risks were still assessed at local-company level.

## 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 growing shortage of qualified personnel, especially in IT, makes it harder and harder to fill vacancies in time and uphold business operations. Aareon is countering this risk with new approaches to recruitment, e.g. social media marketing and employer branding activities. The company is also testing, or already deploying, substitutes to traditional employment models, e.g. greater use of nearshoring and outsourcing.

Relative to the previous year, leadership and organisational risks were not assessed as being higher.

## 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 arising from breaches of IT-relevant regulations. These risks are processed in at least one of the management systems in use in the Information Security (IS), Data Protection or 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.

Aareon places particular emphasis on the constant evolution of the management systems mentioned above. The monitoring and control mechanisms developed there help to continuously improve the Aareon Group’s compliance-relevant processes.

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. Special customer requirements are discussed with the relevant contractual partners, specified for the particular customer relationship and documented.

The consequences of the EU’s General Data Protection Regulation (GDPR) for Aareon’s established risk management system were taken into account in Aareon’s data protection organisation system, which applies Group-wide. Data protection is an integral part of Aareon’s business. The tasks arising out of this project, namely to preserve and maintain the data protection management system, are constantly being 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 organisational 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, uniform standards compliant with ISO security management standard 27001:2013 were rolled out across the Group on the basis of the Aareon security strategy. In addition, processes, guidelines and controls were honed in a risk-oriented manner.

Documented realistic 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. 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. 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.

Production risks were not assessed as being higher relative to the previous year.

# Opportunities

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 latter will be expanded in 2021 to include the Value Creation Program developed by Aareon. The opportunities this gives rise to, some of which are correlated with each other, are categorised below. They were largely unchanged compared with the prior year:

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

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

## Opportunities from customer focus

Customer focus is pivotal at Aareon. 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 Federation of Housing and Property Companies (GdW). Beyond that, Aareon systematically pursues a dialogue with its customers – through the Aareon customer advisory councils, at numerous customer events and in individual discussions with them. This proximity to its customers and the industry presents opportunities to identify customer trends, needs and require-

ments 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 pioneering solutions

The digital transformation process in society and the economy is proceeding apace and is characterised by technological innovations. In this context, the Covid-19 pandemic has functioned as an additional catalyst. Aareon integrates the opportunities offered by the digital transformation into its product strategy. It is constantly expanding the Aareon Smart World digital ecosystem – which centres on the company's ERP systems and also includes pioneering integrated 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. When solutions are utilised via software as a service (SaaS), the corresponding data is stored in the exclusive Aareon Cloud located in the certified Aareon data 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 (see p. 30 f.). When conducting R&D, Aareon also collaborates with property companies in line with the above-mentioned design thinking method (see p. 47). It also works together with PropTech companies and is a strategic partner of black-print Booster Fonds (see p. 29).

### Opportunities from active brand management and quality

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

Aareon is an international corporate group and pursues a strategy of international growth. 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. 30 f.). Aareon makes use of these opportunities to expand Aareon Smart World and thus generate

additional growth potential. The company successively offers newly developed digital solutions in all its national markets, thus leveraging synergies.

### 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 our success. Aareon has implemented many measures in recent years and will continue to build on them. The topics covered include an innovative and inspiring working environment, a healthy work-life balance – also through opportunities to work away from the office – a life-phase-oriented personnel policy, equal opportunities, diversity, knowledge sharing and corporate health management. Binding leadership guidelines and a strong team spirit between line managers and their teams are further components of our employer profile. This creates opportunities for enhancing employee satisfaction and loyalty, and for facilitating the recruitment of new, highly qualified employees. In the race to recruit skilled junior staff, Aareon relies, among other things, on employer branding activities – also via social media – 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, the goal being to entrench environmental, social and governance (ESG) aspects in the company's value creation processes and factor them into corporate decision-making. This creates opportunities

# Outlook

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, for example, 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. Aareon purchases offsets from the appropriate providers for all CO<sub>2</sub> emissions generated by the company's business travel. Aareon is also a member of Allianz für Klima und Entwicklung, a German government initiative for sustainable development and climate protection.

Aareon will continue to pursue, and even accelerate, its growth strategy in 2021. To this end, the Aareon Flight Plan 2021 was elaborated and approved in the fourth quarter of 2020 (see p. 27 f.). The measures elaborated in the Value Creation Program – including non-organic growth, and investments in existing and new products – have been integrated into the Aareon Flight Plan 2021. Further measures from the Value Creation Program include the expansion of sales activities, the accelerated transition from in-house operations to SaaS, enhanced efficiency through the implementation of software solutions, further optimisation of operational processes (operations excellence) in Development and in the IT Service Centre, and the expansion of internal reporting processes. In the medium term (until 2025), Aareon intends to become a Rule-of-40 company. This metric, which is widespread in the software industry, is used to identify efficient growth companies, in which revenue growth and the EBITDA margin together amount to at least 40%.

The Covid-19 pandemic will continue to affect Aareon, especially its consulting business, in 2021 – though not as markedly as in 2020. In the medium term, we expect the pandemic to accelerate the digitalisation trend and thus trigger a substantial increase in demand for digital solutions and consulting services.

Overall, consolidated revenues are expected to rise significantly in 2021, reaching € 276.0–280.0 million (2020: € 258.1 million). We expect revenue from digital solutions to grow by over 20% in 2021 (2020: 19%), while the growth rate for ERP product revenue should be in the low-single-digit percentage range. Despite capital investments in existing products and the effects of a possible new lockdown due to Covid-19, adjusted EBITDA should come in between € 63.0 million and € 65.0 million, up slightly from last year (2020: € 62.1 million). This forecast excludes any effects of future mergers and acquisitions.

## DACH segment

We expect revenues in the DACH segment to rise substantially in 2021, increasing to between € 175.0 million and € 177.0 million (2020: € 163.9 million). Despite increased capital investments, adjusted EBITDA is expected to be slightly higher than last year (2020: € 40.7 million), coming in at between € 42.0 million and € 43.0 million.

Aareon expects ERP revenues in the DACH segment to rise slightly in 2021. As regards consulting business, the ongoing pandemic is likely to continue boosting demand for Green Consulting; in the course of the year, however, demand for classical consulting services is likely to increase again. That is why we expect consulting revenues to be considerably higher than in 2020. Demand for the new product generation Aareon Wodis Yuneo, which was launched in 2020, will be key to ERP revenue growth in the DACH segment. In our opinion, market response to the new product generation has been extremely positive, so that we expect licensing and SaaS revenues to rise again in 2021. Revenues for SAP® solutions and Blue Eagle are anticipated to be on a par with last year. The ERP solution RELion, which is focused on the commercial-property market, will continue to grow amid increased capacity. Business volumes for Aareon Cloud Services and the BauSecura insurance management solution will be slightly higher than last year. Digital solutions will be decisive in helping Aareon realise its growth potential in the DACH segment. We expect the BRM solution of CalCon, the company we acquired in January 2020, to generate strong licensing and SaaS revenues. As for WRM and CRM products, we expect in particular to see an increase in SaaS revenues as further customers go live. Revenues from SRM products should increase as the number of orders for tradespeople managed via Mareon rises and new customers are acquired for the Vacancy Management solution.

In order to boost business volume, capacity will be added, resulting in higher material and personnel costs. Other costs

in 2021 are expected to be substantially higher than in 2020, also because of capital investments in connection with the Value Creation Program.

## International Business segment

Revenues in the International Business segment are expected to increase significantly in 2021, rising to € 101.0–103.0 million (2020: € 94.2 million). Despite higher capital spending on existing solutions, adjusted EBITDA is likely to be similar to last year, coming in between € 21.0 million and € 22.0 million (2020: € 21.4 million).

ERP product revenues in the International Business segment are expected to be significantly higher than last year, also thanks to the acquisition of Arthur Online Ltd., London, which became part of Aareon's portfolio in February 2021. Arthur offers a cloud-based software solution for property management that brings together property managers, owners, tenants and contractors on a single platform. As is the case in the DACH segment, consulting revenues in the International Business segment are still likely to be influenced by the Covid-19 pandemic in 2021, but will recover in the course of the year and will have increased substantially before the year is out. In the Netherlands, the number of customer projects for migration to the new ERP product generation Tobias 365 should rise in 2021. This new product generation is a dedicated SaaS solution. That will lead to a decline in licensing revenues, which will be offset by growth in recurring revenues in the medium term only. In France, Aareon is expected to match its revenues of last year. In the UK market, the new customers acquired in 2020 will be a major factor in boosting recurring revenues in 2021, but the company also expects to see rising licensing revenues from the acquisition of new ERP customers. In the Nordic countries, too, we expect to post higher SaaS revenues from both new and existing customers. Revenues from digital solutions in the International Business segment are expected to be substantially higher

than last year, driven chiefly by the cross-selling of digital solutions to existing customers. SRM and CRM products should generate higher revenues in the shape of both increased licensing fees and recurring income. A moderate increase in recurring revenues is expected for WRM products. Aareon should post higher licensing revenues for international BRM products.

On the cost side, personnel expenses will rise due to the workforce growth triggered by higher business volumes. The cost of materials, which also includes the cost of external consultants, is expected to be roughly the same as last year, as the build-up of resources will essentially be covered by the company's own employees. As in the DACH region, other costs should rise considerably – on the assumption that, among other things, business travel will pick up again. In addition, higher capital spending will weigh on earnings.

### Capital spending projects

In 2021, Aareon will press on with the offensive to develop new products and services it launched in 2019. The virtual assistant Neela will be further refined and new functionalities added. It will then be possible to offer the product in Aareon's national markets outside the DACH region. The marketing launch has already taken place in all countries except for France; initial pilot projects are being rolled out and expected to enter the productive phase in 2021. The same goes for the Aareon Smart Platform and Smart Partner solutions, which are also to be offered in all national markets in 2021. In addition, further development expenses will be incurred in 2021 for the back-end and front-end design of predictive maintenance products (BRM definition, see p. 24), to link up customers, public authorities and utilities on a single digital platform, as well as for mobile solutions. Aareon will also continue to use its subsidiary Ampolon Ventures to break into new business areas by establishing joint ventures. Over and above this, Aareon has added capacity and established

a dedicated corporate unit to pursue non-organic growth (see p. 29). Cash outflows for capital spending on new products and non-organic growth are expected to amount to around € –20.0 million. This figure also includes measures in connection with the Value Creation Program.

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.